Combined Company and Group Management Report of Schaltbau Holding AG, Munich,
for the fiscal year 2010

A brief summary of the fiscal year 2010

The Schaltbau Group performed well in the fiscal year 2010 on the back of strong economic recovery and broad stability in the rail sector. Order intake increased by 14.7% on the previous year to € 288.7 million. Over the course of the year the Group was more than able to compensate for the first-quarter sales decline in the Rail Infrastructure business field resulting from the long, severe winter and sales revenues rose by 3.9% to achieve € 280.4 million for the full year. The net profit attributable to shareholders of the Schaltbau Group amounted to € 12.1 million and therefore only slightly below the record profit achieved the previous year, which was positively influenced by the exceptional gain arising on the sale of Bode Beijing. Earnings per share amounted to € 6.50 (2009: € 6.62). Balance sheet ratios again improved. The Group equity ratio rose from 12.2% to stand at 17.5% on the balance sheet date 2010. The new medium-term financing structure determined in spring 2010 also significantly increased the Group's flexibility to implement plans for growth. In view of this fact, the Executive Board will propose to the Supervisory Board the payment of a dividend of € 1.10 per share, after a dividend of 50 cents was paid for the fiscal year 2009 in addition to a special payment of 20 cents per share arising on the sale of Bode Beijing.

Major events during the fiscal year 2010

In the first quarter of the fiscal year the Schaltbau Group was successful in restructuring and determining its medium-term financial situation. The coup was achieved on 19 March 2010 when Schaltbau Holding AG signed a consortium loan agreement for a total amount of € 50 million with Commerzbank AG, Bayern LB and DZ Bank. The loan enabled Schaltbau to reschedule € 45 million in the cash pool. Overall, € 20 million have been rescheduled as a loan repayable in instalments and the remaining € 30 million are available as a credit line. The complete finance package has been committed up to 19 March 2013 and granted on an unsecured basis. The new arrangement replaces the short-term credit lines available from the cash pool that expired on 31 March 2010.

In the USA the Group took an important step towards achieving its plans for international expansion at the end of the first quarter 2010. With effect from 1 January 2010, Bode indirectly repurchased a 67% holding in Bode Corporation. In line with its policy of increased internationalisation, this investment is of strategic importance to the Schaltbau Group. Bode Corporation will be the hub of the Group's business activities, both on the railway market and on the highly attractive bus market in North America. Both of these fields will be greatly expanded in the future as the Group's locally based production plants also fulfil the requirement for local content.

ACTIVITIES AND GENERAL ECONOMIC ENVIRONMENT

Structure of the Schaltbau Group

Schaltbau Holding AG is a financial holding company responsible for Group strategy, appointing the senior management of subsidiary companies, compliance within the Group, public relations, investor relations and IT systems. It is also responsible for Group financial reporting, Group controlling, cash management and risk management, including the internal audit function.

The operational activities of the Schaltbau Group are divided into three segments: the Mobile Transportation Technology segment with its Door Systems business field, the Stationary Transportation Technology segment with two business fields, namely Rail Infrastructure and Brake Systems and the Components segment.

BUSINESS ACTIVITIES

Mobile Transportation Technology

The Mobile Transportation Technology segment represents the product groups Door Systems for Buses, Door Systems for Railway Vehicles and Fittings for Sliding Vehicle Doors. A network of sales and service partners supports customers optimally in their global operations. Schaltbau provides the necessary proximity to key sales markets with representative offices in the United Kingdom, Hong Kong, Korea, Malaysia and Singapore. The Group's companies in Poland and Turkey, each with its own production site, ensure market access in the regions involved. The takeover of Bode Corporation in 2010 saw an expansion in business activity on the rail and bus markets in North America.

The Door Systems for Railway Vehicles product group comprises tailor-made systems equipped with innovative safety technology and boarding aids for high-speed trains, regional trains and railcars as well as underground trains and trams. This range of products makes the Bode Group one of the leading manufacturers in its field in Europe and a key partner for railway systems producers worldwide. The most important innovation and the Group's foundation for its international success is the Bode Innovative Door System (BIDS). The BIDS system consists of the door itself, the sliding or folding step, the drive system and controls, supplemented by emergency handles. The system's elements are all highly standardised and modularly applicable. BIDS covers the railway industry's entire range of requirements.

Innovation and a high degree of standardisation safeguard Schaltbau's position as European market leader in the field of door systems for both city buses and travel coaches. The Group supplies complete door systems including electronic controls and boarding aids, enabling customers to select from a broad range of products. The components can be optimally combined with each other to suit the requirements of the customer. More space, less weight, reduced costs for installation and adjustment and a low-consumption electrical system ensure customers a higher degree of flexibility as well as low service and energy costs. A pioneering recent innovation in the field of Door Systems for Buses is the Compact All-round Drive System (CADS) that has now been developed to include a completely new type of electrical drive unit. The product

Schaltbau Holding AG

Mobile Transportation Technology

Business Field Door Systems

Bode Group
Door Systems for Buses / Coaches
Door Systems for Railway Vehicles
Boarding Aids / Ramps
Fittings for Sliding Vehicle Doors

Stationary Transportation Technology

Business Field Rail Infrastructure

Pintsch Group
Railway Signal Technology
Rail Point Heating Systems
Power Supply Systems
Vehicle Equipment
Warning Systems
Maritime Aids to Navigation

Business Field Brake Systems

Pintsch Bubenzer Group
Crane Braking Systems
Industrial Braking Systems
Wind Energy Braking Systems

Components

Business Field Electromech. Components

Schaltbau GmbH Group
Connectors
Switches
Contactors
Control Devices

range includes inswinging and outswinging plug doors, swinging-sliding, folding and revolving doors as well as boarding aids.

The range of the Fittings for Sliding Vehicle Doors product group includes sliding doors with guide systems for box bodies and guide systems for the sliding side doors of both transporter vans and cars. The Schaltbau Group supplies numerous well-known manufacturers of commercial vehicles in this field.

Stationary Transportation Technology

The Stationary Transportation Technology segment consists of the two business fields Rail Infrastructure and Brake Systems. In the Rail Infrastructure business field Pintsch Bamag specialises in level crossing safety systems and is one of the key suppliers to Deutsche Bahn AG, the German national railway network, as well as numerous private, company and port railway systems. The RBUET switching system is being used in all fields of level crossing safety technology. The system's computer arcitechture guarantees a high degree of safety and technical availability at low production cost. Due to its outstanding flexibility and adaptability, the BUEP technology is used particularly often on branch lines. The manually operated BUEP-hLz system was developed on the basis of the BUEP technology for use in simple operating conditions.

The Vehicle Equipment product group includes power, lighting, door and boarding systems for railway vehicles. The systems developed in this group have been tried and tested over decades in high-speed trains, locomotives, traction units, passenger coaches and trams as well as underground and commuter trains. Furthermore, Pintsch Bamag now provides its customers with a newly developed, ideally designed type of platform door system. The innovation offers greater convenience, but above all raises safety standards for passengers entering and exiting trains at platforms, protects them from wind, dirt and noise from tunnels, improves working conditions for platform personnel and drivers and boosts operating efficiency by shortening the cycle times between trains.

In the field of warning technology, acoustic and visual warning systems for the vehicles of authorities, industry and rescue services as well as for civil management and disaster control are sold throughout Europe. These include strip lighting systems for vehicle roofs, warning systems, LED flashlights and electronic sirens. Moreover, this high degree of expertise in the field of lighting technology is put to good use both on the high seas as well as on inland waterways. Maritime aids manufactured by the Pintsch Group have been ensuring safety in this field for more than 140 years.

The Rail Infrastructure business field also includes the Point Heating Systems product group that has specialised knowledge in the making of electrical and gas-infrared point heating systems. It also develops reliable components for tunnel safety lighting systems in accordance with the regulations of Deutsche Bahn AG.

The products of the Brake Systems business field are suitable for every situation in which large, heavy loads need to be transported. This is exemplified by cranes used to perform heavy-duty work in the container terminals of all major ports throughout the world and for which the safe, reliable functioning of rail brakes, heavy-duty brakes, trolley and hoisting gear brakes and swinging arm brakes is of the highest importance. The crane braking systems manufactured by Pintsch Bubenzer, a subsidiary of the Schaltbau Group, are world market leaders in this field.

Wind power plants constitute a highly promising field of application in the Brake Systems business field and cover the supply of tower and rotor brakes as well as rotor locking systems, including the matching

hydraulic systems, brake discs and couplings. The use of perfectly adjusted monitoring systems allows considerable cost-savings, including for offshore plants.

The often gigantic tunnel-digging and clearing machines, conveyor systems and bucket-wheel excavators used in mining as well as applications for the steel industry and magnetic brakes for shipping applications are further examples of highly specialised challenges for braking systems. The technological know-how involved in developments of this type make Pintsch Bubenzer one of the leading development partners and system suppliers worldwide.

Components
The Components segment is represented by the Schaltbau GmbH Group and offers a broad range of connectors, switches, contactors and control devices. In addition to its German bases, the Group is locally present on key international markets and operates major production plants in China. In Xi´an, components are manufactured specifically designed to suit the needs of Asian railway markets. In Shenyang, contactors are produced for industrial applications. The Group has also had a partnership in a company serving the rapidly growing market in India since 2009. The UK-based subsidiary Schaltbau Machine Electrics is strongly positioned on the market, particularly in the field of contactors for industrial trucks. Markets in France, North America and Southeast Asia are served by nationally based subsidiaries and the Russian market is served from a representative office.

All components are manufactured to meet highest specifications in various niche applications. Connectors are vital components in many fields of communication and railway technology as well as in industrial trucks. Snap-action switches from Schaltbau are known for their high reliability, long service life, dependability even when subjected to shocks or vibrations and above all for their positive opening operation feature. Thereby this type of switch is suitable for all kinds of safety-related applications and for this reason is built into the door systems of a wide range of railway vehicles. Schaltbau is world market leader in this field. The trend towards miniaturisation will also open up new fields of application for snap-action switches in the future.

Schaltbau contactors are required wherever high-voltage applications need to be switched using low voltage. The quality of a contactor is most apparent when it comes to switching off. During the process, electric arcs are ignited, which then have to be reliably extinguished within a few milliseconds. Schaltbau contactors dependably perform this task in industrial trucks, emergency power systems, for instance in telecommunication facilities and computer centres, as well as in locomotives and traction units.

Control Devices are specially designed for railway vehicles and play an important role in their safe and comfortable operation. The product range includes driver's cab and passenger equipment, high-voltage switchgear and roof equipment as well as electrical braking equipment.

BUSINESS ENVIRONMENT

World economy stages powerful recovery

The recovery of the world economy that began in 2009 and steadily gathered pace in the course of the year continued throughout 2010. The speed of growth was particularly pronounced in the first quarter, although it did appear to lose momentum somewhat in the months that followed. According to the latest joint diagnosis of leading German economic research institutes, after a strong phase of expansion in the winter of 2009/2010, the economies of the USA and Japan already began slowing again quite markedly in the spring that followed. By contrast, however, the economies of the Asian emerging countries continued to perform with remarkable dynamism.

