1+1=1
The merger of Westinghouse Air Brake and MotivePower Industries in November 1999 created an unprecedented union in the rail industry. The new entity, Wabtec Corporation, now stands as North America’s premier source for technologically advanced freight and transit rail equipment, components and services.

Profile
Wabtec Corporation (www.wabtec.com) is North America’s largest provider of value-added, technology-based products and services for the rail industry. Through its subsidiaries, the company manufactures a full range of products for locomotives, freight cars and passenger transit vehicles. The company also builds new locomotives up to 4,000 horsepower and provides aftermarket services, including locomotive and freight car fleet maintenance. Wabtec’s mission is to help its customers achieve higher levels of quality, safety and productivity so they can compete more effectively.

Forward-Looking Statements
This annual report contains forward-looking statements and includes assumptions about future market conditions, operations and results. These statements are based on current expectations and are subject to risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Form 10-K filed with the Securities and Exchange Commission lists the factors that could cause actual results to differ materially from the forward-looking statements. In making these forward-looking statements, the company assumes no obligation to update them or advise of changes in the assumptions on which they were based.
## Financial Summary

### Adjusted (In Thousands, Except Per Share Data)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$1,121,068</td>
<td>$1,036,127</td>
<td>$870,371</td>
</tr>
<tr>
<td>Gross profit¹</td>
<td>337,188</td>
<td>300,501</td>
<td>258,460</td>
</tr>
<tr>
<td>EBITDA¹</td>
<td>207,480</td>
<td>181,644</td>
<td>159,184</td>
</tr>
<tr>
<td>Operating income¹</td>
<td>164,866</td>
<td>145,029</td>
<td>124,593</td>
</tr>
<tr>
<td>Net income¹</td>
<td>77,041</td>
<td>73,851</td>
<td>57,539</td>
</tr>
<tr>
<td>Earnings per diluted share¹</td>
<td>1.74</td>
<td>1.67</td>
<td>1.30</td>
</tr>
<tr>
<td>Cash earnings per diluted share²</td>
<td>1.98</td>
<td>1.96</td>
<td>1.46</td>
</tr>
<tr>
<td>Total assets</td>
<td>996,676</td>
<td>967,382</td>
<td>693,981</td>
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<tr>
<td>Debt</td>
<td>568,587</td>
<td>573,615</td>
<td>415,441</td>
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<tr>
<td>Shareholders’ equity</td>
<td>181,878</td>
<td>144,076</td>
<td>65,285</td>
</tr>
</tbody>
</table>

1. Excluding 1999 merger and restructuring charge.
2. Excluding 1999 merger and restructuring charge; calculated as income before extraordinary item plus after-tax effect of amortization, divided by weighted average diluted shares.
Letter to Fellow Shareholders:

The year 1999 was the best of times as we posted records for sales and earnings, and began to lay a strategic foundation for our company's future growth. But 1999 was also the most difficult of times as we faced slowing demand for some of our products late in the year, which resulted in disappointing fourth-quarter earnings and a stock price at its 52-week low.

From a financial perspective, 1999 was the company's best year ever, excluding a merger and restructuring charge. Sales increased 8 percent to a record $1.1 billion. We generated records for EBITDA of $207 million, 14 percent more than the prior year; earnings per diluted share of $1.74; and cash earnings per diluted share of $1.98.

Operationally, we had many successes, as well. Through our highly regarded Quality and Performance System, we lowered costs and improved productivity throughout the corporation. We introduced many new products or upgrades for our customers. And we expanded production in Mexico so that we could be closer to its growing rail industry and lower costs.

Strategically, 1999 may well turn out to be the most important year in our company's history. In November, we merged our company, then called Westinghouse Air Brake, with MotivePower Industries, a fellow rail equipment supplier with a strong presence in the important locomotive aftermarket and a track record of growth. In forming the new Wabtec Corporation, we became the largest public rail equipment supplier in North America and, more importantly, the only one in the world capable of providing virtually all the products and services required to run a train — from the ditchlights on the first locomotive to the end-of-train device on the last freight car.

So in many respects, the book on 1999 is a pretty good read.
Financially, 1999 was our best year, as we generated a record $207 million in EBITDA, excluding a merger and restructuring charge. Operationally, we cut costs, improved productivity and introduced new products. Strategically, our merger positioned the company for future growth.

But, we did fall short of our annual goal to achieve double-digit earnings growth. As executive managers and major shareholders of the company, we were not at all satisfied with that outcome. Our singular objective for 2000, therefore, is to get back on track and achieve that growth goal. We have a generous mix of external forces and internal initiatives that will drive our future growth.

