vossloh

ANNUAL REPORT 2006

Shaping change. Creating value.

Group indicators and key figures		2006	2005
Order backlog	€ mill.	1,368.6	1,052.1
Net sales	€ mill.	1,015.2	942.6
thereof: Rail Infrastructure	€ mill.	613.9	579.5
Motive Power&Components	€ mill.	401.2	365.2
EBITDA	€ mill.	108.6	110.3
EBIT	€ mill.	82.7	87.6
EBT	€ mill.	68.6	69.1
Group earnings (total)	€ mill.	20.3	45.1
Earnings per share (EpS)	€	1.38	3.07
Total assets	€ mill.	1,198.5	1,091.2
Total equity	€ mill.	371.1	361.0
Equity ratio	%	31.0	33.1
Pretax return on equity (ROE)	%	18.5	19.1
Working capital	€ mill.	216.7	303.3
Capital employed	€ mill.	640.1	756.6
ROCE	%	12.9	11.6
Net financial debt	€ mill.	62.3	220.5
Net leverage	%	16.8	61.1
Cash flow from operating activities	€ mill.	172.1	50.3
Cash flow from investing activities	€ mill.	(15.4)	(61.2)
Cash flow from financing activities	€ mill.	(66.7)	(78.9)
Annual average headcount		4,765	4,452
Personnel expenses	€ mill.	223.9	215.0
Personnel expenses per capita	€ '000	47.0	48.3

Vossloh’s corporate structure

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

Rail Infrastructure division

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

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

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

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

Motive Power&Components division

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

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

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

Business units:

Vossloh Fastening Systems
Vossloh Switch Systems
Vossloh Infrastructure Services

Indicators		2006	2005
Net sales	€ mill.	613.9	579.5
EBITDA	€ mill.	95.1	101.9
EBIT	€ mill.	81.2	87.8
EBIT margin	%	13.2	15.1
Working capital	€ mill.	120.5	172.7
Working capital ratio	%	19.6	29.8
Fixed assets	€ mill.	291.9	296.1
Capital expenditures	€ mill.	9.7	15.4
Amortization/depreciation	€ mill.	14.0	14.2
Capital employed	€ mill.	412.4	468.8
ROCE	%	19.7	18.7

Business units:

Vossloh Locomotives
Vossloh Electrical Systems

Indicators		2006	2005
Net sales	€ mill.	401.2	365.2
EBITDA	€ mill.	31.8	23.1
EBIT	€ mill.	23.6	15.3
EBIT margin	%	5.9	4.2
Working capital	€ mill.	96.9	102.7
Working capital ratio	%	24.2	28.1
Fixed assets	€ mill.	119.7	123.0
Capital expenditures	€ mill.	12.9	12.9
Amortization/depreciation	€ mill.	8.2	7.8
Capital employed	€ mill.	216.6	225.7
ROCE	%	10.9	6.8

Shaping change.
Creating value.

Rail infrastructure and rail technology: this is our business. This is where we play a key role in making rail traffic safe, cost efficient, and kind to the environment. Our business is propelled by ongoing buoyant demand in Europe and mushrooming requirements in Asia and the USA. With our international presence and foremost market positions we share in the growth of these markets. In doing so, we focus on our core sectors and on repeatedly enhancing the benefits for users of our services and products. In this way we generate value—in the interests of both customers and Vossloh.

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Dear Shareholders,

For Vossloh AG, the past fiscal year was a period of fundamental yet necessary change. Essentially it was a matter of gearing up the Group for what lies ahead, sharpening our competitive edge and setting up a sustainable base for future growth and impressive value enhancement. We asked ourselves: in which businesses should Vossloh continue to expand and how must we change our structures in order to achieve sustained success.
In September 2006, we publicly presented our repositioning.

Vossloh will develop itself according to clear strategic principles that we will strictly follow. In terms of products, Vossloh will focus on two core areas of capability; rail infrastructure and rail-vehicle components. In the former, the Group is already a foremost international player, a role we will rigorously strengthen through organic growth and acquisitions. You'll find us wherever rail infrastructure is having to be expanded or upgraded, wherever there is a need for new infrastructure, wherever there is a need for expertise, especially in high-speed rail networks—most of all outside of Europe. In the rail-vehicle components market we will extend our capabilities chiefly through acquisitions. Our financial resources are sufficient to fund such efforts. The uppermost priority in our corporate development is to achieve a sustained and superior return on capital employed (ROCE) since only through the value we generate will we remain lastingly competitive.

Last year we made solid progress in executing our strategy. In the fall of the year, we put up for sale our Information Technologies division. As early as mid-January 2007, we were able to come up with a best owner for this division in the form of a communications systems specialist, Funkwerk AG.

An important milestone on the international growth path we reached with our entry into China—one of the growth markets of the rail infrastructure business. A bidder consortium headed by Vossloh was awarded two key contracts for rail fastening systems. Other business units likewise won important contracts, both Vossloh Electrical Systems and Vossloh Locomotives, which will keep us busy in 2007. Despite the strong performance delivered by Vossloh Locomotives we will scout for strategic partners to join us in tapping even more effectively the vast potential inherent in this business unit.

As to the results of operations in fiscal 2006, a period which was also my first as CEO, we are generally satisfied. The targets we had set ourselves following our midyear profit warning, were achieved: sales in the region of €1 billion, an EBIT margin of 8.1 percent. Given the sound progress recorded in the latter half of 2006 and maintained into fiscal 2007, we are aiming for 2006 at a dividend equal to 2005 even though group earnings have receded appreciably, as expected.

In 2007, we will again come a lot closer to the targets we have set ourselves: EBIT to outgrow the gain in sales, an EBIT margin of at least 10 percent, and a minimum ROCE of 15 percent. High up on our agenda are organic growth, takeovers, strict cost management (especially in purchasing and production). Those areas in which our cost position is healthy we will consolidate, in others we still have to attain cost leadership. Assisting in these efforts will be an extension to the Executive Board to include an engineer.

We have set ourselves ambitious goals that we will rigorously achieve over the years ahead. We at Vossloh generate value—for customers, employees, and stockholders alike.

Regards,

Dr. Gerhard Eschenröder
CEO

Werdohl, March 2007

Werner Andree
Executive Board member

Finance, Controlling,
Accounting, Taxes,
Investor Relations

Dr. Gerhard Eschenröder
Executive Board Chairman (CEO)

Corporate Development/M&A,
HR, PR, Internal Auditing, IT,
Legal Affairs

Dr. Norbert Schiedeck
Executive Board member

Production, Engineering,
Strategic Purchasing

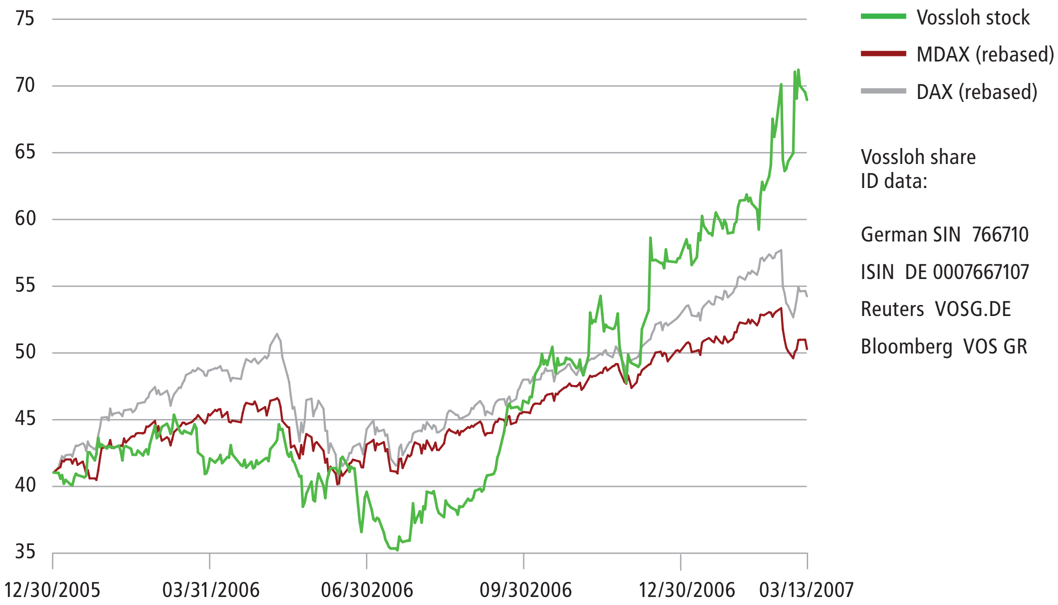
Vossloh stock

Fiscal 2006 was a period in which important points were switched for Vossloh's future with the Group's repositioning and its access to the Chinese market. The unabated stock price uptrend since the summer of 2006 confirms that we are right on track.

The stock market in 2006

In all, 2006 was a most buoyant period for the German and international capital markets. Following the sharp downward price adjustments in May and June, starting from July the markets maintained their upward momentum propelled by rising corporate profits and a more stable economic environment. The DAX closed the year at 6,597, a 22-percent surge. In fact, this lead index of the German stock market was at the end of 2006 just short of its 12-month high. The MDAX, the index of prime relevance to Vossloh AG, closed the year at 9,405, a new all-time high. As in previous years, its 29-percent leap outdistanced the DAX advance.

Vossloh stock price trend Jan. 1, 2006, to Mar. 13, 2007



Vossloh share ID data:

German SIN 766710

ISIN DE 0007667107

Reuters VOSG.DE

Bloomberg VOS GR

Vossloh stock price

Following a series of soft spells in the earlier half of the year, Vossloh's stock price surged to new highs toward the close of the period. Burdens on earnings—chiefly from the meantime sold Information Technologies division—had in June prompted a profit warning for the year as a whole. In September 2006, the Group reported in detail and especially to the capital market, its strategic refocus.

This was succeeded by the announcement of megacontracts for Vossloh Fastening Systems, especially from China, and significant orders for Vossloh Locomotives, which combined to power stock prices well in excess of MDAX gains in a buoyant overall market. Vossloh stock closed the period at €57.14, up 39 percent from year-end 2005.

Market capitalization at December 31 grew proportionately from €605.6 million in 2005 to €842 million in 2006. Vossloh AG's strong MDAX-outpacing performance continued into the new year and in the course of March 7, 2007, the price reached an all-time high of €73.48.

Vossloh share trading volumes on the German stock exchanges vaulted to a new record level compared with several preceding years. At nigh 15.8 million shares, this was 50 percent over the almost 10.5 million a year ago and equivalent to an average daily turnover of 61,800.

Vossloh stock indicators		2006	2005
Earnings per share (EpS)	€	1.38	3.07
Cash flow per share	€	11.68	3.71
Dividend per share	€	1.30[1]	1.30
Total dividend payout	€ mill.	19.2	19.2
Book value per share (excl. minority interests)	€	24.55	24.09
Annual average number of shares outstanding	1,000	14,735	14,688
Number of shares outstanding at year-end	1,000	14,736	14,735
Year-end stock price	€	57.14	41.10
Year-end market capitalization	€ mill.	842.0	605.6
Annual high/low	€	59.20/34.90	48.58/36.11
Price-earnings ratio (PER)		41.4	13.4
Price-cash flow ratio		4.9	11.1
Trading volume (shares)	1,000	15,760	10,453
Average daily turnover of shares	1,000	61.8	40.5

[1] proposed

Dividend

Vossloh AG's Executive and Supervisory Boards will propose to the annual stockholders' meeting to distribute a cash dividend for fiscal 2006 of €1.30 per share. This total dividend payout is equivalent to 94 percent of group earnings.

For the Vossloh Group, fiscal 2006 was primarily a period of refocusing. This year's very high dividend payout percentage reflects management's aim of making sure that stockholders obtain a sustained high share of the value added to the Group. Our target is profitable growth and a commensurate rise in dividend over the years ahead.

Par-value shares

Among the resolutions adopted by Vossloh AG's annual general meeting on June 25, 1998, was a redivision of the capital stock into no-par shares and the exclusion of stockholder rights to physical share representation. Thereafter Vossloh AG had asked its stockholders for the first time on August 8, 1998, and again on May 26, 2006, to surrender their par-value share certificates as these had become invalidated by the change to no-par stock. In lieu, the holders became owners of no-par shares held in collective custody. Any incorrect share certificates not submitted by August 26, 2006, were declared null and void pursuant to Art. 73 German Stock Corporation Act ("AktG").

Ownership structure

At the end of fiscal 2006, the Vossloh family held an unchanged stake of around 32 percent in Vossloh AG's capital stock.

An ownership structure survey conducted in fall 2006 indicated that of the remaining 68 percent, roughly one-half was held by private stockholders and the other half by institutional investors, most of these pursuing a long-term strategy. When the survey was conducted in September 2006, some 90 percent of the shares were held in low- to medium-turnover investment funds. These included the US investor Arnhold & S. Bleichroeder Advisers LLC, for many years now a Vossloh AG stockholder. According to public reports, this latter raised its stake in Q3/2006 from 5 to 8.46 percent.

As of January 29, 2007, Arnhold & S. Bleichroeder Advisers LLC then announced that its stake in Vossloh AG's capital stock had fallen below the 3-percent threshold.

In all, around 22 percent of the total capital stock and hence almost 32 percent of the free float was in fall 2006 held by major US investors. As of survey date, about 31 percent of the Vossloh shares were held in the portfolios of foreign investment funds. German institutional investors accounted for about 3.8 percent of the total capital stock or around 5.4 percent of the free float.

Analysts' opinions

Vossloh's business performance is regularly reviewed by eleven (inter)national analysts. According to the opinions available when this annual report was written, these analysts identified further development potential and thus recommended either "buy" or "hold," especially in view of the strategic repositioning and the access into the important Chinese market. Further favorable assessments followed when the prompt disposal of the Information Technologies division and the access to the US market were communicated. The newest analysts' opinions regarding Vossloh AG can be viewed under Investors at www.vossloh.com.

Dialog with capital market players

The uppermost priority in our investor relations work is prompt, fair and comprehensive sharing of information with financial analysts, institutional and private investors. These efforts were stepped up in 2006 during which Vossloh's Executive Board presented the Group at a number of road shows staged in Europe and the USA, with the aim of enabling institutional investors to gain a better appreciation of Vossloh's business operations and its repositioning starting from the fall of 2006. Visited were not only our stockholders but also contacts with numerous new institutional investors were established. Vossloh also attended important capital market conferences organized in 2006. Starting from the summer of 2006, regular teleconferences were arranged to coincide with the quarterly reported results.

A close and transparent dialog with the capital market we identify as one of the most important aspects in the ongoing development of Vossloh AG. We will continue to liaise with the financial markets in the course of the present fiscal year.

The newest presentation documents, as well as current and previous annual and quarterly reports are all available for downloading from our website. We will also gladly mail you this material.

Creating sustainable value: Vossloh repositioned and on track

Following its repositioning in 2006 Vossloh is continuing to build on its successful track record with a clear strategy of focusing on its Rail Infrastructure and Motive Power&Components divisions in which we will achieve organic growth propelled by the dynamics of global markets. We also intend to supplement our activities with judicious acquisitions while exploiting strategic alliances to identify and harness further value enhancement potential.

With its recognized products and services Vossloh is experiencing continually high demand in rail infrastructure and rail technology markets in Europe. As part of our internationalization strategy we are channeling our efforts chiefly toward the strongly growing markets of China, India, and the USA. In all markets we plan to further develop and strengthen our competitiveness through efficient products and close cooperation with our customers. Throughout these endeavors the objective is always the same—to impress our customers with our skills and expertise.

Goal in our sights: Zooming in on the strength of our core businesses

Vossloh has secured a foremost position in selected market segments through its Rail Infrastructure and Motive Power&Components divisions. We view this as both a challenge and an obligation to our customers to keep building on our strengths.

Safety—even under the most punishing conditions. Vossloh's products and services play a key role in rail traffic infrastructure in over 70 countries.

Vossloh occupies leading positions in its markets. In order to maintain this supremacy Vossloh is continually embracing new trends while actively shaping processes of change in its markets. To achieve this we are even willing to question our own structure. And we have the courage to reposition ourselves and to carry out what we have identified as the right course of action.

GO 2010! is the name of the strategic project with which Vossloh 2006 has prepared itself for the future. Its aim is redefine the Group's configuration, enabling us to continue creating value for customers while generating an appropriate return for stockholders.

We analyzed the Vossloh Group and the markets of importance to us. The outcome in a nutshell: Vossloh is operating in an industry that will continue to offer attractive prospects. In this industry we have occupied the right segments and within them we hold strong market positions, which we plan to consistently expand.

Segments which we regard as our core businesses must offer the prospect of future supremacy in terms of not only sales but also, and above all, expertise. At the same time, it is important for us to control the key parts of the value chain. In addition, our segments must show attractive growth potential and be internationally oriented, including outside of Europe. They should be cyclical only to a limited degree, enabling an adequate return on capital employed.

Left:
Trackage construction and maintenance for the French and Belgian rail networks has been handled by Vossloh Infrastructure Services for decades.

Right:
The first EURO 4000—Europe's most powerful diesel-electric locomotive—about to sail for Kiel.

Our Fastening Systems, Switch Systems, Infrastructure Services and Electrical Systems business units all comply with these requirements and thus offer the necessary prospects. We plan to build on their strengths through organic growth and takeovers. Vossloh Locomotives with its two production locations in Kiel and Valencia, is also well positioned. We are the biggest producer of diesel locomotives in Europe, and we are successful in this business, one factor being the 2006 marketing improvements that have boosted order intake. Processes at the production locations were restructured and streamlined. Since 2006, the Spanish and German parts of the unit have been under one and the same management. But in contrast to our other business units, we intend to exploit the potentials of Vossloh Locomotives even more effectively with strategic partners. We also intend to step up our sales activities and press ahead with our internationalization drive outside of Europe. These activities will enhance Vossloh Locomotives' market prospects. In our search for strategic partners we can take our time as we explore the relevant options.

As part of the strategic refocus, we decided in 2006 to dispose of the Information Technologies division. In the fall of 2006, we initiated the divestment process while ensuring that the buyer would continue to pursue ongoing projects competently—in the interests of our longstanding customers to whom we feel a responsibility under these circumstances.

Following the sale in early 2007, Information Technologies' business potential and its employees' know-how and capacity will be utilized and further developed more effectively.

New networks: Internationalization opens up growth markets

The markets for rail infrastructure and rail technology are racing ahead worldwide, especially in the USA and Asia—there most notably in China and India. Vossloh intends to exploit this growth momentum and expand its international business outside of Europe, all as part of the Group's refocus. Initial major orders have been secured outside of Europe—a clear confirmation that our globalization efforts are right on track.

Sino-German joint venture: inspection of the construction site for Vossloh's new Kunshan-based rail fastener shop.

By repositioning we are seeking to treble our share in international markets outside of Europe from ten (fiscal 2006) to 30 percent. To achieve this we plan to penetrate rail infrastructure markets especially in the growth centers of China, India, and the USA.

Rail business is set to grow strongly worldwide. The volume of the submarkets of relevance to us within our Rail Infrastructure core business is estimated at €12 billion for 2006. Globally this market is expected to expand by an annual average six percent, albeit with very mixed momentum, the market in Western Europe remaining at a high level while growth of seven percent is forecasted for the USA and even as high as 12 percent for Asia.

The European market will remain a focus for Vossloh. Outside of Europe we plan to exploit the major growth opportunities even more intensively than hitherto. It is our strategy to develop the especially dynamic markets of China, India and the USA as a matter of priority by taking part in projects and acquiring companies. We have already recorded notable successes in our internationalization drive thanks to our decades of experience and numerous references, in particular our participation in major projects, including the construction of high-speed rail links in Germany, France, the Netherlands, and Taiwan all of which have solidified our international reputation.

Two contracts booked in China demonstrate the potential of our internationalization efforts. In August 2006, the Chinese Ministry of Railways awarded Vossloh a contract worth €19 million for rail fastening systems to be produced in Germany. The contract was the outcome of an invitation to bid for what is known as the Olympic railway line running from the Chinese capital of Beijing to the city of Tianjin, on which trains will travel at 350 kilometers per hour. A month later Vossloh as head of a bidding consortium secured a further contract from the Chinese Ministry of Railways worth €166 million to supply rail fastening systems for the planned high-speed rail links from Wuhan to Guangzhou and from Guangzhou to Shenzhen. Since January we have been building together with partners a manufacturing plant in Kunshan in the south Chinese province of Jiangsu, which is due to start producing rail fastening systems roughly from the fall of 2007. Vossloh is spearheading this project.

In branching out, the metro of the Indian metropolis Delhi is using Vossloh's rail fasteners and switch systems.

With the contracts and production plans in China we have secured further opportunities for claiming a significant share of the country's mushrooming rail infrastructure market. Our products will be used to build key rail links which will also serve as a first-class reference in the Asian region, enabling us to demonstrate the excellence of our product and service quality directly and locally.

The Indian market, with its longstanding railway tradition, is also set to grow strongly over the years ahead. Strong economic growth coupled with high demand for raw materials and expanding cities will require considerable extension of the rail infrastructure for passenger, freight and local transport and metro systems. In 2005, Vossloh acquired three track infrastructure companies specializing in switches and switch components; these enterprises shared successfully in the Indian market's growth in 2006. Through our participation in the construction of the Delhi metro system we secured a favorable reference for further projects, such as the metros already planned in Mumbai and Bangalore. Our companies are already among the leading mainline railway suppliers in India. All in all, Vossloh has built up a promising position in the Indian market.

In the USA, Vossloh Fastening Systems operates three test tracks, the last of which has been in operation since September 2006. These are sections of railed track which make special demands on the track components, thus impressively demonstrating the outstanding quality of Vossloh's products. The response from our prospective customers endorses our confidence in this market and has prompted us to open a sales office in Chicago.

Test trackage in the USA testifying to the quality of Vossloh's rail fasteners under the most punishing conditions.

Not at any price: Growth only if it creates value

Sales growth is not an end in itself for us: it has to be linked to specific economic goals. In the course of the Group's repositioning, Vossloh has defined the requirements for its own growth and launched programs aimed at reducing costs.

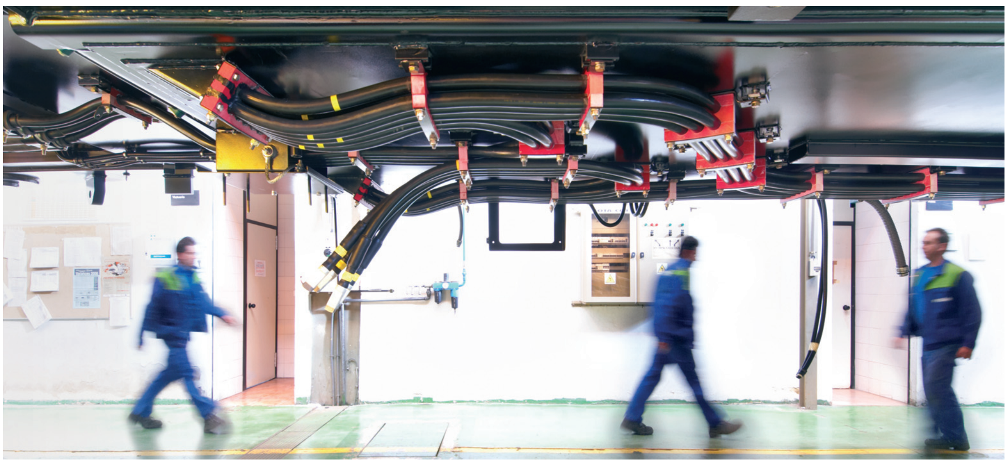

5-OIL COOLER
6-WATER TANK
7-COMPRESSOR
8-MAIN AIR RESERVOIR
9-TRACTION GENERATOR FAN
10-RADIATORS
11-RADIATORS FAN
12-DYNAMIC BRAKE FAN
13-INERTIAL FILTERS
14-DUST BIN BLOWER
15-ELECTRICAL CABINET
16-SAFETY SYSTEM CABINET
17-BATTERY BOX
18-FUEL TANK
19-CONTROL DESK
20-AIR CONDITIONING
21-SANDING BOX
22-BRAKE UNIT
23-BRAKE SYSTEM
24-BOGIE
25-SILENCER

A key objective in Vossloh's strategic repositioning is to create sustainable value for customers as well as for stockholders and employees. We have mapped out the path toward this goal with clear requirements which also apply to further growth.

Vossloh will continue to exploit the attractive growth opportunities in the markets for rail infrastructure and rail vehicle components, the aim being to strengthen these core businesses through organic growth and targeted acquisitions. In doing so, Vossloh places value-oriented growth above size because sales growth is not an end in itself for us. This applies to both existing and new activities.

Vossloh will also continue to acquire companies if they fit in with our strategic plans and fulfill the strict requirements that apply to the core business units (see pages 14 and 46). Part of our growth strategy is to make the most of the advantages arising from the coordination of marketing and sales activities within the business units.

The focus is always on maintaining and expanding our customer relations, a priority which remains unaffected by cost-cutting programs. On the contrary, we endeavor to compensate for rising purchasing costs, triggered by higher steel prices for example, through our intensive cost management. Cost management also safeguards our profitability, which in turn ensures that we will in future, too, have the financial strength required to continually improve existing products and develop new ones or, in other words, to create value for our customers on a sustained basis.



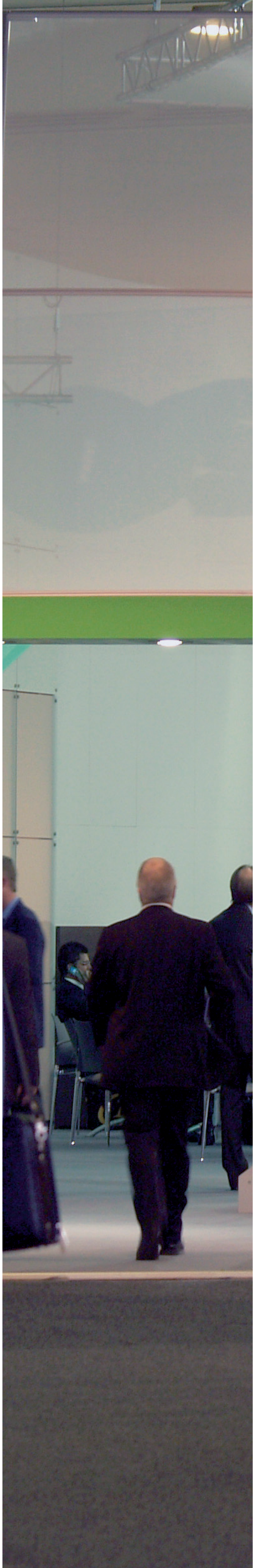
The strategic repositioning switched the points for added value emphasis.

In the spring of 2006, we launched the *Vossloh FIT!* program, which proved very popular across all divisions and business units, not least because it brought together and put into concrete form existing ideas within the Group. The aim of *Vossloh FIT!* is to streamline production processes, purchasing and logistics. Through *Vossloh FIT!* we have been able to identify numerous practicable cost-cutting measures. The program got underway in 2006 but is not expected to become fully effective until 2008. We are striving to reduce the cost base by €22 million, chiefly through savings in purchasing and production.

For 2007 we expect sales to climb eight percent through organic growth alone. EBIT is believed to rise by 30 percent in 2007 to some €107 million, thus outpacing our sales increase and in line with our repositioned strategy. ROCE is set for at least 15 percent.

Striving for excellence: What drives Vossloh

Financial indicators help to calculate a company's value. For our customers and for Vossloh itself other factors count just as much: our rail expertise, our global presence, our innovative power, our employees, and our well-developed customer relations. These are factors that create value—for customers and stockholders alike.



At Innotrans 2006 in Berlin, Vossloh welcomed more than 11,000 trade visitors from all over the world who were attracted by an impressive presentation staged by all the business units and their product groups.

Rail expertise

Vossloh commands a leading position in niche markets, such as rail fasteners or switch systems, and the construction and maintenance of trackage, as well as in the production of diesel locomotives and key electrical equipment for trams, streetcars, metros, and trolleybuses. Yet what the Vossloh Group offers its customers far exceeds the sum total of individual solutions. It can be summed up as follows: rail expertise. All-encompassing and sustained rail system know-how—this is what distinguishes Vossloh from many of its competitors in individual markets and what customers appreciate in Vossloh.

International presence

The Vossloh Group's companies maintain a presence in the established markets of the Rail Infrastructure and Motive Power&Components divisions. They are also quick to establish a foothold in dynamically growing new markets. A local presence offers customers better service quality, fast delivery, cost benefits and not least the certainty that we will recognize their needs early on and respond to them. Order volume in any one region is bound to fluctuate but our broad geographical presence enables continuous growth.

Innovative power

Vossloh stands for forward-pointing solutions. Our innovations arise from customer requirements as well as from new technologies. As suppliers of cutting-edge technologies the Group's individual companies are familiar with the global trends in their markets and with varying regional requirements. For example, Vossloh Locomotives was the first producer in Europe of 2,000-HP diesel locomotives fitted with soot particle filters.

Left:
Engineered for cross-border haulage, the EURO 4000 is Europe's most powerful diesel-electric locomotive.

Center:
Innovations from Vossloh Fastening Systems: the high-elasticity W 21 is designed for the most exacting applications.

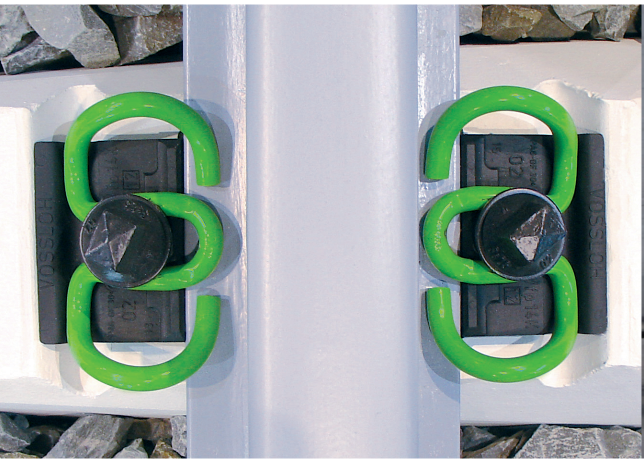
Right:
Fitted with Vossloh Electrical Systems components, the Mega-Trolley carries over 200 passengers. Electric traction allows a quiet and clean ride.