According to the joint diagnosis, after reasonably high growth in production in the second quarter, the upswing in the eurozone then proceeded to slow down noticeably. In line with the trend, the gross domestic product grew by 1.7% during the year under report according to Eurostat.

The German economy proved to be the principal driving force within the eurozone. According to the German Federal Bureau of Statistics, at 3.6% the rise in the gross domestic product in 2010 was the highest figure recorded since reunification. The upswing was largely driven by major investments in plants and equipment, which rose by 10.9%. At 14.1% exports rose sharply and compared well with imports, which increased by 12.6% in the year under report. Building investments, however, grew at a below-average level of 2.8% as they had profited from economic stimulus packages the year previously. Private consumption rose by 0.4% during the reporting year.

Relevant markets for Schaltbau

The Door Systems business field performed very positively during the year under report, mainly due to developments on the city bus market, which grew particularly strongly in the second half of the year. The travel coaches sector, however, did not significantly recover. According to the German Association of the Automotive Industry (VDA), the production of buses in Germany sank by 11% on the previous year's figure to 6,900 vehicles in 2010. The downward trend has therefore slowed since the slump of 22% in 2009. Exports declined by 15% to 5,070 buses in 2010, as compared to a drop of 25% in 2009. The Door Systems for Railway Vehicles product group again successfully expanded its project business. Demand for spare parts also grew. In the Fittings for Sliding Vehicle Doors product group, the market recovery that began in the course of 2009 continued throughout the year under report.

In the Rail Infrastructure business field the Schaltbau Group benefited from the unbroken implementation of investment measures connected with the service and financing agreement (LuFV) made between Deutsche Bahn AG and the German

Federal Ministry of Transport in 2009. The only limitations to implementation were the adverse weather conditions. A number of major orders were postponed in the field of locomotives, which had an impact on the Vehicle Equipment product group.

On the container terminals market so important for the Brake Systems business field, the situation in 2010 began to show successive signs of stabilising after the crisis-related slump one year earlier and started to show a renewed moderate upward trend in the third quarter, although it performed well below levels seen in 2008. The rapidly growing market for wind energy braking systems continues to be highly promising, even though its pace was somewhat limited by financing difficulties for new wind farms during the year under report.

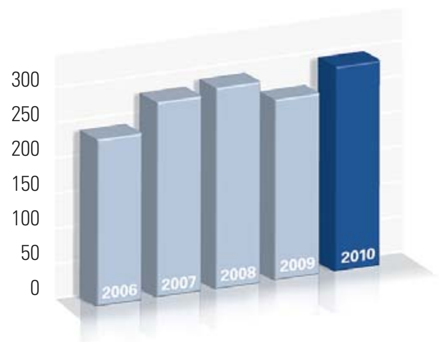
The industrial applications sections of the Components business field were positively impacted by the economic upswing seen in many parts of the world. The market for photovoltaic converters, relatively new in the USA, performed particularly pleasingly. In the rail market the economic environment remained tense until mid-2010. The turning point then came in the summer and was primarily driven by demand from the public transportation sector in Asia. Business with railway transportation systems in China continued to benefit from government-backed economic stimulus packages.

BUSINESS PERFORMANCE

Order intake

Overall, the order situation in the Schaltbau Group developed positively in the fiscal year 2010. Although the first quarter was slightly down on the very high previous year's figures, the level of incoming orders was still far better than expected and showed high growth rates in the following months up to the end of September. In line with the economic environment as a whole, the rate of growth reduced slightly in the final quarter of the year. Order intake figures for the full year 2010 rose by 14.7% to € 288.7 million, after recording € 251.7 million one year earlier.

Order intake



In absolute figures, the **Mobile Transportation Technology** segment made the most significant contribution. The volume of incoming orders in 2010 increased by € 16.1 million or 15.8% to total € 117.9 million (2009: € 101.8 million).

Due to increased market share for city buses, incoming orders in the Door Systems for Buses and Coaches product group rose, despite lower production figures. In a continued difficult market environment for coaches, business grew as a result of new customers gained in Italy and Poland in the fourth quarter 2009. Deliveries to established customers remained steady and the Group succeeded in consolidating European market leadership as system provider of bus doors in a hard-fought market.

The Door Systems for Railway Vehicles product group continued to profit from its standardised product innovations, which are meanwhile established on nearly all strategically important platforms of the foremost carriage manufacturers. At the same time, the proportion of boarding aids sold is steadily increasing. The demand for spare parts also grew noticeably. The market position was again improved upon, despite generally stagnating volumes in Europe.

Resulting from large-scale production for major customers driven by the demand for commercial vehicles by tradespeople and medium-sized businesses, the Fittings for Sliding Vehicle Doors product group recorded a good order situation during the year under report. Moreover, an order for the series delivery of the newly developed linear sliding door had a positive impact.

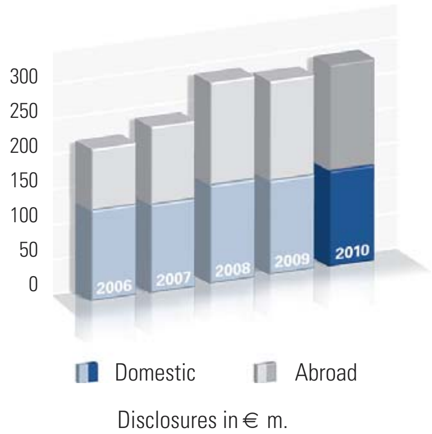
Order intake in the **Stationary Transportation Technology** segment rose by 12.8% to total € 91.0 million during the year under report. In comparison, order intake the previous year totalled € 80.6 million.

In the Rail Infrastructure business field, the continuity of funding since the last quarter 2009, particularly for investments made by Deutsche Bahn AG, led to a more even distribution of orders at a high general level in 2010. Order volumes for individual level crossing safety systems were noteable and awarded as part of the "Blinklichtprogramm 2010" - a programme designed to standardise the appearance of German Railways' level crossing safety systems. A further very pleasing point was the volume of incoming orders for branch line equipment, which more than doubled during the year under report in comparison to 2009. Business in the Vehicle Equipment product group performed well throughout the entire year.

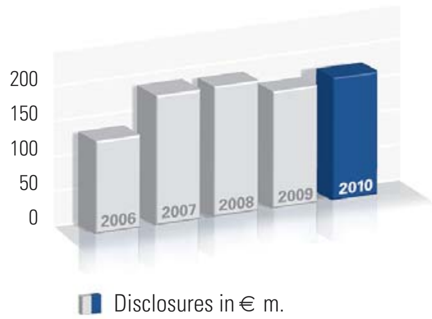
Order intake in the Brake Systems business field during the year under report was well above that recorded one year earlier. A strong contributing factor was demand from

The Neumayer Station III operated by the Alfred Wegener Institute is the first research station in the Antarctic to be established above the surface of the snow. A 30-kilowatt wind energy plant helps to provide the station with eco-friendly electricity. S870-model snap-action switches are installed on the brakes of the generator blades and check the stop position of the blades when they are decelerated for maintenance purposes. The snap-action switches are capable of withstanding the extreme Antarctic conditions.

Sales



Order book



the fast-growing wind energy market, which picked up considerably in the fourth quarter. In the container handling sector, which continues to be an important market for the Schaltbau Group, the order situation began to show a positive trend as from May after the difficulties experienced due to the crisis.

The **Components** segment recorded order intake volume of € 79.8 million in the fiscal year 2010 (2009: € 69.2 million), 15.3% more than in the previous year.

The order situation in the segment profited from the worldwide recovery in industrial production. Above-average growth was achieved for switches, due to the Group's unique market position in the field of safety switches. The Contactors product group has entered new market segments with applications for both renewable energy and electromobility. Incoming orders for connectors remained at a constant level. Orders for railway applications were favoured by the high current number of projects in China. Driven by government-backed economic stimulus packages, the Group's joint venture in Xi´an continued to show an upward tendency. In a contrasting trend, demand from Western Europe remained weak till late in the year. The first signs of a recovery began to show in August.

Order book

The order book of the Schaltbau Group had grown by 5.0% to € 171.5 million at 31 December 2010 compared to € 163.4 million at the balance sheet date one year earlier. The Mobile Transportation Technology segment recorded € 89.4 million at the balance sheet date and was thus able to maintain the pleasing level achieved the previous year (€ 89.3 million). The order book in the Stationary Transportation Technology segment totalled € 44.5 million at the end of 2010 (2009: € 40.6 million). The increased number of orders in the Brake Systems business field was particularly pronounced. The order book in the Components segment increased to € 37.6 million during the reporting period (2009: € 33.6 million).

Sales

Annual sales of the Schaltbau Group grew by 3.9% to € 280.4 million in the fiscal year 2010 (2009: € 269.8 million). The result was achieved despite a strong decline in sales during the first quarter due to delays in the processing of orders caused by the long, harsh winter period. It was, however, possible to deal with the resulting backlog in the further course of the year. At the same time, the dynamically developing order situation had a positive impact on sales as from the second quarter.

The **Mobile Transportation Technology** segment recorded an 8.3% rise in sales to achieve € 117.8 million in the fiscal year 2010 (2009: € 108.8 million). All of the segment's product groups contributed to the good result. In the Door Systems for Railway Vehicles product group the standardised BIDS systems and sliding steps boarding aids again proved highly popular. Furthermore, sales of ramps, steps and spare parts all performed better than expected. All in all, bus sector sales increased quite noticeably. The sector was hit particularly hard by the financial and economic crisis in 2009. The Fittings for Sliding Vehicle Doors product group also improved remarkably in the wake of the economic upswing.

Sales in the **Stationary Transportation Technology** segment fell by 8.3% to € 86.8 million during the year under report compared to € 94.7 million one year previously. After a weak first quarter in which the processing of orders for level crossing safety systems and point heating systems in the Rail Infrastructure business field was severely hampered by the hard winter, the backlog was compensated for in the further course of the year.

Sales in the Brake Systems business field during the year under report were well below those of the previous year. However, order intake began to rise again as from May and translated increasingly to sales in the third quarter so that by August the turnaround had been accomplished in this area. However, even the great improvements seen in the fourth quarter were not sufficient to compensate for the deficits of the first five months.

Sales revenues grew strongly in the **Components** segment, swept forward by the significant recovery in all areas of industry. At € 75.6 million, business volume surpassed the figure of € 66.2 million recorded the previous year by 14.2%.

Components for industrial applications registered a thoroughly positive performance throughout the year under report. However, sales of railway components differed from one region to the next and failed to reach the previous year's levels. Whereas revenues in Western Europe were restrained, markets in Eastern Europe and China grew well. Looking at the various product groups, connectors, switches and contactors all displayed double-digit growth in sales revenue.

Group earnings performance

The Schaltbau Group's earnings in 2010 were marked by a € 10.6 million rise in sales to € 280.4 million and a € 6.6 million increase in inventories of finished and unfinished goods (compared with a decrease of € 9.1 million one year earlier). These two factors drove up total output to € 288.6 million for the reporting year, 10% above the previous year's figure of € 262.1 million.

