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Corporate Governance Report. **Fiscal Year 2013/14.**

Corporate Governance Declaration.

Kapsch TrafficCom follows the Austrian Code of Corporate Governance. This is evaluated every year.

Corporate Governance Declaration.

In the fiscal year 2013/14 ended 31 March 2014, Kapsch TrafficCom AG complied with the L-Rules and C-Rules of the Austrian Code of Corporate Governance (the Code) in the July 2012 version, with the exception of C-Rule 53 (the company does not intend to establish independence criteria that differ from the general requirement set forth in the Code as it believes such additional criteria are not required) and C-Rule 67 (due to the intense competition in the industry in which the company is active, it will not make available to all shareholders all information it may make available to financial analysts).

Code of Corporate Governance. In June 2007, the executive board (*Vorstand*) and supervisory board (*Aufsichtsrat*) resolved to apply the rules of the Code as far as they are consistent with the specific situation of the company. The Code as amended in July 2012 is available for download under www.corporate-governance.at. Compliance with the Code is evaluated by the compliance officer together with internal audit on an annual basis.

Management and Oversight Structure.

Kapsch TrafficCom AG has a two-tier management and oversight structure in accordance with the Austrian Stock Corporation Act (*Aktiengesetz*), consisting of the executive board (*Vorstand*) and the supervisory board (*Aufsichtsrat*).

The executive board is responsible for directing the business and represents the company in dealings with third parties. The supervisory board is responsible for appointing and dismissing the members of the executive board and supervising the business conducted by the executive board.

Although the supervisory board does not actively manage the company, the executive board must obtain the consent of the supervisory board before engaging in certain transactions in accordance with the Austrian Stock Corporation Act (*Aktiengesetz*), the company's articles of association and the executive board's internal rules of procedure (*Geschäftsordnung*).

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l. to r.:
Erwin Toplak, Chief Operating Officer (former)
Georg Kapsch, Chief Executive Officer
André Laux, Executive Board Member

Our Executive Board.

Name	Area of responsibility	Year of birth	Year first appointed	Year current term expires
Georg Kapsch (CEO)	Finance & Administration, Mergers & Acquisitions, Investor Relations, Compliance, Strategy, Legal Services, International Subsidiaries & Management Systems, Human Resources, Marketing & Communications, Production & Logistics and Sales Region North America	1959	2002	2017
Erwin Toplak (COO)	Sales Region 1 ¹ , Business Development Electronic Toll Collection and Research & Development	1961	2002	2014 ²
André Laux (Executive Board member)	Sales Region 2 ¹ , Business Development Intelligent Transportation Systems and Delivery & Operations	1962	2010	2016

1 The sales regions have developed historically and are addressed in the case of Region 1 by Kapsch TrafficCom AG, Austria, and in the case of Region 2 by Kapsch TrafficCom AB, Sweden

2 Erwin Toplak left the board as of 31 March 2014

In the 2013/14 fiscal year, the executive board consisted of three members.

Georg Kapsch was appointed CEO of Kapsch TrafficCom AG in December 2002 and also holds functions in certain of its direct and indirect subsidiaries. Since October 2000, Georg Kapsch has also served as the CEO of KAPSCH-Group Beteiligungs GmbH. He has been a member of the executive board of Kapsch AG since July 1989 and was appointed as its CEO in October 2001. Georg Kapsch studied business administration at the Vienna University of Economics and Business Administration (*Wirtschaftsuniversität Wien*) and graduated in 1981.

In addition, Georg Kapsch serves as CEO of DATAX HandelsgmbH, as chairman of the supervisory board of Kapsch CarrierCom AG, as deputy chairman of the supervisory board of Kapsch Business Com AG as well as member of the supervisory board of Teufelberger Holding AG.

Georg Kapsch has been president of the Federation of Austrian Industries (*Industriellenvereinigung Österreich*) since June 2012. Previously, he was the chairman of the Technical University of Applied Sciences Vienna (*Fachhochschule Technikum Wien*) and of the Austrian Electronic Association (*Österreichischer Elektronikverband*) between 2002 and 2012. He was the vice president of the Association of the Austrian Electrical and

Electronics Industries (*Fachverband der Elektro- und Elektronikindustrie*) between 2003 and 2012. Georg Kapsch was president of the Vienna Regional Group of the Federation of Austrian Industries (*Landesgruppe Wien der Industriellenvereinigung Österreich*) between December 2008 and September 2012.

