

Letter from the Chief Executive Officer.



Georg Kapsch, Chief Executive Officer

Dear shareholders,

EBIT up 30% to EUR 34.9m¹

I am delighted to report in this first annual report after the successful initial public offering in June 2007 that Kapsch TrafficCom considerably increased all relevant earnings data and thereby considerably enhanced its profitability in fiscal year 2007/08: at EUR 34.9 million, EBIT was up 30% compared to the previous fiscal year (EUR 26.9 million). The EBIT margin increased from 14% in the previous fiscal year to 19% in 2007/08.

EBIT margin improved from 14% to 19%¹

The volatility of the project business and the Road Solution Projects (RSP) segment in particular together with large-scale projects ultimately not awarded or postponed led to a decline in revenues in 2007/08 compared to the previous fiscal year, down 6% from EUR 198.6m to EUR 185.7m. Revenues in the RSP segment were down from EUR 105.0 million in the previous fiscal year to EUR 47.0 million in 2007/08. Nevertheless, the management board is confident that large-scale projects will be successfully implemented in the future.

**Revenues in SEC segment up 60%
and EBIT up 84%¹**

In line with our strategic objectives, the performance of the SEC (Services, System Extensions, Components Sales) segment was particularly strong, with a 60% increase in revenues from EUR 80.6 million to EUR 128.8 million and an increase in EBIT from EUR 15.8 million to EUR 29.1 million (up 84%). This was primarily attributable to recurring revenues from the technical and commercial operation of the nationwide truck tolling system in the Czech Republic and a significant increase in the volume of components sales, particularly on-board units (OBUs). At approximately 2.5 million, sales of OBUs more than doubled from the 1.2 million in the

¹ Fiscal year 2007/08 compared to fiscal year 2006/07

² 31 March 2008 compared to 31 March 2007

previous fiscal year. Moreover, bonus payments from the nationwide truck systems in the Czech Republic and in Austria contributed to this positive development of the segment.

With respect to the consolidated balance sheet, I would like to point out that we improved net assets to EUR 28.4 million as of 31 March 2008 (EUR -12.5 million as of 31 March 2007), although we reduced liabilities and bought securities, and total equity to EUR 133.4 million as of 31 March 2008 (31 March 2007: EUR 45.6 million) with an equity ratio of 45 % (31 March 2007: 20%).

In line with the positive development of our profitability, Earnings per share also increased by 27 % to EUR 2.60 in fiscal year 2007/08 – and we would like you, our shareholders, to benefit directly from this development. The managing board will therefore propose that the shareholders' meeting to be held on 10 July 2008 resolve a dividend of EUR 0.90 per share for fiscal year 2007/08.

Undoubtedly the highlight of the fiscal year 2007/08 was the successful initial public offering. The offering of 3.7 million shares (including Greenshoe shares) was approximately 14 times oversubscribed. In response to high demand, the offer price was set at EUR 32, at the upper limit of the EUR 29 to EUR 32 price range. I would like to take this opportunity to very much thank all our investors for the trust they have placed in us.

Besides the successful initial public offering, we scored with several new large orders in the past fiscal year. We are particularly proud of the expansion into two new markets: New Zealand and South Africa. New Zealand has decided for its first electronic toll collection (ETC) system. Kapsch TrafficCom New Zealand Ltd. has been contracted to implement a multi-lane free-flow (MLFF) ETC system worth approximately EUR 10.7 million. For the first time in our history, we also received an order in South Africa. Our subsidiary Kapsch TrafficCom South Africa (Pty) Ltd. has already won its first contract just a few months after its formation in March 2007: the company has been awarded the implementation of a tolling system worth approximately EUR 1.0 million and will be responsible for the maintenance upon completion. The massive demand for road traffic telematics solutions in South Africa is not solely driven by the 2010 FIFA World Cup. We have identified considerable potential in the country, which we aim to make the most of. To this end, we strengthen our presence in South Africa and enter into a joint venture with South African company Traffic Management Technologies (TMT). TMT is a leading supplier of intelligent traffic management systems.

Besides the expansion into new markets, we continued extending our presence in existing markets. Kapsch TrafficCom was successful in Chile, winning a contract for the implementation of an ETC system worth approximately EUR 1.4 million. Once the system has been implemented, we will continue to be responsible for its maintenance. In Australia, Kapsch TrafficCom has been contracted to supply the roadside infrastructure equipment

Net assets up from EUR -12.5 m to EUR 28.4m²

Equity ratio up from 20% to 45%¹

Earnings per Share up 27 % to EUR 2.60¹

Managing Board proposes dividend of EUR 0.90 per share

Successful Initial Public Offering in June 2007

First-time orders in New Zealand and South Africa

Large orders in Chile and Australia

Start of operation of the first completed tolling project in India

as well as the central system for the tolling in the North-South Bypass Tunnel in Brisbane, which will upon its completion be the longest tunnel in Australia, with a project volume of approximately EUR 6.4 million. With this contract, Kapsch TrafficCom is consolidating its No. 1 position in Australia.

