

What our traffic telematics solutions contribute to millions of road users?

Annual report on fiscal year 2008/09.

Management Report.

Kapsch TrafficCom AG on the Consolidated Financial Statements as of 31 March 2009.

1 Economic climate.

1.1 General economic situation

The beginning of the last fiscal year was marked by the ongoing financial crisis. This crisis started in the U.S.A. and was triggered by the end of the real estate boom. Due to the worldwide distribution of securitized real estate loans in many portfolios, numerous banks outside the U.S.A. were also affected by massive depreciations, resulting in a global financial crisis in which the banks subsequently lost confidence in each other. Massive excesses on the commodity markets – especially in the price of crude oil – exacerbated this crisis. These warnings of scarce commodities and the associated inflationary tendencies therefore required higher interest rates and tighter controls on the issuing of credit ensued. The crisis therefore gradually impacted the real economy in the second half of 2008 as uncertainty grew and investments declined. This also led to an abrupt decline in the prevailing inflationary pressure as well as to a clear correction of commodity prices.

The international economy is now experiencing its worst crisis since the Great Depression of the 1930s, even if two events are not comparable. The U.S.A., Western Europe and Japan have since slid into recession and the rapidly growing People's Republic of China and the countries of Eastern Europe have also felt the full force of the crisis. Many producers around the world have thus come under pressure and have had to drastically cut their capacities, which has already had a negative impact on the labor market and is likely to worsen even further. This fall in demand was particularly noticeable early on in the automotive and automotive supplier industries, which led to massive problems around the world for companies in this leading sector.

Alongside the original catalyst – the overheating of the U.S. real estate market – other reasons for the severity of this global economic crisis are macroeconomic imbalances, flaws in incentive systems, flaws in risk management systems as well as regulatory and coordination failures.

Although national, regional and international economic policy – in complete contrast to previous crises – has tended to react correctly and has contributed measures to soften the impact of the crisis, the question of how long it will continue cannot be answered with any degree of certainty. In the meantime, a steady stream of reports of improved indicators, especially from the U.S.A., at least allows us to conclude that the pace of the recession is slowing. Nevertheless, both the timing and the speed of recovery in the real economy remain completely unknown. It can be assumed, however, that the crisis will have different durations for the stock market, production and employment and that the recovery will only take place gradually. Discussions on economic dynamism and long-term negative or positive social changes as a result of the crisis also appear speculative, albeit there is hope that necessary steps will be taken and lessons will be learned from the wrongdoings of individual persons.

The U.S.A. is currently in the midst of a crisis of historic size, in which more than 25 banks have already closed, millions of houses have been subject to foreclosure proceedings and the major car manufacturers are in serious risk of bankruptcy. The new U.S. government has therefore passed additional stimulus packages in addition to the unique action taken to rescue the financial industry (banks, investment companies and insurance companies). The aim is to get the crisis under control and further stimulate the economy to avoid the loss of millions of jobs. Experts expect the unemployment rate to rise from 7.2 % (December 2008) to 9 %

in 2009. The battle against the crisis is naturally leading to a massive increase in the indebtedness of the United States' national finances. The deficit for 2009 is expected to be around 13 % of GDP, or USD 1.8 trillion, and forecasts for the next few years also predict additional massive deficits.

As a further measure to combat the crisis, the U.S. Federal Reserve reduced its prime interest rate to between 0 and 0.25 %; its lowest level ever. The U.S. dollar also reflects developments in the real economy. In the summer of 2008, the Euro stood at USD 1.60; at the end of the fiscal year it stood at about USD 1.30, which of course was primarily due to the developing economic crisis in the Euro zone.

The People's Republic of China was also affected by the crisis in the second half of 2008, as its exports to the U.S.A. and Europe fell sharply. This prompted China to respond to the threat with an enormous stimulus package. Economic growth is expected to fall to between 5 and 6 % in 2009 – the country is expected to avoid the recession being experienced by Western industrialized nations.

