init

innovation in traffic systems AG

At Home in the World

Annual Report 2006

init at a Glance

Municipal and regional passenger transportation should be comfortable, fast, and attractive. The systems supplied by init innovation in traffic systems AG ensure that buses and trams are able to meet these requirements today, while at the same time increasing the efficiency of transportation companies. init is one of the worldwide leaders in innovative telematics and fare management systems that offers a suite of integrated solutions for all type of needs related to public transportation. init products are operational in over 300 transportation companies worldwide.

Key Figures of init Group

according to IFRS

		2006		2005
Balance Sheet				
Balance sheet total	T€	36,842	T€	34,115
Shareholders' equity	T€	21,186	T€	18,309
Subscribed capital	T€	10,040	T€	10,040
Equity-to-assets ratio	%	57.5	%	53.7
Non-current assets	T€	10,076	T€	9,747
Current assets	T€	26,766	T€	24,368
Income Statement				
Revenues	T€	36,258	T€	33,406
Gross profit	T€	13,256	T€	10,817
EBIT	T€	5,633	T€	4,219
Net profit	T€	3,371	T€	2,565
Net profit per share	€	0.36	€	0.26
Cashflow				
Cashflow from operating activities	T€	-1,091	T€	10,150
Share				
Share price	€	5.10	€	5.10
Peak share price (2006)	€	8.69	€	6.42
Bottom share price (2006)	€	5.90	€	2.65
Number of shares, end of year		10,040,000		10,040,000

Content

The Managing Board: Wolfgang Degen, Joachim Becker, Dr. Jürgen Greschner, Bernhard Smolka, Dr. Gottfried Greschner

Letter to the Shareholders and Friends of the Company

Ladies and gentlemen,
dear Shareholders,

In 2006, "the world was calling in on friends". This motto as the official slogan of the Football World Cup in Germany may as well have be written on the visitors' book of our company, init innovation in traffic systems AG. Never before in its almost 25 year history has init welcomed so many visitors from all over the world; never before have our products and projects met with such tremendous interest at an international level.

In times in which the global climate change has an increasing impact on our daily lives and the rise in energy prices burdens our economies as much as our societies, public transportation systems are of ever growing importance for our mobility and for the protection of our environment. A forward-looking policy must progressively promote the development of modern, ecofriendly transportation systems to save our resources. This is happening now almost on a worldwide basis.

With a significant role to play here, init innovation in traffic systems AG makes a vital contribution to this. This has made transportation experts from every corner of the world take note of our intelligent solutions that increase the attractiveness, efficiency and security of local public transportation. All over the world, transportation companies increasingly opt for hardware and software from init.

Vancouver, New York City, The Hague, Oslo, Salt Lake City, Waterloo (Canada), Dallas. This is but an extract from the list of new orders which init gained in 2006. Besides these, Kinkisharyo International joined the ranks of init customers as the first Japanese manufacturer opting to upgrade its track vehicles using hardware and software from init. From Bremen to Stockholm to Mid England (see our project reports on pages 9 to 13), our employees were busy throughout the year installing innovative telematics solutions in many parts of the world.

Thanks to our products, we are now well and truly at home in the world, ensuring that passengers everywhere arrive at their destinations faster, more safely and on schedule due to our init system. init now is one of the leading international suppliers of telematics solutions for buses, trains and streetcars.

The results of this development are reflected in our key figures for the 2006 fiscal year:

> In 2006, the init group achieved the best results in sales and profitability in its entire company history.
> The earnings before interest and taxes (EBIT) rose to 5.6 mill. Euro (2005: 4.2 mill. Euro) and thus not only exceeded our prior-year record by 33 per cent, but also proved around 22 per cent above our projections (4.6 mill. Euro).
> The annual net profit increased by 31 percent on the previous year to 3.4 mill. Euro (2005: 2.6 mill. Euro). As a result, the earnings per share stood at 0.36 Euro (2005: 0.26 Euro).
> At 36.3 mill. Euro, sales generated in 2006 again improved by 8.5 per cent on the prior-year record of 33.4 mill. Euro.
> The operating margin (EBIT/sales) rose to over 15 per cent to top all prior-year results (2005: 12.6 per cent).
> These impressive growth dynamics look set to continue in the current fiscal year. At 61.0 mill. Euro, the cushion of existing orders as at the end of the year was still up by 12 per cent on the previous year (54.4 mill. Euro).

This record of success has enabled init to carry on growing by its own efforts and thus continue to increase its corporate value for the benefit of our shareholders.

Ladies and gentlemen, the success in the 2006 World Cup year meant a “summer fairy tale” for German soccer players and a “winter fairy tale” for our handballers. For you and for init, however, it proved to be a year-round reality. Now operating in our sixth year since the IPO, we are, for the first time, in a position to distribute a dividend. Both the Managing Board and the Supervisory Board thus intend to propose to the shareholders’ meeting convened for May 16, 2007 that a dividend of 0.10 Euro be paid per share.

In sports, the term “World Cup“ signifies the competition of the best for the title of “world champion“. At init, we can also lay claim to being the best in our field of competition. However, we intend to prove our status as “world champions“ in telematics projects around the world and ensure a masterly performance even at international level.

In 2006, we were already able to so, and we plan to continue on this level over the next few years. The current conditions are working in our favor. Increasing fuel prices and the climate change have shifted the focus to local public transportation as a means of ensuring our mobility in conurbations as much as in rural areas and of reducing the carbon dioxide levels that are polluting our environment.

As a consequence, new local public transportation systems are being set up worldwide. Major infrastructure projects are on the agenda in many countries of the world and are put out to tender at international level to ensure using the most efficient technology. Innovative solutions are no longer restricted to Europe. Canada has made it a national goal to establish local public transportation systems in order to reduce its carbon dioxide emissions. The USA, previously the classic country of private transportation, will make available in excess of 18 billion US Dollar in 2007 and 2008 for the modernization of its local public transportation systems.

In Asia, the Middle East, Australia, and even in Africa, there is a growing awareness of the importance of an efficient and resource-saving local public transportation system. Intelligent telematics systems are an indispensable element in this and take up a major portion of the pending investments.

Due to our experience gained in 24 years and over 300 projects worldwide, init is one of the most distinguished suppliers here. Our reference projects successfully implemented in metropolises including Munich, London, Oslo, Stockholm, Houston, New York, and currently Vancouver over the past few years have drawn much attention to our solutions. Thus, init is increasingly asked to participate in tenders in every part of the world.

Consequently, we expect the growth dynamics in our market to increase in the medium-term, with above-average chances for growth for init. Even now we can boast a significant level of orders that largely secures sales in fiscal 2007 and already ensure a basic level of work for 2008.

For 2007, all our markets promise growth. In Europe and North America, billions of euros and Dollars respectively are made available for investments in local public transportation and the setup of an “intelligent infrastructure“. At the same time, the increasing pressures of competition have led to the requirement for transportation companies to increase the efficiency, quality, and attractiveness of their services. The latter also applies to the “problem market” in Germany, which is still burdened by the restrictive investment policy of the Federal government, yet needs to modernize its systems if it wants to avoid jeopardizing the mobility specifically in conurbations. All these factors have resulted in an increasing demand for the products and solutions supplied by init.

Therefore, we are confident that we will once more be able to report a record year in fiscal 2007 – for the third time in succession. Yet the spate of positive news for init innovation in traffic systems AG, which is as much your company as it is ours, is expected to continue even beyond 2007. To this end, our employees will again dedicate their best efforts to the tasks in hand in Karlsruhe, Chesapeake, Montreal, Vancouver, and any other place to which our customers may call us.

Karlsruhe, March 2, 2007
for the Managing Board

Dr. Gottfried Greschner
Chairman

Report of the Supervisory Board

Dear Shareholders,

The following report will provide you with details of the activities of the Supervisory Board, specifically its role in monitoring the Managing Board in accordance with the articles of association. It ensures transparency of the deliberations and decisions of the Board in the 2006 fiscal year.

During the 2006 fiscal year, the Managing Board of init innovation in traffic systems AG informed the Supervisory Board regularly, promptly and comprehensively of its activities in order to enable the Supervisory Board to perform its duty of acting in an advisory capacity to the Managing Board and monitoring its affairs in the preceding year. The briefings and discussions in the Supervisory Board meetings included key facts and measures relating to, and affecting, the company and its operations.

Any measures requiring the consent of the Supervisory Board on grounds of legal or statutory provisions were thoroughly deliberated and presented for a resolution. The Chairman of the Supervisory Board kept in close contact with the Managing Board at all times during the preceding fiscal year, while the members of the Supervisory Board were also available in individual matters. Furthermore, all transactions requiring reporting were disclosed on an ad hoc basis. Between the meetings, the Chairman of the Supervisory Board notified the members of its Board both in writing and verbally of any talks with the Managing Board.

Subjects of the Supervisory Board meetings

In its four regular meetings in 2006, convened on March 8, July 12, October 17 and December 14, the Managing Board informed the Supervisory Board in detail about the status of the company and the course of its business, while the Supervisory Board monitored and controlled the development of the group. Based on the reports of the Managing Board, the Supervisory Board in particular discussed the economic situation, the incoming orders, any concealed risks and key business transactions, and the medium- and long-term corporate strategy. Other focal subjects in the Supervisory Board meetings included the market developments in Germany, Europe and North America, the new election of the Supervisory Board at the 2006 shareholders' meeting and decisions on subjects requiring the approval of the Supervisory Board. The latter included the formation of the American subsidiary TQA LLC. (Total Quality Assembly), the formation of the Canadian subsidiaries INIT Innovations in Transportation (Eastern Canada) Inc., headquartered in Montréal, Canada, and INIT Innovations in Transportation (Western Canada) Inc., headquartered in Vancouver, Canada, as well as the acquisition of the building next door to INIT in Karlsruhe.

Annual and consolidated financial statements approved without objections

The annual financial statements of init innovation in traffic systems AG, the consolidated financial statements and the status report as at December 31, 2006 were audited by the auditing firm Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Mannheim, commissioned by the shareholders' meeting as auditors of init innovation in traffic systems AG and as group auditors, and were issued with an unqualified audit certificate.

The aforementioned reports were discussed in detail with the Managing Board and the auditor in the meeting of the Supervisory Board on March 6, 2007. The auditors reported on key results of their audit. Questions posed by the members of the Supervisory Board were subsequently answered. The Supervisory Board came to the conclusion that the audit procedure applied by the auditors was appropriate and adequate and that the set of figures contained in the financial statements had been audited in sufficient depth and found to be coherent.

The Managing Board presented its proposal on the appropriation of unappropriated profit to the Supervisory Board. It intends to propose to the shareholders' meeting on May 16, 2007 that the net profit for the year of 2,779,963.40 Euro be utilized as follows: 0,10 Euro per share, corresponding to 968,000.00 Euro, will be distributed as dividend. The remainder of 1,811,963.40 Euro will be carried forward to new account. The proposed appropriation of unappropriated profit was endorsed by the Supervisory Board.

Following the completion of its audit, the Supervisory Board did not raise any objections. It accepted the annual financial statements, the consolidated financial statements and the pertinent status reports, and thus approved the annual financial statements of init innovation in traffic systems AG for the 2006 fiscal year.

Ernst & Young Wirtschaftsprüfungsgesellschaft, Mannheim, also audited the report prepared by the Managing Board under Section 312 of the German Stock Corporation Act on the relationships with associated companies (dependent company report). The auditor issued the following audit certificate regarding the result:

"Following our dutifully conducted audit and assessment, we hereby confirm that

1. The actual information contained in the report is correct.
2. The payment of the company for the legal transactions specified in the report was not inappropriately high.
3. There are no circumstances indicating a substantially different assessment from that given by the Managing Board in regard to the measures specified in the report."

The Supervisory Board also examined the dependent company report. It raised no objections to the final declaration of the Managing Board in the report and the result of the audit effected by the auditors.

Corporate Governance in the Supervisory Board

The Supervisory Board was also actively involved in the implementation and monitoring of compliance with the German Corporate Governance Code. Pursuant to item 3.10 of the German Corporate Governance Code, the report of the Managing Board on Corporate Governance at init innovation in traffic systems AG provided on pages 15 to 17 of this annual report also applies to the Supervisory Board. On December 14, 2006, the Managing Board and the Supervisory Board revised its declaration of compliance in accordance with § 161 of the German Stock Corporation Law (AktG), which is permanently available to shareholders on the company website.

init innovation in traffic systems AG complies with the recommendations of the Government Commission on the German Corporate Governance Code with only a few minor exceptions. Thus, for example, the existing D&O insurance does not provide for an excess payable by members of executive bodies (Code item 3.8 para. 2) since it is a group insurance for Managing Board, Supervisory Board and executives both in Germany and abroad. Furthermore, it does not specify an age limit for members of the Managing or Supervisory Board (Code items 5.1.2, para. 2 and 5.4.1 para. 1).

The German Corporate Governance Code further recommends the set-up of committees, which was once again dispensed with in the preceding fiscal year. Since the Supervisory Board of init innovation in traffic systems AG merely comprises three members, the set-up of committees of the Supervisory Board (Code item 5.3.1) or of an audit committee (Code item 5.3.2) is neither necessary nor practicable in the interest of the company and its shareholders. In view of the conditions at init innovation in traffic systems AG and its size, this would not be very expedient either if the Supervisory Board wants to ensure an efficient performance of its duties.

Supervisory Board and Managing Board remain unchanged

The Supervisory Board of init innovation in traffic systems AG did not see any changes in period under review. At the shareholders' meeting on July 13, 2006, all three members of the Supervisory Board, Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau, Mr. Bernd Koch and Mr. Fariborz Khavand, who once again stood as candidates were re-elected and thus appointed until the end of the shareholders' meeting which decides on the formal approval for the fourth fiscal year after commencement of the term, i.e. in 2011. Following the shareholders' meeting in July 2006, a further Supervisory Board meeting was convened, in which the Supervisory Board elected its Chairman and his deputy. Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau was confirmed in his position as Chairman of the Supervisory Board, and Mr. Bernd Koch as his deputy.

We would like to thank all our employees and the Managing Board again for their great service and their personal dedication in the 2006 fiscal year. In so doing, you have once again contributed to a very successful fiscal year for init. Our thanks also to our shareholders, customers, and business partners for their trust in our company.

Karlsruhe, March 2007
For the Supervisor Board

Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau
Chairman

Mail from Bremen: Successful cooperation for the past six years

init in Bremen, Bremerhaven, and Oldenburg: mobility at the best price

Tobias Bernhard enjoys taking the bus and train. In his hometown in Bremen, as well as in the nearby cities of Bremerhaven and Oldenburg, he can do this so much more conveniently and a good deal cheaper than in many other German towns and cities. The reason: the 'best price' concept introduced by the Bremen-Niedersachsen transportation association, which allows Tobias Bernhard to travel at all times whilst paying the most favorable fare. The concept is based on an innovative solution developed by init innovation in traffic systems AG: the first supra-regional e-ticketing system for cashless ticket purchases in Germany.

The three local transportation services and init have enjoyed a successful cooperation since 2001: the init system implemented back then not only allows passengers to debit the fare to an electronic cash card. At the same time, the card also stores an electronic ticket on its chip.

A system upgrade, developed by order of the three transit authorities, now allows customers to take advantage of the association's 'best price guarantee'. Effectively, this means that at the end of a month, the passenger is automatically charged with the most favorable fare price whenever the number of journeys taken in one day exceeds the price of a day ticket. For example, if the customer travels from A to B and back twice a day, he or she will only be charged for a day ticket instead of the total of four single tickets.

What sounds so simple really is. At the start of the journey, all the passenger needs to do is register their card at the mobile ticket terminal, TOUCH-mobil, and select the destination and the number of passengers traveling on their card. The starting stop or station is provided automatically by the vehicle tracking and location system. The TOUCH-mobil then uses this data to generate a trip data record, which is stored on the card that entitles the cardholder to use the service. Once the bus or train arrives back at the depot, all data is transferred via WLAN to the central background system for billing. Passengers benefit from the 'best price' concept by receiving a significantly improved service. All they have to do is select their destination prior to traveling, thus saving them the tedious search for tariff zones, fares, and the correct small change.