First, we'll cover the external forces, which are trends in the rail industry that will evolve regardless of the industry's new equipment cycles. We call them our "growth engines," and they are: outsourcing, development of "hardened" products, consolidation and alliances among suppliers, and international privatization of railroads. The common thread linking these trends is the industry's renewed focus on improving the safety, productivity and reliability of its equipment, now that most of the major railroad mergers have been completed. The new Wabtec is ideally positioned to aid in this process.

To reduce costs and improve productivity, railroads around the world are looking to outsource non-transportation functions, such as the maintenance and overhaul of their locomotives and freight cars. With the resources of the former MotivePower Industries companies, we now have the capabilities to provide a complete range of aftermarket services throughout North America. Combined with our ability to provide custom electronic solutions, we can offer a level of service unmatched in the industry. In Chicago, for example, we provide all the components for the Belt Railway to maintain its locomotives by managing its parts inventory and delivering parts within four hours.

To help the railroads improve the reliability of their equipment, we work constantly to deliver new, technology-based solutions. These may include developing new products, or expanding our menu of "hardened" or upgraded products. For example, we received an order from the South African State Railway for advanced electronic braking and distributed power control equipment.

We are also continuing to explore strategic alliances and acquisitions with other global suppliers. We look for opportunities where the outcome benefits the customer in ways not previously possible. In 2000, for example, we are delivering 50 low-horsepower switcher locomotives to the Electro-Motive Division of General Motors, for use by a third party. This strategic alliance combines the marketing muscle of EMD with our low-cost production to provide the marketplace with a fuel-efficient, high-technology locomotive.

Finally, our reach today is more global than ever as governments around the world look to improve their rail operations by selling their systems to third parties, including our U.S. customers. For example, several years ago Kansas City Southern and Union Pacific purchased ownership stakes in the Mexican rail system. We have been with them from the start, providing daily fleet maintenance, equipment overhauls and components.
Those external forces in the marketplace will continue to provide our company with ample opportunities for growth. But we are also hard at work on internal initiatives to drive sales growth, productivity improvements and cost reductions.

Shortly after our merger was completed, we created a single, consolidated, national sales force to serve our North American rail customers. This organization was built geographically around key customer locations to provide them with one-stop shopping and one point of contact. We also have begun to develop kits that include, for example, all the components necessary for a locomotive overhaul, saving our customers the time and money of purchasing these components from multiple suppliers. And we are developing an e-commerce strategy that will enhance our industry leadership role.

To improve our own productivity and efficiency, we rely on our Quality and Performance System, discussed on pages 8-9. QPS has been a part of our culture since 1991, and we have achieved measurable improvements as a direct result. Applying our QPS to the former MotivePower Industries companies is providing us with many exciting opportunities.

Through QPS and other means, we plan to achieve substantial cost reductions as a result of our merger. In 2000, we expect to generate savings of at least $15 million pre-tax, and to be at an annual run rate of at least $25 million pre-tax by the end of the year. We have already announced the closing of three facilities, as we strive to consolidate manufacturing into our most productive and cost-efficient plants. We are also attacking costs aggressively elsewhere, including the corporate headquarters, where expenses have been reduced by 20 percent, compared to pre-merger levels of 1999. We are leaving no cost-cutting opportunity untapped.

With all that we must accomplish, the year ahead of us will be very challenging. Achieving our double-digit earnings growth goal will not be easy, given the cyclical downturn in deliveries of new locomotives and freight cars compared to the past two years. Even with the expected strengthening of the more stable aftermarket, which represents about 60 percent of our sales, and the expected growth in our transit business beginning in mid-year, the company will be impacted significantly by the downturn of the new equipment market.

But, we can assure you that our management team is approaching this challenge with intensity, a strong sense of urgency and an unwavering commitment to build shareholder value.

We thank you for your support and your investment.
1+1=1 Wabtec Corporation represents a strategic merger in the rail industry. A coupling of complementary resources and capabilities, Wabtec has the power to leverage its superior breadth of products, systems and services; to develop more robust and technologically advanced components; to raise industry-accepted standards of performance; and to continue to grow internationally. Wabtec is emerging as a single, leadership enterprise in action and attitude.

One Source. One Quality. One Team.
The new Wabtec Corporation stands as the nation’s most comprehensive manufacturer and supplier of technology-driven rail/transit equipment, components and services. Our network of companies provides virtually all the products and services required to run a train.

1+1=One Source
Parts, Systems, Services

We provide the rail industry with superior resources to keep its rolling stock in revenue service. We are the only single source for products, systems and services that stretch from the locomotive to the end of the train... and beyond.

Wabtec’s entrepreneurial business units manufacture most of the critical components for locomotives, freight cars and transit vehicles. Our extensive catalog contains more parts for more types of equipment, enhancing our customers’ chances of getting exactly what they need. Whether it’s a single part, a customized kit or an advanced system of electronically linked components, Wabtec reduces the time customers devote to parts procurement by meeting most of their needs in one place.