The cost of materials ratio increased from 50.5% to 51.2% (as a percentage of total output), reflecting price rises on raw materials markets on the one hand and the higher level of bought-in services on the other. Personnel expenses rose from € 81.7 million to € 87.3 million, reflecting increased business volumes, targeted staff recruitment and changes in union-negotiated tariff levels. Other operating expenses totalling € 29.0 million (2009: € 26.5 million) were influenced in particular by higher selling costs. Other operating income in 2010 amounted to € 5.6 million (2009: € 5.0 million). The amortisation and depreciation expense for the year went up by € 0.3 million to € 6.4 million. Due to the increased sales and the decreasing trend in costs, the resulting EBIT was € 23.8 million (2009: € 20.3 million), with the EBIT margin improving from 7.5% to 8.5% (as a percentage of sales).

The result from investments deteriorated from € 2.3 million in 2009 to € 0.2 million in the year under report. The result was due to the fact that the previous year's figure had included the gain (€ 1.3 million before tax, € 1.1 million after tax) arising on the sale of the Chinese joint venture Beijing Bode Transportation Equipment and the fact that there was no corresponding current year result from the investment. The remaining at-equity-accounted entities, BoDo Bode Dogrusan and Schaltbau North America, generated a profit of € 1.2 million for the Group in 2010. The result from investments was adversely affected in 2010 by non-consolidated companies, whose financial condition either deteriorated in the fourth quarter 2010 or whose prospects, contrary to expectations, are subject to a high degree of uncertainty. Impairment losses totalling € 1 million were recognised for these companies.

Costs incurred in conjunction with the new consortium loan agreement and changed credit conditions caused the financial result to increase from € 5.7 million to € 6.2 million.

The income tax expense grew from € 2.8 million to € 3.0 million. The effective tax was unchanged at approximately 17% and was kept down by the utilisation of tax losses available for carryforward.

The Group reports a net profit for the year of € 14.8 million (2009: € 14.1 million). The net profit in the previous year was influenced by the exceptional gain of € 1.1 million arising on the sale of Beijing Bode Transportation Equipment. The profit attributable to minority shareholders amounted to € 2.6 million (2009: € 1.7 million).

The profit attributable to shareholders of Schaltbau Holding AG totalled € 12.1 million, marginally down on the previous year's figure of € 12.3 million. Earnings per share (undiluted), at € 6.50, were well above original expectations for the fiscal year.

In the light of the good earnings performance in the fiscal year 2010 and taking account of favourable prospects for future business developments, the Executive Board will submit a proposal to the Supervisory Board that a dividend of € 1.10 per share be paid for the fiscal year 2010. In the previous year, a dividend of 50 cents plus an additional special dividend of 20 cents per share was paid, arising on the sale of Bode Beijing.

Earnings for the **Mobile Transportation Technology** segment improved in 2010 on the back of a € 9.0 million increase in sales and higher margins, made possible by process standardisations and further productivity improvements. Segment EBIT improved sharply once again from € 6.0 million to € 7.7 million while the segment EBIT margin rose from 5.5% in 2009 to 6.5% in the year under report.

Sales for the **Stationary Transportation Technology** segment fell by € 7.9 million, mainly reflecting the delayed cyclical pattern of the Brake Systems business. The segment operating profit fell as a result from € 8.9 million the previous year to € 7.5 million, while the EBIT margin slipped from 9.4% in 2009 to 8.7% in 2010.

The **Components** segment benefited from a strong performance in China and recorded a 14% growth in sales in 2010. Segment EBIT again rose accordingly from € 9.6 million in 2009 to € 12.1 million in 2010. At the same time, the already high EBIT margin climbed further from 14.6% to 16.1%.

Financial terms

Capital employed
Working capital plus fixed assets

EBITDA
Earnings before interest, taxes, depreciation and amortisation

EBIT
Earnings before interest and taxes

EBT
Earnings before taxes

Equity ratio
Equity/balance sheet total

Pre-tax return on equity
EBT/equity

IAS/IFRS
International Accounting Standards/ International Financial Reporting Standards

Cash funds
Cheques, cash in hand and cash at bank

Cost of materials ratio
Cost of materials/total output

Net bank liabilities
Bank liabilities minus cash funds minus current marketable securities

Group net assets and financial position

The Group net profit recorded for 2010 resulted in a further improvement in balance sheet ratios. Group equity increased to € 33.1 million at 31 December 2010 compared to € 20.5 million one year earlier, corresponding to an equity ratio of 17.5% (2009: 12.2%). Including participation rights capital of € 7.1 million, which is similar in nature to equity, the Group equity ratio was equivalent to 21.2% (2009: 16.4%).

The Group's assets and liabilities structure remained practically unchanged from the previous year, with the balance sheet total rising by 13% to € 189.6 million. Non-current assets (excluding deferred tax assets) of € 64.0 million (2009: € 61.5 million) accounted for 33.8% of the balance sheet total, as compared to 36.6% one year earlier.

Investments in property, plant and equipment and intangible assets amounted to € 8.0 million and were therefore € 1.6 million higher than the depreciation expense. Intangible assets again included own work capitalised for one development project.

Non-current financial assets were influenced by earnings of the at-equity-accounted entities BoDo Bode Dogrusan and Schaltbau North America, impairment losses recorded for non-consolidated companies and strategic capital increases in equity investments.

The Group's working capital increased from € 53.8 million to € 66.8 million. Included in those figures, inventories rose by € 10.1 million, mainly reflecting higher business volumes expected for the following months compared to the situation one year earlier. Trade accounts receivable went up by € 8.3 million, partly as a result of the fourth-quarter sales performance and partly reflecting the fact that the average days of sales outstanding (DSO) increased from 50 to 59 days during the year under report. The figure was affected by the disproportionate increase in receivables of the Chinese subsidiary, Xi´an. Working in the opposite direction, advance payments received increased by € 2.2 million compared to the previous year and trade accounts payable by € 3.3 million.

Capital employed rose accordingly by approximately € 15.5 million to € 130.8 million. The return on capital employed (ROCE) stood at 18.2% compared to 17.6% one year earlier.

Deferred tax assets were recognised at € 9.0 million (2008: € 8.9 million). The figure includes deferred tax assets of € 4.3 million recognised on timing differences (2009: € 4.2 million) and deferred tax assets of € 4.7 million (2009: € 4.7 million) recognised on tax losses available for carryforward. Deferred tax liabilities on timing differences amounted to € 6.8 million (2009: € 6.5 million).

Financing within the Schaltbau Group is organised in the form of cash pooling arrangements headed by Schaltbau Holding AG. All major Group companies participate in these arrangements, with the exception of Bode. Financing within the cash pool was restructured during the first quarter 2010. In this context, all significant cash-pool-relevant credits were restructured (and all collateral released) with the signing of a new consortium loan agreement for € 50.0 million headed by Commerzbank AG and with the participation of Bayern LB and DZ Bank. The credit comprises a loan of € 20.0 million, repayable in instalments, and a credit line of € 30.0 million. The credits have been committed for a period of 3 years. An amount of € 4.0 million of the loan was repaid on schedule in 2010.

Gebr. Bode, Kassel, which finances itself separately, had credit lines of € 13.9 million at 31 December 2010 (2009: € 13.1 million). These current account facilities totalling € 4.0 million have been prolonged for an indefinite period and a further € 1.7 million have been prolonged till 31 December 2011.

In total, the Group's net liabilities to banks were reduced further in 2010 from € 33.9 million to € 31.5 million. The ratio of net debt to EBITDA improved from 1.3 at the end of the previous year to 1.0 at 31 December 2010.

The Group had access to credit lines totalling € 66.0 million at 31 December 2010 (2009: € 65.7 million), of which € 28.5 million (2009: € 31.7 million) have been disbursed as loans. Current account credit lines amount to € 37.5 million (2009: € 34.0 million), of which € 30.0 million (2009: € 0.0 million) are available on a medium-term basis. Scheduled loan repayments in 2010 totalled € 6.5 million (2009: € 7.6 million). At 31 December 2010, € 19.4 million (2009: € 14.5 million) of current account credit lines (including guarantee lines) were being utilised. The Group's cash funds totalled € 11.5 million at 31 December 2010 (2009: € 8.5 million).

Cash flows from operating activities of € 11.1 million were € 5.1 million lower than the previous year's figure of € 16.2 million. The € 17.3 million increase in current assets (2009: decrease of € 8.3 million) could only be partially offset by the € 4.7 million increase in current liabilities. Cash outflows for investing activities totalling € 9.3 million (2009: € 9.8 million) compared with a cash inflow of € 3.3 million from the sale of Beijing Bode Transportation Equipment. The remainder of net cash flows was used to pay dividends to shareholders and minority shareholders and to increase the Group's cash funds by approximately € 3 million.

Earnings, financial and net assets position of Schaltbau Holding AG

The Company Financial Statements of Schaltbau Holding AG are drawn up, as in the previous year, in accordance with the German Commercial Code (HGB) and the Stock Corporation Act (AkG).

The main factors affecting the earnings, net assets and financial position of Schaltbau Holding AG in 2010 were adjustments required in conjunction with the first-time application of the German Accounting Law Modernisation Act (BilMoG), new Group financing arrangements following the signing of the consortium loan agreement (see "Major events during the fiscal year 2010") and the sustained improvement in the performance of Bode, the subsidiary company.

Sales revenues of the non-operational Schaltbau Holding AG totalled € 1.9 million (2009: € 1.5 million) and comprised revenue from recharging the cost of centralised IT systems to subsidiaries.

The **earnings position** of Schaltbau Holding AG is primarily influenced by the profits and losses transferred to it by its subsidiaries, investment income from subsidiaries, the impact of the valuation of investments and the net interest result relating to its financing function.

Schaltbau Holding AG is party to profit and loss transfer agreements with Schaltbau GmbH and Pintsch Bamag GmbH. A profit and loss transfer agreement is also in place between Pintsch Bamag GmbH and Pintsch Bubenzer GmbH. Profits transferred to Schaltbau Holding AG, at € 13.1 million, were at a similar level to the previous year. The lower profit transferred by Pintsch Bamag, caused by a sharp drop in earnings in the Brake Systems business field, was compensated by the transfer from Schaltbau GmbH, whose earnings under German accounting rules (HGB) benefited from the reversal of a write-down on an investment.

Gebr. Bode GmbH & Co. KG eliminated its HGB accumulated deficit brought forward in full in 2010 with the profit posted for the year. The surplus of € 2.0 million is attributable to Schaltbau Holding AG as limited partner and was recognised as investment income in 2010.