For transportation companies the economic advantages of e-ticketing – such as no costs for expensive cash handling, for anti-counterfeit ticket paper, or for the maintenance of the printers – go hand in hand with a prospective increase in sales. Since more journeys by bus and train usually mean reduced costs per trip, passengers will be inclined to use the bus and rail services much more frequently. To date 32,000 passengers have closed a contract, when originally 15,000 contracts were planned by the end of 2006.

In the future Tobias Bernhard intends to use the ÖPNV (local public transportation service) in Bremen and the surrounding area more often. And, thanks to init technology, it could not be easier: simply get on, register, enjoy the journey, and travel at best price.

Mail from Nottingham: Passengers always travel at best price here – thanks to init

init goes to Britain: ticket purchasing in passing

When Ally McFerry from Nottingham in Central England takes the bus to go shopping, she no longer worries about purchasing a ticket – that is taken care of by the innovative e-ticketing system developed by init innovation in traffic systems AG for trentbarton, the first customer to purchase the system. On embarking and disembarking, the system registers Ally McFerry's cash card and automatically records her journey. For this, she neither needs to use a machine nor pay directly. Instead, she simply passes her card along the customer terminal's reader unit.

Easier, faster, and cost saving for both transportation companies and passengers – these are the key advantages of the revolutionary new e-ticketing system from init. In addition to conventional paper ticket machines, passengers such as Ally McFerry can now also buy their tickets virtually 'in passing'. The first customer to purchase this innovative system is one of the leading independent bus operators in Great Britain, trentbarton.

init technology makes the use of public transportation services as easy as possible: the passenger embarks with a pre-loaded smartcard and passes a check-in terminal or the electronic ticket printer for contactless electronic registration. On disembarking, the passenger checks out in the same manner by passing the check-in terminal. The passenger's smartcard is then automatically charged only for the actual journey taken – a process that pays, both for the customer and the operator.

Now, a passenger who makes several journeys per day is charged only with the price of a day ticket; once this amount is reached, further journeys are still registered but not debited.

For the operators this means reduced handling costs, more flexibility in setting the fares, and a better service, which will increase customer satisfaction in turn. Furthermore, it reduces the waiting times of the vehicles during embarking and disembarking at the stops, which not only improves their punctuality, but also saves energy.

For this project, which is scheduled for completion by 2008, init will equip the buses with the EVENDsmart, a combination of ticket printer and on-board computer which can also handle the entire data exchange with the operations control center of the bus company via wireless LAN, and the PROXmobil, the contactless customer terminal. The EVENDsmart allows passengers to either pay cash for paper tickets or check in and out in a cashless payment process. This not only reduces the driver's workload, but also saves time.

Once Ally McFerry leaves the bus in Derby, the init system debits the cost of the journey taken. Days later, when she checks her journeys online, she will think back on a successful shopping trip to the neighboring town.

Mail from Stockholm: Award for a highly innovative IT and telematics project

init in Stockholm: an award-winning system for all

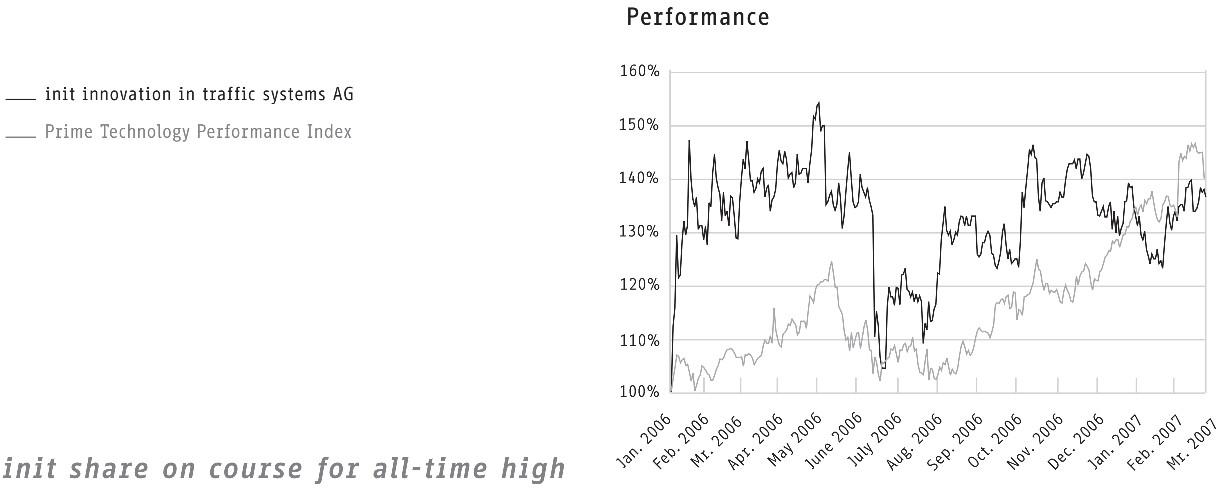
Gunnar Abenius, Project Manager at Sweden's biggest local public transportation company, AB Storstockholms Lokaltrafik (SL), is delighted. The company has just been awarded the prize for a particularly innovative IT and telematics project by the prestigious Swedish magazine CIO Sweden. In cooperation with init, the Karlsruhe-based transportation telematics specialist, SL has implemented one of the most modern local transportation systems in the world. Among other things, the system provides customers with real-time information on the arrival times of Stockholm's buses.

The Stockholm transportation company has been an init customer for the past 15 years. Much has happened in the last three years: all 2,100 buses in the region have been equipped with on-board computers, control and display systems, and communication software supplied by init innovation in traffic systems AG. The heart of the system is the COPILOTpc on-board computer developed by init, which works with the Windows® XP Embedded operating system and has now been fitted in every vehicle. It controls all the telematics functions, organizes voice and data radio transmissions, calculates location information and monitors the current schedule situation. Furthermore, it controls peripheral devices in the vehicle, such as PIDmobil, the next-stop display, and in the future it will also handle the data communication for the ticketing system. The drivers have a new and innovative touchscreen interface at their disposal that provides all necessary information and functions, and is intuitive and easy to use.

The leading Swedish local transportation association has thus set new technological standards. This solution not only ensures that in excess of 600,000 passengers each day reach their destinations much faster, more safely and more efficiently, it also ensures precisely timed information about the next stops on-board the buses.

In its decision to award the prize to SL, CIO Sweden was swayed specifically by the advanced real-time information system, which uses the Internet, SMS, displays, and voice announcements to provide passengers with the exact arrival time of the buses, down to the minute. The motivation of the jury is as follows: All in all an enormous and pioneering project focusing on customer benefits and efficiency that also addresses SL's core business values of improving punctuality, planning, information, and the close monitoring of traffic. With 2,100 buses SL boasts the world's largest real-time controlled bus fleet.

init looks forward to the continued cooperation with AB Storstockholms Lokaltrafik. And who knows, maybe they can win other prizes for innovative projects in the future.



init share on course for all-time high

In 2006, the share price of init innovation in traffic systems AG continued its upturn. In the last quarter, in particular, the price seemed to make a fresh attempt at matching the all-time high in 2001. On the whole, the init shareholders were able to enjoy a gain of 38.7 per cent over the whole year. The init share thus performed significantly better than the DAX and TecDAX share indices (+22 per cent and +25.5 per cent, respectively).

After a steady rise in early 2006, the general downward slide of the international stock markets meant that the init share also failed to maintain its annual high of 8.73 Euro marked in April. On the whole, however, its trend proved significantly more stable than the technology and DAX values.

The decline in price in June to a low of 5.70 Euro could thus very quickly be made good in the third quarter. In the fourth quarter, the init share continued to accelerate its dynamic performance so that the share closed the 2006 fiscal year at 7.81 Euro.

The Managing Board presented itself to numerous investors both in Germany and abroad. One of the highlights here was the participation in the German Equity Forum of the Frankfurt Stock Exchange in November, where a good 30 capital market experts showed interest in the init share.

Both analysts and research firms have rated the init share currently as a clear “buy“, assessing its current fair value (March 2007) as ranging between 9.50 Euro and 10.60 Euro.

First dividend payment

After the record year in 2006, init innovation in traffic systems AG will pay its shareholders their first dividend since its IPO in July 2001. The Managing Board intends to propose to the shareholders’ meeting held on May 16, 2007 that a dividend of 0.10 Euro be paid for each dividend-bearing share. A total of 968,000.00 Euro from the net profit for the year of 2,779,963.40 Euro be utilized for the dividend distribution. The remainder of 1,811,963.40 Euro will be carried forward to new account.

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Corporate Governance

Report of the Managing Board and the Supervisory Board

Corporate Governance affects every aspect of the corporate management and monitoring system. Its goal is to ensure greater transparency and clarity of the rules and regulations applicable in Germany. The Code aims to increase the trust of national and international investors, customers, employees, and the public in the management and control of German listed corporations.

For init, Corporate Governance is part of its corporate culture and is considered an implicit requirement for a good and responsible management of the company.

Since the introduction of the Corporate Governance Code in 2002, we have complied with its provisions with but a few exceptions. Any deviation from its recommendations is for good reason and in the interest of the company.

Remuneration system for the Managing Board

The remuneration for members of the Managing Board is settled by the Supervisory Board. The remuneration is determined by the size of the company, its economic and financial situation, and the amount and structure of comparable companies.

The remuneration system for the Managing Board includes as follows:

1. A fixed salary component payable on a pro-rata basis in 13 monthly installments.
2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee shares and applicable as a percentage from an operating result of 0.4 mill. Euro. The management bonus is limited to 25 per cent of the total compensation package without the restricted stocks under item 3.
3. A further bonus in the form of stocks, from consolidated earnings exceeding 2 mill. Euro before taxes and after deduction of all management bonuses and employee shares. Where this amount is exceeded, each member of the Board receives one share for each 300 Euro of exceeding profit. The number of “restricted stocks“ is limited to 5,000 shares per Board member. The shares are subject to a qualifying period of five years. The taxes relating to the share transfer are borne by the company.

   No legal claim may be made to payment of this bonus, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board.

Based on the resolution passed by the shareholders’ meeting on July 13, 2006, an individualized disclosure of the Board members’ salaries can be withheld for a period of five years, in compliance with § 285 clause 1 no. 9a sentences 5 to 9 HGB and § 314 para. 1 no. 6a sentences 5 to 9 HGB.

Benefits payable on leaving the Managing Board have not been agreed. However, a termination bonus may be specified in individual termination agreements.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board was decided in the shareholders’ meeting on July 13, 2006, based on a proposal submitted by the Managing Board and the Supervisory Board. The articles of incorporation of init have been amended accordingly.

Company calendar 2007

March 28, 2007	Balance sheet press conference and Analysts' conference, Frankfurt/Main
May 14, 2007	Disclosure of three-month report
May 16, 2007	General Meeting, Karlsruhe
Aug. 14, 2007	Disclosure of six-month report
CW 46/2007	Analysts' conference, Eigenkapitalforum, Frankfurt
Nov. 14, 2007	Disclosure of nine-month report

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals 9,000 Euro p.a. for the members and 18,000 Euro p.a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable remuneration is limited to 300 per cent of the fixed remuneration and is calculated using the following formula:

V= ((0.5*share price/5.1 + 0.5*profit/2 mill.) -1) * fixed component

Where V (variable component) is less than zero, the variable component does not apply and only the fixed component of the remuneration is payable.

Breakdown of the remuneration of the Supervisory Board in 2006:

Name	Fixed component in Euro	Variable component in Euro
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18,000	20,538
Bernd Koch	9,000	10,269
Fariborz Khavand	9,000	10,269

Shareholdings of the Managing Board and the Supervisory Board

On the whole, the Managing Board and the Supervisory Board directly or indirectly hold 4,090,347 shares in the company. This corresponds to 40.74 per cent of the shares. The Supervisory Board of init AG does not hold any shares.

An individual disclosure of the shares held by the Managing Board is included in the Appendix to the Consolidated Financial Statements.

Pursuant to Section 6.6 of the Corporate Governance Code, all shareholdings held by individual Managing Board and Supervisory Board members and any persons closely related to these must be reported immediately. This disclosure requirement includes any acquisition or sale exceeding 5,000 Euro per calendar year. init AG publishes all such transactions promptly. A list of the notified Directors´ Dealings in fiscal 2006 is available in the “annual document“ on our home page.

Declaration of compliance with the German Corporate Governance Code – 2006

In compliance with § 161 of the German Stock Corporation Act (AktG), the Managing Board and the Supervisory Board of a listed corporation are required each year to declare compliance with the recommendations of the “Government Commission on the German Corporate Governance Code” published by the Federal Ministry of Justice in the official section of the electronic Federal Official Gazette, and to disclose any deviation from these recommendations. The declaration of compliance with the Code must be made available on the website of the company for a period of five years.

The German Corporate Governance Code contains recommendations and suggestions. A company can deviate from the recommendations of the Code but is required to disclose any such deviation in its annual declaration of compliance. Deviations from the suggestions of the Code do not require disclosure.

Thus, the Managing Board and the Supervisory Board of init innovation in traffic systems AG unanimously declare compliance with the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 12, 2006 with the following exceptions and make the following declaration of compliance in accordance with § 161 AktG.

init innovation in traffic systems AG complies with the recommendations of the Government Commission on the German Corporate Governance Code with the following exceptions:

Joint aspect for Managing Board and Supervisory Board

- The D&O insurance does not provide for an excess payable by members of executive bodies (Code item 3.8 para. 2) since it is a group insurance for Managing Board, Supervisory Board and executives both in Germany and abroad.

Managing Board

- Based on the resolution passed by the shareholders' meeting on July 13, 2006, the company refrains from an individualized disclosure of the Board members' salaries in its annual report (Code item 4.2.4).
- Furthermore, it does not specify an age limit for members of the Managing Board (Code item 5.1.2 para. 2).

Supervisory Board

- The company does not specify an age limit for members of the Supervisory Board (Code item 5.4.1 para. 1).
- The Supervisory Board has not set up any committees (Code item 5.3.1) or an audit committee (Code item 5.3.2) since the specific conditions do not exist and a set-up is considered impractical due to the size of both the company and the Supervisory Board (3 members).

Karlsruhe, December 14, 2006

For the Managing Board of init innovation in traffic systems AG

Dr.-Ing. Gottfried Greschner
Chairman
Chief Executive Officer

Bernhard Smolka
Member of the Board
Chief Financial Officer

For the Supervisory Board of init innovation in traffic systems AG

Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau
Chairman

Mail from Munich: Crush at the Football World Cup handled successfully thanks to init system

Financial Statement 2006

This is a translation from German language. The audit opinion issued in German language refers to the consolidated financial statements, group management report, financial statements and management report originally prepared in German language and not to the English translation of the consolidated financial statements, group management report, financial statements and management report.