Beyond its breadth of products, Wabtec further streamlines rail equipment maintenance operations by designing efficient, customer-specified parts warehousing and fleet maintenance programs. We enable freight and commuter railroads to focus on what they do best — transportation — by managing their parts inventory with just-in-time delivery systems and by servicing their equipment on site.

Our new partnership with Freight Australia, where we manage parts inventory and provide components for the maintenance and overhaul of 148 locomotives, is an example of the comprehensive, value-added services Wabtec provides.

Pulling It All Together

We’ve reorganized and strengthened our domestic and international sales teams to provide customers with one point of contact for Wabtec’s entire range of products and services. This approach improves communications with customers and allows us to actively identify opportunities to improve the performance of their equipment, bundle key products and services, streamline business logistics and reduce costs.

In addition, Wabtec is committed to expanding its electronic commerce capabilities. Plans are underway to facilitate increased transactions with customers and suppliers via the Internet. Our focus on supporting the worldwide market with 24-hour access to rail and transit equipment maintenance solutions will further strengthen our ability to pull it all together in a true, one-source fashion.
Wabtec’s Quality and Performance System drives measurable improvements in quality, productivity and efficiency. Deeply entrenched in our management philosophy, QPS provides a key link to our stakeholders because it produces real results and clearly makes a difference.
Helping Customers Gain A Competitive Edge

Our motivation for improving quality is our customers. The demands on the freight and transit industries to transport products and people economically and dependably are continually increasing. So they are constantly striving to improve the safety, reliability, capacity and productivity of their equipment. Wabtec’s mission is to provide components, systems and services that support our customers’ competitive efforts.

A Corporate-Wide Commitment To Quality

Wabtec’s corporate-driven Quality and Performance System is our commitment to helping customers achieve their goals. Initiated in 1991, QPS is a proven collection of tools for improving quality, delivery, cost and performance. The ideals embodied in QPS, including continuous improvement and lean thinking, are ingrained in our culture. And the use of techniques such as Value Stream Analysis, Kaizen and Statistical Engineering has demonstrated significant, measurable improvements.

For example, Statistical Engineering analysis helped one subsidiary retain its multi-million-dollar relationship with an important transit customer by identifying the source of a problem that was taking buses out of service for unnecessary maintenance checks. Through Kaizen, we reduced our accepted warranty claims on 40 components supplied to a major freight railroad to well below the customer’s goal, and to zero in most cases.

By implementing QPS in every Wabtec facility year-round, we improve the delivery and reliability of products; eliminate bottlenecks in our systems so we can respond more quickly to customer needs; and improve production cycle time, inventory levels, production per employee and other benchmarks on the shop floor. Improving plant operations will be critical to our success this year, so we’ve increased the number of Kaizen events to at least 50, more than double the 1999 schedule. We are especially focused on the former MotivePower Industries plants, where Kaizen events have already generated significant cost savings.

Our long-term success is based on our ability to advance the service and equipment standards of the rail and transit industries. And we are eminently qualified to meet that challenge.
From the best practices of two leading rail equipment suppliers, we have created a high-value company with unsurpassed competitive benefits and growth opportunities. Our new team knows its strengths, knows its challenges and knows what it has to do.
Building The Wabtec Team

It was no coincidence that we adopted a new name following the merger, because on that day a fundamentally new company was created.

Each predecessor company dramatically impacted the other, forcing all of us to change our old ways of thinking and doing business. Westinghouse Air Brake was a major supplier of control-based products for OEMs, highly focused on developing new and better products for freight cars and transit vehicles. MotivePower Industries brought locomotive expertise, as well as a strong position in the after-market as a low-cost, best-value provider of power-related parts and components. Clearly, we had to reevaluate, reposition, reorganize and, essentially, rebuild the company. In doing so, we are emerging as one solid team.

Better, Not Just Bigger

Wabtec’s team has a clear understanding of its now-superior market advantages. We have a broader range of components and services, the technological capabilities to create advanced systems by linking multiple products and the financial strength to continue to invest in new product development. Additionally, we now have the ability to compete more effectively in the area of on-board integrated electronics.

Our team thrives in a decentralized, action-oriented and entrepreneurial culture that drives us to build shareholder value. With management and insider stock ownership of about 25 percent, we have a high stake in the success of our company. So we are working together to exploit our new-found strengths and resources fully. We’re refining our sales approach to take advantage of our expanded product line and services, challenging all of our operations to meet aggressive productivity benchmarks, expanding our relationships with domestic and international customers, and pursuing exciting new product opportunities.