Following the financial crisis, which required the initiation of unprecedented bank rescue measures, Europe was also affected by the crisis in the real economy beginning in the second half of 2008. The economic forecasts have since been continuously adjusted downwards and they all predict a severe recession for 2009 in the meantime that can be traced to the sharp decline in exports, which in turn is causing manufacturing businesses to curb their investment activities. The collapse in growth is expected to be 5.4 % in Germany as the leading nation and as much as 9 % in Ireland. The ECB has since reduced the European prime interest rate to 1.0 %. The unemployment rate in the Euro zone is expected to rise to 9.9 % in 2009 and to as much as 11.5 % in 2010.

The implemented stimulus packages and rising unemployment numbers will in turn have a massive impact on national budgets. The latest forecasts predicted that only Finland, Luxembourg and Cyprus would stay below the deficit limit of 3 % stipulated in the Maastricht Treaty. The levels for Germany are predicted to be 3.9 % for the current year and as much as 5.9 % for 2010.

In Eastern Europe, the growth rates of recent years (including 2008), which were far above those of Western Europe, are now anticipating a dramatic decline in 2009. Apart from the declines in the relatively large industrial sector (mainly contributed to by the close interrelationship with U.S.A. and Western European banks and companies), the countries of Central and Eastern Europe (CEE) also suffered a double hit due to their significant financing deficits overseas. Experts assume, however, that GDP forecasts for this region are below potential and that most of the regional currencies are currently undervalued. To this extent, CEE countries, which exhibit only minor external financing gaps in relation to GDP (Poland, Czech Republic, Turkey), can at least be viewed as neutral, while the currencies in countries such as Bulgaria, Ukraine, Hungary and the Baltic states should continue to be viewed with extreme caution.

While Austria posted growth in GDP in the first three quarters of 2008, the economy fell into recession in the last quarter of 2008, resulting in GDP growth for the year of just 1.8 %. The global collapse in economic activity hampered the domestic export economy as well as industry. While export growth in 2007 was still far above 8 %, it was just 2.0 % in 2008 and could fall by 5 % in 2009. Growth in investments will also fall for the first time in many years by 3 to 4 %, from +4.7 % in 2007 and +1.8 % in 2008. Sustained, albeit at a lower level, consumption by private households can currently be described as a small stabilizing factor. Pessimism and current or looming unemployment will probably lead to further tightening of the purse strings. During this phase, tax reform can help to avoid weak growth in private consumption from worsening even further.

Recent forecasts suggest that the stabilization originally expected in the second half of the year seems even less likely, as Austria is now expected to see a drop in growth of 4.0 % in 2009, which corresponds to the average rate of decline for the Euro zone as a whole. The Austrian economy is only expected to recover in 2010, with a slight fall in economic output of 0.1 %. The EU Commission expects the budget deficit in Austria to rise from 4.2 % this year to as much as 5.3 % in 2010.

The phase of rising employment and falling unemployment also started to come to an end on the labor market in the second half of 2008. According to Eurostat, the unemployment rate in Austria accelerated to 5.0 % this year and is expected to reach as much as 5.8 % next year after 3.8 % in 2008. Inflation is expected to remain at a low level in 2009 (1.1 %) and in 2010 (1.3 %).

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. The current economic crisis has also affected the area of infrastructure development and traffic telematics. While expectations for growth in traffic remain high in the long term, the recession led to a reduction of traffic and as a result to a reduction of revenues.

Subject to individual requirements, satellite-based systems are used in addition to DSRC (dedicated short-range communication) based systems, which operates on the CEN 5.8 GHz standard. 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 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 being planned.

The high funding requirements for the maintenance of the road infrastructure in the U.S.A. (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.A. 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

Revenues were at EUR 200.3 million in fiscal year 2008/09, up 8 % compared to the same period of the previous fiscal year (EUR 185.7 million) even against the background of the currently difficult situation on the international financial markets. The increase in revenues in the past fiscal year was driven by both large segments: Road Solution Projects (RSP) as well as Services, System Extensions, Components Sales (SEC) whereas the segment Others (OTH) declined compared to the previous year.