In January 2008, operation of the first tolling project by Kapsch TrafficCom in India commenced successfully. Kapsch TrafficCom provided a combined manual and electronic tolling system for one section of the National Highway No. 8 that connects Dehli and Gurgaon, one of the most heavily used roads in the region.

Contract for extension of nationwide truck tolling system (phase II) in Czech Republic signed

We have made substantial progress with regard to the extension of the nationwide electronic truck tolling system in the Czech Republic. On 28 December 2007, we could successfully close the negotiations with the Czech Ministry of Transport (CZ MoT). The amendment to the original contract formalizes the content of the second phase (phase II) of construction of the nationwide electronic truck tolling system in the Czech Republic in a sense that the system shall be extended to another approximately 1,000 km of future motorways, the construction or extension of which is scheduled to begin by the end of 2017. As of 1 January 2008, the existing truck tolling system was already extended by 37 toll gantries to cover about 180 km of selected 1st class roads.

Pursuant to the CZ MoT's most current plans, distance-related tolls are to be extended to cover all vehicles of 3.5 tonnes or more by 1 January 2009. Kapsch TrafficCom Construction & Realisation will make the necessary adaptations to the existing system and ensure supply of another 350,000 on-board units (OBUs). For the extended use of the tolling system, an interface for a future satellite-based toll collection system on 1st class, 2nd class and 3rd class roads as well as an interface for telematic applications and the implementation of a traffic regulation system for the D1 motorway route will be implemented. Further, the service agreement has been extended to 10 years.

Tender for nationwide truck tolling system in Slovakia

With respect to the nationwide truck tolling system in Slovakia, the tender was continued after two claims had been settled. The tender comprises the installation of a multi-lane free-flow (MLFF) ETC system including 13 years of operation intended for the toll collection on vehicles above 3.5 tonnes on a road network of approximately 2.400 km with a start of operation as of 1 January 2009. The presentation of the offers and the bid opening were concluded on 13 March 2008. On 2 May 2008 we were informed that we had been excluded from the tender process. In our view, the alleged deficiencies of our submitted offer are unfounded and without merit. Therefore, we have filed an objection against the exclusion of our offer.

Tender for nationwide truck tolling system in Hungary

On 21 December 2007, we were officially informed by the responsible authority that the tender process for the implementation and operation of a nationwide electronic truck tolling system in Hungary was discontinued. At the time of the discontinuation, we and two other bidding consortia

had already prequalified. From our current point of view, this decision means a postponement and presumably a modification of the tender in terms of content and not a final cancellation.

In June 2007, we officially presented our “Kapsch Area” solution to the market. This hybrid solution combines the advantages of microwave technology (dedicated short-range communication – DSRC) with the advantages of satellite technologies (GPS/GSM).

Assuming that economies worldwide continue to perform satisfactorily, and given the growing interest around the world in road traffic telematics solutions, we take a thoroughly optimistic view of our future prospects. The fiscal year 2008/09 will be shaped by participation in tenders and by project awards in Hungary, Slovenia, Italy, Portugal, France, the U.K., in the Middle East, in the Asian-pacific region, South Africa, Argentina, and in the U.S.A.

The success of our company is based on a strong corporate culture and goal-oriented teamwork by all parties. Our success is due to our hard working employees all over the world, who take ownership of economic success and environmental and social issues at the same time. I would like to extend my thanks to the supervisory board for our productive discussions and their efficient handling of all issues, and my colleague on the managing board, Erwin Toplak, for our most intense and constructive cooperation. My special thanks go out to our employees and senior managers all over the world, whose commitment again allowed us to record excellent results. In concluding, I would like to express my thanks to you, our shareholders, for the trust you have placed in us. Please continue to accompany us on our growth course in a successful future.

With all best wishes



Georg Kapsch
Chief Executive Officer

Official presentation of “Kapsch Area”

Looking forward with optimism

**Thanks to employees and management,
Supervisory Board and shareholders**

Disclaimer

Certain statements contained in this report constitute “forward-looking statements.” These statements, which contain the words “believe”, “intend”, “expect” and words of similar meaning, reflect management’s beliefs and expectations and are subject to risks and uncertainties that may cause actual results to differ materially. As a result, readers are cautioned not to place undue reliance on such forward-looking statements. The company disclaims any obligation to publicly announce the result of any revisions to the forward-looking statements made herein, except where it would be required to do so under applicable law.