

## Schaltbau Holding AG's Consolidated Management Report and Management Report for 2001

The Schaltbau Group has set a good course for the future. Far-reaching measures have been implemented successfully and new challenges have been taken on. The Executive Board is satisfied with the stable business track pursued in 2001 despite the economic losses suffered in the second half-year. This development mainly concerned the fourth quarter. When taking a look at the annual profit/loss in 2001, one should consider the fact that special circumstances such as the sale of parts of the company and tax refunds had a very favourable effect on the previous year. The Schaltbau Group recorded an operating result (EBIT) of € 10.4 million with a turnover that decreased by 4 % in 2001. New orders showed an increase. The group is therefore on the way to becoming a sound, value-oriented and result-oriented company that is well established in its markets and looks optimistically towards the future.

However, the difficult economic environment towards the end of the year prevented the Schaltbau Group's positive track record in the year under review from being reflected in all of the figures. This particularly affected the bus segment. The Bode Group suffered a setback in door systems. There were less orders from skeleton agreements than expected, resulting in a drop in sales.

The "Information Systems" segment experienced a decrease in new orders and a weak turnover at the beginning of the year. Deficits were analysed and short-term measures were introduced. Further expansion of its own field service, restructuring of sales and revision of the product programme were given top priority. There was also a change in the InfoSystems' management in April. As a result of these activities, the "Information Systems" segment was able to win back former customers and record a significant increase in new orders at the end of the year.

All of Schaltbau Holding AG's segments contributed significantly to the excellent new orders achieved throughout the entire group.

No divestitures of companies or parts thereof took place in fiscal year 2001, and the group's structure remained unchanged.

Schaltbau Holding AG continued to focus consistently on advancing the strategic and financial objectives of its holdings and providing central services for the group wherever this was expedient.

#### Economic environment

Thanks to a stable economic trend and demand, the first half-year of 2001 developed favourably. The railway sector received strong impetus for growth from the business-friendly environment marking the international transport engineering industry at that time. Demand from the bus industry was still high, to the effect that it was able to stimulate business in the road sector.

However, the continuing reluctance of Deutsche Bahn AG to effect new investments slowed down development in the national railway sector. Although there were enough funds available for investments in infrastructure, railway vehicles and network development as a result of the sale of the UMTS licences, corresponding orders were only placed after mid- 2001. It was not until the end of the year, that some movement occurred in the backlog in investment projects. It came just in time: The first signs of an economic downward trend coming from the USA became recognisable in the summer. These signs were intensified by the events of 11 September and resulted in a decline in orders from industrial customers, who also became very reluctant to take investment decisions. The Schaltbau group sensed this trend in

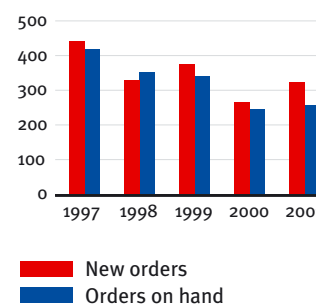
the bus doors and industrial components sectors more than anywhere else.

#### Order situation

The group's inflow of orders totalled € 328.2 million in the financial year under review. This represents a 29 % increase compared to the inflow of orders in 2000 (€ 255.1 million). All of the group's companies contributed to this result. The largest segment, "Mobile Transport Engineering", contributed € 259.1 million compared to € 206.4 million in the previous year. This increase was mainly a result of the large-scale order for Desiro placed by Siemens for Great Britain. "Stationary Transport Engineering" also experienced an increase. With € 52.4 million, it exceeded the previous year's value (€ 36.6 million) by 43 %. An order for seamounts from Indonesia made a significant contribution to this result. The "Information Systems" segment reported a 36 % increase in orders to € 16.1 million.

On 31 December 2001, orders on hand totalled € 278.3 million throughout the group, which exceeded the previous year's level of € 242.4 million by 15 %. The "Mobile Transport Engineering" and "Stationary Transport Engineering" segments showed an increase of 15 % and 23 % respectively and reported a 13 % decrease in orders on hand. However, this figure should be almost compensated for by the end of the year 2002.