Kapsch TrafficCom continued its expansion strategy. With the acquisition of all of the assets of the "Mobility Solutions" business unit of California-based TechnoCom Corporation and the incorporation of Kapsch TrafficCom Holding Corp. as well as Kapsch TrafficCom U.S. Corp., the company now owns a development and a project realization entity in the U.S.A. In the European market, Kapsch TrafficCom strengthened its presence through the partnership with Busi Impianti S.p.A. and the establishment of the Kapsch-Busi joint venture in Italy. Kapsch-Busi S.p.A. will focus on the market for city access control in Italy and achieved a first-time success only a few months after its establishment with orders in Bergamo, Cremona and Torino. In addition, Kapsch TrafficCom incorporated wholly-owned subsidiaries in Slovenia and Bulgaria for future projects. In Poland, Kapsch TrafficCom acquired a 25 % stake in the newly established Autostrada Wschodnia Sp. z o.o.

On 16 January 2009, Kapsch TrafficCom AG acquired 20.47 % of the outstanding shares in Q-Free ASA, a Norwegian company and competitor.

In the Czech Republic, road user charges are currently collected on around 1,000 km of highways and expressways and since 1 January 2008 on additional 200 km of expressways for all vehicles above 12 tons. Distance-related tolling is planned to be extended to all vehicles above 3.5 tons. In total, there are currently 378,000 OBUs in operation. In June 2008, the pilot installation for a satellite-based tolling system started operation and a telematics platform was implemented. Both systems are in pilot operation that is expected to last one year. The implementation of a traffic management system was concluded in October 2008.

Average performance rates on high levels in the Czech Republic and in Austria resulted in bonus payments in the past fiscal year 2008/09.

2.2 Results of operations

Revenues in the RSP segment increased by 21 % to EUR 56.8 million compared to EUR 47.0 million in the same period of the previous fiscal year. The increase primarily resulted from the project realization in New Zealand and in the Czech Republic.

The SEC (Services, System Extensions, Components Sales) segment increased revenues by 5 % from EUR 128.8 million to EUR 135.6 million. This positive development was primarily attributable to recurring revenues from the services in connection with the technical and commercial operation of the nationwide electronic truck tolling system in the Czech Republic and an increase in the volume of components sales, particularly on-board units (OBUs). At more than 2.7 million, the total volume of OBUs delivered in fiscal year 2008/09 increased by more than 7 % compared with nearly 2.5 million units in the previous fiscal year. The increase in OBU sales mainly resulted from Austria, Australia, France and Greece.

Revenue by segment (share in revenues)		2008/09	2007/08	+/- %	2006/07
Road Solution Projects (RSP)					
Revenues	in million EUR	56.8 (28 %)	47.0 (25 %)	21 %	105.0 (53 %)
EBIT	in million EUR	-1.7	6.3	<-100 %	11.6
Services, System Extensions, Components Sales (SEC)					
Revenues	in million EUR	135.6 (68 %)	128.8 (69 %)	5 %	80.6 (41 %)
EBIT	in million EUR	31.7	29.1	9 %	15.8
Others (OTH)					
Revenues	in million EUR	8.0 (4 %)	10.0 (5 %)	-20 %	13.0 (7 %)
EBIT	in million EUR	-1.0	-0.4	<-100 %	-0.5

The revenue composition at a ratio of 28 % RSP to 68 % SEC in the fiscal year 2008/09 was similar to the previous year (25 % to 69 %).

Revenue by region (share in revenues)		2008/09	2007/08	+/- %	2006/07
Central- and Eastern Europe (incl. Austria)	in million EUR	139.3 (70 %)	124.2 (67 %)	12 %	157.3 (79 %)
Western Europe	in million EUR	21.3 (11 %)	17.6 (9 %)	21 %	12.9 (6 %)
Americas	in million EUR	14.0 (7 %)	18.8 (10 %)	-25 %	15.4 (8 %)
Rest of World	in million EUR	25.6 (12 %)	25.2 (14 %)	2 %	13.0 (7 %)

Revenues in CEE markedly increased compared to the previous fiscal year and represent approximately 70 % of total revenues. The increase in revenues in Western Europe largely results from the SEC segment and specifically from orders in France, Spain and Greece and from the joint venture in Italy. The reduction in revenues in Americas results from a project realization in Chile in the previous fiscal year.

In fiscal year 2008/09, EBIT declined by 17 % to EUR 29.0 million (2007/08: EUR 34.9 million). The EBIT margin was reduced from 18.8 % to 14.5 % and reached about the level of fiscal year 2006/07 (13.5 %). At EUR 78.1 million, cost of material and other production services remained nearly unchanged compared to the previous fiscal year although revenues increased. Staff costs increased

by EUR 7.6 million and other operating expenses also increased by EUR 6.9 million compared to the previous fiscal year. Both increases are due to the increase of the headcount for the extension of capacity for future large projects, to the acquisitions or establishments of new companies in the U.S.A. and Italy and to the technical and commercial operation services for the nationwide electronic truck tolling system in the Czech Republic.

