Kapsch TrafficCom

Solutions from Kapsch TrafficCom benefit more than traffic.

Annual Report for Fiscal Year 2009/10.

always one step ahead

Management Report.

Kapsch TrafficCom AG on the Consolidated Financial Statements as of 31 March 2010.

1 Economic climate

1.1 General economic situation

The international financial and economic crisis led to drastic economic declines in almost all industrial countries at the start of the past fiscal year. Even those emerging countries that experienced very strong growth in recent years were forced to accept significant setbacks in some cases. The global gross domestic product shrunk by roughly 1 % in 2009 (growth in 2008 was still +3.1 %), to perform considerably worse than expected.

The governments of many countries responded to the recession with massive economic stimulus and support measures. Many investment programs were announced, reduced working hour models were introduced, assumptions of liability were provided for guarantees and interest levels were brought down to historic lows, in addition to many other measures.

Nevertheless, long-term financing for banks and companies still became more expensive over the course of the last fiscal year, a development that can be attributed in part to the drops in credit ratings and the resulting loss of trust on the part of market investors. A calming of the situation was only seen as of mid-2009. The financial markets recovered over the course of 2009 as well. Thanks to rising optimism, investor trust also took a turn for the better and the international stock markets recorded price gains of up to 40 %. Experts agree that this in part already anticipated a recovery of the real economy. In the banking sector, trust has been restored to an extent, as is reflected in lower risk premiums between banks, although the depreciation burden from “rotten” securities may still be high and the banks are also holding high liquidity reserves in light of the experiences of recent years. The current signs of a debt crisis are also contributing to a situation on the financial markets that must generally be considered unstable. Raw materials prices remained relatively constant during the last fiscal year. The price of oil, for instance, stood at about 80 USD per barrel Brent.

Increasing indications of an economic recovery can be seen in the last months of the fiscal year based on the current figures posted by companies as well as the rise in consumer confidence. The stock reduction that took place and the reports of increasing production capacities and capacity utilization levels also suggest a recovery of the real economy. A return to positive growth figures can generally be expected in the coming fiscal year (global GDP growth of +3.3 % is anticipated), although these figures may vary widely between different regions and in some cases the growth will be slow to materialize and very moderate in scope.

Around the world, the coming years will also be characterized by efforts to reduce the public debt levels that rose substantially during the crisis, which will generally have a dampening effect on economic developments in the near future.

The U.S.A. suffered its worst economic collapse in over seven decades during 2009. Well over 100 banks had to be closed, and the unemployment rate also reached 10.2 % in October, the highest value in the last 25 years. In a unique resuscitation effort, the U.S. government initiated numerous measures to reinvigorate the economy and the labor market. The continued maintenance of a low prime rate (between zero and 0.25 %) is also intended to contribute to the recovery.

The U.S. dollar also reflected the developments of the real economy in 2009. At the end of 2009, the euro was at 1.43 U.S. dollars. Only in the last few weeks did the U.S. dollar start to rise against the euro, although this can primarily be attributed to the debt problems of some euro countries.

Despite high unemployment, a clear and very rapid recovery is expected for the U.S.A. in 2010. Forecasts for GDP growth range between +2.5 and +3.0 %. The indicators of this growth include the stabilization of the real estate market and increasing demand for capital goods.

The emerging markets, in particular China and India, also felt the impact of the crisis. However, massive economic stimulus packages were implemented very quickly in these countries as well. The effects of these measures were also seen very quickly, even allowing significant GDP growth during 2009 for both China (+8.7%) and India (+5.6%). In Japan, on the other hand, the GDP declined by -5.0 %.

In 2010, China is expected to once again see growth exceeding +9% and even Japan is expected to make a turnaround and achieve +1.5 %.

The euro zone also suffered heavy economic declines in the year 2009 (-4.1 % drop in GDP). Companies were forced to contend with faltering exports (these also suffered to an extent from the strong euro), massive corrections on the real estate markets and difficult credit conditions. In Germany, the GDP fell by 5 % despite the fact that private consumption remained largely stable thanks to support from state stimulus programs.

Overall, the countries of Europe took on extensive debt due to the implementation of economic measures as well as tax increases and must now compensate with steep cost cuts, although the actual situations of individual countries differ greatly. The national debt of Greece, which is close to insolvent, has in particular become a major topic in recent weeks. As a natural consequence, no one was willing to lend Greece any more money and this was also reflected in Greek government bonds, leading to some uncertainty around the world. Reacting very quickly, the euro countries came together to aid Greece during this debt crisis. In addition to billions in immediate aid that Greece will receive from the other European countries, these countries have also agreed not to demand early repayment of previously invested funds. These aid measures are naturally linked to enormous savings measures on the part of Greece (value-added tax increase, massive wage cuts, etc.). More of these types of reforms will generally be seen in Europe in the future (timely sanctions for countries running up deficits, rights to intervene in the budgetary policy of individual countries, etc.).

