vossloh

ANNUAL REPORT 2012

Persevering in our purpose

Group figures and indicators		2012	2011 *
Order backlog	€ mill.	1,548	1,496
Income statement data			
Net sales	€ mill.	1,243.0	1,197.2
Rail Infrastructure	€ mill.	792.4	778.8
Transportation	€ mill.	451.1	420.0
EBIT	€ mill.	97.5	97.2
Net interest expense	€ mill.	(21.4)	(12.3)
EBT	€ mill.	76.1	84.9
Group earnings	€ mill.	59.2	56.2
Earnings per share (EpS)	€	4.94	4.32
EBIT margin	%	7.8	8.1
Pretax return on equity (ROE)	%	15.1	17.6
Return on capital employed (ROCE)[1]	%	11.9	12.0
Value added[1]	€ mill.	15.4	16.1
Balance sheet data			
Fixed assets[2]	€ mill.	662.7	625.6
capital expenditures	€ mill.	61.1	65.6
amortization/depreciation	€ mill.	41.3	38.2
Closing working capital	€ mill.	139.6	200.3
Year-end working capital intensity	%	11.2	16.7
Closing capital employed	€ mill.	802.3	825.9
Total equity	€ mill.	505.7	480.1
minority interests	€ mill.	15.9	14.0
Net financial debt	€ mill.	200.8	238.8
Net leverage	%	39.7	49.7
Total assets	€ mill.	1,523.1	1,513.4
Equity ratio	%	33.2	31.7
Cash flow statement data			
Gross cash flow	€ mill.	154.6	119.6
Cash flow from operating activities	€ mill.	162.6	138.5
Cash flow from investing activities	€ mill.	(72.9)	(90.6)
Cash flow from financing activities	€ mill.	(109.9)	(47.3)
Net cash (outflow)/inflow	€ mill.	(20.2)	0.6
Workforce data			
Annual average headcount		5,078	5,000
Rail Infrastructure		3,193	3,206
Transportation		1,838	1,748
Vossloh AG		47	46
Payroll intensity	%	72.6	71.9
Personnel expenses	€ mill.	271.0	259.0
Share data			
Annual closing price	€	74.47	74.07
Closing market capitalization	€ mill.	893.5	888.3

[1] Based on average capital employed
[2] Fixed assets = intangible and tangible assets + investment properties + shares in associated affiliates + other noncurrent financial instruments
*Due to the retroactive application of the change in pension accrual accounting, the prior-year comparatives were adjusted accordingly. For details, see Note (24), page 156.

Vossloh's corporate structure

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

Rail Infrastructure division

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

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

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

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

Transportation division

This division builds locomotives and (sub)urban trains, and manufactures electrical components for various types of local transport vehicles (LTVs) and locomotives. It has two business units:

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

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

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Rail Services

Indicators		2012	2011
Net sales	€ mill.	792.4	778.8
EBITDA	€ mill.	105.7	110.3
EBIT	€ mill.	81.7	86.2
EBIT margin	%	10.3	11.1
Closing working capital	€ mill.	198.8	249.2
Year-end working capital intensity	%	25.1	32.0
Fixed assets	€ mill.	469.2	455.0
Capital expenditures	€ mill.	34.4	38.9
Amortization/depreciation	€ mill.	24.0	24.1
Closing capital employed	€ mill.	668.1	704.2
Average capital employed	€ mill.	692.3	683.1
ROCE[1]	%	11.8	12.6
Value added[1]	€ mill.	12.5	17.9

Business units:

Vossloh Transportation Systems
Vossloh Electrical Systems

Indicators		2012	2011
Net sales	€ mill.	451.1	420.0
EBITDA	€ mill.	52.0	41.3
EBIT	€ mill.	35.5	27.8
EBIT margin	%	7.9	6.6
Closing working capital	€ mill.	(52.9)	(41.4)
Year-end working capital intensity	%	(11.7)	(9.9)
Fixed assets	€ mill.	180.6	159.2
Capital expenditures	€ mill.	24.0	23.7
Amortization/depreciation	€ mill.	16.5	13.5
Closing capital employed	€ mill.	127.7	117.8
Average capital employed	€ mill.	121.6	124.6
ROCE[1]	%	29.2	22.3
Value added[1]	€ mill.	23.3	15.3

[1] Based on average capital employed

Werner Andree
CEO

Dr.-Ing. Norbert Schiedeck
COO

Dear Stockholders:

Vossloh is squarely back on track. As planned and expected, 2012 was a period in which we were able to write another chapter in the success story of previous years. The Group reported a rise in revenue for both divisions and a tall order backlog after another order inflow surge. In 2011, project postponements by customers and dwindling demand in Europe had momentarily slowed down the earlier-year uptrend.

Once again, the Transportation division was the faster growing and generated a much higher expansion rate driven, in particular, by the congenial situation at the Spanish location of Valencia as well as at the Electrical Systems business unit. In 2012, we benefited from the rush of incoming orders in 2011 which will translate into sales and earnings well beyond 2013. The Rail Infrastructure division owed its sales growth to the Group's two top-selling business units: Switch Systems and Fastening Systems. In contrast, the Rail Services business unit fared a great deal worse than in 2011 since throughout the period demand for rail welding work was—quite surprisingly—far short of the previous period's.

The year's performance in a nutshell: altogether, the Vossloh Group raised sales in 2012 by 3.8 percent to €1,243.0 million. In the period, its EBIT amounted to €97.5 million, up 0.3 percent over the prior year's €97.2 million. The EBIT margin contracted year-on-year from 8.1 to 7.8 percent. During the past twelve months, the Group generated a stable ROCE of 11.9 percent, down from 12.0.

Accounting once more for the larger slice of sales (64 percent) within the Group, Rail Infrastructure increased its sales by 1.7 percent to €792.4 million. Thanks to the resumption of rail fastener shipments in China toward mid-2012, the Fastening Systems business unit with a growth of just under 11 percent showed, as expected, the division's steepest expansion rate. The Switch Systems business unit benefited from improved demand in various regions such as the USA and Australia, and lifted its revenue by 4.2 percent. Rail Services was the only business unit to report slumping sales (down by 37.7 percent) on account of the above-mentioned waning demand for rail welding and logistics.

Padded by the solid order backlog at the start of the year, the Transportation division pushed up sales by 7.4 percent to €451.1 million and thus generated 36 percent of the Group's aggregate. Sharing in this growth were both business units, Transportation Systems (up 4.9 percent) and Electrical Systems (up 13.8 percent). Whereas sales at the German location of Kiel dipped slightly, the Spanish location of Valencia proved to be the growth driver of the Transportation Systems business unit.

"Persevering in our purpose" is the motto of this 2012 annual report. It describes our position and strategy in the rail technology market—one that is still highly attractive. According to the latest studies, the worldwide market for rail technology in the past decade has regularly outperformed the global economy and shown itself to be barely affected by short-term economic swings. This favorable uptrend, however, has inevitably been creating new production capacities worldwide and leading to the advent of new competitors. Therefore, the competitive situation has toughened significantly over the past years. Yet, despite such keener rivalry, with our premium products and services we still identify for the Vossloh Group vast opportunities and highly promising perspectives in the rail technology market.

The World Rail Market Study published in 2012 by the European rail industry association UNIFE predicts an ongoing rise in global demand for modern and efficient railways.

According to UNIFE, market growth will increase in the emerging nations of the Middle East, Africa, and South America while the mature markets (Western Europe, North America) and the maturing markets (Asia/Pacific) will gradually sacrifice some of their dynamism over the years ahead. In all, the study predicts for the period 2015 to 2017 a compound annual growth rate of 2.6 percent in the rail technology market. The most important growth driver in all regions remains the soaring need for eco-friendly mobility, which is only realizable by the rail mode of transport.

For a number of years now, Vossloh has been rigorously readying itself for addressing the structural challenges of the market. Backed by our technological proficiency in rail business, efficient production processes and competitive cost structures we intend to consolidate and push ahead with the internationalization of the Vossloh Group. Early on, we have adopted extensive measures both for strengthening our own position in the core market of Western Europe and for branching out as quickly as possible into new hotbeds of growth. Since the middle of the past decade we have been eying the ongoing urbanization trend as embodied by the mushrooming megacities of Asia and South America. In the regions perceived by UNIFE as tomorrow's growth markets—Middle East, Latin America, and Eastern Europe—Vossloh has already established a solid foothold for itself.

The international upturn in the rail markets and the expected slight acceleration in the global economy are the foundations for our forecasts for fiscal 2013. Vossloh is looking to raise its sales between 5 and 10 percent in 2013, a rate again in excess of the industry's, and hence repeat the addition of positive value. The forecast is backed by the Group's still tall order backlog of over €1.5 billion at year-end 2012. Given the unremitting competitive pressure throughout the business units, the Vossloh Group predicts for 2013 a substantially unchanged EBIT; with sales climbing, the EBIT margin is therefore expected to inch down to around 7 percent. Assuming a higher capital employed, ROCE will slip to about 10.5 percent in 2013.

At this year's AGM, a dividend of €2.00 (down from €2.50) will be proposed. This means that we are sticking to a payout ratio equivalent to about one-third of group earnings while deploying the other two-thirds for stimulating the Group's ongoing growth. We are thus continuing our long-term dividend policy that is tied to the trend of group earnings. This is a policy that permits you, our stockholders, to share in the Group's success while, at the same time, allowing Vossloh to further cement and expand its solid position amid the now fiercer rail market competition—so that within the near and more distant future we can soundly operate our business.

Our most important goal is still to generate sustainable added value for you, our stockholders, and to continue to let you share in the Group's success through commensurate dividends. For this fundamental strategic principle of value-driven growth Vossloh intends to again bolster regional presence and sustainably secure and also broaden access to the growth markets of tomorrow. If our earnings per share are to be steadily improved, requirements in terms of innovative resources, expandability and cost effectiveness will rise. We would deem it most encouraging in our efforts if you, our stockholders, accompany and support us in pursuit of these goals.

Best regards,

Werner Andree
CEO

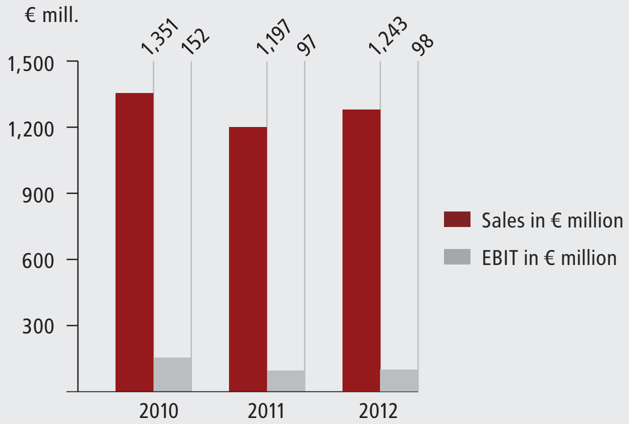
Group sales up 3.8 percent to €1,243.0 million

Both divisions share in growth—Transportation outpacing Rail Infrastructure

Vossloh pushing ahead with expansion outside of Europe—non-European sales rising to 36 percent

EBIT ratcheted up to €97.5 million

Value added almost unchanged at €15.4 million



Vossloh Group: sales and EBIT trend

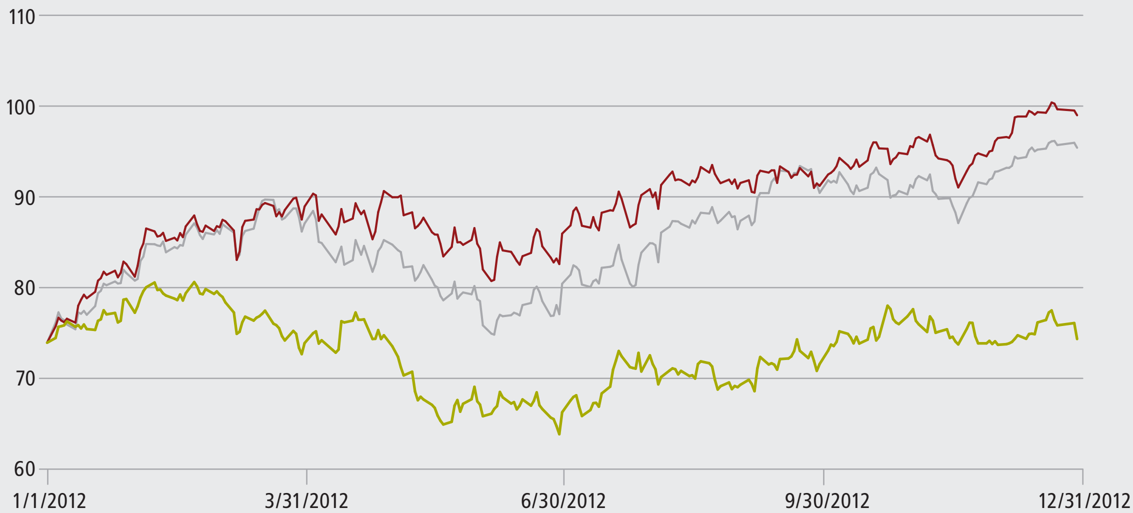
Stock price unchanged year-on-year

€2.00 cash dividend proposed

Free float sharply shrunk

Vossloh stock
MDAX (rebased)
DAX (rebased)

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



Vossloh stock price trend from Jan. 1 to Dec. 31, 2012

Vossloh stock

Stock markets rebounding in 2012, in some cases to multiyear highs

The period under review saw the stock markets recover worldwide from the downturn of 2011; in some cases, the indexes surged to their highs for several years. Fueling this trend was the expansive monetary policy of the Central Banks. As the months progressed, the upswing was additionally supported by investor propensity to favor equities over bonds.

For periods during the first half of the year (H1), the sentiment on the capital markets was depressed by a resurgence of the euro sovereign debt crisis, the debate on Greece's possible EU exit and budget cutbacks in important economic regions, as well as generally weaker business indicators for Europe, the USA, and China. With the reaffirmation by the European Central Bank announced in July that it would do its utmost to preserve European Monetary Union, international investors flocked back at the start of H2 to the stock markets, especially the European. Inversely to the downhill direction of return rates on the bond markets, the prices of Europe's 50 biggest listed companies surged during the latter half of the year to such an extent that the Euro Stoxx 50 by the end of 2012 had jumped around 14 percent. The US markets likewise closed the year with gains, albeit in Q4 these contracted temporarily because of hurricane Sandy (trading on the New York exchange had to be suspended for periods of time in October) and because of the fiscal cliff looming toward year-end. Despite this, the S&P 500 had advanced 15 percent by year-end, the Nasdaq 100 by almost 17 percent. In contrast to most important international indexes, the Dow Jones underperformed, with a rise of a good 7 percent. Japan's Nikkei index hiked up altogether 23 percent; the sharp gain in the final two months reflected the capital markets' anticipation of the new Japanese government's expansive monetary policy.

DAX and MDAX outperforming most international indexes

Germany's lead index, the DAX, delivered a better-than-average performance in 2012; a year-on-year comparison of the close of 2011 and 2012 shows a 29.1-percent rise to 7,612 points, the best annual performance since 2003. The annual high was recorded on December 19 at 7,683 points, the 2012 low back on January 2 at 5,900. The MDAX—another German key index—did even better, soaring by 33.9 percent to 11,914. Its 2012 low and high of 8,887 and 12,103 were likewise quoted on January 2 and December 19, respectively.

Vossloh stock price showing sideways pattern in 2012, underperforming the overall market

From a year-on-year point of view, Vossloh stock underperformed to quite some degree the market as such. It closed the year with an uptick of 0.5 percent at €74.47 or €0.40 higher than year-end 2011. Its annual high of €81.28 was quoted on February 20, 2012. In the period that followed and apart from minor intermediate peaks, it fell more steeply than the market in general, especially in the period mid-April to mid-May, and in the course of June 28 sank to its 2012 low of €63.57. Then, starting from late July it patterned itself on the improvement of the two German lead indexes and began to move sideways.

The trading volume of Vossloh stock dropped from 21.5 million shares in 2011 to 6.6 million for the period under review, mainly due to the stepped-up Vossloh stake held by Mr. Heinz Hermann Thiele which led to an appreciable decline in free-floating stock. On the 254 trading days of 2012, an average of 26,100 Vossloh shares were turned over daily, down from an average daily trading volume of 83,800 in 2011. At the end of 2012, the market capitalization of Vossloh AG amounted to €893.5 million (up from €888.3 million). The Company ranked 60 among the MDAX members in terms of free-floating market capitalization and 50 in average trading volume in the course of the year. At year-end 2011, it had ranked 51 and 31, respectively.

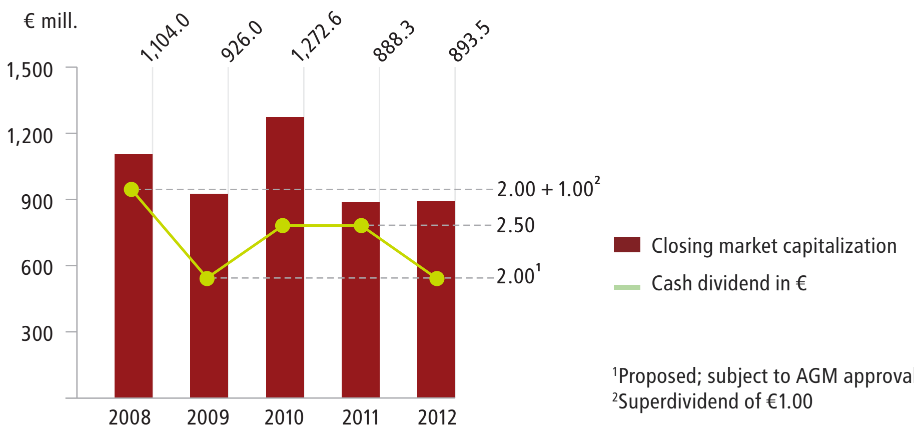
When the German Stock Exchange Corporation (Deutsche Börse AG) periodically reviewed the composition of its indexes, it decided on March 5, 2013, that with effect as from March 18, 2013, Vossloh AG will be listed within the SDAX, the reason for this change being its reduced free float and hence Vossloh AG's significantly lower free-floating market capitalization.

Dividend proposed at €2.00 per share

For fiscal 2012, Vossloh AG's Executive and Supervisory Boards will propose to the stockholders a cash dividend of €2.00 per share (down from €2.50). We thus endorse our pursuit of a performance-oriented long-term dividend policy linked to the trend of group earnings. Given the ever fiercer rail technology market competition, Vossloh will in the years ahead further cement and develop its solid position in the Group's core markets. With this in mind, a payout ratio of about one-third of group earnings and the appropriation of the other two-thirds to safeguarding and selectively promoting the Group's further growth are considered a reasonable strategy.

Vossloh stock indicators		2012	2011	2010	2009	2008
Earnings per share (EpS)	€	4.94	4.32	7.32	6.57	9.48
Cash flow per share	€	13.94	10.63	10.29	3.36	9.10
Dividend per share	€	2.00[1]	2.50	2.50	2.00	3.00[2]
Total dividend payout	€ mill.	24.0	30.0	33.3	26.6	41.7
Book value per share (excl. minority interests)	€	40.82	39.09	41.44	35.45	34.26
Annual average number of shares outstanding	1,000	11,993	13,024	13,320	13,381	14,703
Number of shares outstanding at year-end	1,000	11,999	11,993	13,325	13,320	13,889
Closing stock price	€	74.47	74.07	95.50	69.52	79.49
Closing market capitalization	€ mill.	893.5	888.3	1,272.6	926.0	1,104.0
Annual high/low	€	81.28/63.57	102.75/62.67	96.46/65.75	89.80/62.36	99.49/45.41
Price-earnings ratio (PER)		15.1	17.1	13.0	10.6	8.4
Price-cash flow ratio (PCFR)		5.3	7.0	9.3	20.7	8.7
Price-book ratio (PBR)		1.8	1.9	2.3	2.0	2.3
Share trading volume	1,000	6,633	21,536	17,235	20,437	27,913
Average daily turnover of shares	1,000	26.1	83.8	67.3	80.5	109.9

[1]Proposed; subject to AGM approval
[2]Superdividend of €1.00



[1]Proposed; subject to AGM approval
[2]Superdividend of €1.00

Market capitalization and dividend trend

Ownership structure

Vossloh Family Pool: Vossloh AG's major stockholder

The Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR") remains Vossloh AG's major stockholder, reportedly owning a stake in the Company's capital stock again clearly above 30 percent as of December 31, 2012.

Heinz Hermann Thiele holding 25+ percent in Vossloh

Mr. Heinz Hermann Thiele, Germany, communicated on October 29, 2012, that his voting interest in Vossloh AG had crossed above the 25-percent threshold on October 25, 2012, to reach 25.14 percent (3,349,888 votes). According to the notification dated November 21, 2012, the 25.14-percent voting interest (3,349,888 votes) is as of November 19, 2012, directly attributable to KB Holding GmbH, Grünwald. On August 13 and October 29, 2012, Mr. Heinz Hermann Thiele informed Vossloh, *inter alia*, that with his investment in Vossloh stock he seeks to exert influence on the staffing of Vossloh AG's executive, management and/or supervisory boards. As of November 21, 2012, KB Holding GmbH and hence also Stella Vermögensverwaltungs AG communicated that with their investment in Vossloh stock they seek to exert influence on the staffing of the Company's executive, management and/or supervisory boards.

Vossloh AG holding 10 percent treasury stock

As of December 31, 2012, Vossloh AG held 1,326,721 treasury shares, equivalent to around 10 percent of the capital stock.

Vossloh's free-floating stock at December 31, 2012, came to around 32 percent. Given the clearly smaller volume in comparison with previous years, no detailed ownership survey of the free float was conducted.

Analysts' assessment

In 2012, altogether 19 equity research firms were regularly commenting on and reviewing Vossloh stock. In addition, the French firm Natixis Equity Research began covering Vossloh stock in November 2012. As a consequence of the weaker business prospects of Vossloh AG for 2012 and 2013 published on November 22, 2012—because of tougher business conditions and fiercer competitive pressure on the rail technology market—numerous analysts revised their assessments. At year end 2012, altogether 13 recommended "hold," four "buy," and three "sell." On the basis of the 20 assessments, at year-end 2012, the price targets averaged €76, the bottom-end fair value being €61.50 and the maximum €95.

Sustainability

With its rail technology products and services, the Vossloh Group operates in an industry whose prime objective is to facilitate the haulage of people and goods as safe and eco-friendly as possible. At Vossloh AG, the resource-efficient use of energy and raw materials in production and the ecological and economic application of the products by customers as well as compliance with environmental protection criteria in providing services are standard practice. Given these circumstances, Vossloh stock has for several years now increasingly attracted the attention of sustainability-minded investors. For five years, it has been listed by oekom research, Sarasin, and Inrate. Moreover, since February 2012, Vossloh has also been included by Dutch investor Kempen in the Kempen/SNS SRI Universe which focuses on sustainability. For six years now, Vossloh has also been participating in the Carbon Disclosure Project (CDP).

Capital market dialog

Vossloh's Investor Relations team continued in 2012 its close contacts with the capital market community and participated in 15 investor conferences and road shows in and outside Germany. The team was readily available to answer written or phone inquiries. Altogether, the members conversed with over 300 institutional and private investors as well as other interested parties in the course of 2012. For any questions on Vossloh stock or Vossloh in general, send an email to investor.relations@ag.vossloh.com


COMPETITION
HOT SPOTS
FUNDING
vossloh
Urbanization
Environment
Efficiency

Vossloh in the world market in 2012

The renaissance of rail is continuing, driven by environmental awareness and sound economics. Demand for modern railway technology is rising constantly and globally. Since 2004, this market has been outpacing the world economy as such, and even the crisis of 2009 did little to slow it down. Alongside the industrialized nations, the up-and-coming economies in the emerging markets are increasingly opting for modern rail transport and spending heavily on attractive rail systems.

€106 billion

was the average annual volume of the worldwide accessible railway technology market in the period 2009–2011;

€124 billion

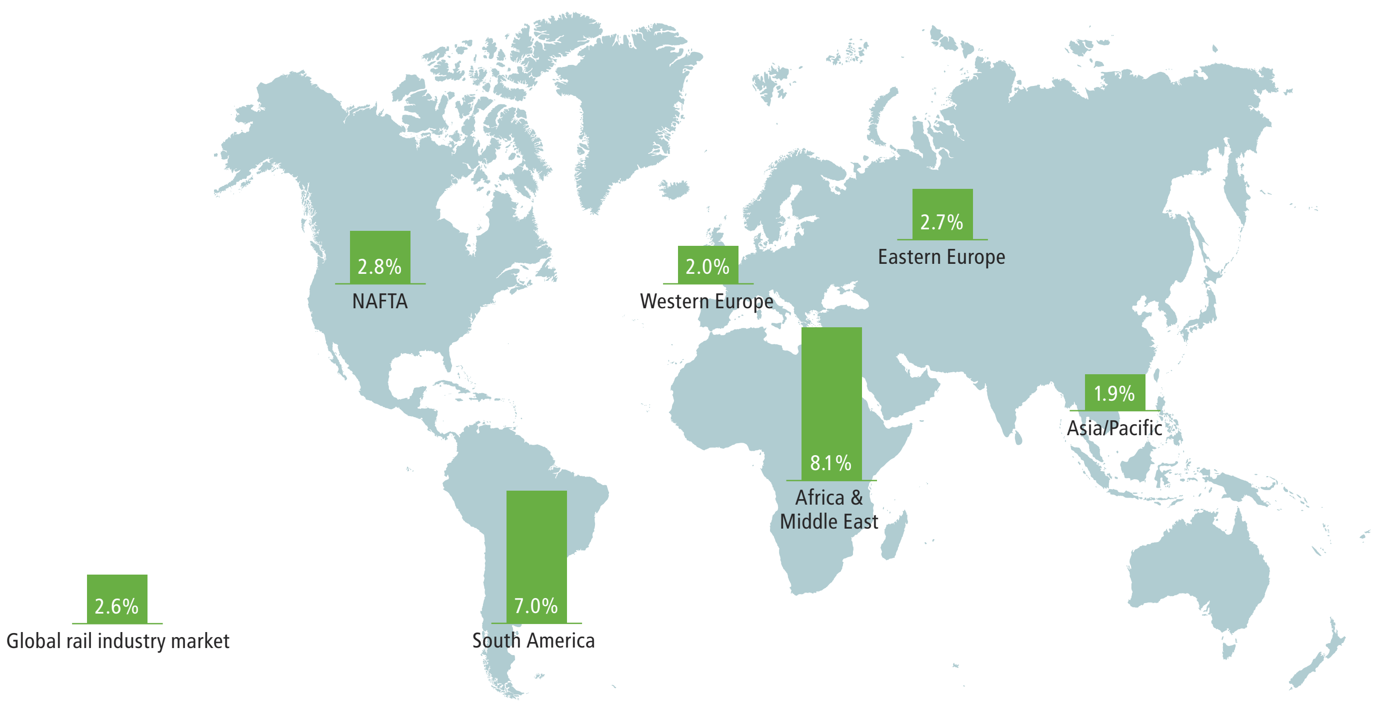
will be the annual volume for the period 2015–2017.

+23 percent

is the proportion by which the railway supplier industry rose as a share of global GDP 2010 compared with 2004.

The future of rail around the globe

Tomorrow's railways cannot be the same as today's. Wherever it is, rail, as a system of the future, needs a sophisticated infrastructure, efficient control and safety systems, high-quality rolling stock from trams to high-speed trains, and advanced track services to ensure reliable operation. The World Rail Market Study published in 2012 by UNIFE, the Association of the European Rail Industry, expects demand for railway technology to grow by 2.6 percent annually up to 2017. However, within that overall figure, the areas of greatest growth will shift: whereas China is likely to see a downturn from a high base, more vigorous growth is anticipated in the other countries of Asia. Meanwhile, UNIFE detects pent-up demand in South America, in the emerging markets of the Middle East and in Africa—and, what is more, with above-average growth of 7 to 8 percent. This is the future of rail around the world, where Vossloh is very much at home with its own production bases in many countries of Europe, Asia and the Americas.



Average regional growth rates in the railway technology market (CAGR 2015–2017 vs. 2009–2011)

The megatrend of urbanization

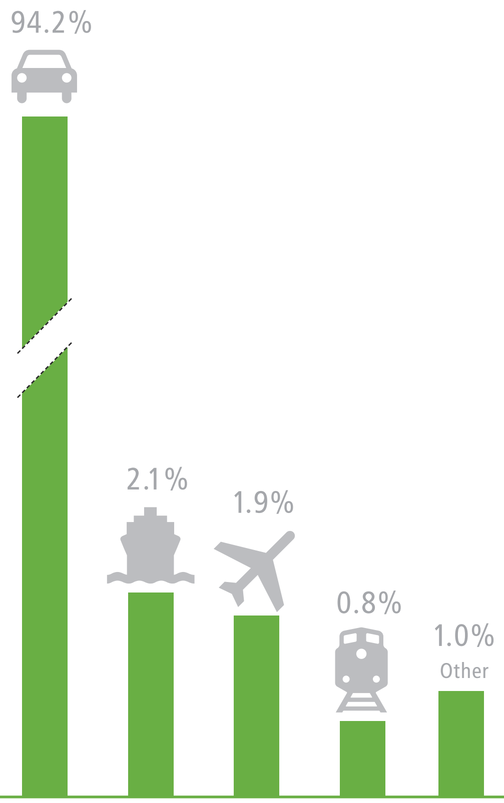
Even beyond the coming few years, the future belongs to rail transport. It can boost the quality of life in the growing megacities: more and more people want to live in cities, and they want to stay mobile. In the world's conurbations, which are clogged up by private vehicles, effective rail systems are thus both the guarantee and foundation of efficient, sustainable and socially acceptable mobility. In 2030, some 60 percent of the world's population will be living in large cities, and by 2050 that figure will have risen to almost 70 percent—or even higher in well-developed economic regions. Providing people in these urban landscapes with a life worth living will be one of the great challenges for policymakers, businesses, scientists, and society. There are many ways in which Vossloh's railway technology can make a contribution to solutions here—with efficiently functioning infrastructure, environment-friendly locomotives and light rail systems, as well as key components for electromobility for buses and trains.

3.6 billion people now live in cities worldwide

80 percent of global GDP is generated in cities

Environmental protection well in train

Mobility by rail is a paradigm of modern environmental protection. Transport causes about one-fifth of all greenhouse-gas emissions in the EU. Rail contributes less than one percent of that, whereas road transport accounts for more than 90. The EU is therefore demanding the obvious conclusion: switch more transport from road to rail! The 2011 European Transport White Paper identified a specific target: by 2050, the bulk of medium-distance journeys in long-haul passenger transport should be made by high-speed train rather than by car or by air. Municipal and regional authorities, too, are increasingly discovering the benefits of rail in local transport. Rail routes are being reactivated and new lines built for tram and subway services. Modern generations of vehicles with fuel-saving and hybrid technologies are also pushing down CO_2 emissions further—and this applies to freight transport as well.



Shares of EU-wide direct CO_2 emissions within the transport sector

Modernization of lines in northern Argentina

More transport on better lines

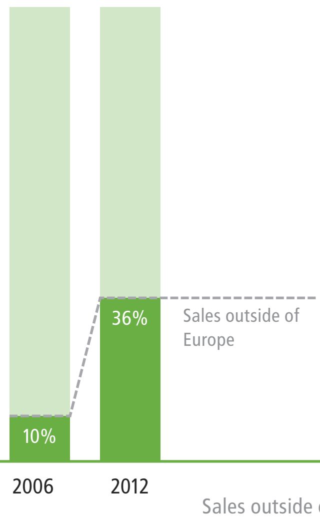
Many rail networks have seen better days. This is true of Eastern Europe, the USA, Latin America, Asia and some countries in Africa. If more transport is to go by rail, heavily-used or antiquated lines will need to be modernized or renovated. There is attractive growth potential in this market sector. Vossloh Rail Infrastructure considers itself well equipped for this, with its tried-and-tested know-how and its attractive products and services.

Debt crises and their repercussions

The global railway technology market is largely dependent on public funding. Rail and network operators are financed predominantly from public-sector funds whose severe shortage is currently affecting the market. Also, if interest rates rise, there is a danger of higher debt-servicing costs. Investment in infrastructure is threatened by pressure to make cutbacks. The euro crisis and the political differences on fiscal policy in the USA are keeping the financial markets volatile, and this is also making it harder to obtain private funding for new projects.

Mounting competitive pressures

Despite the tense situation surrounding public-sector budgets, the rail market is still attracting new competitors. Companies are being enticed into the market by its high volumes, unabated growth, resistance to short-term economic swings, optimistic prospects and growing environmental awareness. Simultaneously, established market players have increased their capacities in response to rising demand, and regional rivals are expanding and internationalizing their business. How to remain successful against the backdrop of this growing level of competition is the aim of the newly defined strategic areas of activity that Vossloh has identified over the past fiscal year.