Mail from Oslo: Setup of one of the most modern local public transportation systems in Europe

Consolidated Income Statement for 2006

(IFRS)

	Notes No.	01.01.2006-31.12.2006 T€	01.01.2005-31.12.2005 T€
Revenues	5, 37	36,258	33,406
Cost of revenues	6	-23,002	-22,589
Gross profit		**13,256**	**10,817**
Sales and marketing expenses		-5,281	-4,888
General administrative expenses		-2,095	-2,011
Research and development expenses	7, 22	-1,716	-1,361
Other operating income	8	584	321
Other operating expenses		-2	-34
Foreign currency gains/losses	9	358	1,148
Operating profit/loss		**5,104**	**3,992**
Interest income		332	242
Interest expenses		-174	-364
Income from associated companies	10, 23	202	61
Other income and expenses	11	327	166
Profit before income tax		**5,791**	**4,097**
Income tax	12, 24	-2,420	-1,532
Net profit		**3,371**	**2,565**
thereof attributable to equity holders of the parent		3,486	2,565
Minority interests		-115	0
Net profit and diluted net profit per share in €	13	0.36	0.26

Consolidated Balance Sheet of December 31, 2006

(IFRS)

Assets	Notes No.	31.12.2006 T€	31.12.2005 T€
Current assets			
Cash and cash equivalents	16, 32	6,728	10,039
Marketable securities	17, 32	766	812
Trade accounts receivable	18	13,851	10,032
Accounts receivable from related parties	36	8	126
Inventories	19	4,342	2,847
Income tax receivable		74	47
Other current assets	20	997	465
Current assets, total		**26,766**	**24,368**
Non-current assets			
Tangible fixed assets	21	1,334	823
Goodwill	22	2,081	1,877
Other intangible assets	22	3,729	3,816
Interest in associated companies	23	1,451	1,564
Accounts receivable from related parties	36	68	188
Deferred tax assets	24	435	702
Other assets	25	978	777
Non-current assets, total		**10,076**	**9,747**
Assets, total		**36,842**	**34,115**

Liabilities and shareholders' equity	Notes No.	31.12.2006 T€	31.12.2005 T€
Current liabilities			
Bank loans	26	0	57
Trade accounts payable	26	4,683	4,619
Accounts payable of percentage of completion method	18	1,404	657
Accounts payable due to related parties	26, 36	100	136
Advance payments received	26	739	424
Income tax payable		437	1,367
Provisions	28	1,385	1,981
Other current liabilities	27	2,801	2,892
Current liabilities, total		**11,549**	**12,133**
Non-current liabilities			
Deferred tax liabilities	24	1,775	1,677
Pensions accrued and similar obligations	29	2,234	1,966
Other non-current liabilities	27	98	30
Non-current liabilities, total		**4,107**	**3,673**
Shareholders' equity			
Attributable to the equity holders of the parent			
Subscribed capital	30	10,040	10,040
Additional paid-in capital	30	3,413	3,159
Treasury stock	30	-1,665	-1,003
Consolidated unappropriated profit		10,091	6,605
Other reserves	30	-784	-492
		21,095	**18,309**
Minority interests		91	0
Shareholders' equity, total		**21,186**	**18,309**
Liabilities and shareholders' equity, total		**36,842**	**34,115**

Cash Flow Statement for the Consolidated Financial Statements for 2006

(IFRS)

	01.01.2006- 31.12.2006 T€	01.01.2005- 31.12.2005 T€
Cash flow from operating activities:		
Net income	3,371	2,565
Depreciation and amortization	1,518	1,882
Profit (-)/Losses (+) on the disposal of fixed assets	-25	22
Profit (-)/Losses (+) from the sale of marketable securities	-12	9
Change of provisions and accruals	-328	1,001
Change of inventories	-1,495	84
Change in trade accounts receivable	-3,676	4,487
Change in other assets, not provided by/used in investing or financing activities	-642	82
Change in trade accounts payable	-236	263
Change in advanced payments received	1,062	-1,200
Change in other liabilities, not provided by/used in investing or financing activities	-1,072	1,498
Amount of other non-cash income and expense	444	-543
Net cash from operating activities	**-1,091**	**10,150**
Cash flow from investing activities:		
Proceeds from sales of tangible fixed assets	29	8
Investments in tangible fixed assets and other intangible assets	-1,093	-357
Investments in software development	-636	-479
Investments in associated companies	0	-120
Cash flow from the acquisition of subsidary shares and from minority interest	-10	0
Inflows from associated companies and loans receivable	97	34
Inflows from the sale of marketable securities as part of short-term cash management	633	1,412
Investments in securities as part of short-term cash management	-511	-758
Net cash flows used in investing activities	**-1,491**	**-260**
Cash flow from financing activities:		
Cash payments for the purchase of treasury stock	-766	-193
Cash payments for dormant partners' capital	0	-400
Redemption of bank loans	-57	-1,242
Net cash flows used in financing activities	**-823**	**-1,835**
Net effect of currency translation and consolidation changes in cash and cash equivalents	94	90
Increase/Decrease in cash and cash equivalents	**-3,311**	**8,145**
Cash and cash equivalents at the beginning of the period	10,039	1,894
Cash and cash equivalents at the end of the period	**6,728**	**10,039**

Consolidated Statement of recognized Income and Expenses in the Group for 2006

(IFRS)

	01.01.2006- 31.12.2006 T€	01.01.2005- 31.12.2005 T€
Currency conversion	-320	318
Actuarial gains/losses on defined benefit obligations for pensions, recognized in the shareholder's equity	131	-459
Changes in current market values of available-for-sale securities, recognized in the shareholders' equity	-52	14
Gains (losses) on available-for-sale securities, recognized in the consolidated income statement	3	1
Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity	-54	172
Valuation adjustments recognized directly in the shareholders' equity	**-292**	**46**
Consolidated net profit	**3,371**	**2,565**
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements	**3,079**	**2,611**
thereof attributable to equity holders of the parent	3,194	2,611
thereof minority interests	-115	0

Consolidated Statements of Changes in Equity

(IFRS)

	Attributable to equity holders			
	Subscribed capital	Additional paid-in capital	Consolidated unappro-priated profit	Treasury stock
	T€	T€	T€	T€
Status at January 1, 2005	10,040	3,141	4,040	-810
1. Currency conversion				
2. Actuarial gains/losses on defined benefit obligations for pensions				
3. Changes in current market values of available-for-sale securities, recognized in the shareholders' equity				
4. Gains (losses) on available-for-sale securities, recognized in the consolidated statement of operations				
5. Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity				
Valuation adjustments recognized directly in the shareholders' equity				
6. Consolidated net profit 2005			2,565	
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements			2,565	
7. Remuneration based upon shares		18		
8. Purchase of own shares				-193
Status at December 31, 2005	10,040	3,159	6,605	-1,003
1. Currency conversion				
2. Actuarial gains/losses on defined benefit obligations for pensions				
3. Changes in current market values of available-for-sale securities, recognized in the shareholders' equity				
4. Gains (losses) on available-for-sale securities, recognized in the consolidated statement of operations				
5. Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity				
Valuation adjustments recognized directly in the shareholders' equity				
6. Consolidated net profit 2006			3,486	
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements			3,486	
7. Remuneration based upon shares		254		89
8. Purchase of own shares in 2006				-751
9. Business combinations				
10. Purchase of minority interests				
Status at December 31, 2006	10,040	3,413	10,091	-1,665

of the parent				Minority interest	Total Shareholders' Equity
Other Reserves					
Difference from pension valuation	Difference from currency translation	Stock market valuation of securities	Total		
T€	T€	T€	T€	T€	T€
25	-562	-1	15,873	0	15,873
	318		318		318
-459			-459		-459
		14	14		14
		1	1		1
178		-6	172		172
-281	318	9	46		46
			2,565	0	2,565
-281	318	9	2,611	0	2,611
			18		18
			-193		-193
-256	-244	8	18,309	0	18,309
	-320		-320		-320
131			131		131
		-52	-52		-52
		3	3		3
-51		-3	-54		-54
80	-320	-52	-292		-292
			3,486	-115	3,371
80	-320	-52	3,194	-115	3,079
			343		343
			-751		-751
				215	215
				-9	-9
-176	-564	-44	21,095	91	21,186

Notes to the Consolidated Financial Statements for 2006 (IFRS)

General disclosure

init innovation in traffic systems Aktiengesellschaft, Karlsruhe (“init AG”), was established on August 18, 2000 as the holding company of the init group. It is entered in the Commercial Register of the Mannheim District Court (Germany) under HRB 109120. Since the beginning of the 1980s, its operating business has been conducted by “INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH,” Karlsruhe (“INIT GmbH”). Following a resolution in December 2000, implemented in the first quarter of 2001, over 75% of the shares in INIT GmbH were transferred to init AG in exchange for the provision of ordinary shares. From a commercial point of view, the business formerly run by INIT GmbH has carried on unchanged in the init group.

The shares in INIT GmbH were transferred at historic book value. For the transfer of 75% of the shares in INIT GmbH, init AG granted 6,019,048 shares at an accounting par value of 1.00 Euro. This sum exceeded the historic book values by 5,211 TEuro. Thus, the net book value of the transfer totalled 808 TEuro.

The 2006 consolidated financial statements and the comparative prior-year figures were prepared in compliance with the International Financial Reporting Standards (IFRS). The consolidated financial statements of init AG and its subsidiaries are consistent with the IFRS applicable in the EU.

All legally binding standards that came into force by the cutoff date were taken into account.

In principle, the accounting practices and valuation methods applied are consistent with to the methods applied in the previous year.

In the period under review, the group applied the following new and revised IFRS standards and interpretations:

IAS 19	Change – Employee benefits
IAS 39	Change – Financial instruments: recognition and measurement
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6	Liabilities arising from participating in a specific market – Waste electrical and electronic equipment

The main effects of these changes are as follows:

IAS 19 Employee benefits

Since the conversion to IAS 19 “Employee benefits” in 2005, init has exercised the option of reporting actuarial gains and losses in the calculation of pension accruals in the shareholders’ equity without affecting the operating result. Accordingly, the details in the Appendix are based on the change to IAS 19 “Employee benefits”, and the consolidated financial statements were extended in accordance with the amendment to IAS 1 “Presentation of Financial Statements” by a “Breakdown of the recorded income and expenses in the group”.

IAS 39 Financial instruments: recognition and measurement

Reporting of financial guarantees, reporting of securities for expected intragroup transactions, fair value option. The application of this change did not have any effect on the consolidated financial statements.

IFRIC 4 Determining whether an arrangement contains a lease

The group applied IFRIC 4 for the first time as at January 1, 2006. This interpretation includes guidelines for determining whether an arrangement contains a lease which is subject to the accounting rules for leases. This change in the principles of accounting and valuation did not have any effect on the group's assets, liabilities, financial position, or results of operation as at December 31, 2006 and December 31, 2005.

IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

The group applied IFRIC 5 for the first time as at January 1, 2006. The application of this IFRIC interpretation did not have any effect on the consolidated financial statements.

IFRIC 6 Liabilities arising from participating in a specific market – Waste electrical and electronic equipment

The group applied IFRIC 6 for the first time as at January 1, 2006. The application of this IFRIC interpretation did not have any effect on the consolidated financial statements.

Furthermore, the group did not apply the following standards and IFRIC interpretations, which have already been published but have not yet taken effect or furthermore are initial committing till 2007.

Standard/interpretation	Coming into effect	Scheduled application at init	Date of EU endorsement
IAS 1 Changes - Capital disclosure*	January 1, 2007	Fiscal 2007	January 11, 2006
IFRS 7 Financial instruments: Disclosures*	January 1, 2007	Fiscal 2007	January 11, 2006
IFRS 8 Operating Segments*	January 1, 2009	Fiscal 2009	open
IFRIC 7 Applying the restatement approach under IAS 21 – Financial reporting in hyperinflationary economies*	March 1, 2006	Fiscal 2007	May 8, 2006
IFRIC 8 Scope of IFRS 2*	May 1, 2006	Fiscal 2007	September 8, 2006
IFRIC 9 Reassessment of embedded derivatives*	June 1, 2006	Fiscal 2007	September 8, 2006
IFRIC 10 Interim financial reporting and impairment*	November 1, 2006	Fiscal 2007	open
IFRIC 11 IFRS 2 Group and treasury share transactions*	March 1, 2007	Fiscal 2007	open
IFRIC 12 Service concession arrangements*	January 1, 2007	Fiscal 2007	open

* The company does not expect any significant effects on the group's assets, liabilities, financial position, or results of operation due to the application of these standards.

The consolidated financial statements are always prepared using the purchase cost concept, except for derivative financial instruments and financial investments available for sale, which are valued at their current market price. The consolidated financial statements were prepared in Euro. Unless indicated otherwise, all figures were rounded to a full thousand (TEuro).

1. Divisions and basic structure of the company

The init group is an internationally operating system supplier of transportation telematics (telecommunications and information technology, globally also called Intelligent Transportation Systems – ITS). The business operations are subdivided into the divisions "Telematics Software and Services", and "Mobile Telematics and Fare Collection Systems". One of the crucial links between these two divisions is mobile radio data transmission. The "Telematics Software and Services" division comprises the software and hardware for control centers, while "Mobile Telematics and Fare Collection Systems" includes the software and hardware in vehicles.

init AG is a listed company, ISIN-Nr. DE0005759807, and has been in the segment of the regulated market with further post-admission requirements (Prime Standard) since January 1, 2003.

2. Mergers and acquisition of minority shares

Consolidated group

Fully consolidated companies
The group of consolidated companies of init AG comprises the subsidiaries INIT GmbH, Karlsruhe ("INIT GmbH"), INIT Innovations in Transportation Inc., Chesapeake/Virginia, USA ("INIT Inc."), INIT Innovations in Transportation (Eastern Canada) Inc./INIT Innovations en Transport (Canada Est) Inc., Montréal, Canada ("Eastern Canada Inc."), INIT Innovations in Transportation (Western Canada) Inc., Vancouver, Canada, ("Western Canada Inc.") and init telematik gmbh, Karlsruhe ("init telematik"), all of which are fully owned by init AG. Further fully consolidated companies are CarMedialab GmbH, Bruchsal ("CarMedialab"), in which init AG holds 58.1% of the shares, and TQA Total Quality Assembly LLC, Chesapeake/Virginia, USA ("TQA"), in which INIT Inc. holds 60% of the shares.

Associated companies
init AG holds 44% of the shares in id systeme GmbH, Hamburg ("id systeme"), and INIT GmbH holds 43% of the shares in iris GmbH infrared & intelligent sensors, Berlin ("iris"). The associated companies are included at equity in the consolidated financial statement.

The fiscal year of the companies included ends on December 31.

Mergers in 2006

Acquisition of CarMedialab
CarMedialab is involved in the development, implementation and production of software and hardware components in the area telematics, teleservice and mobile applications.

Initially, init AG held 45% of the shares in the company which was included at equity in the consolidated financial statement. On January 20, 2006, init AG purchased a further 10% of the shares in CarMedialab by means of a capital increase, resulting in a total book value of investment in the company of 55%, and the company was fully consolidated. The purchase cost of these additional shares totalled 150 TEuro and was fully attributable to the capital increase.

The fair values of the identifiable assets and liabilities of CarMedialab as of the date of acquisition and the corresponding book values were as follows:

	Reported on acquisition	Book value
	T€	T€
Cash and cash equivalents	163	163
Receivables	143	143
Tangible fixed assets	8	8
Licences	339	339
	653	653
Liabilities	300	300
Provisions	30	30
	330	330
Fair value of net assets	323	
Minority shares at fair value of the net assets	-145	
Adjustment of the book value of investments in subsidiaries and associated companies using the equity method until the date of acquisition	132	
Goodwill from company acquisition	190	
Total purchase cost of the gradual company acquisition	**500**	

Cash outflow due to company acquisition (additional 10%):

	T€
Cash acquired with the subsidiary	163
Cash outflow	-150
Actual cash inflow	**13**

Aside from the goodwill of 190 TEuro acquired within the scope of the merger, no other intangible assets were identified which would have to be valued separately under IAS 38 “Intangible assets”.

A further 3.1% of the shares of the minority shareholders were acquired on December 1, 2006, increasing the voting share to 58.1%. The purchase price amounted to 23 TEuro. The difference between the purchase price and the fair value of the net assets amounted to 14 TEuro and is shown as goodwill.

Since the time of acquisition, CarMedialab recorded a loss of -146 TEuro in the group income in the period under review.

Other acquisitions

Eastern Canada Inc. was founded on July 14, 2006, and Western Canada Inc. on July 13, 2006. Both companies handle the sales activities of the init group on the Canadian market. Eastern Canada Inc. covers the Franco-Canadian part of the country, while Western Canada Inc. deals with the English-speaking part. init AG holds 100% of the voting shares in both companies. In addition, TQA was founded on June 28, 2006. The company produces cables for the init group. INIT Inc. holds 60% of the shares in the company. The total cost of these company acquisitions amounted to 236 TEuro and are attributable to the capital contributions relating to these companies.