The justifications for this emergency loan package lay in worries that the crisis could spread to other countries of Europe, such as Portugal, Spain, Italy, Ireland and even Great Britain, as well as general concerns regarding the stability of the euro and even fears that the Monetary Union could collapse, which would have done far more harm to Europe than the cost of the aid package.

The EU and the IMF (International Monetary Fund) together offered up loan guarantees of up to EUR 750 billion as a measure to signal the strength of the euro region. This united front is intended to ensure that even individual countries can continue to obtain money under favorable conditions as well as to demonstrate stability for the euro. It is also hoped that this measure will curb future turbulence on the financial markets and prevent associated speculation.

With regard to the real economy, many corporate figures already indicate that the situation in Europe may already have bottomed out. 2010 should see a return to positive numbers in the euro region as well, although the growth rates may be moderate compared with recoveries from earlier crises and take place slowly in stages. The current forecasts assume a GDP growth in the amount of +1 %. However, it is evident that developments in Europe will lag behind those of other continents.

In the new EU countries, the GDP decline in 2009 of -3.5 % was somewhat less severe than in the other euro countries, and GDP growth in 2010 is expected to be +0.4, which would place it below the level of other EU countries.

The Austrian GDP declined by -3.6 % in 2009, which can be attributed to both the significant drop in exports as well as reductions in the area of material goods production and the associated company investments. Consumption by private households was the only positive economic pillar and was driven by high real economic gains (tax reform, expansion of social transfer and low inflation).

In 2010 and 2011, the net real per capita income will decline somewhat due to weaker salary agreements and rising inflation. Nevertheless, a slight expansion in consumer spending by private households amounting to around 0.7 % is expected. Austrian goods exports should grow in 2010 by +5 % and in 2011 by +6 %.

Overall, the economic recovery in Austria (as in the EU, in general) is still unstable and subject to a number of risks, particularly with regard to international developments. One critical factor will be whether a strong upswing in investments by companies occurs before any possible demand-suppressing effects of the simultaneous budget consolidation all EU countries. The Austrian GDP should grow by +1.3 % in 2010, while an increase of +1.4 % is expected for 2011.

The economic stabilization in recent months has allowed the unemployment rate to hold steady, but no declines in unemployment are expected this year nor in 2011. Over 75,000 jobs have been lost in Austria since mid-2008, and unemployment is expected to reach a level of 360,000 persons in 2011, which would correspond to an unemployment rate of 7.7˘% (national) or 5.4 % of the working population (according to Eurostat).

1.2 Development of the market for intelligent transportation systems

To allow for easier comparisons, the Kapsch TrafficCom Group makes use of the internationally prevailing terms for the ITS market (intelligent transportation systems). The study "Intelligent Transportation Systems – A global strategic business report" from Global Industry Analysts, May 2008, describes the ITS market as a diversifying market with the following, widely differing application and product segments.

Electronic toll collection systems (ETC): This is the segment in which Kapsch TrafficCom is most heavily active and encompasses electronic toll collection systems for the traffic between and within cities.

Commercial vehicle operations (CVO): CVO describes ITS applications that serve to improve the safety of commercial vehicle traffic. Systems for automated inspection of the vehicle status, load and registration fall into this category.

Advanced traffic management systems (ATMS): ATMS solutions improve traffic safety for all kinds of vehicles and traffic participants, help control and maintain the smooth flow of traffic and facilitate traffic monitoring by means of detector systems, cameras and communication systems.

Public vehicle transportation management systems (PVTMS): This segment covers management systems and communication systems for the monitoring and control of public transportation.

Advanced vehicle information systems (AVIS): This segment primarily includes in-vehicle information systems for drivers.

According to Global Industry Analysts, the ITS market is estimated to reach USD 9.8 billion worldwide in 2008 and will grow to USD 12.5 billion by 2010. The biggest segment is ATMS at USD 3.8 billion in 2008. The fastest-growing segment is ETC with a CAGR of 17.1 % between 2000 and 2010. The ETC sector will be worth USD 3 billion in 2010.