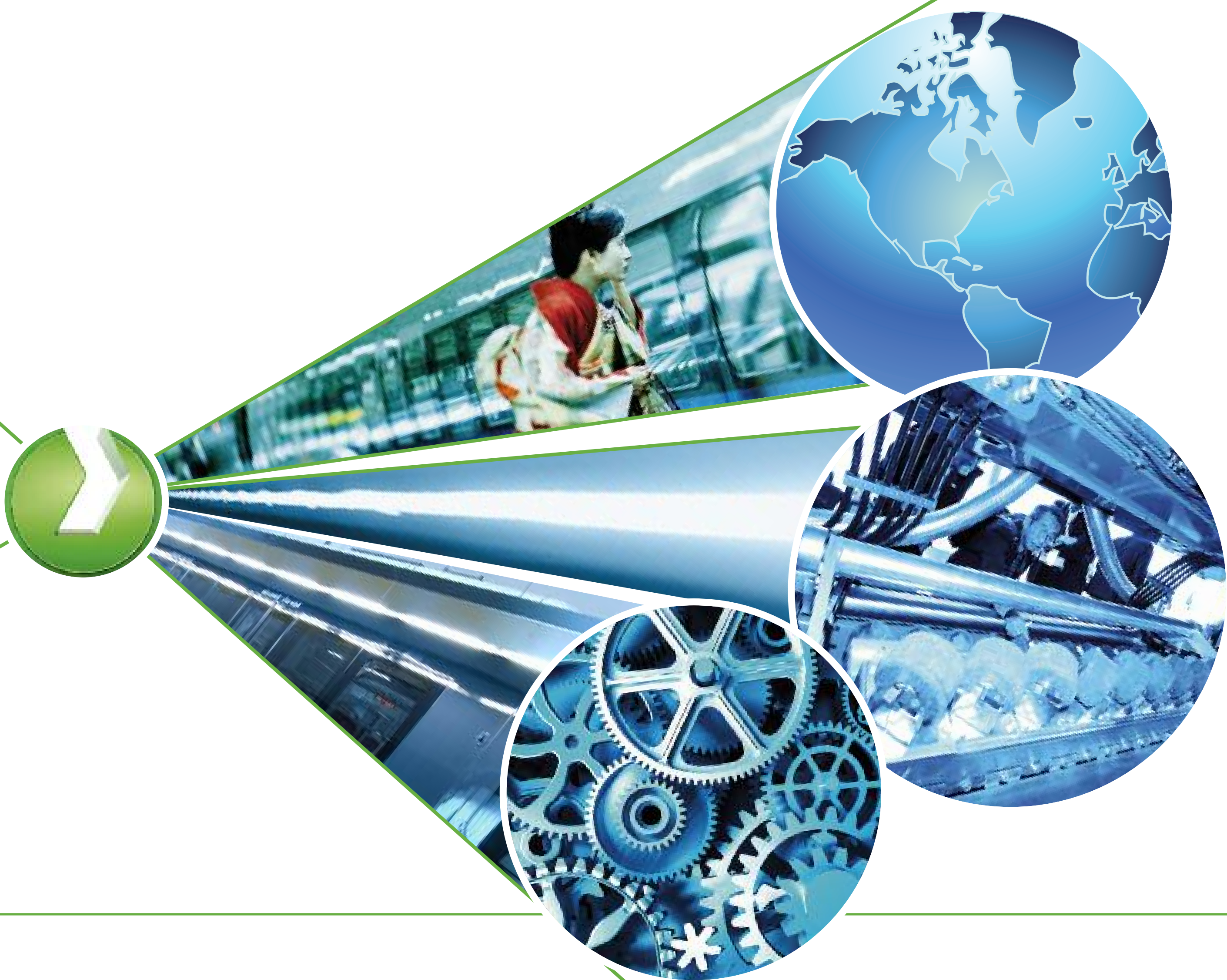
Sales outside of Europe in 2006 were only 10 percent. In fiscal 2012 they had risen to 36 and as high as 58 percent outside of Western Europe.

There are 23 megacities with more than 10 million inhabitants. Of these, 13 are in Asia, 4 in Latin America, and 2 each in Africa, Europe, and North America.

Asia, Latin America and Africa will account for 93 percent of the absolute growth in the world's urban population between now and 2050.

Cities suffer worst from congestion, poor air quality, and noise pollution. The example of the European Union shows that urban transport accounts for around one-quarter of transport-related CO_2 emissions and 69 percent of all traffic accidents.

Strategies in 2012



Securing our position in the core market of Western Europe and expanding into growth markets worldwide—through a wide range of measures and programs Vossloh has switched points at the right time to achieve these strategic goals. A key theme is closer interaction and cooperation among the Group's business units, both in marketing and engineering. Targets are being fleshed out and updated in three areas of activity.

(1) International profile

Growing from a midsize German exporter into a major group with an international profile—this is the path that Vossloh has been following with absolute consistency for years. Our clear goal is this: to generate organic growth globally; to exploit rigorously the opportunities presented by the megatrend of urbanization, especially in Asia and the Americas; and to maintain a powerful presence at the right time in the other growth markets for railway technology.

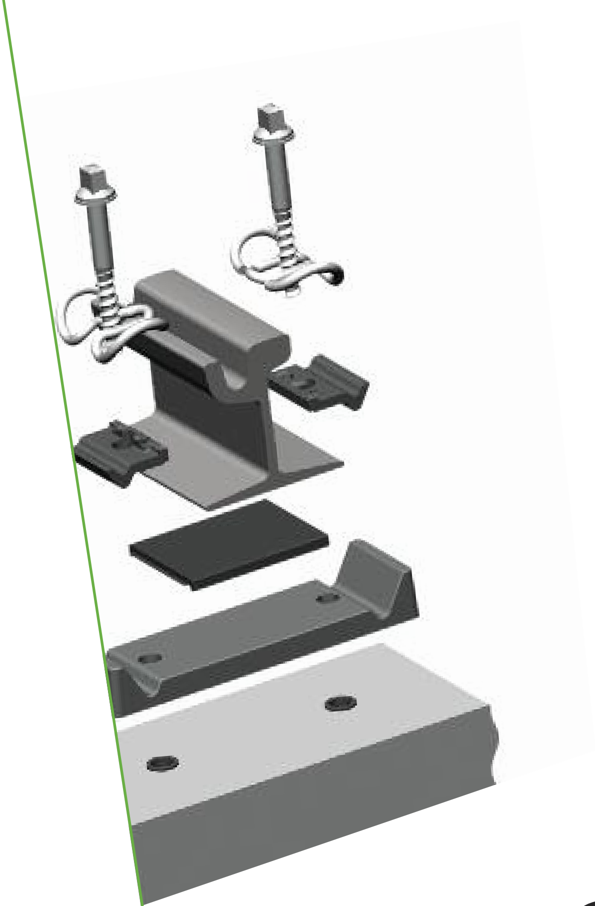
We have been pursuing this policy for some time now by establishing an international sales organization with bases in the Middle East, Latin America and Eastern Europe, and by setting up production plants and branches or entering into strategic alliances in Vossloh's markets.

(2) Bringing innovation into the marketplace

Our Rail Infrastructure and Transportation divisions are finding themselves confronted with increasingly exacting demands in relation to technology, quality and price. Vossloh is continuously driving technological developments forward and is thus able to offer competitive, sustainable and innovative solutions. New products and services are also being created across business units and divisions.

(3) Operational improvements

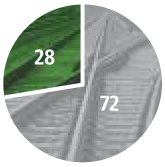
In day-to-day operations, the key aim is to bring in constant improvements. Vossloh strives for efficient processes in production and administration, sophisticated capacity management, synergies in materials procurement and research and development, groupwide occupational safety & health programs—all these are essential elements in competitive cost structures.



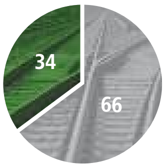
Rail Infrastructure

Global player, local presence

Modern railways need a modern infrastructure: Vossloh holds foremost positions worldwide in the markets for rail fasteners and switches. In addition to these key products, the Rail Infrastructure division offers network operators comprehensive rail welding and logistics services. This all-embracing expertise is a unique selling proposition in the global market.



28:72—this is the ratio of Western Europe to the rest of the world of sales in Vossloh's Rail Infrastructure division in 2012.



The ratio in the market as a whole is similar, according to UNIFE figures: Western Europe's share of the global rail infrastructure market is 34 percent, with the rest of the world at 66 percent.

€26 billion
is the accessible annual volume of the world market in the rail infrastructure segment in the years from 2015.

Business in Western Europe contributes 28 percent of Vossloh Rail Infrastructure's sales, while the greater part—72 percent—is generated in other regions. The key products are therefore produced worldwide, as close as possible to the sales markets. For instance, rail fasteners are manufactured at our parent plant in Germany and at production facilities in China, Turkey, and Poland. Vossloh Fastening Systems achieves more than two-thirds of its rail-fastener sales outside of Western Europe. Vossloh Switch Systems, which is likewise a global player, has the most extensive network of production plants in the whole Group, necessary by virtue of its products' size and having to keep shipping distances short. This business unit has 35 production facilities worldwide.

International profile

The railways are being "(re)discovered" worldwide. Vossloh is involved locally and, through its international organization, in current construction and expansion projects as well as major renovation and maintenance programs. In fiscal 2012, activities centered on the Middle East, Latin America, and China.

The outstanding project in the United Arab Emirates is currently the construction of a 270-kilometer freight line between the Shah Sour gas field and the industrial coastal town of Ruwais in Abu Dhabi. Vossloh is equipping this new line with rail fasteners and turnouts. The section now fitted is only the first phase of the construction of a 1,500-kilometer line, which is intended to interconnect the Gulf Cooperation Council member states as an alternative to the Strait of Hormuz, which is threatened time and again by political conflict.

This order is yet another success for Vossloh in the Gulf region. In recent years, the Rail Infrastructure division had already fitted out subway lines in Dubai and Saudi Arabia and the 500-kilometer line between the Iraqi capital Baghdad and the port city of Basra in the south of the country. For the future, too, the Middle East market offers good business opportunities. In addition to more freight lines, the Gulf states, in particular, are showing increased interest in passenger rail systems ranging from local to intercity services.

The trend of urbanization is a key factor in Latin American markets. In order to avoid the collapse of their megacities, governments are concentrating on expanding their rail systems. According to industry estimates, the annual market volume for railway technology in this region is expected to rise from just under €4 billion at present to around €6 billion. This development is also being driven by two major sporting events: the 2014 FIFA World Cup and the Summer Olympic Games in 2016, both taking place in Brazil.

For now, Vossloh Rail Infrastructure is pursuing two activities in the South American markets as part of its internationalization strategy. In Argentina, Vossloh established in fiscal 2012 together with the state owner of the railway infrastructure, ADIF SE, the consortium ADIF SE – Vossloh Cogifer Argentina SA Consorcio de Cooperación, in which it holds a 51-percent stake. The consortium is currently expanding a turnout plant in La Plata, which will make it the only manufacturer of such products in Argentina. In Brazil, it acquired the switch producer Metalúrgica Barros Monteiro Ltda., based in Sorocaba in the federal state of São Paulo. This new subsidiary is one of the three largest suppliers in the Brazilian switch market.

Venues of the FIFA World Cup in Brazil

Vossloh still has a strong presence in the booming railway market of China. In addition to the rail fastener plant, the Group now has a local facility for manufacturing switches. The new joint venture Wuhu China Railway Cogifer Track Co., Ltd. (WCRCT), which was established by Vossloh Cogifer, the Anhui Huaxing Group and the China Railway Material Group, produces turnouts and their components for standard-gauge railway, subway and tram networks and markets them in China and worldwide. The first switch was manufactured in June 2012 for Inner Mongolia.

China

is, after Germany and the USA, one of Vossloh Rail Infrastructure's biggest sales markets.

At the same time, Vossloh Rail Services achieved a further step in its internationalization drive by positioning itself as a service provider in China's high-speed transport sector. The new CRM-Vossloh Track Maintenance Co., Ltd., a joint venture established 2013 with the China Railway Materials Commercial Corp., will initially put the high-speed grinding technology developed by Vossloh into use on the Beijing–Shanghai high-speed line. The technique is expected to roughly double the life-cycle of heavily-used rails.


Vossloh turnout plant in Wuhu, China

Bringing innovation into the marketplace

With its new technologies, Vossloh Rail Infrastructure is setting benchmarks for the construction and operation of modern rail infrastructure. Economic efficiency and environmental impact are the decisive criteria worldwide for successful products and services in rail technology.

To this end, the Fastening Systems business unit is contributing an innovation in the form of the high-elasticity special-purpose elastomer with the registered trademark "cellentic." This product, made from a micro-cellular mixture of synthetic materials and premiered at the InnoTrans 2012 trade fair, is integrated into existing rail fastening systems and slab tracks. It absorbs wheel-rail vibrations and reduces structure-borne noise.

A longer lifespan for the rail and a simultaneous reduction in the noise level in everyday operations are also the effects of what is known as acoustic grinding. Vossloh has now developed a second-generation high-speed rail grinding train. This preventive-maintenance technology is suitable for all railway systems, from high-speed to light rail.

2 dB less noise
is made by a passing train after the rails have undergone high-speed grinding.

The Vossloh MFL Rail Milling joint venture, set up by Vossloh Rail Services and the Austrian engineering works Maschinenfabrik Liezen und Giesserei Ges.m.b.H. (MFL), is making a further contribution to innovative track maintenance by developing a new generation of rail-milling machines. The aim is safer operation with a much higher work rate than the existing technology can achieve.

Operational improvements

Reducing the cost of materials, increasing labor productivity and ensuring safety and health protection are the constant challenges facing the operational process of improvement. Vossloh Rail Infrastructure is approaching this in projects across business units—for example, by grouping materials and through the continued pooling of purchasing volumes. Together with both suppliers and product developers, ways are being sought to reduce costs through the selection of materials and the reorganization of production processes. This goes hand-in-hand with efforts to boost labor productivity while, at the same time, enhancing safety and health protection.

10 percent less time
was taken for turnout manufacture at the Fère-en-Tardenois plant after a comprehensive rerouting of the materials flow.

However, operational improvements are also achieved through collaboration among various business units. For instance, during fiscal 2012 Vossloh Nordic Switch Systems and Vossloh Rail Services won an order in Sweden which, for the first time, encompasses the whole supply chain from switch manufacture through transport to unloading. Thanks to the pooling of all the areas of expertise available in the Group, the network operator Trafikverket was persuaded to use Vossloh for its logistics as well.

cellentic® is a Vossloh contribution to “quiet track.”

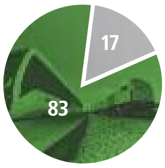
With a new Vossloh concept, switches in Sweden can now be changed much more quickly—within eight hours.

HSG-city now also makes a substantial difference to a rail’s life-cycle in urban transport.

Transportation

Entrenched in attractive niche markets

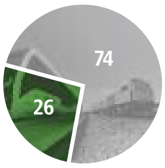
In the Transportation division, Vossloh is a leading specialist in precisely-defined segments. Vossloh Transportation Systems is the leading European supplier of diesel locomotives, and the plant in Valencia also produces light rail vehicles. Vossloh Electrical Systems develops and manufactures key electrical components and (traction) systems for local transport vehicles and locomotives. One of this division's assets is its all-embracing development expertise in rolling stock and drivelines.



83:17—this is the ratio of Western Europe to the rest of the world in Vossloh's Transportation division's sales in 2012.

The Transportation division generates by far the greatest share of its sales in Western Europe, while just 17 percent comes from elsewhere. Germany, France and Spain are the largest sales markets by a wide margin.

In the global rolling stock market, which is worth around €42 billion, diesel locomotives are niche products with a market share of approximately 8 percent. Western Europe accounts for a good tenth of that share. Local transport trains make up about 18 percent of the rolling stock market. Western Europe accounts for a good quarter of that.



In the accessible Rolling Stock market as a whole, the ratio—according to UNIFE—is Western Europe 26 percent and the rest of the world 74.

International profile

Nevertheless, Vossloh Transportation's thrust in fiscal 2012 extended far beyond Europe's borders. Examples from the Americas and South Africa demonstrate success on an international scale.

For instance, Vossloh Transportation is benefiting from the investment in transport taking place in Brazil. The São Paulo Metropolitan Urban Transport Company has ordered 22 new trams from a consortium formed by Vossloh Rail Vehicles and the Brazilian manufacturer T'TRANS SA. These customized, energy-efficient trams developed by Vossloh for bidirectional operation are being assembled by our Brazilian partner. They are due to be delivered in 2014 and 2015. This marks Vossloh Transportation's entry into a national market which offers further business opportunities in the form of numerous local and freight transport projects.

Component assembly at Vossloh Kiepe

Vossloh is involved as a supplier of components in the expansion of METRORail for the Texan oil and space-flight city of Houston. Vossloh is producing the traction inverters and brake resistors for the electrics of the trains built by the Spanish manufacturer CAF. The housings are being made in Alpharetta, Georgia, by Vossloh Kiepe Inc., a US subsidiary established in early 2010. Here too, Vossloh may have an opportunity to benefit from further expansion plans: the light rail network, which currently covers 12 kilometers, is due to be extended to three times that length in the next two years.

In fiscal 2012 Vossloh began delivering a planned total of 272 air-conditioning systems for intercity trains operated by the state-run South African transport company PRASA. South Africa is the strongest economy in the region and has the most developed rail network. It also has the clear political will to expand its rail transport system. In fact, South Africa is acting as a rail pioneer for the emerging markets of the Sub-Saharan region.

Bringing innovation into the marketplace

In the context of the debate surrounding environmental protection, Vossloh is making considerable efforts to enable diesel locomotives to operate with low emissions and in an energy-efficient manner. This technical development was initiated with the G 6 triple-axle shunting and industrial locomotive—a locomotive which, since very recently, also exists in a version with two small truck diesel engines and thus meets the requirements of the Euro 5 emissions norm for commercial vehicles. It has an automatic start-stop system to help ensure more economical fuel consumption.

Vossloh has opted for locomotive modularity and developed its own diesel-electric driveline also for center-cab locomotives. This decision is now making further innovative concepts possible, such as a dual-mode locomotive from Vossloh Locomotives, which is based essentially on the DE 18. If required, power from the diesel engine can be replaced with electricity from the overhead wires. Vossloh Rail Vehicles again offers dual mode in the form of EURODual, based on the EURO 4000 and EURO*LIGHT* platforms.

Following the EURO*LIGHT*, which was introduced in 2010, Vossloh Rail Vehicles has developed the UK*LIGHT* of which the British customer Direct Rail Services has ordered 15. This innovative light-duty locomotive combines axle loads of less than 20 t with ample performance. The UK*LIGHT* achieves a maximum speed of 160 km/h and can thus be used for freight and passenger transport.

G 6 ME—the first shunting locomotive to meet the Euro 5 emissions norm

75 G 6 locomotives
have been sold by Vossloh to date

EURODual—also runs on trackage with overhead wires

Operational improvements

In the Transportation division, it is this modularity strategy for diesel locomotives that provides particular potential for improvements in purchasing and production. The modular system offers scope for cost reductions in the ordering of common parts, shorter lead times in production and, simultaneously, improved quality assurance. This is of direct benefit to industrial operators who demand tight delivery deadlines.

Faster to market

with early tests and simulation at the Kiel test rig

In order to bring the newly-developed diesel-electric driveline to market more quickly, those involved at Vossloh set up a test rig at the Kiel plant at an early stage to try out all the systems before installation in a locomotive and to simulate their operation.

The Electrical Systems business unit, which in the past had only been a supplier of components and electrical assemblies, has had to gear up for its new role in taking on consortium leadership responsibilities for complete vehicles. In addition to managing its own higher volume of work, this entails coordinating on a major scale third-party input. During fiscal 2012, a new project management model was drawn up which formulates uniform guidelines for complex control and production processes with reviewable in-process stages and intermediate milestones.

The ASIA*LIGHT* has an axle load of only 16 t, despite its remarkable rating of up to 2,800 kW. Many tracks in Asia can take only small axle loads and are often not electrified.

Over 35 Tramlinks have been sold by Vossloh since the launch in 2011.

On the G 6 platform, Vossloh Locomotives has developed a version with two small truck diesel engines, which meets the requirements of the Euro 5 emissions norm for commercial vehicles. An automatic start-stop system helps ensure a further reduction in fuel consumption.

Persevering in our purpose

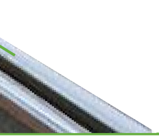
Vossloh is achieving a transformation and has developed into a Group with an international profile and a diverse range of skills and talents in the global railway technology business. With its presence in its home markets in Europe and the potential growth markets worldwide, Vossloh is well placed to play its part in the much talked-about renaissance of rail.

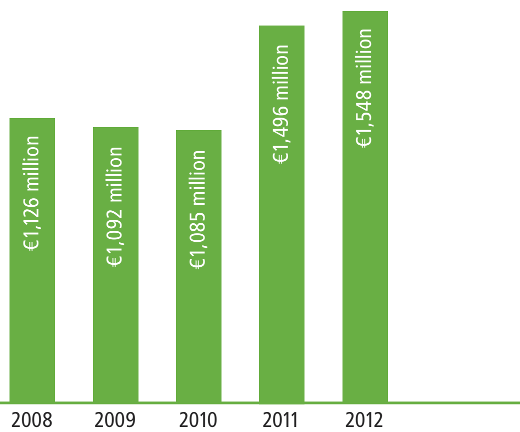
Tomorrow's railways cannot be the same as today's. They have to be modern, fast and attractive—but also quiet, environment-friendly and affordable. Such are the challenges facing the rail systems of the future. In this respect, Vossloh's strengths—innovative resources wedded to decades of rail industry experience—are in ever-increasing demand worldwide.

These assets are being exploited. Three areas of activity will determine strategy in the medium and long term: expanding our international presence, maintaining continuity in innovative technological developments, and fine-tuning operational processes. Our business will rest here on the two strong pillars of Rail Infrastructure and Transportation.

In the Rail Infrastructure division, Vossloh is a global player in rail fasteners and switches and holds foremost positions worldwide in each of these areas. A new part of this division is the Rail Services business unit, still a young member of our Group, which will gain an increasingly international profile with expert services for everything rail-related. In the Transportation division, Vossloh is successful in attractive niches, thanks to its outstanding technological position since all the necessary expertise is available within the Group. Moving out from its base in the European core market, which is largely saturated, Vossloh Transportation is making increasing inroads into global markets.

The Group's success is also reflected in its financial statements: in a significantly more competitive environment, Vossloh is holding its own with a rising business volume. Order backlog has been at a record high since fiscal 2012, especially as a result of the development of new products and technologies and our intensified internationalization efforts in recent years.





The Vossloh Group's year-end order backlogs

Vossloh AG’s Supervisory Board

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

Peter Langenbach
Vice-Chairman, lawyer, Wuppertal

Dr. Jürgen Blume
Sworn public auditor and tax accountant, Bad Bentheim (up to August 31, 2012)

Dr. Christoph Kirsch
Former CFO of Südzucker AG, Weinheim

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

Michael Ulrich
Mechanic, Works Council Chairman of Vossloh Locomotives GmbH, Kiel

Dr.-Ing. Wilfried Kaiser,
Supervisory Board Chairman

Report of the Supervisory Board

During fiscal 2012, Vossloh AG's Supervisory Board duly performed the functions and duties incumbent on it under law, the Company's memorandum & articles of incorporation (collectively "bylaws"), the German Corporate Governance Code (the "Code") and the Supervisory Board Rules of Procedure, continuously oversaw the conduct of business and provided advice to management. The Supervisory Board obtained timely detailed regular written and oral reports on the business trend of Vossloh AG and its subsidiaries, the strategic alignment of the Group, and the progress of M&A projects and other major events.

Following 22 years on the Supervisory Board and after reaching age 72, Dr. Blume stepped down from this Board as of August 31, 2012. In any other respects, Supervisory Board membership remained unchanged in 2012. The Supervisory Board thanks Dr. Blume for his many years of wholehearted cooperation and effective input on this Board and its Audit Committee.

Meetings and attendance

In 2012 the Supervisory Board convened at four scheduled meetings (March 27, May 22, July 5, and September 24) and four extraordinary meetings (January 10 and 27, August 22, and November 6), two of these being held as teleconference. Except for one where one member excused himself, all meetings were attended by the plenary Supervisory Board.

The Supervisory Board discussed in depth with the Executive Board day-to-day business and the strategic development, short- and medium-term corporate plans, capital expenditure and investment budgets, as well as the current income, profitability and cash trends. Long-range corporate finance issues, as well as any business trends at variance with budget or plan were detailed by the Executive Board. Other periodical items on scheduled-meeting agendas and subject of the Executive Board's routine reports were the trend of each business unit's operating activities; in this context, the Executive Board explained and discussed all details of major projects and outstanding transactions, with particular emphasis on the trend of business in China. Further items discussed regularly were Vossloh's risk position and its risk management system. The Supervisory Board deliberated on and throughout approved major capex projects and other Executive Board transactions subject to approval. Significant organizational and personnel changes were dealt with jointly with the Executive Board.

Also discussed in depth and evaluated with the Executive Board were M&A candidates. Moreover, the actual performance of recent-year acquirees was looked at, particularly by comparing it with the original budget data underlying the various M&A deals.

Furthermore, the Supervisory Board regularly obtained detailed information about the latest facts ascertained in-house in connection with the pending investigations into rail market collusion and related anticompetitive agreements.

Additionally on the agenda for several thorough debates were the further fine-tuning of a code of conduct binding Vossloh's workforce worldwide and the installation of a compliance-monitoring organization, as well as accessorizing training programs.

Upstream of the annual general meeting (AGM) of May 22, 2012, both Boards jointly discussed the proposed agenda.

Again in 2012, the Supervisory Board had its own efficiency reassessed by outside expert consultants and then evaluated the results.

Periodical briefings outside Supervisory Board meetings

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

Committee work

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

The Staff Committee has Wolfgang Klein and Peter Langenbach as members and is chaired by Dr.-Ing. Wilfried Kaiser, the Audit Committee Dr. Jürgen Blume (up to August 31, 2012), Dr.-Ing. Wilfried Kaiser (as from November 6, 2012) and Wolfgang Klein, its chairman being Dr. Christoph Kirsch. The Slate Submittal Committee consists of the four stockholder representatives on the Supervisory Board, viz. Dr. Jürgen Blume (up to August 31, 2012), Peter Langenbach (chairman), Dr.-Ing. Wilfried Kaiser, and Dr. Christoph Kirsch.

The **Staff Committee** met three times in 2012. High on its agenda were the implications of growing globalization and the ensuing higher complexity of the Group for staffing in general and long-term succession planning issues. In addition, the salaries of the Executive Board members were reviewed as contractually agreed.

The **Audit Committee** convened five times in 2012. Its meetings on April 25, July 25 and October 30 centered on discussing the quarterly reports with the Executive Board. Likewise discussed were the analysis and calculation of capital cost (WACC) and return on capital employed (ROCE) of the Group, its divisions and business units when dealing with shareholder value management and value added. At its March 26 meeting, which was also attended by the Executive Board and the statutory auditor, the Audit Committee deliberated on, discussed and examined thoroughly, the documentation on the separate and the consolidated financial statements and the combined management report on Vossloh AG and the Group for fiscal 2011, including the documents submitted to substantiate the value of the Company’s shareholdings and related goodwill. The Audit Committee also obtained a detailed report from the statutory auditor on measures taken to ensure that the audit was conducted duly and properly. No objections were raised, and the Audit Committee approved the statutory auditor’s conclusions. At the same meeting, the Audit Committee also dealt in detail with the statutory auditor’s declaration of independence and the scope of additional services provided by the auditor’s staff, as well as the proposal for the election of the statutory auditors for fiscal 2012 for the Company and the Group. After the AGM had endorsed the proposed election, the audit engagement letter was duly issued by the Audit Committee, also on behalf of the plenary Supervisory Board and in line with the recommendations of the Code. At another meeting, the Audit Committee dealt with the agreed fees and budget for, and the proposed focal areas of, the annual audit as of December 31, 2012, and related issues. Audit Committee discussions also focused on risk management at the March 26, July 25 and October 30 meetings; moreover, the Audit Committee required the Executive Board to furnish continual reports on the main risks identified for the Vossloh Group. The topics of discussion included the need for, and the reasonableness of, the recognized accruals, the receivables due from the Spanish regional government, and risks emanating from the antitrust proceedings, as well as—jointly with the Executive Board—the quality of the internal control system, mainly regarding inventory management. Further, the Audit Committee looked in detail into the appropriateness of interperiod revenue recognition, particularly in the context of dedicated manufacturing contracts (so-called percentage-of-completion or PoC contracts).

The **Slate Submittal Committee** convened once in 2012, on the one hand, to discuss the succession to Dr. Jürgen Blume on the Supervisory Board and, on the other, the election of the entire Supervisory Board at the AGM 2013, all with the requirements of stock corporation law, the Code and the rules of procedure in mind. This issue was likewise frequently addressed among Supervisory Board members.

The committee chairmen reported on their respective committee work and the results of their discussions to the plenary Supervisory Board when it next convened after a committee meeting. The minutes of Audit Committee meetings were duly circulated among all Supervisory Board members.

German Corporate Governance Code

No Supervisory Board member was subject to any clashing interests under the terms of § 5.5 of the Code. In December 2012, the Executive and Supervisory Boards issued, and made available to the stockholders long term on the Company's website, the declaration of conformity according to Art. 161 AktG (see page 45).

Separate and consolidated financial statements 2012

The separate financial statements of Vossloh AG according to German GAAP, the consolidated financial statements according to IFRS, and the combined management report on Vossloh AG and the Group for fiscal 2012 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditor, BDO AG Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 22, 2012 AGM and issued an unqualified opinion thereon.

The statutory auditor also concluded that the Executive Board had installed a proper early risk identification system as required by Art. 91(2) AktG to identify any risks to the Group's survivability.

In due course prior to the Supervisory Board's annual accounts meeting on March 20, 2013, at which the separate financial statements were adopted, all members of the Supervisory Board were provided with copies of the separate and the consolidated financial statements of Vossloh AG, the combined management report on the Company and the Group, the disclosures required by Arts. 289(4) and 315(4) German Commercial Code ("HGB"), the remaining annual report, the profit appropriation proposal, and the annual audit reports.

At this annual accounts meeting, which was attended by statutory auditor staff, the Supervisory Board members discussed in detail all issues arising in connection with the above-mentioned documents. The attending auditors briefed the participants on all highlights of their audit and were available to answer queries. In this context, the statutory auditors also reported on the risk management system within the Vossloh Group. No evidence suggesting that the declaration of conformity issued in 2012 by the Executive and Supervisory Boards in connection with the Code was incorrect, was found during the audit.

The Supervisory Board, too, reviewed Vossloh AG's separate and consolidated financial statements and the combined management report for fiscal 2012 as submitted by the Executive Board, as well as the proposed profit appropriation. According to the final result of its own review, the Supervisory Board raised no objections. The Supervisory Board approved Vossloh AG's separate and consolidated financial statements as of December 31, 2012; the separate financial statements as of December 31, 2012, are thus adopted. The Supervisory Board concurs with the combined management report, particularly the statements on Vossloh's further development and the disclosures pursuant to Arts. 289(4) and 315(4) HGB, as well as with the profit appropriation as proposed by the Executive Board, i.e., to distribute a cash dividend of €2.00 per no-par share.

The Supervisory Board thanks the Executive Board and all the employees for once again their highly dedicated contributions and—in light of the partly hostile environment—successful input in fiscal 2012.

Werdohl, March 20, 2013

The Supervisory Board
Dr.-Ing. Wilfried Kaiser
Chairman

Corporate governance report/statement

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

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

Vossloh's management and supervision structure

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

Executive Board

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

The Executive Board performs its duties with a sustainable addition of shareholder value in mind and closely cooperates with the Supervisory Board whose consent is required for certain major transactions and Executive Board actions expressly specified in the Executive Board Rules of Procedure. Based on an agreed plan, each Executive Board member is assigned the responsibility for specific areas of business. Executive Board members work together on a peer basis and brief each other routinely on significant actions, transactions and events within their respective responsibilities and the areas assigned to them. Fundamental and certain defined issues require a decision by the plenary Executive Board. Any conflict of interests of one Executive Board member would immediately be disclosed to the Supervisory Board and the other Executive Board member. Any sideline activity or membership in a nongroup company's supervisory board requires the Supervisory Board's prior approval. At present, no Executive Board member holds any supervisory board office at a listed nongroup company. For detailed information on Vossloh AG's Executive Board members, turn to page 185 of this annual report.

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

Supervisory Board

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

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

In the year under review, too, the two Boards dealt in depth with Code compliance matters. The recommendations of the Code are carried out by Vossloh with just one exception. In staffing its Boards and other executive functions within the Group Vossloh pays heed to the necessary expertise and aims for diversity.

The Supervisory Board Rules of Procedure comply with the Code. Specific details of future Supervisory Board composition have been agreed upon.

The Executive and Supervisory Boards issued in December 2012, and published for long-term availability to stockholders on the Company's website, a declaration of conformity (cf. page 45).

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

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

The three-member Staff Committee is mainly responsible for Executive Board matters and prepares, for decision by the plenary Supervisory Board, the documents for voting on and reviewing the compensation system and total remuneration of each Executive Board member, and on downscaling any emoluments of Executive Board members in accordance with Art. 87(2) AktG, besides being in charge of determining the rules governing the legal relations between the Company and the various Executive Board members (in particular, the execution, amendment, renewal, rescission, cancellation or termination of the employment contracts with Executive Board members), the regulation of the legal relationship between the Company and former Executive Board members, the approval of contracts or agreements with Supervisory Board members, as well as on the grant of loans to Supervisory Board members. The Supervisory Board Chairman presides over the Staff Committee.

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

The four-member Slate Submittal Committee is responsible for the Supervisory Board's long-term succession planning and submits to the Supervisory Board a slate of suitable Supervisory Board candidates to be proposed to, for election by, the annual general meeting wherever any Supervisory Board member steps down early. When selecting potential Supervisory Board members proposed first for approval by the plenary Supervisory Board and then for election by the AGM, the plenary Supervisory Board and its Slate Submittal Committee are responsible for seeing that the slate reflects diversity and lists only candidates that have the necessary knowledge, capabilities, technical and accounting experience, international background, expertise in internal control systems and the Group as such, independence, an age not beyond 70 at the time of election, no clashing interests, and sufficient time for their designated office. Peter Langenbach chairs the Slate Submittal Committee.

Every Supervisory Board member is committed to the Company's interests. Any conflict of interests must immediately be reported to the Supervisory Board Chairman. Supervisory Board members must abstain from voting on any business that affects themselves or related parties (entities or individuals). No Supervisory Board member is also on a board of, or provides consultancy or advisory services to, a competitor. The Company has not granted any loan or credit to a Supervisory Board member, nor have Supervisory Board members received any compensation, benefits or advantages for personally rendered consultancy, advisory, agency or other services. No former Executive Board members serve on Vossloh AG's Supervisory Board.

For details of Vossloh AG's Supervisory Board members, see page 186 of this annual report.

Compliance as the foundation stone of business enterprise and efficiency

Besides the self-evident adherence to the principles of law and order (regulatory compliance), Vossloh defines corporate compliance as the observance of intragroup rules and regulations and voluntary self-commitments.

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

Vossloh AG's Executive Board has unmistakably expressed, and published on its website at www.vossloh.com, its zero-tolerance policy regarding any infringements against law and order. To ensure groupwide impeccable modes of behavior, the Group has set up since 2007 its own Code of Conduct for the Group as such to serve as a pattern of behavior for the officers and employees throughout the Group. This Code of Conduct sets minimum standards and includes proposals for how all employees may cooperate in complying with it. In addition to the Code of Conduct, groupwide binding guidelines are meant to assist in coping with ethical and legal challenges in everyday work. Any misconduct is rigorously pursued within the context of the applicable rules and regulations. Officers and employees are periodically advised regarding the related legal requirements and in-house policies.

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

Besides directly contacting the internal Compliance Organization, all group employees may anonymously report any case of noncompliance to an external ombudsperson appointed for this purpose.

Risk management and control environment

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

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

Declaration of conformity

In 2012, too, Vossloh AG's Executive and Supervisory Boards have dealt in detail with Code requirements. Vossloh's corporate governance practices are regularly reviewed and revised accordingly.