Vossloh Electrical Systems develops hybrid technology for trolleybuses, enabling emission-free local transport in city centers. The double-articulated trolleybuses (known as Mega-Trolleys) for which we equip the electrical systems, have a huge following worldwide. Vossloh has achieved great progress in speeding up the comeback of the trolleybus in Europe, North America, and Asia.

Transport technology often involves combining the tried and tested with the new. A successful example of how Vossloh puts this into practice is the newly developed EURO 4000. As the most powerful six-axle diesel-electric locomotive in Europe it uses a drive train from EMD (Electro-Motive Diesel Inc., La Grange, Illinois, USA), application-proven a thousand times, in a new locomotive design. The locomotive complies with the homologation requirements in many countries and is therefore suitable for cross-border haulage. It can also be fitted with soot particle filters and offers excellent performance data together with a favorable price-efficiency ratio.

High-speed lines place especially high demands on switches as well. Vossloh Switch Systems has therefore developed a vibration-reducing switch design for the LGV East line which enables the rigid track made of concrete to behave dynamically in the switch area similar to a ballast bed. In China, Vossloh is equipping high-speed rail lines with a special switch locking system for the first time.

Innovations are to be found, however, not only in the complex systems of our diesel locomotives, trolleybuses, electric components, and switches. Even what may appear at first glance to be a comparatively “simple” component such as our rail fastener clamp is in reality the cast steel result of unrelenting R&D efforts and decades of experience in rail technology. Such a rail fastening system, the basis for rail transport safety, cannot be improved through laboratory testing alone. In order to develop such a dynamic, flexible and hardwearing product our engineers need wide-ranging expertise—a combination of tradition and know-how which customers especially appreciate in Vossloh.



Quality

For the Vossloh Group quality means more than conventional quality assurance. The focus is on customer satisfaction. We seek to meet the customers' requirements—with tried-and-tested and above all reliable products and through excellent production processes and dependable customer service.

An outstanding example of these excellent processes is the Vossloh Switch Systems plant in Reichshoffen. The world-renowned INSEAD Management School and a trade magazine conferred the Industrial Excellence Award 2006 on the production plant based in Alsace.
The switch manufacturing facility won the jury over thanks to its clear strategy, management team and technological expertise. A lot of energy and hard work went into this success.
For several years Vossloh Switch Systems balanced capacity and workload, cut costs, raised productivity and improved communication between administration and plant. The *best factory* prize provides proof that Vossloh guarantees its customers outstanding quality through excellent production practice.

Employees

Vossloh's employees are customer-oriented in their approach. All Vossloh companies maintain an open management and proactive performance culture because Vossloh regards its employees as the main key to success.

Decentralized corporate structures, flat hierarchies and short chains of command—these are the prerequisites for fast and flexible decision-making. We are receptive to unconventional suggestions and new ideas. Within a clear structure Vossloh grants its top executives broad scope for decisions and we, in turn, expect of them responsible managerial competence. Personal commitment and above-average performance bring rewards at all levels within our group.

Any company seeking to rank among the best in the marketplace needs the best employees—from production to management. Vossloh has incorporated this principle into its values.
Our endeavors to provide high-quality training prove this, as does our low staff turnover, ensuring a level of stability in business relations which is highly appreciated by our customers.

Vossloh Switch Systems has the best factory: group picture on the occasion of the Industrial Excellence Award 2006 in Reichshoffen, France.

Customer trust and tradition

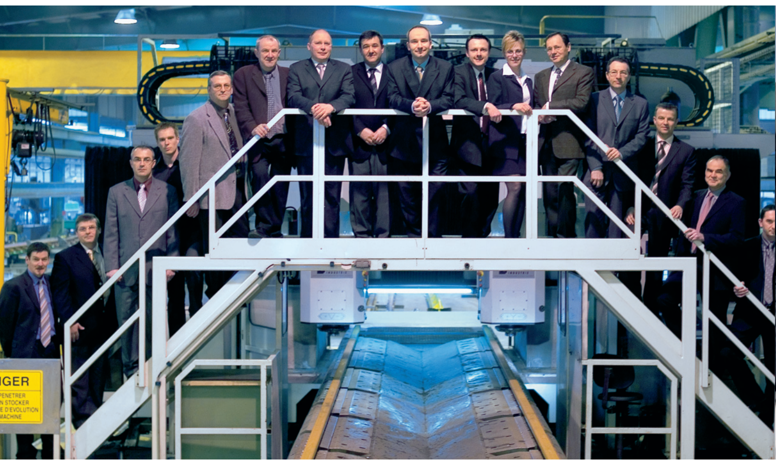
A longstanding relationship with our customers is one of the most important factors in Vossloh's success. The customer can rely on Vossloh's expertise and above all on the local Vossloh company's decision-making powers as an independent business unit. Vossloh and its subsidiaries are based at 42 locations worldwide—always close to the customer.

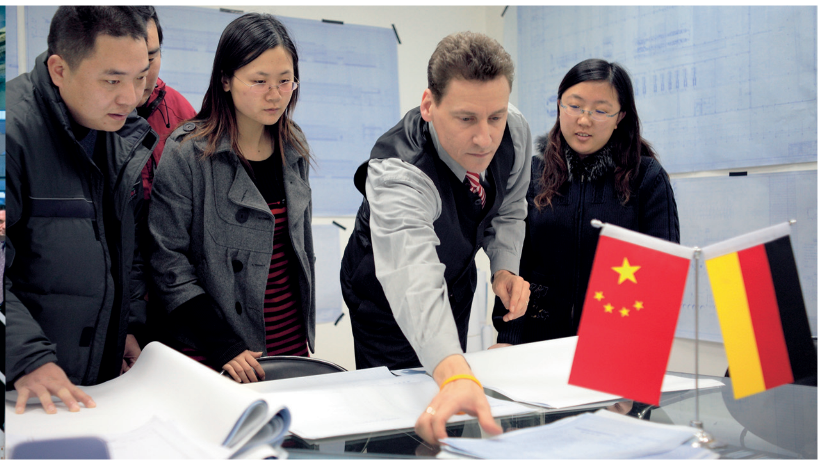
Our customers can be confident that Vossloh plans for the long term and will continue to engage in fair business dealings with them well into the future. The Vossloh Group has been in existence since 1871, after all. Our subsidiaries are also long-established companies: Vossloh Electrical Systems and Vossloh Switch Systems, for example, have each been operating successfully for over a century.

Our companies have long been valued suppliers in their segments: they are reliable, they have proved themselves and they pursue a consistent strategy. The high reputation enjoyed by Vossloh is partly attributable to the fact that in any situation we endeavor first of all to solve the problems faced by our customers. Our customers know that all the Vossloh Group units will live up to their performance promises.

What makes us valuable is concentrated in the Vossloh brand. Our brand's presence and personality support all Vossloh Group units in competition with their rivals. This was also demonstrated at InnoTrans 2006 in Berlin in September, the world's largest rail transport technology fair. All the Vossloh's business units showcased their products and services to the assembled international public in a united display. The Vossloh name is a trump card in globalization terms, too. It stands for customer confidence—regardless of whether they have been working with us for decades or are doing so for the very first time.

An international project team coordinates the construction of the plant in China.





Report of the Supervisory Board

Supervisory Board work in fiscal 2006.

During the year 2006, Vossloh AG's Supervisory Board performed the functions and duties incumbent on it under law and the Company's memorandum & articles of association, and oversaw the conduct of business and provided advice to management. The Supervisory Board obtained timely detailed regular written and oral reports on the business trend of Vossloh AG and its subsidiaries, the strategic alignment of the Group, and the progress of planned M&A transactions and corporate policy implementation.

Meetings and attendance.

At five scheduled meetings (March 23, May 24, June 29, September 6, December 6, 2006) attended by the plenary Supervisory Board and one extraordinary meeting on May 9, 2006, which was not attended by two members, the Supervisory Board dealt in detail with all issues of relevance to Vossloh. Moreover, the Supervisory Board discussed in depth with the Executive Board day-to-day business and the strategic concepts, short- and medium-term corporate plans, capital expenditure and investment budgets, the current income and cash trends, risk position and management, as well as significant organizational and personnel changes, along with Vossloh AG's *GO 2010!* refocus project, the *Vossloh FIT!* efficiency-boosting program, and the divestment of the Information Technologies division initiated in 2006. Additional subjects on the Supervisory Board agenda were corporate governance issues, including the assessment of its own efficiency.

Projects of key importance or urgency were also communicated by the Executive Board to the Supervisory Board between meetings. Furthermore, the Supervisory Board Chairman regularly deliberated on and discussed with the Executive Board—mainly with the latter's Chairman (CEO)—strategic aspects, the business trend, major HR issues, and risk management matters. The Supervisory Board Chairman was throughout promptly informed by the CEO about any extraordinary events of major significance to the assessment of the Vossloh Group's current position and development. In addition, the Supervisory Board dealt with the ongoing profitability improvement measures and the strategies—and their translation into practice—aimed at further expanding the divisions, as well as the *GO 2010!* strategy project and *Vossloh FIT!* efficiency-boosting program. Also on the agenda were the Executive Board remuneration system structure and the current progress of M&A projects.

At all its meetings, the Supervisory Board obtained detailed information about developments in 2006, significant transactions and the trend of financial indicators.

Executive and Supervisory Board membership.

The appointment of Dr. Gerhard Eschenröder as Chairman of the Executive Board (CEO) introduced a new focus within the Executive Board. The appointment of Dr.-Ing. Norbert Schiedeck, to be in charge of the newly established Engineering and Production position, is testimony to the significance which the Supervisory and Executive Boards attach to these functions for the future. Dr. Schiedeck's office will commence April 1, 2007. Milagros Caiña-Lindemann, former Executive Board member for HR, stepped down from the Executive Board as of July 31, 2006.

Supervisory Board membership has not changed. Dr. Christoph Kirsch, who had been appointed Supervisory Board member by order of November 17, 2005, of the Iserlohn Local Court, was elected as Supervisory Board member up to the close of the annual stockholders' meeting which votes on the official approval of the Board's acts and omissions in fiscal 2007.

Committee work.

Vossloh AG's Supervisory Board has two three-member committees, the Staff Committee and the Audit Committee. The duties of the Staff Committee and the Audit Committee include the preparation of business to be transacted before the plenary Supervisory Board. Furthermore, the Supervisory Board has delegated certain defined powers, such as the execution, amendment and termination of the employment contracts with Executive Board members, however, not the latter's appointment and removal as these are subject to the plenary Supervisory Board's approval.

The Staff Committee has Peter Langenbach and Wolfgang Klein as members and is chaired by Dr.-Ing. Wilfried Kaiser, the Audit Committee Dr. Jürgen Blume and Wolfgang Klein, its Chairman being Dr. Christoph Kirsch.

The Audit Committee convened twice in 2006. Atits spring meeting, which was attended by the statutory auditor, the Audit Committee dealt with the documentation of the separate and consolidated financial statements, the combined management report on Vossloh AG and the Group for fiscal 2005, the Executive Board's and the statutory auditor's report thereon, the statutory auditor's declaration of independence, the proposal for the election of the statutory auditor for Vossloh AG and the Group for fiscal 2006, and reported thereon to the other Supervisory Board members at their meeting on March 26. The Audit Committee's advance review resulted in the following statement: "The separate and consolidated financial statements as well as the combined management report of Vossloh AG and the Group along with statutory audit reports, which have included the statutory auditor's unqualified opinion, have been submitted to the Audit Committee. The latter has reviewed this documentation and discussed it in the presence of the statutory auditor; the Audit Committee concurs with the auditor's conclusions and concludes on its part that no objections are raised." Moreover, the Audit Committee dealt with risk management issues.

High on the agenda of the Audit Committee meeting in late 2006 were the definition of focal annual audit areas 2006, the fees proposed for the audits to be conducted by, and the audit engagement letter to be issued to, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Essen branch.

The Staff Committee members conferred four times in 2006, their deliberations centering on Executive Board membership changes and the screening process for filling the new Executive Board position responsible for Engineering.

Separate and consolidated financial statements 2006.

The separate financial statements of Vossloh AG according to German GAAP, the consolidated financial statements according to the IFRS, and the combined management report on Vossloh AG and the Group for fiscal 2006 (including the accounting), all as prepared by the Executive Board, were examined by the statutory auditor, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Essen branch, who had been duly appointed by the May 24, 2006 stockholders' meeting and who issued their unqualified opinion thereon.

The statutory auditor also concluded that the risks of future development existing at the subsidiaries and within the Group were recognized, mapped and profiled through the early risk identification system established pursuant to Art. 91(2) AktG, and confirmed that Vossloh AG's Executive and Supervisory Boards complied with their obligation to publish the declaration of conformity pursuant to Art. 161 AktG. The Supervisory Board continually followed up on the further development of corporate governance standards. In December 2006, the Executive and Supervisory Boards issued, and made available to the stockholders long term on the Company's website, the declaration of conformity pursuant to Art. 161 AktG (see also pages 40/41).

The resolution to issue the audit engagement letter had been duly passed at the Audit Committee meeting, in line with the recommendations of the German Corporate Governance Code ("the Code"). In due course prior to the Supervisory Board's annual accounts meeting, at which the annual financial statements were adopted, all members of the Supervisory Board were provided with copies of the separate and the consolidated financial statements of Vossloh AG, the combined management report on the Company and the Group—which for the first time also includes the disclosures required by Arts. 289(4) and 315(4) of the German Commercial Code ("HGB"), the remaining annual report, the profit appropriation proposal, and the annual audit reports.

At this annual accounts meeting, which was attended by statutory auditor staff, the Supervisory Board members discussed in detail all issues arising in connection with the above-mentioned documents. At this meeting, the attending auditors briefed the participants on all material results of their audit and were available to answer queries.

In this context, the statutory auditors also reported on the risk management system within the Vossloh Group. No facts suggesting that the declaration of conformity issued in 2006 by the Executive and Supervisory Boards in connection with the Code was incorrect were found during the audit.

The Supervisory Board, too, reviewed Vossloh AG's separate and consolidated financial statements and the combined management report for fiscal 2006 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 and therefore consented to the results of the examination by the statutory auditors. The Supervisory Board approved Vossloh AG's separate and consolidated financial statements as of December 31, 2006; the separate financial statements as of December 31, 2005, are thus adopted. The Supervisory Board concurs with the combined management report, particularly the statements on Vossloh's further development and the disclosures pursuant to Arts. 289(4) and 315(4) HGB, as well as with the profit appropriation as proposed by the Executive Board, i.e., to distribute a cash dividend of €1.30 per no-par share.

The Supervisory Board thanks the Executive Board, the Management Boards, the Works Councils, and all the employees for their contributions to the Vossloh Group's repositioning efforts.

Werdohl, March 26, 2007

The Supervisory Board
Dr.-Ing. Wilfried Kaiser
Chairman

Vossloh AG's Supervisory Board

Dr. Hans Vossloh
Honorary Chairman, retired manager, Werdohl

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

Peter Langenbach
Vice-Chairman, lawyer, Wuppertal

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

Dr. Christoph Kirsch
Former CFO of Südzucker AG, Weinheim

Wolfgang Klein
Galvanizer, Group Works Council Chairman, Werdohl

Wilfried Köpke
Engineering designer, Works Council Chairman of Vossloh Locomotives GmbH, Kiel

Dr.-Ing. Wilfried Kaiser

Corporate governance

Vossloh believes that successful corporate governance is the basis that nurtures and perpetuates the trust that its present stockholders and future investors, its lenders, as well as its staff and business associates, place in it. The Executive Board, also on behalf of the Supervisory Board, reports on corporate governance at Vossloh in accordance with § 3.10 of the German Corporate Governance Code:

Vossloh's governance structure

Characteristic of German stock corporations is their two-tier board structure, both the Executive and Supervisory Boards as mandatory bodies being required to act in the company's best interests and perform management or monitoring functions, respectively. The general meeting as the stockholders' statutory body makes pivotal decisions of fundamental interest to the corporation.

Executive Board

Vossloh AG's Executive Board is the senior management body within the Vossloh Group and currently has two members after Milagros Caiña-Lindemann had resigned early by mutual agreement as of July 31, 2006. Since Dr.-Ing. Norbert Schiedeck has been appointed as new Executive Board member responsible for Engineering as from April 1, 2007, this Board will from that date again have three members. The Executive Board is responsible for running Vossloh; this includes defining the purposes, objectives, strategy and financial management of the entire Vossloh Group, acquiring and disposing of shareholdings and other financial investments, focusing R&D activities, strategic purchasing, deciding on major issues of HR policy, public relations, corporate identity, marketing, promotion and advertising wherever the overall interests of the Vossloh Group are affected or involved, but always with a sustained increase in shareholder value in mind. The Executive Board closely cooperates with the Supervisory Board whose consent is required for certain major transactions and Executive Board actions specified in the Executive Board Rules of Procedure. Based on an agreed plan, each Executive Board member is assigned the responsibility for certain operating and corporate activities. Executive Board members work together on a peer basis and brief each other on significant actions, transactions and events within their respective responsibilities. Certain issues require a decision by the plenary Executive Board. Any conflict of interests of an Executive Board member would immediately be disclosed to other members and the Supervisory Board. At present, no Executive Board member holds any supervisory board office at a nongroup listed company. For detailed information on Vossloh AG's Executive Board members, turn to page 147 of this annual report.

Supervisory Board

In accordance with Art. 10(1) first clause of the Company's bylaws, Vossloh AG's Supervisory Board consists of six members (see also page 34 hereof). Consequently, the composition of the Supervisory Board is governed by the provisions of the Stock Corporation Act and the Supervisory Board Composition Act, according to which the Supervisory Board must be composed of one-third of employee representatives and two-thirds of stockholder representatives. The stockholder representatives on the Supervisory Board are elected by the stockholders' meeting, the employee representatives by the workforce. The Supervisory Board constitutes a quorum if not less than three members participate in voting. Supervisory Board resolutions require the simple majority of votes cast unless statutory or legislative regulations provide otherwise. If a vote results in a tie, any Supervisory Board member has the right to require that the voting be immediately repeated on the same agenda item. The Supervisory Board Chairman has two votes in this second voting process on the same item if it again results in an equality of votes.

The Supervisory Board oversees and advises the Executive Board's management and conduct of business. Certain material transactions and Executive Board actions (specified in the Executive Board Rules of Procedure) are subject to prior Supervisory Board approval. The Supervisory Board periodically discusses with the Executive Board the trends of Vossloh's business, as well as the corporate plan and strategy and their implementation. Moreover, the Supervisory Board approves the annual budget and financial statements of Vossloh AG and the Group with due regard to the reports of the internal and the statutory auditors, apart from being responsible for the appointment and removal of Executive Board members.

Vossloh AG's Supervisory Board has currently two three-member committees, the Staff Committee and the Audit Committee (see also page 31 of this annual report). The Supervisory Board may establish additional committees if and when needed. The Staff Committee is also responsible for Executive Board matters and decides on the rules governing the relations between the Company and the various Executive Board members (in particular, the execution, amendment, renewal, rescission, cancellation or termination of the employment contracts with Executive Board members), the regulation of the legal relationship between the Company and former Executive Board members, the approval of contracts or agreements with Supervisory Board members, as well as on the grant of loans to Supervisory Board members. The Staff Committee is chaired by the Supervisory Board Chairman.

The Audit Committee is, inter alia, responsible for proposing to the Supervisory Board the statutory auditor(s) for the Company and the Group for election by the general meeting, and deals in particular with issues of the statutory auditor's prescribed independence and with issuing the audit engagement letter, determining focal audit areas, and fixing the auditor fees. In addition, the Audit Committee obtains information from the statutory auditor before and during the audit about the program and focal areas.

Moreover, the Audit Committee prepares the review and adoption by the Supervisory Board of the Company's separate financial statements, management report and audit report, as well as the review and approval by the Supervisory Board of the consolidated financial statements, group management report and group audit report, besides dealing with issues of accounting, annual auditing, risk management and supervision of management. Dr. Christoph Kirsch chairs the Audit Committee.

When selecting the Supervisory Board candidates to be proposed to, for election by, the general meeting, the Supervisory Board is responsible for seeing that these candidates have the necessary knowledge, capabilities, technical experience, international background, independence and sufficient time for their designated office.

None of Vossloh AG's Supervisory Board members are former Executive Board members, nor are any on the board of, or render advisory services to, a major competitor. On principle, no Supervisory Board member holds more than five further supervisory board offices at other listed companies.

Supervisory Board members are not bound by orders or instructions and are obligated to keep secret any business transacted at meetings, confidential information, as well as business and trade secrets, even beyond their period of office on the Supervisory Board. Every Supervisory Board member is committed to the Company's interests. Any conflict of interests must immediately be reported to the Supervisory Board Chairman, as must the termination of any position or function which was material to such member's appointment. Supervisory Board members must abstain from voting on any business that affects themselves or related parties.
The Supervisory Board report to the general meeting informs about any conflicts of interests of Supervisory Board members and how they have been dealt with. The same report will also disclose if a member failed to attend in the fiscal year more than half of the regular Supervisory Board meetings, either personally or through electronic media.

For details of Vossloh AG's Supervisory Board members, see page 147 of this annual report.

The annual stockholders' meeting on May 24, 2006, elected Dr. Christoph Kirsch as Supervisory Board member up to the close of the annual general meeting which votes on the official approval of the Board's acts and omissions in fiscal 2007.

Stockholders' meeting

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

Accounting and annual audit

In 2004, the Vossloh Group's primary accounting basis was changed to International Financial Reporting Standards (IFRS), while the annual financial statements of Vossloh AG are prepared according to the accounting regulations of the Commercial Code ("HGB"), as prescribed by German law. Both the consolidated financial statements based on the IFRS and the separate financial statements according to German GAAP were audited by BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft (the statutory auditor elected by the annual stockholders' meeting as proposed by the Supervisory Board), in accordance with German audit regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. The audit engagement letter was issued by the Supervisory Board's Audit Committee in conformity with the recommendations of the German Corporate Governance Code and after due verification of the statutory auditor's independence. The Supervisory Board has agreed with the statutory auditor that it will be promptly informed of any significant findings, conclusions and circumstances which are established during the annual audit and may be of relevance to the Supervisory Board's duties. While the statutory auditor has further agreed to notify the Supervisory Board if it finds any facts substantiating that the declaration of conformity issued by the Executive and Supervisory Board is incorrect, no such indications were found during the audit 2006.

Informing the stockholders

High priority is attached by Vossloh to transparency and to having the same information communicated efficiently at the same time to all stockholders. Therefore, any information about Vossloh which is published by other media is also displayed on the corporate website at www.vossloh.com. This applies specifically to quarterly and annual reports, invitations to, and information on, stockholders' meetings, press releases, as well as the financial diary with all dates of significant periodic publications. The consolidated financial statements and the quarterly reports are publicly available within 90 and 45 days after closing date, respectively.

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

Art. 10 German Securities Prospectuses Act obligates Vossloh to publish once yearly a so-called annual document where all the preceding 12 months' information is compiled where of relevance under companies or capital market laws and regulations.

The aforementioned information is fully available on the Company's website at www.vossloh.com

Remuneration of the Executive and Supervisory Boards

For details of Executive and Supervisory Board remuneration, see the Board Compensation Report on page 66 which is an integral part of both the combined management report and this corporate governance report.

Vossloh stock ownership by Executive or Supervisory Board members

The provisions of Art. 15a German Securities Trading Act ("WpHG") obligate members of Vossloh AG's Executive and Supervisory Boards, certain other managerial staff and parties (individuals or entities) related to these officers and managers, to disclose the purchase or sale of Vossloh AG shares or related financial instruments. Notices of such directors' dealings in 2006 have been published on the Internet at www.vossloh.com. No shareholdings existed at December 31, 2006, that would have been reportable under the terms of 6.6 of the Code.

Stock option programs and similar securities-based incentive systems

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

No active or former Executive Board member has participated in, or acquired any stock option under, the 2005 LTIP. While the LTIP was not relaunched in 2006, it is intended to redesign it.

For further stock option program details (LTIP and employee stock option plan), see pages 113/114 of this annual report.

Implementation of Code recommendations

Since legislation and Code provisions were amended in 2006, Vossloh AG's Executive and Supervisory Boards reviewed and updated Vossloh's governance practices. Subject to the one exception explained below in the declaration of conformity, this annual report conforms to Code recommendations.

Declaration of conformity pursuant to Art. 161 AktG

Pursuant to Art. 161 AktG, the executive and supervisory boards of an exchange-listed stock corporation are required to issue an annual declaration on the extent to which the recommendations of the German Corporate Governance Code Government Commission (as published by the Federal Ministry of Justice in the official section of the digital Federal Gazette) have been complied with. The current declaration of conformity under the terms of Art. 161 AktG was issued in December 2006, and published for long-term availability on the Company's website:

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

The recommendations of the German Corporate Governance Code Government Commission, which have been published by the Federal Ministry of Justice in the official part of the digital Federal Gazette (as amended up to June 2, 2005, and June 12, 2006, respectively), have been and are fully implemented, except for the recommendations indicated hereinbelow, which have not been and will not be applied (whether in full or in part):

(a) Clause 4.2.4 of the Code as amended up to June 2, 2005, recommended that the compensation of executive board members be disclosed as individualized figures in the notes to the consolidated financial statements, broken down into fixed, performance-related and long-term incentive components. With the enactment of the Executive Board Compensation Disclosure Act and unless otherwise resolved by the stockholders' meeting, individualized compensation figures are now required qua lege for each executive board member to be disclosed in the notes to the (consolidated) financial statements for fiscal years commencing on or after January 1, 2006. Therefore, the recommendation in Clause 4.2.4 of the Code as amended up to June 12, 2006, has now been superseded. Since Vossloh AG's Executive Board comprised only three (now two) members, the Executive and Supervisory Boards had believed that the disclosure of individual compensation data would not add any significant transparence to the report and therefore not justify the disclosure-related impairment of the Executive Board members' privacy. Consequently, the Executive and Supervisory Boards had decided for the annual report 2005 not to carry out the recommendation of Clause 4.2.4 of the Code as amended up to June 2, 2005. The annual report 2006 will, in contrast, include the statutory Management Compensation Report with individualized Executive Board members' remuneration.

(b) In Clause 4.2.5, 2nd paragraph, 2nd sentence, the Code as amended up to June 12, 2006, has recommended the disclosure of the annual provision for accrued pension obligations to, or the annual endowment provided for pension funds in favor of, each executive board member. The Executive and Supervisory Boards believe that the individualized disclosure of annual provision or endowment data will not add any significant transparence to the other disclosures in the Management Compensation Report and therefore not justify the disclosure-related impairment of the Executive Board members' privacy. Consequently, the Executive and Supervisory Boards have decided not to carry out the recommendation of Clause 4.2.5, 2nd paragraph, 2nd sentence, of the Code, for either past or future fiscal years.

(c) According to the recommendation of Clause 5.4.7, 3rd paragraph, 1st sentence, of the Code, the compensation of the Supervisory Board members should be broken down into its components and disclosed on an individualized basis in the Corporate Governance Report. While this recommendation had not been carried out previously, it will be in future now that the compensation of each Executive Board member requires such disclosure.

(d) Under the terms of Clause 6.6, 2nd paragraph, of the Code, the total ownership of the company's stock or related financial instruments by executive board and supervisory board members should be reported if directly or indirectly in excess of 1% of the stock issued by the company. If (only) the entire holdings of all Executive and Supervisory Board members exceed such 1% threshold, the total ownership each of the Executive and Supervisory Board should be reported separately (without any individualization by members). According to Clause 6.6, 3rd paragraph, all the disclosures required by Clause 6.6 (including the aforementioned stock ownership, as well as the purchasing and selling transactions of board members) should be included in the Corporate Governance Report. While these recommendations had not been carried out in the past, they will henceforth be implemented since the compensation of each Executive and Supervisory Board member is disclosed on an individualized basis.

Werdohl, December 2006

The Executive and Supervisory Boards

Combined management report

Business and general conditions

Group structure and business

Vossloh is a global player in the rail infrastructure and rail technology markets. Group parent and financial holding company is Vossloh AG. The corporate structure comprises two divisions, Rail Infrastructure and Motive Power&Components, subdivided into five business units: Fastening Systems (chiefly rail fasteners), Switch Systems (mainly rail switches), Infrastructure Services (track construction and maintenance); Locomotives (specializing in diesel locomotives), and Electrical Systems (especially electrical components for trams, streetcars, and trolleybuses).

Vossloh AG

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

Market positions and products of the business units

Vossloh Fastening Systems is Europe's biggest and the world's second biggest supplier of rail fastening systems. The lineup covers rail fastening systems for all types of traffic, from (sub)urban via heavy-load to high-speed.

Vossloh Switch Systems is the world's second biggest supplier of rail switches. It equips rail networks with switches, control and monitoring systems, which it also installs and services. Here, too, the range reaches from LRV to high-speed lines.

Vossloh Infrastructure Services is the leading supplier of trackage maintenance work in France, Belgium, and Luxembourg. Track construction and overhead line installation are also among its services. Customers include state-owned and industrial rail networks as well as operators of tram and other LRV services.

Vossloh Locomotives with its two production locations in Valencia, Spain, and Kiel, Germany, is Europe's foremost manufacturer of diesel locomotives. The company offers service/maintenance as well as locomotive leasing/rental packages. At its Valencia location it also makes (sub)urban rail vehicles. The business unit's customers include state and private rail operators plus, increasingly, leasing companies.