For the new Wabtec Corporation, this is only the beginning.
Wabtec’s Freight Group comprised 79 percent of total net sales in 1999. Major customer groups include Class I, regional and short-line freight railroads throughout the world, U.S. commuter railroads, and freight car and locomotive manufacturers. To these customers, we provide nearly all of the critical components and systems that are needed to operate a train, as well as value-added aftermarket services.

1999 Results
Net sales increased 7 percent... Growth resulted primarily from acquisitions in late 1998 and early 1999, which more than offset lower demand for locomotive overhauls... Industry deliveries of new freight cars (74,223 vs. a 20-year high of 75,685 in 1998) and new locomotives (about 1,400 vs. about 1,300 in 1998) remained strong and favorably impacted the group’s results.

1999 Highlights
Received $35 million order from the Electro-Motive Division of General Motors for 50 new switcher locomotives under a strategic alliance to manufacture EMD’s private brand 1,500- and 2,000-horsepower locomotives for NAFTA... Delivered more than $20 million worth of freight brake equipment to Trinity Industries for coal cars, and signed new contract to supply GE Transportation Systems with brake equipment for 500 new locomotives... Awarded $21 million contract to overhaul 25 commuter locomotives for the Massachusetts Bay Transportation Authority. Signed five-year contract extension with Central Trains in U.K. for overhauled wheel-assembly platforms worth about $15 million... Received $7 million order from Egyptian National Railways for remanufactured traction motors and locomotive replacement parts... Awarded $4 million contract by Brush Traction in U.K. to supply remanufactured engines.

In Mexico, signed a $16 million, 14-year contract with Electro-Motive de Mexico to maintain 75 new high-horsepower locomotives supplied to Transportacion Ferroviaria Mexicana... Overhauled 19 locomotives for Ferromex valued at about $7.5 million... Continued to expand locomotive parts manufacturing capabilities.

Awarded contract by Spoornet, the South African state-owned railway, to develop fully integrated Electronically Controlled Pneumatic brakes and Distributed Power Control equipment for 210 cars and four locomotives... Signed long-term purchase agreement with CSXT for at least 600 radio packages over five years... Received a contract to supply and support 350 grade-crossing monitors for BNSF... Announced partnership with ORTHSTAR, Inc. to develop train navigation and simulation product that improves train handling, fuel consumption and safety.

2000 Outlook
Net sales expected to grow modestly... Industry projected to deliver significantly fewer new freight cars (about 50,000) and new locomotives (about 1,100) than 1999... Initial softness in locomotive aftermarket business expected as railroads elect to defer certain projects... Group will begin delivery of 50 switchers to EMD, with order to be completed by year-end... Sales efforts will be focused on bundling or kitting components to serve as single source for customers... Operations will be focused on cost reductions and consolidating manufacturing facilities.
Transit Group

The Transit Group represented 21 percent of total net sales in 1999. The group serves every major rail transit system in North America, as well as manufacturers of original equipment passenger vehicles. We provide these customers with a full complement of transit products, integrated systems and aftermarket services.

1999 Results
Net sales increased 12 percent, primarily due to the initial deliveries of components used in new subway cars for New York City... The group also benefited from a full year of production at its new air conditioning products facility, which opened in Plattsburgh, N.Y., in mid-1998.

1999 Highlights
Completed Qualification Testing and delivered initial components (doors, brakes, couplers and current collectors) for New York City’s R-142 and R-142A contracts, expected to generate net sales of $150 million over three-year period... Under the contracts, New York City will purchase 1,080 new subway cars, the largest single order in North American history... Received $30 million order from Kawasaki for same products for New York City’s R-143 car program... Received order from Bombardier for first “Intelligent Door System” for Long Island Rail Road... Developed new generation of electro-pneumatic operating unit that integrates microprocessor and pneumatic control... Introduced new door system with microprocessor control for Atlanta M etro.

Delivered first production units of new disc brake actuator system for “Surf Liner” in Southern California... Received three-year purchase commitment for new thermal fluid heater used in oil drilling, opening new market for product... Introduced new boilers without refractory liner to marine industry.

Opened fifth North American service center to overhaul and upgrade air conditioning equipment for BART in San Francisco... Delivered initial door systems for Copenhagen M ini-M etro... Purchased inverter technology, allowing air compressors and air conditioning units to operate with AC power... Supplied new brake control systems and related materials for the extension of the Mexico City M etro, Line A... Shipped couplers to Siemens for the new extension of the Taipei, Taiwan M etro.