Vossloh has therefore issued a statement on its implementation of the corporate governance practices which are recommended by the Code:

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

In fiscal 2012, Vossloh AG implemented and continues to implement all recommendations of the German Corporate Governance Code Government Commission, which have been published by the Federal Ministry of Justice in the official part of the digital Federal Gazette on May 26, 2010, and May 15, 2012, subject to one exception:

Section 5.4.6, 2nd paragraph, 2nd clause, of the German Corporate Governance Code as amended up to May 15, 2012, recommends that if supervisory board members are promised any performance-related compensation, it should be oriented toward the company’s sustainable growth. The present remuneration of the Supervisory Board as laid down in Article 17(2) of Vossloh’s current Articles of Association comprises a fixed fee plus variable remuneration based on group earnings. Therefore, this currently applicable variable fee has not met the amended Code’s recommendation since May 15, 2012. It has been planned that the Executive and Supervisory Boards deliberate in fiscal 2013 on a redesign (if any) of Supervisory Board fees.

Werdohl, December 2012
Vossloh AG
The Executive and Supervisory Boards”

The current declaration of conformity was issued in December 2012 in accordance with Art. 161 AktG and published for long-term availability on the Company’s website.

Stockholders and their general meeting

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

Investor Relations

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

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

Accounting and annual audit

The Vossloh Group's accounting basis is the International Financial Reporting Standards (IFRS), while the separate financial statements of Vossloh AG are prepared according to German GAAP (viz. the accounting regulations of the Commercial Code), as prescribed by law. Both the IFRS consolidated financial statements and the separate financial statements according to German GAAP were audited by BDO AG Wirtschaftsprüfungsgesellschaft (the statutory auditor elected by the annual general meeting 2012 as proposed by the Supervisory Board), in accordance with German audit regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. The audit engagement letter was issued by the Supervisory Board's Audit Committee in conformity with the recommendations of the Code and after due verification beyond any doubt of the statutory auditor's independence. The Supervisory Board has agreed with the statutory auditor that the former will be promptly informed of any significant findings, conclusions and circumstances which are established during the annual audit and may be of relevance to the Supervisory Board's duties. While the statutory auditor has further agreed to notify the Supervisory Board if it finds any facts suggesting a departure from the declaration of conformity (as issued by the Executive and Supervisory Boards), no such indications were found during the audit 2012. The semiannual financial report (condensed interim financial statements and interim management report of the Group) as of June 30, 2012, was reviewed by the statutory auditor.

Remuneration of the Executive and Supervisory Boards

For details of Executive and Supervisory Board remuneration, see the Board Compensation Report on page 82, an integral part of both the combined management report and this corporate governance report.

High on the Supervisory Board's agenda in 2010 had been the Executive Board compensation system. An outside consultant specializing in compensation issues had been commissioned to review the Executive Board's compensation for a fair and reasonable scale and revise the variable-remuneration system. The gist was that the overall compensation of the Executive Board should add up to a fair and reasonable remuneration for each member's functions, duties, and personal performance, as well as for Vossloh's economic situation, successful performance and future prospects, besides being in line with industry peers and in proportion to Vossloh's general pay system.

Regarding a long-term pay component, solutions were elaborated to be translated into Executive Board employment contracts once these have expired in 2014 and 2015, respectively.

Stock ownership by board members

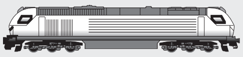
The provisions of Sec. 15a German Securities Trading Act ("WpHG") obligate members of Vossloh AG's Executive and Supervisory Boards, certain other managerial staff and parties (individuals or entities) related to these officers and managers, to disclose the purchase or sale of Vossloh AG shares or related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

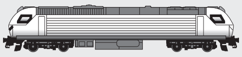
SOPs and similar securities-based incentive systems

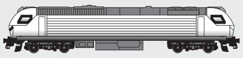
Since 1998 Vossloh has issued stock option programs, formulated in line with its bylaws and available to Executive Board members and other officers. For instance, under the terms of the long-term incentive plan (LTIP), the grant of Vossloh stock options is contingent on the prior purchase of Vossloh shares from each LTIP participant's own funds (personal investment). However, since 2005 the LTIP has not been relaunched. No active or former Executive Board member holds any stock options.

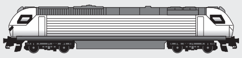
Vossloh vehicle overview

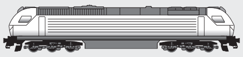
Mainline locomotives


EURO 4000

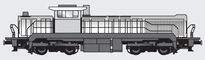

EURO 3000

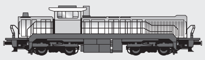

EURO*LIGHT*

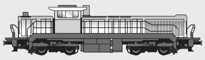

UK*LIGHT*

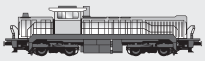

ASIA*LIGHT*

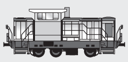
Center-cab locomotives

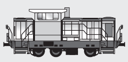

DE 18


DE 12

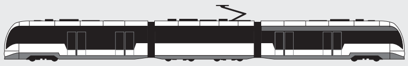

G 18


G 12


G 6


G 6 ME

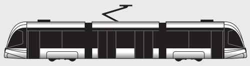
Light rail vehicles


Citylink

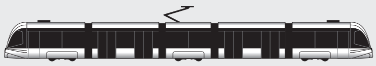
Train-trams


Tubelink

Metros

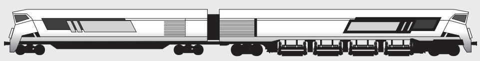

Tramlink

Trams

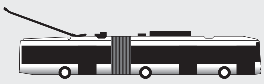


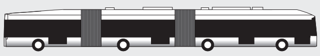
Special vehicles


Suspension railcars


Grinding trains

Bus traction systems


Trolleybuses


Hybrid buses


Fuel-cell buses

Combined management report

Vossloh AG

Rail Infrastructure division	Transportation division
Business units: Vossloh Fastening Systems Vossloh Switch Systems Vossloh Rail Services	Business units: Vossloh Transportation Systems Vossloh Electrical Systems

Business and market environment

Strategy, segmentation, and competitive position

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

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

Rail Infrastructure offers the related products and services. The division has three business units: Fastening Systems, Switch Systems, and Rail Services.

International leader in selected rail infrastructure product groups

- Vossloh Fastening Systems is a leading supplier of rail fastening systems. The lineup covers rail fasteners for all types of transport, from light-rail via heavy-haul to high-speed.
- Vossloh Switch Systems supplies, installs and services switches and turnouts as well as control and monitoring systems for rail networks. Here, too, the range reaches from light-rail to high-speed lines.
- Vossloh Rail Services supplies all kinds of services to do with the rails themselves including their welding, transport, maintenance, preventive care, and reconditioning.

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

Diesel locomotives, light rail vehicles, electrical systems and key components

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

Fundamental strategic principles

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

Organization

Vossloh Group: over 100 companies in 30 countries

The Vossloh Group has a broad international base. It patterns its business on local presence and customer proximity. Key European production plants are in Germany, France, Spain, Luxembourg, Scandinavia, Poland, and Austria. Outside of Europe Vossloh produces switch systems mainly in Australia, the USA, and China. It has major rail fastener plants in China and Turkey. Vossloh operates through sales companies and branches and has in some instances, together with competent partners, entered into local joint ventures and alliances. At the end of 2012, the Group comprised over a 100 companies in 30 countries. Major subsidiaries and, at the same time, business unit flagship companies are: Vossloh Fastening Systems GmbH, Werdohl, Germany; Vossloh Cogifer SA, Rueil-Malmaison, France; Vossloh Rail Services GmbH, Seevetal, Germany; Vossloh Locomotives GmbH, Kiel, Germany; Vossloh España SA, Valencia, Spain; and Vossloh Kiepe GmbH, Düsseldorf, Germany.

Controlling system and benchmarks

Vossloh's growth strategy targets the addition of value, measured as value added (VA). Positive VA is generated when a premium on top of the return claimed by investors and lenders (cost of capital) is earned. This premium is the difference between the return on capital employed (ROCE) and WACC, the weighted average cost of capital (debt and equity). Multiplying the premium by average capital employed (CE) produces the value added (VA) in a period in absolute terms. For intragroup controlling purposes, ROCE and value added (VA) are determined before taxes. In line with IFRS 8, VA is disclosed in published reports as the business unit controlling parameter and benchmark.

Cost of equity is composed of a risk-free rate plus a current premium of 5.0 percent, the interest rate being duly adjusted for its pretax application. Cost of debt is calculated on the basis of the Group's average funding terms. The ratio of equity to interest-bearing debt, required to determine WACC, is two-thirds to one-third and is derived not from the balance sheet since it is not only predicated on a benchmark for the funding structure but also because equity is here based on fair value and not the carrying amounts of the balance sheet. Intragroup controlling in fiscal 2012 was based on pretax WACC of 10 percent as the yield expected by investors and lenders. The slumping interest level implies that the long-term risk-free rate declines, too, and so does the cost of equity. Therefore, Vossloh will as from 2013 downscale the return expected by investors and lenders to 8.5 percent.

In external reports at group or division level, also the posttax value added is communicated, based on the current WACC—5.2 percent posttax for fiscal 2012—in order to disclose the actual value trend of relevance to stockholders.

Financial benchmarks

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

- sustainable profitability improvement (EBIT margin),
- 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, Vossloh AG's 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 report

Business environment

The clouds looming on the economic horizon in 2012 were, chiefly, the ever escalating euro crisis, as well as the debate on the possibility of Greece exiting the EU and on slashing public-sector budgets in major economic regions. According to the International Monetary Fund (IMF), global gross domestic product (GDP) in 2012 rose 3.2 percent; the prior year's gain had been 3.9 percent.

Europe, China, and the United States are the markets of special significance to Vossloh's business and account for around 80 percent of sales.

According to the IMF, GDP growth in 2012 in the eurozone, Vossloh's most important sales market, shrank by 1.8 percentage points to a red 0.4 percent, Germany's remained in the black and advanced 0.9 percent. Compared with 2011, GDP growth in both the eurozone and Germany diminished—from 1.4 and 3.1 percent, respectively. GDP growth in the Central and Eastern European economies neighboring the eurozone slumped year-on-year from 5.3 to 1.8 percent.

The steepest gains in 2012 were again shown by the emerging nations of Asia, with China surging 7.8 percent (down from 9.3). Economic growth in the USA reached 2.3 percent (up from 1.8).

Vossloh's rail technology markets follow international economic trends only to a limited degree. This has meant that, especially since the recession of 2009, the rail technology markets have become even more enticing for many market players. Established players have expanded their capacities. New contenders have joined the market and what used to be mostly local players are branching out internationally. The appeal of the overall rail technology market continues to be driven by several global megatrends: rising mobility requirements, receding energy resources, progressing urbanization and, especially, enhanced environmental awareness. These are all factors in favor of rail as a mode of haulage.

The European Union plans on shifting major portions of transport to the railways. The aim according to its White Paper on Transport is to reduce by 2030 greenhouse gas emissions by around 20 percent (compared with 2008). In order to sustainably lower such emissions, several goals have been formulated.

One of these is for 30 percent of road freight haulage over a distance exceeding 300 km to be relocated to other modes of transport by 2030. Cited in this context alongside transport by ship, are the railways, in particular. Called for is the establishment of an infrastructure for efficient and eco-friendly cargo haulage corridors. Also by 2030, it is planned to triple the overall length of the European high-speed railway networks and to ensure the existence and upkeep of a close-meshed rail system in all EU member states.

Alongside political regulatory policies, the current status of rail transport deregulation plus tight public budgets impinge upon the rail technology sector. In their aggregate, these trends are leading to much fiercer competition within various subsectors of this industry.

Studies on the global rail technology market include the World Rail Market Study published by UNIFE, the Association of the European Rail Industry, and the Worldwide Market for Railway Technology 2012 published by the consultants SCI Verkehr. Says UNIFE, the global markets for rail technology between 2009 and 2011 amounted to an average of some €146 billion annually. According to SCI Verkehr, the market was worth some €143 billion in 2011. UNIFE assesses the accessible European market at €106 billion (i.e., accessible to foreign and not limited to domestic suppliers).

According to UNIFE, the total rail technology market can be subdivided into four segments: Infrastructure, Rolling Stock, Rail Control, and Services. Rolling Stock has the largest share (40 percent) of the accessible market, followed by Services (28 percent), Infrastructure (21 percent), and lastly Rail Control.

The biggest single accessible markets are Western Europe (30 percent) and Asia/Pacific (24 percent), followed by the 20-percent share of the member countries of the North American Free Trade Agreement (NAFTA) and the Commonwealth of Independent States (CIS) at 10 percent. Africa, the Middle East, and South America, hitherto smaller, are expected to show high growth rates.

Vossloh with its Rail Infrastructure and Transportation divisions has a footing primarily in the Infrastructure and Rolling Stock segments. But whereas in its Rail Infrastructure division (excluding Vossloh Rail Services), the Group operates on a global scale and ranks among the leaders, its Transportation division is at present still very closely tied to Europe.

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

Mergers & acquisitions

On May 31, 2012, the share deal to acquire all of the shares in TPL (Midlands) Limited, Birmingham, UK, was closed; the acquiree fully owns Transys Projects Ltd., Birmingham, UK. Meantime the two acquirees have been renamed Vossloh Kiepe Limited and Vossloh Kiepe UK Limited, respectively, their legal headquarters remaining unchanged. Vossloh Kiepe UK Limited is a company specializing in modernizing, refurbishing and enhancing rail vehicles. Both subsidiaries have been assigned to the Electrical Systems business unit.

On December 27, 2012, Vossloh acquired the remaining 50-percent stake in VTS Track Technology Limited, Scunthorpe, UK, previously a 50-percent investee of the Group. Therefore, the subsidiary has since December 31, 2012, been fully consolidated after it had previously been included pro rata. VTS manufactures rail switches and switch components and is a Vossloh Switch Systems company.

Results of operations

For fiscal 2012 and as budgeted, the Vossloh Group reported reviving sales. EBIT inched up by 0.3 percent, from €97.2 to €97.5 million, but because of faster-mounting sales, the EBIT margin slipped from 8.1 percent in 2011 to 7.8. ROCE by the Group was virtually unchanged at 11.9 percent. Despite slumping business in the Rail Services business unit, management expectations for the period were in all close to fulfillment.

Group sales up 3.8 percent; both divisions with higher sales

The Vossloh Group's sales in fiscal 2012 climbed 3.8 percent to €1,243.0 million. Hence, business continued to stabilize in the final quarter of the period. The sharpest gain was recorded by the Transportation division thanks to the healthy situation at the Spanish location of Valencia and to the Electrical Systems business unit. The Rail Infrastructure division likewise showed rising revenue driven by the Switch Systems and Fastening Systems business units, whose sales are top-ranking among the Group's business units.

Vossloh Group: sales by business unit

	€ mill.	%	€ mill.	%
	2012		2011	
Rail Infrastructure	**792.4**	**63.7**	**778.8**	**65.1**
Fastening Systems	291.4	23.4	262.8	22.0
Switch Systems	451.3	36.3	433.0	36.2
Rail Services	54.6	4.4	87.7	7.3
Consolidation	(4.9)	(0.4)	(4.7)	(0.4)
Transportation	**451.1**	**36.3**	**420.0**	**35.1**
Transportation Systems	293.7	23.6	279.9	23.4
Electrical Systems	166.8	13.4	146.7	12.3
Consolidation	(9.4)	(0.7)	(6.6)	(0.6)
Holding companies and consolidation	**(0.5)**	**(0.0)**	**(1.6)**	**(0.2)**
	1,243.0	**100.0**	**1,197.2**	**100.0**

The proportion of division sales hardly changed compared with 2011: the Rail Infrastructure division accounted for 64 percent (down from 65) while the Transportation division's share added up to the remaining 36 percent (up from 35). With the resumption of fastening system shipments in China, the Fastening Systems business unit toward mid-2012 once again contributed the expected significant revenue upswing. The Switch Systems business unit benefited from keener demand in various regions such as the USA and Australia, and likewise boosted its revenue in fiscal 2012.

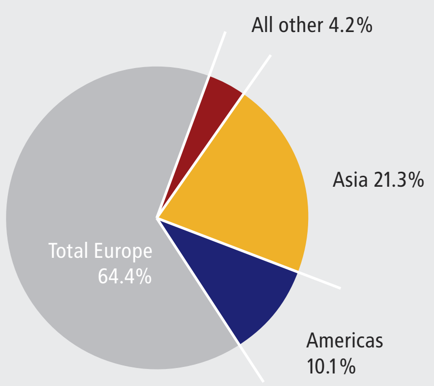
In contrast, the third business unit, Rail Services, suffered from weak demand for rail welding work and logistics and for the full twelve months reported a slump in sales. The Transportation division's two business units, Transportation Systems and Electrical Systems, generated higher sales. Transportation Systems mainly raised its revenue thanks to the successful completion of projects at Vossloh Rail Vehicles in Spain.

Vossloh Group: sales by region

	€ mill.	%	€ mill.	%
	2012		2011	
Germany	260.1	20.9	260.3	21.8
France	138.6	11.2	128.1	10.7
Other Western Europe	125.4	10.1	102.0	8.5
Northern Europe	84.8	6.8	86.4	7.2
Southern Europe	121.9	9.8	200.1	16.8
Eastern Europe	70.2	5.6	62.6	5.2
Total Europe	**801.0**	**64.4**	**839.5**	**70.2**
Americas	125.5	10.1	102.6	8.6
Asia	264.2	21.3	188.0	15.6
Africa	18.3	1.5	39.2	3.3
Australia	34.0	2.7	27.9	2.3
Total	**1,243.0**	**100.0**	**1,197.2**	**100.0**

General business upturn sapped by weak demand in Southern Europe

In 2012, Vossloh generated a good 64 percent of group sales within Europe (down from 70). This downturn reflects the disintegration of demand in Southern Europe. Afflicted by the critical economic and public-sector budget situation was, especially, business in Spain, Italy, Greece, and Portugal; Turkey, in contrast, reported higher sales. In fact, Southern Europe's share of sales slid year-on-year from 16.8 to 9.8 percent. Outside of Europe, Vossloh sales rose inversely, from 30 to 36 percent. Except for Africa, all regions contributed mounting sales.



Sales breakdown by region in 2012

Accounting for 21.3 percent of revenue (up from 15.6), Asia was again the top-selling non-European region, followed by the Americas with a contribution of 10.1 percent (up from 8.6).

In fiscal 2012, Western Europe inputted altogether 42 percent (up from 41) to group sales. Whereas revenue in the most important individual market, Germany, stayed unchanged, growth in the second-biggest West European market, France, continued to advance. Elsewhere in Western Europe, the Group could report a highly commendable sales hike, especially in Great Britain. In contrast, year-on-year sales in the Netherlands, Belgium and Switzerland took a downturn.

Sales in Northern Europe in fiscal 2012 were marginally down. Whereas Vossloh managed to lift sales in Norway, the remaining important countries of this region (Sweden, Denmark, and Finland) suffered from shrinking sales. In Eastern Europe, the Group upped sales in fiscal 2012, particularly because of buoyant business in Poland.

Asia second-biggest market after Europe

Asia, the second biggest foreign market after Europe, showed the steepest growth in sales in 2012. This is largely due to the resumption of shipments of rail fasteners in China in June 2012. Other countries with sales uptrends were Kazakhstan and Thailand.

Vossloh's sales in the Americas were likewise climbing during the period, due above all to solid business in the USA. In Australia, sales went up, too. Because of weak markets in Mauritania, Morocco and Libya, the African region's business receded. In South Africa, in contrast, Vossloh reported a sales increase.

Overall higher capacity utilization steps up gross margin

Fiscal 2012 saw a 6.4-percent improvement in the Vossloh Group's gross margin, from €233.7 million to €248.7 million. Cost of sales in 2012 rose 3.2 percent (from €963.5 million to €994.3 million), its rate of increase being shallower than sales', thanks to an overall higher workload despite the climbing cost of materials and unrelenting price squeezes. Therefore, the relative gross margin was upgraded year-on-year from 19.5 to 20.0 percent.

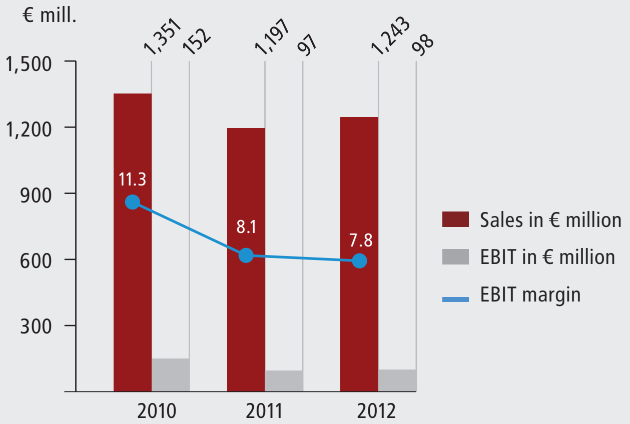
While selling expenses inched up 3.3 percent in 2012 and hence less than sales, general administrative expenses hiked up 8.6 percent, the combined total of both functional expense categories (GAS) rising to €172.4 million (up from €162.9 million): as a share of sales GAS accounted for 13.9 percent (up from 13.6).

Vossloh Group: sales and performance

	€ mill.	%	€ mill.	%
	2012		2011	
Net sales	1,243.0	100.0	1,197.2	100.0
Gross margin	248.7	20.0	233.7	19.5
Operating result	96.9	7.8	96.5	8.1
EBITDA	138.9	11.2	135.5	11.3
EBIT	97.5	7.8	97.2	8.1
EBT	76.1	6.1	84.9	7.1
Net result from discontinued operations	9.5	0.8	–	–
Group earnings	59.2	4.8	56.2	4.7
Earnings per share (€)	4.94		4.32	

Group EBIT essentially unchanged year-on-year

The Group's net other operating income showed a drop to €30.3 million, down from a high €36.4 million. This line included in 2012 primarily income from the release of accruals and state research subsidies whereas in 2011, it was mainly income from accruals reversed, the gain from the divestment of an Australian company and the higher net forex gain that heightened this item. Vossloh's EBIT amounted to €97.5 million (up 0.3 percent from €97.2 million) while the EBIT margin sank in the wake of mounting sales to 7.8 percent (down from 8.1).



Vossloh Group: sales and EBIT trend 2010–2012

Net interest expense surged in 2012 from €12.3 million to €21.4 million, which was chiefly attributable to the Group's reduced interest income. EBT shrank 10.4 percent from €84.9 million a year ago to €76.1 million in the period. The Group's 2012 tax load ratio crept down year-on-year from 28 to 27 percent. Including the €9.5 million from discontinued operations, group earnings picked up 4.9 percent in 2012 to €59.2 million (up from €56.2 million).

The number of shares outstanding in 2012 averaged 11,993,491, down from 13,023,516 thanks to the treasury stock repurchase program in H2/2011. Based on the average number of shares outstanding in 2012, earnings per share (EpS) of the Vossloh Group came to €4.94 (up from €4.32).

Dividend proposed at €2.00 per share

For fiscal 2012, Vossloh AG's Executive and Supervisory Boards will propose to the stockholders a cash dividend of €2.00 per share (down from €2.50), equivalent to a total payout of €24.0 million (down from €30.0 million) or 41 percent of group earnings. Vossloh pursues a performance-oriented long-term dividend policy linked to the trend of group earnings. Given the ever fiercer rail technology market competition, Vossloh will in the years ahead further cement and develop its solid position in the Group's core markets. With this in mind, a payout ratio of about one-third of group earnings and the appropriation of the other two-thirds to safeguarding and selectively promoting the Group's further growth are considered a reasonable strategy.

The Vossloh Group's ROCE edged down from 12.0 percent a year ago to 11.9 in 2012 and was hence substantially constant, the reason being a barely changed 2012 EBIT combined with a slightly higher average capital employed.

Given the WACC determined for 2012 at a year-on-year unchanged 10 percent, Vossloh earned a small premium over its cost of capital. The value added in 2012 totaled €15.4 million, a trifle below the prior-year magnitude. As from fiscal 2013, WACC has been downscaled to 8.5 percent.

Order books still bulging at €1,548 million

Orders received by the Vossloh Group in fiscal 2012 added up to €1,294 million—expectedly short of the extremely high €1,608 million the year before. At December 31, 2012, the Group's order backlog accumulated to €1,548 million (up from €1,496 million)—again ample.

In the course of 2012, the Rail Infrastructure division booked orders worth €809 million (down from €845 million). At year-end, the division's order backlog had risen from €583 million, a year ago, to €600 million. Although order influx at the Fastening Systems business unit was more sluggish than in 2011, year-end order backlog was still taller. Sizable new contracts in 2012 were received, in particular, from Kazakhstan, China, France, and Germany. The volume of order intake at the Switch Systems business unit mounted; order backlog compared with twelve months before, was unchanged. Both in terms of order intake and order backlog, Vossloh Rail Services had a poor period.

In fiscal 2011, the Transportation division had reported surging order inflow; during the period under review and as expected, this subsided and dropped to €487 million (down from €765 million). The division's order backlog at December 31, 2012, was at €949 million up over the very high prior year's €913 million. Both business units, Transportation Systems and Electrical Systems, booked less new business; orders on hand at Vossloh Transportation Systems rose; at Vossloh Electrical Systems, they were unchanged.

Vossloh divisions: order backlog

€ million	2012	2011
Rail Infrastructure	600	583
Transportation	949	913
Consolidation	(1)	–
	1,548	**1,496**

Original EBIT and ROCE forecast for 2012 just missed

With sales of €1,243 million, the forecast 2012 published in late 2011 materialized, albeit at the lower end of the predicted bandwidth of €1.25 to €1.3 billion. EBIT, then expected to be within a range from €100 million to €110 million, came in 2012 to €97.5 million, a narrow miss ascribable to the hostile environment and relentless competitive squeeze that both Vossloh divisions had to contend with. In particular, sluggish demand for the Rail Services business unit's rail welding services within Rail Infrastructure proved persistent. ROCE, forecast in early 2012 at 12.5 to 14.0 percent, was likewise slightly off target and came in fact to 11.9 percent, a trend compounded by the contracting EBIT and notched-up capital employed.

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.

Net financial debt scaled back

The Vossloh Group's net financial debt as of December 31, 2012, shriveled to €200.8 million (down from €238.8 million a year ago). At year-end 2012, financial debts were whittled down from €327.0 million to €270.7 million. It was mainly current financial debts that were slashed after they had swelled in 2011. Financial debts contrasted with cash and cash equivalents (including securities readily convertible into cash) of €69.9 million (down from €88.2 million). The net leverage (i.e., the ratio of net financial debt to equity) in 2012 was upgraded to 39.7 percent (down from 49.7).

Vossloh Group: net leverage

		2012	2011
Total equity	€ mill.	505.7	480.1
Net financial debt	€ mill.	200.8	238.8
Net leverage	%	39.7	49.7

In fiscal 2012, financial debts again largely represented the long-term debt of (translated) €181.8 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market. The first and second fixed-rate US-dollar loans (at $140 million and $100 million) will fall due in 2014 and 2016, respectively. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and cross-currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively. The remaining financial debts of €88.9 million essentially comprised short-term bank loans.

Net cash of €162.6 million from operating activities outperforming 2011

The net cash provided in 2012 by the Group's operating activities came to €162.6 million (up from €138.5 million). A favorable effect on EBIT was attributable to the lower cash outflow for income taxes paid during the year.

Vossloh Group: cash flow analysis

€ million	2012	2011
Cash flow from operating activities	162.6	138.5
Cash flow from investing activities	(72.9)	(90.6)
Cash flow from financing activities	(109.9)	(47.3)
Net cash (outflow)/inflow	**(20.2)**	**0.6**

The net cash used in investing activities in 2012 again slipped, from €90.6 million to €72.9 million year-on-year. The cash outflow for newly added intangible and tangible assets receded from €65.6 million to €61.1 million.

After most of the 2011 cash outflow for financing activities had gone into the buyback program for 10 percent of the capital stock, implemented in the period from late July to early December 2011, fiscal 2012 primarily saw the repayment of over €60 million of short-term borrowings. The 2012 dividend payout came to €33.5 million (down from €44.2 million).

Vossloh Group: capex and amortization/depreciation, by division

€ million	2012		2011	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	34.4	24.0	38.9	24.1
Transportation	24.0	16.5	23.7	13.5
Holding companies	2.7	0.8	3.0	0.6
	61.1	**41.3**	**65.6**	**38.2**

Capex at €61.1 million again outstripping amortization and depreciation

The Group's capital outlays in 2012 of €61.1 million for intangible and tangible assets were down €4.5 million from €65.6 million, thus again outnumbering amortization and depreciation, which totaled €41.3 million in 2012 (up from €38.2 million).

Capital expenditures by Rail Infrastructure during the period slimmed down from €38.9 million to €34.4 million. Transportation's at €24.0 million were virtually unchanged from the prior year's €23.7 million.

Within the Rail Infrastructure division, capital spending by Vossloh Fastening Systems and Vossloh Rail Services was down, that by Vossloh Switch Systems rose. By business unit, Fastening Systems spent €4.5 million (down from €10.9 million), Switch Systems €20.8 million (up from €17.9 million), and Rail Services €9.1 million (down from €10.1 million). Focal points were a production line for switch points in the USA, the setting-up of a Chinese production plant (Switch Systems) and further work on developing and building new high-speed grinding trains (Vossloh Rail Services).

Outlays mainly target new products and access into new regional markets

At the Transportation division, capital spending during the period by the Transportation Systems business unit amounted to €15.8 million, at the prior-year level. Whereas capex at the Kiel location was slightly lower, the Valencia plant upped its expenditures. At Vossloh Rail Vehicles, most of the funds were directed at pursuing the Tramlink, EURO*LIGHT* and EURO 3000 projects.

Vossloh Group: breakdown of capital expenditures

€ million	2012		2011	
	Capex	%	Capex	%
Development costs	15.1	24.7	14.5	22.1
Other intangibles	2.3	3.8	1.3	2.0
Land and buildings	8.9	14.6	9.1	13.8
Production plant and machinery	16.0	26.2	12.0	18.3
Other plant, factory and office equipment	7.3	11.9	7.4	11.3
Prepayments made, construction in progress	11.5	18.8	21.3	32.5
	61.1	**100.0**	**65.6**	**100.0**

Asset and capital structure

The Group's total assets climbed insignificantly from €1,513.4 million at the close of 2011 to €1,523.1 million as of December 31, 2012, primarily as capital expenditures above amortization/depreciation stepped up fixed assets. Inventories inched up, too.

Vossloh's equity ratio of 33.2 percent outnumbered the prior-year 31.7 percent, equity as of December 31, 2012, rising year-on-year from €480.1 million to €505.7 million.

Equity ratio edging up to 33 percent

The Vossloh Group's 2012 closing working capital improved to €139.6 million (down from €200.3 million). Related to sales, the working capital intensity as of December 31, 2012, was upgraded to 11.2 percent (down from 16.7).

Vossloh's average working capital amounted to €180.3 million, a year-on-year slump from €211.2 million. Working capital intensity on average was upgraded, too (down from 17.6 to 14.5 percent). A bulging trade payables portfolio was the key reason for the Group's average working capital shrinkage.

The Vossloh Group's capital employed as of December 31, 2012, moved €23.6 million down from €825.9 million to €802.3 million. Capital employed in 2012 averaged €821.0 million (up from €811.4 million).

Vossloh Group: asset and capital structure

		2012	2011
Total assets	€ mill.	1,523.1	1,513.4
Total equity	€ mill.	505.7	480.1
Equity ratio	%	33.2	31.7
Closing working capital (WC)	€ mill.	139.6	200.3
Closing capital employed	€ mill.	802.3	825.9
Year-end working capital intensity	%	11.2	16.7
Fixed assets	€ mill.	662.7	625.6
Return on equity (ROE)	%	15.1	17.6

Shareholder value management

ROCE at 11.9 percent

The Vossloh Group earned an ROCE of 11.9 percent in 2012 (down from 12.0), essentially the same magnitude. With EBIT basically unchanged, average capital employed was slightly above the prior-year level. Based on an identical 10-percent WACC for the Group in 2012, Vossloh consequently earned a 1.9-percent premium over its cost of capital.

The Rail Infrastructure division with an ROCE of 11.8 percent achieved a premium of 1.8 percent. The main reason for the wilting return was this division's lower EBIT of €81.7 million (down from €86.2 million).

The Transportation division with its ROCE of 29.2 percent earned once again a highly satisfactory premium of 19.2 percent in 2012, the EBIT surge to €35.5 million (up from €27.8 million) boosting ROCE.

Vossloh Group: shareholder value management

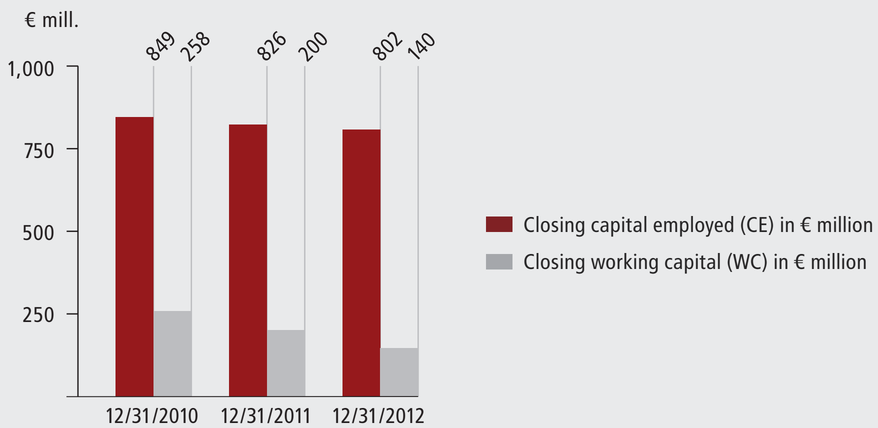
		2012	2011
Average capital employed	€ mill.	821.0	811.4
ROCE	%	11.9	12.0
Value added (VA)*	€ mill.	15.4	16.1

*Based on 10-percent WACC

Group adding value of €15.4 million

The value added (VA) by the Vossloh Group in 2012 came to €15.4 million (down from €16.1 million) before taxes and after WACC of an unchanged 10 percent. Rail Infrastructure added value of €12.5 million to the Group's, below the prior-year €17.9 million. In contrast, the Transportation division contributed €23.3 million to Vossloh's VA, well above the prior year's €15.3 million.

Based on the current WACC, the Vossloh Group's posttax value added in 2012 totaled €25.6 million, breaking down into Rail Infrastructure's of €21.2 million and Transportation's of €18.5 million.

