

Management Report.

Kapsch TrafficCom AG on the Consolidated Financial Statements as of 31 March 2008.

1 Economic climate.

1.1 General economic situation

After the global economy had been growing by an average of 5 % p.a. in real terms within the past five years, economic growth began to slow down in 2007 with +4.7 %. This slowdown was caused by the economic crisis in the U.S. The real estate bubble burst, and stock market prices fell sharply. The financial system of the U.S. and other countries are in deep crisis, which as a result of the close interdependency of international capital markets has repercussions also on other economic regions. Nevertheless, a global economic crisis is currently not likely.

In 2007, the U.S. economic data with a GDP growth of 2.2 % remained well below the prior year figure. For 2008, a further slowdown of U.S. growth to around 1 % is expected. In the past months, U.S. key interest rates were lowered significantly from 5.25 % to 2.00 %. The U.S. unemployment rate rose to around 5 % by the end of 2007. In 2007, the U.S. dollar continued to be under strong pressure from the Euro. The EUR/USD ratio had already reached 1.60, and was around 1.54 at the balance sheet date as of 31 March 2008.

The economic growth in the emerging countries will also slow down due to the direct and indirect close interdependency with demand in the U.S., however, domestic demand in these countries and trade relations between them have grown significantly stronger in the recent past. This rising consumer demand and investments in infrastructure mitigate the decrease in foreign demand. In China, after another record growth of +11.4 % in 2007, growth for 2008 is still expected to be high at +9.5 %.

In 2007, the economy in the Euro zone (EU-15) grew by 2.6 % in terms of real GDP – a positive development, yet still below the prior year level. Despite a relatively positive start into the year, a slowdown of economic growth to around 1.6 % is expected for 2008. Consumer demand in 2007 lagged well behind expectations due to the fact that the increase in income remained far below the rise in prices. Despite decreasing unemployment and after the effects from the increase in German VAT have eased, consumer demand is not expected to recover in 2008, since, on the one hand, individual countries might be affected by the slump in the real estate market and consumer confidence in general fell sharply. In 2007, the unemployment rate in the Euro zone could again be reduced significantly from 7.5 % to 7.1 %. In the current year 2008, a further reduction is expected. Beginning in 2009, however, unemployment is again expected to increase.

In 2007, the inflation rate rose primarily as a result of rising prices for food and energy to around 3.2 % – however it is expected to ease in the second half of 2008. The new EU member states are less affected by crisis in the international financial markets and the slowdown of the global economy and reported growth of 6 % also in 2007, which was supported primarily by strong consumer and investment demand. Even though considerable risks arise with regard to the high indebtedness of private households and sharp price increases, GDP is expected to grow by more than 5 % in 2008 and 2009. Key interest rates of the ECB have been raised gradually until June 2007 to 4.0 %, where they remained until the balance sheet date as of 31 March 2008 despite the ongoing reductions in the U.S. prime interest rate.

In Austria the economic growth rate of 3.4% was again well above the level of Euro zone countries in 2007. In addition to the mainstay for many years – the growth in exports –, industrial investments also increased significantly in 2007. Only the growth of private consumption slowed down once again over the prior year – primarily as a result of the significantly higher inflation. In Austria, a slowdown of economic growth of 2.1% in real terms is expected for 2008. This has to be regarded as a consequence of the financial market crisis originating from the U.S. real estate markets. The duration and scope of the crisis can currently not be estimated in full, which makes forecasting more difficult.

The growth in exports, which is additionally affected by the weak U.S. dollar as well as industrial production and investments, is slowing down considerably. Consumer demand, primarily as a result of significantly higher prices, could not increase, either. In 2007, the labour market again improved significantly. Thus, in 2007 the unemployment rate in Austria decreased from 4.7% to 4.4% (Eurostat) or from 6.8% to 6.2% (national), respectively. This trend is expected to continue in 2008. Inflation rose to 2.2% in 2007 and will continue to rise in 2008 (forecast 2.9%).

1.2 Development of the market for traffic telematics solutions

According to analyses of the EU (European Union 2006, “Energy & Transport in Figures”), total freight traffic increased by 2.8% p.a. and in the aggregate by 31.3% between 1995 and 2005. The rise in road freight traffic amounted to 3.3% p.a. and in the aggregate by 37.9%. Despite political pressure, efforts to shift freight traffic to rail and/or waterways failed.