Market situation and market forces

Independent of the economic recession, the worldwide increase in road traffic is the most important growth factor of the ITS market. According to analyses by the EU (European Union 2006, "Energy and Transport in Figures"), commercial traffic increased by 2.8 % per year and in total by 31.3 % between 1995 and 2005. Commercial road traffic increased by 3.3% per year and by 37.9 % in total. Despite political pressure, goods transport could not be shifted significantly from road to rail or ship transport. This exceptional growth increases the financing burden for road infrastructure enormously, which in turn fosters greater demand and a high growth potential for ITS applications and the ETC sector, in particular.

In 2005, the trans-European road network (TEN-V) with a total length of 84,700 km comprised a fourth of the primary street network but carried 40 % of the total commercial traffic. It is predicted that TEN-V will be expanded by 4,800 km per year up to 2020, of which 3,500 km will consist of existing roads. Major investments will be required in the new member states and along the corridor routes to these countries. The European Union estimates the investment needs by 2020 at EUR 600 billion. While long-term forecasts for traffic growth continue to remain high, the economic recession has resulted in a traffic reduction and an associated decline in revenues.

In addition to dedicated short-range communication systems (DSRC) according to the CEN 5.8 GHz standard, the use of satellite-based systems has been expanding, depending on the application requirements. Significant growth potential also exists in the area of video-based systems for automatic number plate recognition (ANPR) for tolling and enforcement in urban environments.

To reduce traffic congestion and environmental pollution, city charging systems or intelligent parking management systems are under discussion in several major cities.

The increasing traffic volume can be considered a global trend. Especially in Asia, an increased demand for ETC lanes is expected for the replacement and expansion of toll systems previously based on more traditional methods. India has one of the largest road networks in the world, amounting to 3.4 million km in 2004. Only 2 % is made up of highways, but these carry 40 % of the commercial traffic. Between 1992 and 2002, 52,000 km of highways were built in China and an additional 200,000 km are planned for the coming years.

The high financing requirements for the preservation of road infrastructure are leading to new business models and private concessionaire models in the U.S.A. Standard & Poor's research estimates an annual demand of USD 92 billion for the preservation of highways and bridges and a further USD 125.6 billion for their improvement. While the standardized tolling technology based on 5.8 GHz DSRC microwave is used in Europe, ETC systems in North America are based on proprietary protocols in the 915 MHz band. It is expected that a new communication protocol standard based on 5.9 GHz will gradually replace the existing technology in the U.S.A. within the coming years.

2 Economic situation of the Group

2.1 Business development

Kapsch TrafficCom continued its expansion strategy with focus on the U.S. and South African market. In partnership with the New York State Department of Transportation, Volvo and the Southwest Research Institute, Kapsch TrafficCom develops a technology program that enables a variety of applications within the scope of the IntelliDrive program to promote the safety and mobility of the U.S. transportation system. To support the realization of the recently awarded project in the region of Gauteng in South Africa, Kapsch TrafficCom purchased a majority share in the local company Electronic Toll Collection Pty Ltd. (ETC). The shell company Triple Advanced Investment 22 (Pty) Ltd. was also acquired to strengthen the position in the South African market.

The takeover of the remaining shares in Kapsch Telematic Services GmbH, Vienna, from the BRISA Group was a further step in the strategic positioning of the telematic area within the Kapsch TrafficCom Group. Kapsch Telematic Services Danmark ApS, Copenhagen, was founded in August 2009, and in February 2010, an existing shell company (Durante Investments sp. z o.o., Warsaw) was acquired in Poland to handle the expected tenders. The shareholding situations of the Slovakian subsidiaries were also reorganized as all preparations were made to merge the three existing companies into one. Kapsch TrafficCom AG also acquired the outstanding minority shares in Kapsch Telematic Technologies Bulgaria EAD, Sofia.

The 20.47 % stake in Q-Free ASA, Norway, that was acquired in January 2009 was diluted to an actual stake of 18.46 % as a consequence of capital increases in fiscal year 2009/10.

In September 2009, Electronic Toll Collection (ETC), a joint venture led by Kapsch TrafficCom, was awarded a contract by the South African National Roads Agency Ltd. (SANRAL) for the implementation and operation of a multi-lane free-flow (MLFF) tolling system in the province of Gauteng. The first phase comprises the outfitting of 185 km of highways, to be completed within 18 months. The subsequent operating contract for technical maintenance will run for a period of 8 years, while the contract for the transaction clearing house and the violation processing center will initially have a term of 5 years. The order value for the implementation phase is approximately EUR 117 million, and the value for the operations phase is currently estimated at EUR 461 million since the final value can only be determined once the final scope and configuration of the system have been defined.