Order situation in € million



### Turnover

The consolidated turnover reached € 290.4 million in the year under review. This was a 4 % decrease compared to the previous year, in which a turnover of € 302.2 million was generated. Therefore, expectations were almost fulfilled despite the difficult fourth quarter.

The 37 % share of turnover generated in foreign countries was slightly lower than in the previous year. This resulted mainly from Kiepe's completion of projects in Greece and Austria in 2000. There were no comparable large-scale projects in foreign countries in 2001.

Turnover in the "Mobile Transport Engineering" segment decreased slightly by 3 % to € 227.7 million. This segment had generated € 235.0 million in the previous year. The Bode Group suffered a drop in sales as a result of the difficult situation in the bus manufacturing sector. Project settlements also forced the Kiepe Group to shift turnover to the year 2002.

In the "Stationary Transport Engineering" segment, turnover reached € 44.8 million and increased by 9 % compared to the previous year's result of € 41.0 million. All segments contributed equally to this favourable development.

The "Information Systems" segment recorded a 33 % decrease in turnover to € 17.3 million (previous year: € 25.8 million). This was caused by a decrease in the inflow of orders due to a lack of market penetration in the year 2000 and at the beginning of the year under review.

### Results

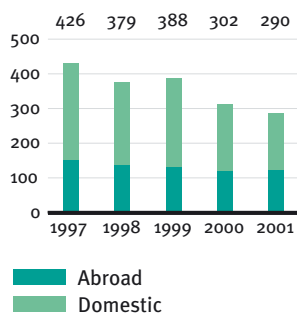
The operating result (EBIT) for the entire group totalled € 10.4 million in the financial year under review, which was 8 % below the previous year's result of € 11.3 million. However, the year 2000's operating result was influenced favourably by special circumstances including a retransfer of guaranty reserves and personnel reserves.

The annual profit dropped to € 2.7 million after € 14.4 million in fiscal year 2000. However, significant special circumstances in the area of extraordinary results had one-time, highly favourable effect on the annual result. Essentially, they consisted of gains on disposal and tax refunds resulting from the Federal Fiscal Court's decision of 20 June 2000. The result for fiscal year 2001 was also marked by some precautionary measures like e.g. funds to an amount of € 2.2 million that were associated with the closure of the Eningen location and the transfer of two business segments from Schenefeld to Wuppertal.

In the "Mobile Transport Engineering" segment's annual profit totalled € 13.9 million compared to € 22.2 million in the previous year. This was a decrease of 37 %. However, the above-mentioned tax refunds that benefited the Kiepe Group in 2000 should be borne in mind.

The "Stationary Transport Engineering" segment's annual profit decreased slightly to € 1.2 million in the year under review compared to € 1.6 million in 2000. This was primarily the result of expenses in connection with the insolvency of an associated company and the individual value adjustments of accounts receivable.

Turnover domestic/abroad  
in € million



The “Information Systems” segment suffered a net loss € 4.2 million in 2001, after having achieved a surplus of € 2.2 million in the previous year as a result of extraordinary revenue from the sale of the “Stationary Acoustics” product sector among other factors.

As already mentioned, the “Information Systems” segment had to overcome difficulties in the first half-year. The situation was further aggravated by investments in a new product generation and rationalisation. Measures were also taken to restructure sales. The Schaltbau Group’s Executive Board initiated these efforts in keeping with its view that the “Information Systems” segment forms a promising element with a high potential for success in the group’s strategy. Towards the end of the year 2001, the Executive Board’s decision was confirmed by the fact that the company was able to win back two important customers, Siemens Transportation Systems and Kölner Verkehrsbetriebe (KVB).