For the TEN-V (Trans-European road Network), which in 2005 at a total length of 84,700 km accounted for approximately a quarter of the total primary road network, yet carried 40% of the road freight traffic, an average extension of 4,800 km p.a. is expected until 2020, 3,500 km of which are made up by existing roads. High investment requirements have been determined in particular for the new member states and the transport corridors to these countries. In its “White Paper: European transport policy for 2010” the European Commission estimated that investment costs until 2020 will amount to EUR 600 billion. The rising number of vehicles requires additional funds in order to maintain the existing infrastructure and expand it accordingly to meet the growing needs. Analysts, such as Frost & Sullivan, June 2004, assume that in the foreseeable future each country in Western Europe will have tolling systems in place. In Eastern European countries, in addition to electronic toll collection, paper vignette solutions will also be used. In addition to DSRC-(dedicated short-range communication) based systems, which operates on the CEN 5.8 GHz standard, satellite-based systems based on GNSS/GSM are expected. Considerable growth potential is also expected from the video-based automatic number plate recognition (ANPR) technology for the enforcement and road user charging/tolling of urban environments.

In urban environments, efforts are being made to reduce environmental pollution and traffic through city charging/tolling systems. In 2003, London introduced a toll for the London City area and, by own accounts, traffic could as a result be reduced by 15%. A tender for the upgrade of the system is currently underway. Other major cities in the U.K. also consider introducing city charging/tolling systems. In particular, Italy is trying to counter the environmental pollution in the cities with automated access restrictions to the historic city centers.

The volume of traffic is rising not only in Europe, but as a general trend worldwide. Particularly in Asian countries increased demand for additional ETC lanes in previously traditional manual tolling systems is expected. With 3.38 million km in 2004, the road network in India ranks among the largest in the world. Only 2 % thereof account for national highways, that however, carry 40 % of the road freight traffic. In China, 52,000 km of highways were constructed between 1992 and 2002 and an additional 200,000 km are planned.

The high funding requirements for the maintenance of the road infrastructure in the U.S. (Standard & Poor's research estimates that until 2020 USD 92 billion would have to be spent each year for the maintenance of highways and bridges and an additional USD 125.6 billion for their improvement) will lead to changed business models and the emergence of private concession models in the near future. Whereas in Europe DSRC technology prevails, which operates in the 5.8 GHz range, ETC systems in North America currently operate at a frequency of 915 MHz based on proprietary protocols. It is expected that the U.S. will gradually switch to a frequency of 5.9 GHz. The communication standard 5.9 GHz WAVE (Wireless Access in the Vehicular Environment), apart from the tolling application, is designed to be used in car-to-car communication to improve traffic safety, expand traffic telematics solutions and for infotainment as well as entertainment. These developments will probably allow European manufacturers to increasingly penetrate the North American market.

2 Economic situation of the Group.

2.1 Business development

In the fiscal year 2007/08, Kapsch TrafficCom Group, with revenues slightly down, was able to increase the operating result (EBIT) from EUR 26.9 million by 30 % to EUR 34.9 million.

In the Road Solution Projects (RSP) segment, revenues at EUR 47.0 million were significantly below the prior year figure of EUR 105.0 million. Kapsch TrafficCom Group sees the reasons for this mainly being due to the volatility affecting the project business in general and the Road Solution Projects (RSP) business segment in particular, as well as due to major projects not being awarded or delayed, as a consequence of which in the past fiscal year no major project comparable to the nationwide electronic truck tolling system in the Czech Republic could be acquired or realized.

In the Services, System Extensions, Components Sales (SEC) segment, revenue could be increased from EUR 80.6 million by 60 % to EUR 128.80 million. This increase is particularly due to recurring revenues from the technical and commercial operation of the nationwide electronic truck tolling system in the Czech Republic, as well as a high volume of components sales, most notably on-board units (OBUs). At approximately 2.5 million, sales of OBUs more than doubled from the 1.2 million in the previous fiscal year.

The fiscal year 2007/08 was characterized by the successful initial public offering in June 2007. Considerable interest in the company and the 3.7 million shares offered (including greenshoe shares) resulted in the offering being 14-times oversubscribed. At an offer price of EUR 32 per share, the shares could be sold at the upper end of the price range.

