

“Strengths and weaknesses”

The strengths and weaknesses of any organization are revealed in the speed at which it succeeds in reacting to unexpected crises. In this respect, the crisis management which was equally well executed by all the divisions was truly impressive. But I am also proud that, even during the difficult past business year, “my” division has developed into a mainstay of the Group, thanks to its product and market portfolio.



Railway Systems Division

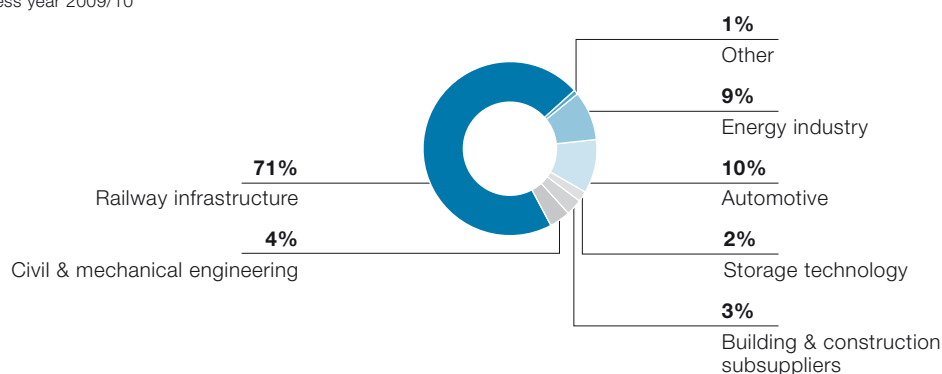
Key figures of the Railway Systems Division

In millions of euros

	2008/09	2009/10	Change in %
Revenue	2,351.0	1,908.5	-18.8
EBITDA	414.7	329.0	-20.7
EBITDA margin	17.6%	17.2%	
EBIT	324.7	225.6	-30.5
EBIT margin	13.8%	11.8%	
Employees (excl. temporary personnel and apprentices)	8,077	7,863	-2.6

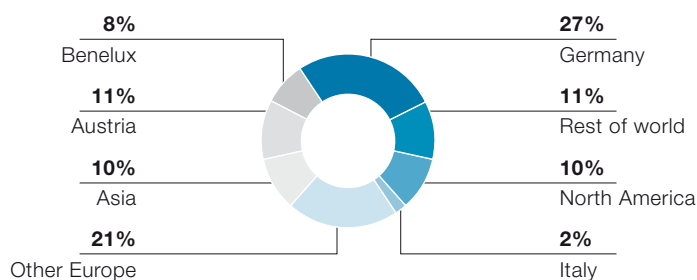
Customers of the Railway Systems Division

As percentage of divisional revenue
Business year 2009/10



Markets of the Railway Systems Division

As percentage of divisional revenue
Business year 2009/10



Market environment and business development

During the past business year, the overall market environment was largely positive for the Railway Systems Division, although it was strongly differentiated in the individual segments due to their specific circumstances.

The *railway infrastructure* sector was characterized by an economic situation that was generally satisfactory—not least due to accelerated state-sponsored infrastructure programs.

Turnout technology displayed a stable business performance in Western Europe, and in Eastern Europe project activity picked up. The development of exports to overseas railway markets, especially exports of sophisticated Hytronics technology, was very satisfactory. Railway building projects in China, the Gulf states, and in the CIS states are particularly noteworthy; in the latter, business is improving due to the rising volume of goods traffic. In North America, however, economic stimulus programs have not resulted in a recovery in the railway infrastructure segment thus far; overall, demand has stabilized only at a low level or has even continued to decline, for example in the important freight segment (Class I railways).

Sinking pre-materials prices (for steel and rails) have resulted in a corresponding pressure on prices; this development was further exacerbated by growing competition, in particular from Asian suppliers.