#### Cash Flow Statement

Cash flow from current business activities increased to € 17.3 million compared to € 6.4 million in the previous year. The higher cash flow mainly resulted from higher prepayments for large-scale projects and the coming due of trade tax refunds from the previous year. On the balance sheet date, the value of liquid funds (cash on hand, deposits at the federal reserve bank, deposits at banks and cheques) totalled € 26.7 million, 9 % less than in 2000.

In 2002, the company was able to pay off € 21.9 million of the group’s loan of € 32.2 million used to maintain liquidity and implement restructuring measures that was due 31 December 2001.

They were able to obtain an extension to 30 June 2002 for the remaining amount of € 11.3. It is planned to convert this amount into a long-term loan within the framework of the inter-group sale of shares by 30 June 2002. Initial steps have already been taken.

The above-mentioned repayment of € 21.9 million was made possible by the settlement of existing balances from the Wenzel/Peicom and Fabeg asset deals and the launching of a loan by shareholder AdCapital. However, the Group’s

#### Cash-Flow Statement

Schaltbau Group as at 31 December 2001	31/12/2001	31/12/2000
	€ k	€ k
Consolidated annual result	2,743	14,447
Depreciation of fixed assets	13,240	13,654
Change in provisions for pension	685	-285
Other income / charges not affecting payments	-781	-7,813
Change in short-term provisions	-6,196	-14,402
Result from the disposal of assets	26	-1,397
Change in inventories	8,415	-11,416
Change in other assets	1,221	3,895
Change in other liabilities	-2,101	9,744
<b>Cash flow from current business activities</b>	<b>17,252</b>	<b>6,427</b>
Investments in tangible assets and financial assets	-7,820	-9,388
Revenues from the disposal of tangible assets	251	4,776
Investments in financial assets	-20	-46
<b>Cash-flow from investment activities</b>	<b>-7,589</b>	<b>-4,658</b>
Dividend payment	0	0
Dividend payment to minority shareholders’	-1,049	-917
Change in bank loans and overdrafts	-7,343	21,273
Change in due to undertakings in which the company has a participating interest	-405	-6,490
Bill-of-exchange financing	-110	112
<b>Cash-flow from financing activities</b>	<b>-8,907</b>	<b>13,978</b>
Change in liquid funds from exchange rate fluctuations	123	80
<b>Change in liquid funds and securities</b>	<b>879</b>	<b>15,827</b>



debt situation did not change or improve significantly. The Executive Board expects further prolongation of short-term lending due to the positive development of the group's operative companies. At the same time, measures for the reduction of the liabilities take top priority.

Schaltbau Holding AG's financing to an amount of approx. € 29.5 million is secured by credit agreements totalling € 25.3 million with a term of maturity until 31 December 2004. € 4.2 million are financed on a current account basis. Negotiations are underway for longer-term financing. The company's liquidity is secured by the profit and loss transfer agreement with Schaltbau GmbH and the company's favourable liquidity position.

Reserves from previous years became cash effective in 2001. Accordingly, burdens from previous years had a decisive detrimental influence on cash flow in the year under review. The use of reserves effected in 1999 for the replacement of the energy supply block amounting to € 3.2 million particularly had noticeable effects. The transfer of reserves to an amount of € 0.8 million effected in 2000 in connection with the sale of PFA Partner für Fahrzeug-Ausstattung GmbH, Weiden for back-to-back guaranties also had an effect. The cash situation was further impaired by the

current inventory build-up (before receiving payments on account).

#### Balance Sheet

The Group's balance sheet sum decreased by 5 % to € 268.3 million with reference to the previous year. The 4 % reduction of fixed assets to € 114.4 million was mainly based on goodwill write-downs. The gross inventory increased to a total of € 98.7 million as per the balance sheet date. This constituted a 4 % increase compared to the year 2000 and was the result of a significantly higher work in progress inventory due to project shifts at Kiepe's. The sum of payments received on account reported both on the asset and the liabilities sides totalled € 62.6 million, which was 19 % higher than the previous year's total of € 52.4 million. This figure reflects the normal financing of large-scale projects that the company is working on currently.