Erwin Toplak was a member of the executive board of Kapsch TrafficCom AG from June 2002 until 31 March 2014 and also held functions in certain of its direct and indirect subsidiaries. He was employed by the Kapsch Group since 1991, first as marketing and sales manager of the newly established toll collection division of Kapsch AG (1991–1994) and later as senior manager (1994–1999) as well as director (1999–2002) of the traffic control systems division of Kapsch AG. Erwin Toplak graduated from the polytechnic (*Höhere Technische Lehranstalt*) in Graz in 1984 with a degree in telecommunications and electrical engineering.

André Laux has joined the Kapsch TrafficCom Group in December 2007, has been a member of the executive board of Kapsch TrafficCom AG since 1 April 2010 and also holds functions in certain of its direct and indirect subsidiaries. He began his professional career in different sales and management positions, both internationally and domestically (1988–1997), after

Executive board remuneration 2013/14 in TEUR

	Fixed	Variable	Total
Georg Kapsch	460	59	519
Erwin Toplak	413	38	451
André Laux	364	63	427
Total	1,237	160	1,397

completing a degree in business administration in Germany and England. In 1997, he became director of the German chip maker ODS Landis & Gyr in Munich. In 2000, André Laux transferred within the group to become CEO of Skidata AG in Salzburg. In 2004, he took over as CEO of Winter AG in Munich.

Workflow. The areas of responsibility of the individual executive board members, the procedures (such as requirements and procedures to pass resolutions) as well as the transactions that require approval by the supervisory board are defined in the articles of association and the internal rules of procedure for the executive board. The executive board holds regular meetings to exchange information and pass resolutions on all issues that fall under the competence of the entire executive board.

Remuneration. In the fiscal year 2013/14, the aggregate fixed and variable remuneration for the members of the executive board, including the cross-charge from Kapsch AG for the services of Georg Kapsch, amounted to EUR 1.40 million (fiscal year 2012/13: EUR 1.71 million).

Georg Kapsch is employed by Kapsch AG. His work is part of the management and consulting services provided by Kapsch AG, which are billed to Kapsch TrafficCom AG and disclosed in the notes to the consolidated financial statements under "Related parties".

Erwin Toplak. Until the resignation from the board, the remuneration of Erwin Toplak was based on a compensation system that, in addition to the base compensation, provided for annual variable compensation of up to 28% of the base compensation. The variable compensation depended

primarily on the achievement of certain predefined financial performance indicators. Erwin Toplak had an individually defined pension scheme based on contributions for which Kapsch TrafficCom AG paid approximately TEUR 14 annually to an outside pension fund. For the termination of the executive board contract at the end of the current term of office, Erwin Toplak received a severance payment of 412 TEUR. As of 31 March 2014, Erwin Toplak held 152,728 shares, corresponding to about 1.2% of the share total of Kapsch TrafficCom AG.

André Laux. The remuneration of André Laux is determined based on a compensation system that, in addition to the base compensation, provides for annual variable compensation of up to 43% of the base compensation. The variable compensation depends primarily on the achievement of certain predefined financial performance indicators. If his executive board contract is terminated at the end of the current term of office, André Laux is required to comply with a non-competition clause for one year following termination of his executive board position (unless he terminates for cause). André Laux has an individually defined pension scheme based on contributions for which Kapsch TrafficCom AG pays approximately TEUR 10 annually to an outside pension fund.

Directors and officers liability insurance. The members of the executive board are insured against financial losses with a directors and officers liability insurance policy. In addition to the executive board, the policy also covers the members of the supervisory board as well as key managers of the Kapsch TrafficCom Group. Because a collective premium is paid, it is not possible to allocate a specific amount to individual members of the executive board.

The compensation of the executive board consists of fixed and variable components.

Our Supervisory Board.

The supervisory board is comprised of four members selected at the annual shareholders' meeting and two appointed by the works council.

Pursuant to the articles of association, the supervisory board consists of three to six members elected by the shareholders' meeting plus the representatives delegated by the works council (*Betriebsrat*) according to the Austrian Labor Constitutional Act (*Arbeitsverfassungsgesetz*). The current members are:

Franz Semmernegg has been a member of the supervisory board of Kapsch TrafficCom AG since June 2002. Since June 2005, he has been chairman of the supervisory board. Franz Semmernegg has been the CFO of KAPSCH-Group Beteiligungs GmbH since April 2005. He also serves as the CEO of Kapsch BusinessCom AG and has been a member of the executive board of Kapsch BusinessCom AG since March 2003. In addition, he has also been the CFO of Kapsch AG since October 2001. Franz Semmernegg graduated with a degree in business administration (1992) and a Ph.D. (1997) from the University of Graz (*Karl-Franzens-Universität*).