Vossloh Electrical Systems is the world's foremost supplier of electrical equipment for trolleybuses. Its business of fitting out LRV with advanced electrical systems is chiefly focused on the Western European market. Apart from such complete systems, the business unit also supplies individual components, subassemblies plus revamping work, servicing and maintenance.

The Vossloh Group: Over 80 companies at the end of 2006

Vossloh patterns its business on local presence and customer proximity. The Group is internationally positioned; its chief production plants are in Germany, France, Benelux, Spain, Scandinavia, and Poland. About two years ago the Group first ventured outside Europe by acquiring Indian switch manufacturers. Besides its production companies, Vossloh also has its own sales companies and branches and, together with competent local associates, joint ventures and alliances. At the end of 2006, the Group comprised a total of over 80 companies.

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

Some 85 percent of sales are generated outside of Germany—a large slice in other European countries. About 10 percent of sales originated outside of Europe in 2006.

Strategy and control system

In 2005, the Vossloh Group failed to achieve its set financial targets. As a consequence, a repositioning concept was mapped out in 2006, its enactment commencing in September of the same year. The new strategy does not take effect before the start of 2007 and is designed to solve problems reflected in the results of past years. Although the market for rail infrastructure products and services is growing steadily worldwide, it is in part vulnerable to regional fluctuations, especially in Europe, hitherto Vossloh's chief market. Hence, the new strategy emphasizes internationalization and growth, most especially in Asia (China and India), as well as in the USA. Such expansion efforts are intended to offset regional volatility in Europe.

The locomotive market of relevance to Vossloh is cyclic and governed by megaprojects. The potentials inherent in its Locomotives business unit Vossloh intends to more effectively exploit through strategic alliances. Additionally, Vossloh will expand its rail components business through M&A transactions.

Business unit benchmarks

With the aid of this strategy, Vossloh will further strengthen its business units over the years ahead. The Vossloh Group's profitability—its EBIT margin and ROCE—are targeted to undergo a sustained lift and so the business units are required to satisfy the following criteria:
- Leading market position and competence leadership
- International growth potential
- Adequate insourcing potential
- Limited cyclicity
- Sustained better-than-average ROCE in excess of 15 percent.

Through international growth, the non-European share of sales is set to rise from presently around 10 to at least 30 percent in the next few years.

Financial benchmarks

Vossloh's financial benchmarks are its EBIT margin and ROCE. As part of the strategic refocus, others have been added. The benchmarks are now as follows:
- EBIT margin of over 10 percent
- ROCE for the Group as such of over 15 percent
- EBIT growth to outpace sales growth
- Sustained EpS rise and commensurate dividend increase
- Net financial debt capped at a conservative height.

Periodic financial reports assist management in controlling the subsidiaries, business units and Group as such: The monthly accounts and key indicators prepared and determined by all the Vossloh companies are consolidated and analyzed, as are the monthly rolled-over annual budget and projection. Variances are investigated and explained in a narrative commentary. A risk report complements the monthly rolled-over annual budget by stating any asset decreases or increases.

Business report

Economic environment

Despite the record price for oil during the period and a US economy faltering in the latter half of 2006, the global GDP advanced by 3.8 percent, thus somewhat ahead of the previous year. Steep growth rates were again recorded in Asia—most especially in China and India. Euroland, too, where Vossloh generates more than three-quarters of its sales, showed accelerated growth of 2.8 percent, almost twice the rate of 2005 (1.5 percent). The biggest factor in this boom was the economic upturn in Germany, propelled by dynamic exports toward year-end and resulting in 2.7-percent growth, triple the figure for 2005 (0.9 percent).

Factors impacting on economic development

The rail infrastructure and rail technology markets of relevance to Vossloh correlate only to a limited extent with worldwide and regional economic cycles. Steep economic growth especially in India and China is calling for higher transport capacities and hence the expansion of existing transport and rail infrastructures for local and mainline traffic as well as freight and passenger transportation.

In addition, the planning of rail projects increasingly hinges on transport and environmental policies as exemplified in recent years in the renaissance of the tram in France or the construction of high-speed lines in Europe. Also impacting on the rail market are the deregulation and privatization of parts of Europe's rail sector.

Since Vossloh's rail markets are of a heterogeneous nature and again developed in various directions last year, a description of the markets and their chief trends in 2006 is given under the segment reports. Nonetheless, due to a general lack of systematic rail industry surveys, forward-looking statements regarding future trends are subject to uncertainties.

Commodity price uptrend slowed down

The sharp rise in commodity prices, typical of recent years, did not maintain its momentum in 2006 in those markets of relevance to Vossloh; this, in turn, had a favorable effect on procurement prices, especially steel.

Results of operations

Statements relating to the Group's results of operations no longer include the Information Technologies division which, in line with the Vossloh Group's strategic repositioning, was put up for disposal in the fall of 2006. Due to this intended divestment and as required by IFRS 5, this division's net (posttax) balance of income and expenses is shown in a separate income statement line as net result of discontinued operations. The prior-year comparatives have been restated accordingly.

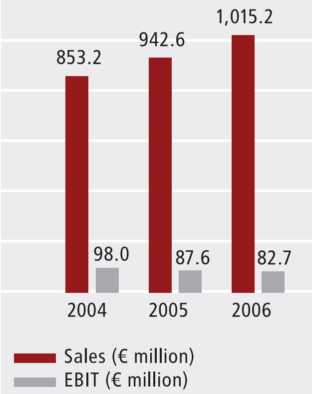
Both divisions showing sales growth

With sales of €1.02 billion in 2006, the Vossloh Group for the first time ever crossed the one-billion threshold. Versus 2005, this was an addition of €72.6 million or almost 8 percent. The Group's sales growth was attributable to both divisions: revenues by Rail Infrastructure and Motive Power&Components climbed 5.9 and 9.9 percent, respectively.

Alongside the incremental sales generated from large-scale tram projects handled by Vossloh Infrastructure Services, it was also the extra exports on the part of the Fastening Systems business unit that propelled business at the Rail Infrastructure division. In contrast, Vossloh Switch Systems sales inched down. At the Motive Power&Components division, both the Electrical Systems and Locomotives business units raised their sales.

The two locomotive plant locations showed a dissimilar trend. Whereas the Kiel plant's sales of diesel-hydraulic locomotives shrank below the 2005 level, Valencia's sales rose appreciably in 2006.

Vossloh Group: sales and EBIT in € mill.



The prior-year comparatives have been adjusted for the Information Technologies division's contributions.

Vossloh Group: sales by business unit

	€ mill.	%	€ mill.	%
	2006		2005	
Rail Infrastructure	**613.9**	**60.5**	**579.5**	**61.5**
Fastening Systems	152.3	15.0	147.0	15.6
Switch Systems	253.0	24.9	258.3	27.4
Infrastructure Services	219.1	21.6	196.3	20.8
Consolidation	(10.5)	(1.0)	(22.1)	(2.3)
Motive Power&Components	**401.2**	**39.5**	**365.2**	**38.7**
Locomotives	296.8	29.2	276.3	29.3
Electrical Systems	104.4	10.3	88.9	9.4
Consolidation	0.0	0.0	0.0	0.0
Corporate HQ and consolidation	**0.1**	**0.0**	**(2.1)**	**(0.2)**
	1,015.2	**100.0**	**942.6**	**100.0**

The prior-year comparatives have been adjusted for the Information Technologies division's contributions.

To be taken into account, however, is that Valencia's 2005 figures only contain the period April to December.

Electrical Systems' additional sales were chiefly sourced from contracts for fitting out trolleybuses; tram sales stayed more or less unchanged.

The key basis for the operations of the Motive Power&Components division and the Infrastructure Service business unit is longer-term contract, customized manufacture. In contrast, Vossloh Fastening Systems and Vossloh Switch Systems generate their sales largely from short-term orders, to some extent on a call-off basis.

France the biggest regional market

Within Europe, France was in 2006 again the most important regional market constituting the focal area of business at Vossloh Switch Systems and Vossloh Infrastructure Services. Especially the construction of tram lines in a number of large French cities and the expansion of the French high-speed rail network led to a further extension of business at the Infrastructure Services and Switch Systems units within their home market. Locomotive contracts from the French market also boosted sales.

Share of sales outside Europe below ten percent

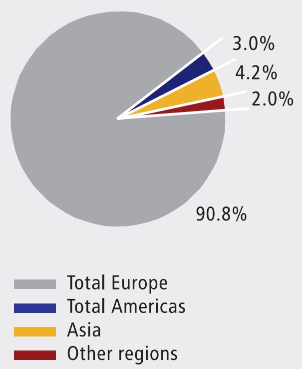
Vossloh's German business in 2006 centered on the Fastening Systems and Electrical Systems business units, the sales level of both remaining at the prior year's.
The fall in group sales in Germany is solely due to the shrinkage of domestic sales at the Kiel-based locomotives plant. At 9.2 percent, the Vossloh Group's sales outside Europe remained virtually unchanged. Asian sales accounted for the first shipments by Vossloh Fastening Systems for high-speed rail projects in China.

Vossloh Group: sales by region

	€ mill.	%	€ mill.	%
	2006		2005	
Germany	128.4	12.7	159.2	16.9
France	316.9	31.2	238.5	25.3
Other Euroland	333.4	32.8	312.0	33.1
Other Europe	143.5	14.1	139.8	14.8
Total Europe	**922.2**	**90.8**	**849.5**	**90.1**
North America	26.3	2.6	22.5	2.4
Latin America	4.4	0.4	6.8	0.7
Total Americas	**30.7**	**3.0**	**29.3**	**3.1**
Asia	**42.5**	**4.2**	**49.5**	**5.3**
Other regions	**19.8**	**2.0**	**14.3**	**1.5**
Total	**1,015.2**	**100.0**	**942.6**	**100.0**

The prior-year comparatives have been adjusted for the Information Technologies division's contributions.

Sales by region 2006



EBIT Excluding the Information Technologies division, the Vossloh Group's EBIT totaled €82.7 million in 2006. This was roughly €5 million or just under 6 percent short of the like-for-like prior-year €87.6 million.

Profit warning issued Back in June 2006, Vossloh had revised its profit forecast for fiscal 2006. The EBIT forecast was lowered by €21.4 million from €91.7 million to €70.3 million, with Information Technologies inputting as much as €9.5 million to this shrinkage. With Vossloh Information Technologies (VIT) meantime stated separately as a discontinued operation, its loss contribution no longer impinges on the Group's EBIT for the full year. If this division had been shown as discontinued operation as early as in June 2006, the originally budgeted EBIT of €85.8 million (Group excluding VIT) would have resulted in an EBIT revised downward by €11.9 million to €73.9 million.

The €11.9 million reduction of the expected EBIT was due to unbudgeted consultancy expenses in connection with the Group's refocus (€4.0 million) and other nonrecurring burdens at the remaining business units (altogether €7.9 million). These latter included restructuring expenses at the Rail Infrastructure division (€2.0 million) and litigation costs at Motive Power&Components (€2.4 million). Eventually, only €10.7 million of the total burden anticipated at €11.9 million did, in fact, materialize in 2006.

Vossloh Group: sales and earnings

	€ mill.	%	€ mill.	%
	2006		2005	
Sales[1]	1,015.2	100.0	942.6	100.0
Gross margin[1]	186.5	18.4	182.6	19.4
Operating result[1]	80.9	8.0	90.6	9.6
EBITDA[1]	108.6	10.7	110.3	11.7
EBIT[1]	82.7	8.1	87.6	9.3
EBT[1]	68.6	6.8	69.1	7.3
Net result of discontinued operations	(23.6)	(2.3)	(0.2)	0.0
Group earnings	20.3	2.0	45.1	4.8
Earnings per share (€)	1.38		3.07	

[1] The prior-year comparatives have been adjusted for the Information Technologies division's contributions.

Compared with the June 2006 forecast, the actual EBIT of €82.7 million represented an improvement of €8.8 million as the result of higher sales by the Fastening Systems and Switch Systems business units (especially in Q4/2006), unforeseen indemnities from insurers in connection with the accident of a track-laying train, as well as income from the release of accruals no longer needed.

Group earnings

In connection with the profit warning, the Group's earnings prediction was revised from originally €47.3 million to €35.6 million. Besides the aforementioned EBIT burdens, this reduction included at roughly €6 million the downward revision of VIT's posttax result.

Because of additional expected losses on the disposal of the Information Technologies division, Vossloh again revised the forecasted net earnings by another some €15 million to around €20 million when announcing the divestment in January 2007.

Group earnings totaled €20.3 million in 2006 (down from €45.1 million) and include the posttax result of discontinued operations of a red €23.6 million (up from an equally red €0.2 million). This net result breaks down into a posttax loss from VIT's operating activities at €13.3 million and impairment losses required by IFRS for a total write-down by €10.3 million to fair value.

Order backlogs

At December 31, 2006, orders on hand within the Group totaled €1.37 billion (up from €1.05 billion). Order backlog at the Motive Power&Components business units sufficed throughout as of year-end 2006 to generate the full sales budgeted for 2007.

Vossloh divisions: order backlog

	€ mill.	%	€ mill.	%
	2006		2005	
Rail Infrastructure	497	36.3	313	29.8
Motive Power&Components	873	63.7	739	70.2
Consolidation	(1)	(0.0)	0	0.0
	1,369	**100.0**	**1,052**	**100.0**

The prior-year comparatives have been adjusted for the Information Technologies division's contributions.

Financial position and investing activities

As the Group's management holding company, Vossloh AG is also responsible for managing the Group's finance and funding. Besides the central intragroup control and channeling of cash flows, Group Treasury is in charge of securing the finances of all subsidiaries as well as of hedging and managing financial risks, which include not only liquidity risks but also those from interest and exchange rate fluctuations. Typical hedging instruments are financial derivatives. The group companies' funding level is largely ensured by Vossloh AG providing the necessary cash resources intragroup.

Net financial debt whittled down

The Vossloh Group's net financial debt as of December 31, 2006, amounted to €62.3 million, hence down €158.2 million from the prior year-end's €220.5 million, substantially thanks to the downscaled working capital. As of December 31, 2006, financial debts of €230.5 million (down from €275.8 million) contrasted with cash and cash equivalents (including short-term securities) of €168.2 million (up from €55.3 million), partly destined for funding future M&A transactions. The slashed net financial debt depressed net leverage from 61.1 percent a year ago to 16.8.

Vossloh Group: net leverage

		2006	2005
Equity	€ mill.	371.1	361.0
Net financial debt	€ mill.	62.3	220.5
Net leverage	%	16.8	61.1

The financial debts in 2006 substantially represented the long-term debt of around €182 million raised by Vossloh in 2004 by a two-loan private placement from the US capital market. The first and second fixed-rate US dollar loans (due in 2014 and 2016, respectively) have a bullet maturity. Since the funds were borrowed in US dollar at fixed rates, principal and interest payments have entirely been hedged on a euro basis through interest rate and currency swaps. This means that both loans will be repayable at fixed euro-based rates of 5.325 and 5.455 percent, respectively.
The remaining financial debts as of the balance sheet date mainly included a short-term floating-rate loan of €26.0 million and a 5.93-percent note loan whose balance totaled €10 million at year-end 2006 and which is redeemable in annual installments of €5.0 million by mid-2008.

As of December 31, 2006, open cash credit facilities of about €170 million were available to the Vossloh Group. For details, see the chapter on risk and reward management starting from page 78. At the closing date, no restrictions existed that could adversely affect the availability of the financial resources.

The soaring cash and cash equivalents—more than triple the 2005 magnitude—were produced by the surge in net cash provided by operating activities, which contrasted with lower cash outflows for investing and financial activities.

Vossloh Group: cash flow analysis

€ million	2006	2005
Cash flow from operating activities	172.1	50.3
Cash flow from investment activities	(15.4)	(61.2)
Cash flow from financing activities	(66.7)	(78.9)
Change in cash and cash equivalents	**90.0**	**(89.8)**

Despite the lower group earnings, operating activities provided net cash of €172.1 million in 2006 (up from €50.3 million), a key source of inflowing cash being higher customer prepayments. Moreover, the noncash burden on group earnings from higher annual provisions for taxes, purchase invoices outstanding, etc. was significantly above the prior year's. An opposite effect came from the noncash accounting for deferred taxes.

Vossloh Group: capital expenditures and amortization/depreciation

€ million	2006		2005	
	Capex	Amort./deprec.	Capex	Amort./deprec.
Rail Infrastructure	9.7	14.0	15.4	14.2
Motive Power&Components	12.9	8.2	12.9	7.8
Discontinued operations	1.1		4.1	
Corporate HQ and consolidation	0.2	3.7	2.1	0.7
	23.9	**25.9**	**34.5**	**22.7**

Capex and depreciation

The net cash of €15.4 million used in investing activities 2006 sank from the 2005 level of €61.2 million, however, the latter including the acquisition price for the Valencia locomotive plant at a net €24.0 million. The cash outflow of €23.9 million for added tangible and intangible assets shrank by about 30 percent from the prior year's €34.5 million. At the same time, capital expenditures in 2006 were slightly below amortization and depreciation of €25.9 million, which included write-down of €2.7 million charged in connection with the aforementioned accident of a tracklaying train.

Unchanged, development costs capitalized within the Locomotives unit accounted for a large proportion of the 2006 capital expenditures, up from €6.4 million a year ago to €6.8 million. As in the previous year, capital outlays focused on the EURO 4000. Expenditures by Vossloh Rail Infrastructure concerned, in particular, the upkeep and extension of production plant and machinery.

Vossloh Group: breakdown of capex for intangible/tangible assets

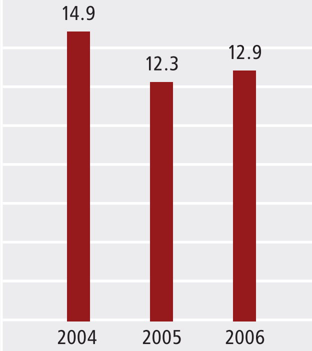
€ million	2006		2005	
	Capex	%	Capex	%
Development costs	7.7	32.2	8.4	24.3
Other intangibles	0.8	3.4	1.6	4.6
Land and buildings	1.3	5.4	2.0	5.8
Production plant and machinery	7.7	32.2	14.8	42.9
Other plant, factory and office equipment	4.4	18.4	6.5	18.9
Prepayments made, construction in progress	2.0	8.4	1.2	3.5
	23.9	**100.0**	**34.5**	**100.0**

The future cash outflows under the operating leases existing at December 31, 2006, total €28.5 million (down from €38.2 million), including €7.0 million in 2007. The current property leases entail cash outflows of a total €12.2 million (down from €15.5 million), including €1.6 million in 2007. Future cash outflows under capital leases came to €1.6 million as of December 31, 2006.

Asset and capital structure

Since October 2006, the Information Technologies division has been carried as discontinued operation, its disposal having taken effect in January 2007. As required by IFRS 5, this division's assets and liabilities as of December 31, 2006, are shown in one separate balance sheet line each. In accordance with the IFRS, the prior-year comparatives have not been adjusted. For enhanced comparability, however, the analysis of the asset and capital structure below is based on a pro-forma balance sheet for 2005 that has been restated like-for-like to reflect the disclosure principles as of December 31, 2006:

Vossloh Group: ROCE in %



The prior-year comparatives have been adjusted for the Information Technologies division's contributions.

Vossloh Group: asset and capital structure

		2006	2005	Pro forma
Total assets	€ mill.	1,198.5	1,091.2	1,091.2
Equity	€ mill.	371.1	361.0	361.0
Equity ratio	%	31.0	33.1	33.1
Working capital	€ mill.	216.7	303.3	275.3
Working capital ratio	%	21.3	32.2	29.2
Capital employed	€ mill.	640.1	756.6	709.8
Fixed assets	€ mill.	423.4	453.3	434.5
ROCE	%	12.9	11.6	12.3
Return on equity (ROE)	%	18.5	19.1	19.1

The prior-year comparatives have been adjusted for the Information Technologies division's contributions.

ROCE up over 2005

The lower EBIT notwithstanding, ROCE at 12.9 percent exceeded the previous year's LFL return by 0.6 percentage points, ROCE edging up as LFL capital employed was slimmed down significantly, by almost €70 million or 9.8 percent. Besides the slightly lower total of fixed assets (since amortization and depreciation outnumbered additions), the better return ratio was ascribable to an appreciably trimmed working capital, down by 21+ percent to €216.7 million, mainly thanks to higher customer prepayments as of December 31, 2006.

In comparison with year-end 2005, equity climbed €10.1 million to €371.1 million, substantially as minority interests and accumulated other comprehensive income rose by €3.2 million and €4.9 million, respectively. The higher OCI was attributable to the favorable impact of the restatement to fair value of the interest rate and currency hedges for the private placement. Vossloh's return on equity crept down 0.6 percentage points to 18.5 percent.

Rail Infrastructure business trend

The Rail Infrastructure division comprises three business units: Vossloh Fastening Systems, Vossloh Switch Systems, and Vossloh Infrastructure Services which in 2006 together generated sales of €613.9 million, representing a rise of 5.9 percent on 2005. The Infrastructure Services business unit accounted for the lion's share of this €34.4 million increase while Vossloh Fastening Systems boosted sales by 3.6 percent. Vossloh Switch Systems, on the other hand, saw its sales creep down 2.0 percent.

Rail Infrastructure

		2006	2005
Net sales	€ mill.	613.9	579.5
EBITDA	€ mill.	95.1	101.9
EBIT	€ mill.	81.2	87.8
EBIT margin	%	13.2	15.1
Working capital	€ mill.	120.5	172.7
Working capital ratio	%	19.6	29.8
Fixed assets	€ mill.	291.9	296.1
Capital expenditures*	€ mill.	9.7	15.4
Depreciation/amortization	€ mill.	14.0	14.2
Capital employed	€ mill.	412.4	468.8
ROCE	%	19.7	18.7

* excl. financial assets

EBIT and EBIT margin down

Rail Infrastructure's EBIT slid from €87.8 million in 2005 to €81.2 million in 2006, i.e., by 7.5 percent. Since the sales gain was mainly generated by Vossloh Infrastructure Services, the least profitable of the three business units, the EBIT margin slipped from 15.1 to 13.2 percent.

Working capital was pared by 30.2 percent from €172.7 million in 2005 to €120.5 million, the reason being high customer prepayments shortly before year-end. Owing to the significant fall in working capital, capital employed was also much lower in 2006 than in the previous year. Accordingly, ROCE increased (in spite of a lower EBIT) by 1 percentage point and, at 19.7 percent, clearly topped the Vossloh Group's ROCE benchmark of 15 percent.

Vossloh Fastening Systems

Fiscal 2006 was more encouraging than could have been expected for Vossloh Fastening Systems: domestic sales well above budget plus higher exports drove sales up to €152.3 million, thus significantly outgrowing expected business. The business unit raised its sales by €5.3 million or 3.6 percent. As in preceding years, Europe and Asia were the key markets for Fastening Systems. Export sales again rose from a strong year-earlier level by €6.6 million or almost 7 percent to €102.5 million. In Germany, higher-than-expected German Rail maintenance jobs helped to generate sales of €49.8 million, almost equivalent to the year-earlier €51.1 million.

Infrastructure orders from China

A major success for the Fastening Systems business unit and for the Vossloh Group as such in 2006 was the contracts awarded for infrastructure projects in China. The first was an order worth around €19 million to supply rail fastening systems for what is known as the Olympic railway line between the Chinese capital of Beijing and the city of Tianjin, which already contributed sales of €8.7 million in 2006. As the leader of a bidding consortium Vossloh also secured from the Chinese Ministry of Railways a further contract to supply the rail fasteners for the planned high-speed lines from Wuhan to Guangzhou and from Guangzhou to Shenzhen. Valued at €166 million, this contract will be handled by a joint venture headed by Vossloh Fastening Systems which is to operate a new plant producing rail fastening systems in Kunshan in the southern Chinese province of Jiangsu.

In Italy, Vossloh's sales grew substantially to €14.3 million (up from €5.5 million), also thanks to an order for rail fasteners on the final section of the high-speed Torino–Novara line. Robust demand was also registered for the W14 system used on standard trackage, the reason being that suppliers of concrete sleepers are using this Vossloh rail fastening system increasingly.

In the Netherlands, Vossloh had generated considerable sales with rail fastener orders until 2005, chiefly through supplies for the high-speed (HSL Zuid) line from the Belgian border to Amsterdam and for the Betuwe freight transport link. Even though these orders were completed in 2005, Vossloh's Dutch sales still reached €13.8 million in 2006 (down from €23.7 million) largely through shipments of the Vossloh W-Tram and W14N systems for the Randstad Rail rapid transit system linking The Hague, Zoetemeer, Amsterdam, and Rotterdam.

Vossloh Fastening Systems supplied its rail fastening systems to customers in 48 countries in 2006. During the period it again improved its supply chain management, establishing new sources of supply at home and abroad. As with existing suppliers, the focus was on reliability and quality. The surge in steel and plastics prices decelerated in 2006, and commodity price advances were largely offset by cost savings and, in a few cases, higher selling prices.

Appreciable increase in order intake

The contract from China lifted order intake in 2006 to €328.5 million (up from €137.3 million).

Vossloh Switch Systems

Vossloh Switch Systems performed satisfactorily in fiscal 2006, even though it failed to match the superlative prior-year figures. Lower sales from major tram projects in France were almost fully compensated by newly won orders, including from the Maghreb states and the Middle East, and also thanks to a good market in Western Europe. In 2006, Vossloh Switch Systems posted sales of €253.0 million, representing a fall of €5.3 million or 2.0 percent on the year before (€258.3 million).

For a number of years now, trams have experienced a revival in France, with many municipalities seeking to reverse their original plans of giving priority to travel in private motor vehicles. In recent years, Vossloh Switch Systems and Vossloh Infrastructure Services have therefore secured extensive tram project-related orders. In 2006, projects in such cities as Strasbourg, Montpellier and Bordeaux, on which Vossloh Switch Systems and Vossloh Infrastructure Services worked together, were largely completed. In addition, Vossloh Switch Systems provided a whole range of products for the tram projects in Lyons and Le Mans. At the end of 2006, this specific boom in France's infrastructure projects largely came to an end, the orders having been completed for the most part. Sales generated by tram projects were therefore at a high level but short of 2005.

High-speed rail projects in France also ended for the time being in early 2007. With the LGV East line (running between Paris and Strasbourg) all high-speed links have been completed in France for now with no construction of new sections planned for the period up to 2008.

Asian growth market potentials

Vossloh Switch Systems intends to make the most of the opportunities arising from the dynamic Asian rail technology market. For example, a Chinese associate of Vossloh Switch Systems is to manufacture switch systems for high-speed lines on license, having secured orders for the first high-speed line sections in 2006. Vossloh Switch Systems is to supply under long-term contracts signaling components.

Vossloh Switch Systems was also successful in India in 2006. New lines are under construction and major maintenance programs are to be carried out on the Indian rail network. Vossloh has three subsidiaries in India: J.S. Industries (switch production), Beekay (foundry for producing switch crossings) and Dakshin Transtek (signaling components). All three benefited from the congenial market and together generated sales of around €10 million. In 2007, the business unit is planning action to raise both capacities and productivity.

The purchase price for steel and rail materials did rise in 2006 but at a lower rate than in the two preceding years. Steeper commodity prices were absorbed by cost savings or, in a few instances, selling price adjustments.

Factories working to capacity in 2006

Vossloh Switch Systems' production capacities were fully booked up in 2006. In the years up to 2005, this business unit had already carried out important production plant revamps and capacity upgrades and so was well equipped in 2006, with no need for sizable expenditures.

Vossloh Infrastructure Services

In fiscal 2006, Vossloh Infrastructure Services generated a sales volume of €219.1 million, up almost 12 percent or €22.8 million from the previous year. The higher sales were mainly ascribable to major tram projects (up 30 percent). The projects in Valenciennes, Montpellier, St. Etienne and Grenoble were handed over to the operators, with the Clermont Ferrand, Marseille, Nice, Bordeaux and Strasbourg contracts due to be completed in 2007.

Participation in the construction of a section of the LGV East high-speed line from Paris to Strasbourg also ended more or less in 2006. This contract was handled by ETF, a 50-percent subsidiary of Vossloh Infrastructure Services. The maintenance contracts carried out by ETF for the French state railways (SNCF) reached the year-earlier volume.

In track maintenance and overhead wire construction, the business unit's sales were likewise at the prior year's magnitude.

Expenditures and order backlog

In 2006, Vossloh Infrastructure Services invested chiefly in light-duty construction machinery. At €5.0 million, expenditures were therefore well below the prior-year €8.8 million.

At the end of 2006, Vossloh Infrastructure Services' order backlog of around €100 million averaged that of many former years. The €50 million shortfall versus 2005 is mainly due to the substantial completion in 2006 of public LRV projects in France.

Motive Power&Components business trend

Motive Power&Components comprises the two business units Vossloh Locomotives and Vossloh Electrical Systems.

At Vossloh Locomotives, a conspicuous reluctance to buy diesel-hydraulic locomotives on the part of the state-owned railways, already noticeable in the preceding years, continued in 2006 and no new orders were awarded. Instead of buying new vehicles, private rail operators are partly opting to lease their units, a trend that in 2006 again promoted business with lessors.

In the Electrical Systems business unit, demand for trams and light rail transit systems remained unchanged. In contrast, demand picked up for electrically driven buses as a low-pollution, low-noise mode of transportation.