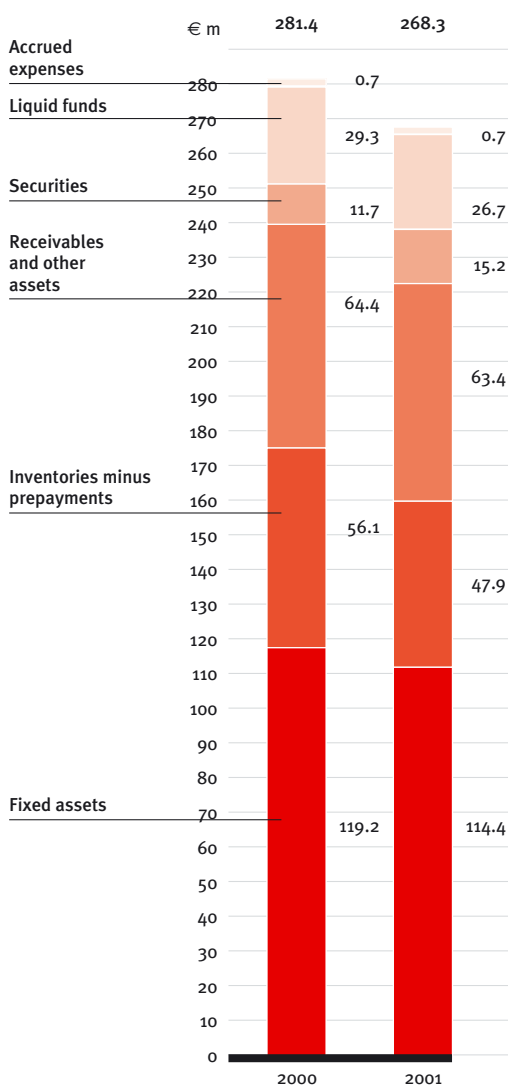
Equity capital increased by 12 % to € 19.8 million (previous year: € 17.7 million). Accordingly, the equity ratio increased to 7 % (6 % in the previous year). The 8 % reduction in provisions for liabilities and charges to € 61.4 million (€ 66.9 million in the previous year) was mainly the result of the management of burdens from previous years.

At the same time, borrowing from banks could be reduced from € 146.7 to 139.4 million.

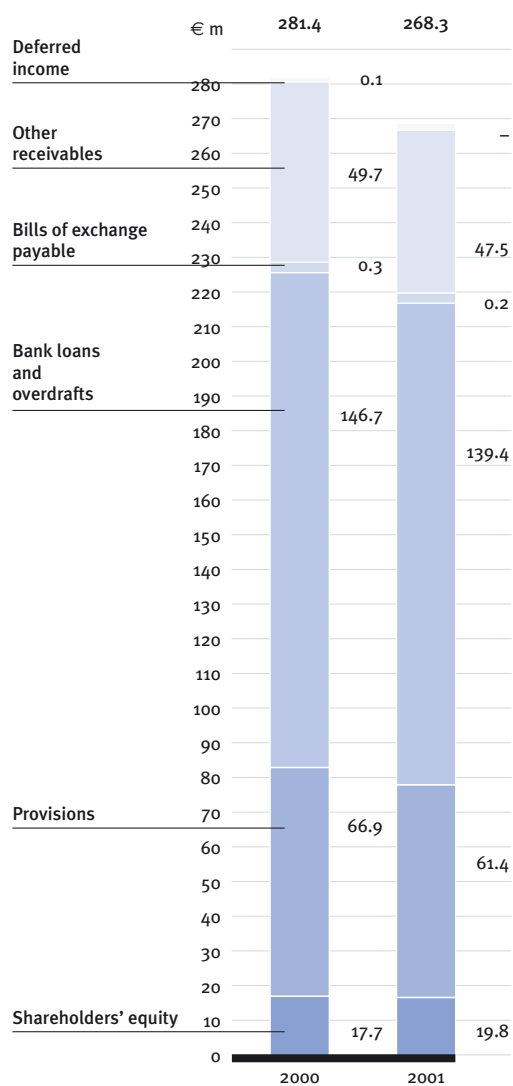
Schaltbau Holding AG's balance sheet total decreased by 22 % to € 62.7 million, a circumstance that was mainly due to the unscheduled depreciation on Schaltbau Bahnverkehrstechnik Beteiligungs GmbH's holding valuation.

