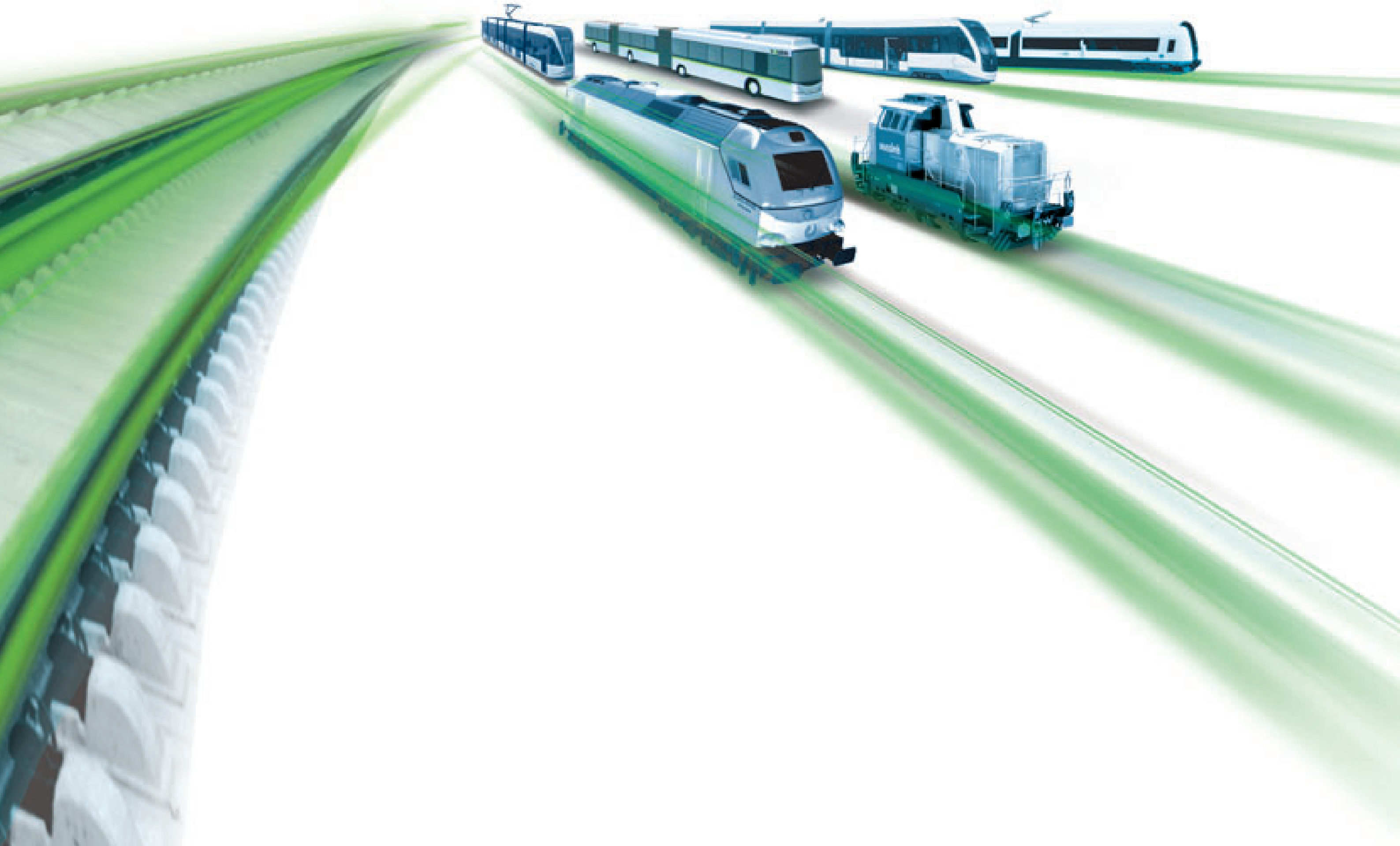
Solid value. Sound prospects.

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



Combined management report

Vossloh AG

Rail Infrastructure
division

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems

Motive Power&Components
division

Business units:

Vossloh Locomotives
Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

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

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

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

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

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

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

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

Organization

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

Major subsidiaries and, at the same time, business unit lead companies are:
Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Control system and objectives

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

Currently, EBIT must return 11 percent on the Group's capital employed (before taxes) in order to produce the yield expected by investors and lenders. A groupwide sustainable ROCE of 15 percent has been set as value-oriented benchmark and relative performance indicator, the expected premium over pretax WACC hence being 4 percent at present (related to capital employed). Contrary to earlier-year practice, the other current accruals, being non-interest, are also deducted in the working capital formula and thus reduce CE (which is included therein as period average); the prior-year comparatives in this management report have been restated accordingly.

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

Besides the ROCE and VA benchmarks, Vossloh has defined additional financial targets for the Group in its entirety, basically
- EBIT margin above 10 percent (after nonoperating one-time factors)
- sustainable increase in earnings per share
- commensurate cash dividends
- in the medium term, a conservative net debt ceiling.

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

Business report

Business environment

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

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

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

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

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

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

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

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

M&A transactions

Three businesses were acquired in fiscal 2009.

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

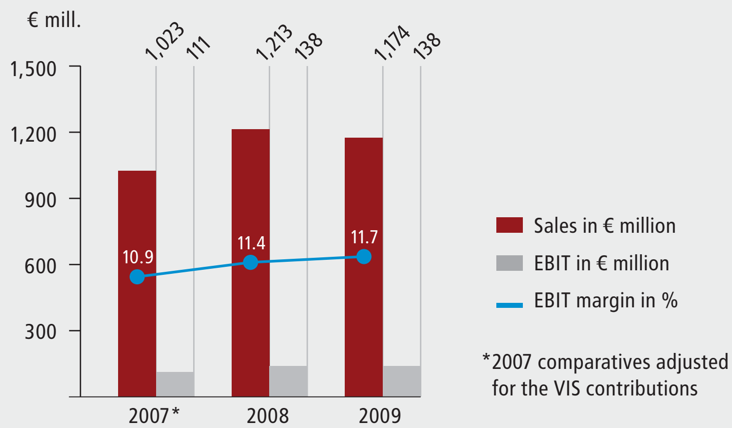
In July, the switch and permanent-way components business of Nuova Sima Sud, Italy, was added to the Switch Systems business unit.