Motive Power&Components

		2006	2005
Net sales	€ mill.	401.2	365.2
EBITDA	€ mill.	31.8	23.1
EBIT	€ mill.	23.6	15.3
EBIT margin	%	5.9	4.2
Working capital	€ mill.	96.9	102.7
Working capital ratio	%	24.2	28.1
Fixed assets	€ mill.	119.7	123.0
Capital expenditures*	€ mill.	12.9	12.9
Depreciation/amortization	€ mill.	8.2	7.8
Capital employed	€ mill.	216.6	225.7
ROCE	%	10.9	6.8

* excl. financial assets

Sales and EBIT up

In 2006, Vossloh Motive Power&Components generated sales of €401.2 million, €36.0 million or 9.9 percent more than in 2005. Vossloh Locomotives contributed €20.5 million to this rise, Electrical Systems €15.5 million. The division's EBIT increased by €8.3 million to €23.6 million. Nonrecurrent costs of €6.8 million for the restructuring measures at the Kiel location had weighed on the 2005 EBIT.

As of December 31, 2006, working capital came to €96.9 million, down from the prior-year €102.7 million chiefly due to higher prepayments.

ROCE rising

The division's fixed assets, too, shrank somewhat, from €123.0 million to €119.7 million in 2006. As of December 31, 2006, capital employed was down by €9.1 million from €225.7 million to €216.6 million. Owing to the improved EBIT as well as reduced capital employed, ROCE surged from 6.8 percent a year ago to 10.9 percent in 2006.

Vossloh Locomotives

The Locomotives business unit achieved sales of €296.8 million in 2006 (up from €276.3 million), to which Vossloh España contributed €152.9 million (up from €98.8 million, albeit only for nine months).

Valencia plant

Some two-thirds of Vossloh España total sales were sourced from orders for diesel locomotives including as subcontractor for Alstom for contracts awarded by France's state-owned SNCF and the Spanish RENFE rail operator. Another one-third of sales came from (sub)urban transportation projects and deliveries of bogies.

As part of the product range extension efforts, the newly developed EURO 4000, Europe's most powerful diesel-electric locomotive, was introduced to the general public at the InnoTrans trade fair in Berlin in September 2006. During the fair, Vossloh España booked an order from Angel Trains Ltd., UK, a longstanding customer, for altogether 18 such locomotives worth around €55 million, with an option for another twelve. Angel Trains Cargo, Europe's biggest locomotives lessor, plans to lease out the units to rail freight operators in Belgium, Germany, France, and Spain. The first are due to be shipped out in February 2008.

Vossloh España also secured a contract from the Valencia province rail operator Ferrocarrils de la Generalitet Valenciana (FGV) in October 2006 to supply another 20 metro trains of the 4300 series, each consisting of three railcars and fitted with state-of-the-art technology. The total order is valued at €100 million.

At the end of 2006, Vossloh España's order backlog came to €490.2 million, representing a rise of €60.4 million on the year before.

Capital expenditures in 2006 added up to €8.6 million, of which €5.7 million went toward the development of the EURO 4000.

Kiel plant

Vossloh Locomotives' Kiel location delivered 45 diesel-hydraulic locomotives in 2006. In addition, the Kiel plant started retrofitting locomotives with the new European Train Control System (ETCS).

At the end of 2006, order backlog at Vossloh Locomotives, Kiel, had climbed from around €100 million the year before to €169.1 million. Among the contracts booked in 2006 was one for the delivery of 20 locomotives to the private rail operator SecoRail in France.

At the end of the year, Vossloh Locomotives in Kiel won from Angel Trains Cargo NV a major order to supply 19 diesel locomotives belonging to various series. This contract including various conversion/retrofit kits is worth some €48 million and scheduled for completion by the end of 2007.

Kiel spent some €2.5 million, including €1.1 million on product developments.

Vossloh Electrical Systems

Vossloh Electrical Systems' sales at €104.4 million were up €15.5 million or 17 percent. August 2006 saw the shipment of the first electrical systems for trolleybuses destined for Vancouver in Canada. By the end of 2006, 33 buses had been shipped to the operator, the aim being to deliver all 228 by the end of 2008.

The year under review saw the completion for test operation by Rheinbahn Düsseldorf of the first of a new series of trams. Vossloh Electrical Systems supplied the electrical equipment. As scheduled, altogether 57 trams fitted with Vossloh Electrical Systems electrics were delivered to the Bremen and Cologne transit authorities.

The business unit's Austrian subsidiary based in Vienna, which specializes in the production of heating, air-conditioning and ventilation systems for vehicles used in local transport, retrofitted air conditioning to the first metro cars operating in Istanbul.

Order intake and backlog

In 2006, Vossloh Electrical Systems' order intake reached €117.7 million (up from €96.7 million). As of December 31, 2006, order backlog came to €217.0 million (up from €208.9 million).

The Electrical Systems unit managed to attract new customers chiefly abroad, notably in Portugal, where as part of a consortium it was awarded a contract worth a total €115 million (Vossloh's share around 20 percent) to equip LRVs for Metro do Porto and maintain them for five years. Within the contract Vossloh Electrical Systems is assuming systems responsibility for the development, delivery, commissioning and maintenance of the vehicles' electrical equipment. The scope of supply also includes the on-board information and control system, video monitoring and equipment in the driver's cab. Agreed delivery dates are in 2008 and 2009.

In addition, Vossloh Electrical Systems is to supply in March 2006 electrical equipment for 24 new low-floor trams destined for the Polish transport operator MPK Kraków. Within the consortium which secured the contract, Vossloh Electrical Systems is responsible for the entire vehicle electrics and traction systems. The contract is worth €43 million in all, Vossloh's slice accounting for around one-third.

Vossloh AG

As management and financial holding company, Vossloh AG parents the Vossloh Group, determines corporate strategy and planning, is responsible for human resources policy, HR development and top management issues, as well as group accounting and controlling, groupwide treasury management, risk and reward management and internal auditing, besides being in charge of investor and public relations. In addition, Vossloh AG defines the Group's corporate identity, corporate design, and IT systems.

Analysis of the separate financial statements

As nonoperating holding company, Vossloh AG earns its net income mainly from the net financial result after accounting for general administrative expenses, key components of the financial results being the profit transferred by Vossloh Rail Technology GmbH, interest expense for debts to banks and external lenders, as well as interest income from debiting such monies to consolidated subsidiaries. Vossloh AG's sales are made up of rental income and intragroup allocations. In fiscal 2006, the disposal (consummated in early 2007) of Vossloh Information Technologies (VIT), a division held indirectly by Vossloh AG, eroded the latter's earnings. The waiver of intercompany loans and the remission of short-term financial receivables from VIT subgroup companies and the subgroup parent produced extraordinary losses of €56.1 million (up from €3.5 million). The write-down of the VIT subgroup parent's investment book value slashed Vossloh AG's net financial result by €18.2 million (up from €0.0 million).

Due to these extraordinary burdens, Vossloh AG reported a net loss of €44.0 million (down from net income of €39.6 million). It has been planned to distribute for fiscal 2006 a dividend of €1.30 per share from the Company's reserves, hence a total payout of €19.2 million.

As of December 31, 2006, Vossloh AG's equity sank to €447.3 million (down from €510.4 million), its equity ratio edging down 0.8 percentage points from the prior year's to 62.0 percent. The decrease in intercompany receivables and payables, as well as the effects on fixed assets and equity of transactions relating to VIT's disposal diminished total assets from €813.0 million at year-end 2005 to €721.9 million as of December 31, 2006. 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. Vossloh AG's cash in bank soared from €20.3 million to €107.1 million as of December 31, 2006, mainly after subsidiaries had repaid short-term intercompany loans.

Board compensation report

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

This board compensation report meets the requirements of the German Commercial Code as amended by the Executive Board Compensation Disclosure Act ("VorstOG"), and follows the recommendations of the German Corporate Governance Code as amended up to June 12, 2006.

Remuneration of Executive Board members in 2006

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

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

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

In fiscal 2006, Vossloh AG's executive officers received a total monetary compensation of €2,389,910 including €799,891 of fixed, and €832,345 variable, remuneration, plus one-time payments of €717,855. In addition, they received noncash fringes as payments in kind (PIK), basically in the form of private company car use at the tax base of €39,819. PIK income is taxable income of each Executive Board member.

The table below itemizes the remuneration of each executive officer:

€	Fixed salary	Fringes	Profit share	Total
Dr. Gerhard Eschenröder, CEO (as from Mar. 1, 2006)	402,277	9,450	600,000	1,011,727
Werner Andree	226,767	18,166	232,345	477,278
Milagros Caiña-Lindemann (up to Sep. 30, 2006)	170,847	12,203	0	183,050
Total	**799,891**	**39,819**	**832,345**	**1,672,055**

Executive Board members resigned in fiscal 2006 received one-time payments of €717,855.

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 60. Depending on the years of service on the Executive Board, annual pension benefits amount after a minimum 3-year board membership to 35 percent, and are stepped up by 4 percent annually (as from Jan. 1, 2005, or March 1, 2009, respectively) to a maximum of 60 percent, of the pensionable annual basic compensation. In fiscal 2006, a total €658,123 was provided for accrued pension obligations to Executive Board members. Current postretirement pensions are adjusted annually in line with the collective pay trend of white-collar employees.

Upon an active or former Executive Board member'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.

The compensation paid to former executive and management board members and their surviving dependants totaled €1,165,417.17, including a one-time payment of €500,000, the rest being substantially current pension payments.

For details in the case of change of control, see the Executive Board's statutory disclosures under the terms of Arts. 289(4) and 315(4) HGB.

No loans or advances were granted in 2006 to any Executive Board member.

Remuneration of Supervisory Board members in 2006

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

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

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

In accordance with the bylaws, Supervisory Board members received a total €126,750 in 2006, including €97,500 fixed and €29,250 variable, performance-related fees.

The table below itemizes the fees allocable to each Supervisory Board member:

€	Fixed fee	Variable fee	Total
Dr.-Ing. Wilfried Kaiser, Chairman	30,000	9,000	39,000
Peter Langenbach, Vice-Chairman	17,500	5,250	22,750
Dr. Jürgen Blume	12,500	3,750	16,250
Dr. Christoph Kirsch	12,500	3,750	16,250
Wolfgang Klein	15,000	4,500	19,500
Wilfried Köpke	10,000	3,000	13,000
Total	**97,500**	**29,250**	**126,750**

In addition to these fees, no Supervisory Board member received in 2006 any further compensation, benefits or advantages for personally rendered (consultancy or agency) services.

No loans or advances were granted in 2006 to any Supervisory Board member.

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

Vossloh AG's capital stock amounts to €37,671,461.74 and is divided into 14,735,795 no-par bearer shares of common stock. In the course of 2006, altogether 984 new shares were issued as stock options were exercised under the ESOP.

As of December 31, 2006, the Vossloh family owned a stake of 32.3 percent, according to information furnished in March 2007 by Familiengemeinschaft Vossloh GbR. Voting right exercise by Vossloh family members has been pooled by contractual agreement.

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

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

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

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

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

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

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

At December 31, 2006, authorized capital existed at €18,406,507.72.

The annual stockholders' meeting of June 3, 2004, conditionally raised the capital stock by up to €1,840,650.77 by issuing a maximum of 720,000 no-par bearer shares of common stock in order to grant stock options to officers of Vossloh AG, as well as to officers and executives of Vossloh subsidiaries under the terms of Arts. 15 et seq. AktG. By December 31, 2006, the 90,250 shares issued thereunder increased the capital stock by altogether €230,720.46.

Moreover, the capital stock was conditionally raised by up to €383,468.91 by issuing a maximum of 150,000 no-par bearer shares of common stock in order to grant stock options to employees of Vossloh AG and its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 5,664 shares were issued by December 31, 2006, thus raising the capital stock by €14,479.79.

As resolved by the annual meeting of Vossloh AG's stockholders on May 24, 2006, the Company is authorized pursuant to Art. 71(1)(8) after expiration of the authority ended November 24, 2006, to repurchase on or before November 23, 2007, shares of treasury stock equivalent to ten percent of the capital stock. The consideration given in return for treasury shares may neither be below five percent of, nor more than five percent above, the average Vossloh share price as quoted at the closing auction of the Xetra trade (or any successor system in lieu of and replacing the Xetra system) at the Frankfurt Stock Exchange during the five trading days preceding the treasury stock acquisition date.

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

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

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

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

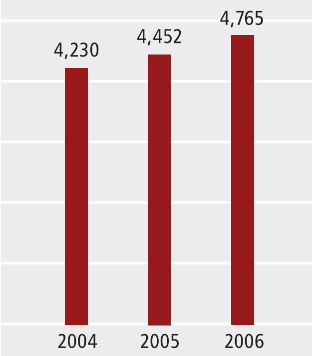
In the event of a change of control and the ensuing early loss of an Executive Board office, Executive Board members affected shall be entitled to claim under their employment contract certain termination indemnities and benefits in settlement.

A change of control is assumed wherever one stockholder or several jointly acting stockholders or outside investors (i) acquire 30 percent of all voting rights or otherwise gain control over the Company, or (ii) hold at three consecutive general meetings a voting stake of more than one-half of the voting capital present thereat. However, if such jointly acting stockholders or outside investors solely comprise Vossloh family members, control shall not be deemed to have been gained unless and until 50 percent of all voting rights has been acquired.

Upon a change of control, Executive Board members will be entitled, in full settlement of their early termination claims, to all of the remuneration accruing up to the agreed contract expiration date, plus a one-time indemnity payable pro rata of their residual non-served appointment terms. However, the aggregate total of all such termination indemnities and benefits combined is capped at the total annual remuneration for six years.

Workforce

Group headcount
on annual average



The earlier-year comparatives have been adjusted for the Information Technologies division's contributions.

At December 31, 2006, the Vossloh Group employed a workforce of 4,867. This and the following figures do not include the employees of the Information Technologies division, which was sold in January 2007. Compared with 2005, the headcount increased by 411 or 9.2 percent. The larger workforce was mainly due to Vossloh Switch Systems' Indian companies (Beekay Engineering, J.S. Industries, and Dakshin Transtek) joining the consolidation group in 2006. In addition, limited-term employment at the locomotive plant in Valencia raised the number of employees.

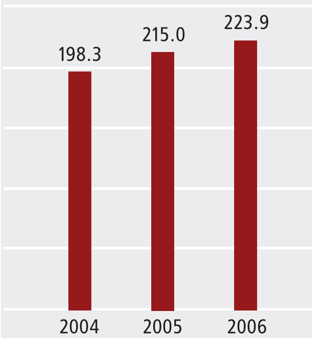
Workforce-related indicators

		2006	2005	2004
Personnel expenses per capita	€ '000	47.0	48.3	46.9
Sales per capita	€ '000	213.1	211.7	201.7
Payroll to value added	%	71.6	69.7	66.1
Value added per capita	€ '000	65.6	69.3	70.9

The earlier-year comparatives have been adjusted for the Information Technologies division's contributions.

The larger workforce and the higher total payroll load ratcheted up personnel expenses by 4.1 percent from €215.0 million to €223.9 million. The average expenses per capita—all per capita figures herein being rounded—fell owing to the relatively high headcount rise in low-wage countries, from €48,300 to €47,000 (down 2.7 percent). Sales per capita within the Group mounted from €211,700 in 2005 to €213,100 in the year under review chiefly due to the solid sales per capita performance in the Electrical Systems and Infrastructure Services business units. Although value added (i.e., the excess of total operating performance over cost input and amortization/depreciation/write-down) improved by 1.4 percent to €312.7 million (up from €308.4 million), value added per capita slipped from €69,300 to €65,600. At 71.6 percent, the ratio of payroll to value added slightly exceeded the prior-year 69.7 percent. There were only insignificant changes versus 2005 regarding employee age structure and average number of years with the Group.

Personnel expenses in € million



The earlier-year comparatives have been adjusted for the Information Technologies division's contributions.

Personnel expenses

€ million	2006	2005	Change in %
Pay	170.7	165.6	3.1
Social security	50.9	47.5	7.2
Pension expense	2.3	1.9	21.1
Total personnel expenses	**223.9**	**215.0**	**4.1**

The prior-year comparatives have been adjusted for the Information Technologies division's contributions.

Rail Infrastructure

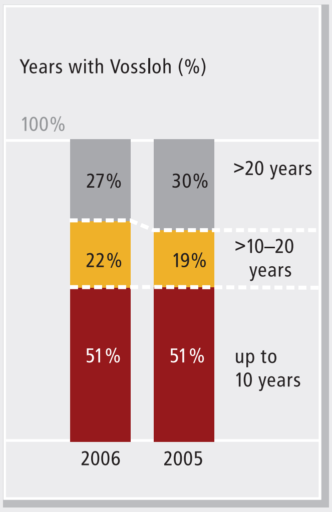
The workforce in the Rail Infrastructure division had risen at year-end 2006 owing to the inclusion of Beekay Engineering, J.S. Industries, and Dakshin Transtek by 10.1 percent from 2,896 to 3,188 employees. The first-time inclusion of these three Indian subsidiaries in the consolidation group shaved sales per capita (rounded) slightly from €195,400 to €194,500 while at the same time lowering personnel expenses per capita from €43,500 to €42,600. Value added fell marginally from €222.4 million to €221.2 million. The payroll-to-VA ratio climbed to 60.7 percent (up by 2.7 percentage points from 58.0 percent).

Motive Power&Components

In 2006, the number of employees in the Motive Power&Components division mounted by 120 from 1,528 to 1,648 owing to additional, substantially temporary, employment at Vossloh Locomotives' Valencia plant. Sales per capita (rounded) edged up by 1.3 percent from €251,000 to €254,200, especially due to substantial sales gains in the Electrical Systems business unit hitherto achieved with a largely unchanged headcount. Extra manpower in Spain plus this location's full 12-month consolidation raised the division's personnel expenses by 5.3 percent from €79.4 million to €83.6 million. Average personnel expenses per capita (rounded), in contrast, sank 2.9 percent from €54,600 to €53,000, mainly because the 2005 figure had included the restructuring costs at Kiel and also employee contributions to personnel expense reductions impacted favorably. These contributions were a temporary waiver of collectively negotiated pay rises and of Christmas bonuses, additional but unpaid weekly working hours and extended working hour flexibility. Despite the advance in personnel expenses, the ratio of payroll to value added improved by 6.0 percentage points from 83.8 to 77.8 percent since this division's €107.4 million addition of value (up from €94.7 million) easily outpaced its personnel expense increase.

Headcount 2006

	Annual average			Year-end		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Rail Infrastructure	248	2,908	3,156	254	2,934	3,188
Motive Power&Components	889	689	1,578	878	770	1,648
Vossloh AG	31		31	31		31
Total	**1,168**	**3,597**	**4,765**	**1,163**	**3,704**	**4,867**
Pro forma						
Information Technologies	216	64	280	217	59	276
Total	**1,384**	**3,661**	**5,045**	**1,380**	**3,763**	**5,143**

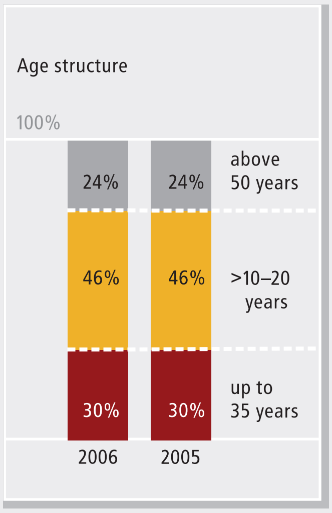


Investing in tomorrow's employees

As a long-established SME Vossloh has always attached great importance to apprenticeship training for young people through which we secure skilled youngsters from our own ranks. In 2006, Vossloh employed 64 apprentices at its German locations, instructing them in 12 different trades. The vast majority of these apprentices are taken on permanently upon completion of their training. The advantages are obvious: firstly, the young employees are trained in the specific skills required by the company and, secondly, high expenses for recruiting external specialists are avoided with no need for an often lengthy induction period either.

The loyalty of former apprentices shows that this commitment to vocational training pays in the long run as exemplified by their many years of service and close identification with Vossloh.

This investment in our apprentices and in articling them to Vossloh is all the more sensible in view of the skills shortage facing Germany in the medium term and resulting from demographic change, which will see the age groups with low birth rates coming onto the labor market in the years ahead. Competition for jobs is likely to be replaced with intense rivalry for the most talented youngsters. As a company with an excellent reputation for vocational training, the Vossloh Group is already well positioned to tackle this future challenge.



Our thanks to our workforce

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

Research and development

In their respective submarkets, Vossloh's two divisions, Rail Infrastructure and Motive Power&Components, rank among the industry's technology leaders.
To fulfill specific or local customer demands in the numerous regional markets and in order to exploit new technologies, Vossloh invests heavily in R&D. The business units cooperate among themselves besides resorting to experienced outside experts and scientific institutes. A large slice of the R&D efforts is directed at specific contracts and then accordingly charged to cost of sales and not to R&D expenses.

Rail Infrastructure

Fiscal 2006 was a period in which Vossloh Fastening Systems pressed ahead with important developments. The large-scale test rig for simulating real-life load situations undergone by rail fasteners is now able to replicate and test heavy-load traffic, too. Another project "A Quiet Train Quite Real" researches into rail traffic noise abatement; Vossloh's share is the development of high-elasticity rail fasteners. Another project participant is Deutsche Bahn AG (German Rail). Vossloh Fastening Systems has meantime advanced its W-Tram fastener for compatibility with fully automated tracklayers.

For its well-established type 300 rail fastener, Vossloh developed, tested and obtained homologation for a technique to balance height differences in the event of rail subsidence. In France, Vossloh Fastening Systems tried out new applications for its Skl 25 tensioning clamp used on LRV tracks.

In the USA, the Group passed the laboratory tests on its W14HH fastener system for use there in heavy-load traffic. Such lab tests are a must if the fasteners are to qualify for rail network installation. Following the tests, the fasteners were circuit-tested under varying load and other conditions.

In 2006, Vossloh Switch Systems pushed ahead with the development of high-speed rail switches destined for the Italian and French markets: zero-lubricant switch points and movable crossing frogs.

Motive Power&Components

Vossloh España completed development work on the freight version of the EURO 4000, presently Europe's most powerful diesel-electric locomotive, which can now go into series production. The newly engineered locomotive complies with the latest European norms and homologation requirements.

Vossloh Locomotive's R&D department in Kiel was very busy in 2006 working on new requirements on the part of customers regarding the G1206 locomotive. These include for a contract from France adjustments to the locomotive's drive train.

Energy conservation and environmental protection headed the R&D agenda at Vossloh Electrical Systems as exemplified by the conversion of double-articulated trolleybuses to hybrid energy. The tests were successfully completed in 2006. Hybrid in this case means that the vehicles will run on either of two energy sources: a diesel generator or electric traction assisted by supercaps. These latter are capacitors that store braking energy for a brief period and then release it when the vehicle restarts. Such a vehicle has pronounced advantages over pure diesel propulsion: less emission, especially in city centers, improved energy balance and drivability.

This trolleybus project is another example of Vossloh's ability to carry over R&D results from one application to another. In the EU-sponsored ULEV-TAP project, Vossloh Electrical Systems had already assembled experience with tram and LRV hybrid traction.

Environment

Railbound passenger and goods traffic ranks among the environment-friendly modes of transportation. With its rail infrastructure and rail technology products, Vossloh plays a major role in making sure that such traffic is safe, cost efficient, and clean. Vossloh is continuously working on ways and means of optimizing rail traffic for improved environmental compatibility. For instance, all locomotives shipped out from Kiel to Switzerland in 2006 were fitted with a soot particulate filter.

A hybrid traction system from Vossloh Electrical Systems allows double-articulated trolleybuses to conserve energy and minimize emissions.

Vossloh Fastening Systems is working together with German Rail on a project for abating rail traffic noise: “A Quiet Train Quite Real.”

Not only does Vossloh aim to ease the environmental burden caused by rail traffic, in terms of production Vossloh is also environment focused. With the certification of Vossloh Switch Systems’ Reichshoffen plant at the start of 2007, meanwhile all the major production facilities of the Vossloh Group have an Environmental Management System certified and approved according to the internationally recognized DIN EN ISO 14001. In 2006, the systems were reaudited and recertified at, for example, Vossloh Fastening Systems in Werdohl and Vossloh Electrical Systems in Düsseldorf. In addition to these audits performed by independent third parties, system effectiveness is annually reviewed in the course of internal eco-audits.

Risk and reward management

Risk and reward management organization

Risk management for Vossloh means systematically identifying, analyzing, assessing, communicating and controlling the risks and rewards at all levels of the Group. Risks are understood as any potential adverse impact on the asset and capital structure, financial position or results of operations; rewards, in contrast, as potential favorable variances from budget or plan data. Proactive control mechanisms are engineered to avoid, abate, mitigate or contain risks. For these purposes, risk transfer (insurance cover) and other precautionary options are considered. Opportunities identified early on should be seized and steps taken to optimize their materialization. In this way, risk management not only assists in the early identification of matters endangering survival but also plays a major role in achieving financial targets and hence adding value to the Vossloh Group.

Besides Vossloh AG, all the domestic and foreign group companies are integrated into the risk management system, irrespective of how they are included in the consolidated financial statements. The system's organizational and process structures are defined and described in the groupwide guidelines and policies.

At the level of the individual subsidiaries, risk management is integrated into the business, planning and controlling processes. The organizational setup is generally based on the structure of the operating processes and procedures. At company, subgroup and group levels alike, Vossloh has nominated risk owners responsible for identifying, analyzing, assessing, communicating and reporting risks, rewards and opportunities, including their ongoing monitoring and control. At the larger subsidiaries, these risk owners are as a rule the department heads and project managers, at the smaller, senior management members. As far as possible, early warning indicators have been defined for risk identification. Checklists and periodic risk workshops ensure not only a complete risk and reward inventory and map but also efficient control system handling. Besides the ongoing identification of risks and opportunities, the subsidiaries compile annual risk inventories to be assimilated into the planning process.

Identified risks and opportunities are analyzed and assessed, this process being followed by the evaluation of the potential loss impact, i.e., a loss bandwidth of estimated maximum and minimum variations is determined by means of a value-at-risk (VaR) method, along with the best estimate of loss probability. Losses already accrued or risks provided for are taken into account.

Vossloh documents and communicates risks and rewards in standardized reports that include the assessment parameters and proposed counteractions, thus rendering the risk position transparent.

Quarterly risk reports supplement the annual budget and projection. The full risk inventories are then included into the medium-term plan. This periodic reporting system is rounded off by ad-hoc reports to enable an absolutely up-to-date snapshot of the risk situation. Risk reporting addressees are the members of management of the subsidiaries, the business units, and Vossloh AG, the latter aggregating all reported risks, rewards and opportunities and submitting this aggregated report to the Executive Board to present a focalized profile of the Group's overall risk position, one that also accounts for potential interactions among, or reciprocal effects of, individual risks and opportunities of subsidiaries.

Vossloh AG's Executive Board and the management of every Vossloh subsidiary and business unit control and monitor the risks and rewards. The risk and reward management system is regularly tested and reviewed by Internal Auditing and the statutory auditor's staff for adequacy, efficiency and compliance with statutory requirements.

Exclusions from risk and reward reporting

The risk report below accounts for those risks which were of relevance at the time the consolidated financial statements were prepared and which are material to the Vossloh Group's future development. Risks whose impact has already been recognized in the balance sheet in the form of write-down, allowances, haircuts and/or provisions or which have been shifted by contract e.g. to insurers are not covered by the following report unless deemed essential for the overall evaluation of the risk situation, such as if a material residual risk is retained. Turn to the *Prospects* chapter (page 86) to read about rewards and opportunities.

General economic and sector risks

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

Within its specialty rail industry markets, Vossloh ranks among the foremost suppliers. Its regional focus is presently Western Europe where over 85 percent of group sales is generated. The markets of relevance to Vossloh are oligopolistic by nature both on the demand and supply sides. Most of the customers are rail and network operators, as a rule still under public-sector control. This results in dependence on public-spending patterns and in a limited number of prospective customers.

Risks may also emanate from the spending policies of the public sector in certain European countries. Unforeseeable delays in such investing activities can have adverse effects on the Vossloh Group's results of operations. Vossloh counteracts this exposure by expanding its international operations, centering in particular on the growth markets of Asia (especially India and China), and the USA.

Internationalization has significantly diluted dependence on especially the German rail market in recent years. In 2006, domestic sales accounted for only about 13 percent. This contrasts with roughly 32 percent back in 2001. Hence, Vossloh is only to a limited extent affected by seesawing expenditure volumes awarded by the German rail industry.

France is Vossloh's biggest individual market and since 2004, AFITF, its agency for financing domestic transport infrastructure, has been subsidizing numerous municipal infrastructure projects. Those involving Vossloh were substantially completed in 2005 and 2006 as reflected in the sharp sales gains in these years. However, starting from 2007, particularly Infrastructure Services will suffer from plunging order volumes. There were no other general economic or sector risks of a material nature in 2006.

Operating risks

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

Commodity price risks

For Vossloh, such risks may originate from the price of essential commodities, especially steel. Even if Vossloh partly abates these risks through long-term procurement or supply contracts or price escalator arrangements with customers, they may never be fully eliminated. The unpredictable steel price surges of 2004 and 2005 had burdened the Group's EBIT while the much weaker rise in 2006 failed to effect any further erosion.

Project risks

Most customer contracts cover complex projects. The major risks accompanying such projects are unexpected engineering difficulties, unforeseeable developments at the project locations, problems with business associates or subcontractors, logistic challenges, and acceptance and invoicing delays. These are factors possibly entailing extra expenses or contract penalties. Contractual provisions and all-embracing project and quality management mitigate such risks but never totally exclude them. In 2006, project risks surfacing at Information Technologies squeezed earnings to an unbudgeted degree. In locomotive manufacture and the Infrastructure Services unit the handling of often complex projects may lead to problems, especially penalties.

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

There were no operating risks impacting on earnings in 2006 except for those incurred by the Information Technologies division, up for disposal since September 2006.