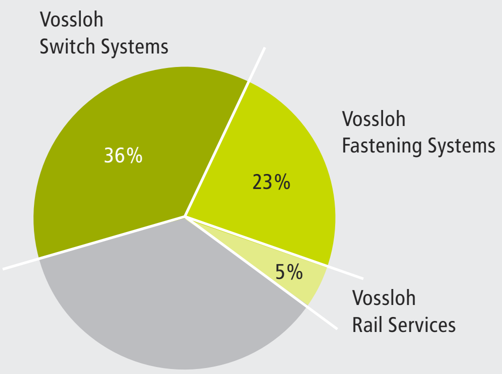


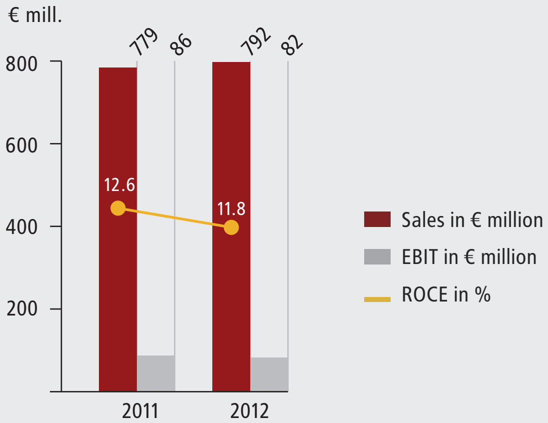
Vossloh Group: CE and WC trend 2010–2012

Vossloh Fastening Systems benefiting from resumed shipments in China

Vossloh Switch Systems' business altogether steady

Vossloh Rail Services badly hurt by weak demand for rail-related services





Shares of business units in group sales

Rail Infrastructure division: sales, EBIT and ROCE trends

Rail Infrastructure business trend

As the name suggests, the Rail Infrastructure division's business comprises all kinds of rail infrastructure products and services. The division has three business units: Fastening Systems, Switch Systems, and Rail Services. Vossloh operates both in the rail fastening and rail switch markets on an international scale and ranks among the foremost suppliers of these products worldwide. On conventional, heavy-haul or high-speed lines—Vossloh Fastening Systems and Vossloh Switch Systems set benchmarks in terms of innovative solutions acquired through decades of comprehensive expertise. The Rail Services business unit provides services for the rails themselves. This business unit is also a leader in high-speed grinding (HSG), a preventive rail grinding technology.

Sales drivers: Fastening Systems and Switch Systems business units

In fiscal 2012, the Rail Infrastructure division's sales edged up by 1.7 percent, from €778.8 million to €792.4 million. The most conspicuous advance was reported by the Fastening Systems business unit as a consequence of the resumption of rail fastener shipments in China toward mid-2012. This business unit's revenue rose 10.9 percent, from €262.8 million to €291.4 million. Switch Systems, the business unit with the highest sales, boosted its revenue by 4.2 percent, from €433.0 million to €451.3 million. In terms of sales the smallest business unit, Rail Services reported a slump, from €87.7 million to €54.6 million. The poor performance was due to ongoing weak demand for rail welding and rail logistics work.

Regionally, Europe is the most important region for this division and accounts for sales of around 52 percent. Within Europe, Germany is the biggest individual market, followed by the Northern European region. In fiscal 2012, the division generated just under 14 percent of its sales in Germany (down from almost 17 percent). This shortfall in Germany in 2012 is mainly due to the Rail Services business unit. Discounting this loss, sales in Germany would have advanced and the decline in Europe would have been much lower. Northern Europe accounted for just less than 11 percent of sales. Outside of Europe, the biggest markets are Asia (27 percent) and the Americas (nigh 16). Whereas division sales in Europe contracted, the regions of Asia, the Americas and Australia reported clear improvements.

Value added by Rail Infrastructure amounts at €12.5 million

Value added in 2012 by Rail Infrastructure sagged from €17.9 million to €12.5 million. Whereas Vossloh Fastening Systems again improved the positive value added, that of Vossloh Switch Systems and Vossloh Rail Services was negative.

ROCE at 11.8 percent

Rail Infrastructure's ROCE in 2012 notched down year-on-year from 12.6 to 11.8 percent. The reduction was due to the division's dipping EBIT and climbing capital employed. In fiscal 2012, CE averaged €692.3 million (up from €683.1 million).

Average working capital improved from €249.3 million to €233.1 million and its average intensity did, too, inching down from 32.0 to 29.4 percent in fiscal 2012, favored by growing sales.

Rail Infrastructure's EBIT contracted from €86.2 million to €81.7 million (down 5.2 percent), mainly due to the revenue downtrend at the Rail Services business unit. Accordingly, the EBIT margin at the Rail Infrastructure division ratcheted down year-on-year from 11.1 to 10.3 percent.

Rail Infrastructure

		2012	2011
Sales	€ mill.	792.4	778.8
EBITDA	€ mill.	105.7	110.3
EBIT	€ mill.	81.7	86.2
EBIT margin	%	10.3	11.1
Average working capital	€ mill.	233.1	249.3
Average working capital intensity	%	29.4	32.0
Fixed assets	€ mill.	469.2	455.0
Capital expenditures	€ mill.	34.4	38.9
Amortization/depreciation	€ mill.	24.0	24.1
Closing capital employed	€ mill.	668.1	704.2
Average capital employed	€ mill.	692.3	683.1
ROCE	%	11.8	12.6
Value added	€ mill.	12.5	17.9

Vossloh Fastening Systems

Vossloh Fastening Systems is a well-established and foremost manufacturer of rail fastening systems which it ships out to over 65 countries. The business unit reported a sharp upswing in sales in 2012, by 10.9 percent from €262.8 million to €291.4 million. The improvement is largely due to the resumption of shipments of rail fasteners in China in June 2012; from the of summer of 2011 through May 2012, there had been project delays. Notable additional sales were also generated in Kazakhstan, Germany, and the USA. Revenue receded especially in Taiwan and Africa.

Resumed shipments in China propelling sales at Vossloh Fastening Systems

In fiscal 2012, Vossloh Fastening Systems received orders worth €309.5 million (down from €323.0 million). Sizable contracts were booked from Germany, Kazakhstan, China, and France. At December 31, 2012, the business unit's order backlog amounted to €284.2 million (up from €266.1 million).

In fiscal 2012, Vossloh Fastening Systems incurred capital expenditures of €4.5 million, well below the prior year's €10.9 million since a number of projects were rescheduled into 2013. The emphasis was again on Germany, followed by China and Turkey. In Germany, a large capex share went toward the procurement of new injection molding tooling.

Vossloh Fastening Systems added in fiscal 2012 value of €29.9 million, thanks to the better EBIT well above the prior-year €23.4 million.

Vossloh Switch Systems

As expected, Vossloh Switch Systems performing well

Vossloh Switch Systems equips rail networks with both switches and control/monitoring systems and has an internationally foremost position in the market for advanced-technology rail switches. In fiscal 2012, Vossloh Switch Systems' sales ascended 4.2 percent, from €433.0 million to €451.3 million. Incremental sales were generated especially in the USA and Iraq as well as in Australia, Norway, and the UK. In contrast, business in Spain was again frail, as expected due to the economic and budgetary crises. Sales were also down in Italy, the Netherlands, and Malaysia.

Order intake by the Switch Systems business unit came to €451.0 million in 2012 (up from €434.7 million). Sizable orders flowed in from France, the USA, Sweden, and Morocco. At year-end 2012, orders on hand amounted to €312.3 million (virtually at the prior year's level of €312.5 million).

Capital expenditures by this business unit in 2012 added up to €20.8 million (up from €17.9 million). Among the year's most important projects were a production line for switch points in the USA and ongoing work on setting up switch production in China.

Value added by Vossloh Switch Systems, albeit again a negative €9.6 million, significantly narrowed from the prior-year red €13.0 million. The EBIT upswing in 2012 was the decisive factor in this favorable trend.

Vossloh Rail Services

Business at Vossloh Rail Services marred by still weak demand

Vossloh Rail Services offers all kinds of services to do with the rails themselves. In fiscal 2012, this business unit generated sales of €54.6 million, a painful 37.7-percent plunge from the prior year's €87.7 million. Soft demand for rail welding and logistics work persisted throughout the fiscal year and is still being felt.

Orders booked by the Rail Services business unit in fiscal 2012 slumped from the prior year's €92.6 million to €52.9 million because of the tough market environment. At year-end 2012, order backlog added up to €4.1 million (down from €5.8 million).

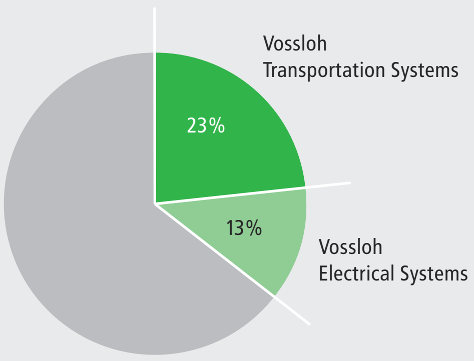
The business unit's capital expenditures for the period of €9.1 million (down from €10.1 million) again chiefly went toward the planned further development and the building of high-speed grinding trains. Another item was a mobile rail welder.

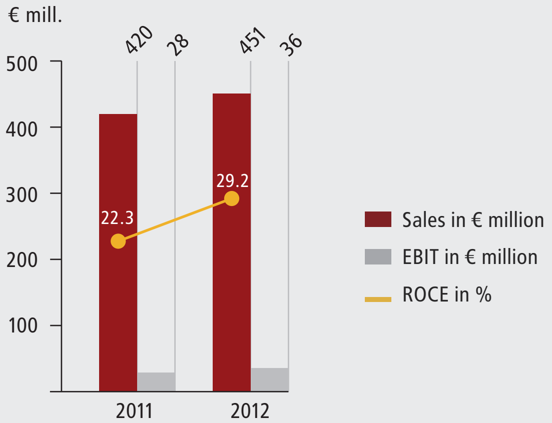
Value added by Vossloh Rail Services was a negative €7.8 million (down from a positive €7.3 million) due to the lower EBIT.

Tall order backlog propelling sales at Vossloh Transportation Systems

Vossloh Electrical Systems' rail vehicle business developing well

Transportation





Shares of business units in group sales

Transportation division: sales, EBIT and ROCE trends

Transportation business trend

The Transportation division includes the Group's rail vehicle and vehicle components business along with the related services. It has two business units: Transportation Systems and Electrical Systems. Vossloh Transportation Systems comprises the two locations Valencia (Vossloh Rail Vehicles) and Kiel (Vossloh Locomotives) and is Europe's foremost manufacturer of diesel locomotives besides providing the corresponding maintenance work. The Valencia location in Spain also develops and produces light rail vehicles. Vossloh Electrical Systems offers advanced-technology electrical systems for local transport vehicles including buses.

Transportation: sales boosted by both business units

Thanks to the tall order backlog at the start of the year, the Transportation division's sales climbed 7.4 percent, from €420.0 million to €451.1 million. Both business units, Transportation Systems and Electrical Systems, shared in the growth rate. Whereas revenue inched down at the German location of Kiel, it was the Spanish Valencia plant that propelled growth for the Transportation Systems business unit. Most was derived from orders received from the Israeli state railways and Europorte for EURO 4000 locomotives.

Regionally, Germany and France are still the biggest individual markets of the Transportation division which in fiscal 2012 produced 34 percent of its sales in Germany and 17 in France. In Europe, altogether 87 percent of division sales were generated, with non-European regions accordingly contributing 13 percent. The biggest individual market outside of Europe was again Asia including the countries of the Middle East.

It was in Western Europe that this division generated the biggest growth during the period whereas sales in many countries of Southern Europe, especially Spain, drooped because of the critical economic situation.

ROCE jumping to 29.2 percent

Thanks to the upgraded EBIT, the Transportation division's ROCE picked up from 22.3 to 29.2 percent. Capital employed in 2012 averaged €121.6 million, a minor upgrade from the prior-year €124.6 million. Average working capital was again characterized by an excess of assets and hence remained negative, improving from €31.3 million to €47.9 million, both in the red. Value added by Transportation was once more boosted, from €15.3 million a year ago to €23.3 million in 2012.

EBIT hiking up to €35.5 million

Transportation's EBIT mounted by 27.7 percent to reach €35.5 million (up from €27.8 million). The EBIT margin climbed from 6.6 to 7.9 percent. The Transportation Systems business unit particularly drove up its profit contribution.

Transportation

		2012	2011
Sales	€ mill.	451.1	420.0
EBITDA	€ mill.	52.0	41.3
EBIT	€ mill.	35.5	27.8
EBIT margin	%	7.9	6.6
Average working capital	€ mill.	(47.9)	(31.3)
Average working capital intensity	%	(10.6)	(7.5)
Fixed assets	€ mill.	180.6	159.2
Capital expenditures	€ mill.	24.0	23.7
Amortization/depreciation	€ mill.	16.5	13.5
Closing capital employed	€ mill.	127.7	117.8
Average capital employed	€ mill.	121.6	124.6
ROCE	%	29.2	22.3
Value added	€ mill.	23.3	15.3

Vossloh Transportation Systems

As expected, Valencia reporting sales leap, Kiel below 2011 level

In fiscal 2012, the Transportation Systems business unit showed a sales gain of 4.9 percent, from €279.9 million to €293.7 million. As expected, the Spanish location of Valencia reported a much improved performance compared with the weak prior year's. In contrast, the German location at Kiel failed to quite repeat the 2011 sales volume. Vossloh Locomotives in Kiel generated sales of €119.2 million, 41 percent of the Transportation Systems business unit's total. Accordingly, Vossloh Rail Vehicles in Valencia, with sales of €174.6 million, accounted for 59 percent of the aggregate.

In fiscal 2012, the Transportation Systems business unit booked new orders worth altogether €329.3 million, as expected short of the €444.8 million in 2011, a period containing several big contracts. Year-on-year, both locations registered declining order influx. Major new orders were awarded, in particular, to Vossloh Rail Vehicles and included one for 15 UK*LIGHT* locomotives for the British market and a contract won in a consortium together with the Brazilian company T'TRANS for 22 trams destined for Brazil. The shipments will be executed in 2014 and 2015.

Partly together with the Electrical Systems business unit, Vossloh Transportation Systems is processing a number of new contracts, such as one awarded by the city of Chemnitz in 2012 for eight diesel-electric light rail vehicles worth a total of €42 million. Shipments are due to commence in 2014. At December 31, 2012, orders on hand at the Transportation Systems business unit amounted to €539.7 million (up from €504.1 million).

In fiscal 2012, Vossloh Transportation Systems' capital expenditures totaled €15.8 million, substantially at the prior year's level. The largest share was accounted for by the Spanish location of Valencia, specifically the Tramlink modular tram and four-axle diesel-electric EURO 3000 locomotive projects.

Value added by Vossloh Transportation Systems in 2012 showed a great turnaround, from a red €0.4 million a year ago to a black €10.0 million.

Valencia location
At its Valencia plant Vossloh Rail Vehicles develops and builds diesel locomotives as well as light rail vehicles. The lineup also includes maintenance work.

Vossloh Rail Vehicles lifted its sales in fiscal 2012 by 11.6 percent, from €156.4 million to €174.6 million. Most of the growth was generated through higher sales of EURO 4000 locomotives in projects with the Israeli state railways as well as with Europorte. After order intake had been ramped up in fiscal 2011, numerous projects were only invoiced a year later due to the typically long lead times. Currently, Vossloh Rail Vehicles has numerous new contracts in its books (e.g. the UK*LIGHT* locomotives for the British market, trams for Brazil) which, in some cases are jointly handled with the Electrical Systems business unit (e.g. light rail vehicles for the city of Chemnitz). As expected, orders booked in fiscal 2012 were below the high level of 2011. At year-end 2012, orderbacklog outstripped the prior-year volume.

Capital expenditures at the Spanish location of Valencia in fiscal 2012 added up to €10.2 million, a rise of €2.5 million from €7.7 million. Most of the expenditures concerned the Tramlink and EURO 3000 locomotive development projects.

Kiel location

At its Kiel location, Vossloh develops and builds center-cab locomotives. Despite still keen demand for new locomotives, Vossloh Locomotives failed to quite repeat the prior year's sales. In fiscal 2012, revenue added up to €119.2 million (down 3.5 percent from €123.5 million). During the period, altogether 47 locomotives of the proven G 1000, G 1206, and G 6 were shipped out. Once again, the Kiel location carried out high-quality routine repair and revamping jobs on diesel locomotives.

Kiel winning attractive orders

Vossloh Locomotives, too, reported lower order intake compared with the high volume of 2011. Altogether, the location booked orders for over 35 new locomotives, in particular for the G 6 series, a triple-axle diesel-hydraulic shunter, and the G 1206, a four-axle again diesel-hydraulic model for mainline and shunting services with heavy loads.

In fiscal 2012, Vossloh Locomotives spent altogether €5.6 million, down from €8.1 million. The emphasis was on further developing the diesel-hydraulic and diesel-electric models with a view to completing the new locomotive family.

Vossloh Electrical Systems

Vossloh Electrical Systems develops and manufactures key electrical components as well as systems for local public transport rail vehicles and locomotives. The lineup of this business unit comprises traction units, on-board power supply, vehicle control, heating and air-conditioning systems. It ranks among the world's foremost suppliers of electrical equipment for trolleybuses and hybrid buses.

Vossloh Electrical Systems boosted sales in fiscal 2012 by 13.8 percent, from €146.7 million to €166.8 million. Rail vehicle business was especially buoyant whereas bus was weaker. In 2012, regional focal points were once more Germany and elsewhere in Europe. As of June 1, 2012, Vossloh acquired the Birmingham-based company Transys Project Ltd. (TPL) and has since then been operating on the British market. With the takeover, Vossloh is successfully supplementing its capabilities in the Electrical Systems business unit.

Orders awarded to Vossloh Electrical Systems in fiscal 2012 amounted to €166.7 million, well short of the high prior-year €346.2 million. At December 31, 2012, order backlog totaled €431.5 million, more or less equal to the €431.7 volume at December 31, 2011. Besides the contracts to be jointly performed with Vossloh Rail Vehicles, Vossloh Electrical Systems booked a number of important projects including equipment for light rail vehicles in Braunschweig, Germany, and Manchester, UK, as well as one for air-conditioning units for PRASA in South Africa.

In fiscal 2012, capital expenditures by the Electrical Systems business unit fell from €7.9 million to €5.7 million. The emphasis of expenditure in fiscal 2012, was, as planned, on the Düsseldorf location and the construction of a test bay here.

Value added by Vossloh Electrical Systems in fiscal 2012 amounted to €7.5 million (down from €14.0 million).

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.

Vossloh AG prepares its annual financial statements in accordance with German GAAP (Commercial Code provisions). The explanations below refer to these separate financial statements. In isolated cases, certain transactions are represented differently according to IFRS.

Analysis of the separate financial statements

As nonoperating holding company, Vossloh AG's revenue—€1.5 million (up from €1.3 million) for 2012—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 2012, the administrative expenses of €23.3 million were virtually a repeat of the prior year's €23.2 million. The increase in expenses for personnel, consultancy and trade fairs was almost offset by the non-incurrence of expenses for the 2011 stock buyback program and a decrease in adult and advanced training and workforce events. Personnel expenses rose by €1.0 million to €8.2 million; the annual average headcount moved slightly up to 46. Year-on-year, the Company's other operating income contracted by €1.2 million to €8.9 million and includes mainly income from the apportionment to subsidiaries of taxes, marketing fees and IT expenses.

In addition to the administrative expenses and the net other operating income or expense, the net financial result—which crept down from €58.6 million a year ago to €58.0 million in 2012—impacts materially on Vossloh AG's EBT since the Company is also the financial holding company of the Group and therefore owns its major subsidiaries. Key components of the net financial result for 2012 were the €50.0 million dividend income from Vossloh France SAS, as well as the profits transferred by Vossloh-Werke GmbH and Vossloh Kiepe GmbH, together accounting for €19.1 million (down from €55.0 million). In contrast, the aggregate €5.3 million loss (down from €9.8 million) absorbed from Vossloh Locomotives GmbH and Vossloh Rail Services GmbH burdened investment income.

Interest expense of €15.1 million (up from €15.0 million)—primarily for refinancing the Group's capital requirements—contrasted in 2012 with interest income of €8.3 million (up from €8.1 million) from granting short-term credit or medium-term loans to consolidated subsidiaries. Income taxes of €1.1 million (up from €0.6 million) weighed on Vossloh AG's EBT. Vossloh AG's net income of €41.2 million for 2012 was €2.9 million below the prior year's.

Total assets remained essentially unchanged at €795.8 million (up from €794.7 million), mainly as intercompany receivables receded, while long-term loans to subsidiaries climbed. On the liabilities side, bank debts diminished considerably, bank loans (excluding the US private placement) plummeting from the prior-year €95.0 million to €40.6 million as of December 31, 2012. In contrast, both intercompany payables and equity augmented. The equity ratio was raised from 38.2 to 39.7 percent.

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

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 executive officer. In addition, the report describes principles and level of Supervisory Board fees.

Remuneration of Executive Board members

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

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

For fiscal 2012, the compensation of Vossloh AG's executive officers totals €2,086,056 (up from €1,981,895), including €805,576 of fixed, and €1,242,874 variable, remuneration. In addition, they received in 2012 noncash fringes as payments in kind (PIK), basically in the form of private company car use at the tax base of €37,606. PIK income is taxable income of each executive officer.

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

Moreover, they have been granted entitlements to defined postretirement benefits in the form of pension payments upon long-term invalidity or disability or as from the retirement age of 63. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 15 (Dr.-Ing. Norbert Schiedeck) or 35 percent (Werner Andree), and are stepped up by 4 percentage points annually (as from April 1, 2010, or January 1, 2005, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2012, a total €700,659 was provided for accrued pension obligations to Executive Board members (up from €330,031). Current retirement pensions are adjusted annually in line with the collective pay trend of white-collar employees.

The table below itemizes the remuneration of each executive officer:

€	Short-term benefits				Retirement benefits	
	Fixed salary	PIK	Profit share	Total	Provision in 2012	Total accrued
CEO Werner Andree	481,767	15,809	757,850	1,255,426	551,054	3,476,022
COO Dr.-Ing. Norbert Schiedeck	323,809	21,797	485,024	830,630	149,605	540,290
Total	**805,576**	**37,606**	**1,242,874**	**2,086,056**	**700,659**	**4,016,312**

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 any change of control.

No loans or advances were granted in 2012 to any Executive Board member.

The compensation paid as current pensions to former executive officers and their surviving dependants totaled €643,477 (up from €606,512).

Pension obligations to former executive officers and their surviving dependants amounted to €11,899,772 (up from €11,576,318); this amount includes employer pension liability insurance policies totaling €11,522,718 pledged in each beneficiary's favor, the balance being covered by accruals.

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

Remuneration of Supervisory Board members

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

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

The Supervisory Board Chairman receives 300 percent, the vice-chairman 150 percent and each committee member 125 percent of the above fee. 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 annual 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 for fiscal 2012 a total €451,500 (up from €440,375), including €212,500 fixed and €239,000 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	72,000	132,000
Peter Langenbach, Vice-Chairman	42,500	45,000	87,500
Dr. Jürgen Blume (up to Aug. 31, 2012)	20,000	20,000	40,000
Dr. Christoph Kirsch	40,000	42,000	82,000
Wolfgang Klein	30,000	36,000	66,000
Michael Ulrich	20,000	24,000	44,000
Total	212,500	239,000	451,500

In addition to these fees, no Supervisory Board member received in 2012 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2012 to any Supervisory Board member.

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

The provisions of Arts. 289(4) and 315(4) HGB require that the following takeover-related disclosures as of December 31, 2012, be made.

Capital stock breakdown
Vossloh AG's capital stock of €37,825,168.86 is divided into 13,325,290 no-par bearer shares of common stock entitling to one vote each.

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

According to the Executive Board's knowledge, voting right exercise and share transfer by members of the Vossloh Family Pool ("Familiengemeinschaft Vossloh GbR") have been pooled by contractual agreement.

Direct or indirect shareholdings of 10+ percent
The Executive Board is aware that two direct voting interests above 10 percent in the Company's capital stock exist: The Vossloh Family Pool notified Vossloh AG that, in February 2013, its members owned a voting stake of some 31.77 percent in the Company. Mr. Heinz Hermann Thiele notified the Company in October 2012 that he owns a 25.14-percent voting interest in Vossloh AG.

Shares with controlling rights, etc.
No such shares exist at Vossloh AG.

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

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

While, according to Art. 179(1) AktG, the bylaws may be amended by vote of the general meeting, any wording-only amendment may also be delegated to the Supervisory Board. In conformity with Art. 21(2) of the bylaws but subject to overriding statutory provisions to the contrary, the general meeting shall pass its resolutions with the simple majority of votes cast. Where the law prescribes a stock ownership majority in addition to a voting majority, the simple majority of the capital stock represented at the vote shall suffice unless the provisions of the law or Vossloh AG's bylaws prescribe otherwise. Art. 27 of the bylaws authorizes the Supervisory Board to amend the bylaws where only their wording is involved. Art. 4(8) of the bylaws further entitles the Supervisory Board to update the bylaws accordingly after the capital stock has been increased by utilizing authorized or contingent capital.

Stock issuance or repurchase authority of the Executive Board

Art. 4 of the bylaws specify the Executive Board's powers to issue new stock while the authority to repurchase treasury stock, based on the AGM resolution of May 19, 2010, was used by the Executive Board in 2011 between July 27 and December 2 to buy back 1,332,529 treasury shares (10 percent of the capital stock).

(a) Authorized capital

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

(i) for fractions entailed by the subscription ratio;

(ii) in order to (a) grant to holders of conversion rights, options and/or warrants which are outstanding when the Authorized Capital is utilized or (b) satisfy conversion obligations ensuing from convertible and/or warrant bonds previously floated or issuable by the Company or any of its wholly-owned subsidiaries, the right to subscribe for new shares to the extent which they would be entitled to as stockholders upon exercise of their conversion rights and/or options or upon satisfaction of their conversion obligations;

(iii) if (a) new stock is issued against cash contributions at a price that is not significantly below the stock market price current for same-class Vossloh stock at the time at which the final issuance price is fixed, and (b) the newly issued stock exceeds an aggregate ten percent of the capital stock neither at the effective date nor at the date of exercise of this authority. Any such shares are counted toward this capital ceiling as are disposed of ex rights (i.e., without granting a subscription right to stockholders) during the validity period of this authority by applying the provisions of Art. 186(3) Clause 4 AktG. Shares issued or issuable to service convertible and/or warrant bonds or satisfy conversion obligations shall also be counted toward said 10-percent ceiling provided that the bonds are issued ex rights during the validity period of this authority in application of the provisions of Art. 186(3) Clause 4 AktG;

(iv) for any capital increase against noncash contributions.

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

(b) Contingent/conditional capital

(i) Pursuant to Art. 4(3) of the bylaws, the Company's capital stock has been conditionally raised by €6,979,134.18 by issuing 2,730,000 bearer shares of common stock. This contingent capital increase will be implemented only to the extent that, under the warrant bond issues floated by Vossloh AG and/or its (directly or indirectly) wholly owned non-German subsidiaries on or before June 28, 1999, the warrant holders exercise their right to subscribe for common stock. The new common stock ranks for dividend as from the fiscal year in which it is created by option exercise.

(ii) Pursuant to Art. 4(4) of the bylaws, the Company's capital stock has been conditionally increased by €356,986.54 by issuing 139,641 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to employees under an SOP authorized by the annual general meetings of June 25, 1998, and/or June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes.

(iii) Pursuant to Art. 4(5) of the bylaws, the Company's capital stock has been conditionally raised by €1,468,225.77 by issuing 574,320 bearer shares of common stock. This contingent capital increase is implemented only to the extent that the holders of stock options, which are granted to officers, executives and other management staff under a long-term incentive plan (LTIP) authorized by the annual general meetings of June 25, 1998, and June 3, 2004, have exercised or will exercise their options. The new common stock ranks as from the fiscal year in which it is created by option exercise for the dividend of the fiscal year on whose profit appropriation the succeeding fiscal year's AGM votes.

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

(c) Repurchase of treasury stock

According to the AGM resolution of May 19, 2010, and pursuant to Art. 71(1) No. 8 AktG, the Company is authorized on or before May 18, 2015, to acquire treasury stock equivalent to an aggregate maximum of ten percent of Vossloh AG's then capital stock. The Executive Board exercised this authority in 2011 to repurchase 1,332,529 treasury shares (equivalent to 10 percent of the capital stock) between July 27 and December 2. No further authority of Vossloh AG to buy back treasury shares exists.

At December 31, 2012, the Company held 1,326,721 treasury shares. The Executive Board is authorized, subject to prior Supervisory Board approval, to use such treasury stock for any lawful purposes, including by disposing of the treasury shares ex rights in a form other than through a stock market or by offering them to all Vossloh stockholders, however, provided that the previously acquired shares of treasury stock are sold at a price that is not significantly below the stock market price then current for same-class Vossloh stock. The Executive Board is further authorized, after first obtaining Supervisory Board approval, to sell treasury stock ex rights to third parties in return for noncash contributions, including (without limitation) in connection with mergers or other business combinations or when acquiring other enterprises or equity interests therein. The treasury stock may further be used to settle obligations under convertible and/or warrant bonds issued by the Company and/or any of its wholly-owned subsidiaries. Moreover, the Executive Board is authorized to redeem and effectively withdraw treasury stock with the Supervisory Board's approval, however, without requiring another vote by the general meeting.

Agreements upon any change of control

Two material agreements the Company has made exist that could be enforced upon any change of control. On the one hand, the US private placement covenants obligate the Company upon a change of control to offer the investors the early repayment of the principal balance plus accrued interest thereon. On the other, the current credit facility master agreement with Landesbank Baden-Württemberg offers this lending bank upon a change of control the option of calling in balances outstanding for immediate repayment.

Compensation agreements upon change of control

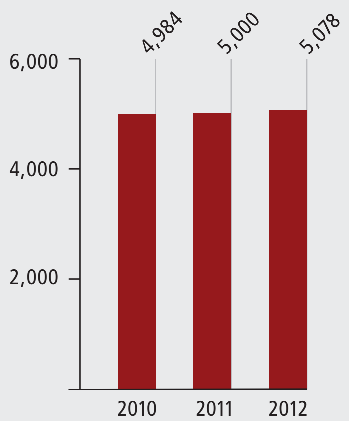
No arrangements for post-takeover indemnification or other compensation of Executive Board members or Vossloh employees upon a change of control have been made.

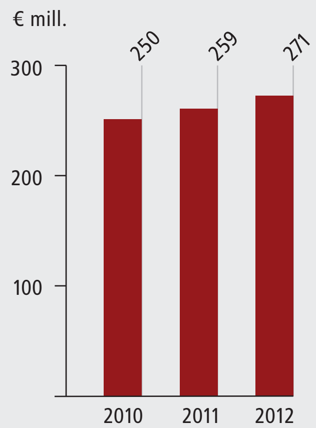
Headcount again slightly up

Sales per capita rising

Higher payroll costs driving up personnel expenses

Workforce





Average group headcount

Personnel expenses in € million

Workforce

At December 31, 2012, the Vossloh Group employed a workforce worldwide of 5,022 (up 0.2 percent or 11 compared with the 5,011 at year-end 2011).

Employee-related indicators

		2012	2011	2010
Payroll per capita	k€	53.4	51.8	50.1
Sales per capita	k€	244.8	239.4	271.1
Payroll intensity	%	72.6	71.9	61.5
Value created per capita	k€	73.5	72.1	81.4

Altogether 83.1 percent work at the Group's European locations; outside of Europe 41.2 percent (down from 42.3) in North America and a total 48.2 percent (up from 47.8) at the Asian production locations in China, India, and Malaysia. Australia is another continent with Vossloh employees.

There were only marginal changes in the age structure and average length of service compared with 2011. The proportion of employees aged between 35 and 50 crept up to 40 percent; the percentage of those over 50 stayed unchanged at 30 percent. The proportion of employees working for Vossloh for up to ten years slipped to 54 percent.

Personnel expenses (payroll)

€ million	2012	2011	% change
Pay	221.1	211.2	+4.7
Social Security	45.6	43.8	+4.1
Pension expense	4.3	4.0	+7.5
Total	**271.0**	**259.0**	**+4.6**

The average headcount mounted from 5,000 to 5,078 (up by 1.6 percent).

Average group headcount of 5,078

Because of wage cost increases, personnel expenses in 2012 advanced 4.6 percent from €259.0 million to €271.0 million. The average payroll per capita increased by 3.0 percent from k€51.8 in 2011 to k€53.4 in 2012.

Value created—defined as the excess of total operating performance over cost input and amortization/depreciation—per capita rose from k€72.1 in 2011 to k€73.5 in 2012.

Payroll intensity, calculated as the ratio of payroll to value created, inched up from 71.9 to 72.6 percent. Sales per capita in 2012 increased by 2.26 percent, from k€239.4 to k€244.8.

Rail Infrastructure

In fiscal 2012, the average workforce in the Rail Infrastructure division fell 0.4 percent from 3,206 to 3,193.

Payroll per capita rose 2.9 percent from k€44.2 to k€45.5. Value created per capita inched up from k€72.2 to k€72.3. Payroll intensity came to 62.9 percent (up 1.6 percentage points). Sales per capita advanced 2.2 percent to k€248.2 (up from k€242.9).

Transportation

The average number of Transportation employees rose 5.15 percent year-on-year from 1,748 to 1,838.

Sales per capita mounted 2.12 percent from k€240.3 to k€245.4; value created per capita grew from k€79.1 to k€83.9. Payroll per capita was up 2.2 percent from k€63.0 to k€64.4. Payroll intensity fell slightly from 79.6 to 76.7 percent.

Employees 2012

	Annual average*			Year-end		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Rail Infrastructure	693	2,500	3,193	651	2,483	3,134
Transportation	1,016	822	1,838	1,035	807	1,842
Vossloh AG	47	0	47	46	0	46
Total	**1,756**	**3,322**	**5,078**	**1,732**	**3,290**	**5,022**

*Annual average based on monthly data

Recruiting and developing employees

Talented, dedicated employees are essential to our success and so quality apprenticeship courses and HR development programs enjoy high priority at Vossloh.

A broad range of in-house and external courses forms the framework for the business units' HR development efforts tailored to actual needs. For the first time, specific courses were organized for female technical and management employees. Besides advanced courses on commercial and technical subjects plus foreign languages we also provide further training on the subjects of quality, project management, communication, and leadership. The blue-collar courses embrace such subjects as welding, load securing/hazardous goods, and fork lift truck operation.

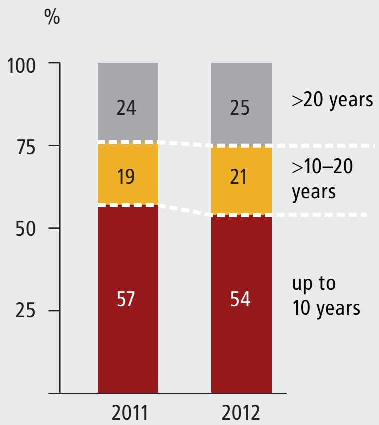
The Vossloh Academy is an intercompany facility; at its web portal, employees in Germany can register online for seminars dealing with topics of relevance to Vossloh. In small, manageable groups, subjects are dealt with that assist the participants in their daily work and ready them for future challenges. The learners also have the opportunity to establish networks among themselves and share valuable knowledge with each other.