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

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

Results of operations

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



Vossloh Group: sales and EBIT trend 2007–2009

Summary

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

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

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

Sales

Vossloh Group: sales by business unit

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

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

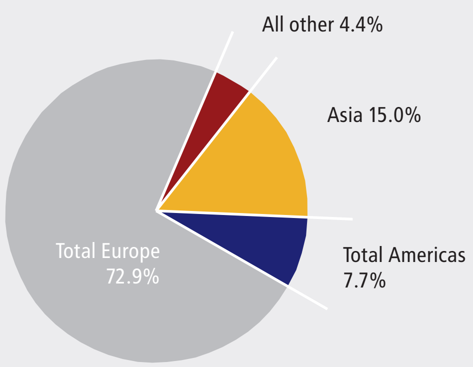
The Motive Power&Components division reported sales of €483.2 million for 2009, a drop of €21.8 million or 4.3 percent. Added revenue by the Electrical Systems business unit failed to make good the €39.0 million or 10.4-percent decline at Vossloh Locomotives. Thanks to a broader product array the Valencia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

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

Vossloh Group: sales by region

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

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



Sales breakdown by region in 2009

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

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

Vossloh Group: sales and performance

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

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

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

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

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

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

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

Vossloh divisions: order backlog

	€ mill.	%	€ mill.	%
	2009		2008	
Rail Infrastructure	422	38.6	359	31.9
Motive Power&Components	670	61.4	767	68.1
	1,092	**100.0**	**1,126**	**100.0**

Financial position and investing activities

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

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

Vossloh Group: net leverage

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

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

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

Vossloh Group: cash flow analysis

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

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

Vossloh Group: capital expenditures and amortization/depreciation

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

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

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

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

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

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

Vossloh Group: breakdown of capital expenditures

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

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

Asset and capital structure

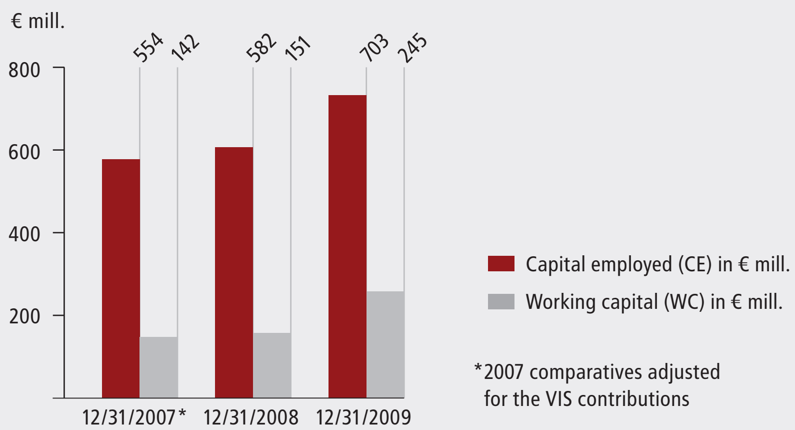
With total assets inching down marginally from the close of 2008, Vossloh's equity ratio remained at 36.8 percent. Equity crept up a negligible €0.1 million, being substantially the net balance of (i) a €43.5 million decrease (to reflect the treasury stock repurchase) and a €45.9 million reduction for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

Vossloh Group: asset and capital structure

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

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

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



Vossloh Group: CE and WC trend 2007–2009

Shareholder value management

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

Vossloh Group: shareholder value management

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

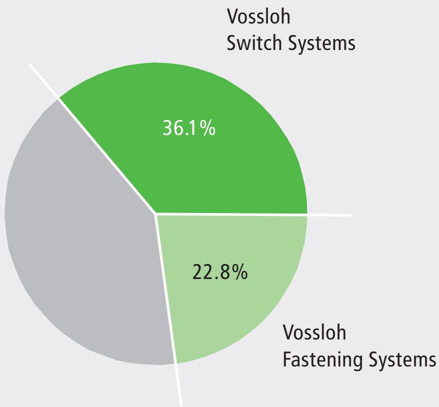
*Based on an 11-percent WACC.

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

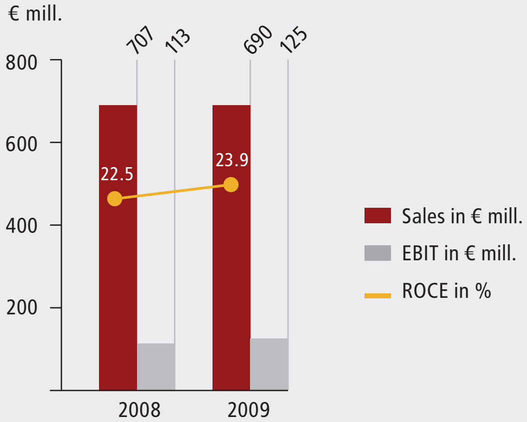
Value added presented a similar trend: within the Group, VA diminished from €68.2 million to €63.7 million. Within Rail Infrastructure, VA rose year-on-year from €58.0 million to €67.5 million and, within Motive Power&Components, it slimmed down from €28.5 million to €18.6 million.

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

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



Shares of business units in group sales



Rail Infrastructure division: sales, EBIT and ROCE trends

Rail Infrastructure business trend

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

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

Rail Infrastructure

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

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

Vossloh Fastening Systems

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

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

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

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

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

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

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

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

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

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

Vossloh Switch Systems

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

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

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

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

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

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

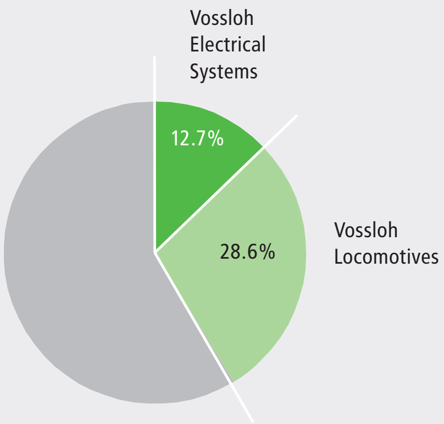
In the wake of soaring capital employed, value added dropped from €13.5 million to €9.6 million.