Another tender was won for an electronic toll system in Australia worth a total of EUR 4 million. Kapsch TrafficCom will implement a modern multi-lane free-flow (MLFF) toll solution on the Hale Street Link, a four-lane bridge in Brisbane.

In the Czech Republic, road user charges are currently collected on around 1,300 km of highways and expressways. At the moment, there are about 236 tolling stations and approximately 500,000 OBUs in operation. On 1 January 2010, the weight limit subject to tolling was reduced from 12 tons to 3.5 tons. Additional phases of the traffic management system for actively influencing the traffic flow via electronic displays, automatic traffic density measuring, visual tracking and average journey time detection were handed over to the customer. Completion of the traffic management systems is planned for mid 2010.

In Austria, about 2,200 km of highways and expressways are tolled for trucks above 3.5 tons by means of a fully electronic multi-lane free-flow system. Since 2004, Kapsch TrafficCom has delivered the entire central and road-side infrastructure for nearly 490 tolling stations as well as a current total of roughly 1 million OBUs (GO-Box). In fiscal year 2009/10, the highway-network was expanded by the road sections S1, S2 and A5 in the north of Vienna, totaling approximately 52 km. As part of this expansion, Kapsch TrafficCom equipped 36 new tolling stations and two new control stations. Extensive modifications to the tolling system software were carried out for the implementation of emissions-based tolling.

Average toll transaction rates achieved both in the Czech Republic and in Austria remained at a high level and could be further increased from 98.2 % in calendar year 2008 to 99.0 % in the Czech Republic in calendar year 2009, resulting in receipt of the contractually established bonus payments once again in fiscal year 2009/10.

2.2 Earnings situation

Revenues were at EUR 216.0 million in fiscal year 2009/10, up 8 % compared with the same period of the previous fiscal year even against the backdrop of the difficult situation currently prevailing on international markets. The increase in revenues in the past fiscal year was driven by the segment Services, System Extensions and Components Sales (SEC) with a growth of 19 % and the segment Other (OTH) with an increase of 4 %, whereas the segment Road Solution Projects (RSP) declined by nearly 19 % compared to the previous year.

The segment SEC was able to increase revenues by EUR 26.3 million from EUR 135.6 million to EUR 161.9 million. The main drivers here were the extensions to the existing Austrian highways and the opening of the “Nordautobahn” (A5), the expansion of tolling to include trucks above 3.5 tons in the Czech Republic as well as the sale of components and on-board-units (OBUs). The revenues in the segment SEC have increased continuously over the past years to now contribute a significant share of revenues amounting to 75 %.

The total volume of OBUs delivered in fiscal year 2009/10 was increased by 30 % to an all-time-high of 3.5 million units. Favorable sales figures were posted in Australia, France and Thailand.

The revenues in the segment RSP decreased by 19 % from EUR 56.8 million to EUR 45.8 million. The ongoing projects in Chile, the Czech Republic, Australia and South Africa were unable to offset the absence of the projects that were completed in the Czech Republic during the previous fiscal year. Except the nationwide truck tolling system in Slovakia no other major projects have been implemented in fiscal year 2009/10.

Revenue by segment (share in revenues)		2009/10		2008/09		+/- %	2007/08	
Road Solution Projects (RSP)								
Revenues	in million EUR	45.8	(21 %)	56.8	(28 %)	-19 %	47.0	(25 %)
EBIT	in million EUR	-20.9		-1.7		>-100 %	6.3	
Services, System Extensions, Components Sales (SEC)								
Revenues	in million EUR	161.9	(75 %)	135.6	(68 %)	19 %	128.8	(69 %)
EBIT	in million EUR	45.3		31.7		43 %	29.1	
Others (OTH)								
Revenues	in million EUR	8.3	(4 %)	8.0	(4 %)	4 %	10.0	(5 %)
EBIT	in million EUR	0.2		-1.0		>-100 %	-0.4	

With a total share in revenues of 54%, the European region was still the most important region, although a decline of nearly EUR 5.7 million (-5 %) was reported here compared to the previous fiscal year. Turnover in the “Rest of the World” region increased by EUR 18.9 million (74 %), driven mainly by projects in South Africa and Australia. The increase of 12 % in Austria can be attributed to expansions in the segment SEC. The revenue decline in the Americas of EUR 1.9 million (-14 %) resulted from lower sales in Chile in the segment SEC.