Launched in 2009, the program under the title We lead Vossloh is meanwhile a firm fixture of groupwide management and organizational development. It serves as the basis for the regular exchange of ideas among holders of key positions across all business units. At the same time the program acts as the corporate platform for identifying new cooperation projects within the Group and nurturing the groupwide corporate culture.

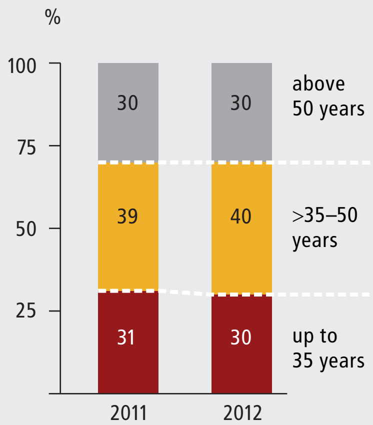
To draw the attention of well-trained and qualified people to Vossloh in good time, the Group has numerous cooperation arrangements with schools and universities. Besides the contacts with schools at the various Vossloh locations, contact is also forged throughout Europe with universities of relevance to the industry. Some of these liaisons take the form of research and other project work.

A first taste of job experience can be obtained by undergraduates in the course of internships and other forms of practical training as well as when working on their diploma, BA and MA theses. Vossloh supports the Fair Company initiative.

Besides the recruitment of well-trained talent from outside, in-house apprenticeship training enjoys high priority at Vossloh. At the German locations, altogether 24 youngsters commenced blue-, white- and gray-collar courses in 2012. At year-end 2012, the Düsseldorf, Hamburg, Kiel, Moers, Seevetal, Trier und Werdohl locations together employed 84 apprentices, equivalent to around 6.1 percent of the workforce at these German locations with apprenticeship opportunities.



Service years in %



Age structure in %

Occupational Safety & Health

The Occupational Safety & Health (OSH) project has matured into a regular institution. As part of their workforce responsibilities, Vossloh's Executive Board and European Works Council have assigned the subject of OSH even more significance as a top action priority. The period saw the setting-up of the Work Safety Committee with representatives drawn from all the business units. The main mission of the committee is to draft a definition of groupwide Vossloh safety principles based on the preceding project work deliverables and to assume responsibility for having the Vossloh Group's locations certified to OHSAS 18001.

Thanks to the employees

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

Research and development

The Vossloh Group's companies are among the technology leaders in their respective markets and as such constantly investing in product and service improvements. One of their prime aims is to satisfy the specific requirements of customers in the various market regions. In addition, Vossloh repeatedly works on pioneering new solutions. Since a large share of R&D takes place in connection with specific contracts, the associated costs are reflected in cost of sales and not in R&D expenses.

The developments costs of a marketable product are capitalized wherever the IAS 38 capitalization criteria are met; where not, they are recognized in the income statement either as cost of sales or R&D expenses, as appropriate.

Vossloh Group: R&D expenditures

€ million	2012	2011
Total R&D expenditures	24.8	25.2
thereof capitalized	15.1	14.5
R&D expenses	**9.7**	**10.7**
Amortization (of capitalized development costs)	8.1	5.7

The R&D expenditures before other work and material capitalized amounted in 2012 to €24.8 million (down from €25.2 million), equivalent to 2.0 percent of sales (down from 2.1). The R&D expenses recognized in the income statement accounted for 0.8 percent of sales (down from 0.9). Amortization of capitalized development costs came in 2012 to €8.1 million (up from €5.7 million).

In fiscal 2012, the R&D departments were again very busy in widening the product portfolio and matching it to emerging trends in the marketplace. This was and is being reflected in construction work, too. Similar to Vossloh Fastening Systems in Werdohl, Vossloh Switch Systems is currently building its own technology center at Reichshoffen. The groundbreaking ceremony was held in September 2012, completion is planned for August 2013. Successful intragroup R&D cooperation was continued: Vossloh Fastening Systems and Vossloh Switch Systems are teaming up in a joint project for developing for the first time the test conditions for rail fastening systems engineered for axle loads of 42 t and more. On the train-tram and Tramlink projects, Vossloh Rail Vehicles and Vossloh Electrical Systems are cooperating; on the HSG-2 high-speed grinding train, the partners are Vossloh Locomotives and Vossloh Rail Services.

On certain research projects, the Vossloh companies revert to the specific know-how of outside experts. There are countless partnerships with universities and research institutes. Involved in several pan-European megaprojects such as ERI (Eco Rail Innovation, Vossloh Locomotives, Vossloh Rail Services), CleanER-D (Clean European Rail-Diesel, Vossloh Rail Vehicles), MARATHON (Make Rail The Hope for protecting Nature, Vossloh Rail Vehicles) or RAILENIUM (Vossloh Switch Systems), Vossloh is helping to shape the future of rail transport. The aim is a further reduction of emissions and noise, the efficient use of resources, the utilization of alternative energy sources, as well as enhanced rail safety and efficiency.

In 2012, Vossloh Fastening Systems assigned high priority to the development of a new screw/dowel combination; this was first presented to the general public at the InnoTrans trade fair. On this occasion, Vossloh also acted as pioneer and developer of new testing methods for individual components and complete systems. Another priority was the cost-effective and functional fine-tuning of the individual components making up the various fastening systems. On the basis of extensive field information and the results of laboratory tests, it was possible to achieve a whole series of working improvements while reducing the weight of the parts. Devised in 2011, the W 40 HH fastening system for heavy-haul tracks went into series production in 2012 and was installed on a busy freight line in North America. For the local transport market in China, various metro and tramway fastening systems were developed, tested, and homologated. In joint projects with system suppliers for slab tracks, a number of individual fastening systems underwent improvement. A major share of R&D activities in 2012 was again to address at short notice individual customer requirements.

R&D engineers at Vossloh Switch Systems completed a number of medium-term projects in 2012. Patents were filed for two proprietary developments: a special-composite sleeper for track sections with turnouts and crossings and a method for welding turnout parts made from manganese steel. Several prototypes of switch systems and system components were successfully track-tested, among these a rail chair with spring roller for actuating very long and high-speed switches with less effort. This is scheduled for market launch in 2013 just as the fine-tuned elements of an eco-friendly zero-lubricant switch. The first rails and switches manufactured from new kinds of steels underwent field testing; the development of a switch with reduced rigidity was advanced to the stage that in the latter half of 2013 the first field tests can probably be carried out. The prototypes of the multi-motor high-speed Easyswitch were optimized following the results of tests conducted under extreme weather conditions in Sweden. As in the previous years, most of the work on switch monitoring, locking as well as signaling devices addressed concrete customer requirements and was performed with close customer cooperation. This was also true of signaling R&D where Vossloh Switch Systems develops several species of products and systems precisely tailored to certain markets or customers.

In 2012, Vossloh Rail Services' R&D activities concentrated, on the one hand, on further developing the HSG-2 high-speed grinding train—the new generation will also be used in Denmark and Switzerland—and on developing the HSG-city, an autonomous high-speed grinder for innercity tracks; together with an external partner, efforts were directed at an innovative high-performance track miller. Removing more material per cycle at much higher speeds, this machine achieves very superior rail processing compared with traditional milling techniques.

In the year under review, Vossloh Transportation Systems pushed ahead with programs initiated the previous years for enhancing its product portfolio. At the German Kiel location, efforts focused on the new modular family of center-cab locomotives. The four-axle G 12 and G 18 (diesel-hydraulic) and the DE 12 and DE 18 (diesel-electric) were again improved. The triple-axle G 6 will soon be series-manufactured with diesel-electric traction; the multi-engine diesel-electric G 6 ME introduced at InnoTrans, elicited considerable interest on the part of the trade. For its new vehicles, Vossloh Locomotives has also devised option packages enabling customers to identify the mission profiles of individual locomotives and hence save fuel. The Valencia location in Spain saw the emergence of a new type of vehicle which is presently undergoing rigorous field testing. The locomotive, designed for passenger haulage, combines European design with a powerful traction system (2,250 kW) as prevalent in the USA. The locomotive complies with all new emission norms, operates fuel effectively and is extremely reliable. Vossloh's proprietary assistance, analysis, control and regulating systems EFITREN, DAS and TWC for optimizing the efficiency of Vossloh vehicles were again refined. A newcomer is a system for precisely measuring fuel in the diesel tank and hence calculating the mileage still remaining. This avoids any superfluous refueling stops. The R&D department in Valencia also worked on preparing the EU project REFRESCO (toward a REgulatory FRamework for the usE of Structural new materials in railway passenger and freight CarbOdyshells). It will be launched in October 2013. Vossloh's share in the project will, in particular, be the development of an assistance system for locomotives for further improving the safety and security of rail haulage. In the case of light rail vehicles, the focus in 2012 was on the diesel-electric version of the train-tram, a joint effort with Vossloh Electrical Systems.

At Vossloh Electrical Systems, tram development work in 2012 concentrated on the orders booked from Rostock, Karlsruhe and Chemnitz, all in Germany. The equipment for the Tramlink and train-tram vehicles which are being built by Vossloh Rail Vehicles in Valencia, must be adapted to the special homologation and customer requirements. For the Rostock vehicles, an energy storage system with dual-layer capacitors is required and the energy management system will be specially adapted to the local overhead wire network. In Karlsruhe and Chemnitz, the trams will also be sharing the mainline network of German Rail and this calls for a modification of their control system. For the revamping of the Bonn trams, a new power inverter system for electronically controlling DC traction motors was developed. In the case of buses, battery technology is a key subject at Vossloh Kiepe. A long-term project is the development of an all-electric bus. On the double-articulated LighTram buses delivered to Zurich in late 2012, lithium-ion batteries with very high energy density were used for the first time. The engineers also further developed during the period their own modular traction battery for trams and shunting locomotives. A completely new traction control system was further developed whose higher control dynamics lead to a much improved slide and skid protection—for Vossloh Electrical Systems, this is a milestone in sustaining its traction system expertise.

Environmental protection

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

The developers of diesel locomotives from Vossloh have for years attached great importance to making sure their vehicles consume as little fuel as possible—thus emitting minimum CO_2. For years now, Vossloh Locomotives in Kiel and Vossloh Rail Vehicles in Valencia have been involved in research projects with a focus on reducing emissions. In Valencia, Vossloh has meantime compiled an Environmental Product Declaration (EDP) for the EURO locomotives, this reflecting their resources consumption throughout their lifespan.

“Zero emissions” is a benchmark that applies to electric buses with traction technology from Vossloh Kiepe. Another advantage of these local transport vehicles: they are very quiet in operation—a fact appreciated by passengers and pedestrians alike. Even conventional buses can become more eco-friendly with Vossloh technology, with hybrid drive reducing exhaust and noise emissions significantly. Field tests on buses with an even more environment-friendly fuel-cell hydrogen drive are underway and proving successful. Vossloh is continuously widening its competency in the area of eco-friendly electric mobility; in 2012, the first electric buses with high-duty lithium-ion batteries were shipped out.

Vossloh generates a significant share of its sales with products and services contributing toward environment-friendly and sustainable solutions. Therefore, the Company has for years been listed in the Global Challenges share index of the Hannover stock exchange and since February 2012 in the Dutch Kempen/SNS SRI index. It is also included in the sustainability rankings of oekom research, Inrate, and Sarasin, which recommend Vossloh stock as an investment in sustainability funds.

In production, all Vossloh companies attach great importance to a sparing and efficient use of resources. Generally speaking, emissions from production have been cut to a minimum. Regular audits by the local environmental authorities prove that all statutory and regulatory requirements are adhered to and the permitted limits are undercut, in some instances significantly. Residuals are consistently reused or recycled as far as possible; solid waste is systematically sorted.

With a view to even more efficiently managing its energy and water consumption, Vossloh has gradually been installing a groupwide standardized consumption logging system. The figures for 2012 were as follows: Electricity consumption totaled around 71 million kWh (up from around 70 million kWh). Of this, the Rail Infrastructure division accounted for around 85 percent. Gas consumption in 2012 amounted to around 150 million kWh (down from 160 million kWh). Some 90 percent was consumed by the Fastening Systems and Switch Systems business units. Consumption of district heating in 2012 as in 2011 was in the region of 20 million kWh. A large share was used by the Kiel location. In the year under review, the Vossloh Group consumed around 110,000 m^3 of water (down from around 120,000 m^3) and some 540,000 liters of heating oil (down from about 650,000 liters). Most of the heating oil consumption was allocable to Rail Infrastructure. Altogether, group costs for energy and water added up to €14.5 million (up from €14.1 million). This is equivalent to 1.1 percent (down from 1.2) of sales.

Vossloh Fastening Systems is installing a comprehensive and target-driven energy management system. At Werdohl and parallel to the restructuring of this location, a multistage concept is being applied for systematically improving energy efficiency. Ever since 2010, process steam has no longer been generated by one large central boiler but with small, local units directly placed at the points of consumption. The Technology Center inaugurated in 2011 is heated with the waste heat from the hydraulic testing rigs and machinery; any surplus energy is transferred to other buildings. The furnace shop built in 2012, likewise has a system of heat recovery; the energy from the heat treatment process is used, among other things, for operating the upstream machines. Great value was attached moreover to keeping noise emissions as low as possible.

Vossloh Switch Systems is also increasingly downsizing its ecological footprint. To this end, various measures were enacted in 2012 in order to lower consumption of raw materials, water, and energy. Several locations revamped their heating systems for greater energy efficiency and reduced emissions. Even higher priority was, in general, assigned to protecting groundwater.

At the locomotive plants in both Kiel and Valencia, Vossloh employs exclusively low-solvent paints for the finish of its vehicles. Vossloh Fastening Systems has also been using water-borne paints for the surface coating of its tension clamps for years now. Vossloh Kiepe in Düsseldorf records all eco-relevant plants and processes in a registry which serves as a firm fixture of environmental management.

The large Vossloh locations have all been approved and certified to the DIN EN ISO 14001 environmental management system or comparable systems and undergo regular audits by external, independent bodies. Vossloh Rail Vehicles, Valencia, is preparing itself additionally for the EU's EMAS (Eco-Management and Audit Scheme) in 2013. In Germany, Vossloh Kiepe has, moreover, been certified to the OHSAS 18001 occupational health & safety standard since 2001; another five companies (Vossloh Cogifer locations) have meantime also obtained this certification and in future will be joined by all the Vossloh Group's locations and companies. Vossloh Kiepe Austria, Vienna, Vossloh Rail Vehicles, Valencia, and Vossloh Kiepe Main Line Technology, Düsseldorf, have since 2010 held certificates of approval according to IRIS (International Railway Industry Standard). Vossloh Cogifer's Fère-en-Tardenois location has been complying with the even stricter ILO OSH 2001 safety and health standard since the end of 2007.

Risk and reward management

Risk and reward management

Organization

Risks and rewards are systematically identified, analyzed, assessed, reported, monitored, controlled and managed at all levels of the Vossloh Group. To this end, Vossloh has set up a groupwide risk and reward management system (RMS). This ensures that the impact of possible adverse changes is avoided or contained and that any opportunities arising are indicated and seized.

The risk and reward management system is part of the business, planning and controlling mechanisms. The system's setup is defined and described in groupwide principles, policies and procedures. The organizational RMS setup is based on the structure of the operating processes and procedures of the respective unit. Risk owners, risk officers and risk controllers are appointed at all group levels. The identification of risks and rewards is ensured by a perpetual risk inventory in which relevant risks are identified effectively, timely, and systematically.

Perceived risks and rewards are analyzed and assessed at Vossloh for their possible impact on earnings. For this purpose, the worst-case and best-case scenarios and the most probable impact on earnings are determined. These are supplemented by an assessment of loss probability. For the best/worse-case scenarios, a value-at-risk approach with a minimum probability of 5 percent is assumed.

All the (direct or indirect) Vossloh subsidiaries, both in Germany and abroad, are covered by the RMS irrespective of their consolidation. New acquirees are integrated into the system in good time.

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

These reports are addressed to Vossloh AG's Executive Board as well as to each company's and business unit's senior management. It is they that control and monitor risks and rewards. At the level of Vossloh AG, the current risk situation is regularly discussed between business unit management and the Executive Board.

The system is regularly reviewed by Corporate Internal Auditing and the statutory auditor for adequacy, efficiency and compliance with legal requirements.

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

General economic and sector risks and rewards

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

Rail business is normally less cyclic than the economy in general. There is the risk that here and there state and/or private customers will shelve or even cancel contracts. Austerity measures in the maintenance market, one of significance to Vossloh, are of only limited duration and restricted scope due to the expanding volume of rail haulage overall.

Apart from the general economic situation as such, political or regulatory policies, the status of rail sector deregulation and public-sector debts are among the factors affecting the market. The ability of the public sector to spend is limited by its debts. And hence restricted funds may well impact on future business trends. For Vossloh, the sovereign debts of some Southern European nations continue to be a prime cause for delayed and therefore shrinking order inflow from this region. In the case of new projects, alternative funding options such as public-private partnerships continue to receive considerable attention as possible approaches.

With its two divisions, Rail Infrastructure and Transportation, Vossloh ranks among the foremost suppliers on selected rail industry markets. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This implies dependence on public-spending patterns which Vossloh attempts to abate by expanding its international presence. Exploiting market opportunities as they surface, especially in the Rail Infrastructure division, brings about a balancing effect. At the focus of Vossloh's internationalization drive are presently the growth markets China, Russia, other Eastern European countries, the MENA states, the United States, and South America. In recent years the Group has much reduced its reliance on individual European markets. In 2012, non-European sales amounted to 36 percent. The share in 2011 had been just under 30 percent.

Rail markets in Western Europe and North America are more or less stable in terms of their political and economic environments and hence as far as these core markets are concerned, there are no major risks confronting the Group. Accessing new markets elsewhere, especially Asian and African, 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 group sales in these markets grows, both opportunities and risk exposure rise.

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

Operating risks and rewards

This category includes operations-related activities such as sourcing, production, and contract performance.
Vossloh attempts to counteract purchase price (input market) risks especially by long-term procurement contracts or price escalator clauses through agreements with customers. Exchange rate risks from purchasing are normally managed by currency forwards. With commodities becoming scanter, this will lead in the medium to long term to higher production costs, especially for Rail Infrastructure. The medium-term planning assumptions of increases in the cost of materials and components are based on such factors as supplier information and market analyses.

No significant variances from the 2012 input market prices are presently expected in general. Any rises appreciably above these assumptions may drain profitability as forecast by the business units. Rewards may accrue from material and component prices that turn out to be lower than budgeted.

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

Along the value-adding chain, Vossloh subsidiaries are exposed to work interruption, quality problems, as well as occupational safety and environmental risks. These risks are either altogether avoided or at least diluted through a comprehensive set of guidelines and standard procedures or policies that govern project and quality management, product and occupational safety, as well as environmental protection. The essential Vossloh locations have been certified to the DIN ISO 9001 quality management system and moreover the large ones fulfill the criteria of the ISO 14001 environmental management standard.

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

Project risks arising in 2012 and still existing have been provided for as required by the IFRS.

Financial risks and rewards

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

Vossloh uses financial derivatives solely to hedge against specific risks from current underlyings or forecast transactions. These economic hedging relationships are also treated as hedges in financial accounting. In this context, only marketable financial instruments approved beforehand are deployed. The contracting, settlement and controlling functions have strictly been segregated. For further details on financial derivatives, turn to the notes to the consolidated financial statements starting on page 167. The following financial risks are controlled: liquidity risks, cash flow risks, price risks, as well as default and similar counterparty risks.

Liquidity risks

Liquidity risks may arise if the Group is potentially unable to provide the funds required to meet its obligations in due course and fully. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies and the necessary latitude for translating corporate strategies into practice) through a rolling cash management system. An intragroup financial netting concept through cash pooling and intercompany loans ensures the best possible application of any surplus cash at certain subsidiaries to meet the liquidity requirements at other group companies.

As of December 31, 2012, the Vossloh Group had cash and cash equivalents (including short-term securities) of a total €69.9 million. In addition, bilaterally committed, unutilized credit facilities of another €273.7 million were at Vossloh's disposal, including €173.5 million due within, and another €56.4 million due after, one year while an additional €43.8 million was committed with no maturity.

The two major long-term borrowings raised need not be refinanced before 2014 and 2016. The still conservative net debt level ensures that no financial or cash bottlenecks occur.

Cash flow risks

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

Price risks

Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. With a view to benefiting for a long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total $240.0 million (around €204 million). As part of its proactive risk management concept, Vossloh has fully hedged future principal and interest payments through interest rate and cross-currency swaps on a euro basis. For details, see the notes to the consolidated financial statements, starting from page 175.

Current or expected currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards directly upon contract award. Risks from translating currency positions in the financial statements are subject to ongoing monitoring.

Default risks

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to Vossloh. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2012, cash investments and financial derivatives with a positive fair value were allocable at 6 percent to counterparties rated (according to Standard & Poor's) between AA+ and AA–, at 66 percent to those rated from A+ to A–, at 22 percent to counterparties rated BBB+ to BBB–, and at 6 percent to BB-rated or non-rated counterparties. In fiscal 2012, the rating of some banks was slightly downgraded. Moreover, risks are spread by distributing the Group's cash and other financial assets among a plurality of banks. No dependence on specific banks has existed or does exist.

Many of Vossloh's customers are government agencies, and the risk of their default is regarded as very low. Nonetheless, balances outstanding are throughout monitored and partly covered by credit insurance.

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

On balance, the Vossloh Group's net earnings were in 2012 not affected to any significant degree by financial risks.

Legal risks and rewards

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

In July 2012, the German Federal Cartel Office (FCO) in its first ruling imposed penalties on producers and suppliers of standard rails, heat-treated rails and switch blades, on account of anticompetitive agreements and collusion to the debit of Deutsche Bahn AG (German Rail). Among those concerned are the Vossloh subsidiaries Stahlberg Roensch GmbH, Seevetal, and Kihn SA, Luxembourg. By far most of the €13 million penalty imposed on the Vossloh subsidiaries is borne by the previous owners of Stahlberg Roensch. The Federal Cartel Office has announced that it will now redirect its probes to other areas including rails and switches supplied for regional and local users. In connection with the pending antitrust proceedings, certain customers have stated that they will claim damages. Wherever the enforcement of specific customer claims appears reasonably likely and the resulting loss can be reliably estimated, such potential damages are duly provided for.

Legal risks weighed on group earnings for 2012.

Other risks and rewards

These are mainly of an HR or IT nature. The Group's economic situation may well suffer as a result of substandard staffing such as shortage of management and/or technical staff. The same applies to a high turnover rate among key personnel, poor training, mistakes or theft committed by employees. Vossloh has a whole menu of measures to abate such risks: in particular, a reputation as an attractive company to work for, a reputation that strengthens its position in the competition for highly qualified employees. In-house courses allow employees to regularly upgrade their skills while very competitive pay structures tie the employees long-term to the Group. The control of operational and strategic business processes largely relies on complex and powerful IT systems. Technical and organizational mechanisms minimize exposure to risks associated with information system data reliability, availability, confidentiality and security. Such mechanisms and instruments also ensure efficient information processing.

None of these “other risks” influenced the Group’s earnings in 2012 to any substantial degree.

Overall assessment of the risk and reward situation

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

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

As stated above 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, including those beyond the statutory scope. According to Art. 317(4) HGB, the statutory group auditor assesses the existence and effectiveness of the early risk identification system (ERIS). The Vossloh Group's ICS described below encompasses all principles, methods, processes and procedures designed to ensure not only the accounting system's effectiveness, efficiency and propriety but also compliance with applicable legal and statutory regulations.

Responsible at group level for the ICS are substantially Vossloh AG's 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) and Internal Auditing, as well as of staff locally assigned at the level of the business unit flagship company. The statutory (group) auditor is also involved 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.

IT

For their separate financial statements, subsidiaries record accounting transactions locally by using presently still heterogeneous accounting software.

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

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

Major safeguards for a valid and reliable accounting system

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

The format requirements also specify all details of the obligatory, standardized set of reporting package forms. The Manual is periodically revised and updated and then placed in due course at the disposal of all those involved in the Group's accounting process.

After transactions have been recorded in the local accounting system of each subsidiary, the monthly accounts are reviewed at the level of the business unit flagship company. 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.

The separate financial statements reported by the subsidiaries are then consolidated in several steps at the level of Vossloh AG after they have been adjusted to conform to groupwide accounting policies. The correct offset of intercompany receivables/payables, income/expenses and shareholdings as well as the proper elimination of profits from intragroup transfers are generally ensured by adopting peer review principles and running appropriate validation routines in check files.

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

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

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

Limitations

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

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

For the corporate governance report (which is an integral part of the combined management report) see page 40 of this annual report. The annual report is also available long term on Vossloh AG's website at www.vossloh.com

Subsequent events

Dr.-Ing. Kay Mayland, Rösrath, former CEO of SMS Siemag AG, has been appointed a member of the Supervisory Board of Vossloh AG with effect as from January 9, 2013, the date at which the Iserlohn Local Court order was served on Vossloh AG. He succeeds Dr. Jürgen Blume who stepped down from the Board as of August 31, 2012.

As of January 18, 2013, Vossloh acquired a 100-percent stake in Brazil's rail switch manufacturer Metalúrgica Barros Monteiro Ltda. (MBM, "Barros Monteiro"). Headquartered in Sorocaba in the State of São Paulo, the acquiree makes switches, turnouts and their components as well as manganese frogs for switches and crossings. Barros Monteiro is among the three leading rail switch manufacturers in Brazil.

Global economic growth predicted to inch up

Studies anticipate ongoing upturn in rail technology market

For 2013, the Vossloh Group expects to raise sales between 5 and 10 percent

EBIT foreseen at level of 2012

Value added again expected to be positive

Prospects

This management report contains future-related statements based on estimates by management of future trends of the Vossloh Group. The *Prospects* chapter is predicated on statements and forecasts representing management's assessment of the as-is situation, and on all the information presently available. Taken into account have been, in particular, assumptions on future trends of the global economy and the international rail market, as well as the specific business expectations of Vossloh's business units. All these assumptions are subject to risks (and offer opportunities) not entirely within Vossloh's control. For greater details, reference is made to the *Risks and Rewards* chapter herein. If the assumptions underlying the statements and forecasts in the *Prospects* fail to, or the risks and/or rewards depicted do, materialize actual results may differ from current expectations. Vossloh does not assume any obligation to update its statements in this group management report outside statutory publication dates.

IMF's economic forecasts for 2013

Global economic growth likely to inch up

For 2013, the International Monetary Fund (IMF) expects a slight improvement in global economic growth, from 3.2 percent in 2012 to 3.5. This trend also applies to the eurozone and China, markets of particular relevance to Vossloh. Although Euroland is expected to once again report a decline, this time of 0.2 percent, it is anticipated to be less severe than the shrinkage of 0.4 percent in 2012. Germany, in contrast, is forecast to show a slightly weaker growth of 0.6 percent in 2013; this contrasts with the 0.9 percent in 2012. For China, the IMF is looking to a surge of 8.2 percent (up from 7.8 in 2012). According to the IMF, the US market, likewise of particular importance to Vossloh, will advance by 2.0 percent. Analogously to the situation in Germany, this is a slight weakening in growth rate compared with the 2.3 percent of 2012.

Global trading volumes are likewise predicted to rise more steeply in 2013 as a consequence of the general economic development. Following a growth of 2.8 percent in 2012, the IMF is looking to a hike of 3.8 percent in 2013. Trading volumes and the related demand for haulage services rank among the drivers in the rail technology market which may also benefit from the ongoing urbanization trend as well as the growing significance of ecological considerations when grappling with transport and traffic problems.

Rail Industry Association forecast for the rail technology market

UNIFE forecasts 2.6 percent annual growth up to 2015/2017

According to a study of the Association of the European Rail Industry (UNIFE), the rail technology market will continue to expand over the years ahead with an average annual growth rate of 2.6 percent. For the period 2015 to 2017, the total market volume is set to climb to an annual average of €170 billion. UNIFE estimates the actually accessible market at a total €124 billion. "Accessible" markets are those open to foreign suppliers and whose demand is not exclusively covered by domestic capacities. For the period 2009 to 2011, the total annual market volume had averaged €146 billion, of which €106 billion was considered accessible. A study by the SCI Verkehr consultants confirms the assessments made by the industry association. Say these consultants, the total market volume in 2016 will approximate €168 billion, based on a 2011 market volume of €143 billion. This then results in an annual growth rate of 3.3 percent.

Surging markets in South America, Middle East, and Africa

In some cases, the regional differences in expected growth rates are wide. According to UNIFE estimates, Asia/Pacific and Western Europe as well as the CIS nations will show a clear growth of around two percent in the period 2015 to 2017. Demand in the NAFTA countries and Eastern Europe is expected to be in line with the overall market for rail technology. Exceptionally high rates are predicted by UNIFE for South America, the Middle East, and Africa.

The European industry association subdivides the rail technology market into four segments: Infrastructure, Rolling Stock, Rail Control, and Services. Rolling Stock has the largest share of the accessible market (40 percent) followed by Services (28 percent), Infrastructure (21 percent), and finally Rail Control. With its Rail Infrastructure and Transportation divisions, Vossloh is primarily engaged in the Infrastructure and Rolling Stock segments.

The accessible market for Rolling Stock in the period 2009 to 2011 averaged €42 billion. The growth forecast is an annual 2.3 percent. For the period 2015 to 2017, this will lead to an average accessible market volume of €48 billion. According to the UNIFE study, the global accessible rail infrastructure market for the period 2009 to 2011 averaged €23 billion. The annual growth rate is expected to reach 2.3 percent. This results in an average market volume of €26 billion for 2015 to 2017. Regionally, growth rates vary very widely in both segments.

In Western Europe, the Rolling Stock segment is forecast to have an average growth rate of 3.0 percent. Increase will be especially pronounced in France and Great Britain. In Germany and because of the high contract awards in recent years, the pundits are predicting a decline. In the Infrastructure segment, an annual decrease of 0.5 percent is forecast. Here, too, market shrinkage is expected in Germany; France and Great Britain, in contrast, are likely to continue to expand.

Exceptionally high rates for Rolling Stock in Western Europe

According to the UNIFE study, the Asia/Pacific region will show a declining market for rolling stock. The market is expected to subside by an average 2.5 percent annually. China, especially, due to the already heavy expenditures on high-speed trains is likely to prune its outlays. For the Infrastructure market, in contrast, the experts are predicting a clear annual growth of 3.0 percent. Even though China again will report slacker demand, this will be more than offset by momentum in India, South Korea, Taiwan, and Indonesia.

Infrastructure market with better-than-average growth in Asia/Pacific

In the NAFTA countries, the Rolling Stock segment is forecast to show a steep rise in market volume of annually 4.5 percent, chiefly driven by surging demand in the United States. The reasons for this are more acute environmental awareness and high gasoline prices. In this region, the Infrastructure market is also expected to grow annually, by 1.0 percent.

The market volume for Rolling Stock among the CIS members will, according to the UNIFE study, mount by an annual average of 4.0 percent. This trend will be primarily propelled by Russia. In the Infrastructure market, the experts expect, analogously to Western Europe, a slight downturn in volume. The upswing in Russia will be outweighed by a collapse in the Ukraine market.

As to the Africa and Middle East region, South Africa will over the years ahead particularly contribute to an expansion in Rolling Stock volumes (rail vehicles). In Eastern Europe, the growth driver is Turkey; in South America, it is Brazil. In the Infrastructure segment, growth in the Africa and Middle East region will primarily be triggered by steep demand in the United Arab Emirates (UAE) and in Qatar. As to Eastern Europe, Poland and Turkey are likely to report a sharp upturn in demand. In the South American Infrastructure market, Brazil is the lead player.

Vossloh's outlook for 2013

Besides general economic and industry-related parameters, Vossloh's business forecasts take into consideration, in particular, assumptions specific to the business units. These concern such aspects as product perspectives, expected competitive strategies, project award probabilities, and market risks and rewards in the individual regions. Vossloh customers are public and private local and long-distance transport operators who carry out capital expenditures after long-term decision-making processes and within the framework of relatively long-range financing setups. As their partner, Vossloh accompanies its customers over many years. Together with them, the Group develops and designs solutions for individual product requirements. As a rule, this results in lengthy delivery and project lead times. Accordingly, order backlogs cover several months' production, with more and more contract completions extending even over years.

The following table forecasts Vossloh's sales for 2013 from today's vantage point:

Vossloh Group: regional sales breakdown

€ million	2012	2013			
Germany	260.1	+10%	up to	+25%	
France	138.6	+5%	up to	+10%	
Other Western Europe	125.4	+10%	up to	+25%	
Northern Europe	84.8	–5%	up to	+5%	
Southern Europe	121.9	–10%	up to	–25%	
Eastern Europe	70.2	–5%	up to	+5%	
Total Europe	**801.0**	+10%	up to	+25%	
Americas	125.5	+10%	up to	+25%	
Asia	264.2	–5%	up to	–10%	
Africa	18.3		over	+25%	
Australia	34.0	+5%	up to	+10%	
Total	**1,243.0**	+5%	up to	+10%	

5 to 10 percent sales growth expected for 2013

From today's viewpoint, Vossloh is expecting for 2013 a sales growth ranging between 5 and 10 percent, thus clearly outpacing the overall rail technology market.

For 2013, Vossloh is budgeting sales to surge over 20 percent on account of the bulging order books, especially in the Transportation division (around two-thirds of sales in Germany). Major factors in this growth are the tram projects in Rostock, as well as the light rail vehicles ordered in Hannover and Karlsruhe, besides the locomotive contracts for German industry.

Surging sales in Germany

Sales in France in 2013 will mount marginally. Vossloh Switch Systems and Vossloh Fastening Systems are expecting higher sales thanks to the order for fitting out the French high-speed line between Tours and Bordeaux. From today's vantage point, sales by the Transportation Systems business unit will stay steady in France.

In other parts of Western Europe, Vossloh is looking to a steep sales rise in fiscal 2013, especially in Great Britain. At the start of 2012, an order was won for 15 UK*LIGHT* locomotives for this market. In the Electrical Systems business unit, the British company TPL Ltd. was acquired; there are also several British tram projects on the agenda. As to Northern Europe, sales are likely to stay stable.

Business in Britain blossoming

In Southern Europe, sales will continue downhill in 2013. This is, above all, due to slumping sales in Spain. In the Transportation Systems business unit, the Valencia location is making very good progress at branching out internationally in order to outweigh the plunging sales on the domestic market.

In Eastern Europe, Vossloh is also expecting business to remain steady in 2013. Despite higher sales expected from Russia, total revenue is likely to remain unchanged at the volume of 2012, especially as the Polish market is likely to suffer a significant shortfall. Besides the poorer sales in the Switch Systems business unit, project phaseouts are expected to also erode revenue for the Electrical Systems business unit.