In the past fiscal year, Kapsch TrafficCom Group could continue its international expansion with first-time orders in New Zealand and South Africa, as well as major projects in Chile and Australia and the completion of the first project in India:

- In New Zealand, Kapsch TrafficCom Limited, Parnell, New Zealand, was awarded the contract to implement a multi-lane free-flow (MLFF) ETC system with a contract volume of around EUR 10.7 million.
- Kapsch TrafficCom South Africa (Pty) Ltd., Germiston, South Africa, was awarded the contract for a tolling system with a contract volume of around EUR 1 million and will also be responsible for the subsequent maintenance of the system.
- In Chile, Kapsch TrafficCom Group was awarded the contract for the development, installation and turnkey delivery of the ETC system with a contract volume of around EUR 1.4 million. Upon delivery, Kapsch TrafficCom Group will also be responsible for the maintenance of the system.
- In Australia, Kapsch TrafficCom Group was awarded a contract to supply the roadside infrastructure equipment and the central system for the North-South Bypass Tunnel in Brisbane, which, following its completion in 2010, will be the longest tunnel in Australia. By winning this contract with a volume of around EUR 6.4 million, Kapsch TrafficCom Group managed to further strengthen its leading market position in Australia.
- In India, the first tolling system by Kapsch TrafficCom commenced operation in the past fiscal year. National Highway No. 8, which connects the cities of Delhi and Gurgaon and is one of the most heavily used roads of the entire region, has been equipped with a mixed manual and electronic tolling system by Kapsch TrafficCom Group since January 2008.

One of the largest contracts for Kapsch TrafficCom Group is for the expansion of the nationwide electronic truck tolling system in the Czech Republic. The negotiations between the Czech Ministry of Transport (CZ MoT) and the consortium led by Kapsch TrafficCom AG were concluded on 28 December 2007. According to an amendment to the contract, it is intended to expand the system in phase II to around 1,000 km of highways and expressways, the expansion of which will be started by the end of 2017 at the latest. As of 1 January 2008, the Kapsch consortium has already put into operation 37 toll gantries on approximately 180 km of first-class roads. According to the current planning of the CZ MoT, distance-related tolling is planned to be extended to vehicles with more than 3.5 tons as early as 1 January 2009. Kapsch TrafficCom will adjust the existing tolling system. The number of on-board units (OBUs) necessary for this implementation has already been supplied in the past fiscal year. In connection with the expanded use of the existing tolling system, the Kapsch consortium was assigned to implement the technological interface for a future satellite-based toll collection on first-, second- and third-class roads as well as to supply the interface for telematics applications and to implement the application of lane traffic control on highway D1. Furthermore, the contract for the provision of services was extended to 10 years.

2.2 Results of operations

In the fiscal year 2007/08, the operating result (EBIT) rose by 30 % from EUR 26.9 million to EUR 34.9 million. With revenues slightly down (EUR 185.7 million compared to EUR 198.6 million), the EBIT margin increased from 14 % to 19 %.

The marked decline in cost of material and other production services (EUR 78.7 million compared to EUR 93.8 million in the prior year) mainly reflects the decrease in revenues in the material-intensive RSP segment. The increase in staff costs primarily results from the higher number of staff due to the maintenance and operation of the Czech truck tolling system as well as the provision of capacities for major projects that were still at the proposal stage as of the balance sheet date.

The financial result increased from EUR 0.2 million to EUR 7.9 million and reflects the financial situation changed by the successful initial public offering. In addition, it also includes income from currency translation differences amounting to EUR 7.4 million.

The result before taxes amounted to EUR 42.8 million (2006/07: EUR 27 million), the result after taxes amounted to EUR 32 million (2006/07: EUR 20.3 million).

From a segment perspective, the past fiscal year showed markedly different developments. Upcoming major projects in Central and Eastern Europe, which due to delays were still in the tender process or subject to preparation of a new tender, resulted in a decline in revenues and EBIT in the Segment Road Solution Projects (RSP) segment.

At the same time, revenues and the result in the Services, System Extensions, Components Sales (SEC) segment could be increased significantly. The technical and commercial operation of the nationwide electronic truck tolling system in the Czech Republic and significantly higher sales of components, most notably of on-board units (OBUs), contributed heavily to this development.