In addition, Franz Semmernegg holds functions in certain of the direct and indirect subsidiaries of Kapsch BusinessCom AG as well as Kapsch AG and he serves as a member of the advisory board of Enso GmbH and of Speech Processing Solutions GmbH.

Franz Semmernegg was a member of the executive board of Schrack BusinessCom AG from 1999 to September 2001. In 1998, he was responsible for the successful management buy-out of Schrack BusinessCom AG from Ericsson Austria AG and was previously involved in management functions at Ericsson Austria AG (1998) and Schrack Seconet AG (1997).

Kari Kapsch has been a member of the supervisory board of Kapsch TrafficCom AG since June 2002 and the deputy chairman since June 2005. He previously served as deputy chairman of the supervisory board from June 2002 to December 2002 and as chairman of the supervisory board from December 2002 to June 2005. Kari Kapsch has also been the COO of

KAPSCH-Group Beteiligungs GmbH since December 2005. In addition, he is also the COO of Kapsch AG and CEO of Kapsch CarrierCom AG. Kari Kapsch graduated with a degree (1988) and a Ph.D. (1992) in physics from the University of Vienna (*Universität Wien*). Kari Kapsch is the brother of Georg Kapsch, the CEO of Kapsch TrafficCom AG.

In addition, Kari Kapsch holds functions in certain of the direct and indirect subsidiaries of Kapsch CarrierCom AG, Kapsch BusinessCom AG as well as Kapsch AG, is a member of the executive board of Kapsch Immobilien GmbH as well as of ASIMMOG Verwaltungs- und Verwertungs GmbH, and is a member of the foundation board of ASIMMOG Privatstiftung.

Kari Kapsch is active in a number of associations. He has been a member of the executive board of the Vienna Regional Group of the Federation of Austrian Industries since 1999. Since 2012, he has been a member of the executive board of the University of Applied Sciences Technikum Wien as well as the Committee for a Safe Austria (*Kuratorium sicheres Österreich*) and a committee member of the Association of the Austrian Electrical and Electronics Industries. Since 2014, Kari Kapsch has also been a member of the scientific board of the Christian Doppler Research Association.

Sabine Kauper has been the CFO of SKW Stahl-Metallurgie Holding AG, Munich, since 1 January 2014, and also holds functions in certain of its direct and indirect subsidiaries. She has already been on the supervisory board of the company since 2009. Since January 2014, she is appointed managing director for restructuring of an international mechanical engineering company. From the year 2000 to December 2011, she worked for Phoenix Solar AG, Germany, and was a member of the executive board of Phoenix Solar AG as of 2007. As CFO, she was responsible for Finance, Personnel and Organizational Development, International Processes and IT, Internal Audit and Legal. Thereafter, she completed a training

Name	Position	Year of birth	Year first appointed	Year current term expires
Franz Semmernegg	Chairman	1968	2002	2016
Kari Kapsch	Deputy chairman	1964	2002	2016
Sabine Kauper	Member ¹	1968	2011	2014
Harald Sommerer	Member ¹	1967	2013	2016
Christian Windisch	Member ²	1963	2002	—
Claudia Rudolf-Misch	Member ²	1967	2010	—

¹ Member meeting the criteria of C-Rule 54 of the Code

² Delegated by the works council; without information on expiration since the works council may recall a member it has delegated at any time

program to become a qualified supervisory board member with certification by Deutsche Börse AG. She obtained a master's degree in business administration with electives in tax and auditing. After completion of her degree course, she worked for an auditing company for four years.

Harald Sommerer has been acting on his own initiative to establish an investment portfolio since December 2013. Before that, he was CEO and Chairman of the Management Board of Zumtobel AG between May 2010 and September 2013. He was born in Vienna in 1967, and received a Doctorate in Social and Economic Sciences from the University of Economics and Corporate Management in Vienna as well as a Master of Management from the J. L. Kellogg Graduate School of Management at Northwestern University. From 1997 to 2010 Harald Sommerer was a member of the Management Board of AT&S Austria Technologie & Systemtechnik AG, where he served as CFO from 1998 to 2005 and CEO from 2005 to January 2010.

Christian Windisch has been a member of the supervisory board delegated by the works council since November 2002. He joined Kapsch Group in September 1984 and is currently employed in quality management. Christian Windisch graduated from the polytechnic (*Höhere Technische Lehranstalt*) in Vienna with a degree in telecommunications and electrical engineering.