Financial assets were therefore reduced by 47 % to € 21.7 million. Further management of the burden from previous years (PFA among others) resulted in a 25 % decline in reserves to € 12.9 million. Liabilities increased slightly compared to the previous year (€ 28.1 million), totalling € 31.3 million as per the balance sheet date.

## Assets



## Liabilities



**Sourcing**

In 2001, cost of materials totalled € 149.1 million, 4 % above the previous year's value of € 142.8 million. This corresponded to 50 % (previous year: 49 %) of the gross result of € 296.4 million, which exceeded the previous year by € 3.2 million. The cost of materials ratio adjusted by the increase in inventories, was thus on the same level as in the previous year.

All in all, cost for input materials remained stable. Increases in individual raw material markets of up to 5 %, for example for aluminium profiles and cast parts, were offset by price decreases for electrical and electronic components. This result was achieved by the development of new suppliers, intensive price negotiations and by the Lead Buyer concept introduced in 2000. According to this concept, the purchasing department of one company is responsible for the entire group's procurement of selected product groups, like for example electronic components or plastics. This bundling significantly improves the negotiating position.

There were supply shortages in electronic components and print cards. In individual cases, this resulted in temporary production delays. On the whole, though, the supply situation was relaxed compared to the previous year.

**Employees**

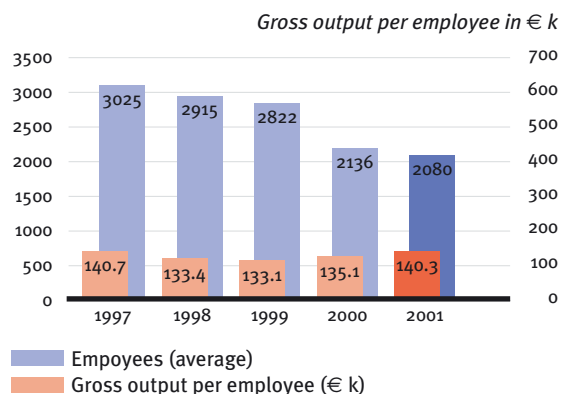
The number of employees remained stable throughout the entire group. As per 31 December 2001, all of Schaltbau Holding AG's companies had a total workforce of 2,251, which was the same number as in the previous year. There was some fluctuation within individual companies. InfoSystems GmbH, for example, did not hire any new staff to replace employees leaving the company. However, companies like Schaltbau GmbH, Pintsch Bamag GmbH and Xi'an Schaltbau Electric Corporation Ltd., who had sustained growth, hired new staff.

2,080 members of staff (previous year: 2,136) were employed on average during the year. The number of apprentices as at 31 December 2001 was 73, i.e. two more than at the end of 2000.

Staff costs dropped by 2 % to € 101.3 million compared to the previous year's level of € 103.5 million. Gross output per employee was € 140.3 k in 2001 compared to € 135.1 k in 2000.

Employees willingly took part in available further training programmes. These programmes included courses like EDP introduction at Kiepe, programming and design in HI-CAD at InfoSystems and Pintsch Bamag, welding, CAQ and CATIA at Bode and training and sales management, personnel recruitment and management training at Schaltbau GmbH.

Employees



The year 2001 was the last one to be subjected to the contractual commitments of the collective agreement for reconstruction purposes. This contract ended on 31 December 2001. The resulting increase of staff costs starting 2002 should be offset by additional rationalisation efforts.

#### Investments

In fiscal year 2001, further investments were effected in EDP infrastructure. This included renewal of the company's network at Pintsch Bamag GmbH and reinforcement of 3D-CAD workstations at InfoSystems GmbH.