Revenue by segment (share in revenues)		2007/08		2006/07		+/- %	2005/06	
Road Solution Projects (RSP)								
Revenues	in million EUR	47.0	25 %	105.0	53 %	-55 %	18.7	16 %
EBIT	in million EUR	6.3		11.6		-46 %	2.7	
Services, System Extensions, Component Sales (SEC)								
Revenues	in million EUR	128.8	69 %	80.6	41 %	60 %	76.2	66 %
EBIT	in million EUR	29.1		15.8		84 %	13.5	
Others (OTH)								
Revenues	in million EUR	10.0	5 %	13.0	7 %	-23 %	21.3	18 %
EBIT	in million EUR	-0.4		-0.5		-12 %	1.1	

Whereas the RSP segment at a share of 53 % in total revenues was the mainstay of revenues in the past fiscal year, this distribution markedly shifted towards the SEC segment (69 % share in revenue) in the fiscal year 2007/08.

Revenue by region (share in revenues)		2007/08		2006/07		+/- %	2005/06	
Central and Eastern Europe (incl. Austria)	in million EUR	124.2	67 %	157.3	79 %	-21 %	68.4	59 %
Western Europe	in million EUR	17.6	9 %	12.9	6 %	36 %	18.9	16 %
Americas	in million EUR	18.8	10 %	15.4	8 %	22 %	9.4	8 %
Rest of World	in million EUR	25.2	14 %	13.0	7 %	94 %	19.5	17 %

The analysis of revenues by region illustrates the international expansion of Kapsch TrafficCom Group. In the fiscal year 2007/08 the share in revenues of the regions Americas and Rest of World could be raised significantly.

2.3 Assets and liabilities

In the past fiscal year, the balance sheet total of Kapsch TrafficCom Group increased by 31 % from EUR 227.2 million to EUR 298.4 million. Apart from a significant increase in trade receivables (EUR +58.4 million), this was primarily due to the significant increase in cash and cash equivalents (EUR +27.2 million). Due to this increase, the net debt in the amount of EUR -12.5 million as of 31 March 2007 could be transformed into net assets in the amount of EUR 28.4 million as of 31 March 2008.

On the liabilities side, the extension of the balance sheet is primarily reflected in equity. In the past fiscal year equity grew by EUR 87.8 million to EUR 133.4 million (31 March 2007: EUR 45.6 million). Apart from the profit for the year, this was particularly due to the successful initial public offering, in the course of which the share capital was raised by EUR 2.2 million and the capital reserve by EUR 64.8 million. Kapsch TrafficCom Group thus showed an equity ratio of 45 % as of the balance sheet date 31 March 2008 (31 March 2007: 20 %).

2.4 Financial position

In the fiscal year 2007/08, the cash flow from operating activities could be improved to EUR -10.5 million (2006/07: EUR -38.8 million). However, due to the strong increase in trade receivables and the reduction of trade payables, most notably in connection with the project in the Czech Republic, it was still negative.

With investments in property, plant and equipment and intangible assets of EUR 4.0 million (2006/07: EUR 2.3 million), the company had an overall free cash flow of EUR -14.8 million (2006/07: EUR -39.1 million).

Due to purchases of securities, the cash flow from investing activities was also negative. Due to the high cash flow from financing activities as a result of the initial public offering, the total amount of cash and cash equivalents increased by EUR 27.2 million to EUR 47.4 million, which is available to the company for further expansion.

2.5 Non-financial performance indicators

Reliability and accuracy of installed ETC systems

The toll transaction rate is a ratio for the accuracy and reliability of a tolling system. It shows the number of successful transactions in relation to all potential toll collection transactions of vehicles equipped with a functioning on-board unit (OBU). A high toll transaction rate translates to maximum toll revenue.

In 2007, the average toll transaction rate of the existing truck tolling system in Austria amounted to 99.7 %.¹

During the same period, the average performance rate of the nationwide electronic system in the Czech Republic (phase I) was approximately 97.5 %.¹

¹ Calculation of the average performance rate is based on methodologies agreed with the respective customer comparisons of average performance rates in different projects are therefore limited.

Staff

In the fiscal year 2007/08, the average number of personnel in the Kapsch TrafficCom Group amounted to 791 persons. As of 31 March 2008, 824 persons were employed.