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

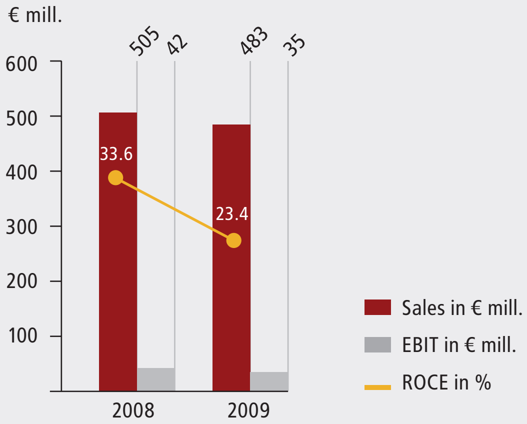
Global freight haulage reduction squeezes locomotive shipments

Sharp sales hike at Vossloh Electrical Systems

"Green" local public transport vehicles again in demand



Shares of business units in group sales



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

Motive Power&Components business trend

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

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

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

Motive Power&Components

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

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

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

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

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

Vossloh Locomotives

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

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

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

Valencia location

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

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

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

Kiel location

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

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

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

Vossloh Electrical Systems

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

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

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

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

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

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

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

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

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

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

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

Vossloh AG

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

Analysis of the separate financial statements

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

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

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

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

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

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

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

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

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

Board compensation report

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

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

Remuneration of Executive Board members in 2009

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

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

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

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

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

The table below itemizes the remuneration of each executive officer:

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

*granted in 2009 for 2008

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

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

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

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

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

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

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

Remuneration of Supervisory Board members for 2009

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Execution of a direct-control (subordination) and profit & loss transfer agreement
2. Execution of a merger agreement under which Vossloh AG's assets are transferred in their entirety either to another entity as transferee in return for the grant of such transferee's stock (absorbing merger) or to a new enterprise (consolidation)
3. Execution of an agreement that obligates Vossloh AG to transfer all of its corporate assets

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

At December 31, 2009, capital of €7,500,000 was authorized.

The annual general meeting of June 3, 2004, conditionally raised the capital stock by up to €1,840,650.77 by issuing a maximum of 720,000 no-par bearer shares of common stock in order to grant stock options to officers of Vossloh AG, as well as to officers and executives of Vossloh subsidiaries under the terms of Arts. 15 et seq. AktG. By December 31, 2009, the 145,680 shares issued thereunder increased the capital stock by altogether €372,425.00.

Moreover, the capital stock was conditionally raised by up to €383,468.91 by issuing a maximum of 150,000 no-par bearer shares of common stock in order to grant stock options to employees of Vossloh AG and its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 10,309 shares were issued by December 31, 2009, thus raising the capital stock by €26,354.55.

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

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

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

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

Regarding such treasury shares, the Executive Board is authorized, excluding any stockholder subscription rights but after first obtaining the Supervisory Board's approval, to dispose of such treasury shares in a form other than (i) through a stock market or (ii) by offering them to all Vossloh stockholders, however, always provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the quoted market price then current for same-class Vossloh stock. The applicable stock purchase price for the purposes of the preceding clause shall be the average Vossloh share price as quoted during the closing auction of the Xetra trade at the Frankfurt Stock Exchange during the five trading days preceding the sale of such shares.

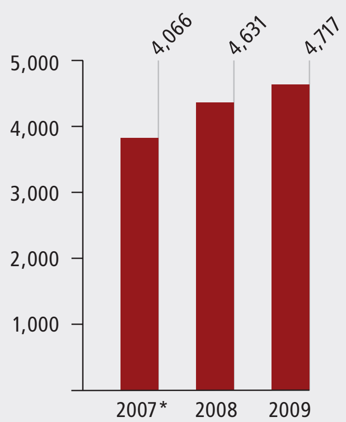
The Executive Board is further authorized, subject to the Supervisory Board's consent, to sell and transfer to third parties any such repurchased stock in the scope of business combinations or M&A transactions, or when acquiring other companies or any equity interest therein.

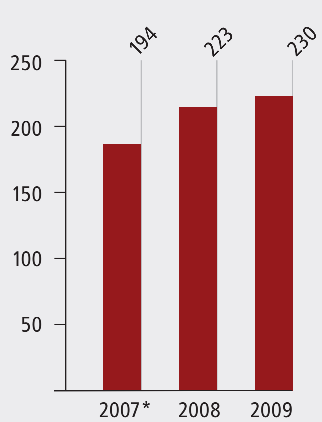
Furthermore, the Executive Board is authorized to redeem and withdraw treasury stock with the Supervisory Board's approval, however, without requiring another vote by the general meeting.

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

Headcount stable

17 percent outside of Europe





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

Average group headcount

Personnel expenses in € mill.

Workforce

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

Employee-related indicators

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

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

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

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

Personnel expenses (payroll)

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

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

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

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

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

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

Rail Infrastructure

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

Motive Power&Components

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

Employees 2009

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

* Annual average based on monthly data

Recruiting and developing employees

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

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

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

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

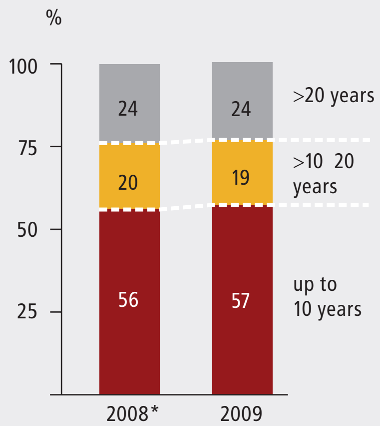
A program under the title "We lead Vossloh" has also been launched and acts as a platform for regularly sharing ideas among staff in key positions at all business units. Concurrently, the program serves as a basis for the ongoing personal development of these employees and thus acts as an essential component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

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

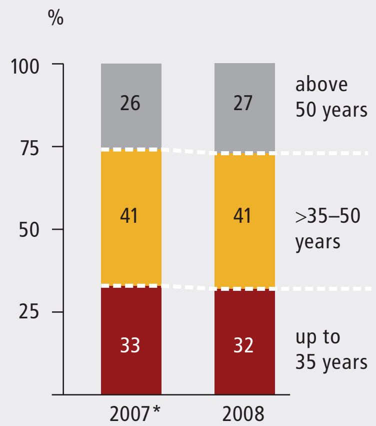
Not to be overlooked are the already existing widely ranging relations with schools and universities in Germany and abroad, especially with European institutions of relevance to our industry. Some of these take the form of research and other projects. Besides, guest lectures are given and undergraduates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

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

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



Service years in %



Age structure in %

European Works Council

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

Thanks

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

Research and development

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

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

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

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

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

Environment

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

Vossloh's diesel locomotive developers naturally make sure that the vehicles consume as little fuel as possible—and thus minimize CO_2 emissions. The principle of "zero emissions" also applies to trolleybuses with drive technology from Vossloh Kiepe. Another benefit of these local transport vehicles is that they are very quiet in operation, a fact much appreciated by passengers and bystanders alike. Conventional diesel-engine buses can also improve their environmental profile with Vossloh technology, as hybrid propulsion reduces exhaust and noise emissions.