Due to a financial result of EUR -7.1 million (2007/08: EUR 7.9 million) resulting from currency losses and the impairment of certain short-term financial assets (securities), profit before tax decreased to EUR 21.9 million (2007/08: EUR 42.8 million) and profit after tax also decreased to EUR 16.4 million (2007/08: EUR 32.1 million).

2.3 Assets and liabilities

In the past fiscal year, the balance sheet total of Kapsch TrafficCom Group increased by 9 % from EUR 298.4 million to EUR 324.5 million. This increase primarily results from the change in short-term assets due to an increase of the inventories by EUR 8.5 million and an improvement of cash and cash equivalents by EUR 12.8 million. Within the non-current assets, property, plant and equipment increased by EUR 10.7 million due to the investment in production lines and the relocation of the companies in Vienna. The change in intangible assets mainly resulted from the acquisition of all of the assets of the "Mobility Solutions" business unit of TechnoCom Corporation and the newly formed joint venture Kapsch-Busi S.p.A. in Italy. The purchase of 20.47 % of the outstanding shares in Q-Free ASA led to an increase in the shares of associates to EUR 12.3 million. In contrast to this development, other non-current assets decreased by EUR 36.6 million due to the reduction of trade receivables in connection with the nationwide electronic tolling system in the Czech Republic.

On the liabilities side of the balance sheet, the increase of short-term liabilities reflects the increase of the balance sheet total. Short-term financial liabilities increased by EUR 31.8 million to EUR 49.2 million (31 March 2008: EUR 17.4 million) due to the financing of acquisitions and the long-term agreement on credit lines in connection with the financing in the Czech subsidiary. Kapsch TrafficCom Group thus showed an equity ratio of 41.4 % as of the balance sheet date 31 March 2009 (31 March 2008: 44.7 %).

2.4 Financial position

In the fiscal year 2008/09, the cashflow from operating activities could be improved to EUR 42.1 million (2007/08: EUR -10.5 million) due to a positive change in net current assets from EUR -72.4 million in the previous fiscal year to EUR -7.7 million in the fiscal year 2008/09.

Cashflow from investing activities was at EUR -44.8 million (2007/08: EUR -11.6 million) primarily due to acquisitions, to payments in connection with asset deals, to an increase of intangible assets and the purchase of tangible assets in connection with the relocation of the companies in Vienna as well as the expansion of the production.

Cashflow from financing activities was at EUR 19.3 million (2007/08: EUR 47.6 million) due to the positive development of current financial assets from EUR -4.3 million in the previous year to EUR 31.8 million in the fiscal year 2008/09. This development could not compensate the one-time effect of the IPO (EUR 65.8 million) in June 2007.

Cash and cash equivalents increased by EUR 12.8 million to EUR 60.2 million, as of 31 March 2009 (31 March 2008: EUR 47.4 million). Such cash and cash equivalents are available for further growth.

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 2008, the average toll transaction rate of the existing truck tolling system in Austria amounted to approximately 99.7 %, slightly above the year 2007.¹

During the same period, the average performance rate of the nationwide electronic tolling system in the Czech Republic (phase I) was approximately 98.2 %, up 0.7 % from the 97.5 % in 2007.¹

Staff

In the fiscal year 2008/09, the average number of personnel in the Kapsch TrafficCom Group amounted to 898 persons. As of 31 March 2008, 946 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 various locations.

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.

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.

Environment

Valid certificates for quality pursuant to ISO 9001 and environment pursuant to ISO 14001 are in place. For the future, it is planned to meet the social responsibility to an even higher degree, 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 definition of risk includes positive (chances) as well as negative (risks) divergences from planned objectives.

Risk management system

Risk management has been positioned as a separate function within the finance department 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 over 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 Solution 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 with offers for new projects for technological, financial, formal or other reasons. Follow-up revenues from maintenance agreements and from the technical operation also depend on the successful participation in tenders for 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 as well as the sustained growth of the share of maintenance and operations.

