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Corporate Governance Report.

Fiscal Year 2010/11.

Corporate Governance Report.

In June 2007, the managing board (*Vorstand*) and supervisory board (*Aufsichtsrat*) resolved to apply the rules of the Austrian Code of Corporate Governance (the Code) as far as they are consistent with the specific situation of the company. The Code as amended in January 2010 is available for download under <http://www.corporate-governance.at> on the website of the Austrian Working Group for Corporate Governance. The evaluation of compliance with the Code is made by the compliance officer together with internal audit on an annual basis.

Corporate Governance Declaration.

In the fiscal year 2010/11 ended 31 March 2011, Kapsch TrafficCom AG complied with the L-Rules and C-Rules of the Code in the January 2010 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).

Managing Board.

Kapsch TrafficCom AG has a two-tier management and oversight structure in accordance with the Austrian Stock Corporation Act (*Aktiengesetz*), consisting of the managing board (*Vorstand*) and the supervisory board (*Aufsichtsrat*). The managing 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 managing board and supervising the business conducted by the managing board. Although the supervisory board does not actively manage the company, the managing 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 managing board's internal rules of procedure (*Geschäftsordnung*).



Erwin Toplak, Chief Operating Officer

Georg Kapsch, Chief Executive Officer

André Laux, Executive Board Member

Pursuant to our articles of association, the managing board consists of one to four members appointed by the supervisory board for a term of up to five years. The managing board currently consists of three members.

| Name | Area of responsibility | Year of birth | Year first appointed | Year current term expires |
|-------------------------------------|--|---------------|----------------------|---------------------------|
| Georg Kapsch (CEO) | Finance and Administration, Mergers & Acquisitions, Investor Relations, Legal, International Subsidiaries, Human Resources, Marketing & Communications, International Relations & Affairs, Innovation Management, Production, Telematic Services and North American Market | 1959 | 2002 | 2014 |
| Erwin Toplak (COO) | Sales Region 1, Business Development, System Engineering, Research & Development and Technical Operations | 1961 | 2002 | 2014 |
| André Laux (Executive Board Member) | Sales Region 2, Business Development, Product and Project Management | 1962 | 2010 | 2013 |

Georg Kapsch was appointed CEO of Kapsch TrafficCom AG in December 2002 and 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 managing board of Kapsch AG since July 1989 and was appointed as its CEO in October 2001. Georg Kapsch, who studied business administration at Vienna University of Economics and Business Administration (*Wirtschaftsuniversität Wien*) and graduated in 1981, has been the chairman of the Technikum Wien Academy (*Fachhochschule Technikum Wien*) since September 2002 and of the Austrian Electronic Association (*Österreichischer Elektronikverband*) since December 2002. He has been the vice president of the Association of the Austrian Electrical and Electronics Industries (*Fachverband der Elektro- und Elektronikindustrie*) since January 2003. In December 2008, Georg Kapsch was appointed president of the Federation of Austrian Industries Vienna (*Industriellenvereinigung Wien*).

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

Erwin Toplak has been a member of the managing board of Kapsch TrafficCom AG since June 2002 and holds functions in certain of its direct and indirect subsidiaries. He has been employed by the Kapsch Group since 1991, first as marketing and sales manager of the toll collection start-up 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 engineering. He is vice president of the Austrian Electrotechnical Association (*Österreichischer Verband für Elektrotechnik*).

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

Work Flow. The areas of responsibility of the individual managing 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 managing board. The managing board holds regular meetings to exchange information and pass resolutions on all issues that fall under the competence of the entire managing board.

Remuneration. In the fiscal year 2010/11, the aggregate fixed and variable remuneration for the members of the managing board, including the cross-charge from Kapsch AG for the services of Georg Kapsch, amounted to EUR 1.57 million (fiscal year 2009/10: EUR 1.46 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”.

The remuneration of Erwin Toplak is based on a compensation system that, in addition to the base compensation, provides for annual variable compensation of up to 28 % of the base compensation. The variable compensation depends primarily on the achievement of certain predefined financial performance indicators. If his managing board contract is terminated at the end of the current term of office, Erwin Toplak is entitled to a severance payment that equals eleven-times his monthly salary. Mr. Toplak is required to comply with a non-competition clause for one year following the termination of his managing board position (unless he is terminated for cause). In addition, he has an individual defined pension scheme for which Kapsch TrafficCom AG pays approximately TEUR 14 annually to an outside pension fund. Erwin Toplak holds 154,528 shares of Kapsch TrafficCom AG.