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

In production, all Vossloh companies attach huge importance to the sparing and efficient use of resources. Emissions from production are reduced to a minimum across the board. Regular audits by the competent environmental authorities demonstrate the consistent observance of all the legal and official limits and compliance with the permitted ceilings, in some cases by a wide margin. As far as possible, residues are consistently recycled, while solid wastes are systematically separated.
In both Kiel and Valencia, Vossloh uses exclusively low-solvent paints for the finishes on its locomotives. Vossloh Fastening Systems has also been using waterborne paints for the surface coating of its tension clamps for years. By resorting to a special map, it conducts targeted searches for environment-friendly production materials. In 2009, a strategy was developed for recovering and recycling the waste heat from the heat treatment plant. "Green IT" was the name of the program to cut paper and electricity consumption in Kiel in 2009.

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

Risk and reward management

Organization

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

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

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

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

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

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

General economic and sector risks

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

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

With its two divisions, Rail Infrastructure and Motive Power&Components, Vossloh ranks among the foremost suppliers on selected rail industry markets. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This results in dependence on public-spending patterns. Vossloh attempts to abate such risks by expanding its international presence, especially in the Rail Infrastructure division, and thus achieve a balancing effect. At the focus of its internationalization drive are presently the growth markets of Asia (especially China), the MENA states, Eastern Europe (including Russia), the United States, and South America. In recent years the Group has much reduced its dependence on individual European markets, albeit in 2009 non-European sales did creep down to around 27.1 percent of the total. Back in 2006, this share had amounted to a mere 9.2 percent.

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

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

Operating risks

This category includes operations-related activities such as sourcing, production, and contract performance. Vossloh attempts to counteract purchase price (input market) risks especially by long-term procurement contracts or price escalator clauses concluded with customers. In 2009, Vossloh benefited from sinking input market prices. A further shortage of commodities, especially steel or oil, might still however impact on production costs specifically at Rail Infrastructure. Earnings at Motive Power&Components also hinge on how component prices develop. The medium-term planning assumptions of increases in the cost of materials are based on such factors as information from suppliers and market analyses. Any rises significantly above these expectations may erode profitability at the divisions.

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

Financial risks

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

Financial derivatives

Vossloh uses financial derivatives solely to hedge against specific risks from current underlyings or forecasted transactions. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, see the Vossloh Group's annual report, notes to the consolidated financial statements, page 150. The following financial risks are controlled: price risks, default and counterparty risks, liquidity risks, and cash flow risks.

Price risks

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

Default/ counterparty risks

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

Liquidity risks

Liquidity risks may arise if the Group is potentially unable to provide the funds required to meet the obligations which have been incurred in connection with financial instruments. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies) through a permanent cash management system. An intragroup financial equalization concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash at certain subsidiaries to meet the liquidity requirements at other group companies. The long-term debt raised in the form of loans through the US private placement in 2004 was used to settle repayable liabilities to banks, thereby making bilateral credit facilities available for future utilization. As of December 31, 2009, the Vossloh Group had cash and cash equivalents (including short-term securities) of a total €157.3 million. In addition, adequate and sufficient credit lines ensured that no financial or cash bottlenecks occurred. The unutilized balances from cash credit facilities at year-end totaled €171.7 million, mostly due within one year. Furthermore, Vossloh had unutilized guaranty bond facilities of €457.5 million at its disposal.

Cash flow risks

Changes in future interest rates may cause cash flow ups and downs where variable-rate assets and liabilities are involved. Vossloh has contained this risk by means of interest rate swaps and regularly analyzes through what-if scenarios the impact of a changed interest rate level on cash flows. Presently, the Vossloh Group is not exposed to any significant interest rate risks. On balance, the Vossloh Group's net earnings were in 2009 not affected to any significant degree by financial risks.

Legal risks

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

Other risks

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

Overall risk assessment

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

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

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

Definitions and elements of Vossloh's ICS and RMS

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 Internal Control System are substantially the corporate departments of Internal Auditing, Controlling, Accounting, Treasury, and Legal Affairs.

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

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

Information technology

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.

Key activities aimed to ensure corporate accounting propriety and reliability

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

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

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

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

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

Qualifying note

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.

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

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

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

Subsequent events

Acquisition gives birth to new Rail Services business unit

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

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

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

New names within the corporate structure

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

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

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

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

Only slow recovery from the global financial and economic crisis

Rail-bound and local transport with unchanged growth prospects

Moderate sales growth budgeted, profitability indicators above benchmarks

Capital expenditure program continued for more growth

Prospects

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

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

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

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

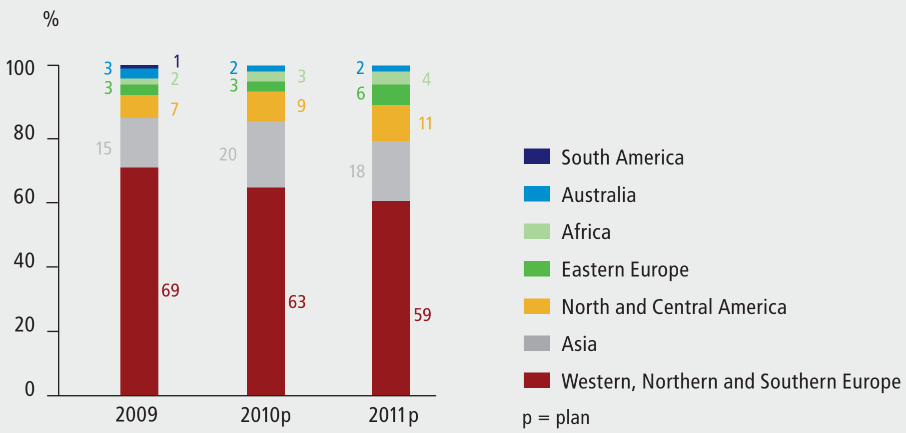
Alongside uniform groupwide requirements, Vossloh's annual medium-term plan incorporates in particular assumptions specific to each business unit, including product prospects, competitors, likely projects, market opportunities and risks in the individual regions, as well as the required capex volumes.