Financial derivatives

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

Financial derivatives

Financial derivatives are used solely for hedging purposes, i.e., to hedge against specific risks from current underlyings or forecasted transactions. In this context, only marketable financial instruments approved beforehand are deployed.
The contracting, settlement and controlling functions have strictly been segregated.
For further details on financial derivatives, turn to pages 130/131.
The following financial risks are controlled:
- price risks,
- default risks,
- liquidity risks, and
- cash flow risks.

Price risks

Price risks arise from the possibility that the value of a financial instrument is changed by higher or lower market interest or exchange rates. With a view to benefiting long term from the low interest rates, the Group restructured its finances in 2004 by raising one ten-year and one twelve-year loan under a US private placement of a total \$240 million (around €200 million). As part of its proactive risk management concept, future principal and interest payments have been hedged through interest rate and currency swaps. Current or future currency receivables and payables represent an unmatched position which is generally closed by contracting currency forwards.

Default risks

Delinquency, default and other nonpayment risks arise if counterparties default on their obligations in a business transaction by late or non-performance, thus causing a financial loss to the Vossloh Group. This type of risk is minimized by doing business with counterparties of good to prime standing only, mainly based on the assessment by international rating agencies. As of December 31, 2006, cash investments and financial derivatives with a positive fair value were allocable at 63 percent to counterparties rated between AA+ and AA– and at 37 percent to those rated from A+ to A–. No dependence on specific banks has existed, whether in the past or at present.

Liquidity risks

Liquidity risks arise if the Group is potentially unable to provide the funds required to meet the obligations which have been incurred in connection with financial instruments. The Vossloh Group safeguards its liquidity (including cash reserves for contingencies) through a permanent cash management system. An intragroup financial equalization concept through cash pooling and intercompany loans ensures the best possible application of any cash surplus at certain subsidiaries to meet the liquidity requirements at other group companies. The long-term debt raised in the form of loans through the US private placement in 2004 was used to settle repayable liabilities to banks, thereby making bilateral credit facilities available for future utilization.
As of December 31, 2006, the Vossloh Group had cash, cash equivalents and short-term securities of a total €140.1 million. Adequate and sufficient credit lines ensured that no financial or cash bottlenecks occurred. The unutilized balances from cash credit facilities at year-end totaled €169.7 million, including €104.9 million due after one year. Furthermore, Vossloh had unutilized guaranty bond facilities of €148.7 million at its disposal.

Cash flow risks

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

On balance, the Vossloh Group's net earnings were in 2006 not affected to any significant degree by financial risks.

Legal risks

Legal risks comprise basically those arising from complaints, warranty claims, claims for damages or indemnification, and litigation. Identifiable legal risks are either covered by insurance or adequately provided for in the balance sheet.
For instance, an insurer fully indemnified Vossloh for the July 2006 total loss of a derailed track M&R train at the Infrastructure Services business unit. In 2006 there were no legal risks that significantly impacted on earnings.

Other risks

These are mainly of an IT and human resources nature. Business operations and business strategy hinge closely on the availability and processing of business (development) data by IT systems. Technical and organizational mechanisms or tools minimize exposure to risks associated with information system data reliability, availability, and security. Such mechanisms and tools also ensure efficient information processing.

HR risks may surface as a result of substandard staffing and employee conduct. A shortage of management and/or technical staff may impinge on the Group's business; the same applies to a high turnover rate among key personnel, poor training and/or mistakes or theft committed by employees. Vossloh has a menu of measures to abate such risks: in particular, its reputation as an attractive company to work for, one that attracts highly qualified employees. In-house courses allow Vossloh's employees to repeatedly upgrade their skills while highly competitive pay structures tie the employees long-term to the Group. Other risks did not to any substantial degree impact on the Group's earnings for 2006.

Overall risk assessment

The potential impact of any and all risks described above and which Vossloh is exposed to on its results of operations, asset and capital structure or financial position, is monitored and controlled at all times. As required by IFRS, provisions have been made for all risks identified to date. The updated annual forecasts duly reflect any potential losses, where reliably identifiable.

From today's vantage point, neither any specific risks nor all currently known risks in their aggregate are potentially ruinous or likely to jeopardize the Vossloh Group's or any subsidiary's continued existence as a going concern in terms of either assets or liquidity. The risk-adjusted capital—i.e., the statutory minimum equity portion that is earmarked exclusively for the cover of potential losses—lies well below the Group's current equity. This risk report refers to the situation of the Group at the time the group management report was prepared.

Subsequent events

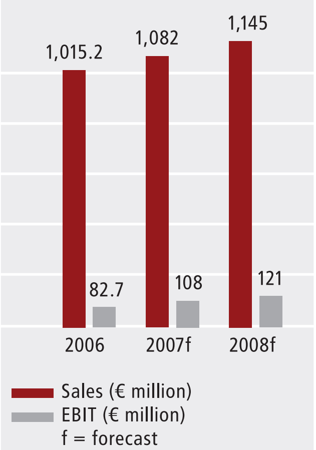
By agreement dated January 10, 2007, Vossloh sold and transferred the Information Technologies division to Funkwerk AG. The sale and transfer were closed and consummated in February 2007. Funkwerk acquired the division on a cash and debt-free basis for a price of €8 million which is subject to an escalator clause based on the net working capital trend. This divestment resulted for the Vossloh Group in a loss of €15 million, however, which had already been recognized as impairment loss by writing down the fair value in 2006. No significant effects on earnings are expected in 2007.

On March 5, 2007, Vossloh Cogifer S.A., a Vossloh AG subsidiary, signed an asset deal with Pohl Corp., a Reading, PA, USA, based rail switch manufacturer. The provisional price is $21 million and is subject to an escalator clause based on net working capital movements. The business taken over will be run as Vossloh Track Material, Inc., headquartered in Reading, PA. The deal has not yet been finally closed and is also subject to approval from Vossloh AG's Supervisory Board. Pohl Corp. manufactures switches and switch components and trades in new and used rails and rail accessories. With estimated 2006 sales of $53 million, Pohl ranks number three in this segment on the US market.

By the date the consolidated financial statements were prepared, no further reportable events occurred that may bias any conclusions from Vossloh's present to its future situation.

Prospects

Vossloh Group:
sales and EBIT in € mill.



Vossloh's business units operate in various markets that are subject to specific underlying conditions. The forecasts published for 2007 and 2008 are therefore based on careful bottom-up planning, which aggregates the outlook for Vossloh as a consolidated group. The results of the *GO 2010!* strategic project as well as the anticipated effects of the *Vossloh FIT!* efficiency-enhancement program have also been incorporated into the predictions for the next two years. Vossloh presented the following forecasts to a wider public in early December 2006.

Vossloh Group: sales and earnings

		2006	2007f	2008f
Net sales	€ mill.	1,015.2	1,082	1,145
Operating result	€ mill.	80.9	107	120
EBIT	€ mill.	82.7	108	121
EBIT margin	%	8.1	10.0	10.6
EBT	€ mill.	68.6	96	110
Group earnings	€ mill.	20.3	62	71
EpS	€	1.38	4.20	4.80

f = forecast

Internationalization of core businesses

Efforts to internationalize its core businesses in such promising markets as China, the USA and India will be a key factor in Vossloh's development over the forecast period. The rail infrastructure markets of relevance to Vossloh are predicted to grow by six percent globally on an annual average over the 2006–2011 period. It is also assumed that the Western European markets will only expand moderately and in isolated instances because of limited rail network expenditures, with orders being awarded chiefly for equipment replacement. On the other hand, annual average growth rates of 7 and 12 percent, respectively, are anticipated for North America and Asia. Vossloh intends to exploit the growth momentum in these markets and to intensify its international activities outside of Europe in the years ahead.

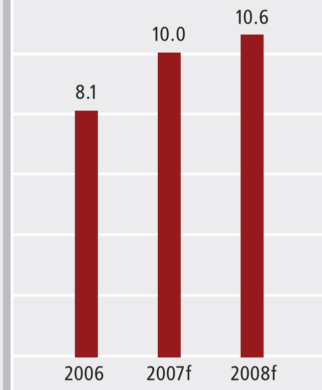
Fiscal 2007 is predicted to see an almost 7-percent rise in group sales to €1.08 billion, chiefly thanks to the two major contracts secured by the Fastening Systems unit in China in 2006. Vossloh Fastening Systems is also expected to generate initial sales in the USA in 2007. The plans to expand business volume by almost 6 percent in 2008 to some €1.15 billion will largely be realized in these regions. The sales forecasts take into account organic growth alone and do not include the planned expansion of core businesses through targeted acquisitions.

Efficiency gains are expected to accompany the anticipated substantial growth in sales, with the *Vossloh FIT!* cost-cutting program helping to boost the EBIT margin. The full impact of the program will only be felt starting from 2008. *Vossloh FIT!* is packed with a large number of specific individual projects and measures with the focus on optimizing production processes, purchasing and logistics across all business units. Vossloh expects that thanks to the expansion of business and the targeted savings, its EBIT margin will reach the desired level of 10 percent as early as fiscal 2007 and in fiscal 2008, when *Vossloh FIT!* will exert full influence, another slight increase is possible. Budgeting for 2007 and 2008 is based on a conservative estimate for steel prices, i.e., we expect the price uptrend of recent years to continue.

Improved EBIT will also impact favorably on ROCE, which is set to rise from 12.9 percent in 2006 to 15.6 percent in 2007, thus already exceeding the 15-percent target set by Vossloh. A further improvement to 17 percent is sought for 2008. Vossloh can achieve the rise in ROCE even though capital employed is increasing mainly due to rising capital expenditures. Whereas outlays in 2006 totaled €22.8 million, spending of €55 million is anticipated for 2007, followed by €33 million in 2008. The chief reason for the sharp increase in 2007 is the establishment of a local production plant for rail fasteners in China, where manufacture is scheduled to start in mid-2007.

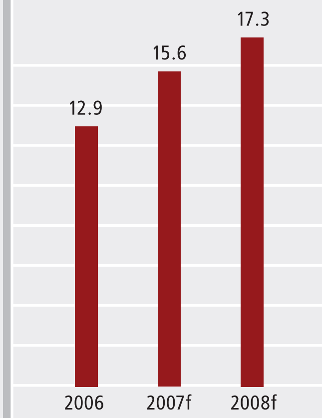
Vossloh FIT!: EBIT margin and ROCE improvements

Vossloh Group: EBIT margin in %



f = forecast

Vossloh Group: ROCE in %



f = forecast

Vossloh Group indicators

		2006	2007f	2008f
Working capital	€ mill.	216.7	225	233
Capital employed	€ mill.	640.1	689	700
ROCE	%	12.9	15.6	17.3
Equity ratio	%	31.0	38	41
Net financial debt	€ mill.	62.3	78	26
Net leverage	%	16.8	18	5

f = forecast

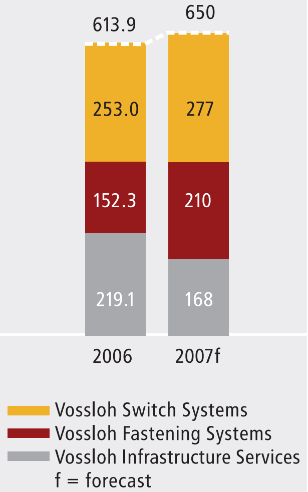
Clear reduction in net financial debt

Net financial debt is likely to increase only marginally to €78 million at year-end in spite of high capital expenditures, with net leverage at about 18 percent. A decline in net financial debt to €26 million is then predicted for 2008. All the forecasts mentioned refer to the Group's expected organic growth, with no allowance for acquisitions. In view of the greatly reduced net financial debt and available liquid assets at year-end 2006, Vossloh possesses sufficient financial scope for any M&A transactions to which it aspires.

Vossloh's planned expansion will increase the number of employees, especially with the addition of the new Chinese subsidiary. For 2007, we are expecting an average headcount of 4,965 (up from 4,765 in 2006) and for 2008 an average of around 5,000.

Rising sales expected at Rail Infrastructure

Breakdown of Rail Infrastructure sales in € mill.



The Rail Infrastructure division, which is made up of the Fastening Systems, Switch Systems and Infrastructure Services business units, is budgeted to report 2007 sales of some €650 million (up from €613.9 million in 2006). The expected gains at Vossloh Fastening Systems from shipments for the high-speed rail projects in China will be crucial to the division's sales growth. For 2007, we are forecasting a sales rise of 38 percent, taking annual sales to some €210 million. In 2007, sales at Vossloh Switch Systems are likely to grow by 9 percent versus 2006 to €277 million. We are anticipating growth chiefly in regions outside of Europe.

Sales at Vossloh Infrastructure Services are predicted to drop from the very high 2006 magnitude to some €168 million, the reason being the now completed tramway projects in several French cities and the major high-speed line contracts whose performance has also been finalized.

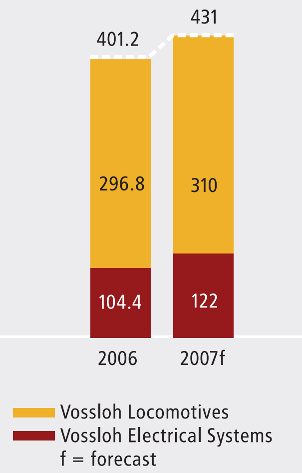
The Rail Infrastructure division's EBIT should improve to €89 million in 2007 (up from €81.2 million in 2006). In spite of the budgeted higher commodity prices, the EBIT margin should edge up from 13.2 percent in 2006 to 13.7 percent in 2007 thanks to substantial sales gains in high-margin activities and reduced costs resulting from the *Vossloh FIT!* project.

For 2008, Vossloh expects its Rail Infrastructure division to again greatly outperform 2007 with sales of €698 million and an EBIT totaling 100 million, with the EBIT margin reaching 14.4 percent. The driver for the continued improvements will be the Fastening Systems unit's efforts to expand operations in China and the USA. In particular, the first-time 12-month consolidation of the Chinese production plant will impact favorably in 2008.

Sales gains budgeted for Motive Power&Components

The Motive Power&Components division has budgeted sales of some €431 million for 2007 (up from €401.2 million in 2006). Whereas Vossloh Locomotives is expecting sales to rise by 4.3 percent to €310 million, Vossloh Electrical Systems is anticipating growth of 17 percent to €122 million in 2007. The forecast for the Locomotives business unit takes into account the first revenues of €12 million from orders for the Valencia plant's newly developed EURO 4000 mega-locomotive. Angel Trains Cargo ordered the first 18 locomotives of this type in the fall of 2006 with options for an extra 12 units. In addition, Vossloh España is expecting higher sales in 2007 as subcontractor to Alstom for a major contract from the French state railway (SNCF) as well as for the production of metro trains and bogies. Locomotive manufacture at the Kiel location will approximate this year's level. Orders on hand at the end of 2006 are sufficient to generate all the sales budgeted for either location for 2007. The anticipated advance in sales at Vossloh Electrical Systems is based on increased business in the LRV as well as heating, air-conditioning and ventilation systems segments.

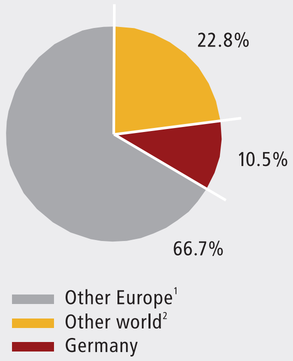
Breakdown of Motive Power&Components sales in € mill.



In all, this division is predicting for 2007 an EBIT of almost €35 million (up from €23.6 million in 2006), with the EBIT margin rising accordingly from 5.9 to 8.0 percent. In addition to higher sales the first effects of the *Vossloh FIT!* efficiency program at Motive Power&Components are expected to boost earnings.

For 2008, we are expecting the Motive Power&Components division to step up sales, albeit from today's vantage point more moderately than in 2006, to €447 million. Both business units should contribute to sales growth, with EBIT climbing to €36 million in 2008 and the EBIT margin likely to remain virtually unchanged on 2007 at 8.1 percent.

Forecast 2007
Sales by region



[1]excl. Germany
[2]excl. Europe

Vossloh repositioned itself strategically in 2006. Sprouting from this strategy are our plans which we began to execute as early as 2006. Internationalization outside of Europe, for instance, has proved resultful in that Vossloh has won orders in China. And, the rigorous pursuance of the new strategy will open up even more opportunities. For example, the projects in Asia will serve as a reference paving the way for new contracts.

The internationalization strategy is also resulting in similar opportunities in the USA where rail traffic infrastructure is growing more quickly than in Europe. Other opportunities will surface from the search for strategic partners for Vossloh Locomotives where a strengthening of marketing muscle will generate added value.
In addition, acquisitions by Vossloh Switch Systems and Vossloh Electrical Systems will efficiently enhance current operations and create extra value-adding potentials.

Consolidated financial statements of Vossloh AG as of December 31, 2006

Balance sheet: Assets

€ million	Note	12/31/2006	12/31/2005
Total noncurrent assets		**465.8**	**482.8**
Intangible assets	(1)	315.4	334.0
Tangible assets	(2)	95.7	102.7
Investment properties	(3)	4.4	7.4
Financial assets	(4)	7.9	9.2
Shares in unconsolidated subsidiaries		3.6	4.6
Shares in associated affiliates		1.0	1.0
Other investments and long-term securities		1.2	1.4
Long-term loans		2.1	2.2
Fixed assets		423.4	453.3
Sundry noncurrent assets	(5)	1.0	0.9
Deferred tax assets	(6)	41.4	28.6
Total current assets		**698.9**	**608.4**
Inventories	(7)	161.5	174.2
Trade receivables	(8)	331.1	319.2
Due from unconsolidated subsidiaries and investees	(9)	2.5	4.7
Income tax assets	(10)	8.2	16.8
Sundry current assets	(10)	27.4	38.2
Short-term securities	(11)	28.1	5.1
Cash & cash equivalents	(12)	140.1	50.2
Assets of discontinued operations	(13)	33.8	0.0
		1,198.5	**1,091.2**

Balance sheet: Equity & liabilities

€ million	Note	12/31/2006	12/31/2005
Total equity	(14)	**371.1**	**361.0**
Capital stock	(14.1)	37.7	37.7
Additional paid-in capital	(14.2)	40.4	40.2
Treasury stock	(14.3)	–	–
Reserves retained from earnings	(14.4)	268.0	241.5
Undistributed group profit		0.1	0.0
Group earnings		20.3	45.1
Accumulated other comprehensive income	(14.5)	(4.7)	(9.6)
Minority interests	(14.6)	9.3	6.1
Total noncurrent liabilities and accruals		**295.5**	**310.3**
Noncurrent financial debts	(15.1)	191.9	215.8
Other noncurrent liabilities	(15.2)	31.7	22.7
Pension accruals	(16)	9.9	14.9
Other noncurrent accruals	(17)	35.3	29.7
Deferred tax liabilities	(6)	26.7	27.2
Total current liabilities and accruals		**506.2**	**419.9**
Current financial debts	(15.1)	38.6	60.0
Trade payables	(15.3)	203.8	153.5
Due to unconsolidated subsidiaries and investees		2.1	3.5
Income tax liabilities	(15.2)	5.6	6.5
Sundry current liabilities	(15.2)	133.1	97.5
Current accruals	(17)	123.0	98.9
Liabilities of discontinued operations	(13)	25.7	0.0
		1,198.5	**1,091.2**

Income statement for the year ended December 31, 2006

€ million	Note	2006	2005[1]
Net sales	(18)	1,015.2	942.6
Cost of sales	(19.1)	(828.7)	(760.0)
General administrative and selling expenses	(19.2)	(115.0)	(111.6)
R&D expenses	(19.3)	(7.6)	(6.0)
Net other operating income	(20)	17.0	25.6
Operating result		**80.9**	**90.6**
Net P/L from associated affiliates	(21)	0.7	0.7
Income from other investees	(21)	0.8	0.2
Income from other securities and financial assets		0.4	0.3
Other financial results	(22)	(0.1)	(4.2)
Earnings before interest and taxes (EBIT)		**82.7**	**87.6**
Net interest expense	(23)	(14.1)	(18.5)
Earnings before taxes (EBT)		**68.6**	**69.1**
Income taxes	(24)	(22.4)	(23.0)
Net income from continuing operations		46.2	**46.1**
Minority interests	(25)	(2.3)	(0.8)
Net result of discontinued operations	(26)	(23.6)	(0.2)
Group earnings		**20.3**	**45.1**
Undiluted earnings per share* (€)	(27)	1.38	3.07
thereof from continuing operations (€)	(27)	2.98	3.08
thereof from discontinued operations (€)	(27)	(1.60)	(0.01)
Fully diluted earnings per share (€)	(27)	1.38	3.07

* During fiscal 2005 and 2006, altogether 14,687,641 and 14,735,304 no-par shares of stock, respectively, were issued.

[1] The 2005 comparatives have been restated according to IFRS 5; see also the notes to the income statement.

Cash flow statement for the year ended December 31, 2006

€ million	2006		2005	
Cash flow from operating activities				
Group earnings incl. minority interests	22.6		45.9	
Amortization/depreciation/write-down (less write-up) of fixed assets	36.2		28.3	
Other noncash income/expenses, net	1.4		6.8	
Net book (gain)/loss from the disposal of fixed assets	1.1		(0.1)	
Cash outflow for the purchase of short-term securities	(23.0)		(4.3)	
Change in inventories, trade receivables and other assets for operating activities	(15.7)		(41.6)	
Change in trade payables and other liabilities from operating activities	149.5		15.3	
Net cash provided by operating activities		**172.1**		**50.3**
Cash flow from investing activities				
Cash inflow from the disposal of intangibles and tangibles	8.6		0.9	
Cash outflow for additions to intangibles and tangibles	(23.9)		(34.5)	
Cash inflow from the disposal of financial assets	1.2		0.4	
Cash outflow for additions to financial assets	(1.3)		(4.0)	
Cash inflow from the disposal of consolidated subsidiaries and other units	–		0.0	
Cash outflow for the acquisition of consolidated subsidiaries and other units	–		(24.0)	
Net cash used in investing activities		**(15.4)**		**(61.2)**
Cash flow from financing activities				
Cash inflow from equity increases	0.0		2.4	
Cash outflow for Vossloh stockholders and for minority interests	(19.5)		(19.8)	
Change in treasury stock	–		1.3	
Net financing from short-term credits	(23.3)		(60.4)	
Net financing from medium- and long-term loans	(23.9)		(2.4)	
Net cash used in financing activities		**(66.7)**		**(78.9)**
Net inflow/(outflow) of cash & cash equivalents		90.0		(89.8)
Change in cash & cash equivalents from initial consolidation		0.2		–
Opening cash & cash equivalents		50.2		140.0
Closing cash & cash equivalents		140.4		50.2
thereof capitalized as cash & cash equivalents		140.1		50.2
thereof shown as assets of discontinued operations		0.3		–

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital
Balance at 1/1/2005	**37.4**	**37.8**
Stockholder-unrelated changes in equity		
Carryforward to new account		
Transfer to reserves retained from earnings		
Sale of treasury stock		0.2
Net income for 2005		
Accumulated OCI		
currency translation differences		
statement at fair value of financial instruments		
Comprehensive income		
Minority interests		
Stockholder-related changes in equity		
Capital increases		
from SOPs	0.3	2.2
other		
Dividend payout		
Balance at 12/31/2005	**37.7**	**40.2**
Stockholder-unrelated changes in equity		
Carryforward to new account		
Transfer to reserves retained from earnings		
Change due to initial consolidation		
Other changes		
Net income for 2006		
Accumulated OCI		
currency translation differences		
statement at fair value of financial instruments		
Comprehensive income		
Minority interests		
Stockholder-related changes in equity		
Capital increases		
from SOPs	0.0	0.2
other		
Dividend payout		
Balance at 12/31/2006	**37.7**	**40.4**

	Treasury stock	Reserves retained from earnings	Undistributed group profit	Group earnings	Accumulated OCI	Minority interests	Total
	(1.1)	**203.2**	**0.1**	**57.2**	**(9.3)**	**5.8**	**331.1**
			57.2	(57.2)			0.0
		38.3	(38.3)				0.0
	1.1						1.3
				45.1		0.8	
					0.4	0.1	
					(0.7)		
				45.1	(0.3)		44.8
						0.9	0.9
							2.5
						0.1	0.1
			(19.0)			(0.7)	(19.7)
	–	**241.5**	**0.0**	**45.1**	**(9.6)**	**6.1**	**361.0**
			45.1	(45.1)			0.0
		26.0	(26.0)				0.0
		0.6				1.3	1.9
		(0.1)	0.1				0.0
				20.3		2.3	
					0.4	0.0	
					4.5		
				20.3	4.9		25.2
						2.3	2.3
							0.2
						0.4	0.4
			(19.1)			(0.8)	(19.9)
	–	**268.0**	**0.1**	**20.3**	**(4.7)**	**9.3**	**371.1**

Segment information by division

€ million		Rail Infrastructure	Motive Power& Components	Discontinued Information Technologies operations[3]
Net external sales	2006	611.2	400.2	–
	2005	571.5	360.9	–
Intersegment transfers	2006	2.7	1.0	–
	2005	8.0	4.3	–
Amortization/depreciation	2006	14.0	8.2	–
	2005	13.7	7.8	–
Write-down (impairment losses)[1,4]	2006	0.0	0.0	–
	2005	0.5	0.0	–
EBIT	2006	81.2	23.6	–
	2005	87.8	15.3	–
Net interest result	2006	(7.7)	(3.6)	–
	2005	(7.4)	(5.6)	–
EBT	2006	73.4	20.0	–
	2005	80.4	9.7	–
Net income from continuing operations	2006	48.1	16.4	–
	2005	54.3	6.3	–
Net result of discontinued operations	2006	–	–	1.9
	2005	–	(0.6)	0.4
Net earnings (EAT)[2]	2006	46.7	16.4	1.0
	2005	53.3	6.3	0.7
Net profit from associated affiliates	2006	0.7	–	–
	2005	0.7	–	–
Other major noncash segment expenses	2006	27.9	51.6	2.0
	2005	30.7	38.6	3.6
Capital expenditures for tangible assets	2006	9.7	12.9	1.1
	2005	15.4	12.9	4.1
Total operating assets	2006	565.0	352.3	–
	2005	564.3	326.0	88.6
Total operating liabilities	2006	220.7	276.3	–
	2005	158.0	228.4	14.0
Shares in associated affiliates	2006	1.0	0.0	0.0
	2005	1.0	0.0	0.0
Capital employed	2006	412.4	216.6	–
	2005	468.8	225.7	46.8
Total assets	2006	627.8	411.9	33.9
	2005	639.1	382.5	91.1

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

Intermediate holding company/consolidation	Rail Technology (RT)	H.O./consolidation	Group
0.3	1,011.7	0.3	1,012.0
2.0	934.4	0.4	934.8
(1.1)	2.6	0.6	3.2
(4.4)	7.9	(0.1)	7.8
0.0	22.2	0.9	23.1
0.0	21.5	0.7	22.2
0.0	0.0	2.8	2.8
0.0	0.5	0.0	0.5
(3.1)	101.7	(19.0)	82.7
(7.0)	96.1	(8.5)	87.6
(11.4)	(22.7)	8.6	(14.1)
(10.9)	(23.9)	5.4	(18.5)
(14.4)	79.0	(10.4)	68.6
(17.9)	72.2	(3.1)	69.1
(9.0)	55.5	(9.3)	46.2
(11.5)	49.1	(3.0)	46.1
0.0	1.9	(25.5)	(23.6)
0.0	(0.2)	0.0	(0.2)
(9.1)	55.0	(34.7)	20.3
(12.1)	48.2	(3.1)	45.1
–	0.7	–	0.7
–	0.7	–	0.7
0.9	82.4	15.7	98.1
0.7	73.6	7.2	80.8
0.0	23.7	0.2	23.9
1.1	33.5	1.0	34.5
2.1	919.4	9.1	928.5
3.0	981.9	(29.2)	952.7
(39.4)	457.6	39.0	496.6
(40.6)	359.8	28.8	388.6
0.0	1.0	0.0	1.0
0.0	1.0	0.0	1.0
246.7	875.7	(235.6)	640.1
247.0	988.3	(231.7)	756.6
241.8	1,315.4	(116.9)	1,198.5
248.0	1,360.7	(269.5)	1,091.2

Notes to the consolidated financial statements 2006 of Vossloh AG

General

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

The following amended or new Standards, though already published on December 31, 2006, did not require application as of such date:
- IAS 1, *Presentation of Financial Statements*, as from Jan. 1, 2007
- IFRS 7, *Financial Instruments: Disclosures*, as from Jan. 1, 2007
- IFRS 8, *Segment Reporting*, as from Jan. 1, 2009
- IFRIC 11, *IFRS 2 Group and Treasury Share Transactions*, as from Jan. 1, 2008
- IFRIC 12, *Service Concession Arrangements*, as from Jan. 1, 2008

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

The financial statements of all companies included in Vossloh's consolidated financial statements are prepared as of December 31 in accordance with groupwide uniform accounting and valuation methods; they were audited by independent statutory accountants. The consolidated financial statements are expressed in euro (€). The income statement has been presented in the cost-of-sales format.

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

Consolidation principles

The purchase method of accounting is used for capital consolidation. Accordingly, the purchase cost of the acquired shares is offset against the revalued equity. All of the acquiree's identifiable assets and liabilities (including contingent liabilities) are stated at fair value as of acquisition date. Any residual net assets over cost are recognized as goodwill according to IFRS 3 and tested for impairment once annually. Any resulting badwill is directly expensed.

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.

Besides consolidating all intragroup receivables and payables, all income and expenses as well as all profits or losses realized among consolidated group companies are mutually offset, duly accounting for any resultant deferred taxes. Joint ventures are consolidated pro rata and included in accordance with the same principles pro rata of Vossloh AG's shareholding.