Financial terms

Net finance liabilities
Interest-bearing liabilities minus cash funds minus current marketable securities

Personnel expense per employee
Personnel expense/average number of employees during year

Return on Capital Employed (ROCE)
EBIT/capital employed

Pre-tax and pre-interest return on sales
EBIT/sales

Debt/equity ratio
Net bank liabilities/EBITDA

Working capital
Trade accounts receivable (including receivables from long-term construction contracts) plus inventories minus trade accounts payable minus advance payments received

Working capital intensity
Working capital/sales

Having opted not to recognise deferred tax assets, the main impact of changes in accounting policies in conjunction with BilMoG implementation was the measurement of the pension provision. Under the new rules, it is no longer possible to measure pension provisions using the German "Teilwert" method pursuant to § 6 a of the German Income Tax Act (EStG). Instead, in accordance with § 253 HGB, the pension provision is now measured in accordance with the projected-unit-credit method and using a lower interest rate than previously applied. The one-time expense (€ 1.3 million) resulting from the change in method is reported as an extraordinary item. The interest component on the brought-forward obligation (€ 385,000) was reported for the first time in 2010 as interest expense. Deferred tax assets were not recognised.

In conjunction with the restructuring of financing within the group, financing was concentrated more on Schaltbau Holding AG with credits passed on back-to-back to companies participating in cash pool arrangements, thus having a corresponding impact on interest income and expense reported by Schaltbau Holding AG. Excluding the interest effect from the pension provision, the net interest result was at a similar level to the previous year.

Schaltbau Holding AG's net liabilities to banks rose only slightly from € 18.5 million at the end of the previous year to € 19.4 million at 31 December 2010. However, in contrast to the previous year, these credits are now committed to the Company on a medium-term basis.

Of the total loan of € 20 million recorded by the holding company, an amount of € 4 million was repaid on schedule in 2010. The Company complied with the covenants contained in the credit agreement in 2010.

Transaction costs arising on conclusion of the credit agreement were recorded as other operating expenses.

The sharp rise in receivables from affiliated companies (up from € 13.2 million at the end of the previous year to € 25.0 million at 31 December 2010) resulted from increased financial requirements of subsidiaries and the new Group financing structure and was also the main reason for the increase in the balance sheet total.

The sustainably improved situation at the Group subsidiary Bode not only enabled that entity to settle an old dividend payable of € 3.7 million, it was also able to disburse a loan of € 4.7 million to Schaltbau Holding AG out of available cash, with a view to optimising Group financing. The receipt of the dividend in 2010 resulted in the recognition of other operating income in 2010 since the receivable had previously been written down. In the previous year, other operating income had included an amount of a similar magnitude resulting from the reversal of an impairment loss on the cost of investment.

The process of taking IT activities back in-house was completed by the holding company in 2010. These activities had been outsourced in 2003. The change is reflected in higher personnel expense on the one hand and lower costs for bought-in services on the other.

Net profit, at € 9.6 million, was € 0.4 million up on the previous year.

As a financial holding company, Schaltbau Holding AG's assets and liabilities structure is dominated by its investment holdings with a carrying amount of € 79.9 million at 31 December 2010. There were no changes in this area compared to one year earlier.

As in the previous year, the 137,270 participation rights bought back by the Company in 2006 are also included in non-current financial assets at the year-end at their buy-back cost of € 2.2 million. The market value of the participation rights was € 3.6 million at 31 December 2010. The participation rights are now fully available to the Company, although it does not currently intend to sell or withdraw them.

The Company issued convertible bonds totalling € 8.5 million in June 2007. As a result of conversions during the period under report, the repayable amount at 31 December 2010 decreased to € 8.2 million. These conversions gave rise to 3,494 new shares. The number of issued shares increased accordingly to 1,875,162 shares (2009: 1,871,668 shares).

Schaltbau Holding AG's equity rose from € 57.7 million to € 66.0 million. The equity ratio remained unchanged at 60.2%. The financial strength meanwhile built up by Schaltbau Holding AG allows it to take an active part in the further development of its subsidiaries.

Group investments

Investments in property, plant and equipment and intangible assets in the Schaltbau Group in 2010 totalled € 8.0 million as compared with € 9.0 million one year earlier. Investments were thus once again higher than the amortisation and depreciation expense of € 6.4 million (2009: € 6.1 million). The largest single investments related to the completion of a construction measure and property improvements at Pintsch Bamag. Further focuses of capital expenditure were replacement, re-equipping and rationalisation measures as well as the purchase of tools for manufacturing new products.

Research and development

Targeted research and development oriented to the quickly changing requirements of customers and markets is of strategic importance for the companies of the Schaltbau Group and is seen as a crucial investment in the future. Innovative products and solutions safeguard Schaltbau's technological lead and thus form a solid foundation for successful and sustainable operations. Intensive research and development work is therefore obligatory for all companies of the Schaltbau Group. This fact is evident from the expenditure, which continued to be high in 2010. Altogether, 6.9% of all revenue was invested in the future of the Group (2009: 6.2%). In keeping with its significance, with 189 employees the Group's research and development departments are also well staffed, accounting for more than ten per cent of all employees in the Schaltbau Group.

In the Door Systems for Buses product group of the **Mobile Transportation Technology** segment the main focus of development activity in 2010 was again placed on the standardised compact drive systems. The key objective was to achieve series maturity and adapt to the requirements of major customers. This Compact Allround Drive System (CADS) is destined to replace the previous pneumatic drive systems currently installed in many city and intercity buses as well as travel coaches. The new drive system, which is integrated in the rotating column, is more compact, provides far more convenience and safety and requires less maintenance than the familiar pneumatic systems. The extremely positive response at the IAA Commercial Vehicles in September 2010 is an optimistic sign that these innovative drive systems will enable the Schaltbau Group to further broaden its base of customers. The development thus creates the future possibility of becoming the preferred supplier for the delivery of the related door systems for new generations of buses. This applies to both existing and potential new customers.

The Door Systems for Railway Vehicles product group mainly focused on a sliding door system primarily designed for use in underground trains. The new product group has incredible potential to boost sales volume, particularly in the emerging markets, and is thus in keeping with the global expansion strategy of the Schaltbau Group. The electric locking concept for high-speed door systems is a further successful innovation. Furthermore, the Boarding Systems product group has developed a new product. The intelligent sliding step recognises the shape of the platform with the help of special sensors and accordingly controls the movements of each separate sliding step of the train. The single-leaf version of the successful BIDS door family was developed to series maturity in 2009 and sold for the first time during the year under report.

In the Fittings for Sliding Vehicle Doors product group the existing linear sliding door was technically completely redesigned and adapted to suit the requirements of large-scale production.

One of the main focuses of development work in the Rail Infrastructure business field of the **Stationary Transportation Technology** segment related to railway platform door systems, also known as "Platform Screen Doors" (PSD). The system was initially displayed at the InnoTrans 2010 and attracted a great deal of attention, which soon led to the first offers being made. The first order was awarded during the year under report. Current further developments of this system are being adapted to suit worldwide demand.

The BUEP successor technology RBUEP in the Level Crossing Safety Systems product group was again in the spotlight. After the completion of the software and hardware prototypes and their validation, the approval process was undertaken in the course of the reporting year. Apart from German standards, preparation for European standardisation in accordance with CENELEC was also taken into account. Approval is expected in the course of 2011.

A real milestone was reached in the field of point heating systems. At the Hamburg port railway, Pintsch Aben installed the world's first geothermal point heating system. The corresponding contract was signed at the InnoTrans 2010. The special feature of this environmentally friendly heating system is its ability to work without an external source of energy. It works fully autonomously without creating any CO2 emissions. Conventional point heating systems are based on energy-intensive processes such as electic heating rods, gas-powered burners or blowers. In contrast, geothermal point heating systems use natural geothermal energy, are simple to retrofit and cost almost nothing to operate. There is a large market potential for this innovation. In the Port of Hamburg alone, almost three quarters of the 880 points are heated and the German railway system has tens of thousands of heated points.

In addition to the continued development of its traditional product range, the Brake Systems business field mainly concentrated on the rapidly growing market for wind energy plants. Product quality requirements for large-scale production conditions are extremely strict in this particular field. In order to meet the resulting challenges, testing facilities are being developed and enhanced to accommodate new test series. A rotor brake currently being developed for General Electric for integration in the generator has considerable sales volume potential. The first prototypes were supplied during the year under report and have been undergoing dynamic testing since then.

In the **Components** segment, the "Lichtbogenführung" (electric arc guidance) research project for contactors was brought to a conclusion. It was promoted by the Bavarian Research Institute and carried out in cooperation with the Professorships for Fluid Dynamics and Electrical Power Supply of the University of Erlangen-Nuremberg. The final report of the two professorships has been completed. A scientific publication in conjunction with the Bavarian Research Institute is currently being prepared.

Other major developments in 2010 related to the production of traction contactors, which was expanded to include applications in the voltage ranges 1.5 and 3 kV. In addition, the multi-pole range was broadened to include a twin-pole version, which is used both for railway applications and in industry, for instance in photovoltaic systems. An intelligent emergency stop switch was developed for industrial trucks in 2010. In the field of housings for snap-action switches, which had been made of polycarbonate in the past, an alternative material was identified for use that is far more resistant to changing temperatures and contact with chemicals.

The International Railway Industry Standard (IRIS) and the classification in Safety Integrity Levels (SIL) with the accompanying standards as well as the new machinery directive 2006/42/EG and the classification in Performance Levels (PL) have resulted in a considerable rise in customers' safety requirements in both the rail and the industrial sectors. In order to optimally support customers in dealing with the accompanying tasks, numerous other projects were initiated, such as those for angle sensors, sound generators and magnetic brake monitoring.

Trade fairs

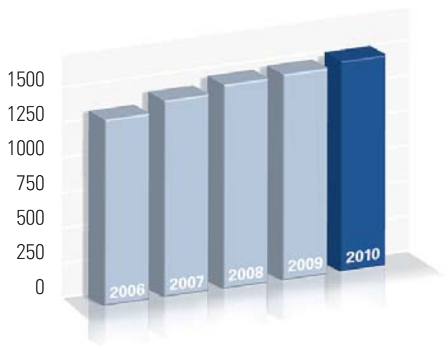
The crucial indicator for the market maturity of a product innovation is its degree of acceptance by customers. The type of response at trade fairs is an important way of gauging acceptance. The "InnoTrans", the world's leading trade fair for railway technology and the 63rd IAA Commercial Vehicles, the world's largest show for mobility, logistics and transportation, were both held in September 2010 and are two of the most important industry exhibitions of their kind. Companies of the Schaltbau Group working in these areas made good use of the opportunities these events presented. Just two of the product highlights at the InnoTrans were the new intelligent sliding step and the platform door system that was exhibited.

At the IAA Commercial Vehicles, particularly the innovations related to the CADS system aroused a great deal of interest among bus manufacturers. The HUSUM WindEnergy 2010 was the foremost presentation platform for the fast-growing Wind Energy Braking Systems product group during the year under report. The fair, which was also held in September, is the most important in the field of wind energy and also presented key opportunities for establishing promising contacts. In addition to the HUSUM WindEnergy, the Brake Systems business field was present at a further trade fair for wind energy plants in Asia and also took part in numerous trade fairs for port engineering with its new developments in the field of container handling.