2000 Outlook
Net sales expected to show double-digit growth, if New York City contracts begin full production in early second half, following successful testing of prototype trains... Several major contracts expected to be awarded during the year, including a follow-on order for 300 additional cars from New York City.
## Condensed Consolidated Balance Sheets

### (In Thousands)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$7,056</td>
<td>$8,983</td>
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<tr>
<td>Receivables</td>
<td>179,734</td>
<td>190,160</td>
</tr>
<tr>
<td>Inventories</td>
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<td>196,553</td>
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<tr>
<td>Other current assets</td>
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<td>39,388</td>
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<tr>
<td>Total Current Assets</td>
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<td>435,084</td>
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<tr>
<td>Property, plant and equipment, net</td>
<td>222,691</td>
<td>219,238</td>
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<tr>
<td>Intangibles and other assets</td>
<td>336,737</td>
<td>313,060</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$996,676</td>
<td>$967,382</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities and Shareholders’ Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities, excluding debt</td>
<td>$193,469</td>
<td>$203,357</td>
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<tr>
<td>Total debt, including current portion</td>
<td>568,587</td>
<td>573,615</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>52,742</td>
<td>46,334</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>181,878</td>
<td>144,076</td>
</tr>
<tr>
<td><strong>Total Liabilities and Shareholders’ Equity</strong></td>
<td>$996,676</td>
<td>$967,382</td>
</tr>
</tbody>
</table>

- **Current assets** remained flat as the reduction of receivables was offset by an increase in inventories. Inventories increased in part due to the strategic purchase of locomotive and parts cores used in the company's various unit exchange and locomotive overhaul programs.
- **Intangibles and other assets** increased primarily as a result of the three acquisitions made in 1999.
- **Total debt**, including current portion, decreased approximately $5 million. The company's income generated to pay down debt more than offset the three acquisitions made in 1999 ($32 million), the cash portion of the merger and restructuring charge ($29 million) and capital expenditures ($31 million).
### Condensed Consolidated Income Statements

(In Thousands, Except Per Share Data)

<table>
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<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>$1,121,068</td>
<td>$1,121,068</td>
<td>$1,036,127</td>
<td>$870,371</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(783,880)</td>
<td>(789,089)</td>
<td>(735,626)</td>
<td>(611,911)</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>337,188</td>
<td>331,979</td>
<td>300,501</td>
<td>258,460</td>
</tr>
<tr>
<td><strong>Selling and administrative expenses</strong></td>
<td>(121,990)</td>
<td>(121,990)</td>
<td>(113,581)</td>
<td>(97,908)</td>
</tr>
<tr>
<td><strong>Merger and restructuring charges</strong></td>
<td>—</td>
<td>(43,648)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Engineering expenses</strong></td>
<td>(34,524)</td>
<td>(34,524)</td>
<td>(30,436)</td>
<td>(24,386)</td>
</tr>
<tr>
<td><strong>Amortization</strong></td>
<td>(15,808)</td>
<td>(15,808)</td>
<td>(11,455)</td>
<td>(11,573)</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>(172,322)</td>
<td>(215,970)</td>
<td>(155,472)</td>
<td>(133,867)</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>164,866</td>
<td>116,009</td>
<td>145,029</td>
<td>124,593</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>(44,420)</td>
<td>(44,420)</td>
<td>(37,111)</td>
<td>(34,892)</td>
</tr>
<tr>
<td><strong>Other income (expense), net</strong></td>
<td>(90)</td>
<td>(90)</td>
<td>13,393</td>
<td>2,878</td>
</tr>
<tr>
<td><strong>Income before income taxes and extraordinary item</strong></td>
<td>120,356</td>
<td>71,499</td>
<td>121,311</td>
<td>92,579</td>
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<tr>
<td><strong>Provision for income taxes</strong></td>
<td>(42,846)</td>
<td>(33,557)</td>
<td>(42,115)</td>
<td>(35,040)</td>
</tr>
<tr>
<td><strong>Income before extraordinary item</strong></td>
<td>77,510</td>
<td>37,942</td>
<td>79,196</td>
<td>57,539</td>
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<tr>
<td><strong>Extraordinary item, net of tax</strong></td>
<td>(469)</td>
<td>(1,319)</td>
<td>(5,345)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$77,041</td>
<td>$36,623</td>
<td>$73,851</td>
<td>$57,539</td>
</tr>
<tr>
<td><strong>Earnings Per Diluted Share</strong></td>
<td>$1.74</td>
<td>$.83</td>
<td>$1.67</td>
<td>$1.30</td>
</tr>
</tbody>
</table>

1 Extraordinary item relates to charges resulting from the refinancing of the company's credit agreements and the write-off of previously capitalized debt issuance costs related to the old agreements. For fiscal year 1999 and 1998, the result of this item was a charge of $1.3 million and $3.3 million, or $.03 and $.12 per diluted share, net of tax, respectively, to the reported totals.