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

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

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

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



Regional sales distribution percentages

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

Vossloh Group: sales and EBIT trend

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

p = plan

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

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

Vossloh Group: indicators

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

p = plan

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

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

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

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

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

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

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

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

Income statement for the year ended December 31, 2009

€ million	2009	2008
Net sales	1.4	1.4
Cost of sales	(1.3)	(1.3)
Gross margin	**0.1**	**0.1**
General administrative expenses	(19.6)	(28.7)
Other operating income	15.9	20.4
Other operating expenses	(5.0)	(1.8)
Operating result	**(8.6)**	**(10.0)**
Income from investments	–	0.0
thereof from subsidiaries: none (unchanged)		
Income from P&L transfer agreements	55.4	43.8
thereof from subsidiaries: €55.4 million (up from €43.8 million)		
Income from other long-term securities/loans	0.4	1.0
thereof from subsidiaries: €0.1 million (down from €0.7 million)		
Other interest and similar income	6.1	15.9
thereof from subsidiaries: €4.8 million (down from €13.1 million)		
Write-down of financial assets and short-term securities	(3.6)	(2.4)
Expenses for loss absorption	(3.8)	(0.1)
thereof for subsidiaries: €3.8 million (up from €0.1 million)		
Interest and similar expenses	(14.6)	(16.3)
thereof to subsidiaries: €1.0 million (down from €2.3 million)		
Net financial result	**39.9**	**41.9**
Result from ordinary operations (EBT)	**31.3**	**31.9**
Income taxes	(2.2)	(5.5)
Net income	**29.1**	**26.4**

Balance sheet

Assets in € million	12/31/2009	12/31/2008
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	0.5	1.0
Interest rate caps	–	0.1
Total intangible assets	**0.5**	**1.1**
Land, equivalent titles, and buildings (including on leased land)	3.2	3.0
Sundry plant, business and office equipment	0.4	0.4
Prepayments on tangibles, construction in progress	0.4	0.2
Total tangible assets	**4.0**	**3.6**
Shares in subsidiaries	473.9	473.8
Loans to subsidiaries	–	9.6
Other investments	0.1	0.1
Other long-term securities	0.1	0.1
Total financial assets	**474.1**	**483.6**
Total fixed assets	**478.6**	**488.3**
Trade receivables	0.0	–
Due from subsidiaries	150.4	87.8
Due from investees	0.3	0.1
Sundry assets	34.7	154.1
Total receivables and sundry assets	**185.4**	**242.0**
Securities/treasury stock	102.6	62.7
Cash on hand and in bank	48.6	26.3
Total current assets	**336.6**	**331.0**
Prepaid expenses and deferred charges	**0.2**	**0.2**
	815.4	**819.5**

Stockholders' equity & liabilities in € million	12/31/2009	12/31/2008
Capital stock	37.8	37.8
Additional paid-in capital	37.6	37.6
Reserves retained from earnings		
Reserve for treasury stock	102.6	62.7
Other	279.2	319.1
Net earnings	33.6	44.5
Stockholders' equity	**490.8**	**501.7**
Accruals for pensions and similar obligations	12.8	12.6
Tax accruals	2.9	4.5
Other accruals	11.9	8.0
Total accruals	**27.6**	**25.1**
Due to banks	26.0	26.0
Trade payables	1.0	0.8
Due to subsidiaries	65.7	61.5
Sundry liabilities	204.3	204.4
thereof for taxes: €0.1 million (virtually unchanged)		
thereof for social security: none (unchanged)		
Total liabilities	**297.0**	**292.7**
	815.4	**819.5**

Fixed-asset analysis

€ million	Cost					Accumulated amortization/ depreciation/write-down			Book values	
	Bal. at 1/1/2009	Addi-tions	Dis-posals	Book transf.	Bal. at 12/31/2009	Bal. at 12/31/2008	Charged in 2009	Write-up	Bal. at 12/31/2009	Bal. at 12/31/2008
Intangible assets										
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	7.9	0.1	(0.1)	–	7.9	7.4	0.6	–	0.5	1.0
Interest rate caps	0.1	–	(0.1)	–	0.0	–	–	–	0.0	0.1
	8.0	**0.1**	**(0.2)**	–	**7.9**	**7.4**	**0.6**	–	**0.5**	**1.1**
Tangible assets										
Land, equivalent titles, and buildings (incl. on leased land)	11.2	0.2	(0.4)	0.2	11.2	8.0	0.2	–	3.2	3.0
Sundry plant, business and office equipment	1.3	0.1	(0.2)	–	1.2	0.8	0.1	–	0.4	0.4
Prepayments on tangibles, construction in progress	0.2	0.4	–	(0.2)	0.4	0.0	–	–	0.4	0.2
	12.7	**0.7**	**(0.6)**	**0.0**	**12.8**	**8.8**	**0.3**	–	**4.0**	**3.6**
Financial assets										
Shares in subsidiaries	492.3	0.1	–	–	492.4	18.5	–	–	473.9	473.8
Loans to subsidiaries	9.6	–	(9.6)	–	0.0	–	–	–	0.0	9.6
Other investments	0.1	–	–	–	0.1	–	–	–	0.1	0.1
Other long-term securities	0.1	–	0.0	–	0.1	–	–	0.0	0.1	0.1
Other long-term loans	6.2	0.1	0.1	–	6.2	6.2	0.1	0.0	0.0	0.0
	508.3	**0.2**	**(9.7)**	–	**498.8**	**24.7**	**0.1**	**0.0**	**474.1**	**483.6**
Total	**529.0**	**1.0**	**(10.5)**	**0.0**	**519.5**	**40.9**	**1.0**	**0.0**	**478.6**	**488.3**

Notes

The separate financial statements of Vossloh AG as of December 31, 2009, were prepared in accordance with the provisions of the German Commercial Code ("HGB") and the German Stock Corporation Act ("AktG").

Accounting and valuation principles

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. Write-down for tax purposes is charged wherever this option is offered, whether for ACR or otherwise. Moreover, fixed assets are written down to any lower current value if so required. Financial assets are recognized at cost or any lower current value. Receivables and sundry assets as well as cash on hand and in bank are shown at par or principal. The corporation income tax credit distributable in the period from 2009 to 2017 was discounted at 4 percent annually and shown at present value. Non-euro receivables/payables are translated, if hedged, at the rate so covered or any more unfavorable mean current rate. Treasury stock is valued at the lower of cost or market. Accruals provide for pensions and similar obligations at the actuarial present value, based on an imputed annual discount rate of 6 percent and on the 2005G mortality tables of Prof. Dr. Klaus Heubeck. Tax and other accruals are shown at the future amounts required in sound business practice and judgment. Hedge accounting is used for financial derivatives (mainly cross-currency swaps) by combining the derivatives with the underlying into one valuation unit wherever a direct hedging relationship exists between hedge and underlying. In these cases, the result from the currency hedge contracted is not recognized before maturity or due date. Liabilities are generally stated at their settlement amounts.

Fixed assets

Classification and movements of fixed assets are explained in greater detail in the above fixed-asset analysis. The additions to shares in subsidiaries mainly refer to two group companies newly formed by Vossloh AG.