Kiepe invested in a new development test lab and in the introduction of an EDM-PDM system (electronic data management – product data management) for the integration of the company's technical and PPS software environments in basic data management, technical change management and digital drawing administration archiving. Bode invested in new aluminium welding technologies and in CNC processing centres for the serial production of the Desiro order. Schaltbau GmbH installed new product data management software for the improvement of processes in research and development.

The group's investments decreased by € 1.6 million to € 7.8 million. Depreciations decreased slightly to € 13.2 million. Investments in tangible assets (€ 6.3 million) almost corresponded to the depreciations in tangible assets (€ 6.1 million) in the year under review.

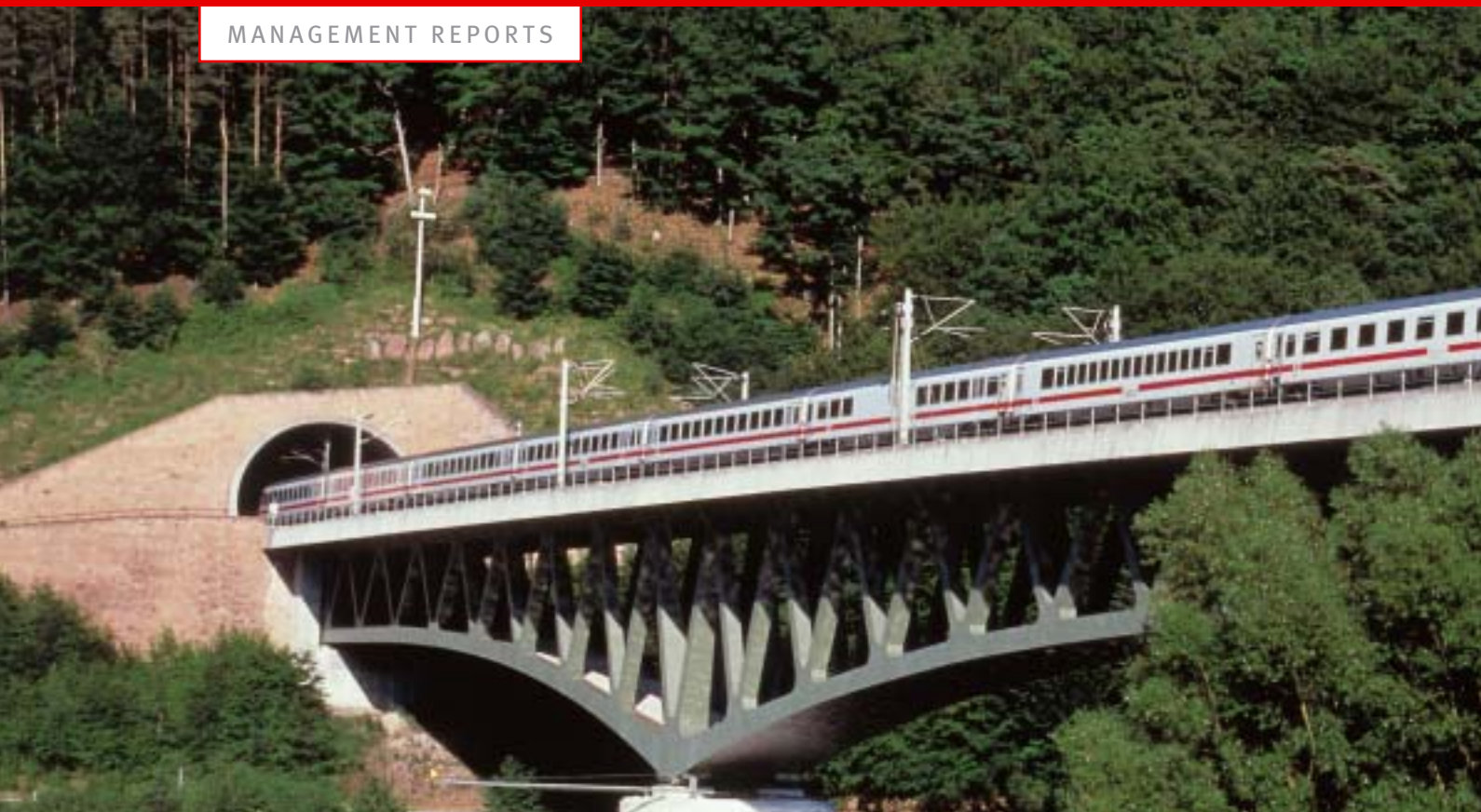
#### Research & development

Despite the difficult economic situation, Schaltbau Group was able to further expand its research and development. Only leading technological solutions can generate orders in the long run. Accordingly, the Executive Board is against any reductions in this field that may very well lead to short-term cost advantages, but also endanger long-term success.

The latest research and development results, that will further consolidate Schaltbau Holding AG's position, show how right this decision was or is: They include the new generation of display systems produced by InfoSystems GmbH, the Bode Group's new railway door concept and Kiepe's electrical single-wheel drives that are ready for serial production. Schaltbau GmbH was able to expand its business due to innovations in the field of components. This included the new development of special contacts for use in UMTS mobile radio communications.

In 2001, the number of employees in research and development increased from 262 on 31 December 2000 to 282 on 31 December 2001. As a result, the field's share of the total payroll increased from 12 % to 13 %.

Expenses for research and development increased to 3.1 % of the turnover, compared to 2.6 % in the previous year.



### Outlook

The Executive Board's expectations for fiscal year 2002 are currently restrained, but positive. Due to cost savings as part of restructuring measures, new products, the development of incoming orders and the number of orders on hand, we can expect the turnover and income to improve again in 2002. However, economic developments and the delay in time after which Schaltbau's companies can benefit from the improvements make estimations difficult. The Executive Board expects a moderate increase in turnover.