Total output per employee

Disclosures in € 000

Employees on average



Number of employees

Employees

The number of employees working for the Schaltbau Group rose slightly in fiscal year 2010 to a total of 1,610 employees at 31 December 2010 after registering 1,603 at the end of the previous year. The Bode Group remained the largest employer, which took on additional staff due to its good business performance and the planned expansion. An in-house IT department was set up within Schaltbau Holding AG to provide better support for the Group's companies and improve computer safety as well as maintenance. Moreover, after the reduction in 2009, Schaltbau Machine Electrics Ltd. again increased staff numbers in line with the recovering market environment during the year under report. The size of the workforce in the remaining companies of the Schaltbau Group did not change significantly.

The additional qualification of staff based on changing requirements is highly relevant for the sustained success of any company. For this reason the Schaltbau Group invested € 543,000 (2009: € 602,000) in training sessions, workshops, courses and seminars, in which the participants were able to increase their technical knowledge. The main focuses were on further training in the areas of lean management and the continual improvement process, the quality management methodology Six-Sigma and foreign languages.

Qualified employees are absolutely essential for the production of sophisticated products, components and systems. For this reason, the companies of the Schaltbau Group place great emphasis on vocational training, which is reflected in the large numbers of apprentices that Schaltbau takes on. Thus on 31 December 2010 a total of 64 young people at various Schaltbau entities were receiving training in attractive professions such as industrial mechanic, industrial business management assistant or IT specialist. Bode is currently training 19, Pintsch Bamag 18, Pintsch Bubenzer 8 and at Schaltbau GmbH 17 young men and women in various trades. Schaltbau's foreign subsidiaries also offered apprenticeships. Schaltbau France, for example, had two trainees. A total of 17 apprentices completed their training in 2010. They were all given further employment, mostly for a limited period for the time being.

A total of 29 people at various Group companies were employed under pre-retirement part-time working arrangements, 17 of whom had already entered the non-working phase. Pre-retirement part-time working arrangements were in place at four Group companies based in Germany.

Personnel expenditure increased from € 81.7 million to € 87.3 million due to tariff-based rises and the targeted recruitment of skilled workers and executive staff. The total output per employee, including trainees and managers, rose from € 182,300 in 2009 to € 198,600 due to the higher level of total output in the year under report.

An average of 1,453 full-time staff members were employed in the Group over the year, as opposed to 1,437 in 2009.

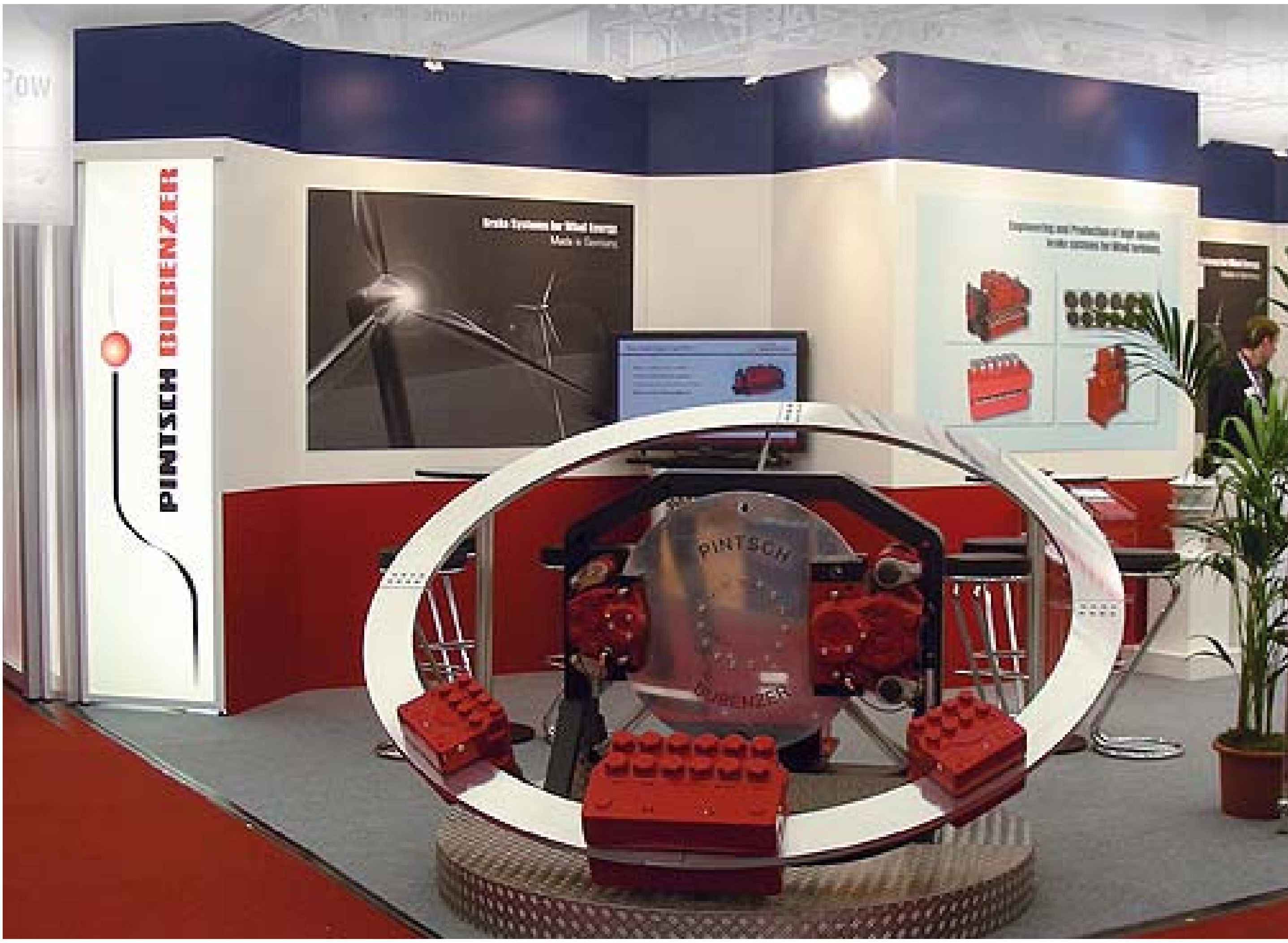
Purchasing

The emerging trend to rising prices on international purchasing markets seen towards the end of 2009 continued to manifest itself during the year under report. The main reasons were initially the continued rising demand from Asian markets, despite reduced capacities. As from mid-2010 the unexpectedly quick recovery of the global economy and the general replenishment of stocks led to far longer delivery times and corresponding price rises, particularly for aluminium and rolled steel. The drastic increase in the price of silver to new record highs in 2010 resulted in sharp rises in material costs for several Group companies. In contrast, the prices of printed circuit boards and flame-cut steel parts only rose slightly. Delivery times for electronic components became particularly lengthy.

The Group's purchasing management made consistent use of the benefits of globalised markets. Suppliers from the eastern countries of the EU and Asia as well as German companies were identified, qualified and newly established as series suppliers. The use of tendering portals led to contact with further promising suppliers, which, after auditing and qualification, should help to compensate for rising market prices. Furthermore, purchasing processes were additionally improved by the introduction of internet shops, the expanding of the system of flexible, decentralised production process management (Kanban) and the rise in the number of framework agreements. Total Cost of Ownership analyses and the use of value analysis teams also helped to optimise cost structures.

One of the most important tasks again during this reporting year in the field of material purchasing was the securing of long-term, mostly project-related framework agreements that guarantee price stability for the duration of entire projects. The Schaltbau Group has entered into these types of framework agreement with all of its main suppliers.

The cost of materials ratio rose in the course of the year from 50.5% of total output compared to the previous year to 51.2% as a result of rising prices on raw materials markets and the increased amount of bought-in services.



For the fiscal year 2011 raw materials analysts predict a 2.3 per cent rise in the prices of industrial producers within Germany and even a 3.4 per cent increase for the eurozone as a whole. In 2011 the purchasing market for electronic assemblies and components will continue to feel the impact of lengthened delivery times and more difficult allocations. Higher purchasing costs are generally forecast for non-ferrous metals, particularly copper and silver, but the prices of oil and gas are also expected to increase sharply in the course of 2011.

Significant events after the balance sheet date

On 15 February 2011 Schaltbau GmbH acquired the remaining 50% of the shares of Schaltbau North America Inc. via its newly founded Schaltbau America Limited partnership Delaware. The company will be fully consolidated with effect from 1 January 2011; prior to that it was included in the consolidated financial statements at equity. The transaction will reinforce Schaltbau GmbH's position in the growing railway and industrial lines of business in North America.

A further significant event involved the joint venture contract relating to Xi'an Schaltbau Electric Corporation Ltd., which was extended on 13 October 2010 (before the originally foreseen date) through to 2024. The contract was subject to approval by the Chinese authorities and officially granted on 11 February 2011. Thus the Schaltbau Group can now make long-term plans with certainty in the Components segment in China. A growth strategy has also been approved, which will involve capital expenditure in an additional factory and office building in Xi'an, providing the basis for the further growth of this highly successful joint venture.

With effect from16 February 2011 Gebr. Bode & Co. Beteiligungs GmbH acquired 10% of the shares of Rawicka Fabryka Wyposazenia Wagonow Sp.z.o.o. (Rawag), Rawicz, bringing Bode's investment up to 30%. A purchase option has also been agreed for further shares, giving Bode the opportunity to take over a majority interest in the Polish company. Rawag manufactures door systems for railway vehicles, buses and trams as well as side windows for buses and trams, primarily for customers in Eastern Europe.

Bode has also jointly founded a company in South Korea with a local industrial partner. Bode has an 80% holding in the new company, which will focus on gaining a foothold in the Korean market in future, backed up by its own sales and engineering resources. Thus Bode's position is greatly improved in an important Asian market with good growth prospects.

Schaltbau Holding AG gave notice to terminate the convertible bond 2007/2012 with effect from 12 April 2011 in accordance with the terms and conditions of the bond. This bond, sub-divided into 85,000 partial bonds valued at € 100 each, had originally been issued for a total nominal amount of € 8.5 million. All partial bonds still in circulation are affected by the termination. At 23 March 2011 this related to 66,155 partial bonds; a further 15,986 partial bonds had previously already been converted since the end of 2010. As a result of the special dividend of € 0.20 per share granted to shareholders in 2010, the conversion price amounts to € 45.80. The bonds can be converted at any time up to 6 May 2011 at the latest.

Opportunities and risks report

The aims of the risk management system implemented in the Schaltbau Group are to identify existing risks at the earliest possible stage, to reduce business losses by means of suitable measures and to avoid any possible danger to the Group’s going-concern status. The risk management system also has to identify opportunities and make good use of them.

The Group has integrated the risk management system in its corporate workflows. This strategy serves to actively combat risks and make the most of any opportunities that may arise. From this standpoint, risk management thus plays a crucial role in achieving the Group's financial objectives and safeguarding sustainable added value.