Consolidation group

Vossloh's consolidated financial statements comprise the financial statements of Vossloh AG and principally all its subsidiaries. Subsidiaries where Vossloh AG can exercise control through its directly or indirectly held voting majority are generally fully consolidated in the Vossloh Group's accounts. Due to their minor significance to the Group's asset and capital structure, financial position and results of operations, an unchanged 27 subsidiaries were not included in the consolidated financial statements although Vossloh AG directly or indirectly held the majority of voting rights at the balance sheet date. Companies in which Vossloh owns an equity interest of between 20 and 50 percent and where Vossloh can exercise a significant influence on their business and financial policies (so-called associated affiliates) are carried at equity. This applies to BV Oberflächentechnik GmbH & Co. KG, Werdohl.

Major joint ventures are—due to their significance to the Vossloh Group's asset and capital structure, financial position and results of operations—consolidated pro rata. The consolidated financial statements as of December 31, 2006, include pro rata a total 30 consortiums and joint ventures.

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

The group of fully consolidated subsidiaries developed in 2006 as follows:

Fully consolidated subsidiaries

	2006	2005
January 1	42	44
newly consolidated	4	1
merged intragroup	0	(2)
deconsolidated	0	(1)
December 31	46	42

The initial consolidation in 2006 refers to four companies—three Indian and one Italian—which due to their minor significance for the Group as such had previously not been included in the consolidated financial statements. The newly included subsidiaries are itemized in the list of shareholdings on pages 134/135.

Currency translation

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

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

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

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

Exchange rates

Country	Currency	€	2006	2005	2006	2005
			Current rate at Dec. 31		Average rate in	
India	INR	€1	58.32	53.28	54.40	52.38
Mexico	MXN	€1	14.32	12.61	13.70	13.58
Norway	NOK	€1	8.24	8.00	8.05	8.01
Poland	PLN	€1	3.84	3.87	3.90	4.03
Serbia	CSD	€1	79.12	85.65	87.03	83.31
Sweden	SEK	€1	9.04	9.39	9.25	9.28
UK	GBP	€1	0.67	0.69	0.68	0.68

Notes to the consolidated balance sheet

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

Since the Information Technologies division is intended to be disposed of, this division's assets and liabilities have since October 1, 2006, been carried as assets/liabilities of discontinued operations, as required by IFRS 5.

The below comments on, and analyses of, the various fixed assets include the line *reclassified into assets of discontinued operations* in order to separately disclose the fixed assets as of September 30, 2006, of all Vossloh Information Technologies companies in conformity with IFRS 5 rules in the balance sheet caption *assets of discontinued operations*.

(1) Intangible assets

Intangible assets comprise software, concessions, franchises, licenses, property rights and similar rights, as well as goodwill and capitalized development costs, including the prepayments made on account of such rights and assets.

Intangibles are carried at amortized cost; concessions, franchises, licenses, property rights and software are as a rule amortized by straight-line charges over 3 to 5 years.

Pursuant to IFRS 3 in conjunction with IAS 36 (revised 2005) and IAS 38 (revised 2004), goodwill from acquisitions (business combinations) is not amortized but its value tested once annually for impairment. To this end, the net book value of goodwill is contrasted to the discounted cash flows (applying a pretax rate of 11.0 percent) expected from the relevant cash-generating units (CGUs) in line with the medium-term plan, which is based on empirical data and expected future market trends.

Since the discounted cash flows exceed goodwill book values, no goodwill was written down.

Goodwill breakdown by segment

€ million	2006	2005
Rail Infrastructure	229.8	229.8
Motive Power&Components	71.2	71.2
Information Technologies	0.0	10.8
	301.0	**311.8**

Development costs are capitalized at cost wherever (i) the latter is clearly allocable, (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 and indirectly assignable to the development process. Straight-line amortization of capitalized development costs is based on useful lives of 5 to 7 years.

In the year under review, no write-down was charged to intangibles (down from €0.2 million).

Movement analysis of intangible assets:

€ million	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Capitalized development costs		Concessions, franchises, industrial-property and similar rights and assets, as well as licenses thereto		Goodwill		Prepayments		Intangible assets	
At cost										
Balance at January 1	26.5	17.2	27.8	22.9	313.6	264.5	–	1.6	367.9	306.2
Change from initial consolidation	–	–	0.0	5.6	–	49.1	–	–	0.0	54.7
Change from derecogniton	–	–	–	(0.1)	–	–	–	–	–	(0.1)
Additions (incl. current capex)	7.6	8.4	0.8	1.6	–	–	–	–	8.4	10.0
Disposals	15.0	–	2.5	2.8	0.0	–	–	–	17.5	2.8
Reclassified into assets of discontinued operations	4.3	–	4.6	–	11.7	–	–	–	20.6	–
Other book transfers	–	0.9	0.2	0.6	–	–	–	(1.6)	0.2	(0.1)
Currency translation differences	–	0.0	0.0	0.0	–	–	–	–	0.0	0.0
Balance at December 31	**14.8**	**26.5**	**21.7**	**27.8**	**301.9**	**313.6**	–	–	**338.4**	**367.9**
Accumulated amortization and write-down										
Balance at January 1	12.4	9.2	19.7	19.2	1.8	1.8	–	–	33.9	30.2
Change from initial consolidation	–	–	0.0	–	–	–	–	–	0.0	–
Additions	2.8	2.9	1.6	1.4	–	–	–	–	4.4	4.3
Disposals	9.3	–	0.2	0.5	–	–	–	–	9.5	0.5
Reclassified into assets of discontinued operations	0.7	–	4.2	–	0.9	–	–	–	5.8	–
Book transfers	–	0.3	–	(0.3)		–	–	–	–	0.0
Change from derecogniton	–	–	–	(0.1)		–	–	–	–	(0.1)
Currency translation differences	–	–	0.0	–	–	–	–	–	0.0	0.0
Balance at December 31	**5.2**	**12.4**	**16.9**	**19.7**	**0.9**	**1.8**	–	–	**23.0**	**33.9**
Net book values	**9.6**	**14.1**	**4.8**	**8.1**	**301.0**	**311.8**	–	–	**315.4**	**334.0**

(2) Tangible assets

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

Useful lives of tangible assets	
Buildings	10–50 years
Production plant and machinery	2–21 years
Other plant, factory and office equipment	2–20 years

Where the value of tangibles is found impaired, appropriate write-down is charged, none being recognized in 2006 (down from €0.2 million).

Movement analysis of tangible assets:

€ million	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Land, equivalent titles, and buildings (incl. on leased land)		Production plant and machinery		Other plant, factory and office equipment		Prepayments on tangibles, construction in progress		Tangible assets	
At cost										
Balance at January 1	66.0	70.2	170.8	150.6	50.6	44.7	1.4	9.2	288.8	274.7
Change from initial consolidation	1.3	–	2.7	3.8	0.7	0.8	0.0	0.8	4.7	5.4
Change from derecogniton	–	(4.2)	–	(1.6)	–	(0.8)	–	–	–	(6.6)
Additions (incl. current capex)	1.3	2.0	7.7	14.8	4.4	6.5	2.0	1.2	15.4	24.5
Disposals	0.3	2.8	6.9	1.6	3.0	2.9	0.0	0.0	10.2	7.3
Reclassified into assets of discontinued operations	0.3	–	0.4	–	7.4	–	0.1	–	8.2	–
Other book transfers	0.0	1.0	0.7	4.6	0.2	2.4	(1.1)	(9.8)	(0.2)	(1.8)
Currency translation differences	0.2	(0.2)	0.3	0.2	0.1	(0.1)	0.0	0.0	0.6	(0.1)
Balance at December 31	**68.2**	**66.0**	**174.9**	**170.8**	**45.6**	**50.6**	**2.2**	**1.4**	**290.9**	**288.8**
Accumulated depreciation and write-down										
Balance at January 1	31.5	33.4	118.9	109.5	35.7	34.4	0.0	–	186.1	177.3
Change from initial consolidation	0.3	–	1.2	–	0.5	–	–	–	2.0	–
Change from derecogniton	–	(1.2)	–	(1.0)	–	(0.5)	–	–	–	(2.7)
Additions	2.5	2.5	12.9	12.5	4.7	4.3	–	–	20.1	19.3
Disposals	0.2	1.9	5.5	1.8	2.8	2.7	–	–	8.5	6.4
Write-up	–	–	–	0.0	–	–	–	–	–	0.0
Reclassified into assets of discontinued operations	0.2	–	0.3	–	4.2	–	–	–	4.7	–
Book transfers	0.0	(1.2)	0.0	(0.3)	0.0	0.3	–	–	0.0	(1.2)
Currency translation differences	0.1	(0.1)	0.1	(0.0)	–	(0.1)	–	–	0.2	(0.2)
Balance at December 31	**34.0**	**31.5**	**127.3**	**118.9**	**33.9**	**35.7**	**0.0**	**0.0**	**195.2**	**186.1**
Net book values	**34.2**	**34.5**	**47.6**	**51.9**	**11.7**	**14.9**	**2.2**	**1.4**	**95.7**	**102.7**

(3) Investment properties

These include nonessential land and buildings partly leased to nongroup lessees. According to IAS 40, *Investment Property*, the properties owned for investment purposes are carried at depreciated cost. Straight-line depreciation of investment properties is based on useful lives of 10 to 50 years. Rental income in the period came to €0.5 million (virtually unchanged). Expenses (including depreciation, M&R and incidentals) incurred in 2006 for properties leased out totaled €0.2 million (down from €0.3 million), those for other properties amounting to €3.1 million (up from €0.2 million).

These expenses include write-down for an impairment loss of €2.8 million. The fair values of investment properties totaled €4.8 million at December 31, 2006 (down from €7.8 million) and are mostly based on independent expert appraisals, those for the remaining properties being derived from current market prices of comparable real estate.

Movement analysis of investment properties:

Investment properties

€ million	2006	2005
At cost		
Balance at January 1	20.3	18.4
Book transfers	0.0	1.9
Balance at December 31	20.3	20.3
Accumulated depreciation and write-down		
Balance at January 1	12.9	11.5
Additions	3.0	0.2
Book transfers	0.0	1.2
Balance at December 31	15.9	12.9
Net book value	4.4	7.4

(4) Financial assets

The shares in unconsolidated subsidiaries and in other investees are capitalized at cost. The shares in associated affiliates, over which a significant influence is exercised, are carried at equity. Long-term loans are stated at amortized cost.

In accordance with IAS 39, the other long-term securities were classified at €0.6 million as available for sale (down from €0.6 million available for sale and €0.1 million held for trading). Securities available for sale are generally carried at fair value. Since the fair value of securities available for sale differed from their book value by a mere €3,000 (down from €19,000, both figures rounded), valuation at cost has been maintained.

Where signs of long-term impairment are identified, financial assets are tested and written down as appropriate. Where the reasons for such write-down cease to exist, the charge is reversed and the assets are written up accordingly. Expenses for the write-down, and income from the write-up, of financial assets other than equity instruments are shown within the *other financial results*.

Movement analysis of financial assets

€ million	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Shares in unconsolidated subsidiaries		Associated affiliates		Other investees		Other long-term securities		Long-term loans		Financial assets	
At cost												
Balance at January 1	6.7	5.3	1.0	1.4	1.0	1.0	0.8	0.9	6.2	0.1	15.7	8.7
Change from initial consolidation	(1.8)	–	–	–	–	–	0.0	–	–	–	(1.8)	–
Additions (incl. current investments)	0.5	1.4	0.7	0.7	0.0	0.0	0.0	0.2	0.0	6.9	1.2	9.2
Disposals	0.1	–	0.7	1.1	0.2	–	0.0	0.3	0.1	0.8	1.1	2.2
Currency translation differences	–	0.0	–	0.0	–	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance at December 31	**5.3**	**6.7**	**1.0**	**1.0**	**0.8**	**1.0**	**0.8**	**0.8**	**6.1**	**6.2**	**14.0**	**15.7**
Accumulated write-down												
Balance at January 1	2.1	**1.7**	–	–	0.3	0.3	0.1	0.0	4.0	–	6.5	2.0
Change from initial consolidation	(0.4)	0.4	–	–	–	–	0.0	–	–	–	(0.4)	0.4
Additions	0.0	–	–	–	–	–	0.0	0.1	–	4.0	0.0	4.1
Disposals	–	–	–	–	0.0	–	–	–	–	–	0.0	0.0
Balance at December 31	**1.7**	**2.1**	**–**	**–**	**0.3**	**0.3**	**0.1**	**0.1**	**4.0**	**4.0**	**6.1**	**6.5**
Net book values												
as of December 31	**3.6**	**4.6**	**1.0**	**1.0**	**0.5**	**0.7**	**0.7**	**0.7**	**2.1**	**2.2**	**7.9**	**9.2**

(5) Sundry noncurrent assets

This line includes long-term prepaid expenses and deferred charges at €0.3 million (up from €0.0 million), currency forwards (carried as cash flow hedges for future sales) of €0.1 million (down from €0.6 million), as well as miscellaneous noncurrent assets of €0.6 million (up from €0.3 million).

(6) Deferred taxes

In conformity with IAS 12, deferred taxes are recognized for temporary differences between tax bases and IFRS values. The rate applied to deferred taxation corresponds to that expected at the balance sheet date (given the then current legislation) for the future realization period.

Temporary differences gave rise to deferred taxes on the following balance sheet lines:

Deferred taxes

€ million	2006		2005	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible and tangible assets	2.2	8.8	3.7	6.7
Receivables	0.4	4.0	0.3	14.8
Inventories	0.8	11.3	2.7	0.4
Other assets	0.3	0.9	0.1	0.0
Liabilities	2.0	0.3	8.1	0.5
Pension accruals	1.0	0.0	1.3	0.0
Other accruals	13.2	1.4	6.1	3.7
Other liabilities	3.7	0.0	1.1	1.1
	23.6	**26.7**	**23.4**	**27.2**
Loss carryforwards	17.8	–	5.2	–
Recognized deferred taxes	**41.4**	**26.7**	**28.6**	**27.2**

Deferred tax assets from loss carryforwards were based on loss carryforwards of €44.6 million (up from €13.5 million) utilizable for tax purposes, the surge being attributable to losses incurred by Vossloh AG for the intended divestment of its Information Technologies division. No write-down was charged to deferred tax assets as of December 31, 2006 (down from €0.6 million).

(7) Inventories

Breakdown of inventories:

Inventories

€ million	2006	2005
Raw materials and supplies	61.2	74.5
Work in process	65.2	61.5
Merchandise	4.5	2.7
Finished products	12.6	18.2
Prepayments made	18.0	17.3
Total	**161.5**	**174.2**

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

To the extent that inventories are valued groupwise, the average-price (MAP) method is used. Risks from obsolescence or slow-moving items are appropriately allowed for. In the year under review, inventories were written down at €18.5 million (down from €21.7 million). The book value of inventories stated at NRV totaled €18.1 million (down from €35.4 million). As the reasons for previous write-down existed no longer, inventories were written up by €0.1 million (virtually unchanged).

(8) Trade receivables

Breakdown of trade receivables:

€ million	2006	2005
PoC receivables	128.9	112.8
Other trade receivables	202.2	206.4
	331.1	**319.2**

The other trade receivables are carried at principal, specific risks being duly and reasonably allowed for. As of December 31, 2006, allowances of €6.2 million (up from €5.8 million) were charged to the other trade receivables.

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

PoC receivables and payables

€ million	2006			2005		
	Receivables	Payables	Total	Receivables	Payables	Total
Total PoC contract progress	584.5	37.4	621.9	326.9	42.9	369.8
Prepayments received under PoC contracts	(455.6)	(100.4)	(556.0)	(214.1)	(89.6)	(303.7)
Recognized PoC receivables	**128.9**		**128.9**	**112.8**		**112.8**
Recognized PoC payables		**63.0**	**63.0**		**46.7**	**46.7**

The total PoC contract progress of €621.9 million (up from €369.8 million) includes contract costs of €537.8 million accumulated by December 31, 2006 (up from €311.0 million) as well as the profits prorated to such costs at €86.5 million (up from €59.8 million) and prorated losses of €2.4 million (up from €1.0 million).

(9) Due from unconsolidated subsidiaries and investees

These accounts are carried at principal and refer almost exclusively to receivables from unconsolidated subsidiaries at €2.5 million (down from €4.7 million).

(10) Income tax assets and sundry current assets

The sundry current assets mainly account for non-income tax assets at €11.8 million (down from €16.5 million), accounts due from employees at €1.5 million (up from €1.4 million), as well as for short-term prepaid expenses and deferred charges at €1.2 million (down from €1.3 million).

The sundry current assets are carried at principal or amortized cost, in 2006 less reasonable allowances for impairment, which in the period came to €0.4 million (down from €0.8 million). Moreover, this line includes the positive fair values of financial derivatives at €0.3 million (down from €2.2 million).

(11) Short-term securities

These securities are short-range interest-bearing cash investments and, being classified as held for trading, carried at fair value.

(12) Cash and cash equivalents

This line encompasses checks and other cash on hand and in bank. The accounts due from banks are exclusively maintained with banks of prime standing and carry interest at fair market rates.

(13) Assets and liabilities of discontinued operations

When the *GO 2010*! strategy project was presented in September 2006, Vossloh announced its intention to divest of Vossloh Information Technologies ("VIT"). This division manufactures and markets rail-traffic engineering systems, its product range including passenger information systems, operations control systems, planning and simulation systems, and electronic interlocks.

Since the initiation in Q4/2006 of the disposal of VIT (one of the Vossloh Group's three divisions), this division has qualified as discontinued operation for the purposes of IFRS 5. Accordingly, this division's assets and liabilities have since October 2006 been shown in separate lines as assets/liabilities of discontinued operations.

The assets and liabilities held for sale are valued as disposal group at net fair value (i.e., fair value less costs to sell, NFV). Excepted from this valuation according to IFRS 5 are pension accruals and deferred taxes, which continue to be measured in accordance with IAS 19 and IAS 12, respectively. The €10.3 million impairment loss resulting from the comparison of book value to NFV was deducted as write-down from goodwill (disclosed within intangible assets). Pursuant to IFRS 5, amortization and depreciation of VIT's fixed assets have been discontinued since October 1, 2006.

The assets of discontinued operations break down as follows:

€ million	December 31, 2006
Noncurrent assets	**10.8**
Intangible assets	5.9
Tangible assets	3.7
Deferred tax assets	1.2
Current assets	**23.0**
Inventories	8.9
Trade receivables	12.5
Due from unconsolidated subsidiaries and investees	0.2
Income tax assets	0.6
Sundry current assets	0.5
Cash and cash equivalents	0.3
Assets of discontinued operations	**33.8**

The liabilities of discontinued operations break down as follows:

€ million	December 31, 2006
Noncurrent liabilities and accruals	**6.3**
Other noncurrent liabilities	0.9
Pension accruals	3.2
Other noncurrent accruals	1.2
Deferred tax liabilities	1.0
Current liabilities and accruals	**19.4**
Trade payables	2.6
Other current liabilities	3.8
Current accruals	13.0
Liabilities of discontinued operations	**25.7**

(14) Total equity

For the statement of changes in equity, see pages 96/97.

(14.1) Capital stock

Vossloh AG's capital stock totals €37,671,461.74 (up from €37,668,946.18) and is divided into 14,735,795 no-par bearer shares of common stock only (up from 14,734,811).

As of December 31, 2006, authorized capital existed at €18,406,507.72.

With a view to ensuring the issuance of new shares under the 2002 and 2005 stock option programs (SOPs), the annual stockholders' meetings of June 25, 1998, and June 3, 2004, had approved €2,224,119.68 of authorized but unissued capital for the conditional increase by a maximum of 870,000 newly issuable bearer shares of common stock. Up to December 31, 2006, a total 95,914 shares were issued to employees and executive staff, thus raising the capital stock by altogether €245,200.25.

Stock option programs

In 1998, 2000, 2002 and 2005, the Vossloh Group launched stock option programs (a specific year's SOP launch being called tranche) under which certain executive and managerial staff of subsidiaries (LTIP) and employees of German subsidiaries (ESOP) have been granted options to acquire further shares after first purchasing Vossloh AG stock as personal investment at program tranche inception.

For each Vossloh share acquired, LTIP and ESOP participants received ten or three stock options, respectively. Under the 2005 LTIP, the executive/managerial staff's personal investment ranges (depending on the participants group) between €5,000 and €51,000, for the 2005 ESOP, the personal investment of eligible employees is capped at €1,000.

The strike (exercise) price and total number of options were fixed at program tranche inception. The strike price corresponds to the average of the single cash prices as quoted for Vossloh stock at the Frankfurt/Main stock exchange during the five trading days preceding the option issuance date. The strike price fixed at issuance for the 2005 stock options is €38.75. The term of the programs is five years each. When purchasing shares of Vossloh stock, eligible participants received free options, granting them the privilege after expiration of the 2-year qualifying period (for the 2005 tranche) to acquire Vossloh stock at the market price which had been quoted at program inception (strike price). The subscription rights may only be exercised in so-called opportunity windows; in due course before window opening, Vossloh would inform the participants about the Group's current position. Option exercise is subject to certain benchmarks being achieved.

Under the LTIP 2005, for instance, the Vossloh stock price must at exercise date have performed as, or outperformed, the MDAX and, as cumulative condition, outgrown the strike price by not less than 12.5 or 25 percent, depending on the participants group. Under the ESOP, the Vossloh stock price must have risen at least 4.0 percent above the strike price or, alternatively, the stock price trend must have matched or outgrown that of the MDAX.

The number of stock options issued developed as follows:

Movement analysis of stock options

	Number of options	Average strike price
Jan. 1, 2005	**96,508**	**23.95**
Options granted	82,777	38.75
exercised	94,588	23.99
expired	9,451	37.05
Dec. 31, 2005	**75,246**	**38.54**
thereof exercisable	1,081	24.01
Options exercised	984	24.01
expired	14,137	38.65
Dec. 31, 2006	**60,125**	**38.75**
thereof exercisable	3	24.01

The table below lists the stock options issued and outstanding at December 31, 2006:

Options outstanding

	Strike price (€)	Number of unexercised options at 12/31/2006	Average time to option exercise (years)	Number of exercisable options at 12/31/200
SOPs 2005	38.75	60,122	3.25	0
SOPs 2002	24.01	3	0.25	3

The SOPs launched in 2005 have been valued in accordance with IFRS 2. For the determination of the granted stock options' fair value, Rubinstein's binomial formula has been used, based on a dividend yield of 3.32 percent and a risk-free interest rate of 3.14 percent, and assuming an empirical volatility of 11.64 percent for the MDAX and 25.33 percent for Vossloh stock. Accounting for stock options in accordance with IFRS 2 produced additional personnel expenses of €0.2 million in 2006.

(14.2) Additional paid-in capital

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

(14.3) Treasury stock

As of December 31, 2006, no shares (unchanged) were held as treasury stock.

(14.4) Reserves retained from earnings

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

(14.5) Accumulated other comprehensive income

The OCI includes those differences from the currency translation of financial statements of non-German subsidiaries which are recognized in equity only, as well as unrealized gains/losses from the statement at fair value of derivatives within cash flow hedges and of instruments available for sale. The biggest single OCI item is the posttax negative fair value of €4.6 million of hedges of future interest payments for liabilities associated with the US private placement.

(14.6) Minority interests

Around €8.2 million of these refer to shares held by nongroup owners in Vossloh Switch Systems companies, and another some €1.1 million to minority interests in the Information Technologies division which is earmarked for disposal.

(15) Liabilities

Financial debts are carried at amortized cost. The hedged risks inherent in financial debts included as fair value-hedged underlyings are stated at fair value. Payables under capital leases are recognized at the present value of the lease payments. All other liabilities are stated at principal or settlement amount. The financial derivatives included among sundry liabilities are stated at fair value.

Below follows an aged breakdown of the remaining term of liabilities:

Liabilities

€ million	2006	2005	2006	2005	2006	2005	2006	2005
Remaining term	1 year or less		> 1-5 years		> 5 years		Total	
Financial debts	38.6	60.0	15.6	13.8	176.3	202.0	230.5	275.8
Income tax liabilities	5.6	6.5	–	–	–	–	5.6	6.5
Sundry liabilities	133.1	97.5	2.1	5.8	29.5	16.8	164.7	120.1
Trade payables	203.8	153.5	0.1	0.1	0.0	0.0	203.9	153.6
Due to unconsolidated subsidiaries	1.4	1.4	–	–	0.0	–	1.4	1.4
Due to investees	0.7	2.1	–	–	–	–	0.7	2.1
Total	**383.2**	**321.0**	**17.8**	**19.7**	**205.8**	**218.8**	**606.8**	**559.5**

(15.1) Financial debts

Breakdown of financial debts:

€ million	2006	2005
Note loans	10.0	15.0
US private placement	182.1	202.8
Other accounts due to banks	36.9	39.5
Notes payable	0.0	16.8
Payables under capital leases	1.5	1.7
	230.5	**275.8**

Two €5.0 million installments of the note loans are repayable within the next two years, these loans carrying interest at 5.93 percent. 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 7.5 and 9.5 years, respectively.

Payment of principal and interest has entirely been hedged by euro-denominated interest rate and currency swaps, thus ensuring that both loans carry interest at fixed euro rates of 5.325 and 5.455 percent, respectively. The €182.1 million debt disclosed as of December 31, 2006, corresponds to the dollar debt translated at the year-end rate. Including the currency hedge shown at €21.8 million within sundry liabilities, the hedged repayment sum totals €203.9 million.

The hedge of future interest payments, also carried as a sundry liability, showed a negative market value of €7.7 million at December 31, 2006. The remaining bank debts refer to chiefly short-term, floating-rate credits.

The payables under capital leases are owed for capital goods leased within the Rail Infrastructure division. The net book value of the leased assets capitalized within tangibles came to €1.4 million (down from €1.6 million). The minimum capital lease payments fall due as follows:

Capital leases

€ million	12/31/2006			12/31/2005		
	Principal	Discount	Present value	Principal	Discount	Present value
Due within 1 year	0.7	0.1	0.6	0.6	0.0	0.6
Due > 1-5 years	0.9	0.0	0.9	1.2	0.1	1.1
Due after 5 year	–	–	–	–	–	–
	1.6	**0.1**	**1.5**	**1.8**	**0.1**	**1.7**

(15.2) Income tax liabilities and sundry liabilities

The sundry current liabilities basically include prepayments received at €72.1 million (up from €36.4 million) other than under PoC contracts, non-income tax liabilities of €25.8 million (up from €25.1 million), social security and health insurance payables of €7.3 million (down from €7.4 million), as well as accounts of €6.2 million (down from €6.6 million) due to employees.

The sundry noncurrent liabilities include at €31.0 million (up from €19.8 million) the negative fair values of financial derivatives used as currency and interest rate hedges. This total comprises €21.8 million (up from €1.1 million) for hedging the US$ liabilities under the private placement agreement.

The sundry liabilities are carried at amortized cost.

(15.3) Trade payables

This line includes PoC payables at €63.0 million (up from €46.7 million), as well as all other trade payables at €140.8 million (up from €106.8 million).

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

(16) Pension accruals

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

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

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

Pension obligations were based on the following assumptions:

%	2006	2005
Discount rate	4.75	4.5
Expected pension rise	1.5	1.5
Expected pay rise	2.0	1.5
Expected cost-of-living rise	2.0	1.5
Probable employee turnover rate	6.0	6.0
Expected return on plan assets	4.0	4.5

The pension accrual recognized was derived as follows:

€ million	2006	2005
Present value of plan-funded DBO	12.9	12.2
Fair value of plan assets	8.4	6.3
Adjustment for unrecognized actuarial gains/losses	(1.6)	(0.8)
Accrual for plan-funded DBO	**2.9**	**5.1**
Present value of plan-unfunded DBO	7.8	11.4
Unrecognized actuarial gains/losses, net	(0.8)	(1.6)
Accrual for plan-unfunded DBO	**7.0**	**9.8**
Recognized pension accrual	**9.9**	**14.9**

Movement analysis of plan assets:

€ million	2006	2005
Annual opening fair value of plan assets	6.3	4.6
Expected return on plan assets	0.3	0.3
Contribution to plan assets	2.1	1.7
Pension payments from plan assets	0.0	0.0
Plan-related actuarial gains/losses	(0.3)	(0.3)
Annual closing fair value of plan assets	**8.4**	**6.3**

The pension accrual showed the following movements:

€ million	2006	2005
Opening balance at Jan. 1.	14.9	15.6
Utilized	(1.4)	(0.9)
Change in plan assets	(2.1)	(1.4)
Provided for	1.7	1.6
Reclassified into liabilities of discontinued operations	(3.2)	–
Closing balance at Dec. 31	**9.9**	**14.9**

The reclassification of some pension accruals into the liabilities of discontinued operations relates to the disposal of Vossloh Information Technologies (see page 103).

Breakdown of annual DBO cost:

€ million	2006	2005
Current service cost	1.0	0.8
Amortization of actuarial gains/losses	0.0	0.0
Expected return on plan assets	(0.3)	(0.3)
Interest cost	1.0	1.1
	1.7	**1.6**

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

(17) Current and other noncurrent accruals

Breakdown of total current and other noncurrent accruals:

€ million	2006	2005
Noncurrent tax accruals	0.8	0.0
Noncurrent other accruals	34.5	29.7
Recognized noncurrent other accruals	**35.3**	**29.7**
Current tax accruals	13.7	3.5
Current other accruals	109.3	95.4
Recognized current accruals	**123.0**	**98.9**

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

Tax and other accruals provide for all obligations which are identifiable at the balance sheet date, are based on past events, and are uncertain in terms of amount or maturity. Such obligations are only provided for if predicated on a legal or constructive commitment to third parties. Accruals provide for the amounts of their probable utilization. The maximum risk inherent in accrued obligations is €24.2 million (up from €22.4 million) above the accruals recognized in the balance sheet. Additional risks of €35.5 million (up from €29.3 million) as below-the-line items exist but were not provided for since their probability is below 50 percent.