Wabtec recorded a charge of approximately $50 million in the fourth quarter of 1999 in connection with its merger and restructuring plan. The $50 million charge was recorded as follows: $5.2 million in cost of sales, $43.6 million as a separate line item in operating expenses, and $1.3 million ($850,000 net of tax) as an extraordinary charge. The comments below exclude the effects of the charge in the comparison of 1999 to the other years presented.

**Net sales** for the year increased approximately $85 million or 8% to $1.1 billion. The increase is attributed to the acquisitions made in the latter part of 1998 and during 1999.

**Adjusted gross profit** increased to $337 million for a gross margin of 30.1% from $301 million and 29%, respectively, in 1998. The increase is due to a favorable product mix.

**Adjusted operating expenses** increased $17 million to $172 million from $155 million in 1998. The increase is due primarily to the acquisitions made in late 1998 and during 1999.

**Interest expense** increased $7 million to $44 million as the company maintained a higher average debt balance during 1999 due to acquisitions and the merger and restructuring cash charges.

**Other income (expense)** was negligible in 1999, but in 1998 included approximately $10 million from the sale of an investment in Argentina, as well as $2 million of foreign exchange gains.

**Adjusted income taxes** were recorded at an effective tax rate of 35.6% in 1999 versus 34.7% in 1998. The 1998 rate was positively impacted by the reversal of a deferred tax liability. The company expects the ongoing rate to be about 36%.

**Adjusted net income** increased to $77 million in 1999 from $74 million in 1998.

**Adjusted earnings per diluted share** increased 4% to $1.74 from $1.67.
## Condensed Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td>$36,623</td>
<td>$73,851</td>
<td>$57,539</td>
</tr>
<tr>
<td>Adjustments to income,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>primarily depreciation and amortization</td>
<td>65,107</td>
<td>52,715</td>
<td>40,800</td>
</tr>
<tr>
<td><strong>Changes in operating assets and liabilities</strong></td>
<td>(24,341)</td>
<td>(53,155)</td>
<td>5,923</td>
</tr>
<tr>
<td><strong>Cash provided by operating activities</strong></td>
<td>77,389</td>
<td>73,411</td>
<td>104,262</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>(30,808)</td>
<td>(57,838)</td>
<td>(44,197)</td>
</tr>
<tr>
<td><strong>Acquisition of businesses</strong></td>
<td>(32,242)</td>
<td>(180,199)</td>
<td>(24,770)</td>
</tr>
<tr>
<td><strong>Other investing activities</strong></td>
<td>(3,321)</td>
<td>(5,758)</td>
<td>1,971</td>
</tr>
<tr>
<td><strong>Cash used for investing activities</strong></td>
<td>(66,371)</td>
<td>(243,795)</td>
<td>(66,996)</td>
</tr>
<tr>
<td><strong>Changes in debt</strong></td>
<td>(5,028)</td>
<td>158,174</td>
<td>24,159</td>
</tr>
<tr>
<td><strong>Purchase of treasury stock</strong></td>
<td>(10,630)</td>
<td>—</td>
<td>(44,000)</td>
</tr>
<tr>
<td><strong>Other financing activities</strong></td>
<td>3,925</td>
<td>3,767</td>
<td>(3,917)</td>
</tr>
<tr>
<td><strong>Cash provided by (used for) financing activities</strong></td>
<td>(11,733)</td>
<td>161,941</td>
<td>(23,758)</td>
</tr>
<tr>
<td><strong>Effect of changes in currency exchange rates</strong></td>
<td>(1,212)</td>
<td>(307)</td>
<td>(1,629)</td>
</tr>
<tr>
<td><strong>Increase (decrease) in cash</strong></td>
<td>(1,927)</td>
<td>(8,750)</td>
<td>11,879</td>
</tr>
<tr>
<td><strong>Cash at beginning of year</strong></td>
<td>8,983</td>
<td>17,733</td>
<td>5,854</td>
</tr>
<tr>
<td><strong>Cash at end of year</strong></td>
<td>$7,056</td>
<td>$8,983</td>
<td>$17,733</td>
</tr>
</tbody>
</table>

**Excluding 1999 outlays for merger and restructuring activities,** cash provided by operations was $107 million, compared to $73 million in 1998. The increase in 1999 resulted from improved working capital management compared to 1998.

**Capital expenditures** were $31 million in 1999, compared to $58 million in 1998. The majority of capital expenditures related to upgrades to existing equipment, replacement of existing equipment and purchases of new equipment due to expansion of certain operations or management's intention to achieve cost savings by increasing efficiencies. In 1999, the company paid $32 million for business acquisitions, compared to $180 million in 1998.