Revenue by region (share in revenues)		2009/10		2008/09		+/- %	2007/08	
Austria	in million EUR	42.4	(20 %)	37.8	(19 %)	12 %	36.6	(20 %)
Europe (excl. Austria)	in million EUR	117.1	(54 %)	122.8	(61 %)	-5 %	105.2	(57 %)
Americas	in million EUR	12.1	(5 %)	14.0	(7 %)	-14 %	18.8	(10 %)
Rest of the World	in million EUR	44.5	(21 %)	25.6	(13 %)	74 %	25.2	(13 %)

In fiscal year 2009/10, the operating result (EBIT) declined from EUR 29.0 million to EUR 24.5 million. The EBIT margin was reduced from 14.5 % to 11.4 %. The reduction of revenues as well as investments like the extention of capacity for the development of new markets caused the segment RSP to negatively impact the EBIT. The EBIT contribution of the segment SEC was positively affected by the retroactive clarification of the cost allocation for certain transaction clearings in the nationwide electronic truck tolling system in the Czech Republic. This led to an above-average EBIT margin of 28.0 % (2008/09: 23.4 %). The segment OTH had only a minor but positive effect on the EBIT.

Costs for material and other production services increased by EUR 19.9 million. Staff costs went up by EUR 5.1 million due to the higher number of employees (increase of 76 employees as at 31 March 2010) to arrange the demand for future large-scale projects and the development of new markets. The other operating costs increased by EUR 2.5 million as a result of higher rental costs for the new office building in Vienna and the need for higher provisions for warranties and guarantees.

Despite lower interest income and similar revenue, it was possible to achieve an improvement in the financial result from EUR -7.1 million to EUR 4.1 million. In addition to other factors, this can be partially attributed to the fact that no impairment adjustments on current financial assets (securities) were necessary in the past fiscal year.

The dilution of the stake held by Kapsch TrafficCom in Q-Free ASA, Norway, to below the threshold of 20 % as a consequence of capital increases resulted in a reclassification that yielded an accounting profit that was recorded in profit and loss. This led to a doubling of the pre-tax profit to EUR 43.9 million (2008/09: EUR 21.9 million) and made it possible to achieve a profit after taxes of EUR 36.5 million (2008/09: EUR 16.4 million).

2.3 Assets and liabilities

In the past fiscal year, the balance sheet total of the Kapsch TrafficCom Group decreased by 9% from EUR 324.5 million to EUR 295.1 million. This reduction resulted primarily from the change in short-term assets due to a decrease in trade receivables and other current assets by EUR 39.0 million and a decline in cash and cash equivalents by EUR 12.5 million. In the area of non-current assets, a reclassification of Q-Free ASA, Norway, (previously listed as an associated company) was necessary since capital increases brought the stake held by Kapsch TrafficCom below the threshold of 20 %. This shareholding is now recorded under other non-current financial assets and investments (as of 31 March 2009, it was listed under shares in associates). The upward revaluation to the fair value undertaken as part of the reclassification yielded an accounting profit of EUR 14.1 million. The other non-current assets were reduced due to the scheduled payments associated with the nationwide electronic truck tolling system in the Czech Republic. The change in intangible assets was a consequence of the takeover of the minority shares in Kapsch Telematic Services from the BRISA Group.

On the liabilities side of the balance sheet, the decrease in the balance sheet total was reflected primarily in the current liabilities. It was possible to lower the current financial liabilities by EUR 40.0 million to EUR 9.2 million (31 March 2009: EUR 49.2 million). The trade and other current payables were EUR 14.9 million below the value at the same date of the previous year. The reduction of non-current liabilities was due to the project financing agreement in the Czech Republic.

As a consequence, the Kapsch TrafficCom Group was able to post a significant improvement in its equity ratio, which reached 57.0 % as of 31 March 2010 (31 March 2009: 41.4 %).

2.4 Financial position

Cash flow from operating activities was improved in fiscal year 2009/10 to EUR 46.5 million (2008/09: EUR 42.1 million) thanks to the positive development of the net current assets from EUR -7.7 million to EUR 17.4 million in fiscal year 2009/10, which was due in large part to a reduction in trade receivables and other assets.

Cash flow from investing activities was at EUR -15.3 million (2008/09: EUR -44.8 million) primarily due to other non-current assets related to the South African project in Gauteng as well as the acquisition of the minority shares in Kapsch Telematic Services GmbH, Vienna, from the BRISA Group. Investments in property, plants and equipment were limited to reinvestments.

Cash flow from financing activities amounted to EUR -48.4 million (2008/09: EUR 19.3 million) due to the reduction of current financial liabilities in Austria and the Czech Republic.

As a result of the cash outflow from financing activities, cash and cash equivalents decreased to EUR 47.7 million as at 31 March 2010 (31 March 2009: EUR 60.2 million).