The risk management system, with its organised structure and workflow organisation, is described and defined in group-wide corporate guidelines. It includes a comprehensive system of documentation and reporting. Apart from quarterly reports that cover the entire range of risks and any possible opportunities, an in-house ad hoc report is immediately prepared as soon as any key changes are made or any new information is received. Review meetings take place regularly, in which all risk- and opportunity-related topics as well as the current economic situation are discussed and compared with the corporate forecast, the previous year's situation and the rolling forecast. Market trends, changes within the competition and development projects are also considered and analysed. The focus of the monthly reviews is generally forward-looking. Their aim is to recognise danger at an early stage and thus safeguard future potential for the Group.

The Executive Board of Schaltbau Holding AG, the Group Controlling department and the management of the various subsidiaries are responsible for the continual maintenance of the risk management system. The external auditor tests the risk management system's fundamental functionality and its suitability each year.

Description of the essential charcteristics of the internal control and risk management system with regard to the Group financial reporting process (§289 (5) and § 315 (2) 5 HGB)

The objective of the internal control system for financial reporting within the Schaltbau Group and for Schaltbau Holding AG is to ensure that the accounting records are maintained properly and that the relevant statutory regulations are complied with. The system ascertains that the transactions are fully, promptly and correctly recorded, processed and documented in accordance with statutory regulations, the Articles of Incorporation and in-house guidelines. Accounting documents must be correct and complete, inventory counts properly conducted, assets and liabilities appropriately recognised, presented and measured in the financial statements, so that timely, reliable and complete information can be provided at all times.

Standardised lines of communication are in place between Schaltbau Holding AG and its subsidiaries. The powers of the managing directors of the individual Group entities are governed by terms of reference. For their part, the managing directors of the subsidiaries also exercise a control function in their companies by means of standardised flows of information. Supervisory bodies such as boards of directors are also in place.

The accounting and financial reporting systems employed are protected from unauthorised access by appropriate IT systems. Standard software is utilised wherever possible to operate accounting and financial reporting systems.

Guidelines are in place at Group level and for each of the subsidiaries, setting out the work to be performed and the scope of permitted activities. The areas of responsibility within the accounting and financial reporting functions are clearly regulated and organised to ensure an appropriate segregation of duties. The dual control principle is applied throughout the financial reporting process.

Any accounting data received or forwarded are tested continuously for completeness and accuracy. The software systems used within the Group also include plausibility checks. Rules and regulations relevant for authorisation and approval processes have been implemented in the authorisation concepts for all relevant IT applications (signature regulations, bank powers of attorney, etc.).

The Group’s understanding of the conduct required of its employees is set out in a corporate Code of Conduct. Accounting department employees, many of whom have worked for many years for the Group, are appropriately qualified. General training measures (e.g. current IFRS developments) and individualised training courses ensure that the employees involved have the appropriate sets of skills to perform their work. The various accounting departments are all situated locally and the Group has decided against using shared services or relocating functions in order to ensure proximity to operations and hence better quality.

The monthly figures of each of the Group's companies are reviewed for plausibility by the Group Controlling department or at the monthly meetings of Executive Board and local managing directors held to discuss the figures.

All processes relevant for financial reporting are regularly tested by the Group’s external auditors. The latter communicate their findings to management and monitor implementation of the measures proposed and agreed upon. A multi-year, risk-oriented audit plan is in place.

The external auditor is also required, as part of the audit work performed, to report to the Supervisory Board any risks relevant for financial reporting and control weaknesses as well as any weaknesses in the risk management early warning system and internal control system of financial reporting that are identified during the audit.

Macroeconomic and industry-specific risks

The financial and economic crisis was responsible for accelerating fundamental global changes. The emerging countries, particularly China, came out of the crisis strongly and continue to display high potential for growth. China is producing large amounts of exports and safeguards its access to raw materials particularly by means of geopolitical measures.

The largest current threat to the economy is the high degree of sovereign debt borne by the industrialised countries. The expiry of economic stimulus packages and less expansive fiscal policies could have a negative impact on economic performance in 2011. Any weakening of the economy in China or a slipping in the USA towards a new recession would have effects on the momentum of foreign trade. The strong driving force coming from the stock replenishment cycle in 2010 is likely to lose impetus.

Spending cuts in the public sector exert a corresponding influence on business fields in the Schaltbau Group. In view of these factors the Schaltbau Group will continue its strategy of diversification in segments and regions in order to hedge its risks.

An oligopolistic demand structure characterises both the rail and the bus industries. The number of potential customers is therefore limited. These structures lead to a high degree of market transparency, which can result in strong price competition and downward pressure on selling prices. The Schaltbau Group counters these risks by making the most of its underlying innovative strength. R&D activities help to create new products and ensure that existing products are enhanced in the best interests of customers. A further important aspect of avoiding risk is the intensive management of customer relationships.

As market leader on both the German and the European markets, Bode is directly dependent on the business performance of bus manufacturers and their demand behaviour in a volatile market situation. Bode is countering this risk by broadening its international customer base, a high rate of innovation and a highly flexible manufacturing organisation.

The Infrastructure business field, is both directly and indirectly dependent on investment levels of the German national railway company Deutsche Bahn AG and on public spending behaviour in general. Cutbacks in public spending can have a negative effect on business performance, whereas the opposite is true in the event of additional public funds being made available. These irregular cycles can give rise to fluctuations in levels of business. In order to limit the resulting risks, Schaltbau Group entities are stepping up their international activities. Industrial goods business is also being expanded, bringing with it a broader customer base and the opportunity to exploit new fields of application.

One factor that is taking on increasing significance in international business is the political call for localised production or so-called "local content". An increasing number of orders are being awarded subject to fulfilment of this condition. The Schaltbau Group reacted to this trend at an early stage by establishing an international presence through its local subsidiaries. The resources of an organisation the size of the Schaltbau Group are, however, limited and only allow a selective approach.

Operational risks

Specific operational risks to companies of the Schaltbau Group exist in the areas of development and design, procurement and production. Optimised cost structures in production combined with high quality and in-depth market and customer knowledge are designed to avoid incorrect allocations of resources in the field of development and ensure a transparent time-to-market process.

Within the value-added process the Group's companies run the risk of business interruption, quality problems or risks posed by industrial safety and environmental risks. These risks are minimised by the utilisation of comprehensive guide-lines and procedural regulations regarding quality management, product and industrial safety.

The effects of raw material price rises can be partly compensated by long-term supply agreements, group-wide centralisation of material requirements or by passing on price increases to customers. It is not or only delayed in time, possible, however, to fully compensate for significant increases in purchase prices. Working in the opposite direction, the strategy of putting long-term supply agreements into place means that the Group can only benefit from falling purchase prices after a time delay. As a result of crisis-related reductions in capacity and continuing rises in demand, the purchasing market could be limited by extended delivery times.

Business processes are highly reliant on the support of IT systems. The companies of the Schaltbau Group take both technical and organisational precautions to reduce risks with regard to availability, confidentiality and reliability.

Legal risks
Legal risks can arise from customer reclamations, guarantee claims, legal disputes, patent law infringement and claims for damages. Latent risks are covered by insurance policies or by provisions in the balance sheet. Losses may arise, however, that are either not sufficiently insured or exceed the amount of provision recognised.

Product piracy also represents an additional risk, particularly on Asian markets. Processing and supplying these markets and working together with local partners also increase the risk of selective know-how drift. Explicit contractual restrictions in the transfer of technical know-how and the rapid development of new products and processes help to preserve the Group's technical edge.

Financing risks
The Group is fundamentally financed by means of a consortium loan agreement for the amount of € 50 million that was signed on 19 March 2010. This form of financing has resulted in more favourable contractual periods, the abolishing of the annual prolongation risk and a significant increase in financial flexibility through the simplification of the previously complex credit structure. On the other hand, a relatively high rescheduling is necessary in the first quarter of 2013. Furthermore, the loan agreement is linked to a number of warranties, guarantees and constraints that must be adhered to. The financing is additionally based on compliance with certain covenants, which give the banks an extraordinary right of termination if they are not fulfilled. From a current standpoint there is sufficient financial scope for the covenents.

Restrictions in credit approvals may also have an impact on our customers and suppliers. This could have a negative impact on the recoverability of receivables or on purchasing. Both of these aspects are continually monitored.

The Group's subsidiaries in China involve a high degree of working capital typical for that country, entailing correspondingly high financing requirements that result in unused potential.

The Group has taken the risk of rising interest rates into account by entering into various long-term interest-rate hedges for a total nominal amount of € 18.2 million. Financing for the acquisition of Pintsch Bubenzer is hedged with an interest swap for a nominal amount of € 3.15 million. A credit-pool credit volume of € 32.2 million (as at 31 December 2010) is hedged by interest-rate swaps for a nominal amount of € 9.0 million. A further swap for a nominal amount of € 6.0 million is also in place to refinance the participation rights in 2014. There is also a cross-currency swap to hedge the interest/currency risk relating to a euro loan held by a foreign subsidiary (hedged volume at 31 December 2010: € 1.3 million). The market value of the interest swaps fluctuates, depending on changes in relevant interest rates.

Currency risks are solely managed using marketable instruments that hedge underlying transactions. All transactions denominated in foreign currencies are hedged. The devaluation of other currencies against the euro can impair competitiveness in certain sales regions. We are tackling this problem on a long-term basis by improving productivity and ensuring geographical diversification such that the Group can remain competitive, irrespective of the currency in which it does business. In addition, the Group endeavours to operate a system of "natural hedging" through the targeted, focused balance of goods flows.

Actually no risks have been identified that pose a threat to the going-concern status of the Group.

Opportunities
The medium- and long-term prospects for the Schaltbau Group are favoured by major global trends such as increasing urbanisation, the greater mobility of the population as a whole, the long-term upward tendency in world trade and the above-average growth rates of the BRIC states, which are, in turn, leading to

a rising need for mass transportation facilities as well as the accompanying infrastructure.

Schaltbau's innovative strength, consistently reinforced by high R&D expenditure and an international approach to operations, also opens up a great number of opportunities for growth. Even in difficult economic times, the Group's operational companies are capable of generating additional demand on markets by means of regular product innovations, such as braking systems for wind-power plants or CADS door systems.

Executive Board compensation system

The compensation of the Executive Board comprises both fixed and performance-related components. The fixed components consist of a basic salary and benefits in kind. The performance-related compensation components comprise annually recurring components which depend on the development of Group net profit. A pension plan is not in place.

Criteria for the appropriateness of the compensation include the tasks of each Executive Board member, their personal performance, the performance of the Executive Board as a whole, the economic situation, the success and the future prospects of the business taking the market environment into consideration, the customary amount of compensation and the compensation structure in view of the wage and salary structure both within the enterprise itself and in other companies of comparable size and industry. The compensation structure is oriented on the basis of sustainable corporate development. The variable compensation components contained in the new Executive Board contracts of service are based on long-term assessment and include regulations providing for an appropriate reduction if the business situation were to worsen to such an extent as to render continued payment of the compensation unfair. Furthermore, the variable compensation components are limited to a maximum amount.

Explanatory Report of the Executive Board concerning statements pursuant to § 289 (4) HGB / § 315 (4) HGB (German Commercial Code)

1. The subscribed capital comprises the following: a share capital of € 6,863,092.92, divided into 1,875,162 bearer shares (shares without nominal value).