Within financial assets, write-down of €0.080 million was charged to the other long-term loans; write-up was credited at €0.053 million.

For a list of shareholdings, see the appendix to these notes.

Receivables and sundry assets

Except for €11.772 million, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries and investees are nontrade receivables only.

Treasury stock

The annual general meeting (AGM) of May 20, 2009, authorized the Executive Board again to repurchase on or before November 19, 2010, treasury shares equivalent to a maximum of 10 percent of the current capital stock pursuant to Art. 71(1) No. 8 AktG.

The Executive Board has been authorized, after first obtaining the Supervisory Board's approval, to dispose of such treasury shares ex rights in a form other than (i) through a stock market or (ii) by offering them to all Vossloh stockholders, however, always provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock. In this case, the number of shares to be sold plus any shares issued or disposed of by applying the provisions of Art. 186(3) clause 4 AktG directly or mutatis mutandis, may not exceed the ceiling of ten percent of the capital stock.

The Executive Board has further been authorized, subject to the Supervisory Board's consent and excluding the stockholders' subscription right, to sell and transfer to third parties any such repurchased (treasury) stock in the scope of business combinations or M&A transactions, or when acquiring other companies or any equity interest therein.
The treasury stock thus purchased may be redeemed and withdrawn with the Supervisory Board's approval, however, without requiring another vote by the general meeting.

By dint of the authority conferred upon the Executive Board by the AGM of May 21, 2008, and expired after November 20, 2009, Vossloh AG's Executive Board, after duly obtaining Supervisory Board approval, decided October 15, 2008, to repurchase up to 1,479,582 treasury shares, corresponding to 10 percent of the capital stock.

In the period between October 16 and December 31, 2008, Vossloh AG repurchased an aggregate 907,000 treasury shares from the stock market at an average price of €69.10 per share and a total market value of €62,669,895.49. These treasury shares corresponded to 6.1 percent of the capital stock at year-end 2008 and were shown as such within current assets. In the period from January 1 to March 20, 2009, Vossloh AG reacquired from the stock exchange another 572,582 treasury shares at an average market price of €76.23 each and a total value of €43,647,176.29, thus bringing its treasury stock portfolio to 1,479,582 out of a total 14,795,846 shares as of March 20, 2009 (ten percent or €3,782,491.32 of the capital stock). Consequently, the stock repurchase was completed on March 20, 2009. On October 26, 2009, the Executive Board decided to reclassify 3,352 no-par shares out of Vossloh AG's treasury stock portfolio as available to those active or former employees of Vossloh AG or a Vossloh Group company who have registered for participation in the employee bonus program 2009, in accordance with Art. 71(1) No. 2 AktG. Therefore, on November 2, 2009, altogether 3,352 shares were sold at a total €241,075.84 under the employee bonus program. The closing portfolio of 1,476,230 treasury shares was valued at €69.52 each, resulting in a total €3,537,261.25 lower value.

Treasury stock repurchased

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

*Excl. bank commissions

Pursuant to Art. 272(4) HGB, a reserve for treasury stock has been set up at the amount of the (downvalued) treasury stock.

Stockholders' equity

Vossloh AG's capital stock of €37,825,041.04 (up from €37,824,979.68) is divided into 14,795,870 (up from 14,795,846) no-par bearer shares of only common stock.

The annual general meeting of June 3, 2004, conditionally raised the capital stock by up to €1,840,650.77 by issuing a maximum of 720,000 no-par bearer shares of common stock in order to grant stock options to officers and executives of Vossloh AG, as well as to officers and executives of Vossloh subsidiaries under the terms of Arts. 15 et seq. AktG. By December 31, 2009, the 145,680 shares issued thereunder had increased the capital stock by altogether €372,425.00. Moreover, the capital stock was conditionally raised by up to €383,468.91 by issuing a maximum of 150,000 no-par bearer shares of common stock in order to grant stock options to employees of Vossloh AG and of its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 10,309 shares were issued by December 31, 2009, thus raising the capital stock by an aggregate €26,354.55, including the 24-share or €61.36 increase in fiscal 2009.

Under the ESOP 2009 (on terms similar to the ESOP 2008), Vossloh Group employees working in Germany were offered the option to either obtain two free Vossloh shares or purchase eight (up from four) at a 50-percent discount based on an issue price of €65 (down from €83) per share, the issue price being determined on the basis of the market price as of share transfer date. As Vossloh employees exercised options under the employee bonus program in 2009, they were granted altogether 1,916 free shares (up from 826), at an expense to Vossloh AG of approx. €137,800 (up from €68,500).

The AGM of May 20, 2009, resolved to reauthorize capital of €7,500,000, this authorization expiring after May 19, 2014.

The additional paid-in capital reflects the premiums earned from stock issued by Vossloh AG. Due to the capital increase from the conditional capital, €868.64 (down from €1,809.68) was transferred to the additional paid-in capital.

The reserves retained from earnings include a reserve for treasury stock of €102,627,509.60 (up from €62,724,315.49) and other reserves of €279,205,558.17 (down from €319,108,752.28).

In the fiscal year, 572,582 treasury shares (down from 907,000) had been acquired for a price of €43.647 million (down from €62.670 million). As decided on October 26, 2009, altogether 3,352 shares from the treasury stock portfolio were reclassified as available for the employee bonus program 2009, bringing the year-end portfolio to 1,476,230 shares, valued at a total €106.076 million (€102.628 million after downvaluation).

Accruals

The other accruals of €11.864 million (up from €8.013 million) include €2.815 million for personnel (down from €3.246 million) and €9.049 million for sundry administrative purposes (up from €4.767 million).

Liabilities (above-the-line and contingent)

93.127 million of the liabilities recognized in the balance sheet falls due within one year (up from €88.791 million), another €118.946 million after one but within five years (up from nil) and €84.962 million after more than five years (down from €203.908 million). The accounts due to subsidiaries were throughout nontrade.

The contingent liabilities under suretyships and guaranties of €435.534 million (up from €435.203 million) were in full incurred for obligations of subsidiaries (unchanged).

The fixed-liability guaranties in favor of subsidiaries total €667.941 million. Eleven guaranties do not have a stipulated ceiling.

The other financial obligations (exclusively to third parties) total €0.684 million (up from €0.392 million) and break down into €0.324 million falling due within one (up from €0.189 million) and another €0.360 million between one and five years (up from €0.203 million).