Risks of project execution

In connection with the implementation of systems, Kapsch TrafficCom Group most of the times is 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 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 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 the 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 the 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, the 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 the Kapsch TrafficCom Group. Since its innovation leadership is, to a large degree, 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, systems, components, products or services could infringe on intellectual property rights of third parties.

The 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, the 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 the 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, the Kapsch TrafficCom Group is exposed to interest rate risks. The Kapsch TrafficCom Group hedges against interest rate risks, if material, through appropriate financial instruments.

Personnel risks

The success of the 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 and at the level of national legislation.

IT risks

As a technology group, the 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 the Kapsch TrafficCom Group. Increasing geographic diversification, the diversification of its product portfolio, together with a rising portion of recurring revenues (further growth of the Services, System Extensions, Components Sales segment) are planned to further reduce risk concentrations in the future.

2.7 Research and development

Kapsch TrafficCom has a network of research and development centers in Vienna (Austria), Jönköping (Sweden), Buenos Aires (Argentina) and Carlsbad (California, U.S.A.). The research and development centers are organized as competence centers. Research and development activities are being coordinated from the headquarters in Vienna. As of 31 March 2009, Kapsch Traffic Com employed approximately 210 research and development engineers in its research and development activities, including project management for research projects, quality assurance and testing, documentation and certification (as of 31 March 2008: approximately 170).

Research and development activities and in particular the knowledge on as well as the application of newest technologies based on national and international standards, are a high priority for Kapsch TrafficCom in light of its business development and support to enter new markets. The current focus is on countries, such as the U.S.A., South Africa and India. In order to meet the high expectation of the market, especially to address the rising demand of time-to-market, research and development activities are often accompanied by acquisitions. The acquisition of the assets of the "Mobility Solutions" business unit of TechnoCom Corporation, resulted in an extension of the research and development centers.

Kapsch TrafficCom 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.

Successful research and development is the foundation for the sustained improvement of existing products and systems and the continuous reduction of production, installation, operations and maintenance costs, all of which are essential for maintaining our technological and competitive advantage.

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 Kapsch TrafficCom AG 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. As of 31 March 2009, approximately 31.6 % of the shares in Kapsch TrafficCom AG have been in free float. As of 31 March 2009, KAPSCH-Group Beteiligungs GmbH held approximately 68.4 % 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 2009, 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

With the fiscal year 2009/10 in mind, the company takes an optimistic long-term view on its markets even in a changed economic environment. The fiscal year 2009/10 will be shaped by participation in tenders and by project awards in Hungary, Slovenia, France, Portugal, South Africa, and in the U.S.A.

2.10 Material events after the balance sheet date

Repurchase of minority interests

On 9 April 2009, Kapsch TrafficCom AG acquired 19 % of the shares of Brisa Internacional, SGPS, S.A., Sao Domingos da Rana, in Kapsch Telematic Services GmbH for a purchase price of EUR 2.3 million. In addition, another 7 % of the shares in Kapsch Telematic Services GmbH were acquired indirectly through acquisition of BRISA ACCESS Europe GmbH, Vienna, for a purchase price of EUR 1.9 million.

Incorporation of subsidiaries

On 7 April 2009, Kapsch TrafficCom Kazakhstan LLC, Astana, was incorporated as a wholly-owned subsidiary of Kapsch TrafficCom AG in Kazakhstan.

Vienna, 15 May 2009



Georg Kapsch
Chief Executive Officer



Erwin Toplak
Chief Operating Officer

Kapsch TrafficCom is an international supplier of innovative road traffic telematics solutions. Its principle business is the development and supply of electronic toll collection (ETC) systems, in particular for the multi-lane free-flow (MLFF) of the traffic, and the technical and commercial operation of such systems. Kapsch TrafficCom also supplies traffic management systems, with a focus on road safety and traffic control, and electronic access systems and parking management. With more than 220 references in 36 countries in all 5 continents, and with more than 14 million on-board units (OBUs) and nearly 12,000 equipped lanes, Kapsch TrafficCom has positioned itself among the leading suppliers of ETC systems worldwide. Kapsch TrafficCom is headquartered in Vienna, Austria, and has subsidiaries and representative offices in 22 countries.