Eastern Europe business subdued in 2013

From today's vantage point, the Americas will continue to report rising sales, driven by uptrends in switch business. Brazil is also predicted to register higher sales, with newly acquired Metalúrgica Barros Monteiro (MBM) in the Switch Systems business unit joining in.

Sales in China likely to rise

Business in Asia is generally expected to recede. Revenue hikes in China, both from rail fasteners and switches, will contrast with reduced sales by the Switch Systems business unit as a consequence of the phaseout of projects in Iraq and Malaysia.

A major share of African business comprises the switch contracts won in Morocco. In Australia, Vossloh is looking to mounting sales, especially by the Fastening Systems business unit.

Competition still fierce throughout the business units

Substantiating these sales forecasts for the Vossloh Group are the still towering order backlogs adding up to €1,548 million at the close of 2012. However, the rising attraction being radiated by the rail technology market is breeding more ferocious competition. All the Vossloh Group's business units are anticipating an ongoing price squeeze while the Group's Rail Services business unit reckons that demand for its rail welding work will stay frail in 2013.

EBIT expected at 2012 level

Notwithstanding the added sales, the Group's present forecasts for 2013 envisage an EBIT more or less unchanged from 2012. This will then lead to a further EBIT margin shrinkage to around 7 percent—despite recent action packages. As seen from today's viewpoint, major influencing factors for a 6–8 percent EBIT margin range will be further shipments of rail fasteners in China (Fastening Systems business unit) and the performance of major contracts as scheduled by the Transportation division.

Higher capital employed weighs on ROCE

Positive VA expected for 2013

From today's vantage point, capital employed is set to rise by another 10 percent: on the one hand, capital expenditures will continue to outnumber amortization and depreciation. On the other, average working capital, also forecast to grow by more than 10 percent, will contribute to this trend and swell in the wake of higher trade receivables thanks to the expected sales hike. Any increase in capital employed in combination with a virtually unchanged EBIT will further depress Vossloh's ROCE, which is predicted to inch down to about 10.5 percent in 2013 and probably remain within a bandwidth of 9 to 12 percent. Assuming WACC downscaled to 8.5 percent as from 2013, Vossloh's business is believed to add positive value.

Risks may emerge for Vossloh from the, in some cases, cyclic spending patterns of public and private customers in the individual markets. The compulsion to consolidate public-sector budgets in certain regions might impact more forcefully than anticipated on the rail technology markets. In past years, the business units were mostly able to offset fluctuations in individual regions by their global presence. In recent years, the Rail Infrastructure division has acquired businesses and set up locations to internationalize its presence; further such projects are planned. However, entering new markets not only offers opportunities but is also tied to incremental risks which may emerge, in particular, from political and social instability or legal uncertainties. Regarding other risks possibly impinging on medium-term plans, refer to the report on risks and rewards (starting page 103).

Vossloh AG forecast

The bottom line of Vossloh AG as a pure management and financial holding company is primarily affected by administrative expenses and the net financial result. General administrative expenses are forecast to show a shallow downturn in 2013, and so will the net financial result, given the high cash dividend distributed by Vossloh France SAS in 2012.

Focus on organic growth and judicious M&A

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 as well as additional rail infrastructure and vehicle products and services. The aim of such M&A deals is firstly to optimize the Group's vertical production integration and secondly to open up additional growth opportunities. Sizable M&A transactions are intended to meaningfully supplement the Group’s core competencies in mobility and transport. Acquirees should always meet group requirements from the outset while adding value. Except for the newly acquired Brazilian company, the figures for fiscal 2013 refer to the envisaged organic growth alone.

Consolidated financial statements of Vossloh AG as of December 31, 2012

Income statement for the year ended December 31, 2012

€ million	Note	2012	2011*
Net sales	(1)	1,243.0	1,197.2
Cost of sales	(2.1)	(994.3)	(963.5)
General administrative and selling expenses	(2.2)	(172.4)	(162.9)
R&D expenses	(2.3)	(9.7)	(10.7)
Net other operating income	(3)	30.3	36.4
Operating result		**96.9**	**96.5**
Net P/L from associated affiliates		0.2	0.6
Other financial income	(4)	0.5	1.2
Other financial expenses	(5)	(0.1)	(1.1)
EBIT (earnings before interest and taxes)		**97.5**	**97.2**
Interest income		5.8	13.8
Interest expense		(27.2)	(26.1)
EBT (earnings before taxes)		**76.1**	**84.9**
Income taxes	(6)	(20.8)	(23.9)
Net result from discontinued operations	(7)	9.5	–
Total net income (EAT)		**64.8**	**61.0**
thereof **group earnings** (Vossloh stockholders)		59.2	56.2
thereof minority interests	(8)	5.6	4.8
Earnings per share (EpS)			
Undiluted/fully diluted EpS** (€)	(9)	4.94	4.32

*Due to the retroactive application of the change in pension accrual accounting, the prior-year comparatives were adjusted accordingly. For details, see Note (24), page 156.

**During fiscal 2012, altogether 11,993,491 no-par shares of stock (down from 13,023,516) were outstanding on average.

Statement of comprehensive income for the year ended December 31, 2012

€ million	2012	2011*
Total net income	**64.8**	**61.0**
Statement at fair value of derivatives in CFHs		
Change in OCI	(0.5)	1.4
Gains/losses recycled from OCI to income statement	0.2	(0.7)
Actuarial gains/losses from pensions		
Change in OCI	(5.7)	0.6
Statement at fair value of securities available for sale		
Change in OCI	0.0	0.0
Currency translation differences		
Change in OCI	0.7	(3.9)
Deferred taxes		
on OCI changes	1.7	(0.4)
Total OCI	**(3.6)**	**(3.0)**
Comprehensive income	**61.2**	**58.0**
thereof Vossloh stockholders	55.8	54.4
thereof minority interests	5.4	3.6

*Due to the retroactive application of the change in pension accrual accounting, the prior-year comparatives were adjusted accordingly. For details, see Note (24), page 156.

Cash flow statement for the year ended December 31, 2012

€ million	2012		2011*	
Cash flow from operating activities:				
EBIT	97.5		97.2	
Net result from discontinued operations	9.5		–	
Amortization/depreciation/write-down (less write-up) of noncurrent assets	41.4		38.8	
Change in noncurrent accruals	6.2		(16.4)	
Gross cash flow		**154.6**		**119.6**
Noncash change in shares in associated affiliates	(0.3)		(0.6)	
Other noncash income/expenses, net	5.8		1.1	
Net book loss/(gain) from the disposal of tangibles and intangibles	0.0		(1.6)	
Cash outflow for income taxes	(20.1)		(30.5)	
Change in working capital	51.4		54.6	
Change in other assets/liabilities, net	(28.8)		(4.1)	
Net cash provided by operating activities		**162.6**		**138.5**
Cash flow from investing activities:				
Cash outflow for additions to intangibles/tangibles	(58.5)		(65.6)	
Cash outflow for investments in noncurrent financial instruments	(0.7)		(9.5)	
Cash inflow from the disposal of intangibles/tangibles	1.0		0.4	
Cash (outflow for)/inflow from short-term securities (purchased)/sold, net	(1.1)		(1.6)	
Cash inflow from the disposal of noncurrent financial instruments	0.7		2.9	
Cash change in shares in associated affiliates	0.6		0.6	
Cash outflow for the acquisition of consolidated subsidiaries and other units	(14.9)		(17.8)	
Net cash used in investing activities		**(72.9)**		**(90.6)**
Cash flow from financing activities:				
Change in treasury stock	0.4		(102.9)	
Cash inflow from changes in equity	0.0		0.0	
Cash outflow to stockowners and minority interest holders	(33.5)		(44.2)	
Net finance from short-term loans	(60.9)		115.7	
Net finance from medium-/long-term loans	(1.5)		(2.0)	
Cash inflow from interest	12.8		12.3	
Cash outflow for interest	(27.2)		(26.2)	
Net cash used in financing activities		**(109.9)**		**(47.3)**
Net (outflow)/inflow of cash and cash equivalents	(20.2)		0.6	
Change in cash and cash equivalents from initial consolidation	0.1		10.5	
Parity-related changes	0.6		(0.3)	
Opening cash and cash equivalents	**85.4**		**74.6**	
Closing cash and cash equivalents	**65.9**		**85.4**	

*Due to the retroactive application of the change in pension accrual accounting, the prior-year comparatives were adjusted accordingly. For details, see Note (24), page 156.

Balance sheet

Assets in € million	Note	12/31/2012	12/31/2011 *	1/1/2011 *
Intangible assets	(10)	439.4	415.1	406.2
Tangible assets	(11)	206.3	190.3	162.0
Investment properties	(12)	4.7	6.3	6.1
Shares in associated affiliates (at equity)	(13)	0.5	0.9	5.5
Other noncurrent financial instruments	(14)	12.0	13.3	11.0
Sundry noncurrent assets	(15)	2.2	0.6	0.4
Deferred tax assets	(16)	51.0	45.7	36.7
Total noncurrent assets		**716.1**	**672.2**	**627.9**
Inventories	(17)	365.2	351.5	300.5
Trade receivables	(18)	320.0	353.0	360.6
Income tax assets	(19)	7.1	8.0	6.2
Sundry current assets	(20)	44.8	40.5	36.2
Short-term securities	(21)	4.0	2.8	1.3
Cash and cash equivalents	(22)	65.9	85.4	74.6
Total current assets		**807.0**	**841.2**	**779.4**
Total assets		**1,523.1**	**1,513.4**	**1,407.3**

Equity and liabilities in € million	Note	12/31/2012	12/31/2011 *	1/1/2011 *
Capital stock	(23.1)	37.8	37.8	37.8
Additional paid-in capital	(23.2)	42.7	42.7	42.7
Treasury stock	(23.3)	(102.5)	(102.9)	(105.8)
Reserves retained from earnings	(23.4)	432.7	423.3	467.7
Undistributed group profit		19.9	5.8	7.0
Group earnings		59.2	56.2	97.5
Accumulated other comprehensive income	(23.5)	0.0	3.2	1.8
Stockholders' equity		**489.8**	**466.1**	**548.7**
Minority interests	(23.6)	15.9	14.0	27.9
Total equity		**505.7**	**480.1**	**576.6**
Pension accruals	(24)	22.4	16.5	16.6
Other noncurrent accruals	(25)	60.2	60.0	75.8
Noncurrent financial debts	(26.1)	184.9	189.8	187.0
Noncurrent trade payables	(26.2)	8.0	8.2	–
Noncurrent tax accruals	(26.3)	–	0.7	0.0
Other noncurrent liabilities	(26.4)	26.1	21.3	26.2
Deferred tax liabilities	(16)	52.5	48.2	36.9
Total noncurrent liabilities and accruals		**354.1**	**344.7**	**342.5**
Other current accruals	(25)	156.2	162.9	157.9
Current financial debts	(26.1)	85.8	137.2	25.5
Current trade payables	(26.2)	349.4	314.5	204.9
Current income tax liabilities	(26.3)	7.7	7.0	14.0
Other current liabilities	(26.4)	64.2	67.0	85.9
Total current liabilities and accruals		**663.3**	**688.6**	**488.2**
Total equity and liabilities		**1,523.1**	**1,513.4**	**1,407.3**

*Due to the retroactive application of the change in pension accrual accounting, the prior-year comparatives were adjusted accordingly. For details, see Note (24), page 156.

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Treasury stock	Reserves retained from earnings	Undistributed group profit	Group earnings	Accumulated OCI	Stockholders' equity	Minority interests	Total
Balance at 12/31/2010	**37.8**	**42.7**	**(105.8)**	**467.7**	**7.0**	**97.5**	**5.2**	**552.1**	**27.9**	**580.0**
Effect of amended pension accrual accounting							(3.4)	(3.4)		(3.4)
Balance at 1/1/2011*	**37.8**	**42.7**	**(105.8)**	**467.7**	**7.0**	**97.5**	**1.8**	**548.7**	**27.9**	**576.6**
Carryforward to new account					97.5	(97.5)		0.0		0.0
Transfer to reserves retained from earnings				61.4	(64.8)		3.4	0.0		0.0
Change due to initial consolidation and changes in equity interests					(0.6)			(0.6)	(6.6)	(7.2)
Comprehensive income*						56.2	(2.0)	54.2	3.6	57.8
Dividend payout					(33.3)			(33.3)	(10.9)	(44.2)
Treasury shares redeemed and withdrawn			105.8	(105.8)				0.0		0.0
Repurchase of treasury stock			(102.9)					(102.9)		(102.9)
Balance at 12/31/2011*	**37.8**	**42.7**	**(102.9)**	**423.3**	**5.8**	**56.2**	**3.2**	**466.1**	**14.0**	**480.1**
Carryforward to new account					56.2	(56.2)		0.0		0.0
Transfer to reserves retained from earnings				9.2	(8.8)		(0.4)	0.0		0.0
Change due to increase in equity interests				0.2	(3.3)		0.6	(2.5)		(2.5)
Comprehensive income						59.2	(3.4)	55.8	5.4	61.2
Capital increase from SOPs		0.0						0.0		0.0
Dividend payout					(30.0)			(30.0)	(3.5)	(33.5)
Repurchase/disposal of treasury stock			0.4					0.4		0.4
Balance at 12/31/2012	**37.8**	**42.7**	**(102.5)**	**432.7**	**19.9**	**59.2**	**0.0**	**489.8**	**15.9**	**505.7**

*Due to the retroactive application of the change in pension accrual accounting, the prior-year comparatives were adjusted accordingly. For details, see Note (24), page 156.

Notes to the consolidated financial statements of Vossloh AG as of December 31, 2012

Segment information by division/business unit

€ million		Fastening Systems	Switch Systems	Rail Services	Consolidation	Rail Infrastructure
Value added	2012	29.9	(9.6)	(7.8)	0.0	**12.5**
	2011*	23.4	(13.0)	7.3	0.2	**17.9**
Net external sales	2012	281.1	450.8	54.5	0.1	**786.5**
	2011	253.5	432.7	87.7	0.4	**774.3**
Intersegment transfers	2012	10.3	0.5	0.1	(5.0)	**5.9**
	2011	9.3	0.3	0.0	(5.1)	**4.5**
Interest income	2012	0.2	0.7	0.0	(0.2)	**0.7**
	2011	0.2	0.8	0.1	(0.1)	**1.0**
Interest expense	2012	(4.1)	(3.4)	(2.6)	(0.2)	**(10.3)**
	2011	(3.4)	(3.1)	(2.3)	(0.1)	**(8.9)**
Amortization/depreciation	2012	6.9	11.7	5.4	0.0	**24.0**
	2011	6.1	11.0	7.0	0.0	**24.1**
Net P/L from associated affiliates	2012	0.3	–	(0.1)	–	**0.2**
	2011	0.6	–	–	–	**0.6**
Income taxes	2012	11.6	10.6	0.1	(0.4)	**21.9**
	2011	9.3	10.3	4.7	(0.1)	**24.2**
Net result from discontinued operations	2012	–	–	–	9.5	**9.5**
	2011	–	–	–	–	**–**
Other major noncash segment expenses	2012	14.1	31.0	9.3	0.1	**54.5**
	2011	8.4	28.4	2.4	0.7	**39.9**
Write-up	2012	–	–	–	–	**–**
	2011	–	–	–	0.0	**0.0**
Total assets	2012	207.4	435.9	127.5	177.2	**948.0**
	2011*	224.1	424.8	122.5	187.0	**958.4**
Liabilities	2012	129.2	134.3	94.4	30.1	**388.0**
	2011	157.2	134.4	98.1	3.0	**392.7**
Capital expenditures for noncurrent assets	2012	4.5	20.8	9.1	0.0	**34.4**
	2011	10.9	17.9	10.1	0.0	**38.9**
Shares in associated affiliates	2012	0.5	–	0.0	–	**0.5**
	2011	0.9	–	–	–	**0.9**
Average headcount	2012	544	2,308	341	–	**3,193**
	2011	573	2,273	360	–	**3,206**

*Due to the retroactive application of the change in pension accrual accounting, the prior-year comparatives were adjusted accordingly. For details, see Note (24), page 156.

Transportation Systems	Electrical Systems	Consolidation	Transportation	Holding companies	Consolidation	Group
10.0	7.5	5.8	**23.3**	27.3	(47.7)	**15.4**
(0.4)	14.0	1.7	**15.3**	(7.6)	(9.5)	**16.1**
293.3	155.9	0.0	**449.2**	0.3	0.0	**1,236.0**
278.2	138.5	0.0	**416.7**	0.3	0.0	**1,191.3**
0.4	10.9	(9.4)	**1.9**	1.2	(2.0)	**7.0**
1.7	8.2	(6.6)	**3.3**	1.0	(2.9)	**5.9**
4.7	0.4	0.0	**5.1**	8.6	(8.6)	**5.8**
13.6	0.5	0.0	**14.1**	8.5	(9.8)	**13.8**
(7.3)	(3.0)	0.0	**(10.3)**	(16.3)	9.7	**(27.2)**
(10.0)	(1.7)	0.1	**(11.6)**	(15.6)	10.0	**(26.1)**
12.5	4.0	0.0	**16.5**	0.8	0.0	**41.3**
10.3	3.2	0.0	**13.5**	0.6	0.0	**38.2**
–	–	–	**–**	–	–	**0.2**
–	–	–	**–**	–	–	**0.6**
1.9	3.0	1.8	**6.7**	–7.8	0.0	**20.8**
1.1	5.9	0.5	**7.5**	–7.9	0.1	**23.9**
–	–	–	**–**	–	–	**9.5**
–	–	–	**–**	–	–	**–**
24.0	17.8	0.1	**41.9**	11.2	(0.1)	**107.5**
28.0	17.1	(1.8)	**43.3**	6.0	0.1	**89.3**
–	0.1	–	**0.1**	0.0	–	**0.1**
–	–	–	**–**	0.0	–	**0.0**
517.4	261.4	(4.3)	**774.5**	873.4	(1,072.8)	**1,523.1**
516.6	204.1	(1.4)	**719.3**	913.0	(1,077.3)	**1,513.4**
216.6	137.4	(6.7)	**347.3**	492.9	(506.8)	**721.4**
229.5	85.0	(1.4)	**313.1**	547.5	(511.1)	**742.2**
15.8	5.7	2.5	**24.0**	2.7	–	**61.1**
15.8	7.9	0.0	**23.7**	3.0	0.0	**65.6**
–	–	–	**–**	–	–	**0.5**
–	–	–	**–**	–	–	**0.9**
1,091	747	–	**1,838**	47	–	**5,078**
1,087	661	–	**1,748**	46	–	**5,000**

General

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

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

On March 4, 2013, Vossloh AG's Executive Board released the consolidated financial statements for transmittal to the Supervisory Board's Audit Committee and then for submittal to the plenary Supervisory Board at the meeting of March 20, 2013.

New accounting rules

The following Standards, though published by December 31, 2012, (i) did not require application as of such date or (ii) were not yet endorsed as European law. In the case of (ii), the obligatory first-time application of a Standard as required by the IASB is indicated below.

IASB document	Published	To be applied as from	Endorsed by the EU	Significant effects on Vossloh AG's consolidated financial statements
Revised Standards				
Government Loans (Amendments to IFRS 1)	March 2012	FY 2013	No	None
Annual Improvements IFRS 2009–2011 Cycle	May 2012	FY 2013	No	None
Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	June 2012	FY 2013	No	In the wake of the amended transition rules for the first-time application of IFRS 10, 11 and 12, as well as the revised IAS 27 and 28, no significant effects are expected since mainly the disclosure of the transition to the new policies is defined more clearly. Our 2011 annual report details the effects of the fundamental change in the accounting presentation of so-called Joint Operations, consolidation group definition issues, and obligatory disclosures for consolidated subsidiaries.
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	October 2012	FY 2014	No	None

First-time application of Standards

Application in fiscal 2012 of the following revised or amended Standards was obligatory for the first time:

Standard	Published	Endorsed by the EU
New/revised Standard		
IFRS 7 *Financial Instruments: Disclosures*—Transfer of Financial Assets	October 2010	November 2011
IFRS Improvements	May 2010	February 2011

The first-time application of these Standards had no significant effects.

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

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

Estimates are particularly required for the capitalization and impairment testing of goodwill (cf. Note 10), the recognition of deferred taxes (cf. Note 16), the determination of the discount rate for pension accruals (cf. Note 24), as well as for the recognition and measurement of other accruals (cf. Note 25). Further estimates are necessary to account for (i) tangible assets and their useful lives (cf. Note 11), as well as (ii) the expected costs of PoC contract (cf. Note 18)

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

Consolidation

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

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

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

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

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

In fiscal 2012, the consolidation group changed as follows:

On December 21, 2011, Vossloh Cogifer SA, Rueil-Malmaison, France, formally closed the share deal of November 30, 2011, for all of the shares in Entreprise d'Études de Signalisation Ferroviaire (EESF), a Signaling company. As from January 1, 2012, EESF has been fully consolidated and assigned to the Switch Systems business unit.

The share acquisition price of €1.25 million contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Fair values at initial consolidation date
Tangible assets and inventories	0.1	–	0.1
Receivables	0.3	–	0.3
Other assets	0.2	–	0.2
Cash and cash equivalents	0.1	–	0.1
Liabilities	(0.2)	–	(0.2)
Net assets acquired	**0.5**	**–**	**0.5**
Acquisition price			1.3
Residual goodwill			**0.8**

As of October 31, 2012, this acquiree was merged into Vossloh Cogifer SA and by such date, the mergee had contributed €1.1 million to Vossloh's sales and €0.2 million to group earnings.

As of May 31, 2012, Vossloh Kiepe Beteiligungsgesellschaft mbH acquired all of the shares in TPL (Midlands) Ltd., Birmingham, UK, for a total price of £7.8 million; the acquiree fully owns Transys Projects Ltd., Birmingham, UK, a company specializing in modernizing, refurbishing and enhancing rail vehicles. By acquiring a company already well established in the UK, the Electrical Systems business unit gained access to the local market for M&R and similar services. In the latter half of the period, the two acquirees were renamed, the operating company Vossloh Kiepe UK Limited and the intermediate holding company Vossloh Kiepe Limited. Ever since control over the acquirees had been gained, they have been consolidated.

The euro equivalent of the share acquisition price of €9.7 million contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Provisional fair values at initial consolidation date
Tangible and intangible assets	–	2.3	2.3
Trade receivables	2.9	–	2.9
Cash and cash equivalents	2.7	–	2.7
Other assets	0.5	–	0.5
Liabilities	(9.9)	(0.6)	(10.5)
Net assets acquired	**(3.8)**	**1.7**	**(2.1)**
Acquisition price			9.7
Residual goodwill			**11.8**

Since the date of their initial consolidation, the subsidiaries have contributed €5.8 million to Vossloh's sales and a net loss of €0.1 million to group earnings. If the share deal had been closed at January 1, 2012, these contributions would have amounted to €15.7 million and a red €0.2 million, respectively.

On December 28, 2012, Vossloh Cogifer SA, Rueil-Malmaison, France, acquired the remaining 50-percent stake in VTS Track Technology Limited, Scunthorpe, UK, previously a 50-percent investee of the Group. The remaining 50-stake, previously owned by the other joint venturer, was sold for £9 million. Therefore, Vossloh Cogifer SA wholly owns this subsidiary, which since December 31, 2012, has been fully consolidated after it had previously been included pro rata.

The fair value of the previously held stake directly before the M&A transaction was €9.1 million, the acquisition of the remaining stake hence producing a €2.0 million gain which has been shown in the income statement among the *net other operating income*. The resulting goodwill therefore totals €22.3 million, breaking down into the sum paid for the remaining stake (k€11,147) and the value of the stake already owned before the takeover.

Pursuant to IFRS 3:42, the M&A transaction is treated as the disposal of the assets and liabilities previously recognized pro rata and the addition of the now fully consolidated assets and liabilities. When determining the residual goodwill, the reserves retained while the investee was carried pro rata are taken into account, too.

The notional total for 100 percent of the shares contrasted with the following assets and liabilities:

€ million	Pre-combination book values	Adjustments	Provisional fair values at initial consolidation date
Tangible and intangible assets	2.2	0.8	3.0
Inventories	3.8	–	3.8
Receivables/other assets	2.9	–	2.9
Cash and cash equivalents	6.4	–	6.4
Liabilities	(6.4)	(0.2)	(6.6)
Net assets acquired	**8.9**	**0.6**	**9.5**
Total			22.3
less reserves retained			(2.5)
Residual goodwill			**10.3**

Besides these M&A deals, four fully consolidated subsidiaries were newly formed in 2012, two Vossloh Rail Services companies and one Vossloh Switch Systems and Vossloh Transportation Systems subsidiary each. One Vossloh Switch Systems subsidiary retired from the consolidation group after an intragroup merger.

As of January 18, 2013, Vossloh Cogifer SA, Rueil-Malmaison, France, acquired at a price of €2.8 million all of the shares in Suarandri Ltda. and Monteiro Ltda., both the sole owners of Metalúrgica Barros Monteiro Ltda., Sorocaba, Brazil (MBM). MBM operates in the design and manufacture of rail switches, turnouts and related components and has been assigned to the Switch Systems business unit. The companies will be consolidated as from fiscal 2013.

Consequently, 65 subsidiaries (including 24 in Germany) were fully consolidated as of December 31, 2012.

Changes in fully consolidated subsidiaries

	2012
January 1	59
newly consolidated	7
reclassified	1
merged intragroup	(2)
December 31	**65**

As of December 31, 2012, two companies based outside, and one inside, Germany were included pro rata in the consolidated financial statements. Two German associated affiliates are carried at equity.

Due to their minor significance to the Group's asset and capital structure, financial position and results of operations, 26 subsidiaries (up from 20) were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights or otherwise controlled them at the balance sheet date.

Currency translation

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

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

In the separate financial statements, foreign-currency transactions are translated at the historical rate (as of first transaction entry), gains or losses accrued by the balance sheet date from translating at the current closing rate any monetary assets and liabilities being duly recognized in the income statement.

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

Exchange rates			Current rate at Dec. 31		Average rate in	
Country	Currency (ISO code)	€	2012	2011	2012	2011
Australia	AUD	€1.00	1.27	1.27	1.24	1.35
China	CNY	€1.00	8.21	8.15	8.12	9.00
Denmark	DKK	€1.00	7.46	7.43	7.44	7.45
India	INR	€1.00	72.22	68.98	68.89	65.42
Malaysia	MYR	€1.00	4.03	4.11	3.97	4.26
Norway	NOK	€1.00	7.36	7.78	7.48	7.80
Poland	PLN	€1.00	4.09	4.46	4.19	4.13
Serbia	RSD	€1.00	112.10	106.07	113.02	101.99
Sweden	SEK	€1.00	8.58	8.92	8.71	9.03
Switzerland	CHF	€1.00	1.21	1.22	1.21	1.23
Thailand	THB	€1.00	40.35	40.83	40.16	42.75
Turkey	TRY	€1.00	2.36	2.44	2.32	2.34
UK	GBP	€1.00	0.82	0.84	0.81	0.87
USA	USD	€1.00	1.32	1.29	1.29	1.39

Notes to the consolidated income statement

(1) Net sales

Breakdown of net sales

€ million	2012	2011
Products and services	869.1	867.0
PoC contracts	373.9	330.2
Total	**1,243.0**	**1,197.2**

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

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

The segment reports starting on pages 130 and 164 include breakdowns of net sales by division, business unit, and region.

(2) Functional expenses

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

Expense types

€ million	2012	2011
Cost of raw materials and supplies	604.6	563.0
Cost of services purchased	80.2	111.4
Cost of materials	**684.8**	**674.4**
Wages and salaries	221.1	211.2
Social security and related employee benefits	45.6	43.8
Pension expense	4.3	4.0
Personnel expenses	**271.0**	**259.0**
Amortization/depreciation	**41.3**	**38.2**
Operating leases	**8.7**	**9.4**

Based on the quarterly averages, the workforce structure in 2012 was on average the following:

Workforce structure

	2012	2011
Executive/Management Boards	70	70
Other officers/executives	133	126
Exempts	1,233	1,176
Nonexempts	3,565	3,575
Apprentices	83	78
Interns/degree candidates	14	15
	5,098	**5,040**

The above data includes 127 employees of companies consolidated pro rata (down from 138).

(2.1) Cost of sales

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

(2.2) General administrative and selling expenses

Breakdown of general administrative and selling (GAS) expenses

€ million	2012	2011
Selling expenses	88.3	85.5
General administrative expenses	84.1	77.4
	172.4	**162.9**

Besides payroll, selling expenses mainly consist of outbound freight and commissions and include most of the allowances for bad trade receivables and sundry assets at €0.9 million (down from €1.6 million).

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

(2.3) R&D expenses

In accordance with IAS 38, all research costs are directly expensed as R&D expenses. The costs incurred for developing a marketable product are capitalized where meeting the intangible-asset recognition criteria. Noncapitalizable development costs are expensed in this line, too. R&D expenses before capitalized other work and material in 2012 came to €24.8 million (down from €25.2 million).

(3) Net other operating income

Breakdown of net other operating income

€ million	2012	2011
Income from the release of accruals	21.6	19.7
Foreign exchange gains	4.4	8.5
Income from public grants/subsidies	2.4	1.4
Allowances released and write-up	2.2	2.0
Rental income	1.9	1.7
Insurance claims/indemnities	0.3	1.9
Gains from the disposal of tangibles/intangibles	0.2	0.1
Gains from the disposal of financial instruments	0.0	1.8
Sundry income	6.4	8.3
Other operating income	**39.4**	**45.4**
Foreign exchange losses	(5.1)	(6.3)
Expenses for building M&R	(0.7)	(0.6)
Losses on the disposal of tangibles/intangibles	(0.1)	(0.3)
Sundry expenses	(3.2)	(1.8)
Other operating expenses	**(9.1)**	**(9.0)**
Net other operating income	**30.3**	**36.4**

Income from public grants/subsidies mainly refers to R&D-related subsidies or government assistance. Payments received on account of such grants are deferred as income which is then amortized to other operating income. Investment/capex-related grants or incentives are offset against cost of the tangible assets concerned. Conditions yet to be met and whose non-satisfaction would entail the repayment of grants do not exist, nor do any contingent liabilities in this context. The *sundry income* includes the €2.0 million gain from acquiring the remaining shares in VTS Track Technology Ltd.

(4) Other financial income

Breakdown of other financial income

€ million	2012	2011
Income from investments	0.1	0.9
Income from securities	0.3	0.2
Income from shares in unconsolidated subsidiaries	0.0	0.1
Write-up of financial instruments	0.1	0.0
Other financial income	**0.5**	**1.2**

(5) Other financial expenses

Breakdown of other financial expenses

€ million	2012	2011
Write-down of financial instruments	0.1	1.1
Other financial expenses	**0.1**	**1.1**

(6) Income taxes

Breakdown of income taxes

€ million	2012	2011
Current income taxes	21.0	22.5
Deferred taxes	(0.2)	1.4
Income taxes	**20.8**	**23.9**

An income tax load ratio of 30 percent is expected to be applied to the taxable income of both the Vossloh Group's German subsidiaries and groupwide, this ratio reflecting the statutory corporate income tax at 15 percent, the 5.5-percent solidarity surtax thereon, and the municipal trade tax burden by applying factors fixed by local municipalities.

The Vossloh Group's actual tax expense of €20.8 million (down from €23.9 million) was €2.0 million (up from €1.6 million) below the calculated (expected) tax expense which would have resulted from applying a groupwide single rate of 30 percent to EBT.

Reconciliation of the expected to the actually recognized tax expense:

Reconciliation to recognized tax expense

		2012	2011
Earnings before taxes (EBT)	€ mill.	76.1	84.9
Income tax rate incl. municipal trade tax	%	30.0	30.0
Expected tax expense at a single rate	€ mill.	22.8	25.5
Tax reduction due to lower local rates	€ mill.	(1.3)	(1.7)
Tax reduction from tax-exempt income/gains	€ mill.	(3.8)	(3.7)
Tax increase for nondeductible business expenses	€ mill.	5.4	2.6
Taxes for prior years	€ mill.	(1.2)	(0.7)
Tax effect of the write-down/write-up of deferred tax assets	€ mill.	(1.4)	0.8
Double-taxation effects	€ mill.	0.4	1.4
Other differences	€ mill.	(0.1)	(0.3)
Recognized income tax burden	€ mill.	20.8	23.9
Actual income tax rate	%	27.3	28.1

Deferred taxes from items directly credited to OCI totaled €1.7 million (up from a red €0.4 million). Deferred taxes arose mainly from recognizing (i) actuarial gains/losses arising in 2012 on pension obligations, as well as (ii) the intra-OCI restatement at current fair values of derivatives for cash flow hedges.

The dividend payout by Vossloh AG neither increased nor decreased corporate income tax.

(7) Net result from discontinued operations

This result mirrored the net balance of (i) income of €9.7 million from the release of accruals which had been recognized in connection with the divestment of the erstwhile Infrastructure Services business unit and (ii) expenses of €0.2 million for deferred taxes. The net result is fully allocable to Vossloh AG stockholders.

(8) Minority interests

The Group's total net income includes minority interests in profit of €5.7 million (up from €5.1 million) and in loss of €0.1 million (down from €0.3 million).

(9) Earnings per share

Earnings per share

		2012	2011
Weighted average number of common shares		13,325,290	14,163,364
Weighted number of repurchased shares		(1,331,799)	(1,139,848)
Weighted average shares outstanding		11,993,491	13,023,516
Dilutive effects of LTIP/ESOP options	shares	0	0
Diluted weighted average of shares outstanding		11,993,491	13,023,516
Group earnings	€ mill.	59.2	56.2
Basic/fully diluted EpS	€	**4.94**	**4.32**
thereof from continuing operations	€	4.15	4.32
thereof from discontinued operations	€	0.79	–

Notes to the consolidated statement of cash flows

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

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

The cash outflow for the acquisition of consolidated subsidiaries and other units included inflowing cash and cash equivalents of €5.9 million (up from €0.1 million) netted against cash outflows for prices paid at €20.8 million (up from €17.9 million).

The (entirely noncash) net result from discontinued operations was earned from the release of accruals for the divestment in 2008 of the erstwhile Infrastructure Services business unit, the contra being reflected in noncurrent accruals.