2.5 Non-financial performance indicators

Reliability and accuracy of installed ETC systems

The toll transaction rate is a figure for assessing 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 2009, the average toll transaction rate of the existing truck tolling system in Austria amounted to approximately 99.7 %, placing it at the same high level as in 2008.[1]

During the same period, the average performance rate of the nationwide electronic tolling system in the Czech Republic was approximately 99.0 %, up 0.8 % from the value of 98.2 % in 2008.[1]

Staff

In fiscal year 2009/10, the average number of employees in the Kapsch TrafficCom Group was 973. As of 31 March 2010, 1,023 persons were employed.

The Group places great importance on the continued training and education of its employees. This involves not only promoting professional education and training but also providing seminars and training sessions for developing one's own personality and teamwork skills. Training sessions tailored to the particular needs of employees are offered within the framework of the Kapsch Academy. Selected employees are prepared for their future tasks in a management trainee program.

The Group has a job rotation program in place to promote the international exchange of staff between the various locations.

The Group companies make contributions to an external pension fund on behalf of their employees based on length of employment and depending on company profits.

The Group also currently maintains a profit participation program that offers the staff an opportunity to share in the profits of the Kapsch TrafficCom 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

Valid certifications are held for quality management pursuant to ISO 9001 and environmental management pursuant to ISO 14001. The Group will strive in future to fulfill its responsibilities toward society even more extensively, particularly with regard to the efficient and responsible use of natural resources.

Corporate social responsibility

Living up to its socio-political responsibility, the entire Kapsch Group – organized by Kapsch AG – supports a number of contemporary art and cultural institutions and projects as well as selected training initiatives and extensive social measures. This attitude is reflected within the company as well as outside, and employees of the Kapsch TrafficCom Group benefit from the Group's long-term commitment to social responsibility in the form of a variety of 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. For the company, risk means the possibility of deviating from company objectives, meaning that the definition of risk encompasses both positive (opportunities) as well as negative (risks) deviations from planned objectives.

1 Calculation of the average performance rate is based on methodologies agreed upon with the respective customer, meaning that comparisons between the average performance rates achieved in different projects are only possible on a limited basis.

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, the risk management system comprises institutionalized processes for collecting and analyzing all relevant opportunities and risks pertaining to the Group's projects and provides the basis for the timely planning and implementation of control measures. The risk management is gradually being developed into a company-wide opportunity and risk management system. 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 the Kapsch TrafficCom Group are generated in the segment Road Solution Projects (RSP). 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 exists a risk that tenders in which the Group participates or plans to participate could be delayed or withdrawn, for instance as a result of political changes, appeals or legal actions by unsuccessful bidders. On the other hand, there exists a risk that Kapsch TrafficCom Group may not win its bids for new projects due to technological, financial, formal or other reasons. Continuing revenues from maintenance agreements and from technical operations also depend on the successful participation in tenders for systems.

The strategy of the Kapsch TrafficCom Group is aimed at reducing the volatility of revenues through increased geographic diversification and increased diversification of the product portfolio as well as sustained growth in the share of maintenance and operations.

Risks of project execution

In connection with the installation of systems, the Kapsch TrafficCom Group is usually contractually obligated to provide performance guarantees. Since ETC systems are frequently sophisticated and technologically complex systems that must be implemented within a short time frame, system and product defects can occur due to the limited time available for testing. If the guaranteed performance levels are not met or deadlines are 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 employs risk management methods and risk management procedures in order to guard against risks associated with projects.

Long-term contracts with public authorities

In many cases, the system contracts are awarded by public agencies. Framework agreements and service contracts in connection with tolling projects may include terms and conditions that are not negotiable in a tender process and that may be disadvantageous to 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 the Kapsch TrafficCom Group aims to include appropriate limitations to its liability in contracts, it is still impossible to guarantee that all contracts contain sufficient limitations to the Group's liability or that these limitations 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 based largely on technology, 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 failures in protecting these technologies may have a negative impact on the competitive position of the Group. Moreover, it is possible that systems, components, products or services could infringe on the 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, such as through patents and non-disclosure agreements with other parties. In order to avoid legal action and court proceedings, the Kapsch TrafficCom Group constantly monitors potential intellectual property rights infringements.

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

One of the strategic objectives of the Kapsch TrafficCom Group is to grow internationally both by organic means and through selected acquisitions and joint ventures. In the implementation of this strategy, the Group has acquired companies around the world and integrated them into the Group. However, a number of challenges remain in connection with this growth strategy in order to achieve the desired synergies and objectives.