2. The Executive Board is not aware of any limitations regarding voting rights or the transfer of shares.

3. The only major shareholders owning either a direct or an indirect share of capital exceeding 10% of the voting rights are the Cammann family, which owns 11.79% and the Zimmermann family, which owns 10.07% of the Company's shares (as at 31 December 2010).

4. There are no shareholders with special controlling rights.

5. There are no voting right controls relating to shares held by employees.

6. § 6 of the Articles of Incorporation of Schaltbau Holding AG deals with the composition, appointment and removal of the Executive Board. The Executive Board comprises two or more persons. The Supervisory Board appoints the Executive Board members and determines their number. It has the power to appoint a member of the Executive Board to be Chairman of the Executive Board, to appoint deputy members to the Executive Board and stipulate rules of procedure for the Executive Board. The Supervisory Board is also responsible for revoking the appointment of Executive Board members. The Annual General Meeting decides on any changes to the Articles of Incorporation. The only exception is that the Supervisory Board is authorised to make changes that only affect the wording of the Articles of Incorporation.

7. In 2010 the Executive Board and the Supervisory Board submitted a proposal to the Annual General Meeting to authorise the Company up to 8 June 2015 to buy back a maximum of 10% of the share capital in place at the date of the resolution for purposes other than trading. The Annual General Meeting concurred with this proposal. No Schaltbau shares were bought back during the fiscal year 2010.

   Subject to the approval of the Supervisory Board, the Executive Board is additionally authorised to increase share capital by up to € 3,294,000.00 before 11 June 2013 by issuing new shares in return for cash or non-cash contributions, either in a single step or in several steps. The Executive Board may decide to exclude subscription rights with the approval of the Supervisory Board.

   Furthermore, the Company's share capital can be conditionally increased by up to € 234.24 by issuing up to 64 new bearer shares (Conditional Capital I). The conditional capital increase serves to safeguard the granting of option rights, which, due to the authorisation resolution passed at the Annual General Meeting on 19 December 2003, are issued together with participation rights. Subject to the approval of the Supervisory Board, the Executive Board is authorised to stipulate further details regarding the implementation of the conditional capital increase.

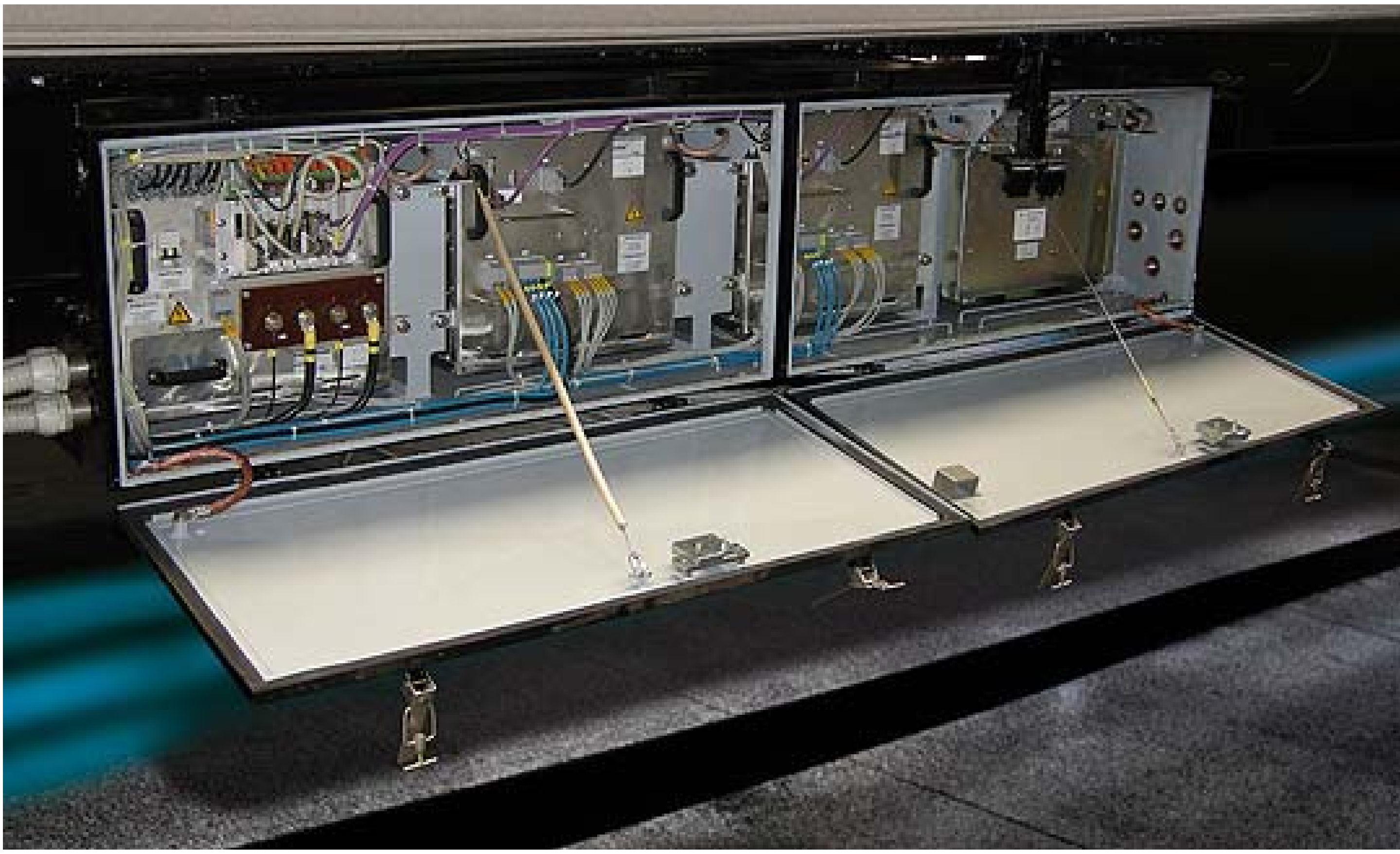
   Furthermore, the Company's share capital can be conditionally increased by up to € 1,807,212.84 by issuing up to 493,774 bearer shares (common stock) (Conditional Capital II). The conditional share capital increase may only be used to grant shares to the bearers of convertible or option bonds issued by the Company in accordance with the authorisation given at the Annual General Meeting on 1 July 2005. In accordance with the conditions laid down for convertible bonds, Conditional Capital II may also be used to issue shares to bearers of convertible bonds with conversion obligations. The conditional share capital increase will only be implemented insofar as the bearers of the option or convertible bonds issued by the Company up to 30 June 2010 in accordance with the authorisation resolution taken on 1 July 2005 exercise their conversion or option rights or if the bearers of convertible bonds fulfil their obligation to convert their bonds, with the consequence that treasury shares do not have to be used in order to fulfil these rights. In the fiscal year 2010, a total of 1,601 convertible bonds were converted to 3,494 shares.

As a general rule, the new shares participate in profit as of the beginning of the fiscal year in which they arise through the exercising of the bearers' conversion or option rights. Subject to the approval of the Supervisory Board, the Executive Board is authorised to stipulate further details regarding the implementation of the conditional capital increase.

In accordance with the authorisation given at the Annual General Meeting on 12 June 2007, Conditional Capital II may also be used to grant shares to the holders of participation rights with conversion and option rights (supplementary shareholders' resolution).

8. Schaltbau Holding AG's main loan agreements include change-of-ownership clauses, which allow creditors extraordinary cancellation rights.

9. The Company has not concluded any compensation agreements, either with members of the Executive Board or with employees, regarding employment termination in the event of a takeover offer.



CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289A OF THE GERMAN COMMERCIAL CODE (HGB)

Principles of Corporate Governance and cooperation between the Executive Board and the Supervisory Board

Schaltbau is fully committed to a high standard of responsible, transparent corporate governance. This approach is intended to foster the trust of investors, employees, business partners and the public in the management and monitoring of the Company. The guidelines contained in the Schaltbau Group's Code of Conduct set out minimum standards of conduct that are binding for all Schaltbau Group employees worldwide. The complete Code of Conduct is published on the Schaltbau Holding AG website under http://www.schaltbau.de/de/ir/cg-entsprechenserklaerung.htm.

The main principles of Corporate Governance are presented in the Corporate Governance Report, which is included in the Annual Report.

Shareholders and Annual General Meeting

The shareholders of Schaltbau Holding AG exercise their rights at the Annual General Meeting. The Annual General Meeting takes place once a year within the first eight months of the following fiscal year. The Chairman of the Supervisory Board chairs the Annual General Meeting, which then decides on the tasks for which it is responsible.

The agenda, directions on how to get there and information on voting proxies are published on the Company website in good time with the aim of making participation in the Annual General Meeting of Schaltbau Holding AG as straightforward as possible for shareholders. The shareholders can also obtain proxy voting forms from the website with which to designate an authorised proxy for the Annual General Meeting, who is obliged to vote in accordance with the shareholder's instructions.

Supervisory Board

In accordance with § 8 (1) of the Articles of Incorporation, the Supervisory Board of Schaltbau Holding AG comprises six members. One third of these are employee representatives and the remaining two thirds represent shareholders. The shareholder representatives are elected at the Annual General Meeting and the staff representatives are elected by employees. The Supervisory Board elects its chairman from among its members. The term of office of the shareholders' representatives will cease at the end of the Annual General Meeting, during which the shareholders will vote on ratifying the actions of the Supervisory Board for the fiscal year 2010.

The Supervisory Board appoints the members of the Executive Board. The Supervisory Board both monitors and advises the Executive Board in the governance of the Company's affairs. The Executive Board requires the approval of the Supervisory Board for major decisions. The Supervisory Board meets at regular intervals four times a year. It examines the Company Financial Statements and the Consolidated Financial Statements and, on this basis, adopts the Company Financial Statements and approves the Consolidated Financial Statements.

The Supervisory Board of Schaltbau Holding AG currently has a Personnel Committee, consisting of the members Hans-Jakob Zimmermann, Dr. Stefan Schmittmann and Marianne Reindl. The Chairman of the Supervisory Board is also Chairman of the Personnel Committee. No other committees exist within the Supervisory Board. An Audit Committee has been provided for under the Supervisory Board's rules of procedure, but has not been formed, however, in view of the size of the Supervisory Board. No further committees were appointed, particularly in view of the fact that procedures are in place to ensure a consistent flow of corporate and other relevant information to all members of a six-person Supervisory Board.

Executive Board

The Executive Board manages the business under its own responsibility. It reports regularly, promptly and comprehensively to the Supervisory Board in both written and oral reports on business performance, corporate strategies, fundamental issues relating to financial, investment and personnel policies as well as on the profitability and the risk situation of both Schaltbau Holding AG and the Schaltbau Group. A D&O insurance policy has been taken out for the members of the Executive and Supervisory Boards. A deductible has been contractually agreed upon for the members of the Executive Board with effect from the beginning of 2010.

Financial reporting and external audit

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS). The Consolidated Financial Statements are submitted by the Executive Board, audited by the external auditors and examined and approved by the Supervisory Board. The Consolidated Financial Statements are made accessible to the public.