Gebr. Bode GmbH & Co. KG is benefiting from some large-scale orders carried over from 2001. The Bombardier orders for door systems in Talent trains and Talgo's orders for Spanish high-velocity trains and also the Desiro order from Siemens will be ready for shipment. However, business in the bus segment will remain slow in the first half year of 2002 at least. These contrasting developments in the bus and railway segments will even out in 2002.

Kiepe Elektrik GmbH & Co. KG should report a significant increase in all figures, as large-scale projects will be awarded in both the railway vehicles and trolley buses segments in 2002. Kiepe expects to be rather successful in these segments.

Schaltbau GmbH expects sustained development of business and a continued stable turnover in fiscal year 2002.

Pintsch Bamag GmbH expects an improvement in turnover and results in current fiscal year 2002. A large-scale order from Indonesia totalling € 6.5 million will be settled this year.



In 2002, InfoSystems GmbH counts on slightly higher turnover and inflow of orders. New products and intensive work in the market will contribute to this. InfoSystems' situation in terms of cost and earnings situation will continue to improve as a result of a "Sharing of Services" program in the area of administration with Pintsch Bamag.

The current measures for the constant improvement of productivity and revenue will be reflected in further stabilisation and increase of earnings before interest and taxes (EBIT). The annual profit is expected to rise again.

Future work will focus on reinforced market penetration, higher productivity and a reduction in the Group's debt situation, which is still cause for concern. A significant reduction of bank liabilities, combined with financing growth from cash flow forms the medium-term objective here. The sale of parts of the Company also needs to be taken into consideration as a measure for achieving the aforementioned goal.

There is evidence that the situation in the markets that are relevant for the Schaltbau Group will improve. The bus sector will not quite reach the level of the other business sectors. As mentioned, bus producers expect their economic situation to improve before the end of 2002. Higher investments are needed both in the road transport and railway sectors nationally and internationally. The Schaltbau Group's worldwide presence and technological competence along with the abovementioned factors will provide it with impetus for growth in 2002.