Financial risks

Foreign exchange risk

The Group maintains branches, offices and subsidiaries in several countries outside the euro zone. A considerable portion of revenues and costs are denominated in the currencies of the respective foreign companies rather than in euros. Although the Group aims to hedge the net currency position of the individual contracts as necessary, currency fluctuations may result in exchange rate losses that appear on the consolidated financial statements (transaction risk). In addition, risks arise from the conversion of separate financial statements of international companies into the Group currency, the euro (translation risk). Changes in exchange rates may also result in a change in the competitive position of the Kapsch TrafficCom Group. The income statement shows expenses for currency hedging contracts that were concluded in fiscal year 2009/10 to hedge the receivables denominated in Czech crowns.

Interest rate risk

Within the framework of project financing, the Group regularly agrees to variable interest rates that are tied to market interest rates (Euribor, Pribor etc.). This exposes the Kapsch TrafficCom Group to interest rate risks. The Kapsch TrafficCom Group utilizes appropriate financial instruments to hedge against interest rate risks to the extent these risks are significant.

Personnel risks

The success of the Kapsch TrafficCom Group depends heavily on key personnel with many years of experience in the industry. Moreover, the Group's ability to recruit qualified staff, integrate them into the company and retain them over the long term is crucial in its current growth phase. The loss of key 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.

Legal risks

The market for ETC systems is influenced by numerous statutory provisions at the EU level and at the level of national legislation. There exists a risk that specific regulations, such as data privacy laws or environmental and safety requirements, could have negative consequences for the Kapsch TrafficCom Group.

IT risks

As a technology group, the Kapsch TrafficCom Group is exposed to typical IT risks relating to security, confidentiality and the availability of data. For this reason, Kapsch TrafficCom AG has implemented an IT risk management system designed according to the corporate risk and IT security application method (CRISAM) and has been certified pursuant to ISO 27001 (information security management). The Kapsch TrafficCom Group is also certified according to ISO 20000 “IT service management” (similar to ITIL) for the operation of toll systems.

Summary assessment of the Group’s risk situation

From a current perspective, no risks have been identified that could endanger the continued operations of the Kapsch TrafficCom Group. Increasing geographic diversification, the diversification of the product portfolio and an increased share of recurring revenues (further growth in the Services, System Extensions, Components Sales segment) are planned to further reduce the concentration of risks in the future.

2.7 Internal Control System (ICS)

The Corporate Law Amendment Act (URÄG 2008) adopted the 8th EU Directive into Austrian law. Under this legislation, companies with a capital market orientation are henceforth obliged to include in their group management reports not only an outline of their risk management systems but also of the main features of their ICS with regard to the financial reporting process.

Kapsch TrafficCom AG analyzes and documents on an ongoing basis its existing internal processes relating to financial reporting. The results obtained so far were presented at the quarterly meetings of the audit committee for assessment and discussion.

The IFRS Group Accounting Manual represents the cornerstone for financial accounting and reporting throughout the whole Kapsch Group. The manual is published and regularly updated by Kapsch AG and contains the essential financial and reporting procedures based on IFRS. Groupwide guidelines and work instructions represent another important pillar of the internal control system.

The central elements of the ICS process include regular compliance checks according to the principle of dual control, the segregation of duties and defined actions for monitoring the effectiveness and efficiency of operating activities, the reliability of financial reporting and the compliance with relevant legal regulations. The ICS guidelines of Kapsch TrafficCom AG follow the basic structure of the internationally recognized standards for internal control systems (COSO – Internal Control and Enterprise Risk Managing Frameworks of the Committee of Sponsoring Organizations of the Treadway Commission).

The accounting of all group transactions is handled by a variety of software solutions. In a number of countries, the accounting has been outsourced to locally-based tax accountants due to the sizes of the subsidiaries. Companies submit reporting packages to the head office on a quarterly basis containing all accounting data pertaining to the income statement, balance sheet and cash flow statement. This data is then transferred into the central consolidation system (Hyperion financial management). This financial information is verified on groupwide basis by the central Kapsch TrafficCom controlling department and subsequently forms the basis for the quarterly reports issued by the Kapsch TrafficCom Group in accordance with IFRS.

The supervisory board is kept informed of business developments by the managing board during regular meetings by way of consolidated presentations consisting of segment reporting, earnings development analyses containing comparisons of current figures with figures from the budget and the previous period as well as select financial figures, forecasts, group financial statements and developments in the number of employees and order inflow.

In keeping with the decentralized structure of the Kapsch TrafficCom Group, local management is responsible for the implementation and monitoring of the internal control system. The managing directors of the individual subsidiaries are required to evaluate and document compliance with the controls defined in the ICS guidelines. The head of finance for the Kapsch TrafficCom Group, the central controlling department and the internal audit department subsequently verify compliance with these audit procedures by local management, and the results are regularly reported to the audit committee.