The situation of the *rail* sector is similar, where, starting in the fall of 2009, far more aggressive competition has resulted in a sharp decline in prices, particularly within the scope of new tenders in Europe. It is not yet possible today to say where the bottom of this decline will be, particularly in the

standard rail segment. While the past business year was widely characterized by a large order backlog from previous periods that provided a cushion and corresponding attractive margins, the second half of 2009/10 was marked by a growing number of postponed projects and contract awards. This trend was particularly conspicuous in the increasingly limited latitude in the budgets of the Central and Eastern European countries. The overall demand for rails in Europe fell by more than 10 percent, although this was partly compensated by higher exports to other markets.

After a difficult first half of the year that was marked by significant declines due to the economic crisis, the *wire* business segment showed a substantial upward trend in the second half of the business year. From the fall of 2009 onward, demand in all product groups and in almost all of the major customer industries has been very satisfactory. The long-term focus on niche products of the highest quality and the ability to secure mostly long-term supply agreements have paid off during this economic crisis. The gratifyingly favorable trend in incoming orders, including orders that are being rolled over into the new business year, has resulted in a high capacity utilization and enabled the reintroduction of corresponding production levels in the wire production segment.

The picture of the *seamless tube* segment for the business year 2009/10 is sharply differentiated. Although the difficult situation with regard to both prices and volumes improved substantially in the course of the year, from today's vantage point, the sustainability of this trend has not yet been

secured. In the OCTG (Oil Country Tubular Goods) segment, whose main market is the USA, the trend in rig counts, the market's most important indicator, continues to be favorable and has resulted in a level of orders that is higher than expected. Demand for industrial tubes (mechanical engineering, automotive, boiler construction) was at a very low level in the early part of the business year, however, there was a subsequent slight rise in demand. Nevertheless, the average price level continues to be extremely modest; an improvement cannot be expected prior to the middle of the 2010 calendar year.

As in the previously described trends in the division's other segments, the *steel* segment showed a gradual improvement in utilization of capacity and profit; as of the beginning of the third quarter of the business year, it again became possible to fully ramp up production due to growing demand from both divisional processing companies and external customers.

Development of the key figures

Although the Railway Systems Division's revenue and operating result did not attain last year's figures, given the economic crisis, they can be considered very favorable. After EUR 2,351.0 million last year, sales revenue

came to EUR 1,908.5 million, representing a decrease by 18.8%. Even though EBITDA fell by 20.7% from EUR 414.7 million to EUR 329.0 million and EBIT by 30.5% from EUR 324.7 million to EUR 225.6 million, it was possible to achieve two-digit profit margins. At 17.2%, the EBITDA margin was almost back to last year's level (17.6%) and at 11.8%, the EBIT margin was only slightly below last year's figure of 13.8%. However, this was possible only by way of an accelerated adjustment of the cost structure to the earnings structure, meaning a substantial reduction of the break-even point.

The development of the individual quarters of the business year 2009/10 impressively mirrors the Railway Systems Division's high degree of stability with regard to revenue and profit, even in an extremely difficult market environment. While in the first half of 2009/10, it was primarily the rail and turnout segments that bolstered the division's earnings due to the market environment and a high level of orders with attractive margins, a revitalization of the wire and seamless tube segments starting in the second half of 2009/10 was able to largely compensate the increasingly aggressive competition in the rail and turnout segments.

As of March 31, 2010, the Railway Systems Division had 7,863 employees; compared to the previous year (8,077) this corresponds to a 2.6% reduction.

Quarterly development of the Railway Systems Division

	1 st quarter 2009/10	2 nd quarter 2009/10	3 rd quarter 2009/10	4 th quarter 2009/10	BY 2009/10
Revenue	481.6	487.9	454.2	484.8	1,908.5
EBITDA	81.4	84.3	77.9	85.4	329.0
EBITDA margin	16.9%	17.3%	17.2%	17.6%	17.2%
EBIT	56.5	56.5	53.4	59.2	225.6
EBIT margin	11.7%	11.6%	11.8%	12.2%	11.8%
Employees (excl. temporary personnel and apprentices)	8,035	8,023	7,830	7,863	7,863

In millions of euros

Quarterly development of the Railway Systems Division

In millions of euros
Business year 2009/10

■ Revenue
■ EBIT