The fair values of the identifiable assets and liabilities of the above companies as of the date of acquisition and the corresponding book values were as follows:

	Reported on acquisition	Book value
	T€	T€
Cash and cash equivalents	236	236
Receivables	63	63
	299	299
Liabilities	63	63
Fair value of net assets	236	
Goodwill from company acquisitions	0	
Total purchase cost of the company acquisitions	**236**	

Cash outflow due to company acquisition:

	T€
Cash and cash equivalents acquired with the subsidiaries	236
Cash outflow	-236
Actual cash inflow	**0**

Since the time of acquisition, the companies recorded a loss of -17 TEuro in the group income in the period under review.

If all companies acquired in 2006 had been acquired at the beginning of the year, the consolidated annual net profit would still have totalled 3,371 TEuro and the revenues, 36,258 TEuro.

3. Formal statement

For the sake of clarity of the statement, individual items in the balance sheet and the consolidated statement of operations have been combined; these are shown and explained separately in the Appendix. The consolidated statement of operations was prepared on the basis of the cost-of-sales format.

4. Principles of accounting and valuation

Consolidation principles
The annual financial statements of the fully consolidated companies are prepared according to the standard accounting and valuation principles of the group in line with the IFRS as of the same cutoff date as the financial statements of the parent company. Where required, any financial statements prepared in accordance with national accounting regulations are adjusted accordingly.

The capital is consolidated by offsetting the purchase cost against the group share in the revalued shareholders' capital of the consolidated subsidiaries as of the time of acquisition of the shares or the initial consolidation. The recognizable assets, liabilities and contingent liabilities of the subsidiaries are valued at their full market value irrespective of the amount of the minority share. Intangible assets are reported separately from the goodwill if they are separable from the company or result from a contractual or other right. All positive differences (goodwill) arising from the initial consolidation are capitalized and subjected to an impairment test in line with IFRS 3 “Business Combinations”/IAS 36 “Impairment of Assets” (revised in 2004). Negative differences are recognized in the profit and loss immediately after the acquisition. In case of deconsolidations, the remaining book values of the positive differences are taken into account in the calculation of the disposal result. The valuation using the equity method is based on the same principles, with goodwill being reported in the investments.

Both the receivables and payables, and the expenses and income between consolidated companies are offset against each other. Assets from intragroup services are adjusted by intermediate results. Deferred taxes are valued such as to reflect temporary valuation differences from consolidation processes.

Conversion of foreign currency

The financial statements of the subsidiaries of the company are prepared in their functional currency according to IAS 21 "The Effects of Changes in Foreign Exchange Rates" (revised in 2004). The functional currency of INIT Inc., TQA, Eastern Canada Inc., and Western Canada Inc. corresponds to its national currency. When converting financial statements in a foreign currency to the currency of the init group (Euro), the assets, the shareholder's equity, and the liabilities are converted using the current rate on the cutoff date. Items of the consolidated statement of operations are converted taking as the basis the average currency exchange rate of the year. The resulting conversion differences are shown cumulatively in a separate item in the shareholders' equity (Other provisions).

	Annual averages		Rate on cutoff date	
	2006	2005	2006	2005
1 Euro corresponds to US Dollar	1.2546	1.2430	1.3190	1.1843
1 Euro corresponds to CAN Dollar	1.4228	1.5035	1.5375	1.3803

Use of estimates

To a certain degree, the preparation of the consolidated financial statements requires estimates and assumptions to be made by the Managing Board that affect the amount of the assets and liabilities reported in the balance sheet, the specification of contingent liabilities as of the cutoff date, and the statement of income and expenditure during the period under review. The actual amounts may deviate from these estimates.

Realization of income

Income is realized if it is probable that the economic benefit will flow to the corporation and the amount of income can be measured with reliability. In addition, the following recognition criteria must be met to allow income to be realized:

Income from system contracts are recorded using the percentage-of-completion method. The percentage of completion of orders in progress and such not yet invoiced as of the cutoff date is determined by the ratio of costs accrued to the total costs ("cost-to-cost" method).

Income from product sales is realized upon transfer of the key risks and opportunities. Where the installation at the customer's place of business is an important prerequisite for the commissioning, the revenues are not realized until the installation has been completed.

Interest income is realized where interest has accrued.

Income from dividends is reported once the group has a legitimate claim for payment.

Research and development costs

Research and always also development costs are entered as expenses as incurred. In certain cases, development costs are capitalized (please refer to the explanations on other intangible assets).

Advertising costs

Advertising costs are entered as expenses as incurred.

Cash and cash equivalents

The cash and cash equivalents comprise short-term highly liquid funds with original maturities of less than three months from the date of acquisition.

Financial investments and other financial assets

Financial assets as defined by IAS 39 “Financial instruments: Recognition and Measurement” are classified as financial assets reported at their current market value affecting the current-period result, as loans and receivables, as held-to-maturity investments, or as available-for-sale financial assets. On initial recognition of the financial assets, these are reported at their current market value. The group specifies the classification of its financial assets on initial recognition and is required to review the allocation at the end of each fiscal year, where permissible and appropriate.

The purchase and sale of financial assets as customary in the market is reported as at the trading day, i.e. the day on which the company has made a firm commitment to purchase the asset. Purchases and sales as customary in the market are purchases and sales of financial assets which prescribe the provision of the assets within a period specified by market regulations or conventions.

Securities

Until their final maturity, securities are classified as “available for sale”. Following their initial recognition, financial assets available for sale are reported at their current market value (exchange or market price), with gains or losses recognized as a separate item in the shareholder’ equity. Once the financial investment is derecognized or its value found to be impaired, the cumulated gain or loss previously recognized in the equity capital is reported through profit and loss affecting the current-period result.

Trade accounts receivable and loans

Trade accounts receivable and loans are reported at net book value. Potential risks are taken into account in the form of value adjustments. The receivables from the percentage of completion method correspond to the balance of costs incurred plus the profits of projects not invoiced and advance payment invoices issued, and are reported together with the trade accounts receivable.

Accounting for derivative financial instruments

The accounting for derivative financial instruments (forward exchange transactions, currency options and swap transactions) follows IAS 39 “Financial instruments: Recognition and Measurement”, according to which derivative financial instruments are reported as assets or liabilities and measured at their current market values (fair values), irrespective of their purpose or intended use. The change in market values is taken into account in the net earnings. In contrast, the adjustment of order values to the current prices on the cutoff dates for projects invoiced in a foreign currency has a countereffect on the net income realization.

Inventories

Inventories are valued at their acquisition and production costs or the lower net sales price realizable as at the cutoff date at the time of their addition. If the net sales price of inventories previously written down has increased, their value is increased appropriately. The production costs comprise both direct costs and the manufacturing and material overheads incurred in production, any depreciations and other production-related expenses. Costs of debt are reported as expense in the period in which they have accrued. Impairment losses are recognized where necessary.

Tangible fixed assets

Tangible fixed assets are valued at purchase cost less scheduled depreciation. The depreciation of the historical purchase cost follow the straight-line method over the asset depreciation period. Low-value fixed assets are depreciated over four years. The depreciation of fixed assets are included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

The asset depreciation periods are as follows:

Buildings	39 years
Buildings on third-party property	10 years
Technical installations and machines	3-5 years
Other installations, factory and office equipment	3-10 years

Goodwill

Goodwill from mergers is valued at purchase cost on initial recognition, measured as acquisition excess above the share of the group in the current market value of the acquired, identifiable assets, liabilities and contingent liabilities. After initial recognition, the goodwill is reported at purchase cost less accumulated impairment losses. Goodwill is examined for impairment loss at least once a year or when facts or changes in circumstances indicate that its book value may have reduced.

Other intangible assets

Purchased intangible assets are valued at purchase cost and depreciated in a straight-line method over the asset amortization period of three to ten years. The purchase costs for the new “Microsoft Axapta” ERP system are amortized over five years. The amortizations of purchased intangible assets are included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

In accordance with IAS 38 “Intangible Assets”, the company capitalizes software development costs that accrue once it has been proven that the software is intended for own use or for sale and generates future economic benefit, that the resources required for completion of the asset are available, that the costs attributable to the development can be determined reliably, and the software has become technically feasible. Based on the product development process, software is deemed technically feasible upon completion of the detailed program and product design. Prior to this, the corresponding costs are recorded as periodic expenses. Once technical feasibility has been achieved, the corresponding costs are capitalized until the software is marketed and offered for sale.

Init does not exercise the option under IAS 23 “Borrowing costs” (revised in 1993) to capitalize borrowed costs accrued during the software development.

After initial recognition of the development costs, the cost method is used according to which the asset is reported at purchase cost less accumulated amortization and accumulated impairment losses. Software development costs are amortized per product at the higher amount resulting either from (a) the ratio of the current gross revenues of a product to the total of the entire current revenues and the estimated future gross revenues for this product; or (b) from the straight-line depreciation over a maximum period of five years. The depreciation and amortization of the assets commence at the time of sale to the customer and are included under “Cost of revenues”. Furthermore, capitalized software development costs are checked for impairment of value if events or changes have occurred which suggest that the net book value of an asset could have reduced. Irrespective of this, these costs are subjected to an impairment test at least once a year until the time of sale to the customers.

Shares in associated companies

The shares in associated companies comprise investments in companies included at equity. These are valued taking into account the proportionate result of the company, the profit distributions effected and any impairment losses of goodwill.

Public subsidies

Public subsidies (government grants for a research project) are recorded if it has been established with reasonable certainty that the subsidies will be granted and the company meets the relevant requirements. The expense-related subsidies are recorded as income as planned over the period required to offset them against the appropriate expenses which they are to compensate.

Impairment of value of assets

Durable and intangible assets including goodwill are checked for impairment of value if events or changes have occurred which suggest that the net book value of an assets can no longer be realized (impairment test). Where the facts and circumstances indicate that an impairment of value has occurred, the net book values of the assets are compared with their prospective future income. If necessary, their lower of cost or market value is depreciated accordingly.

Deferred tax assets and deferred tax liabilities

The company determines its deferred income taxes using the balance sheet-oriented approach. Accordingly, deferred tax assets and deferred tax liabilities are recognized in accordance with IAS 12 “Income Taxes” (revised in 2000) to account for the tax consequences of differences between the balance sheet valuations of the assets and liabilities and the corresponding tax assessment bases, and tax losses carried forward. The deferred tax assets and deferred tax liabilities are calculated on the basis of the prevailing tax rates for the taxable profit in the year in which the differences are expected to be leveled. The effect of changes in the tax rates on deferred tax assets and deferred tax liabilities is accounted for in the period in which the amendment of the law takes effect. The income tax rate taken as the basis was 38.9%.

Liabilities

Liabilities are carried at net book value.

Pension accruals

The pension accruals are calculated using the projected unit credit method for defined benefit plans, taking into account any future remuneration and pension adjustments. Actuarial gains and losses are reported in the equity capital without affecting the operating result. The service cost and the post service cost are recorded immediately affecting net income.

Other provisions

The other provisions are taken into account where a past event has led to a current liability, their utilization is more likely than unlikely, and the amount of the liability can be estimated reliably. Provisions are valued at their settlement amount and not balanced with positive profit contributions. Provisions are only set up for legal or factual liabilities vis-à-vis third parties.

Notes to the Consolidated Statement of Operations

5. Revenues

The revenues include both deliveries and services already invoiced and such resulting from the percentage of completion method. The revenues from the application of the percentage of completion method totalled 3,737 TEuro (previous year: 5,251 TEuro).

6. Cost of revenues

The cost of revenues are composed as follows:

	2006	2005
	T€	T€
Cost of materials	12,523	14,052
Personnel expenses	6,950	4,647
Depreciation	1,399	1,662
Other	2,130	2,228
Total	**23,002**	**22,589**

7. Research and development expenses

	2006	2005
	T€	T€
Software development	1,362	1,192
less capitalized software development expenses acc. to IAS 38	-636	-479
Hardware development and research expenses	990	648
Total	**1,716**	**1,361**

8. Other operating income

This item includes 14 TEuro (previous year: 86 TEuro) from public subsidies for a research project.

9. Foreign currency gains and losses

	2006	2005
	T€	T€
Balance of unrealized currency gains/losses from derivative financial instruments, receivables and liabilities	-71	-335
Balance of realized currency gains and losses	416	1,221
Currency gains/losses from consolidation transactions	13	262
Total	**358**	**1,148**

10. Income from associated companies

	2006	2005
	T€	T€
Income from the at equity method	202	174
Expenses from the at equity method	0	-113
Total	**202**	**61**

11. Other income and expenses

The other income and expenses consist mainly of income from the asset value adjustment of life assurances serving as pension liability insurances. The increase in asset values in the fiscal year totalled 165 TEuro (previous year: 169 TEuro). Additionally, this item includes a tax refund of 159 TEuro from sales tax of the IPO.

12. Income taxes

	2006	2005
	T€	T€
Current income taxes	2,110	1,696
Deferred income taxes	310	-164
Total	**2,420**	**1,532**

The tax expenditure resulting from the application of the tax rate of init AG changes to income tax expenditure as follows:

	2006	2005
	T€	T€
Profit before income tax	5,791	4,097
Theoretical income tax expenditure/yield at 38.9% (2005: 38.9%)	2,253	1,594
Used tax loss carryforwards	0	-354
Tax rate differences USA	26	-37
Tax effect of the non-deductible/taxed expenses and income	90	306
Taxes unrelated to accounting period	-16	0
Tax effects from results of associated companies	-79	-23
Other	146	46
Effective income tax expenditure/income tax yield at 41.8% (2005: 37.4%)	**2,420**	**1,532**

13. Earnings per share

The net earnings per share are calculated by dividing the consolidated annual net profit by the weighted number of shares outstanding. Since init AG did not issue any stock options as of the cutoff dates, the diluted earnings per share could not be calculated.

	2006	2005
	T€	T€
Consolidated earnings	3,486	2,565
Consolidated earnings adjusted by special influences	3,486	2,565
Weighted average number of issued shares	9,737,650	9,774,862
Undiluted earnings per share in Euro	0.36	0.26
Undiluted earnings per share adjusted by special influences in Euro	0.36	0.26

14. Paid and proposed dividends

	2006	2005
	T€	T€
Ordinary dividends declared and paid during the fiscal year	0	0
Ordinary dividends proposed at the shareholders' meeting for approval (as at December 31, not reported as liability)		
Dividend for 2006: 10 Cent per share (2005: 0 Cent per share)	968	0

15. Personnel expenses

The personnel expenses totalled 13,494 TEuro (previous year: 11,939 TEuro).

Notes to the Consolidated Balance Sheet

16. Cash and cash equivalents

	2006	2005
	T€	T€
Deposits with credit institutions (current accounts)	3,986	4,790
Short-term deposits (fixed-term deposits/call money)	2,742	5,249
Total	**6,728**	**10,039**

Deposits with credit institutions bear interest at variable rates for demand deposits. Short-term deposits are for different periods which, depending on the respective cash requirement of the group, can range from one day to three months. These bear interest at the rate applicable to short-term deposits at that time. The fair value of the cash and cash equivalents is 6,728 TEuro (previous year: 10,039 TEuro).

17. Securities

This item refers to shares with a total current market value of 766 TEuro (previous year: 812 TEuro). The loss of the securities before deferred taxes reported directly in the equity capital in 2006 amounted to 52 TEuro (previous year: unrealized profit of 14 TEuro). Through the sale of securities, 3 TEuro of losses (previous year: 1 TEuro) were taken out of the shareholders' equity and transferred to the net result for the period.

18. Trade accounts receivable

	2006	2005
	T€	T€
Trade accounts receivable, gross	8,354	8,343
less cumulative value adjustments	-181	-297
Subtotal	8,173	8,046
Future receivables from production orders	5,678	1,986
Total	**13,851**	**10,032**

Production orders

The production orders valued as of the cutoff date using the percentage of completion method but not yet invoiced are as follows:

	31.12.2006	31.12.2005
	T€	T€
Costs accrued plus profits from projects not yet invoiced	9,072	5,251
less progress payment invoices	-4,798	-3,922
Balance	**4,274**	**1,329**
thereof: future receivables from production orders	5,678	1,986
thereof: liabilities from percentage of completion (see Liabilities)	1,404	657

19. Inventories

	2006	2005
	T€	T€
Raw materials and supplies	81	0
Goods (reported at net sales price)	4,034	2,319
Work in progress (reported at production cost)	267	1.017
Deposits received	-267	-774
Deposits paid	227	285
Total	**4,342**	**2,847**

A total of 303 TEuro (previous year: 473 TEuro) for inventory depreciation were recorded as expenses. The expenses are included in the cost of revenues.