Notes to the consolidated balance sheet

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

(10) Intangible assets

Breakdown of intangible assets

€ million	2012	2011
Goodwill	377.0	359.4
Capitalized development costs	48.0	40.3
Concessions/licenses/property rights	14.2	15.3
Prepayments on intangibles	0.2	0.1
	439.4	**415.1**

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

Pursuant to IFRS 3 in conjunction with IAS 36, goodwill from acquisitions (business combinations) is not amortized but its value tested once annually for impairment as of December 31. To this end, the net book value of a cash-generating unit (CGU) to which goodwill from a business combination has been allocated is contrasted to the fair market value derived from the CGU's expected discounted cash flows (applying a pretax rate of 8.5 percent; down from 9.5) in line with the medium-term (3-year) detailed plan, which is based on empirical data and expected future market trends. While Vossloh's CGUs generally are its business units, the two subunits Vossloh Rail Vehicles and Vossloh Locomotives, which for segment reporting purposes are combined into the Transportation Systems business unit, are treated as separate CGUs in impairment testing. The average annual sales growth rate assumed in this 3-year planning period for each unit is a high single-digit percentage. For periods beyond this planning horizon, the cash flows are updated by assuming an unchanged uniform annual growth rate of one percent to determine value in use. Since the CGUs' fair values (including assigned goodwill) exceed their book values, no goodwill write-down was required; nor would there have been any need for the write-down of major goodwill items to reflect an impairment loss after the discount rate had been raised by half a percentage point or, alternatively, a flat 7.5-percent markdown applied to expected cash flows.

Goodwill breakdown by segment

€ million	2012	2011
Switch Systems	238.3	232.3
Transportation Systems	52.4	52.4
Rail Services	50.9	50.9
Electrical Systems	34.2	22.6
Fastening Systems	1.2	1.2
	377.0	**359.4**

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

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

Concessions (incl. franchises), licenses, and property rights are mostly amortized on a straight-line basis over one to twenty years.

Amortization of intangible assets was charged at €13.9 million to the appropriate functional expenses, cf. Note (2).

Neither in 2012 nor in 2011 was any intangible asset written down.

Movement analysis of intangible assets

€ million	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	Goodwill		Capitalized development costs		Concessions, industrial-property and similar rights and assets, as well as licenses thereto		Prepayments on intangibles		Total intangibles	
Net book value at December 31	**377.0**	**359.4**	**48.0**	**40.3**	**14.2**	**15.3**	**0.2**	**0.1**	**439.4**	**415.1**
At cost:										
Balance at January 1	**359.8**	**355.7**	**70.5**	**56.0**	**50.1**	**47.5**	**0.1**	**0.0**	**480.5**	**459.2**
Changes due to initial consolidation	22.9	4.7	–	–	3.0	1.3	–	–	25.9	6.0
Changes due to derecognition	(4.7)	–	–	–	–	–	–	–	(4.7)	–
Additions (incl. current capex)	–	–	15.1	14.5	2.5	1.2	0.2	0.1	17.8	15.8
Disposals	–	(1.3)	(6.4)	–	(12.6)	(0.3)	–	(0.0)	(19.0)	(1.6)
Book transfers	–	–	1.2	–	(1.1)	0.1	(0.1)	–	0.0	0.1
Currency translation differences	(0.6)	0.7	0.0	–	(0.2)	0.3	–	–	(0.8)	1.0
Balance at December 31	**377.4**	**359.8**	**80.4**	**70.5**	**41.7**	**50.1**	**0.2**	**0.1**	**499.7**	**480.5**
Accumulated amortization and write-down:										
Balance at January 1	**0.4**	**0.5**	**30.2**	**24.5**	**34.8**	**28.0**	**0.0**	**0.0**	**65.4**	**53.0**
Additions	–	–	8.1	5.7	5.8	7.1	–	0.0	13.9	12.8
Disposals	–	–	(6.4)	–	(12.6)	(0.3)	–	–	(19.0)	(0.3)
Book transfers	–	–	0.5	–	(0.5)	–	0.0	–	0.0	–
Currency translation differences	–	(0.1)	–	–	0.0	0.0	–	–	0.0	(0.1)
Balance at December 31	**0.4**	**0.4**	**32.4**	**30.2**	**27.5**	**34.8**	**0.0**	**0.0**	**60.3**	**65.4**

(11) Tangible assets

Breakdown of tangible assets

€ million	2012	2011
Land, equivalent titles, and buildings (incl. on leased land)	65.0	56.2
Production plant and machinery	92.7	90.7
Other plant, factory and office equipment	22.8	21.6
Prepayments on tangibles, construction in progress	25.8	21.8
	206.3	**190.3**

Tangible assets (*a.k.a.* property, plant and equipment) are capitalized at (purchase or production) cost and, if finite-lived, depreciated by straight-line charges over their estimated useful lives, mainly based on the following ranges:

Useful lives of tangible assets	
Buildings	5–50 years
Production plant and machinery	2–33 years
Other plant, factory and office equipment	2–25 years

Where the value of a tangible asset is found impaired, appropriate write-down is charged, none being recognized in either 2012 or 2011. Depreciation of €27.1 million is included within the functional expenses in the income statement.

Movement analysis of tangible assets

€ million	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	Land, equivalent titles, and buildings (incl. on leased land)		Production plant and machinery		Other plant, factory and office equipment		Prepayments on tangibles, construction in progress		Total tangibles	
Net book value at December 31	**65.0**	**56.2**	**92.7**	**90.7**	**22.8**	**21.6**	**25.8**	**21.8**	**206.3**	**190.3**
At cost:										
Balance at January 1	**102.3**	**83.7**	**218.4**	**203.8**	**63.6**	**62.9**	**21.8**	**8.4**	**406.1**	**358.8**
Changes due to initial consolidation	1.6	–	4.8	3.7	0.0	0.0	0.0	0.0	6.4	3.7
Changes due to derecognition	(0.8)	–	(2.4)	–	(0.0)	–	(2.3)	–	(5.5)	–
Additions (incl. current capex)	8.9	8.9	16.0	12.0	7.3	7.4	11.5	21.3	43.7	49.6
Disposals	(0.1)	(1.2)	(1.1)	(2.9)	(1.9)	(2.4)	(0.2)	(0.0)	(3.3)	(6.5)
Book transfers	3.6	10.8	1.8	2.1	0.5	(4.5)	(5.0)	(8.5)	0.9	(0.1)
Currency translation differences	0.0	0.1	0.5	(0.3)	0.1	0.2	0.0	0.6	0.6	0.6
Balance at December 31	**115.5**	**102.3**	**238.0**	**218.4**	**69.6**	**63.6**	**25.8**	**21.8**	**448.9**	**406.1**
Accumulated depreciation and write-down:										
Balance at January 1	**46.1**	**39.7**	**127.7**	**115.4**	**42.0**	**41.7**	**–**	**–**	**215.8**	**196.8**
Changes due to initial consolidation	0.2	–	4.0	–	0.0	–	–	–	4.2	–
Changes due to derecognition	(0.1)	–	(2.0)	–	(0.0)	–	–	–	(2.1)	–
Additions	4.2	3.9	16.2	15.2	6.7	6.0	–	–	27.1	25.1
Disposals	(0.1)	(1.2)	(0.9)	(2.6)	(1.8)	(2.2)	–	–	(2.8)	(6.0)
Book transfers	0.2	3.8	0.0	(0.1)	(0.2)	(3.7)	–	–	0.0	0.0
Currency translation differences	0.0	(0.1)	0.3	(0.2)	0.1	0.2	–	–	0.4	(0.1)
Balance at December 31	**50.5**	**46.1**	**145.3**	**127.7**	**46.8**	**42.0**	**–**	**–**	**242.6**	**215.8**

(12) Investment properties

Movement analysis of investment properties

€ million	2012	2011
Net book values	**4.7**	**6.3**
At cost:		
Balance at January 1	10.5	10.0
Additions	–	0.2
Disposals	(1.8)	–
Book transfers	(0.9)	–
Currency translation differences	0.0	0.3
Balance at December 31	**7.8**	**10.5**
Accumulated depreciation and write-down:		
Balance at January 1	4.2	3.9
Additions	0.3	0.3
Disposals	(1.4)	–
Book transfers	(0.1)	–
Currency translation differences	0.1	0.0
Balance at December 31	**3.1**	**4.2**

Investment properties include nonessential land and buildings partly leased to nongroup lessees. According to IAS 40, buildings owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income in the period came to €1.1 million (virtually unchanged). Expenses (including depreciation, M&R and incidentals) incurred in 2012 for properties leased out totaled €0.7 million (up from €0.6 million), those for other properties amounting to k€22 (down from k€24). The expenses for properties leased out included in 2012 no write-down (down from €0.0 million).

The fair values of investment properties totaled €4.8 million at December 31, 2012, (down from €7.0 million) and are mostly based on current market prices of comparable real estate.

Neither the realization of investment properties, nor the appropriation of any proceeds from their sale are subject to any restriction. The extent of contractual obligations to purchase or develop, or perform any M&R work on, investment properties is altogether insignificant.

(13) Shares in associated affiliates

Details of shareholdings in associated affiliates

€ million	2012	2011
Balance at January 1	**0.9**	**5.5**
Prorated profit/(loss)	0.2	0.6
Dividend distributed	(0.6)	(0.6)
Reclassified	0.0	(4.6)
Balance at December 31	**0.5**	**0.9**
Total assets	3.0	2.7
Total liabilities	2.6	2.1
Net sales	10.0	11.3
Posttax profit	0.2	1.1

These investments refer to the equity interests held in BV Oberflächentechnik GmbH & Co. KG, a Werdohl-based limited partnership, and in Liezen, Austria, based Vossloh MFL Rail Milling GmbH, both carried at equity as associated affiliates since they are subject to Vossloh's significant influence. In line with the equity method, the investment book values of associated affiliates are adjusted for prorated profits or losses, dividends distributed or any other changes in equity.

(14) Other noncurrent financial instruments

Breakdown of other noncurrent financial instruments

€ million	2012	2011
Shares in unconsolidated subsidiaries	4.1	4.8
Interests in joint ventures	0.0	0.0
Shares in other investees	0.9	0.8
Long-term loans	6.2	6.8
Other long-term securities	0.6	0.6
Other noncurrent financial assets	0.2	0.3
	12.0	**13.3**

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

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

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

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

The other financial instruments are valued according to their IAS 39 classification. For the reconciliation of the balance sheet line to the IAS 39 valuation categories, see pages 166 et seq., *Additional disclosures of financial instruments*.

(15) Sundry noncurrent assets

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

(16) Deferred taxes

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

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

Deferred taxes

€ million	2012		2011	
	Deferred tax		Deferred tax	
	assets	liabilities	assets	liabilities
Intangible and tangible assets	0.9	36.1	0.9	31.8
Inventories	3.5	6.3	2.2	7.4
Receivables	1.0	5.6	1.0	4.8
Other assets	0.2	1.6	0.4	2.8
Pension accruals	5.8	0.0	3.2	0.0
Other accruals	32.1	1.9	30.8	1.0
Liabilities	3.2	0.3	4.3	0.2
Other liability items	0.5	0.7	1.7	0.2
	47.2	**52.5**	**44.5**	**48.2**
Loss carryforwards	3.8	–	1.2	–
Recognized deferred taxes	**51.0**	**52.5**	**45.7**	**48.2**

As of December 31, 2012, loss carryforwards of €12.0 million (down from €12.3 million) existed in Germany for corporation income tax purposes and of €5.4 million for municipal trade tax purposes (up from €0.8 million). No taxes were deferred for corporation income tax losses of €8.2 million (up from €7.6 million) and municipal trade tax losses of €5.4 million (up from €0.8 million). According to current German legislation, the carryforward of tax losses is not subject to any limitation or expiration. Non-German companies reported tax loss carryforwards of an additional €12.1 million (down from €15.6 million) for €8.9 million of which (up from €3.6 million) taxes were deferred.

Write-down of €0.9 million was charged to deferred tax assets in 2012 (down from €1.2 million).

(17) Inventories

Breakdown of inventories

€ million	2012	2011
Raw materials and supplies	174.2	165.8
Work in process	117.5	106.3
Merchandise	15.6	18.3
Finished products	28.3	37.6
Prepayments made	29.6	23.5
Total	**365.2**	**351.5**

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

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

In the year under review, write-down of €40.5 million was charged to inventories (up from €29.2 million). The book value of inventories stated at NRV totaled €25.3 million (up from €19.8 million).

As the reasons for previous write-down existed no longer, inventories were written up by €0.6 million (up from €0.5 million) in 2012.

(18) Trade receivables

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

For the current balances of, and the movements in 2012 of allowances for, trade receivables, see the tables below.

Breakdown of trade receivables

€ million	2012	2011
Sundry trade receivables	234.7	239.6
PoC receivables	85.3	113.4
Total	**320.0**	**353.0**

Movement analysis of allowances for trade receivables

€ million	2012	2011
Balance at Jan. 1	**11.3**	**12.3**
Increased due to M&A	0.8	–
Added	4.0	1.9
Released	(3.3)	(1.4)
Utilized	(3.7)	(1.6)
Currency translation differences	0.0	0.1
Balance at Dec. 31	**9.1**	**11.3**

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

PoC receivables and payables

€ million	2012			2011		
	Receivables	Payables	Total	Receivables	Payables	Total
Total PoC contract costs	203.8	735.1	938.9	399.1	415.1	814.2
Profit at PoC	53.6	129.3	182.9	96.9	47.3	144.2
Loss at PoC	(1.2)	(7.9)	(9.1)	(0.9)	(7.3)	(8.2)
Total PoC contract progress	256.2	856.5	1,112.7	495.1	455.1	950.2
Prepayments received/billings under PoC contracts	(170.9)	(1,076.1)	(1,247.0)	(381.7)	(609.6)	(991.3)
Recognized PoC receivables	**85.3**		**85.3**	**113.4**		**113.4**
Recognized PoC payables		**219.6**	**219.6**		**154.5**	**154.5**

(19) Income tax assets

These include €5.0 million of income taxes refundable to companies of the Rail Infrastructure division (up from €4.9 million), plus another €0.7 million to Transportation companies (up from €0.2 million), and €1.3 million to Vossloh AG (down from €2.9 million).

(20) Sundry current assets

Breakdown of sundry current assets

€ million	2012	2011
Non-income tax assets	13.9	10.1
Due from unconsolidated subsidiaries	4.7	3.6
Prepaid expenses and deferred charges	2.6	4.0
Suppliers with debit balances	1.6	1.9
Financial derivatives	1.5	1.6
Security and similar deposits	1.2	2.0
Due from employees	1.1	1.2
Due from investees	1.1	0.4
Short-term loans	0.9	2.5
Interest receivable	0.0	7.1
Miscellaneous	16.2	6.1
Sundry current assets	**44.8**	**40.5**

The *miscellaneous* assets include claims for refund in connection with payments due to antitrust issues. The receivables shown within *sundry current* assets are stated at cost or amortized cost, specific risks being duly and reasonably allowed for.

For the current balances and the movements in 2012 of allowances, see the table below:

Movement analysis of allowances/write-down

€ million	2012	2011
Balance at Jan. 1	**1.7**	**1.1**
Added	0.3	0.7
Released	(0.0)	(0.0)
Utilized	(0.6)	(0.1)
Currency translation differences	0.0	0.0
Balance at Dec. 31	**1.4**	**1.7**

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

For the reconciliation of financial instruments shown as sundry current assets to the IAS 39 valuation categories, see pages 166 et seq., *Additional disclosures of financial instruments*.

(21) Short-term securities

This line reflects monies invested in short-term fixed-income securities €3.6 million (up from €1.0 million) of which is classified as held to maturity and hence carried at cost. The remaining securities of €0.4 million are available for sale and therefore stated at fair value.

For the reconciliation of short-term securities to the IAS 39 valuation categories, see pages 166 et seq., *Additional disclosures of financial instruments*.

(22) Cash and cash equivalents

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

(23) Total equity

For the statement of changes in equity, see page 129.

(23.1) Capital stock

Vossloh AG's capital stock in 2012 amounted to an unchanged €37,825,168.86, divided into 13,325,290 no-par bearer shares of common stock only. One no-par share is equivalent to a notional €2.84 interest in the capital stock.

The AGM of May 20, 2009, authorized new capital of €7,500,000; the authority expires May 19, 2014.

(23.2) Additional paid-in capital

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

Employee bonus program 2012

The employee bonus program 2012 (on terms unchanged versus 2011) offered employees of German Vossloh companies the option of acquiring either two Vossloh shares free or eight shares at a discount of 50 percent of the issue price of €74.19 per share (up from €68.23), determined at market as of the share transfer date. Under this program, Vossloh employees were granted in 2012 altogether 3,392 free shares (up from 3,286) at an expense to the Company of k€257.0 (up from k€249.3).

The treasury stock was repurchased in prior years by virtue of previous AGM authorizations according to Art. 71(1) No. 8 AktG.

(23.3) Treasury stock

At December 31, 2012, altogether 1,326,721 treasury shares were held by Vossloh AG (down from 1,332,529), equivalent to a stake of 9.96 percent (down from 10) in the capital stock, after 5,808 no-par shares had been appropriated to the employee bonus program.

The number of shares issued has remained unchanged in the year under review.

The treasury stock does not entitle Vossloh AG to any rights (to dividends or otherwise) or interests.

Movement analysis of treasury shares

€	2012	2011
Balance at January 1	102,957,566.34	105,762,018.85
Employee bonus program	(448,726.08)	–
Treasury shares repurchased 2009/2010 and redeemed/withdrawn	–	(105,762,018.85)
Treasury stock buyback 2011	–	102,957,566.34
Balance at December 31	102,508,840.26	102,957,566.34

(23.4) Reserves retained from earnings

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

(23.5) Accumulated other comprehensive income

Breakdown of accumulated OCI

€ million	2012	2011
Currency translation differences	6.1	4.8
Statement at fair value of financial derivatives	(2.9)	(2.6)
Actuarial gains/losses from pensions	(5.7)	0.5
Statement at fair value of financial instruments available for sale	0.0	0.0
Deferred taxes on OCI changes	2.5	0.5
Total as of December 31	**0.0**	**3.2**

(23.6) Minority interests

€7.2 million of these refers to shares held by nongroup owners in Vossloh Switch Systems companies (down from €7.4 million), another €7.9 million to minority interests in the Fastening Systems business unit (up from €5.8 million), plus €0.8 million in Vossloh Transportation Systems companies (virtually unchanged).

(24) Pension accruals

Movement analysis of pension accruals

€ million	2012	2011
Opening balance at Jan. 1	16.5	11.7
Adjusted due to changed accounting policy	–	4.9
Adjusted opening balance	16.5	16.6
Utilized	(0.9)	(0.8)
Added	6.8	0.7
Currency translation differences	0.0	0.0
Closing balance at Dec. 31	**22.4**	**16.5**

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

In addition, defined contribution plans exist at certain subsidiaries. These companies are under no obligation to make any pension-related payments other than their contractual contributions to an outside fund, these totaling €11.3 million (up from €10.3 million).

In accordance with IAS 19, the projected unit credit (PUC) method has been used to accrue pension obligations, duly taking into account current capital market rates and anticipating future pay and pension increases.

In 2012 Vossloh exercised the IAS 19 option (as from fiscal 2013 anyway an obligation according to the revised IAS 19) of changing the method of accounting for, by recognizing in OCI, all actuarial gains and losses in the very year of their occurrence, reclassifying them in subsequent periods into the reserves retained from earnings without then recognizing them in the income statement. According to the previous accounting policy, actuarial gains and losses were not recognized in net income unless and until outside a 10-percent corridor of the total annual opening DBO.

Since, according to IAS 8:19(b), this change in accounting policy requires retroactive application, the prior-year comparatives have been restated accordingly. The table below shows the effects on certain financial statement lines for the 2011 periods concerned or their respective closing dates:

€ million	Balance sheet			SOCI	Income statement			
	Pension accruals	Accumula-ted OCI	Deferred tax assets	Actuarial gains/losses on pensions (after deferred taxes)	EBIT	Income taxes	Total net income	EpS (€)
12/31/2010	4.9	(3.4)	1.5					
Q1/2011	(0.3)	0.1	(0.1)	0.1	0.2	(0.1)	0.1	0.78
3/31/2011	4.6	(3.3)	1.4					
Q2/2011	(0.2)	0.0	(0.1)	0.1	0.2	(0.1)	0.1	1.26
H1/2011	(0.6)	0.1	(0.2)	0.2	0.4	(0.1)	0.3	2.05
6/30/2011	4.3	(3.3)	1.3					
Q3/2011	(0.3)	0.1	(0.1)	0.1	0.2	(0.1)	0.1	0.92
9M/2011	(0.9)	0.2	(0.3)	0.3	0.6	(0.2)	0.4	2.96
9/30/2011	4.0	(3.2)	1.2					
Q4/2011	(0.2)	0.0	(0.1)	0.1	0.2	(0.1)	0.1	1.36
FY 2011	(1.1)	0.2	(0.4)	0.4	0.7	(0.2)	0.5	4.30
12/31/2011	3.8	(3.2)	1.1					

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

Independent actuarial opinions and reports underlie the pension accruals recognized.

Assumptions underlying pension liability calculation:

%	2012	2011
Discount rate	3.5	5.0
Expected pension rise	2.0	2.0
Expected pay rise	3.0	3.0
Probable employee turnover rate	6.0	6.0
Expected return on plan assets	3.5	4.5

The pension accrual recognized was derived as follows:

Pension accrual analysis

€ million	2012	2011
Present value of plan-funded DBO	17.3	14.0
Fair value of plan assets	(14.9)	(13.3)
Accrual for plan-funded DBO	**2.4**	**0.7**
Present value of plan-unfunded DBO	20.0	15.8
Accrual for plan-unfunded DBO	**20.0**	**15.8**
Recognized pension accrual	**22.4**	**16.5**

Movement analysis of the present value of the DBO:

Movement analysis of the present value of the DBO

€ million	2012	2011
Balance at Jan. 1	29.8	29.8
Service cost	0.6	0.7
Interest cost	1.4	1.3
Actuarial gains/losses	6.8	(0.8)
Beneficiaries' contributions	0.1	0.1
Pension payments	(1.4)	(1.4)
Currency translation differences	0.0	0.1
Balance at Dec. 31	**37.3**	**29.8**

The fair value of plan assets presented the following movements:

Movement analysis of plan assets

€ million	2012	2011
Balance at Jan. 1	13.3	13.1
Asset ceiling effect	0.9	(0.4)
Expected return on plan assets	0.6	0.5
Actuarial gains/losses	0.3	0.1
Employer contributions	0.1	0.1
Beneficiaries' contributions	0.1	0.1
Pension payments	(0.4)	(0.3)
Currency translation differences	0.0	0.1
Balance at Dec. 31	**14.9**	**13.3**

Pension expense was recognized in the income statement as follows:

Breakdown of total annual pension expense

€ million	2012	2011
Current service cost	0.6	0.7
Interest cost	1.4	1.3
Expected return on plan assets	(0.6)	(0.5)
Total annual expense	**1.4**	**1.5**

Current service cost and the expected return on plan assets are part of personnel expenses within the functional expense categories concerned, while interest cost is shown within net interest expense. The present value of the DBO is covered by the fair value of plan assets as follows:

5-year comparative analysis of present/fair values

€ million	2012	2011	2010	2009	2008
Present value of the DBO	37.3	29.8	29.8	25.1	21.4
Fair value of plan assets	(14.9)	(13.3)	(13.1)	(9.5)	(7.5)
Plan-unfunded obligation	**22.4**	**16.5**	**16.7**	**15.6**	**13.9**

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

5-year comparative analysis of empirical adjustments

€ million	2012	2011	2010	2009	2008
Empirical adjustments of plan assets	0.3	0.1	2.6	0.4	(1.5)
Empirical adjustments of pension obligations	(0.1)	0.1	(0.3)	0.1	0.0

Plan assets returned in 2012 an actual 4.1 percent.

The following effects were reflected in OCI in 2012:

Effects recognized in OCI:

€ million	2012	2011
Actuarial gains/(losses)	(6.6)	0.6
Asset ceiling	0.9	(0.4)
Total as of Dec. 31	(10.2)	(4.5)

The aggregate total actuarial gains/losses and asset ceiling effects recognized within accumulated OCI came to a red €10.2 million (up from an equally red €4.5 million).

(25) Other accruals

Breakdown of other accruals

€ million	2012	2011
Personnel-related	12.3	11.3
Accrued trade payables	2.3	3.8
Warranty obligations and follow-up costs	25.6	22.8
Litigation risks and impending losses	8.8	8.7
Sundry	11.2	13.4
Other noncurrent accruals	**60.2**	**60.0**
Personnel-related	27.0	26.1
Accrued trade payables	27.9	20.6
Warranty obligations and follow-up costs	53.5	66.7
Litigation risks and impending losses	28.5	30.2
Sundry	19.3	19.3
Other current accruals	**156.2**	**162.9**
	216.4	**222.9**

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

The maximum risk inherent in accrued obligations is €36.1 million above those recognized in the balance sheet (up from €28.8 million). Additional risks of €8.5 million (up from €0.1 million) exist as below-the-line items but are not provided for since their probability is below 50 percent.

Personnel-related accruals provide for obligations to pay profit shares, bonuses, vacation and employment anniversary allowances, as well as for preretirement part-time work. The accrued trade payables account for goods or services received but not yet billed.

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

Movement analysis of accruals

€ million	Opening balance at 1/1/2012	Added upon initial consolida-tion	Reversed upon derecog-nition	Utilized	Re-leased/ reversed	Provided for	Inter-est effect	Currency translation differences	Closing balance at 12/31/2012
Personnel-related	37.4	0.2	(0.1)	(24.5)	(0.3)	26.5	0.0	0.1	39.3
Accrued trade payables	24.4	0.1	(0.1)	(11.3)	(1.1)	18.2	0.0	0.0	30.2
Warranty obligations and follow-up costs	89.5	0.0	(0.0)	(18.6)	(12.6)	21.7	(1.1)	0.2	79.1
Litigation risks and impending losses	38.9	0.0	(0.0)	(2.4)	(6.1)	7.0	0.0	(0.1)	37.3
Sundry	32.7	0.0	(0.0)	(10.4)	(11.8)	20.0	0.0	0.0	30.5
Other accruals	**222.9**	**0.3**	**(0.2)**	**(67.2)**	**(31.9)**	**93.4**	**(1.1)**	**0.2**	**216.4**

(26) Liabilities

Aged breakdown of liabilities

€ million	2012	2011	2012	2011	2012	2011	2012	2011
Remaining term	≤1 year		>1–5 years		>5 years		Total	
Financial debts	85.8	137.2	183.4	186.0	1.5	3.8	270.7	327.0
Trade payables	349.4	314.5	8.0	8.2	0.0	0.0	357.4	322.7
Income tax liabilities	7.7	7.0	0.0	0.7	0.0	0.0	7.7	7.7
Other liabilities	64.2	67.0	26.1	21.3	0.0	0.0	90.3	88.3
	507.1	**525.7**	**217.5**	**216.2**	**1.5**	**3.8**	**726.1**	**745.7**

(26.1) Financial debts

Breakdown of financial debts

€ million	2012	2011
US private placement	181.8	185.1
Other long-term debts to banks	3.1	4.5
Long-term capital leases	0.0	0.2
Noncurrent financial debts	**184.9**	**189.8**
Short-term debts to banks	85.3	136.6
Interest payable	0.4	0.4
Short-term capital leases	0.1	0.0
Short-term notes payable	–	0.2
Current financial debts	**85.8**	**137.2**
Total financial debts	**270.7**	**327.0**

Financial debts are throughout carried at amortized cost. The US private placement is treated as the underlying in a fair value hedge against currency risks inherent in the principal. For the reconciliation of the financial debts to the IAS 39 valuation categories, see pages 166 et seq., *Additional disclosures of financial instruments*.

Under a US private placement agreement, debt of a total $240.0 million was raised in 2004 from the capital market, comprising one loan each of $140.0 million and $100.0 million; they both have a bullet maturity, their remaining terms being 1.5 and 3.5 years, respectively. Since payment of principal and interest has entirely been hedged by euro-denominated swaps, Vossloh has ensured that both loans carry interest at fixed euro rates of 5.325 and 5.455 percent, respectively. The €181.8 million debt disclosed as of December 31, 2012, corresponds to the dollar debt carried at amortized cost and translated at the current closing rate. Including the currency hedge within other liabilities, the hedged repayment sum totals €203.9 million.

In connection with the US private placement, Vossloh AG has *inter alia* covenanted that, if and when defined long-term indicators (interest coverage, leverage, amount of stockholders' equity) cross above or below agreed thresholds, the interest rate is stepped up or the loan principal may fall due. Vossloh has complied with all such covenants at each balance sheet date. In addition, similar covenants have been signed by two US subsidiaries in the context of bank credit facilities only part of which was utilized as of December 31, 2012. These covenants have likewise been complied with in both 2012 and 2011.

The payables under capital leases are recognized at the present value of the lease payments and owed under leases for capital goods within Vossloh Rail Services. The net book values of the capitalized tangible assets totaled €0.3 million (up from €0.2 million).

The minimum lease payments show the following maturity pattern:

Capital leases

€ million	2012			2011		
	Principal	Discount	Present value	Principal	Discount	Present value
Due ≤1 year	0.1	0.0	0.1	0.1	0.0	0.1
Due >1–5 years	0.1	0.1	0.0	0.1	0.0	0.1
	0.2	**0.1**	**0.1**	**0.2**	**0.0**	**0.2**

(26.2) Trade payables

Breakdown of trade payables

€ million	2012	2011
Trade payables to suppliers	137.8	168.2
PoC payables	219.6	154.5
Total	**357.4**	**322.7**

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

(26.3) Income tax liabilities

The line reflects the income taxes owed by various group companies as of December 31, 2012.

(26.4) Other liabilities

Breakdown of other liabilities

€ million	2012	2011
Financial derivatives from fair value hedges	21.9	18.4
Financial derivatives from cash flow hedges	2.1	2.2
Prepayments received	0.1	0.1
Noncurrent deferred income	2.0	0.6
Noncurrent other liabilities	**26.1**	**21.3**
Prepayments received	32.2	20.2
Due to employees	6.6	5.8
VAT payable	5.5	11.7
Statutory Social Security and Health Insurance	5.4	5.3
Other non-income taxes	4.5	5.5
Due to unconsolidated subsidiaries (nontrade)	1.7	2.2
Financial derivatives from fair value hedges	0.8	6.2
Financial derivatives from cash flow hedges	0.5	1.9
Customers with credit balances	0.2	1.1
Commissions	0.2	0.3
Sundry	6.6	6.8
Current other liabilities	**64.2**	**67.0**
	90.3	**88.3**

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

The financial derivatives shown as FVH at €21.9 million (up from €18.4 million) under *noncurrent liabilities* reflect the fair values of the cross-currency swaps hedging the repayment under the US private placement agreement. For the reconciliation of *other liabilities* to the IAS 39 valuation categories, see pages 166 et seq., *Additional disclosures of financial instruments*.

The prepayments received, shown at €32.3 million as *other liabilities*, do not refer to PoC contracts. In accordance with IAS 19, the current liabilities to employees are recognized at the undiscounted amount owed.

Notes to the segment reports

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

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

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

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

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

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

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

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

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

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

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

The major noncash segment expenses reflect provisions.

In the analysis of its results of operations in the management report, the Vossloh Group reports the pretax value added (VA) as a key performance indicator. Besides this pretax VA used for internal controlling purposes, also the posttax value added is communicated in external reports at group and division levels, based on the current WACC—5.2 percent posttax for fiscal 2012—in order to disclose the actual value trend of relevance to stockholders.

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

Reconciliation of VA to recognized EBIT:

€ million	2012	2011
Value added	15.4	16.1
Cost of capital employed (10 percent WACC)	82.1	81.1
EBIT	**97.5**	**97.2**

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

Segment information by region

€ million	2012	2011	2012	2011
	Net external sales		Noncurrent assets	
Germany	260.1	260.3	209.4	197.2
France	138.6	128.2	208.3	206.3
Other Western Europe	125.4	101.8	39.2	18.9
Northern Europe	84.8	86.4	11.1	11.5
Southern Europe	121.2	199.0	85.1	84.3
Eastern Europe	66.1	59.3	6.0	5.0
Total Europe	**796.2**	**835.0**	**559.1**	**523.2**
Americas	124.8	102.2	47.7	45.8
Asia	262.7	187.0	33.9	31.0
Africa	18.3	39.2	0.0	0.0
Australia	34.0	27.9	11.9	12.1
Total	**1,236.0**	**1,191.3**	**652.6**	**612.1**

Additional disclosures of financial instruments

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

Straight financial instruments

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

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

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

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

Financial assets a*vailable for sale* are likewise remeasured and carried at fair value but the resulting gains/losses are recognized in OCI if their fair value is reliably quantifiable. This category mainly includes securities other than loans, receivables or FI held to maturity. €1.0 million of financial instruments available for sale is carried at cost (virtually unchanged).

Derivative financial instruments

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

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

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

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

Financial derivatives			Fair value	Notional volume	Fair value	Notional volume
€ million			2012		2011	
Cross-currency swaps (USPP)	Time to maturity	≤1 year	–	–	–	–
		>1–5 years	(23.8)	203.9	(20.2)	203.9
		>5 years	–	–	–	–
			(23.8)	**203.9**	**(20.2)**	**203.9**
Currency forwards	Time to maturity	≤1 year	0.6	109.7	(7.5)	201.4
		>1–5 years	(0.5)	18.2	(0.4)	1.9
		>5 years	–	–	–	–
			0.1	**127.9**	**(7.9)**	**203.3**
Total			**(23.7)**	**331.8**	**(28.1)**	**407.2**

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

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

Book values (BV), valuation categories and fair values (FV) of FI as of December 31, 2012

€ million	Recognized BV at 12/31/2012	Measured acc. to IAS 39			FV at 12/31/2012
		at amortized cost	at FV through OCI	at FV through IS	
Trade receivables	**320.0**				
loans and receivables	320.0	320.0			320.0
Securities	**4.0**				
held to maturity	3.6	3.6			3.6
held for trading	0.0			0.0	0.0
available for sale	0.4		0.4		0.4
Other FI and sundry assets	**59.0**				
loans and receivables	26.9	26.9			26.9
held to maturity	0.0				0.0
held for trading	0.0			0.0	0.0
available for sale	1.4	1.0	0.4	0.0	1.4
derivatives in hedges (no IAS 39:9 category)	1.5	0.0	0.1	1.4	1.5
not covered by IAS 39	29.2				–
Total financial assets	**383.0**	**351.5**	**0.9**	**1.4**	**353.8**
Financial debts	**270.7**				
loans and receivables	270.6	270.6			270.6
capital leases (not covered by IAS 39)	0.1				–
Trade payables	**357.4**				
loans and receivables	357.4	357.4			357.4
Other liabilities	**90.3**				
loans and receivables	46.6	46.6			46.6
derivatives in hedges (no IAS 39:9 category)	25.3		2.7	22.6	25.3
not covered by IAS 39	18.4				–
Total financial payables	**718.4**	**674.6**	**2.7**	**22.6**	**699.9**

Neither the 2012 nor the 2011 table includes any cash or cash equivalents since these financial instruments belong in no IAS 39 valuation category.