Results of operations

€1.429 million (up from €1.396 million) of net sales, generated in 2009 solely in Germany, basically referred to rental income, including €1.068 million charged to subsidiaries (up from €0.983 million).

The functional expenses break down into cost of sales and general administrative expenses. Cost of sales mainly includes amortization, depreciation, write-down, and M&R expenses, while general administrative expenses essentially cover personnel expenses, management consulting fees, as well as amortization/depreciation.

The other operating income came to €15.914 million (down from €20.422 million) and chiefly resulted from apportioned taxes (at €11.812 million) and allocated marketing fees and IT costs (at €1.207 million and €1.187 million, respectively). Moreover, financial assets were written up at €0.053 million (up from nil).

The other operating expenses of €5.012 million (up from €1.817 million) included €4.500 million relating to other periods (up from nil) in connection with potential obligations under guaranties in favor of subsidiaries.

The net financial result includes write-down of €0.080 million charged to other long-term loans. The treasury stock was written down by €3.537 million to the lower current market value.

Income taxes refer to EBT of the current and prior periods.

Other disclosures

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

In the year under review, personnel expenses totaled €8.908 million (up from €7.703 million), of which €7.733 million (up from €6.981 million) is allocable to wages and salaries, another €1.175 million (up from €0.722 million) to Social Security, pension expense and related employee benefits, pension expense alone accounting for €0.651 million (up from €0.294 million). The €0.761 million interest portion in the addition to pension accruals was recognized as interest and similar expenses.

In fiscal 2009, Vossloh AG employed an average white-collar workforce of 50 (up from 45).

Remuneration of Executive Board members in 2009 totaled €3.050 million, including €0.698 million of fixed and €2.352 million of variable compensation. Former Executive Board members received a total €0.675 million in 2009. €8.648 million was accrued for the pension obligations to former Executive and Management Board members and their surviving dependants. The obligations have fully been provided for.

Total Supervisory Board fees for 2009 came to €0.612 million, including fixed and variable components of €0.207 million and €0.405 million, respectively.

For the detailed disclosure of board member remuneration required under the terms of Art. 285 clause 1 No. 9 HGB, see the Board Compensation Report (an integral part of the combined management report).

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

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

Financial derivatives

€ million	2009		2008	
	Market value	Notional volume	Market value	Notional volume
Interest rate swaps	(0.8)	25.6	(1.3)	25.6
Interest rate caps	0.0	0.0	0.0	25.6
Cross-currency swaps	(41.4)	203.9	(25.4)	203.9
Currency forwards	(0.1)	72.3	1.7	67.5
Currency options	0.0	0.0	0.3	7.5
	(42.3)	301.8	(24.7)	330.1

The cap book values are based on bank opinions, while the market values of currency forwards were determined internally on the basis of a comparison of forward rates to current rates.

The financial derivatives were marked to market using standard valuation techniques and considering market data available at the valuation date.

The fair market value of a currency forward is calculated on the basis of the forex spot rate quoted at the closing date, with due regard to forward markup or markdown for the remaining contract term in relation to the contracted forward rate. The market value of interest-rate and cross-currency swaps is calculated by using a DCF method with the market interest rate appropriate for the remaining term of the derivative and a foreign exchange rate applicable to the currency of the expected future cash flows.

In December 2009, the Executive and Supervisory Boards issued, and made available long term to the stockholders on the Company's website, the declaration of conformity as required by the provisions of Art. 161 AktG.

Notifications acc. to Sec. 21 WpHG

Vossloh AG received the following notifications of attributable voting rights in 2009 under the terms of Sec. 21(1) German Securities Trading Act ("WpHG"):

Notifying party	Date	Threshold	Voting interest
Generation Investment Management LLP, London, UK	1/26/2009	crossed below 3%	2.92%
Generation Investment Management LLP, London, UK	10/01/2009	crossed above 3%	3.07%

Statutory auditor's fees

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

€ million	2009	2008
Statutory audits	0.1	0.1
Other certification, verification or appraisal services	0.3	0.4
Tax consultancy	0.4	0.4
Other services	0.0	0.0
	0.8	**0.9**

The fees for statutory audits mainly include those paid for the statutory annual audits by BDO of Vossloh AG's separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees include €0.0 million (down from €0.1 million) for other certification, verification or appraisal services and €0.1 million (up from €0.0 million) for tax consultancy provided by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG. The fees for other certification, verification or appraisal services mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, as well as for due diligence services related to M&A transactions.

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

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

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

Vossloh AG's Supervisory Board

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

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

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

Dr. Christoph Kirsch[3, 4], Weinheim, former CFO of Südzucker AG
– GELITA AG: supervisory board member

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

Michael Ulrich[1], Kiel, mechanic

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

Proposed profit appropriation

The annual financial statements 2009 close with net income of €29,065,599.19. Including the profit carryover of €4,531,918.01, net earnings amount to €33,597,517.20.

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

Proposed profit appropriation

in €	
Net income for 2009	29,065,599.19
Undistributed profit as of January 1, 2009	4,531,918.01
Net earnings as of December 31, 2009	33,597,517.20
Proposed:	
total dividend payout	26,639,280.00
carryforward to new account	6,958,237.20