20. Other current assets

	2006	2005
	T€	T€
Derivative financial instruments	399	72
Year-end adjustments	181	136
Tax refund claims	109	64
Loans	95	55
Due from personnel	32	41
Cash in transit	18	20
Other	163	77
Total	**997**	**465**

21. Tangible fixed assets

2006	Property and plant	Technical installations and machines	Factory and office equipment	Total
	T€	T€	T€	T€
Book value January 1, 2006	26	79	718	823
Additions	533	68	403	1,004
Disposals at book value	0	0	-12	-12
Impairment losses	0	0	0	0
Depreciation	-12	-31	-394	-437
Net currency differences	0	-8	-36	-44
Book value December 31, 2006	**547**	**108**	**679**	**1,334**
Gross book value December 31, 2006	699	239	4,316	5.254
Accumulated depreciations and impairment losses	-154	-147	-3,658	-3,959
Currency differences	2	16	21	39
Book value December 31, 2006	**547**	**108**	**679**	**1,334**

2005	Property and plant	Technical installations and machines	Factory and office equipment	Total
	T€	T€	T€	T€
Book value January 1, 2005	37	63	939	1,039
Additions	2	26	272	300
Disposals at book value	0	0	-30	-30
Reclassification	0	0	0	0
Impairment losses	0	0	0	0
Depreciation	-13	-28	-516	-557
Net currency differences	0	18	53	71
Book value December 31, 2005	**26**	**79**	**718**	**823**
Gross book value December 31, 2005	168	188	4,311	4,667
Accumulated depreciation and impairment losses	-142	-116	-3,607	-3,865
Currency differences	0	7	14	21
Book value December 31, 2005	**26**	**79**	**718**	**823**

This item predominantly includes a residential building, office equipment and technical installations. The depreciation follows the straight-line method over the asset depreciation period. The depreciation in 2006 totalled 437 TEuro (previous year: 557 TEuro) and is included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

22. Intangible assets

2006		Other intangible assets		
	Goodwill	Internally created software	Licences	Total other intangible assets
	T€	T€	T€	T€
Book value January 1, 2006	1,877	3,286	530	3,816
Additions	204	636	375	1,011
Disposals at book value	0	0	-1	-1
Impairment losses	0	0	0	0
Amortization	0	-796	-285	-1,081
Net currency differences	0	-15	-1	-16
Book value December 31, 2006	**2,081**	**3,111**	**618**	**3,729**
Gross book value December 31, 2006	2,081	8,056	1,951	10,007
Accumulated amortization and impairment losses	0	-4,946	-1,337	-6,283
Currency differences	0	1	4	5
Book value December 31, 2006	**2,081**	**3,111**	**618**	**3,729**

2005		Other intangible assets		
	Goodwill	Internally created software	Licences	Total other intangible assets
	T€	T€	T€	T€
Book value January 1, 2005	1,877	3,831	734	4,565
Additions	0	479	57	536
Disposals at book value	0	0	0	0
Impairment losses	0	0	0	0
Amortization	0	-1,055	-270	-1,325
Net currency differences	0	31	9	40
Book value December 31, 2005	**1,877**	**3,286**	**530**	**3,816**
Gross book value December 31, 2006	1,877	7,474	1,598	9,072
Accumulated amortization and impairment losses	0	-4,150	-1,062	-5,212
Currency differences	0	-38	-6	-44
Book value December 31, 2005	**1,877**	**3,286**	**530**	**3,816**

Impairment of value of goodwill

To check for impairment of value, the goodwill acquired within the scope of mergers was allocated to the following two cash generating units as segments subject to reporting requirements:

- Cash-generating unit of “Mobile Telematics and Fare Collection Systems” and
- Cash-generating unit of “Telematics Software and Services”.

Book value of the goodwill allocated to the respective cash generating units:

	2006	2005
	T€	T€
Mobile Telematics and Fare Collection Systems	1,404	1,200
Telematics Software and Services	677	677
Total	**2,081**	**1,877**

No impairment losses needed to be reported. The increase by 204 TEuro resulted from the initial consolidation of CarMedialab in 2006.

The recoverable amount of the above cash-generating units is determined on the basis of the calculation of a use value using cash flow projections based on budgetary accounting approved by the Managing Board for a period of three years. Steady cash flows were shown for the following period. The interest rate applied for the discounting is 11.0%.

The following assumptions taken as a basis for the calculation of the use value of the two "Mobile Telematics and Fare Collection Systems" and "Telematics Software and Services" units involve forecast uncertainties:

- Revenues
- Gross operating result on sales
- Discount rate

Revenues

Revenues are estimated on the basis of the order volume, the open and announced tenders, submitted offers, and past experiences.

Gross operating result on sales

The gross operating result on sales is determined using the average values of the three fiscal years prior to the planning period. For the cash-generating "Mobile Telematics and Fare Collection Systems" unit, the factor applied was 29.8% and for "Telematics Software and Services", 29.2%. Due to the weaker gross operating result in the past, the valuation was rather conservative.

Discount rate

The discount rate reflects the estimate of the company management in regard to the risks relating to the two cash-generating units. A uniform interest rate of 11% was applied to both cash-generating units, which consists of a basic interest rate of 5%, a risk premium of 5%, and a growth discount of 1%.

Sensitivity of the assumptions made

The company management does not believe that any rational change in regard to the basic assumptions made to determine the use value of the cash-generating units could lead to a higher book value of the cash-generating units than their recoverable amount.

Other intangible assets

Internally generated software

The main components here are the software development costs capitalized in compliance with IAS 38 "Intangible Assets" to the amount of 3,111 TEuro (previous year: 3,286 TEuro) for the products MOBILE-PLAN Abroad, JANET Level III, COPILOTpower, APC, MOBILEvario, COPILOTpc, PIDmobil, PIDstation and NAVIGATION.

In 2006, the amortization of the capitalized amounts totalled 796 TEuro (previous year: 1,055 TEuro). Amortization costs were not recorded. The amortizations of internally generated software are included in the consolidated statement of operations under "Cost of revenues".

The capitalized software developments of JANET Levels I and II, MOBILE-PLAN Levels I and II, TOUCHmobil Levels I and II and MOBILE-PARAnet have now been fully amortized.

Licences

The other intangible assets further include external software costs such as licences, consulting and programming and the internal costs for the programming, implementation and installation of third-party software to the amount of 618 TEuro (previous year: 530 TEuro). The amortization of the capitalized amounts in 2006 totalled 285 TEuro (previous year: 270 TEuro) and are included in the consolidated statement of operations under "Cost of revenues", "Sales and marketing expenses" and "Administrative expenses".

23. Shares in associated companies

The associated companies are not publicly listed. The following table contains summarized financial information on these associated companies:

		Balance sheet total 31.12.	Shareholders' equity 31.12.	Total liabilities 31.12.	Revenues	Profit
		T€	T€	T€	T€	T€
iris	2006	4,047	2,417	1,630	5,085	286
	2005	3,803	2,131	1,672	4,655	299
id systeme	2006	955	241	714	2,227	180
	2005	847	281	566	1,882	104
Car Medialab	2006	-	-	-	-	-
	2005	504	174	330	241	-250
Total	**2006**	**5,002**	**2,658**	**2,344**	**7,312**	**466**
	2005	**5,154**	**2,586**	**2,568**	**6,778**	**153**

Writedowns of the shares in associated companies were not required.

The fiscal year of all associated companies ends on December 31.

The object of iris GmbH is the development, production and sale of sensors, and sensor- and information-processing systems. In 2006, the prorated result from this equity consolidation amounted to 123 TEuro (previous year: 128 TEuro).

The object of id systeme is the production, further development and maintenance of EDP programs, the sale of its own and third-party EDP programs, and the provision of accompanying services. The goodwill included in the purchase price amounted to 267 TEuro. The prorated result from the equity consolidation in 2006 totalled 79 TEuro (previous year: 46 TEuro). The distribution in the fiscal year amounted to 97 TEuro (previous year: 34 TEuro).

24. Deferred taxes

The deferred tax assets and liabilities divide as follows:

	Consolidated balance sheet		Consolidated statement of operations	
	31.12.2006	31.12.2005	2006	2005
	T€	T€	T€	T€
Deferred tax assets				
Pension accruals	264	296	19	76
Accrued liabilities	36	240	-204	130
Timing differences acc. to the tax law of the foreign group companies and IFRS	94	159	-65	28
Consolidation transactions	7	7	0	-2
Foreign currency assets and liabilities	34	0	34	0
Loss carried forward	0	0	0	-354
Total deferred tax assets	**435**	**702**		
Deferred tax liabilities				
Capitalized software	1,210	1,221	11	189
Application of POC method	384	278	-106	-44
Loss-free valuation	1	35	34	30
Foreign currency assets and liabilities	0	33	33	-33
Low-value fixed assets	27	30	3	6
Timing differences acc. to the tax law of the foreign group companies and IFRS	7	28	21	41
Derivatives	113	28	-85	-8
Goodwill	23	18	-5	-4
Securities	10	6	0	0
Treasury stock	0	0	0	40
Consolidation transactions	0	0	0	11
Pension accruals	0	0	0	58
Total deferred tax liabilities	1,775	1,677		
Deferred tax income			**-310**	**164**

25. Other non-current assets

	2006	2005
	T€	T€
Asset value of pension liability insurance	823	658
Security deposits	88	65
Other	67	54
Total	**978**	**777**

26. Liabilities

	31.12.2006			31.12.2005		
	Total	Residual term		Total	Residual term	
		< 1 year	> 5 years		< 1 year	> 5 years
	T€	T€	T€	T€	T€	T€
Bank liabilities	0	0	0	57	57	0
Trade accounts payable	4,683	4,683	0	4,619	4,619	0
Accounts payable from percentage of completion	1,404	1,404	0	657	657	0
Accounts payable to related parties	100	100	0	136	136	0
Advance payments received	739	739	0	424	424	0
Income tax liabilities	437	437	0	1,367	1,367	0
Other liabilities	2,899	2,801	0	2,922	2,892	0

Terms relating to the above financial liabilities:

The bank liabilities of the previous year relate to a variable interest-bearing account current.

The following credit and guarantee lines apply:

		Overall line	thereof cash line	thereof guarantee line	Cash or guarantee line
		T€	T€	T€	T€
Banks	2006	14,758	758	8,000	6,000
Credit insurance companies	2006	17,000	0	17,000	0
Banks	2005	14,850	850	8,000	6,000
Credit insurance companies	2005	17,000	0	17,000	0

The difference in the total line compared to the previous year results from foreign currency differences. The credit and guarantee lines are sufficient to finance the further growth of the company. As of December 31, 2006, the cash line utilization totalled 0 TEuro (previous year: 57 TEuro), the guarantee lines, 9,528 TEuro (previous year: 13,993 TEuro). The trade accounts payable do not bear interest.

For the terms relating to the accounts payable to related parties, please refer to item 36 of the Appendix. For the terms relating to the liabilities from derivative financial instruments included in the other liabilities, please refer to item 32 of the Appendix.

27. Other liabilities (long-term and short-term)

	31.12.2006			31.12.2005		
	Total	Residual term		Total	Residual term	
		< 1 year	> 5 years		< 1 year	> 5 years
	T€	T€	T€	T€	T€	T€
Tax liabilities	397	397	0	612	612	0
Due to personnel	1,715	1,715	0	1,055	1,055	0
Derivative financial instruments	101	101	0	565	565	0
Social security liabilities	5	5	0	188	188	0
Remaining work	493	395	0	279	279	0
Other	188	188	0	223	193	0
Total	**2,899**	**2,801**	**0**	**2,922**	**2,892**	**0**

28. Provisions

	As of 01.01.06	Usage	Release	Transfer	As of 31.12.06
	T€	T€	T€	T€	T€
Provisions for warranties	1,190	67	0	48	1,171
Provisions for insufficient production costs	667	510	157	160	160
Other provisions	124	70	0	0	54
	1,981	**647**	**157**	**208**	**1,385**

	As of 01.01.05	Usage	Release	Transfer	As of 31.12.05
	T€	T€	T€	T€	T€
Provisions for warranties	1,104	1,104	0	1,190	1,190
Provisions for insufficient production costs	722	722	0	667	667
Other provisions	101	52	19	94	124
	1,927	**1,878**	**19**	**1,951**	**1,981**

The expected maturities of the accrued liabilities are all within one year.

The provisions for warranties were calculated as a lump sum using a rate of average sales in the past two years determined from experience figures in the past.

The provisions for unsufficient costs were established for services still outstanding in invoiced orders or for services received in the period under review which have not yet been invoiced.

29. Pension accruals

In compliance with IAS 19, pension liabilities are calculated using the projected unit credit method. These pension commitments grant employees an old-age pension after attaining the age that entitles them to a pension under the statutory annuity insurance, the earliest legal age for retirement being 63. The following parameters were taken into consideration: calculatory interest 4.5% (previous year: 4.25%), retirement age of 63 years (Dr. Gottfried Greschner: 65 years), salary increases are irrelevant to pension commitments; pension adjustments of 4% (2% for Dr. Gottfried Greschner), fluctuation deduction of 5%; biometric bases: see Klaus Heubeck's "Richttafeln G" (Actuarial Tables) of 2005.

The values of the commitments were calculated as of the individual cutoff dates based on personnel data as of the respective cutoff dates.

The company's pension accruals as of the cutoff dates developed as follows:

	2006 T€	2005 T€
Pension accruals at the beginning of the year (Defined Benefit Obligation - DBO)	1,966	1,019
Past service cost	222	378
Current service cost	94	56
Interest cost	83	54
Actuarial losses (+)/gains (-)	-131	459
Pension payments	0	0
Pension accruals (DBO) at the end of the year	**2,234**	**1,966**

In regard to the defined benefit plans, the expenses for pension payments are composed as follows:

	2006 T€	2005 T€
Service cost	94	56
Interest Cost	83	54
Past Service Cost	222	378
Expenses for pension payments	399	488

In the consolidated statement of operations, the service cost and the past service cost are included in the cost of revenues (15 TEuro), the sales and marketing expenses (151 TEuro) and the administrative expenses (150 TEuro) and the interest paid in this item.

	31.12.2006 T€	31.12.2005 T€
Accumulated amount of the actuarial gains and losses included in the shareholders' equity	285	416

	2006 T€	2005 T€
Performance-oriented liability (DBO) 12/31	2,234	1,966
Adjustments of the liability based on experience	9	-10

The pension accruals (DBO) attributable to members of the Managing Board totalled 1,209 TEuro (previous year: 960 TEuro).

Defined contribution plans

In the 2002 fiscal year, init changed its pension scheme regulations for new commitments. Accordingly, the company will no longer make any new, direct commitments. Old-age pensions will be paid under a "defined contribution plan" through a relief fund. The appropriate amount recorded as expenses totalled 83 TEuro (previous year: 80 TEuro), 10 TEuro (previous year: 42 TEuro) of which were attributable to the members of the Managing Board.

30. Shareholders' equity

Subscribed capital

The capital stock is divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of 1.00 Euro. The shares have been issued and fully paid up.