The Group places great importance on the continued training and education of its employees. In this context, not only is professional education and training promoted, but also seminars and training sessions for the development of one's own personality or ability to work in a team are offered. Within the framework of the Kapsch Academy, training sessions tailored to the particular needs of employees are offered. Selected employees are prepared for their future tasks by a management trainee program.

The Group has a job rotation program in place to promote the international exchange of staff between the locations in Austria, Sweden and Argentina.

Depending on the years of service and profits, the company pays contributions for its employees to an external pension fund.

Furthermore, Kapsch TrafficCom Group currently has a profit participation program in place, by which the company provides its staff with the opportunity to share in the profit of the Kapsch Traffic Com Group.

Kapsch TrafficCom AG is certified pursuant to OHSAS 18001 for occupational health and safety and has implemented the necessary measures in its internal processes.

Environment

There are valid certificates for quality pursuant to ISO 9001 and environment pursuant to ISO 14001. For the future, it is planned to meet the social responsibility, in particular to use natural resources even more economically and responsibly.

Corporate social responsibility

Living up to its socio-political responsibility, the entire Kapsch Group supports – organized by Kapsch AG – a number of contemporary art and cultural institutions or projects and selected training initiatives, as well as extensive social measures. The company shows this attitude not only to the outside. Employees of Kapsch TrafficCom Group also appreciate this sustained social responsibility of the company which is manifested in the form of many programs and measures.

2.6 Risk management

As a technology company, Kapsch TrafficCom Group operates in an ever changing environment. Risks are therefore part of its day-to-day business. Risk for the company means the possibility of divergence from company objectives; thus, the risk concept includes positive (chances) as well as negative (risks) divergences from planned objectives.

Risk management system

In the fiscal year 2007/08, risk management was positioned as a separate function within finances of Kapsch TrafficCom AG. Under the responsibility of a central risk manager, risk management in institutionalized processes collects and analyses all relevant chances and risks of the Group's projects and provides the basis for the timely planning and implementation of control measures. It is planned to gradually develop risk management into a company-wide chance and risk management. The primary objective in this

context is not to avoid risks, but to deal with risks in a controlled and deliberate manner and to recognize and realize opportunities as they arise in time in order to make a valuable contribution to the management of the company.

The material risks of the Group and the respective risk management measures are briefly explained below:

Industry-specific risks

Volatility of new orders

A major portion of the revenues of Kapsch TrafficCom Group is generated in the Road Solutions Projects (RSP) segment. In this segment, the Group regularly participates in tenders for the implementation and operation of large electronic toll collection (ETC) systems. On the one hand, there is the risk that tenders in which the Group participates or plans to participate are delayed or withdrawn, e.g., as a result of political changes or appeals or legal actions by unsuccessful bidders. On the other hand, there is the risk that Kapsch TrafficCom Group does not succeed for technological, financial, formal or other reasons with offers for new projects. Follow-up revenues from maintenance agreements and from the technical operation also depend on the successful participation in tenders for ETC systems.

The strategy of Kapsch TrafficCom Group is aimed at reducing the volatility of sales/revenues through increased geographic diversification and increased diversification of the product portfolio.

Risks of project execution

In connection with the implementation of ETC systems, Kapsch TrafficCom Group is most of the times obliged by contract to issue performance guarantees. Since ETC systems are frequently sophisticated and technologically complex systems and have to be implemented within a short time frame, system and product defects can occur due to the limited time available for tests. In case the guaranteed performance levels are not achieved or deadlines exceeded, penalties usually have to be paid. A significant delay in a project or failure to achieve guaranteed performance levels in a project would also reduce the chances of success in future tenders for ETC systems.

Kapsch TrafficCom Group applies risk management methods and risk management procedures in order to guard against risks associated with projects.

Long-term contracts with public authorities

In numerous ETC systems, the awarding authorities are public authorities. Framework and service contracts in connection with tolling projects may include terms and conditions which are not negotiable in a tender process and which may be disadvantageous for Kapsch TrafficCom Group. Moreover, in the case of long-term contracts, the margins earned can also differ from the original calculations due to changes in costs. Liabilities arising from contracts of the Group may include liabilities regarding customers' loss of profit, product liabilities and other liabilities.