### Opportunities and risks

Schaltbau Holding AG implemented a risk management system under the slogan “Seizing opportunities, being aware of risks“ in its major associated companies. This system has been implemented and has become a standard procedure. Regular review meetings and comprehensive monthly reports help to evaluate the current situation of the companies individually at any given time and to take action as needed.

The general economic situation must still be regarded as stagnating, partly recessive. Industry-dependent products are particularly susceptible to this economic trend and its effects. However, opportunities are appearing as a result of development of the Asian market and especially the Chinese market. In the past fiscal year, China became a member of the WTO and will host the Olympic Games in 2008. This will result in investment in countrywide infrastructure-related projects. More than € 6 billion will be invested in Beijing alone to prepare for the Olympic Games. This will create significant opportunities for the Schaltbau Group.

Large orders, an international orientation, long-term planning and project terms in addition to complex contract arrangements and financing are currently being generated in all of the business segments. The risks associated with projects of this kind primarily constitute the basic conditions that are subject to change for the duration of a project. At the same time, non-compliance with milestones and completion dates usually results in contractual penalties (penalty payments), thereby creating unforeseeable difficulties in order handling that can endanger the results of an entire order. This holds especially true of the of Mobile Transport Engineering segment.

Projects comprising the development and use of new technologies and

processes are sometimes contracted out. Here, the risk lies in extensive subsequent improvements if the solutions implemented are more complicated than expected.

Countermeasures on different levels counteract the risks mentioned. A minimum return applies as a standard for orders and serves to cover project-specific risks. The complexity and risk of failures are also reduced by a strategic focus on selected promising processes and technologies. Projects using or developing new technologies are only released with a high standard of instructions and strict project management and project controlling.

Germany and Europe have a backlog in demand for infrastructure-related measures and investments – especially in the railway segment. This holds true for both the network and railway vehicle sectors. In Germany alone, € 4.3 billion will be available annually for investment in the railway sector until 2003. A major share of the overall investment volume amounting to about € 13.3 billion will be spent on railway traffic technology. All of the Schaltbau Group’s companies can benefit from this, as they are well positioned in this field: From intelligent directional, control and safety systems or modern master controllers, including warning and signalling technology, all the way to interior and exterior doors.

Innovation activities are being consolidated further in keeping with the slogan, “Technology for People“. Only the innovation power of all the holdings can ensure the Group’s market position as a manufacturer of products with a high rate of reliability and a long useful life.

The group’s continued high debt ratio together with the resulting obligation to generate over-proportional cash flow in an effort to reduce bank liabilities presents risks. The comprehensive financ-



ing concept is expected to alleviate this situation. However, the individual associated companies must continue to make every effort to attain an improved liquidity position.

Measures introduced in 1999 continue to prove effective here. Once again, the companies are on the right path. They are generating income and have established themselves in their respective markets. This is also shown by the excellent order situation and the order plus for the year 2002. The high overall volume of orders on hand ensures stable basic utilisation of full capacity.

The Schaltbau Group feels well prepared for future opportunities and challenges.

#### Other statements

The Executive Board prepared a report on the relationship with associated businesses for the financial year under review pursuant to § 312 AktG [German Stock Corporation Law]. This report concludes with the following statement by the Executive Board: „We hereby declare that our company has received adequate consideration for every legal transaction for the period from 1 January 2001 to 31 December 2001 based on the circumstances which were known to us when

the respective legal transaction or measure was taken or omitted, and we further declare that the company did not suffer any disadvantage as a result of any measure that was taken or omitted.“ This Management Report contains information and forecasts as to how the Schaltbau Holding AG’s Executive Board views the group’s future development. It assumes that the assessments pertaining to the future are realistic. However, assumptions on which forecasts are based may not occur, or risks and contingencies may occur. These occurrences or the absence of such occurrences may result in the actual results deviating significantly from the expected results. Changes in the business and economic environments or significant changes in business projects and our customers’ investment behaviour among other things may be responsible for the deviations.