Floating shares:

	2006	2005
As of 01.01.	9,753,000	9,803,000
Acquisition of treasury stock	-103,690	-50,000
Issued treasury stock	24,275	0
As of 31.12.	**9,673,585**	**9,753,000**

Shares of init AG held by members of the Managing Board and the Supervisory Board:

Managing Board member	Number of shares	Supervisory Board member	Number of shares
Dr. Gottfried Greschner, CEO	3,571,400	Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	0
Joachim Becker, COO	330,983	Bernd Koch	0
Wolfgang Degen, COO	81,000	Fariborz Khavand	0
Dr. Jürgen Greschner, CSO	97,364		
Bernhard Smolka, CFO	9,600		

Authorized capital

At the annual shareholders' meeting on July 13, 2006, a resolution was passed to create capital to the amount of 5,020,000 Euro. With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 5,020,000 Euro by July 13, 2011 through a single or repeated issuing of up to 5,020,000 ordinary shares against contributions in cash or in kind. The new shares are to be taken over by credit institutions that will be obliged to offer them to investors for sale. However, with the approval of the Supervisory Board, the Managing Board is authorized to withdraw the preemptive right, so that up to 1,004,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price. The aim is to balance peak amounts, to open up additional capital markets, to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind, and to turn up to 250,000 new shares into employee stocks.

Capital reserves

The capital reserves of 3,141 TEuro result from the premium of the shares sold at the time of the initial public offering. 18 TEuro were transferred to 2005 as part of the recording of expenses from the share-based remuneration (see item 38) and 254 TEuro in 2006.

Treasury stock

On January 1, 2005 the company's treasury stock amounted to 237,000 shares. Based on the resolution passed at the annual shareholders' meeting on May 11, 2005, replaced by the resolution of July 13, 2006 the company is authorized to purchase treasury stock. On March 21, 2005, the Managing Board decided on a stock repurchase of up to 50,000 shares. A further stock repurchase was decided on July 14, 2006 to the amount of 210,000 shares. In 2006, the company acquired 103,690 shares (previous year: 50,000) with an imputed share of 103,690 Euro (1.0 per cent) in the equity capital, purchased at an average price of 7.39 Euro (previous year: 3,84 Euro) per share. Within the scope of an employee profit sharing scheme for the 2005 and 2006 fiscal years, a total of 21,775 shares were transferred to employees. The shares are subject to a qualifying period of two years. A further 2,500 shares were transferred to employees within the scope of a bonus agreement without qualifying period.

The company's treasury stock was valued at cost at 1,665 TEuro (previous year: 1,003 TEuro) and openly deducted from the equity capital. Of the treasury stock as of December 31, 2006 of 366,415 shares with an imputed share of 366,415 Euro (3.65%) in the capital stock, 1,139 resulted from the capital increase in 2002 and 365,276 from the company's stock repurchasing program. The shares were repurchased at an average price of 4.54 Euro per share. The treasury stock was repurchased for use as consideration within the scope of mergers and to acquire other companies or parts of companies or participations, or, where required, for the opening up of additional capital markets or to issue them to employees and members of the Managing Board.

Other reserves

Difference from pension valuation:
The actuarial gains and losses are recorded in this item without affecting the operating result.

Difference from currency translation:
This reserve is used to record differences due to the translation of the foreign currency trade.

Stock market valuation of securities:
This reserve includes changes in the current market value of financial investments available for sale.

31. Objectives and methods of financial risk management

The main financial instruments used by the company – with the exception of derivative financial instruments – include cash, securities, and loans. The purpose of the securities is the investment of funds of the group. The loan is used for the associated company, iris GmbH, to increase its liquidity. The group has a number of other financial assets and liabilities, including trade accounts receivable and payable, which accrue directly within the scope of its business activities.

Furthermore, the group also enters into derivative transactions. These predominantly include forward exchange transactions and currency options. The purpose of these derivative financial instruments is the management of currency risks resulting from the business activities of the group.

The group has always pursued the policy of refraining from dealings in financial instruments. However, since init also tries to keep its options open in regard to the exchange rate development, it may incur losses.

The main risks of the group in regard to financial instruments include foreign currency risks and risks of default. The Management regularly reviews and monitors each of these risks, which are described in the following. The accounting and valuation principles of the group for derivative financial instruments are detailed in item 4 of the Appendix.

Foreign currency risk

Due to foreign revenues, specifically in the USA and Canada, a change in the US Dollar/Euro and Canadian Dollar/Euro exchange rate constitutes a substantial risk. To eliminate this rate change risk, the group uses forward exchange transactions and options for all major business transactions if payment follows much later than the firm purchase or sale commitment. The hedges must be in the currency as the underlying secured transaction. The group enters into hedging transactions only once a firm commitment has been made.

Risk of default

The group concludes transactions exclusively with recognized, creditworthy third parties. All customers requesting transactions with the group based on credit are subjected to a credit investigation. Furthermore, the receivables are continuously monitored to ensure that the group is not exposed to any material risk of default. All recognizable risks of default are taken into account by way of value adjustments.

The other financial assets of the group, which comprise cash, financial assets available for sale and specific derivative financial instruments, involve a maximum risk of default to the amount of the book value of the respective instruments in case of default of the contracting party.

Since the group concludes transactions only with recognized, creditworthy third parties, it does not require securities.

Interest change risk

The interest change risk to which the group is exposed mainly relates to the loans to associated companies and to fixed-interest securities in the form of a change in their current market value. Due to their insignificant nominal amounts, this risk is quite low.

32. Explanatory notes to the financial instruments

Current market values

The following table compares the book values and the current market values of the financial instruments of the group reported in the balance sheet, with the exception of financial instruments such as short-term trade accounts receivable and payable, where the book value constitutes an appropriate approximate value for their current market value.

	31.12.2006		31.12.2005	
	Book value	Current market value	Book value	Current market value
	T€	T€	T€	T€
Financial assets:				
Cash	6,728	6,728	10,039	10,039
Securities	766	766	812	812
Derivative financial instruments	399	399	72	72
Loans	218	233	188	207
Other (long-term)	923	923	777	777
Financial liabilities:				
Variable interest-bearing bank liabilities	0	0	57	57
Derivative financial instruments	101	101	565	565

The current market value of the listed securities (available for sale) was determined using their respective fair value. The current market value of the derivative financial instruments and the loans was calculated by way of discounting the expected future cash flow using the prevailing market interest rates. The current market value of the other financial assets was calculated using the market rates.

Interest change risk

Financial instruments exposed to an interest exchange risk as of December 31, 2006:

Fixed interest

	T€	Maturity	Interest rate
Loans	68	> 30.09.2010	10.0%
	95	< 1 year	5.0%
	55	> 1 year	5.0%

Variable interest rate

	T€	Maturity
Cash and cash equivalents	6,728	< 1 year

Financial instruments exposed to an interest exchange risk as of December 31, 2005:

Fixed interest

	T€	Maturity	Interest rate
Loans	120	< 1 year	6.0%
	68	> 30.09.2010	10.0%
Securities	501	15.11.2006	3.125%

Variable interest rate

	T€	Maturity
Cash and cash equivalents	10,039	< 1 year
Bank liabilities	- 57	< 1 year

The interest rate of variable interest-bearing financial instruments is adjusted at intervals of less than one year. The interest rate of fixed-interest financial instruments is fixed until the maturity of the respective financial instrument. The other financial instruments of the group not included in the above tables do not bear interest and consequently are not exposed to an interest change risk.

Risk of default

The group does not have any material risk of default concentrations.

Hedging transactions

The derivative financial instruments used to hedge future cash flows relate exclusively to foreign exchange risks in regard to the expected monies received predominantly in Canadian Dollars from firm commitments. The following derivative financial instruments were concluded:

	Nominal value		Market value	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	T€	T€	T€	T€
Forward exchange transactions	5,922	5,086	15	-181
Currency options	6,417	10,281	283	-312
	12,339	15,367	298	-493

The exercise or maturity dates range from February 2006 to December 2008.

33. Hedged liabilities

The init group did not have any hedged liabilities.

34. Contingencies and other liabilities

Operating leasing agreements
The group has entered into leasing agreements for vehicles and other business and operating equipment. These leasing agreements have an average term of between three and four years and do not include extension options. The annual commitments of the init group totalled 431 TEuro, 367 TEuro of which are attributable to the renting of the office building in Karlsruhe (the lease running until 2026). No obligations were imposed on the lessee upon conclusion of these leasing agreements. The future minimum payments under these agreements extend to the year 2011 and amount to:

	31.12.2006	31.12.2005
	T€	T€
< 1 year	820	605
1 – 5 years	3,180	1,763
> 5 years	7,756	0
Total	**11,756**	**2,368**

Contingent liabilities
As in the previous year, there were no contingent liabilities as at December 31, 2006.

Legal disputes
Within the scope of its business activities, the company is involved in one pending lawsuit as of the cutoff day. The company is not aware of any events that might have a serious adverse effect on the company's assets, liabilities, financial position, or results of operation.

Other Disclosures

35. Additional notes to the cash flow statement

The following payments from business activities are included in the operating cash flow:

	2006	2005
	T€	T€
Interest payments	-95	-236
Interest receipts	316	161
Receipts from dividend distributions	97	34
Income tax payments	-3,101	-277
Income tax receipts	0	8

All cash flows of investments in tangible fixed assets relate to the maintenance of capacities. Expansion investments were not effected. A building was purchased in the USA.

36. Related party transactions

The companies included in the consolidated financial statements and the associated companies are listed in the section detailing the group of consolidated companies.

		Income from sales to related parties and persons	Purchase from related parties and persons	Due from related parties and persons as of 31.12.	Due to related parties and persons as of 31.12.
		T€	T€	T€	T€
Associated companies	2006	0	1,277	76	100
	2005	331	1,090	314	136
Other related party transactions	2006	0	367	61	0
	2005	0	367	61	0

Associated companies
The amounts due from related parties and persons include loans to the amount of 68 TEuro (previous year: 188 TEuro) and relate to iris (previous year: 68 TEuro). These amounts are shown in the balance sheet under non-current assets.

The other amounts of 8 TEuro (previous year: 126 TEuro) relate to iris (previous year: 15 TEuro). These are trade accounts receivable with a remaining maturity of less than one year. These amounts are shown in the balance sheet under non-current assets.

Amounts due to related parties and persons relate to trade accounts payable and have a remaining maturity of less than one year. These amounts are attributable to id systeme at 0 TEuro (previous year: 5 TEuro) and to iris at 100 TEuro (previous year: 131 TEuro). These amounts are shown in the balance sheet under non-current liabilities.

Other related party transactions
INIT GmbH rents its office building in Karlsruhe from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG. The rounded monthly rent payments amount to 30 TEuro (367 TEuro annually). The rental price is fixed by contract until June 30, 2011 and will increase to 475 TEuro per year from July 1, 2011 until June 30, 2026. Furthermore, a rent deposit for the office building in Karlsruhe was made to the amount of 61 TEuro.

Terms of the business transactions with related parties and persons
Sales to, and purchases from, related parties and persons are effected on generally accepted market terms. There are no guarantees for accounts receivable or payable in regard to related parties and persons. The group did not accrue any cumulative value adjustments for accounts receivable from related parties and persons for the fiscal year as at December 31, 2006 (previous year: 0 TEuro).

Compensation of persons in key management positions
Persons in key management positions include the Managing Board of init AG and the Managing Directors of INIT GmbH. For details on the compensation, please refer to item 41 of the Appendix.

37. Segment reporting

Primary format

The group has two divisions: Mobile Telematics and Fare Collection Systems, and Telematics Software and Services.

	2006 T€	2005 T€
Revenues		
Mobile Telematics and Fare Collection Systems	23,720	21,359
Telematics Software and Services	12,538	12,047
Group total	**36,258**	**33,406**
Operating profit		
Mobile Telematics and Fare Collection Systems	3,155	2,340
Telematics Software and Services	1,949	1,652
Group total	**5,104**	**3,992**
Amortization		
Mobile Telematics and Fare Collection Systems	725	720
Telematics Software and Services	793	1,162
Group total	**1,518**	**1,882**
Segment assets 31.12.		
Mobile Telematics and Fare Collection Systems	18,571	18,124
Telematics Software and Services	18,271	15,991
Group total	**36,842**	**34,115**
Segment liabilities 31.12.		
Mobile Telematics and Fare Collection Systems	7,892	8,397
Telematics Software and Services	7,764	7,409
Group total	**15,656**	**15,806**
Investments in tangible fixed assets and intangible assets		
Mobile Telematics and Fare Collection Systems	1,070	462
Telematics Software and Services	945	374
Group total	**2,015**	**836**
Impairment losses included in the net earnings for the period		
Mobile Telematics and Fare Collection Systems	291	454
Telematics Software and Services	12	19
Group total	**303**	**473**

Secondary format

In the annual financial statements, the following amounts can be allocated to the regions specified. In addition to Germany, the regions in which revenues were generated include the rest of Europe (predominantly Sweden, Great Britain, Norway) and North America (USA and Canada).

	2006	2005
	T€	T€
Revenues		
Germany	12,749	10,471
Rest of Europe	11,382	12,430
North America	12,127	10,505
Group total	**36,258**	**33,406**
Segment assets 31.12.		
Germany	32,010	29,812
North America	4,832	4,303
Group total	**36,842**	**34,115**
Investments in tangible fixed assets and intangible assets		
Germany	1,361	754
North America	654	82
Group total	**2,015**	**836**

38. Share-based remuneration

Employees shares

Based on the resolution of the Managing Board of July 12, 2006 (previous year: April 29, 2005), all employees of init AG and its subsidiaries were offered shares of the company as a form of profit sharing. In December 2006, the employees entitled to subscribe (excluding the Managing Board, the Managing Directors of the subsidiaries and temporary staff, trainees and suchlike) each received 100 shares (issue January 2006 for 2005: 44 shares) at a price of 6.51 Euro (issue January 2006 for 2005: 3.49 Euro) per share at the time of the resolution. The profit sharing scheme was granted on a pro-rata basis to part-time employees and employees having joined the company during the year. To qualify, employees needed to be in permanent employment as of December 31, 2006 (previous year: December 31, 2005). The shares are subject to a qualifying period of two years from the time of transfer.

In January 2006, a total of 6,043 treasury stock was transferred to employees within the scope of the profit-sharing scheme of the 2005 fiscal year, subject to a qualifying period of 2 years. In April 2006, a further 2,500 treasury stock in total were transferred without qualifying period within the scope of a bonus agreement. In December 2006, 15,732 treasury stock shares were transferred from the profit-sharing scheme.

As at the time of the resolutions of the Managing Board, the fair value based on the market price of the equity instruments issued amounted to 101 TEuro, which was recorded as expenses of 18 TEuro in 2005 and of 83 TEuro in 2006.

Management bonus in the form of stocks

A further management bonus in the form of stocks was granted to the five members of the Management Board and the Managing Director of INIT Inc., from consolidated earnings exceeding 2 mill. Euro before taxes and after deduction of all management bonuses and employee shares. Where this amount is exceeded, each member of the Board receives one share for each 300 Euro of exceeding profit. The number of “restricted stocks“ is limited to 5,000 shares per Board member. The shares are subject to a qualifying period of 5 years. The taxes relating to the share transfer are borne by the company. No legal claim may be made to payment of this bonus, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board.

As of December 31, 2006, the valuation was based on 30,000 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to 241 TEuro (8.02 Euro per share), which was recorded as expense in 2006.

39. Circumstances of significance after the cutoff date

In a contract of purchase of December 1, 2006, the company purchased the building next door to its Karlsruhe location with equitable ownership from January 2007. The purchase price amounted to around 1.6 mill. Euro, 75% of which was funded by a long-term loan in January 2007.