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 34 % of the base compensation. The variable compensation depends primarily on the achievement of certain predefined financial performance indicators. If his managing 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 managing board position (unless he is terminated for cause). André Laux has an individual defined pension scheme for which Kapsch TrafficCom AG pays approximately TEUR 5 annually to an outside pension fund.

| Managing board remuneration 2010/11 in TEUR | Fixed | Variable | Total |
|---|--------------|------------|--------------|
| Georg Kapsch | 416 | 405 | 821 |
| Erwin Toplak | 360 | 57 | 417 |
| André Laux | 278 | 56 | 334 |
| Total | 1,054 | 518 | 1,573 |

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

Supervisory Board.

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:

| Name | Position | Year of birth | Year first appointed | Year current term expires |
|--------------------------|-----------------------|---------------|----------------------|---------------------------|
| Franz Semmernegg | Chairman | 1968 | 2002 | 2013 |
| Kari Kapsch | Deputy chairman | 1964 | 2002 | 2013 |
| William Morton Llewellyn | Member ¹ | 1965 | 2008 | 2011 |
| Christian Windisch | Member ² | 1963 | – | – |
| Claudia Rudolf-Misch | Member ^{2,3} | 1967 | – | – |
| Werner Dreschl | Member ^{2,4} | – | – | – |

¹ member meeting the criteria of rule C-54 of the Code

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

³ since 20 November 2010

⁴ until 19 November 2010

Franz Semmernegg has been a member of the supervisory board of Kapsch TrafficCom AG since June 2002. Since September 2005, he has been the 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 managing board of Kapsch BusinessCom AG since March 2003. He has also been the CFO of Kapsch AG since October 2001 and was a member of the managing board of Schrack BusinessCom AG from 1999 to September 2001. In 1998, Franz Semmernegg 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). He 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 serves as a member of the managing board of CALPANA business consulting GmbH, Kapsch Smart Energy GmbH, Kapsch Cashpooling and Hedging GmbH, Kapsch IT Services for finance and industries GmbH and Kapsch S.R.L., as deputy chairman of Austria Telecommunication International AG and as a member of the advisory board of Kapsch Sp. z.o.o., Kapsch Kft., Kapsch s.r.o. (Prague), Kapsch s.r.o. (Bratislava) and Enso GmbH.

Kari Kapsch has been a member of the supervisory board of Kapsch TrafficCom AG since June 2002. He 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 September 2005. Kari Kapsch has also been the COO of KAPSCH-Group Beteiligungs GmbH since December 2005. He is also the COO of Kapsch AG and CEO of Kapsch CarrierCom AG. He is involved in several industry-related associations and was the chairman of the management board of Young Industry Vienna (*Junge Industrie Wien*) and vice-chairman of Young Industry Austria (*Junge Industrie Österreich*) from 1996 to 2002. Kari Kapsch graduated with a degree in physics (1988) and a Ph.D. (1992) from the University of Vienna (*Universität Wien*).

In addition, Kari Kapsch is a member of the managing board of Kapsch Immobilien GmbH, chairman of the board of Kapsch BusinessCom AG and of Austria Telecommunication International AG as well as a member of the advisory board of Kapsch Sp. z.o.o., Kapsch Kft., Kapsch s.r.o. (Prague) and Kapsch s.r.o. (Bratislava). Kari Kapsch is the brother of Georg Kapsch, the CEO of Kapsch TrafficCom AG.

William Morton Llewellyn was elected to the company's supervisory board by the annual shareholders' meeting on 10 July 2008. He has worked in the banking industry since 1994, namely in the ING, WestLB and HSBC Groups, where he was involved in corporate, leveraged and project finance as well as debt capital markets. He is currently head of debt capital markets at Evolution Securities Ltd., UK. He qualified as a chartered accountant in 1991 with Robson Rhodes, where he worked in auditing, accounting, and insolvency services. He graduated from London University in 1987 with a BA in Law and Economics.

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 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.

All members elected by the shareholders' meeting are considered independent as defined by rule C-53 of the Code and the guidelines for independence according to appendix 1 of the Code. William Morton Llewellyn is also independent of the principal shareholder of KAPSCH-Group Beteiligungs GmbH as defined by rule C-54 of the Code.

The supervisory board held four meetings in the past fiscal year. No member of the supervisory board attended fewer than half the meetings. 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".