While Kapsch TrafficCom Group aims to include appropriate limitations to its liability in contracts, there can, however, be no guarantee that sufficient limitations to its liability are contained in all contracts or that they can be enforced under applicable law.

Strategic risks

Innovation leadership

The leading market position of Kapsch TrafficCom Group is, to a large extent, based on its ability to develop state-of-the-art, efficient and reliable systems, components and products. In order to maintain its technological leadership, Kapsch TrafficCom Group invests a considerable portion of its revenues in research and development activities. However, if the Group does not succeed in developing new systems, components and products, this can be detrimental to the competitive position of Kapsch TrafficCom Group. Since its innovation leadership is, to a large extent, based on technology, the company's internal know-how and intellectual property, the global increase in product piracy and reverse engineering may have negative effects on the Group. In addition, any default in protecting these technologies may have a negative impact on the competitive position of the Group. On the other hand, ETC systems, components, products or services could infringe on intellectual property rights of third parties.

Kapsch TrafficCom Group places great importance on the protection of technologies and the company's internal know-how, e.g., by means of patents and non-disclosure agreements with other parties. In order to avoid legal action and court proceedings, Kapsch TrafficCom Group permanently monitors potential intellectual property rights infringements.

Acquisition and integration of companies as a part of the company's growth

One of the strategic objectives of Kapsch TrafficCom Group is to grow internationally both organically and through selected acquisitions and joint ventures. In the implementation of this strategy, the Group acquired several companies worldwide and integrated them into the Group. However, a number of challenges remain in connection with this growth strategy and it cannot be guaranteed that the objectives and synergies will be fully reached in all future acquisitions and joint ventures.

Financial risks

Foreign exchange risk

The Group maintains branches, offices and subsidiaries in several countries outside the Euro zone. A considerable part of revenues and costs is not denominated in Euro, but in the currencies of the respective foreign companies. Although the Group, if required, aims to hedge the net currency position of the individual contract, currency fluctuations may result in losses from changes in exchange rates in the consolidated financial statements (transaction risk). In addition, risks arise from the translation of foreign separate financial statements into the group currency, the euro (translation risk). Changes in exchange rates may also result in a change in the competitive position of Kapsch TrafficCom Group.

Interest rate risk

Under project financing, variable interest rates are also regularly entered into, which are tied to market interest rates (Euribor, Pribor etc.). In this context, Kapsch TrafficCom Group is exposed to interest rate risks. Kapsch TrafficCom Group hedges against interest rate risks, if material, through appropriate financial instruments.

Personnel risks

The success of Kapsch TrafficCom Group depends heavily on key personnel with long years of experience in the traffic telematics industry. Moreover, in the current strong growth phase of the Group, its ability to recruit qualified staff and, to integrate them into the company and retain them in the long term is crucial. The loss of key personnel, any problems with personnel and difficulties in the recruitment of personnel may adversely affect the success of the Group.

Kapsch TrafficCom Group has implemented a number of measures to deal with personnel risks, such as incentive schemes, training opportunities, etc. In addition, employees were offered shares at a preferential price in the initial public offering under an employee participation program. A considerable number of employees made use of this opportunity.

Legal risks

The market for ETC systems is influenced by numerous statutory provisions at the EU level as well as of the level of national legislation. There is the risk that certain provisions, such as data protection laws or environmental and safety requirements will have a negative impact on Kapsch TrafficCom Group.

IT risks

As a technology group, Kapsch TrafficCom Group is exposed to typical IT risks relating to security, confidentiality and availability of data. For this reason, Kapsch TrafficCom AG has implemented an IT risk management system set according to the corporate risk and IT security application method (CRISAM) and has been certified pursuant to ISO 27001 (Information Security Management).

Summary assessment of the Group's risk situation

From a current perspective, no risks have been identified that could endanger the going concern of Kapsch TrafficCom Group. Increasing geographic diversification, the diversification of its product portfolio, together with a rising portion of recurring revenues (further growth of the Segments Services, System Extensions, Components Sales segment) are planned to further reduce risk concentrations in the future.