2.8 Research and development

The Kapsch TrafficCom Group has a network of research and development centers in Vienna (Austria, HQ), Jönköping (Sweden), Buenos Aires (Argentina), and Carlsbad (California, U.S.A). These research and development centers are organized as competence centers. All research and development activities are coordinated from the headquarters. As of 31 March 2010, the Kapsch TrafficCom Group employed approximately 230 research and development engineers in its research and development activities, including internal R&D project management, quality assurance/testing, production engineering, documentation, international device certifications, standardization activities as well as support for all IPR/patent issues (as of 31 March 2009: approximately 210).

Research and development activities are a high priority for the Kapsch TrafficCom Group in pursuing its strategic goals. Knowledge of entirely new technologies and their possible applications based on national and international standards forms the foundation for successful business developments and enables the entry into new markets. The current focus is on countries such as the U.S.A., South Africa and the countries of South America. In order to meet the high expectations of new markets and especially to address the ever-faster time-to-market requirements, research and development activities are often accompanied by acquisitions.

The Kapsch TrafficCom Group focuses its activities primarily on new, innovative applications and applied research and development for all kinds of ITS solutions. The research and development activities are complemented in some areas by joint projects and close cooperation with universities, public and private institutes and technology and research companies. Major development efforts of the last business year consisted of the specification and development of a new, generic and scalable roadside platform that integrates all major sensor systems into a single, common software platform. The main goals of this work include eliminating overlapping development work by different R&D centers and offering our international sales force the basis for a more flexible, adaptable and customer-specific approach in system sales. The main initiatives in the component business area lay in developing new and lower-cost on-board unit generations for CEN/DSRC microwave and GPS/GNSS satellite tolling as well as new WLAN-based 5.9 GHz/WAVE technologies to support the business development approach in the U.S.A.

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

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

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

1. The registered share capital of Kapsch TrafficCom AG amounts to EUR 12.2 million and is fully paid in. It is divided into 12.2 million no-par value ordinary bearer shares.
2. There are no restrictions relating to the exercising of voting rights or the transfer of shares.
3. As of 31 March 2010, approximately 31.6 % of the shares of Kapsch TrafficCom AG were in free float. As of 31 March 2010, 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 2010, no other shareholder held more than 5 % of the voting rights in Kapsch TrafficCom AG.

4. None of the shares convey 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 managing board and the supervisory board.
7. The company has an authorized capital ("genehmigtes Kapital") of EUR 0.8 million. The subscription rights of the shareholders have been excluded with respect to this authorized capital. The managing board may, with the approval of the supervisory board, make use of the existing authorized capital within five years of the date on which the relevant authorization adopted at the general meeting of 15 May 2007 was entered into the commercial register.
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 managing board or the supervisory board or employees which become effective when a takeover bid for shares in the company is launched.

2.10 Outlook and targets

With the fiscal year 2010/11 in mind, the company takes an optimistic view on its markets in the long term even in a changed economic environment. The fiscal year 2010/11 will be shaped by the realisation of the project in South Africa as well as the participation in tenders and by project awards in France, Poland, Hungary, Slovenia and Denmark.

2.11 Material events after the balance sheet date

Acquisitions and participations

On 1 April 2010, Kapsch Telematic Services GmbH, Vienna, acquired 60 % of the shares in PayVend F&P A/S, Copenhagen, for a purchase price of EUR 0.75 million. The company was then renamed to Kapsch Telematic Services Solutions A/S.

On 8 April 2010, Kapsch TrafficCom AG indirectly subscribed, via Triple Advanced Investments 22 (Pty), for new shares in TMT Services and Supplies (Pty) Ltd., Cape Town, representing 51.43 % of the increased share capital. The subscription consideration is 75 million rand (approximately EUR 8 million). The renaming of Triple Advanced Investments 22 (Pty) into Kapsch TrafficCom Holding SA is currently in progress.

Enlargement of the managing board

Effective 1 April 2010, André Laux was appointed as the third member of the managing board.

Vienna, 14 May 2010

Mag. Georg Kapsch Chief Executive Officer	Ing. Erwin Toplak Chief Operating Officer	André Laux Executive Board member

Kapsch TrafficCom is an international supplier of superior intelligent transportation systems (ITS). 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 230 references in 38 countries in all 5 continents, and with almost 18 million on-board units (OBUs) delivered and nearly 13,000 lanes equipped, 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 25 countries.

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