Summary by IAS 39 valuation category

€ million	Recognized BV at 12/31/2012	Measured acc. to IAS 39 at amortized cost	Measured acc. to IAS 39 at FV through OCI	Measured acc. to IAS 39 at FV through IS	FV at 12/31/2012
Financial assets					
loans and receivables	346.9	346.9			346.9
held to maturity	3.6	3.6			3.6
held for trading	0.0			0.0	0.0
available for sale	1.8	1.0	0.8		1.8
Total financial assets	**352.3**	**351.5**	**0.8**	**0.0**	**352.3**
Financial payables					
loans and receivables	674.6	674.6			674.6
Total financial payables	**674.6**	**674.6**	**–**	**–**	**674.6**

Book values (BV), valuation categories and fair values (FV) of FI as of December 31, 2011

€ million	Recognized BV at 12/31/2011	Measured acc. to IAS 39			FV at 12/31/2011
		at amortized cost	at FV through OCI	at FV through IS	
Trade receivables	**353.0**				
loans and receivables	353.0	353.0			353.0
Securities	**2.8**				
held to maturity	1.0	1.0			1.0
held for trading	0.0			0.0	0.0
available for sale	1.8		1.8		1.8
Other FI and sundry assets	**54.3**				
loans and receivables	27.6	27.6			27.6
held to maturity	0.0	0.0			0.0
held for trading	0.0			0.0	0.0
available for sale	1.4	1.0	0.4		1.4
derivatives in hedges (no IAS 39:9 category)	1.6		1.4	0.2	1.6
not covered by IAS 39	23.7				–
Total financial assets	**410.1**	**382.6**	**3.6**	**0.2**	**386.4**
Financial debts	**327.0**				
loans and receivables	326.8	326.8			326.8
capital leases (not covered by IAS 39)	0.2				–
Trade payables	**322.7**				
loans and receivables	322.7	322.7			322.7
Other liabilities	**88.3**				
loans and receivables	35.2	35.2			35.2
derivatives in hedges (no IAS 39:9 category)	28.6		4.1	24.5	28.6
not covered by IAS 39	24.5				–
Total financial payables	**738.0**	**684.7**	**4.1**	**24.5**	**713.3**

Summary by IAS 39 valuation category

€ million	Recognized BV at 12/31/2011	Measured acc. to IAS 39			FV at 12/31/2011
		at amortized cost	at FV through OCI	at FV through IS	
Financial assets					
loans and receivables	380.6	380.6			380.6
held to maturity	1.0	1.0			1.0
held for trading	0.0			0.0	0.0
available for sale	3.2	1.0	2.2		3.2
Total financial assets	**384.8**	**382.6**	**2.2**	**0.0**	**384.8**
Financial payables					
loans and receivables	684.7	684.7			684.7
Total financial payables	**684.7**	**684.7**	**–**	**–**	**684.7**

Due to the short time to maturity, the fair value of trade receivables, cash, cash equivalents, other receivables and assets substantially equals as of December 31 their book value.

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

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

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

Assignment to IFRS 7 fair value hierarchy levels

€ million	Level 1: input of quoted prices	Level 2: input of observable market data	Level 3: no input of observable market data
Financial assets at fair value			
held for trading	0.0		
available for sale		0.8	
derivatives in hedges		1.5	
Total	**0.0**	**2.3**	
Financial payables at fair value			
derivatives in hedges		25.3	
Total		**25.3**	

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

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

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

€ million	Loans and receivables	FI held to maturity	FI held for trading	FI available for sale	2012	2011
Net gains/(losses) from:						
Interest	(14.6)	0.5	(0.1)	0.0	(14.2)	(12.4)
Remeasurement						
allowances/write-down	0.2	0.3	0.0	0.2	0.7	0.8
currency translation	0.0	–	–	–	0.0	2.7
at fair value	–	–	0.0	–	0.0	–
Disposal	0.0	–	–	0.0	0.0	1.7
Total	**(14.4)**	**0.8**	**(0.1)**	**0.2**	**(13.5)**	**(7.2)**

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

Gains from the statement at fair value of financial assets available for sale were recognized in 2012 at €0.0 million in OCI (virtually unchanged).

In fiscal 2012, a €3.3 million gain (down from €4.8 million) on the lower euro equivalent of the dollar-denominated debt as the underlying in the fair value hedge contrasted with a same-amount loss from the hedging derivative's remeasured fair value.

When the dollar interest payments fell due in 2012, unrealized net gains of €0.2 million (down from €0.7 million), previously accumulated in OCI and corresponding to the hedging cross-currency swap's fair value change, were recycled from equity to interest expense.

Financial risk management

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

For details of potential market risks, see the management report on pages 103 et seq.

Liquidity risks

Vossloh manages its liquidity risks (i.e., that the Group is not able at all times to meet its payment obligations) through a rolling cash budget and a central cash management system. As of the end of the year under review, cash, cash equivalents and readily salable securities of €69.9 million were at the Group's disposal, besides additional, unutilized credit facilities of €273.7 million to satisfy any future cash requirements. The table below shows the contractual undiscounted payments of principal and interest for financial payables:

Aged analysis of principal and interest payments as of December 31, 2012

€ million	within 1 year		>1–5 years		>5 years	
	principal	interest	principal	interest	principal	interest
Straight financial payables	(85.3)	(12.5)	(183.4)	(14.9)	(1.5)	0.0
Derivative financial payables	(1.0)		(24.3)		0.0	
Derivative financial assets	1.6					

Currency risks

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

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

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

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

If US dollar rates	€1.00 = $	FV of recognized hedges in € million[1]		FV change of financial debt from USPP in € million[2]
		CFH	FVH	
rise 10 percent	1.45	(4.1)	(38.4)	38.4
remain at the 12/31/2012 current rate	1.32	(2.2)	(21.9)	21.9
fall 10 percent	1.19	0.3	(1.6)	1.6

[1]Before deferred taxes
[2]Change vs. the hedged principal repayment of €203.9 million

Interest rate risks

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

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

The fair value of derivatives used for hedging against currency and interest rate risks, as well as the hedged principal (notional volume) of the underlyings are detailed in the notes to financial instruments (page 168).

Credit risks

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

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

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

Portfolio of gross current receivables

€ million	Receivables neither past due nor impaired	Receivables neither past due nor impaired	Impaired receivables*	Gross value of receivables
Trade receivables				
2012	259.2	62.7	7.2	329.1
2011	270.5	78.9	14.9	364.3
Other				
2012	44.5	0.5	1.4	46.4
2011	41.0	0.0	1.2	42.2

* This is the gross balance of impaired trade receivables, the specific bad-debt allowances charged to these totaling €6.9 million (down from €11.3 million).

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

Receivables not impaired but past due for

€ million	≤1 month	>1–3 months	>3–6 months	>6–12 months	>12 months	Total
Trade receivables						
2012	34.0	16.2	4.5	2.7	5.3	**62.7**
2011	19.9	17.2	21.8	11.5	8.5	**78.9**
Other						
2012	0.0	0.0	0.5	0.0	0.0	**0.5**
2011	0.0	0.0	0.0	0.0	0.0	**0.0**

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

The maximum loss on default from all financial assets (VaR) equals their book value (cf. the analysis on page 169).

Further disclosures

Contingent liabilities

As of December 31, 2012, total contingent liabilities were down by €2.6 million to €12.7 million. The Group has incurred contingent liabilities under guaranties/suretyships at €9.3 million (including €7.5 million in favor of unconsolidated subsidiaries), and for the collateralization of third-party debts at €3.4 million (including €1.3 million allocable to unconsolidated subsidiaries). The risk of an enforcement of any of these contingent liabilities is not considered likely.

Other financial obligations

The obligations under purchase contracts or firm commitments for buying tangible/intangible assets totaled €38.3 million (up from €16.6 million). The minimum undiscounted future payments under operating and similar leases came to €68.2 million (up from €54.6 million), those under operating leases alone falling due as follows:

Financial obligations under operating leases

€ million	2012	2011
due ≤1 year	8.2	7.7
due >1–5 years	12.2	16.9
due after 5 years	0.0	0.0
	20.4	**24.6**

Financial obligations under similar leases

€ million	2012	2011
due ≤1 year	10.9	7.5
due >1–5 years	26.1	20.3
due after 5 years	10.7	3.7
	47.7	**31.5**

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

Lease payments recognized in expense

€ million	2012	2011
Expense for minimum lease payments	8.7	9.4
Expense for contingent rent	0.0	0.0
Income from subleases	8.0	8.3

Future minimum payments of €20.0 million are expected as income under noncancelable subleases (down from €21.8 million).

Joint ventures

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

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

€ million	2012	2011
Current assets	20.9	28.1
Noncurrent assets	20.8	17.6
Current liabilities	11.1	9.4
Noncurrent liabilities	0.0	0.0
Income	19.8	32.5
Expenses	19.0	28.6

Related parties

Vossloh AG as top-tier controlling parent is at the helm of the Vossloh Group. The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated subsidiaries, joint ventures and associated affiliates. The related entities (unconsolidated companies, joint ventures, associated affiliates) are all itemized in the list of shareholdings on page 182 et seq.

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

In addition, Mr. Heinz Hermann Thiele is deemed a related individual. Since he indirectly controls the companies of the Knorr Bremse Group, these are likewise treated as related parties. Transactions with Knorr Bremse companies in 2012 included materials sourced for €10.3 million, revenue at €1.1 million, receivables as of December 31, 2012, at €0.3 million, and trade payables of €2.0 million.

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

€ million	2012	2011
Sale/purchase of goods		
Net sales of finished goods/WIP	7.3	5.9
Cost of sales of finished goods/WIP purchased	1.1	0.9
Trade receivables	0.9	2.4
Trade payables	0.5	0.7
Prepayments received	–	0.1
Sale/purchase of other assets		
Receivables from the sale of other assets	0.0	0.0
Payables for the purchase of other assets	1.2	1.1
Services provided/purchased		
Income from services provided	2.3	2.2
Expenses for services purchased	4.8	3.9
Leases		
Expenses for operating leases	0.5	0.9
Licenses		
License income	–	0.0
License expenses	1.5	0.5
Finance		
Interest income from loans granted	0.1	0.0
Interest expense for loans raised	0.0	0.0
Receivables under loans	5.3	4.3
Guaranties/collateral furnished		
Bonds/guaranties furnished	7.4	6.8
Other collateral furnished	1.3	1.3

Active Supervisory Board members will receive short-term benefits of k€451.5 for the year under review (up from k€440.4). For an itemized breakdown by member of this total and further details of the remuneration system, see the Board Compensation Report (an integral part of the Vossloh Group's combined management report).

Executive Board remuneration

€ million	2012	2011
Short-term benefits	2.1	2.0
Postretirement benefits	0.5	0.4

Former Executive Board members received in 2012 a total k€643.5 (up from k€606.5). Pension obligations to former Executive and Management Board members and their surviving dependants were accrued in full at €11.9 million (up from €11.6 million) and are largely plan-funded.

Statutory auditor's fees

The following fees for services rendered by the statutory group auditor, BDO AG Wirtschaftsprüfungsgesellschaft, as well as by firms of BDO AG's international network were recognized as expense in 2012:

€ million	2012	2011
Statutory audits	1.2	1.1
Other certification or verification services	0.9	0.4
Tax consultancy	0.8	0.7
Other services	0.0	0.0
	2.9	**2.2**

In fiscal 2012, the group auditor's fees include a virtually unchanged €0.4 million for statutory audits, €0.9 million for other certification or verification services (up from €0.4 million) plus €0.7 million for tax consultancy (virtually unchanged).

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

German Corporate Governance Code

In December 2012 the Executive and Supervisory Boards issued, and made available to the stockholders long term on the Group's website, the declaration of conformity pursuant to Art. 161 AktG.

Group companies and investees

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

List of shareholdings

€ million		Footnote	Shareholding in %	through ( )	Consolida-tion[1]	Equity[2]	Net income/(loss)[2]
(1)	**Vossloh AG, Werdohl**				(c)		
(2)	Vossloh International GmbH, Werdohl		100.00	(1)	(c)		
(3)	Vossloh US Holding Inc., Wilmington, USA		100.00	(2)	(c)		
(4)	Vossloh Australia Pty. Ltd., Sydney, Australia		100.00	(1)	(c)		
(5)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(c)		
	Rail Infrastructure division						
(6)	Vossloh France SAS, Paris, France		100.00	(1)	(c)		
	Fastening Systems business unit						
(7)	Vossloh-Werke GmbH, Werdohl	3	100.00	(1)	(c)		
(8)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(7)	(c)		
(9)	Vossloh Werdohl GmbH, Werdohl	3	100.00	(7)	(c)		
(10)	Vossloh Tehnică Feroviară SRL, Bucharest, Romania	4	100.00	(7)	(u)	0.1	0.0
(11)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(7)	(u)	1.3	0.1
(12)	Vossloh Sistemi Srl, Sarsina, Italy		100.00	(7)	(c)		
(13)	Patil-Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4,6	51.00	(7)	(u)	0.1	0.1
(14)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(7)	(e)	0.6	0.5
(15)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(7)	(u)	0.0	0.0
(16)	Vossloh Maschinenfabrik Deutschland GmbH, Werdohl	4	100.00	(7)	(u)	1.4	0.1
(17)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(7)	(c)		
(18)	Vossloh Rail Technologies Ltd. Şti., Istanbul, Turkey		99.5/0.50	(7/8)	(c)		
(19)	Feder-7 Kft., Székesféheryár, Hungary	4	96.67/3.33	(7/8)	(u)	0.4	0.1
(20)	Vossloh Fastening Systems America Corp., Chicago, USA		100.00	(7)	(c)		
(21)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China		68.00	(7)	(c)		
(22)	Vossloh-Werke International GmbH, Werdohl		100.00	(7)	(c)		
(23)	Beijing China Railways Vossloh Technology Co., Ltd., Beijing, China		49.00	(7)	(u)	1.4	0.4
(24)	Vossloh Fastening Systems Southern Africa Pty. Ltd., Johannesburg, South Africa	4,7	100.00	(99)	(u)	0.0	0.0
	Switch Systems business unit						
(25)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(6)	(c)		
(26)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(25)	(c)		
(27)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(28)	(c)		
(28)	Vossloh Nordic Switch Systems AB, Örebro, Sweden		100.00	(25)	(c)		
(29)	KIHN SA, Rumelange, Luxembourg		89.21	(25)	(c)		
(30)	DDL SA, Rodange, Luxembourg		100.00	(29)	(c)		
(31)	Vossloh Laeis GmbH, Trier		100.00	(29)	(c)		
(32)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(25)	(c)		
(33)	Amurrio Ferrocarril y Equipos SA, Amurrio, Spain		50.00	(25)	(p)		
(34)	Montajes Ferroviarios srl, Amurrio, Spain	4	100.00	(33)	(u)	0.5	0.0
(35)	Burbiola SA, Amurrio, Spain		50.00	(33)	(u)	1.2	(0.2)
(36)	VTS Track Technology Ltd., Scunthorpe, UK		100.00	(25)	(c)		
(37)	Vossloh Cogifer Italia Srl, Pomezia, Italy		100.00	(25)	(c)		
(38)	Cogifer Polska Sp. z o.o., Bydgoszcz, Poland		92.90	(25)	(c)		
(39)	ATO-Asia Turnouts Limited, Bangkok, Thailand		51.00	(25)	(c)		
(40)	Cogifer Services (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia		100.00	(25)	(c)		
(41)	Cogifer Americas, Inc., Cincinnati, USA	4	100.00	(25)	(u)	0.0	0.0
(42)	Siema Applications SAS, Villeurbanne, France		100.00	(25)	(c)		
(43)	Vossloh Min Skretnice AD, Niš, Serbia		100.00	(25)	(c)		
(44)	J.S. Industries Pvt. Ltd., Secunderabad, India	4,6	100.00	(25)	(u)	0.9	0.1
(45)	Vossloh Beekay Castings Ltd., Bhilai, India	6	60.00	(25)	(c)		
(46)	Dakshin Transtek Pvt. Ltd., Bangalore, India	4,6	100.00	(44)	(u)	(0.1)	0.0
(47)	Vossloh Track Material, Inc., Wilmington, USA		100.00	(3)	(c)		
(48)	Cleveland Track Material Inc., Cleveland, USA		100.00	(3)	(c)		
(49)	Vossloh Cogifer Australia Pty. Ltd., Sydney, Australia		100.00	(4)	(c)		
(50)	Vossloh Sportek A/S, Århus, Denmark		100.00	(28)	(c)		
(51)	Vossloh Cogifer Kloos BV, Rotterdam, Netherlands		100.00	(25)	(c)		
(52)	Global Rail Systems, Inc., Marlin, USA		84.20	(3)	(c)		
(53)	Vossloh France International SAS, Rueil-Malmaison, France	4	100.00	(6)	(u)	0.0	0.1
(54)	Wuhu China Railway Cogifer Track Co., Huo Long Gang Town, China		50.00	(25)	(p)		
(55)	'J' Rail Components & Manufacturing, Inc., Grass Valley, USA		100.00	(3)	(c)		
(56)	Vossloh Signaling USA Inc., Cleveland, USA	5	100.00	(3)	(c)		
(57)	Vossloh Cogifer Argentina SA, Buenos Aires, Argentina	4	90.00/10.00	(25/26)	(u)	0.1	(0.1)
(58)	ADIF SE – Vossloh Cogifer Argentina SA Consorcio de Cooperación, Buenos Aires, Argentina	4	51.00	(57)	(u)	0.5	0.0
(59)	Vossloh Cogifer SP Technologies BV, Amsterdam, Netherlands	4	50.00	(25)	(u)	0.0	0.0
(60)	Vossloh Cogifer Southern Africa Pty. Ltd., Johannesburg, South Africa	4,7	100.00	(99)	(u)	0.0	0.0

	€ million	Footnote	Shareholding in %	through ( )	Consolida-tion[1]	Equity[2]	Net income/(loss)[2]
	Rail Services business unit						
(61)	Vossloh Rail Services GmbH, Seevetal	3	100.00	(1)	(c)		
(62)	Stahlberg Roensch GmbH, Seevetal	3	100.00	(61)	(c)		
(63)	Vossloh Rail Center Nürnberg GmbH, Nürnberg	3	100.00	(62)	(c)		
(64)	Vossloh Rail Center Bützow GmbH, Bützow	3	100.00	(62)	(c)		
(65)	Vossloh Rail Center Leipzig GmbH, Seevetal	3	100.00	(62)	(c)		
(66)	GTS Gesellschaft für Gleistechnik Süd mbH, Seevetal	3	100.00	(62)	(c)		
(67)	Vossloh Rail Center Hamburg GmbH, Hamburg	3	100.00	(62)	(c)		
(68)	Alpha Rail Team GmbH & Co. KG, Berlin		50.00	(62)	(p)		
(69)	Alpha Rail Team Verwaltungs GmbH, Berlin		50.00	(62)	(u)	0.0	0.0
(70)	LOG Logistikgesellschaft Gleisbau mbH, Hannover	3	100.00	(61)	(c)		
(71)	Vossloh Ray Hizmetleri Limited Şirketi, Istanbul, Turkey		99.5/0.5	(62/61)	(c)		
(72)	Vossloh High Speed Grinding GmbH, Seevetal	3	100.00	(61)	(c)		
(73)	Vossloh Mobile Rail Services GmbH, Seevetal	3	100.00	(62)	(c)		
(74)	Vossloh Rail Services International GmbH, Seevetal	5	100.00	(61)	(c)		
(75)	Vossloh MFL Rail Milling GmbH, Liezen, Austria		50.00	(74)	(e)	(0.2)	(0.3)
(76)	Vossloh Rail Services Scandinavia AB, Helsingborg, Sweden	5	100.00	(74)	(c)		
(77)	Vossloh Rail Services North America Corporation, Dover, USA	5	100.00	(3)	(u)	0.0	0.0
	Transportation division						
	Transportation Systems business unit						
(78)	Vossloh Locomotives GmbH, Kiel	3	100.00	(1)	(c)		
(79)	Locomotion Service GmbH, Kiel	3	100.00	(78)	(c)		
(80)	Vossloh España SA, Valencia, Spain		100.00	(1)	(c)		
(81)	Erion Mantenimiento Ferroviario SA, Madrid, Spain		51.00	(80)	(c)		
(82)	Vossloh Locomotives France SAS, Antony, France		100.00	(78)	(c)		
(83)	Erion France SA, Arc-lès-Gray, France	5	100.00	(81)	(c)		
	Electrical Systems business unit						
(84)	Vossloh Kiepe GmbH, Düsseldorf	3	100.00	(1)	(c)		
(85)	Vossloh Kiepe Beteiligungs GmbH, Düsseldorf	3	100.00	(84)	(c)		
(86)	Vossloh Kiepe Ges.mbH, Vienna, Austria		100.00	(85)	(c)		
(87)	Vossloh Kiepe Corporation, Vancouver, Canada	4	100.00	(85)	(u)	0.7	0.2
(88)	Vossloh Kiepe Srl, Cernusco sul Naviglio, Italy	4	100.00	(85)	(u)	0.1	0.0
(89)	Vossloh Kiepe Sp. z o.o., Kraków, Poland	4	99.00/1.00	(84/85)	(u)	0.0	0.0
(90)	Vossloh Kiepe Main Line Technology GmbH, Düsseldorf	3	100.00	(85)	(c)		
(91)	APS electronic AG, Niederbuchsiten, Switzerland		100.00	(85)	(c)		
(92)	Vossloh Kiepe Inc., Alpharetta, USA	4	100.00	(3)	(u)	(1.0)	(0.2)
(93)	Vossloh Kiepe Limited, Birmingham, UK	5	100.00	(85)	(c)		
(94)	Vossloh Kiepe UK Limited, Birmingham, UK	5	100.00	(93)	(c)		
(95)	Vossloh Kiepe Southern Africa Pty. Ltd., Johannesburg, South Africa	4,7	100.00	(99)	(u)	0.0	0.0
(96)	Heiterblick Projektgesellschaft mbH, Leipzig		49.00	(85)	(u)	0.0	0.0
	Other companies						
(97)	Vossloh-Schwabe Australia Pty. Ltd., Sydney, Australia	4	100.00	(4)	(u)	1.1	0.0
(98)	Vossloh Track Systems GmbH, Werdohl	4	100.00	(1)	(u)	0.0	(0.1)
(99)	Vossloh Southern Africa Holdings Pty. Ltd., Johannesburg, South Africa	4,7	100.00	(98)	(u)	0.2	0.0
(100)	OOO Vossloh Bahn- und Verkehrstechnik, Moscow, Russia	4	99.00/1.00	(98/5)	(u)	0.3	0.0
(101)	Vossloh Middle East Business Rail LLC, Abu Dhabi, UAE		49.00	(98)	(u)	0.0	0.0
(102)	Vossloh Zweite Beteiligungsgesellschaft mbH, Werdohl	4	100.00	(1)	(u)	0.0	0.0
(103)	Vossloh Dritte Beteiligungs-Aktiengesellschaft, Düsseldorf	4	100.00	(102)	(u)	0.0	0.0

[1]Fully consolidated companies are labeled (c), those included at equity (e), ventures consolidated pro rata (p), and unconsolidated companies (u).
[2]The mean current rate or the annual average rate has been used to translate foreign-currency equity and net income/(loss), respectively.
[3]Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
[4]Not included in the consolidation group for lack of materiality to the asset and capital structure, financial position, and results of operations
[5]Newly consolidated in 2012
[6]Fiscal year from April 1 to March 31
[7]Fiscal year from March 1 to February 28

Proposed profit appropriation

According to German GAAP, Vossloh AG's separate financial statements 2012 show net income of €41,211,900.86 and, after including the profit carryforward of €19,904,878.63, net earnings of €61,116,779.49.

The Executive Board will propose to the annual general meeting to distribute a cash dividend of €2.00 for each no-par share of the eligible common stock of €34,059,138.59 and to carry forward the balance of €37,119,641.49. When determining the capital stock ranking for dividend, a total of 1,326,721 treasury shares was deducted.

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

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

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] (up to June 18, 2012)
– schenck.de AG: supervisory board chairman
– Hugo Kern und Liebers GmbH & Co. KG: director[5]

Peter Langenbach[2,4], Vice-Chairman, Wuppertal, lawyer

Dr. Jürgen Blume[3,4], Bad Bentheim, sworn public auditor and tax accountant
(retired as of August 31, 2012)

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

Dr.-Ing. Dipl.-Ing. Kay Mayland, Rösrath, degreed engineer
(as from January 9, 2013), former CEO of SMS Siemag AG
– SMS Siemag AG: supervisory board member
– Elexis AG: supervisory board member
– Demag Cranes & Components GmbH: supervisory board member

Michael Ulrich[1], Kiel, mechanic

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

Management Representation

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

Werdohl, March 4, 2013

Vossloh AG
Executive Board

Werner Andree, Dr.-Ing. Norbert Schiedeck

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

We have audited the consolidated financial statements (consisting of balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes) and the combined management report on the Company and the Group, all as prepared by Vossloh AG, Werdohl, for the fiscal year ended December 31, 2012. The preparation of the consolidated financial statements and combined management report in accordance with the IFRS whose application is mandatory in the European Union (EU), and with the additionally applicable financial-accounting provisions of Art. 315a(1) HGB and the supplementary provisions of the Company's articles of incorporation, is the responsibility of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and combined management report.

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

Our audit has not resulted in any objections or exceptions.

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

Essen, March 4, 2013

BDO AG
Wirtschaftsprüfungsgesellschaft

Fritz	pp. Barhold
Wirtschaftsprüfer	Wirtschaftsprüfer

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Glossary

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

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

Financial diary 2013/2014

Annual general meeting	May 29, 2013
Payment of cash dividends	May 30, 2013
Publication of interim report	
as of March 31	April 25, 2013
as of June 30	July 25, 2013
as of September 30	October 30, 2013

For further dates, go to www.vossloh.com

Financial diary 2014

Publication of 2013 financial data	March 2014
Press conference	March 2014
Investors and analysts conference	March 2014
Annual general meeting	May 2014

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Vossloh stock details

ISIN	DE0007667107
Traded at:	Xetra, Düsseldorf, Frankfurt, Berlin-Bremen, Hannover, Hamburg, Stuttgart, Munich
Index	MDAX (since March 18, 2013: SDAX)
Shares outstanding at 12/31/2012:	11,998,569
Average shares outstanding in 2012:	11,993,491
Share price (12/31/2012):	€74.47
2012 high/low:	€81.28 / €63.57
Reuters code:	VOSG.F
Bloomberg code:	VOS GR
Dividend proposed:	€2.00

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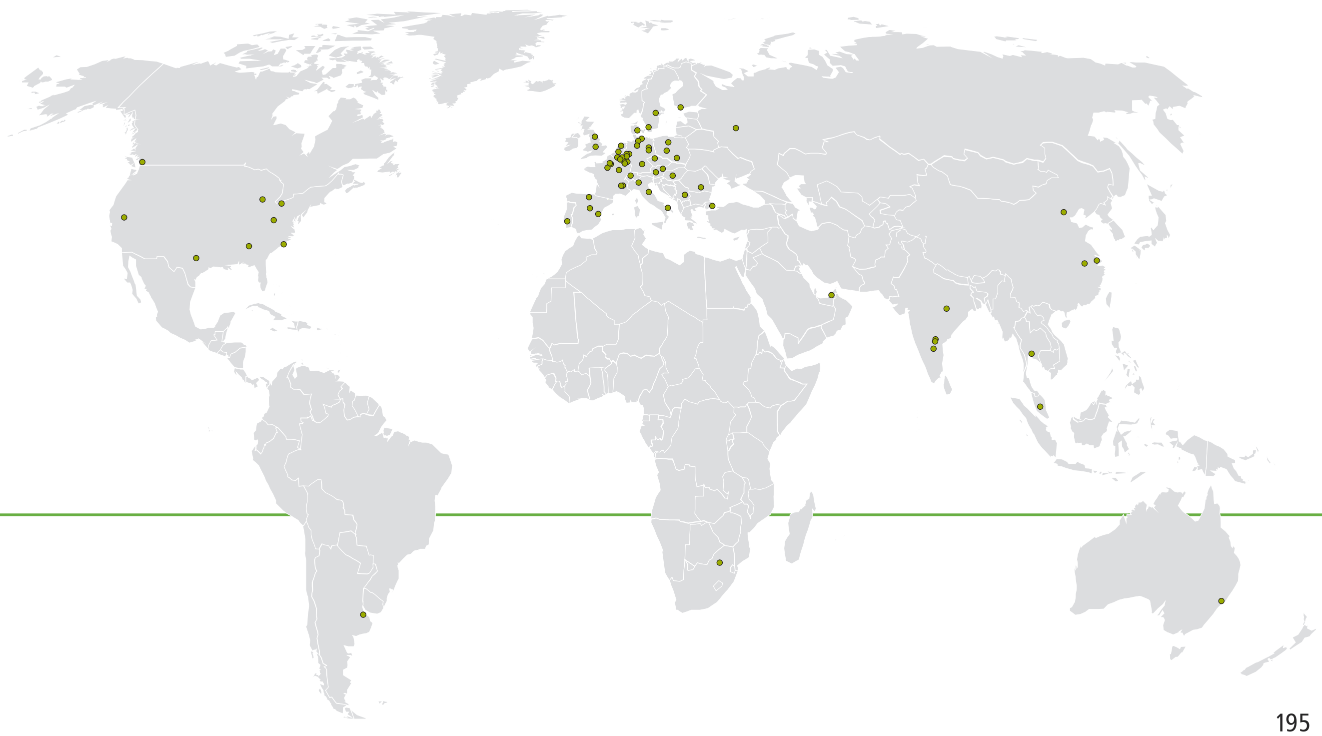

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Ten-year overview of the Vossloh Group

		2012	2011*	2010	2009	2008	2007	2006	2005	2004	2003
Income statement data											
Net sales	€ mill.	1,243.0	1,197.2	1,351.3	1,173.7	1,212.7	1,232.1	1,015.2	996.4	917.8	912.5
EBIT	€ mill.	97.5	97.2	152.1	137.9	137.7	121.5	82.7	90.8	105.6	100.9
Net interest expense	€ mill.	(21.4)	(12.3)	(11.7)	(9.4)	(9.3)	(12.3)	(14.1)	(19.6)	(16.0)	(14.7)
EBT	€ mill.	76.1	84.9	140.4	128.5	128.4	109.2	68.6	71.2	89.6	86.2
Group earnings (total)	€ mill.	59.2	56.2	97.5	87.9	139.4	71.4	20.3	45.1	57.2	55.5
Earnings per share (EpS)	€	4.94	4.32	7.32	6.57	9.48	4.83	1.38	3.07	3.91	3.90
Pretax ROS	%	6.1	7.1	10.4	10.9	10.6	8.9	6.8	7.1	9.8	9.4
Pretax ROE	%	15.1	17.6	24.2	26.1	26.1	25.2	18.5	19.7	27.1	29.0
ROCE[1]	%	11.9	12.0	17.2	20.5	18.8	14.9	12.9	12.0	15.3	16.3
Value added	€ mill.	15.4	16.1	54.8	63.7						
Balance sheet data											
Fixed assets	€ mill.	662.7	625.6	590.7	458.2	431.4	503.4	423.4	453.3	387.0	377.7
capital expenditures	€ mill.	61.1	65.6	57.9	41.9	37.6	52.6	23.9	34.5	39.4	30.5
amortization/depreciation	€ mill.	41.3	38.2	39.5	24.6	22.8	29.2	25.9	23.9	25.2	24.4
Closing working capital[2]	€ mill.	139.6	200.3	258.0	245.1	300.7	312.8	216.7	303.3	303.2	242.7
Year-end working capital intensity	%	11.2	16.7	19.1	20.9	24.8	25.4	21.3	30.4	33.1	26.6
Closing capital employed	€ mill.	802.3	825.9	848.6	703.2	732.1	816.2	640.1	756.6	690.2	620.4
Total equity	€ mill.	505.7	480.1	580.0	492.6	492.7	434.0	371.1	361.0	331.1	297.6
thereof minority interests	€ mill.	15.9	14.0	27.9	20.4	16.9	12.1	9.3	6.1	5.8	5.6
Net financial debt/(assets)	€ mill.	200.8	238.8	136.6	70.2	(35.0)	124.9	62.3	220.5	171.1	183.1
Total assets	€ mill.	1,523.1	1,513.4	1,405.8	1,338.4	1,339.4	1,326.8	1,198.5	1,091.2	1,016.7	880.3
Equity ratio	%	33.2	31.7	41.3	36.8	36.8	32.7	31.0	33.1	32.6	33.8
Cash flow statement data											
Cash flow from operating activities	€ mill.	162.6	138.5	139.1	44.9	133.8	80.2	186.9	54.6	32.9	16.1
Cash flow from investing activities	€ mill.	(72.9)	(90.6)	(151.1)	(52.3)	116.8	(123.6)	(15.4)	(65.5)	(27.5)	22.4
Cash flow from financing activities	€ mill.	(109.9)	(47.3)	(71.8)	(84.1)	(77.0)	(25.7)	(81.5)	(78.9)	110.5	(51.0)
Net cash inflow/(outflow)	€ mill.	(20.2)	0.6	(83.8)	(91.5)	173.6	(69.1)	90.0	(89.8)	115.9	(12.5)
Workforce data											
Annual average headcount		5,078	5,000	4,984	4,717	4,631	5,493	4,765	4,732	4,513	4,422
thereof: Germany		1,756	1,747	1,667	1,312	1,243	1,183	1,168	1,494	1,547	1,558
abroad		3,322	3,253	3,317	3,405	3,388	4,310	3,597	3,238	2,966	2,864
thereof: Rail Technology		5,031	4,954	4,936	4,666	4,585	5,455	4,734	4,701	4,481	4,392
Vossloh AG		47	46	48	51	46	38	31	31	32	30
Payroll intensity	%	72.6	71.9	61.5	61.9	61.3	67.5	71.6	71.6	66.2	66.9
Personnel expenses	€ mill.	271.0	259.0	249.5	229.6	223.2	268.9	223.9	223.9	217.5	213.9
Personnel expenses per capita	k€	53.4	51.8	50.1	48.7	48.2	49.0	47.0	47.0	48.2	48.4

Vossloh AG—Ten-year overview

		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Capital stock	€ mill.	37.8	37.8	37.8	37.8	37.8	37.8	37.7	37.7	37.4	37.4
Dividend per share	€	2.00[3]	2.50	2.50	2.00	2.00 + 1.00	1.70	1.30	1.30	1.30	1.30
Stock price at Dec. 31	€	74.47	74.07	95.50	69.52	79.49	80.10	57.14	41.10	36.35	44.80
Market capitalization at Dec. 31	€ mill.	893.5	888.3	1,272.6	926.0	1,104.0	1,185.1	842.0	605.6	530.9	654.2

[1] As from 2009, based on average capital employed
[2] As from 2009, the other current accruals, being non-interest, are deducted, too.
[3] If approved by the AGM
*Due to the retroactive application of the change in pension accrual accounting, the prior-year comparatives were adjusted accordingly. For details, see Note (24), page 156.

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