Movement analysis of tax and other accruals:

€ million	Taxes	Personnel	Unbilled costs	Warranties and follow-up costs	Litigation and impending losses	All other accruals	Total
Opening balance at 1/1/2006	3.5	33.1	18.0	33.8	27.5	12.7	**128.6**
Added upon initial consolidation	0.0	0.1	0.3	0.1	0.0	0.0	**0.5**
Utilized	0.4	16.9	8.0	14.1	7.4	5.0	**51.8**
Released/reversed	0.2	1.0	0.1	2.7	6.7	0.8	**11.5**
Reclassified into liabilities of discontinued operations	0.0	1.7	0.2	1.7	0.0	0.4	**4.0**
Provided for	11.6	18.7	13.4	19.5	24.3	9.0	**96.5**
Closing balance at 12/31/2006	14.5	32.3	23.4	34.9	37.7	15.5	**158.3**

The personnel-related accruals provide for profit shares, vacation and employment anniversary allowances, as well as preretirement part-time work. The accruals for unbilled costs account for goods and services received but not yet invoiced. The warranty accruals include both provisions for specific warranty expenses and the general warranty risks empirically derived from past sales. The accrued litigation risks and impending losses account for obligations under lawsuits and for loss risks from uncompleted contracts. As of the balance sheet date, €0.6 million provides for impending losses on purchase obligations (up from €0.5 million).

Notes to the consolidated income statement

According to IFRS 5, the intended sale and transfer of Vossloh Information Technologies meant that all income and expenses of this division had to be reclassified into a separate income statement line, *net result of discontinued operations*, the prior-year comparatives having been restated accordingly.

(18) Net sales

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

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

Net sales

€ million	2006	2005
Sales of products and services	589.3	752.1
Revenue from PoC contracts	425.9	190.5
Total	**1,015.2**	**942.6**

Pages 98/99 and 127/128 include breakdowns of net sales according to primary and secondary segments (i.e., by division and geographical market/region).

(19) Functional expenses

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

Expense types

€ million	2006	2005
Cost of materials	519.7	470.9
Personnel expenses	223.9	215.0
Amortization/depreciation/write-down	25.9	22.7

The cost of materials includes the cost of raw materials and supplies at €428.2 million (up from €386.1 million) and the cost of services purchased at €91.5 million (up from €84.9 million). €170.7 million of personnel expenses (up from €165.6 million) is allocable to wages and salaries, another €50.9 million to social security taxes and related employee benefits (up from €47.5 million), and €2.3 million to pension expense (up from €1.9 million). The functional expenses include rental expenses from operating leases of €8.0 million (down from €8.4 million).

The Vossloh Group's annual average headcount in 2006 came to 4,676 (down from 4,693), including the discontinued VIT operation's 256 employees.

(19.1) Cost of sales

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

(19.2) General administrative and selling (GAS) expenses

GAS expenses in 2006 broke down into €44.6 million of selling expenses (up from €41.2 million) and general administrative expenses of €70.4 million (virtually unchanged).

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 €0.4 million (up from €0.0 million).

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

(19.3) R&D expenses

In accordance with IAS 38, all research costs are directly expensed in this line. The costs incurred for developing a marketable product are capitalized where meeting the intangible-asset recognition criteria. Noncapitalizable development costs are expensed in this line, too. R&D expenses before capitalized other work and material in 2006 came to €9.0 million (down from €10.7 million).

(20) Net other operating income

The major components of this line are:

Net other operating income

€ million	2006	2005
Gains from fixed-asset disposal	0.4	0.2
Income from the release of accruals	11.3	14.7
Insurance claims/indemnities	5.7	1.6
Rental income	1.1	1.3
Foreign exchange gains	0.7	1.5
Losses on fixed-asset disposal	(1.5)	(0.2)
Foreign exchange losses	(1.1)	(1.0)
All other operating income	9.1	10.7
All other operating expenses	(8.7)	(3.2)
	17.0	**25.6**

(21) Income from investments

The (virtually unchanged) €0.7 million income from associated affiliates reflects the profit share allocable to the Vossloh Group and earned from the investment in BV Oberflächentechnik GmbH & Co. KG, Werdohl.

The income from other investees refers at €0.8 million (up from €0.2 million) to companies in which the Vossloh Group holds less than one-fifth of the voting rights and on which Vossloh does not exert any significant influence, as well as to the income from unconsolidated subsidiaries.

(22) Other financial results

This line reflects realized losses on the statement at fair value of currency forwards at €0.1 million. The year before, the other financial results had included gains of €0.2 million realized from the statement at fair value of currency forwards and expenses of €4.4 million from the write-down of financial assets.

(23) Net interest expense

The net interest expense of €14.1 million (down from €18.5 million) is the balance of interest and similar income of €2.4 million (up from €1.6 million) and interest and similar expenses of €16.5 million (down from €20.1 million).

(24) Income taxes

Total income taxes, which break down as shown below, include the income taxes paid and owed by the subsidiaries, as well as deferred taxes:

Income taxes

€ million	2006	2005
Current income taxes	28.8	21.3
Deferred taxes	(6.4)	1.7
	22.4	**23.0**

The Vossloh Group's actual tax expense of €22.4 million (down from €23.0 million) is €5.0 million (up from €4.6 million) below the calculated (expected) tax expense resulting from applying a groupwide uniform rate of 40 percent to EBT. This (unchanged) tax rate of 40 percent combines the corporate income tax and municipal trade tax load.

Reconciliation of the expected to the recognized tax expense:

Income taxes

		2006	2005
Earnings before taxes (EBT)	€ mill.	68.6	69.1
Tax rate incl. municipal trade tax	%	40.0	40.0
Expected tax expense at a single rate	€ mill.	27.4	27.6
Tax reduction due to lower rates abroad	€ mill.	(8.0)	(5.6)
Tax effects of the write-down/write-up of deferred taxes	€ mill.	0.0	(0.9)
Tax reduction from tax-exempt investment income	€ mill.	(0.1)	0.0
Tax increase for nondeductible business expenses	€ mill.	4.3	1.4
Taxes for prior years	€ mill.	(0.8)	0.5
Other differences	€ mill.	(0.4)	0.0
Recognized income tax burden	€ mill.	22.4	23.0
Actual income tax rate	%	32.6	33.3

(25) Minority interests

The Group's net income includes minority interests in profit of €2.5 million (up from €1.2 million) and in loss of €0.2 million (down from €0.4 million).

(26) Net result of discontinued operations

This line reflects all income and expenses of Vossloh Information Technologies, a discontinued operation up for divestment. Being one of the Vossloh Group's three divisions, VIT meets the criteria of IFRS 5 for being disclosed in a separate income statement line, *net result of discontinued operations*; the prior-year income statement comparatives have been restated accordingly.

This net result of discontinued operations includes the following income and expenses:

€ million	2006	2005
Net sales	36.4	53.8
Cost of sales	(41.3)	(42.9)
GAS expenses	(8.1)	(7.7)
R&D expenses	(1.1)	(0.5)
Net other operating expense	(3.7)	(0.5)
EBIT	**(17.8)**	**2.2**
Net interest expense	(0.2)	(1.1)
EBT	**(18.0)**	**1.1**
Tax expense	4.7	(1.3)
EAT	**(13.3)**	**(0.2)**
Loss on restatement acc. to IFRS 5	(10.3)	(0.0)
Net result of discontinued operations	**(23.6)**	**(0.2)**

(27) Earnings per share

EpS is calculated as follows:

		2006	2005
Weighted average number of common shares		14,735,304	14,692,008
Weighted number of repurchased shares		0	4,367
Weighted average shares outstanding		14,735,304	14,687,641
Dilutive effects of LTIP/ESOP options	shares	7,859	24,620
Diluted weighted average shares issued		14,743,163	14,712,261
Group earnings	€ mill.	20.3	45.1
Basic (undiluted) EpS	€	1.38	3.07
thereof from continuing operations	€	2.98	3.08
thereof from discontinued operations	€	(1.60)	(0.01)
Fully diluted EpS	€	1.38	3.07

Notes to the consolidated statement of cash flows

The consolidated statement of cash flows depicts the changes in cash and cash equivalents within the Vossloh Group. The term *cash and cash equivalents* corresponds to the equivalent balance sheet line, which is defined below.

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

The cash outflow for tax payments and interest, and the cash inflow from interest and dividends, are fully assigned to the cash flow from operating activities, which included in 2006 interest received at €1.7 million (up from €1.6 million), interest paid at €16.5 million (down from €23.0 million), dividends received at €0.8 million (virtually unchanged), and income taxes paid after offsetting tax refunds received at a net €10.0 million (down from €27.5 million).

The cash flow statement also includes the cash inflows and outflows of Vossloh Information Technologies, which is reported as discontinued operation both in the balance sheet and income statement. The cash flows allocable to this division are listed below:

Cash flows of discontinued operations

€ million	2006	2005
Cash flow from operating activities	38.6	(47.5)
Cash flow from investing activities	(1.1)	(4.1)
Cash flow from financing activities	(37.9)	51.6

Notes to the segment reports

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

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

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

Information Technologies as third division subsumes the development and marketing of operations control systems, passenger information and planning systems as well as signaling technology. As part of the Vossloh Group's repositioning, this division has been earmarked for divestment and therefore, this division's business is shown as discontinued operation. The data included in the primary and secondary segment reports has been restated in accordance with the IFRS 5 rules.

Intersegment/intercompany transfers are transacted on terms and conditions as if at arm's length. All segments use the same accounting principles. Segment information is presented before consolidation.

The other major noncash segment expenses reflect provisions. The additions to the discontinued VIT operation's accruals being included up to September 30, 2006.

The primary segment information by division is shown on pages 98/99, the secondary segment information (by geographical market/region) being presented below. Regional sales are based on the customer location.

Secondary segment information

€ mill		Germany	Other Euroland	Other Europe	Americas	Asia	Other	Total
Net external sales								
2006	€ mill.	128.4	649.9	140.9	30.6	42.4	19.8	1,012.0
2005	€ mill.	158.1	547.8	134.5	29.3	49.6	15.5	934.8
Segment operating assets								
2006	€ mill.	254.9	629.7	35.0	0.1	8.8	0.0	928.5
2005	€ mill.	276.9	636.2	38.6	0.0	1.0	0.0	952.7
Segment capital expenditures								
2006	€ mill.	5.8	17.2	0.9	0.0	0.0	0.0	23.9
2005	€ mill.	15.0	18.1	1.3	0.0	0.1	0.0	34.5

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

Reconciliation of segment operating assets to total assets

€ million	2006	2005
Intangible assets	315.4	334.0
Tangible assets	95.7	102.7
Inventories	161.5	174.2
Trade receivables	331.2	319.2
Sundry assets less tax assets	23.2	21.3
Prepaid expenses and deferred charges	1.5	1.3
Segment operating assets	**928.5**	**952.7**
Assets of discontinued operations	33.8	0.0
Other nonoperating assets	236.2	138.5
Totals assets	**1,198.5**	**1,091.2**

Reconciliation of segment operating liabilities to total equity & liabilities

€ million	2006	2005
Prepayments received	72.1	36.4
Trade payables	203.9	153.7
Pension accruals	9.9	14.9
Other accruals	143.8	125.2
Sundry accruals less tax liabilities	66.0	53.0
Deferred income	0.9	5.4
Segment operating liabilities	**496.6**	**388.6**
Equity	371.1	361.0
Liabilities of discontinued operations	25.7	0.0
Other nonoperating liabilities	305.1	341.6
Total equity & liabilities	**1,198.5**	**1,091.2**

Further disclosures

As of December 31, 2006, contingent liabilities totaled €6.0 million (down from €10.4 million). The Group has incurred contingent liabilities under guaranties/suretyships at €2.4 million (down from €6.8 million), the full amount (down from €4.2 million) being in favor of unconsolidated subsidiaries, and for the collateralization of third-party debts at €3.6 million (virtually unchanged), including €1.3 million (virtually unchanged) allocable to unconsolidated subsidiaries.

Breakdown of other financial obligations:

€ million	2006	2005
due within 1 year:		
under operating leases	7.0	6.3
property rentals	1.6	2.1
	8.6	**8.4**
due > 1–5 years:		
under operating leases	16.4	17.1
property rentals	9.0	11.3
	25.4	**28.4**
due after 5 years:		
under operating leases	11.3	14.8
property rentals	1.6	2.1
	12.9	**16.9**
Purchase obligations	**157.6**	**132.3**

The obligations under operating leases have mostly been incurred for factory, business and office equipment. In 2006 lease and sublease payments of a total €9.8 million (up from €8.4 million) were recognized in net income, including €7.8 million of minimum lease payments (up from €5.1 million), €0.2 million of contingent rents (virtually unchanged), and €1.8 million for subleases (down from €3.1 million). €37.4 million is expected to be payable in future as minimum under noncancelable subleases (down from €40.9 million).

Financial risk management

Its operations expose the Vossloh Group to certain financial risks, mainly liquidity, exchange and interest rate risks. Treasury Management is responsible for the group-wide management, control and containment of such risks.

Liquidity is ensured through a rolling cash budget and a central cash management system, which includes—without being limited to—borrowing and depositing funds from or with banks, investing in fixed-income securities and in equities, etc. Delinquency, default and other nonpayment risks are minimized by doing business with counterparties of prime standing only.

Interest rate and currency risk management tools include financial derivatives, too. This type of financial instruments is deployed solely for hedging purposes. The positive or negative fair value of the financial derivatives used from time to time is shown as sundry asset or sundry liability, respectively.

Interest rate risks chiefly ensue from the borrowings (loans and credits) for group financing purposes. The risk that future interest payments change as rates show an adverse movement is covered by contracting interest rate swaps or options, these being accounted for as cash flow hedges. Changes in the fair value of such hedges are banked in, and only in, an equity account, viz. accumulated OCI.

Vossloh uses currency forwards and cross-currency swaps to hedge currency receivables and payables, as well as forecasted transactions in non-euro currencies, against exchange rate fluctuations. Changes in fair value of currency forwards contracted to hedge recognized receivables and payables are recognized in the income statement. However, if used to hedge forecasted transactions, changes in the fair value of cash flow hedges are solely recognized as OCI.

The cross-currency swaps for the debt raised under the US private placement hedge not only the recognized loan liability against currency risks but also current interest payment obligations against both interest rate and forex risks.

The current fair values of financial derivatives used by the Vossloh Group are shown below, the notional volumes indicating the non-netted total of all derivative instruments bought and sold:

Financial derivatives			Fair value	Notional volume	Fair value	Notional volume
€ million			2006		2005	
Interest rate swaps	current maturity	≤1 year	0.0	0.0	0.0	0.0
		>1–5 years	(1.5)	25.6	(2.9)	25.6
		>5 years	0.0	0.0	0.0	0.0
			(1.5)	**25.6**	**(2.9)**	**25.6**
Cross-currency swaps	current maturity	≤1 year	0.0	0.0	0.0	0.0
(US priv. placem.)		>1–5 years	0.0	0.0	0.0	0.0
		>5 years	(29.5)	203.9	(16.8)	203.9
			(29.5)	**203.9**	**(16.8)**	**203.9**
Caps	current maturity	≤1 year	0.0	51.1	0.0	0.0
		>1–5 years	0.1	25.6	0.1	76.7
		>5 years	0.0	0.0	0.0	0.0
			0.1	**76.7**	**0.1**	**76.7**
Currency forwards	current maturity	≤1 year	(0.6)	114.9	1.4	41.3
		>1–5 years	0.2	20.1	0.4	19.7
		>5 years	0.0	0.0	0.0	0.0
			(0.4)	**135.0**	**1.8**	**61.0**
Total			**(31.3)**	**441.2**	**(17.8)**	**367.2**

Material subsequent events

By agreement dated January 10, 2007, the Vossloh Group sold and transferred its Information Technologies division to Funkwerk AG. The preliminary price was €8 million. On February 7, 2007, the transaction was closed and consummated after the conditions precedent had been duly met.

On March 5, 2007, Vossloh signed an asset deal with Pohl Corporation based in Reading, PA, USA. The provisional price for the assets taken over is $21 million but subject to revision according to the net working capital trend. The transaction is, moreover, contingent on approval from Vossloh AG's Supervisory Board.

Joint ventures

The Vossloh Group's balance sheet and income statement include the following assets, liabilities, income and expenses from the consolidation pro rata of joint ventures:

€ million	2006	2005
Current assets	75.2	73.8
Noncurrent assets	16.9	19.2
Current liabilities	50.4	54.5
Noncurrent liabilities	3.0	1.3
Income	118.8	116.3
Expenses	112.4	107.0

Statutory auditor's fees

The following fees for services rendered in 2006 by the statutory group auditor, viz. BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, were recognized as expense:

€ million	2006	2005
Statutory audits	0.4	0.4
Other certification, verification or appraisal services	0.7	0.8
Tax consultancy	0.5	0.5
Other services provided for Vossloh AG or its subsidiaries	0.0	0.0
	1.6	**1.7**

The fees for statutory audits mainly includes those paid for the group audit and the statutory audits by BDO Deutsche Warentreuhand AG of Vossloh AG's and its German subsidiaries' financial statements. The fees for other certification, verification or appraisal services (i) include €0.3 million for services rendered by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG (up from €0.2 million) and (ii) mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, as well as for due diligence services related to planned M&A transactions and divestments. The tax consultancy fees refer to the formulation of tax returns, the review of tax assessment notices, as well as other advisory services for national and international tax matters.

Related-party transactions (individuals)

The compensation reportable under the terms of IAS 24 for the Vossloh Group covers the remuneration of active Executive and Supervisory Board members. The Executive Board members active in 2006 received the following compensation:

€ '000	2006	2005
Short-term payments	2,390.0	3,155.0
Postretirement benefits	654.0	526.0
Stock-based payments	0.0	694.0

Active Supervisory Board members received short-term payments of €0.127 million (down from €0.290 million). For an itemized breakdown by member of this total and further details of the remuneration system, see the Board Compensation Report (an integral part of the Vossloh Group's management report).

Related-party transactions (entities)

The consolidated companies of the Vossloh Group regularly transact normal business with unconsolidated subsidiaries, joint ventures and associated affiliates. All transactions of these companies *inter se* conform to the arm's length principle. Related companies controlled or significantly influenced by the Vossloh Group are itemized in the list of shareholdings.

German Corporate Governance Code

In December 2006 the Executive and Supervisory Boards issued, and made available to the stockholders on the Group's website, the updated declaration of conformity pursuant to Art. 161 AktG.

Exemption of subsidiaries from certain publication obligations

Vossloh subsidiaries which claim the exemption from preparing and publishing their own financial statements under the terms of Art. 264(3) or 264b HGB are marked accordingly in the list of Vossloh AG's shareholdings (published on pages 134/135).

Proposed profit appropriation

The Executive Board will propose to the annual stockholders' meeting to distribute for the eligible capital stock of Vossloh AG of €37.7 million, a cash dividend of €1.30 per common share, hence a total €19.2 million.

Werdohl, March 13, 2007

Vossloh AG
The Executive Board

Dr. Gerhard Eschenröder, Werner Andree

List of shareholdings

	€ million	Footnote	Held in %	through ( )	Consoli-dation[1]	Equity[2]	Sales[2]	Net income/ (loss)[2]
(1)	**Vossloh AG, Werdohl**				(c)	455.9	1.0	(62.9)
	Rail Technology							
(2)	Vossloh Rail Technology GmbH, Werdohl	3	100.00	(1)	(c)	188.4	0.0	14.7
	Rail Infrastructure division							
(3)	Vossloh France SAS, Paris, France		100.00	(2)	(c)	102.5	0.0	6.4
	Fastening Systems business unit							
(4)	Vossloh-Werke GmbH, Werdohl	3	100.00	(2)	(c)	4.3	2.8	11.3
(5)	Vossloh Fastening Systems GmbH, Werdohl	3	100.00	(4)	(c)	5.2	141.7	14.6
(6)	Vossloh Werdohl GmbH, Werdohl		100.00	(4)	(c)	8.2	35.0	6.6
(7)	Vossloh Tehnica Feroviara SRL, Bucharest, Romania	4	100.00	(4)	(u)	0.0	0.1	0.0
(8)	Vossloh Drážni Technika s.r.o., Prague, Czech Republic	4	100.00	(4)	(u)	0.5	4.0	0.2
(9)	Vossloh Sistemi S.r.l., Sarsina, Italy	5	100.00	(4)	(c)	1.7	14.2	1.1
(10)	Patil Vossloh Rail Systems Pvt. Ltd., Hyderabad, India	4	51.00	(4)	(u)	0.3	3.4	0.0
(11)	BV Oberflächentechnik GmbH & Co. KG, Werdohl		50.00	(4)	(e)	0.6	11.6	1.4
(12)	BV Oberflächentechnik Verwaltungs GmbH, Werdohl		50.00	(4)	(u)	0.0	0.0	0.0
(13)	Vossloh Maschinenfabrik Deutschland GmbH, Erkelenz	4	100.00	(4)	(u)	(0.4)	0.0	0.0
(14)	Vossloh Utenzilija d.d., Zagreb, Croatia	4	89.80	(4)	(u)	2.2	1.5	0.0
(15)	Vossloh Skamo Sp.z o.o., Nowe Skalmierzyce, Poland		100.00	(4)	(c)	4.7	13.6	2.4
(16)	Vossloh Rail Technologies Ltd.Sti., Istanbul, Turkey	4	99.50/0.50	(4/5)	(u)	0.0	0.2	0.1
(17)	Feder-7 Kft., Szekesfeheryar, Hungary	4	96.67/3.33	(4/5)	(u)	0.3	0.4	0.2
(18)	Vossloh Fastening Systems America Corp., Chicago, USA	4	100.00	(4)	(u)	(0.1)	0.0	(0.1)
(19)	Vossloh Fastening Systems China Co. Ltd., Kunshan, China	4	68.00	(4)	(u)	0.0	0.0	0.0
	Switch Systems business unit							
(20)	Vossloh Cogifer SA, Rueil-Malmaison, France		100.00	(3)	(c)	82.2	133.1	18.2
(21)	Jacquemard AVR SA, St. Jean Bonnefonds, France		100.00	(20)	(c)	2.1	5.1	0.4
(22)	Vossloh Cogifer Finland OY, Teijo, Finland		100.00	(23)	(c)	1.3	5.8	0.7
(23)	Vossloh Cogifer Nordic Switch Systems AB, Örebro, Sweden		100.00	(20)	(c)	8.5	33.7	2.7
(24)	Vossloh Cogifer Norway AS, Oslo, Norway		100.00	(23)	(c)	0.4	5.4	0.2
(25)	KIHN SA, Rumelange, Luxembourg		89.21	(20)	(c)	12.1	22.3	1.7
(26)	DDL SA, Rodange, Luxembourg		100.00	(25)	(c)	(0.8)	0.6	3.2
(27)	Vossloh Laeis GmbH & Co. KG, Trier		100.00	(25)	(c)	2.0	6.2	0.6
(28)	Vossloh Laeis Verwaltungs GmbH, Trier		100.00	(25)	(c)	0.0	0.0	0.0
(29)	EAV Durieux SA, Carnières, Belgium		98.76/1.24	(25/20)	(c)	0.8	4.3	(0.9)
(30)	Futrifer-Indústrias Ferroviárias SA, Lisbon, Portugal		61.00	(20)	(c)	2.2	4.9	0.7
(31)	Amurrio Ferrocarriles y Equipos SA, Amurrio, Spain		50.00	(20)	(p)	18.4	35.8	1.6
(32)	Montajes Ferroviarios srl, Amurrio, Spain		100.00	(31)	(u)	0.0	0.3	0.0
(33)	Burbiola S.A., Amurrio, Spain		50.00	(31)	(u)	1.5	0.4	0.0
(34)	Corus Cogifer Switches and Crossings Ltd., Scunthorpe, UK		50.00	(20)	(p)	10.0	19.6	1.4
(35)	Vossloh Cogifer Italia S.r.l., Bari, Italy		100.00	(20)	(c)	0.6	5.3	0.1
(36)	Cogifer Połska Sp.z o.o., Bydgosecz, Poland		52.38	(20)	(c)	8.9	10.8	0.9
(37)	ATO-Asia Turnouts Ltd., Bangkok, Thailand		51.00	(20)	(c)	0.4	0.3	0.0
(38)	Cogifer Services (Malaysia) sdn bhd, Kuala Lumpur, Malaysia	4	100.00	(20)	(u)	0.2	0.7	0.0
(39)	Cogifer Americas Inc., Cincinnati, OH, USA	4	100.00	(20)	(u)	0.1	0.0	(0.0)
(40)	J.S. Industries, Secunderabad, India	5	51.00	(20)	(c)	1.0	1.8	(0.1)
(41)	Beekay Engineering, Bhilai, India	5	60.00	(20)	(c)	3.0	7.4	0.7
(42)	Siema Applications SAS, Villeurbanne, France		100.00	(20)	(c)	1.6	6.0	0.7
(43)	Vossloh Min Skretnice, AO, Niš, Serbia		90.61	(20)	(c)	0.5	1.9	(0.1)
(44)	SMIF, Casablanca, Morocco	4	100.00	(20)	(u)	0.0	0.0	0.0
(45)	Swedish Rail Systems AB, Ystad, Sweden		100.00	(23)	(c)	0.0	0.0	0.0
(46)	Dakshin Transtek, Bangalore, India	5	100.00	(40)	(c)	(0.2)	0.8	0.0
(47)	Vossloh Cogifer Australia PTY Ltd., Sydney, Australia	4	100.00	(20)	(u)	0.0	0.0	0.0

€ million		Footnote	Held in %	through ( )	Consoli-dation[1]	Equity[2]	Sales[2]	Net income/(loss)[2]
	Infrastructure Services business unit							
(48)	Vossloh Infrastructure Services SA, Beauchamp, France		100.00	(3)	(c)	23.6	116.3	(1.4)
(49)	ETF SA, Paris, France		50.00	(48)	(p)	29.1	116.4	1.8
(50)	La Champenoise SA, Champagne au Mont d'Or, France		100.00	(49)	(p)	0.6	7.1	0.3
(51)	Vossloh Infrastructure Services Luxembourg SA, Petange, Luxembourg		100.00	(48)	(c)	11.2	16.8	1.2
(52)	Euro VF Holding SA, Luxembourg, Luxembourg	4	99.90	(51)	(u)	0.0	0.0	0.0
(53)	Dehé Bahnbau GmbH, Trier		100.00	(51)	(c)	0.6	0.3	0.0
(54)	Vossloh Infrastructure Services Belgium SA/NV, Carnières, Belgium		100.00	(48)	(c)	0.2	12.9	0.0
(55)	Cogifer TF B.V., Goirle, Netherlands		100.00	(48)	(c)	0.5	0.0	(0.1)
(56)	Cogi Hbg VOF, Goirle, Netherlands		50.00	(55)	(p)	0.0	0.0	0.0
(57)	Cogimex SA de CV, Mexico City, Mexico		94.00	(48)	(c)	(0.2)	0.0	(0.1)
(58)	Sogafer SA, Libreville, Gabon		49.00	(48)	(u)	0.0	0.0	0.0
(59)	Cogifer de Chili Lda., Santiago, Chile	4	100.00	(48)	(u)	0.7	0.0	0.0
(60)	Vossloh Infrastructure Services Ltd., Sidcup, UK		100.00	(48)	(c)	3.5	0.0	0.0
(61)	Turinval S.c.r.l., Torino, Italy		50.00	(48)	(u)	0.0	0.0	0.0
	Motive Power&Components division							
	Locomotives business unit							
(62)	Vossloh Locomotives GmbH, Kiel	3	100	(2)	(c)	31.4	144.0	(3.1)
(63)	Locomotion Service GmbH, Kiel		100	(62)	(c)	0.2	3.0	0.2
(64)	Vossloh España S.A., Valencia, Spain		100	(2)	(c)	34.5	152.9	12.6
	Electrical Systems business unit							
(65)	Vossloh Kiepe GmbH, Düsseldorf		5.10/94.90	(1/2)	(c)	35.4	84.6	4.6
(66)	Vossloh Kiepe Elektrik Beteiligungs GmbH, Düsseldorf		100.00	(65)	(c)	1.4	0.0	0.0
(67)	Vossloh Kiepe Ges.m.b.H., Vienna, Austria		100.00	(66)	(c)	9.9	25.0	2.0
(68)	Vossloh Kiepe Corporation, Ottawa-Carleton, Canada	4	100.00	(66)	(u)	(0.4)	0.3	0.1
(69)	Vossloh Kiepe S.r.l., Cernusco sul Naviglio, Italy	4	100.00	(66)	(u)	0.2	0.8	0.0
(70)	Vossloh Kiepe Trakcja Sp.z o.o., Krákow, Poland	4	99.00/1.00	(65/66)	(u)	0.0	0.0	0.0
	Information Technologies division							
(71)	Vossloh Information Technologies GmbH, Kiel		100.00	(77)	(c)	1.6	13.2	(5.6)
(72)	Vossloh Information Technologies Karlsfeld GmbH, Karlsfeld	3	100.00	(71)	(c)	5.1	19.7	(0.5)
(73)	Vossloh Information Technologies York Ltd., York, UK		100.00	(71)	(c)	(1.3)	3.5	(0.9)
(74)	Vossloh Information Technologies Malmö AB, Malmö, Sweden		68.47	(71)	(c)	3.7	2.4	2.9
(75)	Vossloh IT Polska Sp.z o.o., Warsaw, Poland	4	100.00	(71)	(u)	(0.2)	0.0	(0.2)
(76)	Patil Vossloh Rail IT Systems Pvt. Ltd., Hyderabad/Indien	4	51.00	(71)	(u)	0.0	0.0	0.0
	Other companies							
(77)	Vossloh Verwaltungsgesellschaft mbH, Werdohl		100.00	(1)	(c)	(5.7)	0.0	(24.3)
(78)	Vossloh Communication GmbH, Werdohl	4	100.00	(1)	(u)	0.4	1.9	0.2
(79)	Vossloh Australia PTY Ltd., Castle Hill, Australia	4	100.00	(1)	(u)	2.6	0.1	0.0
(80)	Vossloh Schwabe Australia PTY Ltd., Castle Hill, Australia	4	100.00	(79)	(u)	0.3	0.0	0.2
(81)	Delkor Rail PTY Limited, Sydney, Australia	4	100.00	(79)	(u)	0.7	5.7	0.3
(82)	Delkor Rail (HK) Ltd., Hong Kong, China	4	100.00	(81)	(u)	0.1	0.3	0.0
(83)	Vossloh Corporate Finance GmbH, Werdohl	4	100.00	(1)	(u)	0.1	0.6	0.0
(84)	Vossloh Pfleiderer GmbH, Werdohl	4	100.00	(2)	(u)	0.0	0.0	0.0

[1] Fully consolidated companies are labeled (c), those stated at equity (e), those included pro rata (p), and unconsolidated companies (u).
[2] Derived from the consolidated financial statements, non-euro equity being translated at the mean current rate and non-euro sales at the annual average rate
[3] Company claims exemption from preparing and publishing separate financial statements pursuant to Art. 264(3) or 264b HGB.
[4] Not included in consolidation group due to minor significance for the asset and capital structure, financial position and results of operations.
[5] Newly consolidated in 2006.
The comprehensive list of shareholdings will be filed and deposited with the Commercial Register of the Iserlohn Local Court under C/R no. HRB 5292.