The external auditor reports to the Supervisory Board on any significant findings and events resulting from the external audit that could be of relevance for the work of the Supervisory Board. The Chairman is informed if the external auditor detects facts that point to an inaccuracy with respect to the Declaration of Compliance submitted by the Executive Board and the Supervisory Board in accordance with § 161 of the German Stock Corporation Act (AktG).

Transparency
Schaltbau Holding AG utilises its website (www.schaltbau.de) to provide information to shareholders and investors promptly. In addition to the Annual Report, which also includes the Corporate Governance Report and Interim Financial Reports, shareholders and third parties are additionally kept informed of the latest developments by means of ad hoc announcements and press releases. Schaltbau Holding AG publishes a financial calendar displaying all important dates and corporate publications well in advance. In accordance with § 10 of the Securities Prospectus Act (WpPG), all publicly listed companies are annually required to provide the public with a document containing all information published or otherwise made public by them within the preceding twelve months in compliance with corporate or capital market regulations. The "Annual Document" can be downloaded at: www.schaltbau.de.

Declaration of Compliance pursuant to § 161 AktG as at 16 December 2010
Declaration of the Executive Board and the Supervisory Board of Schaltbau Holding AG regarding the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to § 161 AktG ("Declaration of Compliance").

The Executive Board and the Supervisory Board of Schaltbau Holding AG issued the last Declaration of Compliance with the German Corporate Governance Code pursuant to § 161 AktG on 9 December 2009. The following declaration relates to the version of the Code dated 18 June 2009 and published on 5 August 2009 in the electronic Federal Gazette for the period from 9 December 2009 to 2 July 2010. For the period from 3 July 2010 onwards the following declaration relates to

the recommendations of the Code contained in the version dated 26 May 2010 and published on 2 July 2010 in the electronic Federal Gazette.

The Executive Board and the Supervisory Board of Schaltbau Holding AG hereby declare that the recommendations of the "Government Commission on the German Corporate Governance Code" have been and are being observed, with the following exceptions:

Re 3.8:
Schaltbau Holding AG is principally not of the opinion that the degree of motivation and responsibility with which the members of the Executive Board and the Supervisory Board perform their duties will be enhanced by the introduction of a deductible. The D&O insurance policy taken out for the benefit of the Supervisory Board will thus remain without provision for a deductible. The Executive Board contracts of service includes a deductible for Executive Board members in accordance with regulations.

Re 4.2.3:
There is no plan to introduce stock option models as variable compensation components for Executive Board members. Long-term incentives for the Executive Board should continue to be primarily achieved by means of variable compensation components that relate to the extent of Group profits. Thus the compensation of individual Executive Board members consists solely of fixed and success-oriented components because the Supervisory Board is of the opinion that stock option models are only limitedly suitable as an incentive for the Executive Board.

The contracts of service for Executive Board members do not include payment arrangements either pertaining to the premature termination of their positions in the Executive Board or termination resulting from a change of control. Thus in case of premature termination of a position in the Executive Board, the necessary flexibility is retained to allow an appropriate agreement to be reached in keeping with the particular situation.

Re 4.2.4 / 4.2.5:
The total compensation of each member of the Executive Board will not be disclosed as a result of the resolution taken at the Annual General Meeting on 7 July 2006.

Re 5.1.2:
Due to the function of Schaltbau Holding AG as holding company, the number of staff members it employs is limited. For this reason, a long-term succession plan primarily based on the selection of potential internal successors is not practicable. In view of the current ages of the Executive Board members and the terms of their appointments, there is currently no age limit in place for Executive Board members.

Re 5.2 / 5.3:
The Supervisory Board has formed a Personnel Committee. An Auditing Committee has been provided for under the rules of procedure of the Supervisory Board, but has, however, not been formed due to the total size of the Supervisory Board. No further committees were appointed, particularly in view of the fact that a consistent flow of all company and other relevant information to all members of a 6-person Supervisory Board is eminently achievable.

Re 5.4.1:
When making proposals for the selection of Supervisory Board members, apart from observing the statutory regulations, the Supervisory Board solely takes each candidate’s technical and personal suitability into consideration as well as their proper fitness for the purpose of promoting the function of the Supervisory Board. This includes, for instance, the selecting of members with suitable corporate experience. The Supervisory Board does not wish to name more specific aims for its composition, as the mere naming of any such aims will not necessarily lead to an improvement in the quality of the work of the Supervisory Board.

Re 5.4.6:
The compensation of Supervisory Board members is stipulated in the company's Articles of Association and specifically explained in the compensation report contained both in the Group Management Report and in the Corporate Governance report. For this reason, further disclosure of individual compensation is not currently provided for.

Membership in committees is not taken into account in the compensation of Supervisory Board members because there are currently no other committees apart from the Personnel Committee.

Re 7.1.2:
A specific review does not take place between the Executive Board and the Supervisory Board prior to the publication of half-yearly or quarterly financial reports. The assets, financial and profitability situation is regularly reviewed within the framework of Supervisory Board meetings and whenever the need arises on the strength of monthly reporting to the Supervisory Board. The Executive Board sees this as the only way to preserve the flexibility required for legal reasons, particularly in the case of subject matter relevant to ad hoc publicity.

Due to the international structure of the Group and the resulting complexity, the Group financial statements have not been made publicly accessible within 90 days after the end of the fiscal year.

Outlook

According to the latest predictions, the world economy will continue to grow in 2011, but with less momentum and marked differences from one region to the next. Economic output in the larger emerging markets has meanwhile outstripped the volumes seen prior to the financial and economic crisis, whereas to date the USA is the only industrialised country that has been able to compensate for the slump in gross domestic product caused by the crisis. Particularly in Japan the economy is only recovering very sluggishly. According to current predictions, Germany is likely to have caught up with the massive losses in production volumes by the end of 2011 and will continue to play the role of economic driving force in the eurozone.

In view of these assessments, the prospects for the various business fields of the Schaltbau Group can be regarded in a thoroughly positive light. However, there are a numerous incalculable economic risks that not only result from the delicate situation on financial markets. Sovereign debt is extraordinarily high in many countries, particularly in the eurozone. Greece and Ireland, which have already been obliged to seek help from the European Financial Stabilisation Mechanism (EFSM), are having considerable problems implementing the required savings measures among their populations. Other countries are also currently hit and could follow, with consequences for social stability and public expenditure that are difficult to assess.

The economy in China is currently running at full speed, albeit at the cost of high inflation, which could cause a delayed reaction on European markets. The current economic upturn in the USA is nevertheless overshadowed by a housing market that is still considerably at risk. Till now, economic forecasts have hardly taken the uprisings in North Africa and the Middle East into account. Here again it is not possible to predict which influence the political upheavals in these regions will have on the global economic climate.

It also means that the relevant industries will have to expect a large degree of market volatility that will be impacted by greatly varying factors from one region to the next, including fluctuations on currency markets.

In view of these factors, the Schaltbau Group will be looking to position itself in an increasingly global way during the coming years. The strategy will be consistently implemented step by step. The indirect takeover of a 67% holding in Bode Corporation at the beginning of 2010 reinforced the Group's position on the rail and bus market in North America. The complete takeover of Schaltbau North America Inc. at the beginning of 2011 supports the Group's regional components business in the railway and industrial sectors. In the field of door systems for railway vehicles, buses and trams, an increase in the share in the Polish company Rawag and the option to acquire a majority holding is paving the way for access to the markets of Eastern Europe. The new majority holding in South Korea is enabling Bode to enter another important Asian market.
Schaltbau is striving to expand its local presence in its most important target markets, not only in sales and engineering. Only by producing locally can the Group practically synchronise its flows of goods and keep financial hedging as a method of compensating for currency fluctuations to a minimum.

The Schaltbau Group started well into 2011 and production is currently seeing a high level of incoming orders as well as good capacity utilisation in the first months of the year. However, bottlenecks in materials procurement and rising raw material prices continue to be experienced. The Executive Board views the remaining course of the year with cautious optimism and is confident that the forecasts for the fiscal year 2011 made at the beginning November 2010 will be fulfilled at the very least. The forecast states that the Schaltbau Group is likely to record sales of approximately € 290 million with EBIT figures of € 23.5 million. Group net profit is expected to reach € 15.8 million the earnings per share will thus reach € 7.20 (undiluted).

With its strong focus on customers in the railway industry and its good positioning in several major fields of industrial growth, the Schaltbau Group stands on solid ground. In the field of Door Systems for Railway Vehicles, the Mobile Transportation Technology segment has a medium- and long-term order book that already now ensures sales revenues at the previous year's levels when supplemented by short-term orders for spare parts. The market environment for door systems for buses, which is far more prone to economic fluctuation, is expected to behave seasonally in 2011, similar to the previous year. In the Stationary Transportation Technology segment, the ongoing continuity of funding from customers in the field of railway technology will ensure constant business performance for the Rail Infrastructure business field. The Brake Systems business field is expected to perform well as the far longer project list and the currently well-filled order book are greatly improved on those of the previous year. The fundamental trend in the Components segment continues to point upwards. The recovery in the industrial field is likely to continue and China will remain the driving force of growth.

The business environment for the sectors relevant to the Schaltbau Group in fiscal year 2012 is expected to remain generally favourable. International demand in the railway sector is predicted to be stable. The Group's good market positioning and the high acceptance of its innovative products is likely to mean that the Door Systems for Railway Vehicles product group in particular continues to gain market share. As the market for industrial applications continues its upward trend, the increasingly strong penetration of new growth markets such as that of renewable energy should also enable the Schaltbau Group to gather momentum for increased expansion. For this reason both sales and earnings are likely to continue growing in 2012.

The medium-term forecast for the Schaltbau Group remains closely interwoven with the prospects of the railway industry. In this respect the basic trends continue to be favourable. Particularly in the developing and emerging countries a rapid increase in urbanisation is to be expected, which is likely to result in greater volumes of traffic and have a correspondingly negative impact on the environment. At the same time the world's crude oil reserves are constantly shrinking, which will inevitably lead to considerable rises in the cost of individual mobility. The resulting challenges can only be met globally, and this is exactly where railway transportation offers key solutions due to its sustainability, energy efficiency and climate compatibility.

Thus an increased international expansion of railway networks is to be expected. Secondly, the development will have a positive impact on mass transit systems. Bus transportation will also profit from this trend. The increasing use of railways and buses as global methods of transportation opens up corresponding opportunities for the companies of the Schaltbau Group, which are to be additionally made use of through the consistent expansion of existing business and augmented by means of specific acquisitions as the need arises.

Other disclosures

This Management Report contains facts and forecasts that reflect the future performance of the Company and Group based on the assessment of the Executive Board of Schaltbau Holding AG. These assessments are considered to be realistic for the purposes of this report. It is, however, possible that assumptions may prove to be incorrect or that unforeseen risks and uncertainties arise. For this reason, the actual outcome may differ to expectations. This may be due to a number of reasons, such as changes in the business and economic environment, for example, major changes in project business or in the investment behaviour of customers.

Munich, 23 March 2011
The Executive Board