2.7 Research and development

Kapsch TrafficCom Group has a network of research and development centers in Vienna (Austria), Jönköping (Sweden) and Buenos Aires (Argentina). The research and development activities are coordinated by the headquarters in Vienna. As of 31 March 2008, Kapsch TrafficCom Group, including project management for development projects, quality assurance and tests, documentation and certification, employed more than 170 engineers.

Research and development activities are crucial for the Group with regard to achieving its strategic objectives. Successful research is the basis for the ongoing enhancement of existing products and systems and the continuous reduction of production, installation, operation and maintenance costs – significant factors for maintaining the technological and competitive edge.

Kapsch TrafficCom Group focuses its activities primarily on new, innovative applications and applied research and development for all kinds of telematics solutions. The research and development activities in some areas are complemented by joint projects and close cooperation with universities, public and private institutes and technology and research companies.

Research costs are recognized as expense. The same applies to development costs, unless IFRS criteria for the recognition as intangible assets are satisfied. As the income statement is presented by nature of expense, research and development costs are recognized in various items of the income statement, in particular under cost of material and other production services, staff costs and other operating expenses.

2.8 Disclosures pursuant to Section 267 UGB in connection with Section 243a UGB

1. The registered share capital of the company amounts to EUR 12,200,000 and is fully paid in. It is divided into 12,200,000 no-par value ordinary bearer shares.
2. There are no restrictions relating to the exercise of voting rights or the transfer of shares.
3. Since the initial public offering on 26 June 2007, approximately 30.3 % of the shares in Kapsch TrafficCom AG have been in free float. As of 31 March 2008, KAPSCH-Group Beteiligungs GmbH held approximately 69.7 % of the shares. KAPSCH-Group Beteiligungs GmbH is a wholly-owned subsidiary of DATAX HandelsgmbH, the shares of which are held in equal parts by Traditio-Privatstiftung, ALUK-Privatstiftung and Children of Elisabeth-Privatstiftung, each a private foundation under the Austrian Private Foundation Act ("Privatstiftungsgesetz"). As of 31 March 2008, no other shareholder held more than 5 % of the voting rights in Kapsch TrafficCom AG.
4. None of the shares conveys special control rights.
5. There are no restrictions regarding the execution of the voting rights by employees with a stake in the company.
6. There are no special provisions on the appointment and removal of members of the management board and the supervisory board.
7. The company has an authorized capital ("genehmigtes Kapital") of EUR 800,000. The subscription rights of the shareholders have been excluded in respect of such authorized capital. The management board may, with the approval of the supervisory board, make use of the existing authorized capital.
8. No agreements have been entered into which become effective when a takeover bid for shares in the company is launched.
9. There are no agreements between Kapsch TrafficCom AG and members of the management board or the supervisory board or employees which become effective when a takeover bid for shares in the company is launched.

2.9 Outlook and targets

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.

2.10 Material events after the balance sheet date

Truck toll Slovakia

In Slovakia, the tender of a nationwide electronic tolling system was continued in February 2008 after two claims had been settled. The tender comprises the installation of a multi-lane free flow (MLFF) ETC system including its operation for a period of 13 years. The planned system extends to include vehicles of more than 3.5 tons and a road network of approximately 2,400 kilometres. Operation is planned to commence on 1 January 2009. The submission of the offers and the opening of the offers took place 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.

Incorporation of subsidiaries

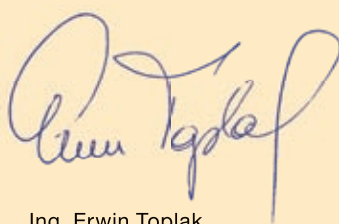
On 2 April 2008, Kapsch TrafficCom Holding Corp., Delaware, and Kapsch TrafficCom U.S., Delaware, were incorporated in the U.S.

On 15 May 2008, Kapsch TrafficCom AG and the Italian Busi Impianti Group announced their cooperation. These two companies, as part of a joint venture, establish the company Kapsch-Busi S.p.A., domiciled in Bologna. The new company will focus on the market for urban traffic solutions in Italy. Busi Impianti is spinning of the business unit, including an aggregate of 10 employees; Kapsch TrafficCom Group complements the team through its own personnel. Kapsch TrafficCom AG will hold a share of 67 % in the joint venture.

Vienna, 16 May 2008



Mag. Georg Kapsch
Chief Executive Officer



Ing. Erwin Toplak
Member of the Management Board