40. Employees, Managing Board and Supervisory Board

Employees

The annual average of employees was as follows:

	2006	2005
Employees in Germany	167	155
Employees in North America	33	28
Total	**200**	**183**

The Managing Board

The Managing Board of init AG is composed of the following members:

Dr. Gottfried Greschner, Karlsruhe	Master's degree in engineering (Chairman) (CEO)
Joachim Becker, Karlsruhe	Master's degree in computer science (COO)
Wolfgang Degen, Karlsruhe	Master's degree in engineering (FH) (COO)
Dr. Jürgen Greschner, Karlsruhe	Master's degree in economics (CSO)
Bernhard Smolka, Stutensee	Master's degree in economics (CFO)

Supervisory Board

The members of the Supervisory Board of init AG are:

Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau, Meerbusch, Chairman	Consulting engineer specializing in local public transportation, member of the Supervisory Board of Berliner Verkehrsbetriebe, member of the Supervisory Board of BT Berlin Transport GmbH, Berlin, member of the Advisory Board of PTM, master's degree at the University of Duisburg/Essen
Bernd Koch, Lahr, Vice Chairman	Self-employed business consultant, member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Centre in Karlsruhe
Fariborz Khavand, Wuppertal	Self-employed business consultant

41. Particulars of board member salaries

In their capacity as executives, the members of the Managing Board of init AG received compensation to the amount of 277 TEuro (previous year: 198 TEuro), and in their capacity as Managing Directors or departmental heads of INIT GmbH included in the consolidated financial statements, to the amount of 1,322 TEuro (previous year: 1,093 TEuro), thus totaling 1,599 TEuro (previous year: 1,291 TEuro) in the 2006 fiscal year. This total includes fixed salaries of 950 TEuro (previous year: 997 TEuro), variable remuneration in the form of management bonuses of 309 TEuro (previous year: 294 TEuro), and 340 TEuro in the form of stocks, including the income tax payable for them.

Based on the resolution passed by the shareholders' meeting on July 13, 2006, an individualized disclosure of the Board members' salaries can be withheld for a period of 5 years, in compliance with § 315a para. 1 HGB (German Commercial Code) in conjunction with § 314 para. 1 no. 6a sentences 5 to 9 HGB (§ 314 para. 2 sentence 2 in conjunction with § 286 para. 5 HGB).

The total remuneration of the Supervisory Board members for the period from January 1, 2006 to December 31, 2006 amounted to 77 TEuro (previous year: 37 TEuro), which includes a variable share of 41 TEuro (previous year: 0 TEuro) and is distributed as follows:

	fixed T€	variable T€
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18	21
Bernd Koch	9	10
Fariborz Khavand	9	10

In the 2006 fiscal year, the members of the Supervisory Board of the init group received 0 TEuro (previous year: 0 TEuro) for consulting activities.

42. Auditing firm

The auditing firm Ernst & Young AG Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft, Mannheim, received compensation to the amount of 62 TEuro (previous year: 54 TEuro), including expenses for individual financial statements, which was recorded as expenses. Expenditure for tax consulting services amounted to 0 TEuro (previous year: 39 TEuro). Other certification and appraisal services incurred costs of 25 TEuro (previous year: 61 TEuro).

43. Declaration of compliance with the German Corporate Governance Code

The declaration of compliance for init AG was made by the Managing Board and the Supervisory Board on December 14, 2006, and was made available to the shareholders.

Karlsruhe, March 2, 2007
The Managing Board

Dr. Gottfried Greschner   Joachim Becker   Wolfgang Degen

Dr. Jürgen Greschner   Bernhard Smolka

Mail from Den Haag: Major project with pilot function for tenders in the Benelux countries

Group Status Report

The init group is an internationally operating system house for telematics and electronic fare collection systems for local public transportation.

init develops, produces, installs, and maintains integrated software and hardware products for the planning, management, and operation of transportation companies. init thus makes a vital contribution to continuously growing mobility requirements while making bus and railway services more attractive.

The init product system is characterized by its modular structure and high integrability. As a result, init stands out from its competitors due to a more comprehensive, efficient, and flexible product offering. It allows both an individual combination of single modules and the integration of and into other systems via standardized interfaces.

init is the only provider worldwide with a product portfolio that covers the entire current range of needs of the public transportation sector and integrates them into a single system. From routing and human resource planning, computer-aided operations and fleet management (ITCS – Intermodal Transport Control System), passenger information and counting systems to electronic ticketing and payments, init customers are provided with intelligent solutions from a single source.

In accordance with this complete value-added chain, init has realized in excess of 300 national and international projects in over 23 years, involving the integration of comprehensive solutions with telematics and fare collection systems for transportation companies in Germany, Europe, and North America.

By using init technology, public transportation companies are able to increase their quality in terms of customer orientation, convenience and ease of use, safety, shorter travel times, and punctuality and thus maintain their position in an increasingly competitive environment through liberalization and rationalization.

Business trend and situation

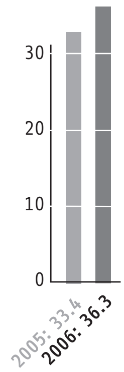
General business trend

In the 2006 fiscal year, init was able to exceed the prior-year records in sales and earnings, which had made 2005 the best fiscal year in company history. Except of Europe, the core markets – Germany and North America – experienced satisfactory growth. Generating a 36.3 million Euro (previous year: 33.4 million Euro), init managed, on the whole, to attain the highest sales of any fiscal year in company history and thus basically reach its growth target.

Looking at the quarters individually, we also observed a satisfactory trend: in the first three quarters, init recorded an even distribution of high-level sales. At 11.7 million Euro (Q4 2005: 10.5 million Euro), the closing quarter, however, remains the period reporting the strongest sales, thus being the most important quarter in the overall balance sheet of the init group.

Sales, earnings and the volume of orders in 2006 were negatively affected by the US Dollar trend.

Revenues
in million €



Where in fiscal 2005, init still enjoyed a price advance of 14.5%, 2006 saw a decline of around 10%, which subsequently led to a decrease in our margins relating to US business.

In 2006, the conditions of growth in international business proved to be altogether more positive, as is evident in the sales trend. On the whole, init generated foreign revenues of 23.5 million Euro (previous year: 22.9 million Euro), corresponding to 66.5% (previous year: 68.7%) of total sales. In Europe (excluding Germany), sales decreased by 8.4% to 11.4 million Euro (previous year: 12.4 million Euro). North American sales, on the other hand, increased by around 14.2% to 15.2 million USD (previous year: 13.3 million USD) on account of the large-scale projects in Vancouver and New York City.

In Germany, we are still a long way from matching our record results in 2001 and 2002. However, we once again succeeded in recording a clear gain as compared to the previous year, from 10.5 million Euro to 12.7 million Euro, which corresponds to an increase of 21.8%.

At regional level, the individual markets developed differently, subject to their respective underlying conditions. Thus, after several years of stagnation, the domestic market of init, for example, finally registered a revival of economic activity. At around 2.5%, the German economy experienced the highest growth since 2000. This, however, was due ultimately to an increase in the German export volume of around 10%.

In terms of investments in traffic systems, however, the German market suffered a setback at the end of the Football World Cup. In fiscal 2006, the public authorities once again lacked the funds to improve the traffic infrastructure. Thus, spending on local public transportation was reduced by a further 8% by the German government. On the other hand, the local public transportation companies have substantial capital investment needs which will bring about new tenders in the coming year.

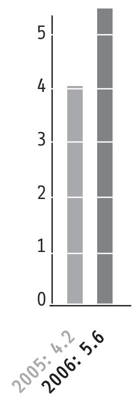
Business in the European region experienced an unmitigated trend toward growth. While the economic development slowed down toward the end of the year, this was compensated by an increasing propensity to invest, specifically on the part of the private transportation companies. Fiscal 2007 thus promises a number of major tenders for telematics systems in Europe from which init should stand to benefit.

In 2006, the economic situation in North America lost somewhat in momentum due to the high energy prices. These, however, had a positive effect on the use of local public transportation. This tends to increase the demand for products from init. In 2006, we were able to win further significant contracts in the USA and in Canada which, together with the large-scale projects in Vancouver and New York City, will increasingly affect sales in fiscal 2007 and result in a jump in sales.

On the whole, we therefore anticipate increases in all markets in the 2007 fiscal year. In order to be well prepared for further growth, specifically in the currently booming markets of North America, init has increased its local presence in the current fiscal year. In Canada, we have formed two companies – INIT Innovations in Transportation (Western Cana-

EBIT

in million €



da) Inc. in Vancouver, British Columbia and INIT Innovations in Québec Transportation (Eastern Canada) Inc. / INIT Innovations en Transport (Canada Est) Inc. in Montréal – to handle existing projects, acquire new contracts, and provide a direct, local contact.

Together with one of its suppliers, init formed another company, TQA Total Quality Assembly LLC., in Chesapeake, Virginia/USA. Initially, the company will produce cables for the init group. This step was necessary to ensure a high production quality and at the same time be more independent of suppliers. In the near future, the company will also produce for third-party businesses in the US American market.

In spring 2007, INIT Innovations in Transportation Inc., Chesapeake, Virginia/USA, will move to bigger facilities to meet the need for additional office and storage space.

Our headquarters in Karlsruhe also needed more floor space. Consequently, init innovation in traffic systems AG, Karlsruhe, bought the building next door on January 1, 2007, to provide the facilities considering the predicted increase in sales and also to create more space for a further optimization of operations.

Earnings position

The profitability of init innovation in traffic systems AG continued to improve noticeably in 2006. After the highly successful 2005 fiscal year, the operating result (EBIT) saw a further increase. This is due not only to the rise in business volume but also comes as a result of our strict cost management measures. The production cost of sales could be drastically reduced from 67.6% to 63.4% due to savings in the material sector, favorable outside services, and increases in efficiency.

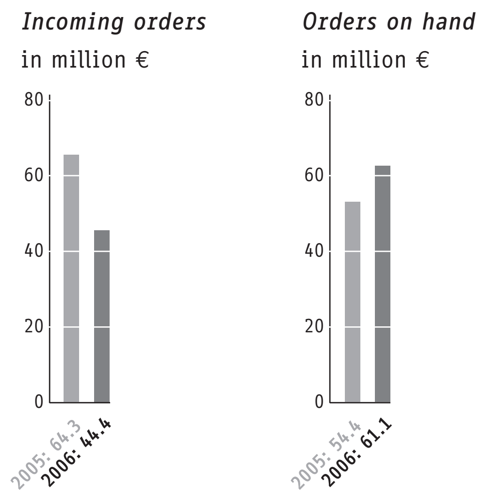
These cost reductions improved our net earnings by around 1.5 million Euro. The gross operating result thus rose to 13.3 million Euro (previous year: 10.8 million Euro), corresponding to an increase of 22.5%. The net interest income (balance of interest earned and interest paid) totalled 158,000 Euro (previous year: -122,000 Euro) and thus, could also be significantly improved.

At 5.6 million Euro in earnings before interest and taxes (EBIT), init managed, on the whole, to exceed the figure for the previously most successful fiscal year in 2005 (4.2 million Euro). The same is true for the consolidated net profit for the year of 3.4 million Euro (previous year: 2.6 million Euro). This corresponds to a profit of 0.36 Euro (previous year: 0.26 Euro) per share. Were it not for the weak Dollar trend, this figure would have been even higher.

Order situation

In 2006, our order situation was characterized, on the one hand, by further new, major contracts in Europe and North America and, on the other, by an even higher number of follow-up orders from long-term customers than in the previous year. Specifically, these included the transportation companies in Frankfurt, Gotha, Oslo, Leicester, Stockholm, York, Houston, New York, and Montréal. On the whole, init recorded new business aggregating well over 30 million Euro through follow-up deliveries and extended orders alone.

At first glance, the total intake of new orders decreased considerably from 64.3 million Euro in the pre-



vious year to around 44.4 million Euro. However, it must be taken into account here that the 2005 fiscal year had been characterized by our two "mega contracts" from New York City and Vancouver, each of which with a volume in the double-digit millions, and that contracts of such magnitude are not awarded very often. In total, the order intake in 2006, however, continued to be well above the sales revenue realized and thus is an indicator for further dynamic growth.

This was also evident in the volume of orders, which at the end of 2006 once again proved a new record. At around 61.1 million Euro, the backlog of existing orders of init as at the beginning of the current fiscal year is up by 12.3% on the previous year (end of 2005: 54.4 million Euro).

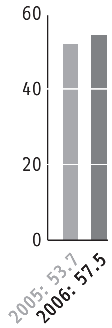
In the European environment, new business of 13.7 million Euro clearly topped the prior-year figure of 8.6 million Euro and increased by 59.3% (previous year: 43.3%). In March 2006, HTM – The Hague was one of the leading Dutch transportation companies to opt for the introduction of a telematics system from init. init supplied an operations and fleet management system (ITCS) for its tram network and equipped around 50 two-way trams with the COPILOTpc on-board computer and a TOUCHit operating unit. In addition, the contract also included the planning and data management system MOBILE-PLAN, the analysis program MOBILEstatistics, the MOBILE-reports reporting body, and the personnel planning software PERDIS. The new ITCS enables the transportation company in The Hague to monitor and manage its vehicle fleet and provide the existing passenger information system with real-time data. The order volume totalled in excess of 2 million Euro. Furthermore, the contract provides for an option for the equipment of further vehicles to the amount of around 2 million Euro.

In December 2006, init concluded a contract with the independent transportation company trentbarton in Great Britain, for the supply of an e-ticketing system. This project is the first ticketing project for init outside Germany and is of tremendous strategic significance since it involves a so-called check-in/check-out system. The passenger embarks with a pre-loaded cash card and passes the electronic ticket printer for contact-free registration. On disembarking, the passenger checks out in the same manner by passing the check-in terminal. The smart card of the passenger is then automatically charged only for the actual journey taken. This solution also allows billing in agreement with the best price principle.

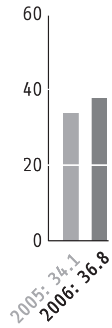
The rate of new orders in North America proved rather satisfactory in 2006, amounting to 23.0 million Euro compared with 40.6 million Euro in the previous year. Where 2005 had essentially been characterized by the two "mega contracts" from Vancouver and New York City, the order structure was now composed of a number of medium and smaller contracts. On the whole, the American market continued to revive, with further major tenders having been announced or pending decision.

In June 2006, init managed to win yet another new customer, the Utah Transit Authority (UTA) in Salt Lake City. Here, init will initially provide 41 trams with an innovative passenger counting system, with an option of adding a further 28 vehicles. The infrared-based counting technology automatically rec-

Equity-to-asset ratio
in %



Balance sheet total
in million €



ords all passengers on embarking and disembarking. These highly accurate data are then sent to the operation control center via radio transmission, where they are used for evaluation purposes. Passenger counting is a big issue specifically in the USA since local public transportation companies are allocated public funds based on their passenger numbers.

Only a month later, init was awarded a further contract in Canada. Worth over 3 million CAD, init will provide the Waterloo region in the province of Ontario and the Grand River Transport (GRT) company with an integrated telematics system, the MOBILE-PLAN planning software, a passenger information system, and a passenger counting system. The vehicles will be equipped with the on-board computer COPILOTpc and the TOUCHit operating unit. GRT provides buses for local public transportation in Waterloo and Kitchener in the southwest of Ontario, covering an area of around 500,000 inhabitants.

In December 2006, init also received its first order from Kinkisharyo International. The Japanese corporation plans to equip 115 trams with hardware and software from init, for use by Dallas Area Rapid Transport (DART) in Texas, USA. The products supplied by init include on-board computers, displays, a central information system, vehicle tracking and location, and communication technology. The deliveries will commence by mid-2007 and are scheduled for completion in 2010.

Business in Germany in 2006 was dominated by follow-up orders from long-term init customers. On the whole, the order intake of 7.6 million Euro once again remained significantly below the prior-year level (15.1 million Euro) due to the persistent financing restrictions imposed by the public authorities. However, a great many orders in 2005 had been placed for the improvement of the traffic infrastructure on the occasion of the Football World Cup.

In early February 2006, init won a German contract for a passenger counting system from the Oberelbe transportation association. Here, we will equip a total of around 60 vehicles with passenger counting sensors and our COPILOTpc on-board computer. A further contract for init in Germany materialized in the fall, this time from DB-Zugbus for regional transportation in the Alb-Bodensee area (RAB), where the existing control system will be replaced by an ITCS (Intermodal Transport Control System) based on the JAVA programming language.

For 2007, init expects a slight recovery of economic activities in Germany on account of the slow but steady clearance of the backlog of investment at the transportation companies.

Financial and earnings position

The financial and earnings position of the init group in the 2006 fiscal year continued to pick up. On account of the annual net profit realized, init was able to further improve its equity capitalization. However, due to substantial tax prepayments and the advance financing of large-scale projects, the group recorded a negative operating cash flow of -1.1 million Euro (previous year: 10.2 million Euro). This situation, however, is expected to improve drastically in fiscal 2007, since the large-scale projects promise considerable payment receipts.