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

We have audited the consolidated financial statements (consisting of balance sheet, income statement, statement of changes in equity, cash flow statement, and notes) and the combined management report (on the Company and the Group), all as prepared by Vossloh AG, Werdohl, for the fiscal year ended December 31, 2006. The preparation of the consolidated financial statements and combined management report in accordance with the IFRS whose application is mandatory in the European Union (EU), and with the additionally applicable financial-accounting provisions of Art. 315a(1) HGB, is the responsibility of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and combined management report.

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

Our audit has not resulted in any objections or exceptions.

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

Essen, March 15, 2007

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rittmann	pp. Rüttershoff
Wirtschaftsprüfer	Wirtschaftsprüfer

Separate financial statements of Vossloh AG as of December 31, 2006

Balance sheet: Assets

€ million	12/31/2006	12/31/2005
Intangible assets		
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	1.7	2.1
Interest rate caps	0.1	0.1
Prepayments on intangibles		
	1.8	2.2
Tangible assets		
Land, equivalents titles, and buildings (including on leased land)	5.4	6.9
Sundry plant, business and office equipment	0.3	0.3
	5.7	7.2
Financial assets		
Shares in subsidiaries	139.7	139.5
Loans to subsidiaries	155.0	179.0
Other long-term securities	0.1	0.1
Other long-term loans	0.0	0.0
	294.8	**318.6**
Fixed assets	**302.3**	**328.0**
Receivables and sundry assets		
Trade receivables	0.0	0.0
Due from subsidiaries	298.0	442.0
Sundry assets	14.5	22.6
	312.5	**464.6**
Cash on hand and in bank	107.1	20.3
Current assets	**419.6**	**484.9**
Prepaid expenses & deferred charges	0.1	0.1
	721.9	**813.0**

Balance sheet: Stockholders' equity & liabilities

€ million	12/31/2006	12/31/2005
Capital stock	37.7	37.7
Additional paid-in capital	35.4	35.4
Reserves retained from earnings	355.1	397.7
Net earnings	19.1	39.6
Stockholders' equity	**447.3**	**510.4**
Accruals for pensions and similar obligations	10.3	9.8
Tax accruals	3.0	2.8
Other accruals	7.3	5.5
Accruals	**20.6**	**18.1**
Due to banks	36.0	41.1
Trade payables	0.8	0.4
Due to subsidiaries	11.7	37.4
Due to investees	0.7	0.9
Sundry liabilities	204.8	204.7
thereof for taxes (rounded): €314,900 (up from €81,500)		
thereof for social security (rounded): €0 (unchanged)		
Liabilities	**254.0**	**284.5**
	721.9	**813.0**

Income statement for the year ended December 31, 2006

€ million	2006	2005
Net sales	1.9	1.9
Cost of sales	(2.1)	(0.7)
Gross margin	**(0.2)**	**1.2**
General administrative expenses	(19.3)	(14.7)
Other operating income	4.6	8.1
Other operating expenses	(0.4)	(0.0)
Operating result	**(15.3)**	**(5.4)**
Income from investments	1.5	0.1
thereof from subsidiaries: €1.5 million (up from €0.1 million)		
Income from P&L transfer agreements	32.2	45.2
thereof from subsidiaries: €32.2 million (down from €45.2 million)		
Income from other long-term securities/loans	8.1	8.0
thereof from subsidiaries: €8.1 million (up from €8.0 million)		
Other interest and similar income	17.9	16.9
thereof from subsidiaries: €16.3 million (up from €16.0 million)		
Write-down of financial assets	(18.2)	(0.0)
Interest and similar expenses	(15.1)	(17.8)
thereof to subsidiaries: €0.8 million (up from €0.7 million)		
Net financial result	**26.4**	**52.4**
Result from ordinary operations (EBT)	**11.1**	**47.0**
Extraordinary expenses/losses	(56.1)	(3.5)
Income taxes	1.0	(3.9)
Net (loss)/income	**(44.0)**	**39.6**

Fixed-asset analysis

€ million	Cost				Amortization/depreciation/ write-down		Book values	
	Balance at 1/1/2006	Additions/ current capex	Disposals	Balance at 12/31/2006	Balance at 12/31/2006	accumulated by 12/31/2006	Balance at 12/31/2006	Balance at 12/31/2005
Intangible assets Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	7.5	0.1	0.0	7.6	5.9	0.5	1.7	2.1
Interest rate caps	0.1	–	–	0.1	–	–	0.1	0.1
Prepayments on intangibles	–	–	–	–	–	–	–	–
	7.6	**0.1**		**7.7**	**5.9**	**0.5**	**1.8**	**2.2**
Tangible assets Land, equivalent titles, and buildings (incl. on leased land)	23.0	0.0	0.0	23.0	17.6	1.5	5.4	6.9
Sundry plant and equipment	1.3	0.1	0.2	1.2	0.9	0.1	0.3	0.3
	24.3	**0.1**	**0.2**	**24.2**	**18.5**	**1.6**	**5.7**	**7.2**
Financial assets Shares in subsidiaries	139.5	18.5	–	158.0	18.3	18.3	139.7	139.5
Loans to subsidiaries	179.0	10.0	34.0	155.0	–	–	155.0	179.0
Other long-term securities	0.1	–	–	0.1	0.0	–	0.1	0.1
Other long-term loans	0.0	–	0.0	0.0	–	–	0.0	0.0
	318.6	**28.5**	**34.0**	**313.1**	**18.3**	**18.3**	**294.8**	**318.6**
Total	**350.5**	**28.7**	**34.2**	**345.0**	**42.7**	**20.4**	**302.3**	**328.0**

Notes

The separate annual financial statements of Vossloh AG as of December 31, 2006, were prepared in accordance with the provisions of the German Commercial Code (“HGB”) and the German Stock Corporation Act (“AktG”).

Accounting and valuation principles

Accounting and valuation are governed by the following principles:

Purchased intangible assets, as well as tangible assets are stated at cost, if finite-lived less amortization or depreciation according to the declining balance or straight-line method. Finite-lived fixed assets added on or after January 1, 2001, are depreciated on a straight-line basis. Low-value assets, defined as assets at net cost of €410 or less, are directly written off in full. Write down for tax purposes is charged wherever this option is offered, whether for ACR or otherwise. Moreover, fixed assets are written down to any lower current value if so required. Financial assets are recognized at cost or any lower current value. Receivables and sundry assets as well as cash on hand and in bank are shown at par or principal. Non-euro receivables are translated, if hedged, at the rate so covered or any lower mean current rate. Accruals provide for pensions and similar obligations at the actuarial present value, based on an annual interest rate of 6 percent and on the 1998 and 2005G mortality tables of Prof. Dr. Klaus Heubeck. These accruals conform with the 2005G mortality tables, less one-third of the differential between these and the 1998 tables. Using the 1998 mortality tables results in approx. €44,000 higher obligations. Tax and other accruals are shown at the amounts in future required in sound business practice and judgment. Hedge accounting is used for financial derivatives (mainly cross-currency swaps and interest rate caps) by combining the derivatives with the underlying into one valuation unit wherever a direct hedging relationship exists between hedge and underlying. In these cases, the result from the currency hedge contracted is not recognized before maturity or due date. Liabilities are generally stated at their settlement amounts.

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

Fixed assets

Classification and movements of fixed assets are explained in greater detail in the fixed-asset analysis on page 142. The interest rate caps refer to capitalized premiums for long-term cap contracts. In the period, write-down of €1.261 million was charged to tangible assets and another €18.254 million to shares in subsidiaries. For a list of shareholdings, see pages 134/135.

Receivables and sundry assets

Except for €8.387 million, all receivables and sundry assets fall due within one year. The accounts due from subsidiaries are nontrade receivables only.

Prepaid expenses & deferred charges

This caption totals €0.060 million (down from €0.074 million) and includes loan discount at €0.013 million (down from €0.022 million).

Stockholders' equity

Vossloh AG's capital stock amounted to €37,671,461.74 (up from €37,668,946.18) and is divided into 14,735,795 (up from 14,734,811) no-par bearer shares (common stock only).

Authorized capital of €18,406,507.72 existed at December 31, 2006.

The annual stockholders' meetings of June 3, 2004, conditionally raised the capital stock by up to €1,840,650.77 by issuing a maximum of 720,000 no-par bearer shares of common stock in order to grant stock options to officers of Vossloh AG, as well as to officers and executives of Vossloh subsidiaries under the terms of Arts. 15 et seq. AktG. By December 31, 2006, the 90,250 shares issued thereunder had increased the capital stock by altogether €230,720.46. Moreover, the capital stock was conditionally raised by up to €383,468.91 by issuing a maximum of 150,000 no-par bearer shares of common stock in order to grant stock options to employees of Vossloh AG and of its German subsidiaries under the terms of Arts. 15 et seq. AktG. Out of this authorized but unissued capital, altogether 5,664 shares had been issued by December 31, 2006, thus raising the capital stock by €14,479.79.

The additional paid-in capital includes the premium earned from stock issued by Vossloh AG. Due to the capital increase from the conditional capital, €21,110.28 (down from €2,027,345.10) was transferred to the additional paid-in capital. Unchanged, the reserves retained from earnings do not include any reserve for treasury stock.

Accruals

The other accruals of €7.304 million (up from €5.092 million) include €1.875 million for payroll (down from €3.103 million) and €5.429 million for sundry administrative purposes (up from €1.989 million).

Liabilities (above-the-line and contingent)

Except for one account of €5.000 million (down from €10.000 million) due to banks within one to five years and another of €203.908 million (virtually unchanged) due after more than five years, the liabilities recognized in the balance sheet mature throughout within one year. The accounts due to subsidiaries were throughout nontrade.

The contingent liabilities under suretyships and guaranties of €463.911 million (up from €320.653 million) were in full incurred for obligations of subsidiaries (up from €318.170 million).

The fixed-liability guaranties in favor of subsidiaries total €701.290 million. Six guaranties do not have a stipulated ceiling.

The other financial obligations total €0.617 million (up from €0.298 million), including €0.000 million to subsidiaries (virtually unchanged), and break down into €0.296 million falling due within one (up from €0.166 million) and another €0.320 million between one and five years (up from €0.132 million).

Results of operations

€1.020 million (virtually unchanged) of net sales, generated in 2006 solely in Germany, refers to rental income, including €0.643 million charged to subsidiaries (up from €0.640 million). The functional expenses break down into cost of sales and general administrative expenses. Cost of sales mainly includes amortization, depreciation and write-down (the latter amounting to €1.261 million), as well as M&R expenses, while general administrative expenses basically cover personnel expenses, management consulting fees, and amortization/depreciation. The other operating income came to €4.615 million (down from €8.266 million) and chiefly resulted from tax apportionment (at €2.741 million) and IT cost allocation (at €1.349 million). Income taxes exclusively refer to prior periods.

Other disclosures

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

In the year under review, personnel expenses totaled €6.346 million (down from €6.696 million), of which €5.121 million (down from €5.937 million) is allocable to wages and salaries, another €1.225 million (up from €0.759 million) to Social Security, pension expense and related employee benefits, pension expense alone accounting for €0.896 million (up from €0.430 million).

The extraordinary expenses/losses of €53.065 million (up from nil) break down into €32.765 million incurred in connection with the divestment of the VIT division (receivables waived/forgiven, consultancy fees, personnel expenses) and €20.300 million of forgiven receivables from Vossloh Verwaltungsgesellschaft mbH, Werdohl.

In fiscal 2006, Vossloh AG employed an unchanged average workforce of 31.

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

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

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

Financial derivatives

€ million	2006		2005	
	Market value	Notional vol.	Market value	Notional vol.
Interest rate swaps	(1.5)	25.6	(2.9)	25.6
Interest rate caps	0.1	76.7	0.1	76.7
Cross-currency swaps	(29.5)	203.9	(16.9)	203.9
Currency forwards	(0.6)	115.6	1.8	52.8
	(31.5)	421.8	(17.9)	359.0

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

In December 2006, the Executive and Supervisory Boards reissued, and made available to the stockholders on the Company's website, the declaration of conformity, as required by the provisions of Art. 161 AktG. Vossloh AG has not received any notifications of attributable voting rights in 2006 under the terms of Art. 21(1) or (1a) German Securities Trading Act ("WpHG").

The following fees for services rendered in 2006 by the statutory auditor, viz. BDO Deutsche Warentreuhand AG Wirtschaftsprüfungsgesellschaft, were recognized as expense:

€ million	2006	2005
Statutory audits	0.1	0.1
Other certification, verification or appraisal services	0.7	0.8
Tax consultancy	0.3	0.3
Other services	0.0	0.0
	1.1	**1.2**

The fees for statutory audits mainly include those paid for the the statutory annual audits by BDO Deutsche Warentreuhand AG of Vossloh AG's separate and consolidated financial statements where such fees are borne directly by Vossloh AG. The fees for other certification, verification or appraisal services (i) include €0.3 million for services rendered by non-German BDO firms but invoiced through BDO Deutsche Warentreuhand AG (up from €0.2 million) and (ii) mainly account for consultancy and auditing work in connection with the implementation of groupwide accounting policies, as well as for due diligence services related to planned M&A transactions and divestments.

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

Vossloh AG's Executive Board

Dr. Gerhard Eschenröder, born 1954, Essen
Chairman since March 1, 2006, appointed up to Feb. 28, 2009
– Vossloh Cogifer SA: supervisory board member (as from March 20, 2006)
– Vossloh Infrastructure Services SA: supervisory board member (as from June 27, 2006)

Werner Andree, born 1951, Bergheim/Erft
CFO since Sep. 1, 2001, appointed up to Aug. 31, 2009
– Vossloh Cogifer SA: supervisory board member
– Vossloh France SAS: president (as from Jan. 23, 2006)
– Vossloh Australia Pty. Ltd.: director
– Vossloh Schwabe Australia Pty. Ltd.: director
– Vossloh España S.A.: director

Dr. Norbert Schiedeck, born 1965, Neumagen-Drohn
Executive Board member as from April 1, 2007, appointed up to March 31, 2010

Vossloh AG's Supervisory Board

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

Dr.-Ing. Dipl.-Ing. Wilfried Kaiser, Chairman[3], Munich,
degreed engineer, former excutive board member of Asea Brown Boveri AG
– EvoBus GmbH: supervisory board member
– Konrad Hornschuch AG: supervisory board chairman (up to March 31, 2006)
– schenck.de AG: supervisory board chairman
– BHS Getriebe Holding GmbH: advisory board chairman
– Hugo Kern und Liebers GmbH & Co. KG: director
– Karl Eugen Fischer Holding GmbH: advisory board chairman

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

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

Dr. Christoph Kirsch[3], former CFO of Südzucker AG, Weinheim

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

Wilfried Köpke[1], Kiel, engineering designer,
works council chairman of Vossloh Locomotives GmbH

[1] Employee representative
[2] Staff Committee member
[3] Audit Committee member

Proposed profit appropriation

The annual financial statements 2006 close with a net loss of €43,963,744.35. When including the undistributed profit of €96,791.53 carried forward and the €63,023,486.32 transferred from the reserves retained from earnings, net earnings total €19,156,533.50.

The Executive Board will propose to the annual stockholders' meeting to distribute a cash dividend of €1.30 for each share of the common stock of €37,671,461.74 ranking for dividend, hence a total cash distribution of €19,156,533.50.

Proposed profit appropriation

in €	
Net loss for 2006	(43,963,744.35)
Undistributed profit as of January 1, 2006	96,791.53
Transfer from reserves retained from earnings	63,023,486.32
Net earnings as of December 31, 2006	**19,156,533.50**
Proposed:	
total dividend payout	19,156,533.50

Werdohl, March 13, 2007

Vossloh AG
The Executive Board

Dr. Gerhard Eschenröder, Werner Andree

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

We have audited the annual financial statements (consisting of balance sheet, income statement, and notes) including the records and books of account and the combined management report (on the Company and the Group) of Vossloh AG, Werdohl, for the fiscal year ended December 31, 2006. The accounting and the preparation of the annual financial statements and combined management report in accordance with the German Commercial Code and the supplementary provisions of the bylaws are the responsibility and assertions of the Company's legal representatives. Our responsibility is, based on our audit, to express an opinion on the annual financial statements (including the accounting) and combined management report.

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

Our audit has not resulted in any objections or exceptions.

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

Essen, March 15, 2007

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Financial diary 2007

Annual stockholders' meeting	May 31, 2007
Payment of cash dividends	June 1, 2007
Publication of interim report	
as of March 31	April 26, 2007
as of June 30	July 26, 2007
as of September 30	October 30, 2007

For further dates, go to www.vossloh.com

Financial diary 2008

Publication of 2007 financial data	March 2008
Press conference	March 2008
DVFA presentation	March 2008
Annual stockholders' meeting	May 2008

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Vossloh stock details

ISIN	DE0007667107
Traded at:	Xetra, Düsseldorf, Frankfurt,
	Berlin-Bremen, Hannover, Hamburg,
	Stuttgart, Munich
Index:	MDAX
No. of shares outstanding at 12/31/2006:	14,735,795
Stock price (12/31/2006):	€57.14
2006 high/low:	€59.20/€34.90
Reuters code:	VOSG.F
Bloomberg code:	VOS GR
Dividend proposed:	€1.30

Disclaimer: This annual report contains future-related statements based on estimates of future trends on the part of the Executive Board. The statements and forecasts represent an assessment of the as-is situation and all information presently available. If the assumptions underlying such statements and forecasts fail to materialize, actual results may differ from current expectations.

Ten-year overview of the Vossloh Group

		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Income statement data											
Net sales	€ mill.	1,015.2	996.4	917.8	912.5	744.5	903.0	854.4	790.1	578.4	428.7
thereof: Rail Technology	€ mill.	1,014.2	996.1	917.5	912.2	743.6	649.7	579.8	561.9	357.3	159.3
Lighting	€ mill.	–	–	–	–	–	252.8	274.1	227.7	220.5	208.5
Decoration	€ mill.	–	–	–	–	–	–	–	–	–	60.6
EBIT	€ mill.	82.7	90.8	105.6	100.9	78.4	60.0	77.9	48.4	61.8	50.9
Net interest expense (until 1997 net financial result)	€ mill.	(14.1)	(19.6)	(16.0)	(14.7)	(14.8)	(17.2)	(13.6)	(7.0)	(6.4)	(2.2)
EBT	€ mill.	68.6	71.2	89.6	86.2	63.6	42.8	64.3	41.4	55.4	48.7
Group earnings (total)	€ mill.	20.3	45.1	57.2	55.5	52.4	17.2	27.8	17.7	31.2	28.9
Earnings per share[1,2] (EpS)	€	1.38	3.07	3.91	3.90	3.85	1.20	1.93	1.23	2.16	1.73
Pretax ROS	%	6.8	7.1	9.8	9.4	8.5	4.7	7.5	5.2	9.6	11.4
Pretax ROE	%	18.5	19.7	27.1	29.0	26.7	13.6	20.0	14.1	20.2	34.8
ROCE	%	12.9	12.0	15.3	16.3	13.3	9.4	11.9	8.4	12.7	29.0
Balance sheet data											
Fixed assets	€ mill.	423.4	453.3	387.0	377.7	414.5	322.0	311.4	286.9	269.2	63.7
capital expenditures[3]	€ mill.	23.9	34.5	39.4	30.5	25.5	48.2	43.6	35.6	24.5	16.4
amortization/depreciation	€ mill.	25.9	23.9	25.2	24.4	19.7	38.1	37.4	34.2	24.9	14.2
Working capital	€ mill.	216.7	303.3	303.2	242.7	175.5	316.3	341.4	292.2	217.4	112.1
Working capital ratio	%	21.3	30.4	33.1	26.6	23.6	35.0	40.0	37.0	37.6	26.1
Capital employed	€ mill.	640.1	756.6	690.2	620.4	590.0	638.3	652.8	579.1	486.6	175.8
Total equity	€ mill.	371.1	361.0	331.1	297.6	238.6	314.4	321.0	293.9	274.7	140.1
thereof: minority interests	€ mill.	9.3	6.1	5.8	5.6	4.6	121.2	116.7	106.0	99.4	0.9
Net financial debt	€ mill.	62.3	220.5	171.1	183.1	227.0	231.2	209.5	181.8	108.7	(4.1)
Total assets	€ mill.	1,198.5	1,091.2	1,016.7	880.3	947.2	899.0	896.3	785.5	679.3	255.4
Equity ratio	%	31.0	33.1	32.6	33.8	25.2	35.0	35.8	37.4	40.4	54.9
Cash flow statement data											
Cash flow from operating activities	€ mill.	172.1	54.6	32.9	16.1	122.9	50.6	35.1	(18.8)	20.5	(45.7)
Cash flow from investing activities	€ mill.	(15.4)	(65.5)	(27.5)	22.4	(292.3)	(45.8)	(49.3)	(42.4)	(128.3)	(9.3)
Cash flow from financing activities	€ mill.	(66.7)	(78.9)	110.5	(51.0)	10.8	(9.3)	23.2	55.2	139.6	(24.3)
Change in cash & cash equivalents	€ mill.	90.0	(89.8)	115.9	(12.5)	(6.6)	(4.5)	8.0	(7.3)	32.4	12.1
Workforce											
Annual average headcount		4,765	4,732	4,513	4,422	4,190	5,370	5,583	5,575	4,001	2,411
thereof: Germany		1,168	1,494	1,547	1,558	1,651	2,494	2,824	2,674	1,915	1,689
abroad		3,597	3,238	2,966	2,864	2,539	2,876	2,759	2,901	2,086	722
thereof: Rail Technology		4,734	4,701	4,481	4,392	4,167	3,884	4,001	4,174	2,624	589
Lighting		–	–	–	–	–	1,464	1,566	1,385	1,361	1,288
Decoration		–	–	–	–	–	–	–	–	–	518
Vossloh AG		31	31	32	30	23	22	16	16	16	16
Payroll-to-added value ratio	%	71.6	70.8	66.2	66.9	69.0	77.0	74.2	81.7	69.3	67.0
Personnel expenses	€ mill.	223.9	234.5	217.5	213.9	178.4	208.1	228.2	222.8	143.6	106.5
Personnel expenses per capita	€ '000	47.0	49.6	48.2	48.4	42.6	38.7	40.9	40.0	35.9	44.2

Vossloh AG—Ten-year overview

		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Capital stock	€ mill.	37.7	37.7	37.4	37.4	36.8	36.8	36.8	36.8	36.8	18.4
Dividend per share[1]	€	1.30[4]	1.30	1.30	1.30	1.20	0.75	0.75	0.60	0.59	0.38
Stock price at Dec. 31[1]	€	57.14	41.10	36.35	44.80	24.70	22.53	14.95	14.90	25.05	25.95
Market capitalization at Dec. 31	€ mill.	842.0	605.6	530.9	654.2	338.1	310.4	215.3	214.6	360.7	373.7

As from 1998 according to US GAAP   As from 2003 according to IFRS

[1] Share-related indicators and stock price rebased according to DVFA standard (basis: 14,400,000 shares) to allow for the relisting as no-par shares and the 1998 (1-for-1) stock split.

[2] Pre-1998 data determined according to DVFA/SG

[3] Excl. financial assets

[4] If approved by the stockholders' meeting

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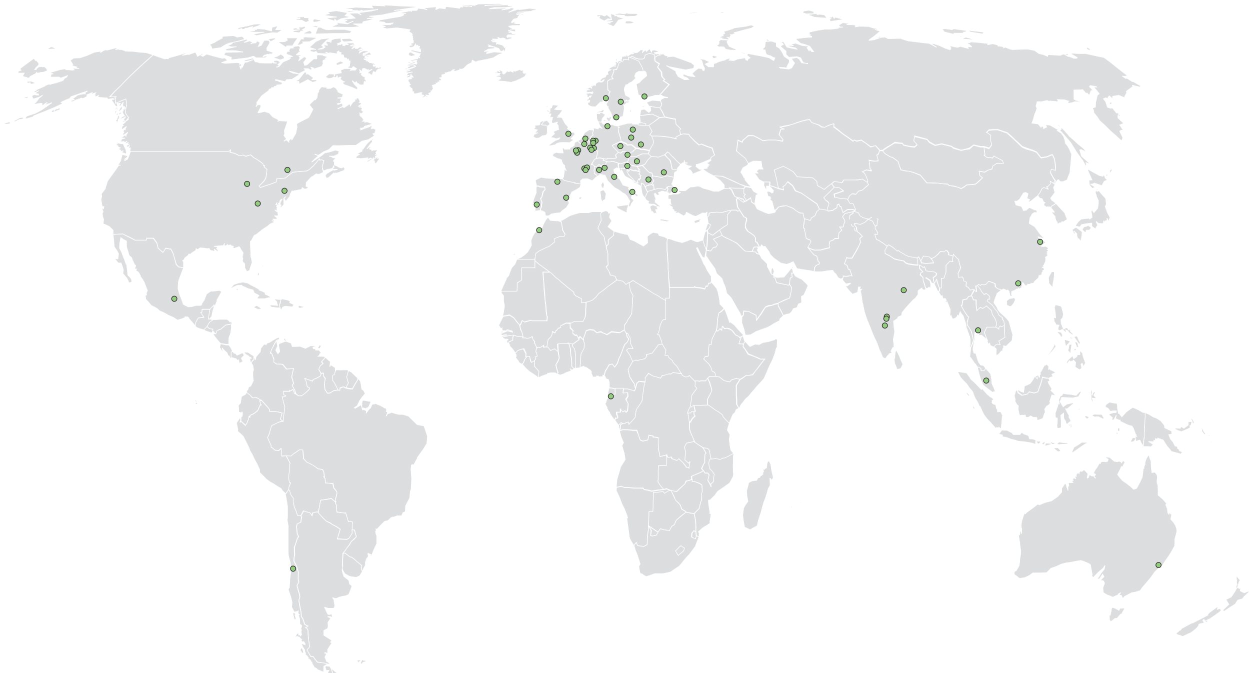

Glossary

Bilateral credit facility	Credit (line) agreement between two parties
Capital employed	Working capital + fixed assets
Capital lease	Type of lease (*a.k.a.* finance lease) which requires the lessee to capitalize the leased asset
Cash pooling	Concentration of cash funds for intercompany account balancing
Cash and cash equivalents	Cash on hand and in bank
Dividend rate	Total dividend payout ÷ group earnings
EBIT	Earnings before interest and income taxes
EBITDA	EBIT before amortization of intangibles and depreciation of tangibles/investment properties
EBIT margin	EBIT ÷ net sales
EBT	Earnings before income taxes
EpS	Earnings per share: group earnings ÷ annual average number of shares outstanding
Equity ratio	Equity ÷ total assets
Financial derivative	Contract whose fair value is derived from an underlying (e.g. stock or currency)
Financial liabilities	Private placement loans + bank debts + notes payable + payables under capital leases
Guaranty facility	Credit line for guaranties and guaranty bonds
IAS/IFRS	International Accounting Standards/International Financial Reporting Standards
Interest rate cap	Option contract for an interest rate ceiling to hedge against rising rates
Interest rate swap	Contract for swapping variable and fixed interest payments based on underlying principal
Investment grade	Rating between AAA and BBB– (S&P's), any credit standing below being "speculative grade"
Long-term incentive program (LTIP)	Incentive-based stock option program for officers/executives
Maghreb states	Tunisia, Algeria, Morocco, Libya, Mauretania
Net financial debt	Financial debts – cash & cash equivalents – short-term securities
Net leverage	Net financial debt ÷ equity
Operating lease	Type of lease which requires the lessor to capitalize the leased asset
Payroll-to-added value ratio	Personnel expenses ÷ value added
Personnel expenses per capita	Personnel expenses ÷ annual average headcount
Pretax return on equity (ROE)	EBT ÷ equity
Private placement	Private deal between issuer and investors
Return on capital employed (ROCE)	EBIT ÷ capital employed
Statement at equity	Method similar to consolidation for including investees at the prorated equity
Stock option program	Program for granting options to officers and employees to subscribe for their employer company's stock
Treasury	Finance management
Trolleybus	Electric bus powered by two overhead wires from which it draws electricity using two trolley poles
Value added	EBIT + personnel expenses + non-income taxes
Working capital	Trade receivables (incl. PoC receivables) + inventories – trade payables (incl. PoC payables) – prepayments received
Working capital ratio	Working capital ÷ net sales

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