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 the remuneration of supervisory board members. On 24 June 2009, the annual shareholders' meeting resolved to grant William Morton Llewellyn remuneration of TEUR 3 per meeting. Remuneration of TEUR 21 was paid for the past fiscal year. No other member of the supervisory board receives specific remuneration for such office.

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

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 members of the managing board as well as key managers of the Kapsch TrafficCom Group are also insured. A collective premium is paid, and it is therefore 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 managing board matters (*Ausschuss für Vorstandsangelegenheiten*).

The committee for managing board matters is responsible for the relationship between the company and the members of the managing board (including remuneration issues), except for the appointment or dismissal of members of the managing 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 managing board matters are Franz Semmernegg (chairman) and Kari Kapsch. The committee for managing board matters held one meeting in the past fiscal year.

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, 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 managing 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 (since November 2010, formerly Werner Dreschl). The audit committee held a total of four meetings in the past fiscal year.

In addition to the members of the audit committee, the managing board and a representative of the auditor, if requested by the chairman of the audit committee or required by law, attend the audit committee meetings.

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

Kapsch TrafficCom AG has no specific plan for promoting women to the managing 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 and administration) and its subsidiaries. In November 2010 the works council delegated a female representative to the supervisory board.

Women are supported through a flexible working hour scheme that is designed to combine professional and private life. In addition, Kapsch TrafficCom cooperates with schools, universities and colleges in order to increase the female quota. It also engages in gender mainstreaming through participation in specific programs such as "FIT *Frauen in die Technik*" or "FemTech". A specific trainee program "Women into sales" has been established. The Kapsch TrafficCom Group has established a committee for gender mainstreaming.

Report of the Supervisory Board.



Franz Semmernegg, Chairman of the Supervisory Board

The Kapsch TrafficCom AG supervisory board held a total of four meetings during the fiscal year from 1 April 2010 to 31 March 2011. No member of the supervisory board attended fewer than half of the meetings. The supervisory board was informed by the managing board on an ongoing basis in writing and verbally as well as in the meetings held jointly with the managing board on the position, development and strategy of the company, and monitored and advised the managing board during the period under review. The chairman of the supervisory board was in regular contact with the chairman of the managing board in order to discuss business development, strategy and risk management within the company.

The annual financial statements of Kapsch TrafficCom AG and the consolidated financial statements, each as of 31 March 2011, as well as the management report on the Company and the Group dated 13 May 2011, which were prepared by the managing board, were audited by the appointed independent auditor PwC INTER-TREUHAND GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna and awarded an unqualified audit opinion. The annual and consolidated financial statements, the managing board's proposal for the distribution of profit and the auditors' reports (including the management letter) as well as the corporate governance report were discussed in detail with the managing board and the independent auditors at a meeting of the audit committee and subsequently presented to the supervisory board. The supervisory board reviewed these documents in accordance with Section 96 of the Austrian Stock Corporation Act (*Aktiengesetz*) and approved the unconsolidated financial statements in line with Section 96 Para. 4 of the Austrian Stock Corporation Act (*Aktiengesetz*). The supervisory board concurs with the managing board's proposal for the distribution of profit.

The audit committee held a total of four meetings during the fiscal year from 1 April 2010 to 31 March 2011 and met the responsibilities as set out in section 92 para 4a of the Stock Corporation Act (*Aktiengesetz*).

The committee for managing board matters held one meeting in the past fiscal year and addressed extending the managing board mandates with Georg Kapsch and Erwin Toplak until 31 March 2014 and concluding a new management contract with Erwin Toplak.

The supervisory board extends its thanks to the members of the managing board and all employees of Kapsch TrafficCom AG for their work in the fiscal year 2010/11.

Vienna, 8 June 2011

Franz Semmernegg
Chairman of the Supervisory Board

Kapsch TrafficCom is an international supplier of superior Intelligent Transportation Systems (ITS). Its principle business is the development and supply of electronic toll collection systems, in particular for the multi-lane free-flow of the traffic, and the technical and commercial operation of such systems. Kapsch TrafficCom also supplies traffic management systems, urban traffic solutions and selected ITS and telematic applications. With 260 references in 41 countries on all 5 continents, and with almost 44 million on-board units delivered and more than 18,000 lanes equipped, Kapsch TrafficCom has positioned itself among the internationally recognized suppliers of electronic toll collection systems worldwide. Kapsch TrafficCom is headquartered in Vienna, Austria, and has subsidiaries and representative offices in 25 countries.

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