Werdohl, March 10, 2010

Vossloh AG
The Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

List of shareholdings

€ million		Footnote	Shareholding in %	through ( )	Equity[1]	EAT[1]
(1)	**Vossloh AG, Werdohl**				384.5	(16.2)
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	23.2	0.0
(3)	Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	22.5	(0.3)
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	4.5	(0.1)
(5)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(6.2)	(0.2)
	Rail Infrastructure division					
(6)	Vossloh France SAS, Paris, France		100.00	(1)	233.3	14.3
	Fastening Systems business unit					
(7)	Vossloh-Werke GmbH, Werdohl	2	100.00	(1)	4.3	49.6
(8)	Vossloh Fastening Systems GmbH, Werdohl	2	100.00	(7)	4.9	14.2
(9)	Vossloh Werdohl GmbH, Werdohl	2	100.00	(7)	5.1	5.6
(10)	Vossloh Tehnică Feroviară SRL, Bucharest, Romania		100.00	(7)	0.0	0.0
(11)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic		100.00	(7)	0.6	0.2
(12)	Vossloh Sistemi Srl, Sarsina, Italy		100.00	(7)	3.7	1.2
(13)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	3	51.00	(7)	1.1	0.4
(14)	T.O.O. Vossloh-Kasachstan, Almaty, Kazakhstan		50.00	(7)	0.0	0.0
(15)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	0.0	0.0
(16)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	0.0	0.0
(17)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl		100.00	(7)	0.3	0.1
(18)	Vossloh Utenzilija d.d., Zagreb, Croatia		89.20	(7)	2.1	0.0
(19)	Vossloh Skamo Sp. z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	3.8	1.4
(20)	Vossloh Rail Technologies Ltd Şti., Istanbul, Turkey		99.5/0.50	(7/8)	2.2	0.3
(21)	Feder-7 Kft., Székesféheryár, Hungary		96.67/3.33	(7/8)	0.2	0.0
(22)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(7)	0.6	(0.2)
(23)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	35.1	25.6
(24)	Vossloh-Werke China Investment GmbH, Werdohl		100.00	(7)	10.0	9.2
(25)	ZAO Vossloh Fastening Systems Rus, Moscow, Russia		50.10	(7)	0.0	0.0
(26)	Beijing China Railways Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	0.0	0.0
	Switch Systems business unit					
(27)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	109.8	25.0
(28)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(27)	2.4	0.3
(29)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(30)	1.8	1.1
(30)	Vossloh Nordic Switch Systems AB, Örebro, Sweden		100.00	(27)	18.6	8.0
(31)	KIHN SA, Rumelange, Luxembourg		89.21	(27)	12.1	1.6
(32)	DDL SA, Rodange, Luxembourg		100.00	(31)	0.1	0.0
(33)	Vossloh Laeis GmbH & Co. KG, Trier		100.00	(31)	2.8	0.6
(34)	Vossloh Laeis Verwaltungs GmbH, Trier		100.00	(31)	0.0	0.0
(35)	EAV Durieux SA, Carnières, Belgium		98.76/1.24	(31/27)	0.3	(0.4)
(36)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(27)	2.6	1.5
(37)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(27)	26.7	5.8
(38)	Montajes Ferroviarios srl, Amurrio, Spain		100.00	(37)	0.2	0.1
(39)	Burbiola SA, Amurrio, Spain		50.00	(37)	1.5	0.0
(40)	Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50.00	(27)	8.8	1.4
(41)	Vossloh Cogifer Italia Srl, Bari, Italy		100.00	(27)	4.1	(0.7)

€ million	Footnote	Shareholding in %	through ( )	Equity[1]	EAT[1]
(42) Cogifer Połska Sp. z o.o., Bydgoszcz, Poland		52.38	(27)	12.4	1.4
(43) ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(27)	0.8	0.2
(44) Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(27)	0.1	(0.1)
(45) Cogifer Americas, Inc., Cincinnati, USA		100.00	(27)	0.1	0.0
(46) J.S. Industries Pvt. Ltd., Secunderabad, India	3	51.00	(27)	0.3	(1.3)
(47) Vossloh Beekay Castings Ltd., Bhilai, India	3	60.00	(27)	5.5	2.0
(48) Siema Applications SAS, Villeurbanne, France		100.00	(27)	2.7	0.5
(49) Vossloh Min Skretnice AD, Niš, Serbia		100.00	(27)	2.3	0.4
(50) Dakshin Transtek Pvt. Ltd., Bangalore, India	3	100.00	(46)	0.1	(0.1)
(51) Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	8.8	0.1
(52) Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	9.3	(0.2)
(53) Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	2.7	1.1
(54) Vossloh Sportek A/S, Horsens, Denmark		100.00	(30)	1.4	1.2
(55) Kloos Oving BV, Rotterdam, Netherlands		100.00	(27)	4.1	1.4
(56) Global Rail Systems, Inc., Marlin, USA		60.00	(3)	2.7	0.2
Locomotives business unit					
(57) Vossloh Locomotives GmbH, Kiel	2	100.00	(1)	22.0	(3.5)
(58) Locomotion Service GmbH, Kiel	2	100.00	(57)	0.2	0.0
(59) Vossloh España SA, Valencia, Spain		100.00	(1)	78.4	14.2
(60) Erion Mantenimiento Ferroviario SA, Madrid, Spain		51.00	(59)	1.2	0.7
(61) Vossloh Locomotives France SAS, Antony, France		100.00	(57)	(0.3)	(0.3)
Electrical Systems business unit					
(62) Vossloh Kiepe GmbH, Düsseldorf	2	100.00	(1)	28.4	6.5
(63) Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	2	100.00	(62)	1.4	(0.7)
(64) Vossloh Kiepe Ges.mbH, Vienna, Austria		100.00	(63)	14.8	3.3
(65) Vossloh Kiepe Corporation, Vancouver, Canada		100.00	(63)	0.2	0.2
(66) Vossloh Kiepe Srl, Cernusco sul Naviglio, Italy		100.00	(63)	0.2	0.0
(67) Vossloh Kiepe Sp.z o.o., Kraków, Poland		99.00/1.00	(62/63)	0.0	0.0
(68) Vossloh Kiepe Main Line Technology GmbH, Düsseldorf		100.00	(63)	3.0	(1.7)
(69) APS electronic AG, Niederbuchsiten, Switzerland		100.00	(63)	0.9	0.3
Other companies					
(70) Vossloh Schwabe Australia Pty. Ltd., Sydney, Australia		100.00	(4)	0.9	(1.3)
(71) Delkor Rail Pty. Ltd., Sydney, Australia		100.00	(4)	1.3	0.4
(72) Delkor Rail (HK) Ltd., Hong Kong, China		100.00	(71)	0.0	0.0
(73) Vossloh Track Systems GmbH, Werdohl		100.00	(1)	0.0	(0.3)
(74) Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(73)	0.0	0.0
(75) Vossloh Rail Services GmbH, Werdohl		100.00	(1)	0.0	(0.8)
(76) Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl		100.00	(1)	0.0	0.0

[1] Non-euro equity is translated at the mean current rate. EAT (net income or loss) is shown before P/L transfer.
[2] Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
[3] Fiscal year from April 1 to March 31.

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

Management representation

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

Werdohl, March 10, 2010
Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

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

We have audited the annual financial statements (consisting of balance sheet, income statement, and notes) including the records and books of account and the combined management report (on the Company and the Group) of Vossloh AG, Werdohl, for the fiscal year ended December 31, 2009. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the bylaws are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

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

Our audit has not resulted in any objections or exceptions.

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

Essen, March 10, 2010

BDO Deutsche Warentreuhand AG
Wirtschaftsprüfungsgesellschaft

Fritz	Rüttershoff
Wirtschaftsprüfer	Wirtschaftsprüfer

www.vossloh.com

Vossloh AG · Vosslohstr. 4 · 58791 Werdohl · Germany · Mail: Postfach 1860 · 58778 Werdohl · Germany · Phone (+49-2392) 52-0 · Fax (+49-2392) 52-219