Claudia Rudolf-Misch has been a member of the supervisory board of Kapsch TrafficCom AG delegated by the works council since November 2010. She joined Kapsch TrafficCom in June 2004 and is responsible for the integrated management systems HSSEQ (Health-Safety-Security-Environment-Quality). She is a certified manager and auditor according to ISO 9001, ISO 14001 and OHSAS 18001. Claudia Rudolf-Misch received an MBA in 2001.

The compensation of the supervisory board members is decided at the annual shareholders' meeting.

Independence of the supervisory board. All members elected by the shareholders' meeting are considered independent as defined by C-Rule 53 of the Code and the guidelines for independence according to appendix 1 of the Code. Sabine Kauper and Harald Sommerer are also independent of the principal shareholder of KAPSCH-Group Beteiligungs GmbH as defined by C-Rule 54 of the Code.

Remuneration. The members of the supervisory board and its committees receive reimbursement of actual expenses, including reasonable travel expenses. In addition, the shareholders' meeting may provide for a remuneration of supervisory board members. On 24 August 2012, the annual shareholders' meeting resolved to grant Sabine Kauper a remuneration of TEUR 4 per meeting and on 12 September 2013, the annual shareholders' meeting resolved to grant Harald Sommerer a remuneration of TEUR 4 per meeting. Remuneration of TEUR 20 was paid for the past fiscal year. No other member of the supervisory board receives specific remuneration for such office.

Kapsch AG renders additional, remunerated consulting services to Kapsch TrafficCom AG, which are performed in part by Franz Semmernegg and/or Kari Kapsch.

Directors and officers liability insurance. The members of the supervisory board are insured against financial losses with a directors and officers liability insurance policy. In addition to the supervisory board, the policy covers the members of the executive board as well as key managers of the Kapsch TrafficCom Group. Because a collective premium is paid, it is not possible to allocate a specific amount to individual members of the supervisory board.

Committees of the Supervisory Board.

The supervisory board has established an audit committee (*Prüfungsausschuss*) and a committee for

executive board matters (*Ausschuss für Vorstandsangelegenheiten*).

The committee for executive board matters is responsible for the relationship between the company and the members of the executive board (including remuneration issues), except for the appointment or dismissal of members of the executive board. It consists of two members of the supervisory board elected by the shareholders' meeting, including the chairman of the supervisory board. The current members of the committee for executive board matters are Franz Semmernegg (chairman) and Kari Kapsch.

The audit committee is responsible for the duties set out in section 92 para. 4a Stock Corporation Act (*Aktiengesetz*). These responsibilities include the review and preparation of the approval of the financial statements and consolidated financial statements, the audit of the corporate governance report, the review of the audit process and the auditor's independence, the preparation of a proposal for the distribution of profit and the preparation of a report to the annual shareholders' meeting. Furthermore, the audit committee prepares the proposal of the supervisory board for the selection of an auditor and reviews the accounting process and the effectiveness of the internal control and risk management systems.

One member of the audit committee must be a financial expert (*Finanzexperte*). Persons who were previously members of the executive board, managing directors or auditors of the company or persons who certified the company's annual or consolidated financial statements within the last three years do not qualify as financial experts and may not serve as chairman of the audit committee. The current members of the audit committee are Franz Semmernegg (chairman/financial expert), Kari Kapsch and Christian Windisch.

In addition to the members of the audit committee, the audit committee meetings must be attended by the executive board and a representative of the auditor, if requested by the chairman of the audit committee or required by law.

Promotion of Women to the Executive and Supervisory Boards and Senior Positions.

The filling of open positions takes place with no consideration of gender. Women are represented in leadership positions and on the supervisory board.

Kapsch TrafficCom AG has no specific plan for promoting women to the executive board, the supervisory board or senior positions in the company and its subsidiaries. Candidates are always selected with a view to identifying the best person for the job, regardless of gender. Women are employed in various senior positions throughout Kapsch TrafficCom AG (such as head of finance & administration) and its subsidiaries. Currently two members of the supervisory board are female, Claudia Rudolf-Misch (delegated by the works council) and Sabine Kauper (elected by the shareholders' meeting).

Women are supported through a flexible working hours scheme that is designed to help combine professional and private life. In addition, Kapsch TrafficCom cooperates with schools, universities and colleges in order to increase the proportion of women employed, among other goals. The company also promotes women in the workforce through participation in specific programs such as "FIT *Frauen in die Technik*" or "FemTech". In addition, Kapsch TrafficCom has been established a committee for non-discrimination.