**The company** refinanced the pre-existing credit facilities of Westinghouse Air Brake and MotivePower Industries following the November 1999 merger. Also in 1999, the company issued $75 million of additional Senior Notes and used the proceeds to repay amounts outstanding under certain term and revolving debt balances. The company purchased $11 million of its own stock in 1999 in accordance with a previously announced program.
A number of significant events occurred in 1999, which affected the company's results of operations and financial condition.

**Merger completed in 1999**

Wabtec Corporation was formed on November 19, 1999 when Westinghouse Air Brake Company and MotivePower Industries, Inc. completed their merger.

In conjunction with the merger, Wabtec announced a merger and restructuring plan that is anticipated to yield synergies of $15 million pre-tax in 2000 and an ongoing annualized benefit of $25 million pre-tax by the end of 2000. The merger and restructuring plan involves the elimination of duplicate facilities and excess capacity, operational realignment and related workforce reductions, and the evaluation of certain assets as to their perceived ongoing benefit to the company. Wabtec estimates the charges to complete the merger and restructuring plan will total about $70 million pre-tax, with $50 million of the charge expensed in the fourth quarter of 1999. The $50 million charge includes $38 million of cash expenses, of which $29 million were paid in 1999. The table above presents an adjusted 1999 statistical summary excluding the $50 million charge.

**Acquisitions completed in 1999**

G&G Locotronics, located in Itasca, IL was acquired in January 1999. G&G designs and assembles high-voltage electrical cabinets and control stands for locomotives.

Q-Tron, located in Calgary, Canada was acquired in January 1999. Q-Tron designs and manufactures a complete range of locomotive electronic equipment.

In February 1999, the mass transit and electrical inverter and converter product line of AGC System & Technologies, Inc. of Canada was acquired.

The aggregate cost of these acquisitions was approximately $32 million.

### Statistical Summary

<table>
<thead>
<tr>
<th></th>
<th>Adjusted 1999</th>
<th>Reported 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$1,121,068</td>
<td>$1,121,068</td>
</tr>
<tr>
<td>EBITDA1,2</td>
<td>207,480</td>
<td>158,623</td>
</tr>
<tr>
<td>Net income1</td>
<td>77,041</td>
<td>181,644</td>
</tr>
<tr>
<td>Diluted earnings per share1</td>
<td>1.74</td>
<td>1.67</td>
</tr>
<tr>
<td>Total debt</td>
<td>568,587</td>
<td>573,615</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>30,808</td>
<td>57,838</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>42,614</td>
<td>36,615</td>
</tr>
<tr>
<td>Cash earnings1,3</td>
<td>$87,690</td>
<td>86,674</td>
</tr>
<tr>
<td>Gross margin1</td>
<td>30.1%</td>
<td>29.0%</td>
</tr>
<tr>
<td>Operating margin1</td>
<td>14.7%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Weighted average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>diluted shares</td>
<td>44,234</td>
<td>44,141</td>
</tr>
</tbody>
</table>

### Net Sales by Product Segments:

<table>
<thead>
<tr>
<th></th>
<th>Adjusted 1999</th>
<th>Reported 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight Group</td>
<td>$882,866</td>
<td>$824,326</td>
</tr>
<tr>
<td>Transit Group</td>
<td>238,202</td>
<td>211,801</td>
</tr>
</tbody>
</table>

1 Adjusted to reflect data without the effect of the 1999 merger and restructuring charge.
2 Earnings before interest, taxes, depreciation and amortization.
3 Income before extraordinary item plus after-tax effect of amortization.
Board of Directors

William E. Kassling (1)*
Chairman of the Board and Chief Executive Officer
Wabtec Corporation

Gilbert E. Carmichael (4)
Vice Chairman of the Board
Wabtec Corporation

Emilio A. Fernandez (2)*
Vice Chairman of the Board
Wabtec Corporation

Gregory T. H. Davies
President and Chief Operating Officer
Wabtec Corporation

Robert J. Brooks
Executive Vice President and Chief Financial Officer, Secretary
Wabtec Corporation

Kim G. Davis (3)
Managing Director
Charlesbank Capital Partners LLC

Lee B. Foster II (2,3)
President and Chief Executive Officer
L.B. Foster Co.

James C. Huntington, Jr. (1,4)*
Retired Senior Vice President
American Standard, Inc.

James P. Kelley (4)*
Managing Director
Vestar Capital Partners, Inc.

James P. Miscoll (1)*
Retired Vice Chairman
Bank of America

James V. Napier (2,3)*
Chairman of the Board
Scientific Atlanta, Inc.

Nicholas J. Stanley (3)*
President
Stanley Investment and Management

Corporate Officers

William E. Kassling
Chairman of the Board and Chief Executive Officer

Gregory T. H. Davies
President and Chief Operating Officer

Robert J. Brooks
Executive Vice President and Chief Financial Officer, Secretary

Joseph S. Crawford, Jr.
Executive Vice President Railroad

John M. Meister
Executive Vice President Transit

Kevin P. Conner
Senior Vice President Human Resources

Alvaro Garcia-Tunon
Senior Vice President Finance

David L. Bonvenuto
Vice President Controller

Timothy J. Logan
Vice President International

George A. Socher
Vice President Internal Audit

Timothy R. Wesley
Vice President Investor Relations and Corporate Communications

Corporate Information

Transfer Agent and Registrar
Our transfer agent is responsible for shareholder records, issuance of stock certificates and distribution of dividends and I.R.S. forms 1099. Your requests, as shareholders, concerning these matters are most efficiently answered by communicating directly with our transfer agent and registrar:
ChaseMellon Shareholder Services
Four Station Square
Third Floor
Pittsburgh, PA 15219-1173
Phone: 800-756-3353

Stock Exchange Listing
New York Stock Exchange
Ticker Symbol: WAB

Independent Public Accountants
Arthur Andersen LLP
Pittsburgh, PA

General Counsel
Reed Smith Shaw and McClay
Pittsburgh, PA

Form 10-K
To obtain a copy of the company’s Form 10-K annual report write to:
Investor Relations Department
Wabtec Corporation
1001 Air Brake Avenue
Wilmerding, PA 15148

Annual Meeting
May 24, 2000, 1 p.m.
Sheraton Hotel at Station Square
7 Station Square Drive
Pittsburgh, PA 15219

(1) Audit Committee
(2) Compensation Committee
(3) Stock Option Sub-Committee
(4) Nominating Committee
Operating Management

Freight Group

Anthony Carpani
Managing Director
Futuris Brakes International
Melbourne, Australia
Sydney, Australia
Pioneer Friction Products
Calcutta, India

Doug Dalton
Vice President and General Manager
Q-Tron
Calgary, Alberta, Canada

Richard J. Dezek
Vice President and General Manager
Young Touchstone
Jackson, TN
Lexington, TN
Racine, WI

Daniel W. Elliott
President
WABCO Freight Car Products
Stoney Creek, Ontario, Canada

Dale F. Engelhardt
Vice President and General Manager
Engine Systems
Gilman, IL
Latham, NY

Paul E. Golden
President
Cardwell Westinghouse
Chicago, IL
Jomar Industries
Alsip, IL
Lokring Technology
Burlington, Ontario, Canada
Thermo-Sealed Castings
Burlington, Ontario, Canada

Fred J. Grejda
Vice President and General Manager
Railroad Friction Products
Laurinburg, NC
Schweighouse, France
Greysham Railway Friction Products
Delhi, India

Kenneth J. Heydorn
Vice President and General Manager
Wabtec Distribution
Elk Grove Village, IL

James C. Hoffner
Vice President and General Manager
WABCO Locomotive Products
Wilmerding, PA
Wabtec Rubber Products
Ball Ground, GA
Greensburg, PA
Wabtec Service Centers
Atlanta, GA
Bossier City, LA
Carson City, NV
Chicago, IL
Columbia, SC
Elmsford, NY
Kansas City, MO
Sun Valley, CA

Francis X. Larkin
Vice President and General Manager
MotivePower
Boise, ID

James E. Lindsay
President
Mechanical Group

Ted E. Mayfield
Vice President and General Manager
Microphor
Willits, CA

J. James E. McClaine
President
Wabtec Railway Electronics
Cedar Rapids, IA
Germantown, MD

John Meehan
Managing Director
Wabtec Rail
Doncaster, U.K.

Gary P. Prasser
President
Motor Coils Manufacturing
Braddock, PA
Emporium, PA
St. Louis, MO
San Luis Potosi, Mexico

Gerald M. Rowe
President
MPI de Mexico
Acamboro, Mexico
San Luis Potosi, Mexico

Mark C. Van Cleave
Senior Vice President
Sales and Marketing

John R. Vickers
Vice President and General Manager
Wabtec Foundry
Wallaceburg, Ontario, Canada

Ronald L. Witt
Managing Director
Wabtec Australia
Melbourne, Australia

Transit Group

Luigi Camellini
Managing Director
H.P. Sassuolo, Italy

Robert C. Forslund
Vice President and General Manager
Vapor Power
Niles, IL

Marc Laliberté
Vice President and General Manager
Vapor Canada
Montréal, Quebec, Canada
Stone Air
Plattsburgh, NY

John M. Meister
President
WABCO Transit
Spartanburg, SC

Keith N. Nippes
Vice President and General Manager
Vapor
Niles, IL

Anthony Walsh
Managing Director
Vapor-Stone U.K.
Burton-On-Trent, U.K.