Report of the Supervisory Board.

Dear Shareholders,

Kapsch TrafficCom AG's supervisory board held a total of four meetings during the fiscal year from 1 April 2013 to 31 March 2014. No member of the supervisory board attended less than half of all meetings.

The supervisory board was informed by the executive board on an ongoing basis in writing and verbally as well as in the meetings held jointly with the executive board on the position, development and strategy of the company. It also monitored and advised the executive board during the period under review.

As the chairman of the supervisory board, I was in regular contact with the chairman of the executive board in order to discuss business development, strategy and risk management.

In the past fiscal year, there were no transactions requiring approval in accordance with §95 para. 5 no. 12 of the Stock Corporation Act (*Aktiengesetz*) with members of the supervisory board or with companies in which a member of the supervisory board has a significant financial interest, with the exception of the transactions listed in the notes to the consolidated financial statements under "Related parties".

PwC Wirtschaftsprüfung GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, as independent auditor appointed by the shareholders' meeting, has audited and issued an unqualified audit opinion on the annual separate financial statements and the annual consolidated financial statements of Kapsch TrafficCom AG as of 31 March 2014 as well as the management report on the company and the group dated 27 May 2014, each as prepared by the executive board.

The annual separate financial statements and the annual consolidated financial statements, the executive board's proposal for the distribution of profit, the auditors' reports (including the management letter) as well as the corporate governance report were discussed in detail with the executive board and the independent auditors at a meeting of the audit committee and subsequently presented to the supervisory board.

The supervisory board reviewed such documents in accordance with section 96 of the Austrian Stock Corporation Act (*Aktiengesetz*) and approved the annual separate financial statements in line with

section 96 para. 4 of the Austrian Stock Corporation Act (*Aktiengesetz*). The supervisory board concurs with the executive board's proposal for the distribution of profits. Accordingly, the executive board will propose the shareholder's meeting on 1 September 2014 to approve not to pay a dividend for fiscal year 2013/14.

The audit committee held a total of four meetings during the fiscal year from 1 April 2013 to 31 March 2014 and met the responsibilities as set out in section 92 para. 4a of the Austrian Stock Corporation Act (*Aktiengesetz*). In addition to the review and preparation of the approval of the financial statements and consolidated financial statements as well as the audit of the corporate governance report, these responsibilities included the review of the audit process and the auditor's independence, the preparation of a proposal for the distribution of profit, of a report to the annual shareholders' meeting and of the proposal for the selection of an auditor, as well as the review of the accounting process, of the effectiveness of the internal control and of the risk management systems. No member of the audit committee attended less than half of all meetings.

The committee for executive board matters held four meetings in the past fiscal year and addressed inter alia the extension of the appointment of Georg Kapsch as executive board member until 31 March 2017.

The supervisory board extends its thanks to the members of the executive board and all employees of Kapsch TrafficCom AG for their work in fiscal year 2013/14. In the name of the supervisory board, I would also like to extend particular thanks to Erwin Toplak, who left the executive board at the end of March, for his dedication and service to Kapsch TrafficCom. Over the past 23 years, he has made fundamental contributions to the development of the company. We are pleased that he will remain associated with the Kapsch TrafficCom Group as an advisor.

Vienna, 4 June 2014



Franz Semmernegg
Chairman of the supervisory board



Franz Semmernegg, Chairman of the supervisory board

Kapsch TrafficCom is a provider of intelligent transportation systems (ITS) in the application fields of road user charging, urban access and parking, road safety enforcement, commercial vehicle operations, electronic vehicle registration, traffic management and V2X cooperative systems. Kapsch TrafficCom covers with end-to-end solutions the entire value creation chain of its customers as a one-stop shop, from components and design to the installation and operation of systems. The solutions of Kapsch TrafficCom help to finance infrastructure, to increase traffic safety, to optimize traffic flow, and to reduce environmental pollution from traffic. The core business is to design, build and operate electronic toll collection systems for multi-lane free flow traffic. References in 44 countries on all continents make Kapsch TrafficCom a recognized supplier of electronic toll collection worldwide. As part of the Kapsch Group, a family-owned Austrian technology group founded in 1892, Kapsch TrafficCom, headquartered in Vienna, Austria, has subsidiaries and representative offices in 33 countries, has been listed on the Vienna Stock Exchange (KTCG) since 2007, and generated with more than 3,300 employees revenues of EUR 487.0 million in fiscal year 2013/14.

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