The shareholders' equity increased to 21.2 million Euro as of the end of the year (previous year: 18.3 million Euro), thus being 15.7% above the prior-year level. The equity-to-assets ratio stood at 57.5% (previous year: 53.7%).

As of December 31, 2006, there were no liabilities to credit institutions (previous year: 57,000 Euro). As of January 1, 2007, init acquired the building next door to its Karlsruhe location on Käppelestrasse. The commercial utilization commenced with the 2007 fiscal year. The property is partly funded through a bank loan.

As of the end of December 2006, the liquid resources including short-term securities totalled 7.5 million Euro (previous year: 10.9 million Euro). This decrease in liquid resources was due to investments in fixed assets and the build-up of the inventory for deliveries in 2007, along with substantial payments and advance payments of taxes. The available guarantee and credit lines will continue to secure the financing of our business activities.

As of December 31, 2006, the balance sheet total had risen by around 2.7 million Euro on the previous year and now aggregates 36.8 million Euro.

The capital expenditure of 1.0 million Euro in the 2006 fiscal year (previous year: 0.3 million Euro) related to the acquisition of a building in the USA and to replacement and rationalization investments.

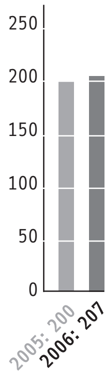
Participations

init holds 44% of the shares in id systeme GmbH, Hamburg. The personnel planning software PERDIS, developed by id systeme, is integrated into the init product range and thus increases the application possibilities of the init software, MOBILE-PLAN. With sales of 2.2 million Euro (previous year: 1.9 million Euro), id systeme GmbH attained an annual net profit of 180,000 Euro (previous year: 104,000 Euro). To improve both sales and earnings, the PERDIS software is now also offered to init customers in Europe and the USA, where we were able to achieve further successes. The BidDispatch module specially developed for the USA facilitates the preparation of usually flexible, long-term duty rotas on the basis of driver requests.

Our other shareholding (43%), iris GmbH infrared & intelligent sensors, Berlin, made a positive sales and earnings contribution in 2006. Sales of 5.1 million Euro finally improved quite significantly again on the previous year (4.7 million Euro), while the net earnings from ordinary activities of 0.6 million Euro also rose above the prior-year level (0.5 million Euro). We expect to see a further improvement in sales and earnings in 2007.

The decisive factor here remained the great demand for passenger counting systems in North America, which have now become a regular in all init systems installed in the USA. In South America, the further expansion of business for iris GmbH was pursued with single-minded determination, while additional customers could be won in Switzerland, the USA, Germany, and Ecuador. In the coming years, iris GmbH will continue to invest in the development of a new 3D sensor for a higher resolution, which will secure its technological lead.

Employees as of 31.12.06
total



Production

init does not have its own production facilities but concentrates on production management and on quality assurance. As a turnkey supplier, init develops integrated hardware and software solutions for all key tasks in transportation companies. Based on the modular structure of these hardware and software solutions, init was able to satisfy specific customer demands while at the same time taking advantage of the benefits of a platform strategy.

To keep its production as cost-effective as possible, init concentrates on its key competences in development. To this end, the production of hardware is outsourced to qualified producers as subcontractors working closely with our init engineers. To assure the quality required by us, each stage of the production process, from prototyping to test series to the serial production, is accompanied by init staff.

We deliberately avoid dependence on individual suppliers. In this way, we are in a position to switch suppliers should one of our business partners be unavailable. In the 2006 fiscal year, the company again gained several new suppliers and negotiated new master agreements. To further reduce our production costs, new suppliers were added in the Far East and the USA. The delivery contracts here were based on US Dollars, so that a small part of the exchange risk relating to our Dollar income could be reduced by Dollar expenditure. The further relocation of production processes to low-wage countries with a high technical production standard is part of our strategic goals set for the 2007 fiscal year.

Personnel

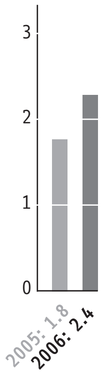
Due to the rise in the volume of orders, init moderately increased its workforce. This trend will likely continue in fiscal 2007 as we expect further large contracts to materialize over the next few months. Over 65% of permanent init employees have a university degree in information technology, e-technology, HF technology, physics, mathematics, or industrial engineering. To follow the new technological developments, init maintains close contact with the University of Karlsruhe and the technical colleges in the Karlsruhe region.

In order to ensure that new employees in North America also meet the stringent requirements of our technology, they are sent on training visits to the group headquarters in Germany. In addition, we make sure that a certain percentage of the jobs in North America are filled with specialists from Germany.

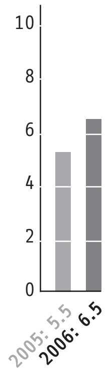
As of December 31, 2006, the init group employed a workforce of 207 (previous year: 200) including temporary staff, scientific assistants, and graduate students. A total of 194 employees held permanent positions (previous year: 171), 13 of whom were employed on a part-time basis. 7 employees were in apprenticeships, training to be IT specialists, electronic communication technicians, and industrial clerks. Furthermore, init offers the possibility of training in electrical engineering, mechatronics, information technology, and commercial information technology within the scope of courses at the University of Cooperative Education.

In its meeting on July 12, 2006, the Managing Board decided on giving its employees a share in the company profits based on the operating result. Every

Expenditure R&D
in million €



Expenditure R&D
in % of revenues



(not included: customer financed developments)

permanent employee was to receive a profit share of 3,000 Euro (staff in the USA, of 3,750 USD). The appropriate amounts were included in the financial statements as other liabilities. In the context of non-profit-linked asset sharing, each employee was also to receive 100 shares in the company. The shares are subject to a qualifying period of 2 years.

Environmental protection

As a catalyst of resource-saving technological developments for local public transportation, init feels particularly committed to protecting the environment. Our products help transportation companies provide faster and a more attractive local public transportation and increase their ability to compete against private transportation. Transportation companies are able to optimize their services and ensure greater ecofriendliness, thus reducing the amount of exhaust gas and particulate matter released into the environment.

Environmental protection, however, starts in our own company. It begins with the init employees, who are urged to reduce waste material to a minimum and ensure waste separation, and continues in the construction and development of our products. Our products are consistently made from recyclable and environmentally friendly materials and sold in reusable packaging. Disused equipment can, of course, be returned to init, where it is disposed of in an ecologically friendly manner. This also applies to batteries and packaging material. In other areas, including exhibition stand construction, init ensures usage of reusable components. Many of our employees travel to work by bicycle or tram, thus saving energy and contributing to environmental protection.

Research and development

One of the main strengths of init is the outstanding technological lead of its products in competition. Consequently, research and development play a key role at init. Not only do we need to place technical innovations on the market at just the right time, we also have to keep a close eye on the progress and new developments in the market to allow us to turn them into matured, innovative products. The high standard of qualification of our research and development sector enables us to react quickly to new technological developments and changing requirements of the market and to be flexible in catering to the specific needs of our customers.

In 2006, our software and hardware development teams worked on the further development of existing and on various new products. The latter include the multimedia display PIDvisio in the area of passenger information displays. The coloured TFT display not only transmits the required information on line direction, next stop and transfer connections. It also allows the installation of a location-based "infotainment system". Its 16:9 wide format ensures a crucial competitive edge, as it retains the same overall height, yet has a larger display area. Its brightness automatically adapts to the amount of ambient light, while its vandal-proof, non-reflecting front panel guarantees excellent readability even in bright sunshine.

A powerful embedded processor and high memory capacity further enable it to play animations and videos of high quality. PIDvisio thus opens up new possibilities of income to transportation companies, including the sale of advertising time.

EVENDsmart is the new, integrated ticket printer from init for sophisticated e-ticketing solutions. The device has a 6.5” colour TFT display to ensure maximum ease of use for the drivers. Its interface can be programmed as required, and both the keyboard and the integrated touch screen can be used to operate the ticket machine. For electronic ticketing, the EVENDsmart is provided with an integrated reader for contact-free chip cards and RFID tags (Radio Frequency Identification Transponder). The EVENDsmart can also be used as an on-board computer and handles the control of all peripheral devices in the vehicle, along with radio communication and light signal system interaction. The data supply and return is handled via an integrated WLAN.

The range of on-board computers will in future be extended by the COPILOTtouch, a compact on-board computer combining reliable PC technology with easy-to-use touch operation. With an 8.4” colour TFT display, a resolution of 680 x 480 pixels and automatic brightness control, the device is ideal for use in vehicles. Thanks to its 512MB main memory, even sophisticated applications can be operated in the vehicle. The device further features the latest WLAN technology, an integrated WLAN antenna, and an integrated modem (GPRS/CDMA) for data radio transmission. The COPILOTtouch is used for the first time in over 1,800 vehicles of the Access-A-Ride Paratransit service provided by the Metropolitan Transportation Authority (MTA) in New York.

In the area of navigation, a pioneering new development from init effectively improves the vehicle tracking and location quality. In many of America’s major conurbations, receiving accurate location information presents a special technical challenge due to urban canyons surrounded by high-rise buildings and skyscrapers. If received at all, GPS signals are often reflected or distorted by skyscrapers. By combining a GPS receiver with a gyroscope sensor and using an algorithm developed by init, which compares the position calculated with the road network, the device ensures accurate information on the vehicle location even when receiving weak or distorted GPS signals.

Passenger information in real time via Internet is an innovative application based on the computer-controlled fleet management system (MOBILE-ITCS) from init. Passengers can use the Internet to access information on the actual departure times at any stop. This product can also present transportation companies with additional income, as their information can be provided with advertising banners.

The MOBILE-ITCS software was enhanced by numerous new functions. Using the network display, transportation companies can design their route network in a diagram. The diagram is then displayed online along with the city map – with the current vehicle positions. A review function allows the expediter to view events reported by the individual vehicles in the past both on the city map and in table form. In this way, aspects such as customer complaints about departures ahead of schedule or delays can be checked even weeks later.

In the USA, the development team of init predominantly works on the further development of our software module, Mobile-PARAnet. It optimizes the on-demand bus transportation service for disabled and elderly people (Paratransit) and, in connection with other software and hardware modules of our integrated telematics system, MOBILE, facilitates the online management of the vehicles. Currently, we are also looking into the further development of our MOBILE-PARAnet for use for on-demand bus services in the German market.

The USA is likely to be a highly lucrative market for the Paratransit software, since transportation companies here are legally required to offer a Paratransit service. The demand for integrated solutions rarely offered by other suppliers is particularly great. Thanks to the contract from New York City, which is also an excellent reference for us, init has managed a breakthrough in this market.

In research, init also supports a promotion at the University of Karlsruhe in the automotive sector of car agents. Our aim is to establish new areas of application in the “intelligent vehicle” field.

On the whole, init spent 2.4 million Euro (previous year: 1.8 million Euro) on the development of new products in 2006, corresponding to 6.5% (previous year: 5.5%) of sales. In addition, the group effected customer-funded new and further developments within the scope of large-scale projects adding up to at least the same amount again.

Risks and risk management

In essence, the risks involved in the future development of the init group depend on the risks associated with the operating companies within the group. Currently, there is no evidence of any risks jeopardizing the continued existence of the init group.

The detailed risk management system of the init group forms an integral part of our business and decision-making processes. Prior to making a decision on important measures, these are discussed in detail at regular Board meetings and their prospects and risks weighed against each other. Both the Managing Board and the Supervisory Board are kept informed of imminent risks by receiving regular reports in their meetings. Alternative measures are discussed with the Supervisory Board.

Potential risks, such as a backlog of projects, quality risks or human resources risks, are regularly monitored by way of monthly reports. Financial risks, the incoming order situation, supply backlogs, and the liquidity are analyzed daily to ensure that the appropriate measures, where necessary, can be initiated immediately. Market, development and strategic risks are monitored on a quarterly basis. Contracts are worked on and examined by our in-house lawyers, if necessary with the support of external expert lawyers.

The crucial success factor for the init group is successful project management. The successful handling of projects depends on the completion of these projects on schedule, the form of contracts, the scope of each individual project, the readiness of the customer to be involved in its implementation through productive contributions, and the specific national laws and regulations. Apart from unforeseeable technical and customer-specific difficulties, the punctual completion of projects also partly depends on the availability of sufficiently qualified personnel.

Rapid changes and technical innovations in the telematics field create a risk for technical developments. On the one hand, we must keep up with the technological advances. On the other, new products must be launched at the right time. Therefore, the requirements and changes of the market must be constantly monitored. The development of new products can incur considerable costs without necessarily resulting in the desired success.

Including suppliers and subcontractors in the process creates additional risks in regard to schedule effectiveness, price, and quality. Vehicles can only be equipped successfully if the hardware is made available at the right time and if it is of the required quality. Poor quality or hidden faults may otherwise require cost-intensive rectification that will affect the margin. For each major project, init therefore implements a project plan with constant progress monitoring. This controlling system enables the company to identify any deviations from the specified time and costs, the deliveries and the hours worked and, in case of deviations from the target, initiate the appropriate countermeasures in good time. Calculations, the order situation, and the project progress are constantly monitored for the purpose of a target-performance analysis.

The market for transportation services, in which the init customers are primarily involved, is greatly dependent on the political will for an improvement of local public transportation and on government-approved funds. Delays and the postponement or cancellation of publicly funded investment projects and promotion funds due to a poor budgetary position can adversely affect the market growth of the init group. A declining volume of tenders leads to excess capacities on the market and involves the risk of reduced margins, as tenders can often be won only through aggressively priced offers.

New competitors continuously try to break into the market with cut-throat prices, bringing with them the risk of reduced margins. However, in most cases these new competitors only remain in the market for a short period of time, as they are unable to meet the technological and customer-specific demands due to a lack of experience.

New program versions, software updates, and additional programming in our ERP system all involve risks. Despite training measures and integration tests, we may be faced with operating errors, incorrect system settings and software faults that can lead to a loss of data or to incorrect information. Due to the qualification of our employees and the experience of init in the telematics field, we are confident that we will meet the challenges described.

Contracts concluded in foreign currency involve risks that can affect sales, the purchase prices, the valuation of claims, currency reserves, liabilities, and with it, the result. init meets these exchange risks with active exchange rate management, making use of switch deposits, forward exchange dealings and currency options. Since init also tries to keep its options open here, it may consequently incur losses. Due to our risk policy, we expect the risk of loss to be limited.

The investments of init include stocks, fixed-interest securities and fixed-term deposits. This can lead to losses due to changes in the market price, the exchange rate, or the rate of interest.

Opportunities

Provided that the domestic market stabilizes or even grows soon, init has good prospects of above-average growth.

The new contracts from New York City and Vancouver (Canada) in 2005/2006 are expected to lead to follow-up orders and further deliveries, and increase the share in future maintenance contracts.

Thanks to internationally well-known projects such as Munich, Oslo, Stockholm, The Hague, Copenhagen, New York City, Houston, and Vancouver (Canada), init will be able to produce excellent references in future tenders. These projects act as a signal and show that init is able to handle large-scale projects on a worldwide basis.

In Great Britain, init is currently realizing its first project outside Germany involving payment systems. This e-ticketing project also acts as a signal, as is evident from the avid interest shown by other transportation companies.

As in the previous year, the USA has once again earmarked Federal promotion funds for the transportation sector, amounting to around 8.9 billion USD in fiscal 2007. Further large-scale tenders have also been announced.

Our prospects for additional growth in the automotive sector also include Car Medialab GmbH, in which init holds 58.1% of the shares. While we were able to increase sales in 2006 on the previous year, a market breakthrough still failed to materialize.

Remuneration systems for Managing and Supervisory Board

Remuneration system for the Managing Board

The remuneration for members of the Managing Board is settled by the Supervisory Board. The remuneration is oriented at the size of the company, its economic and financial situation, and the amount and structure of comparable companies.

The remuneration system for the Managing Board – also in their capacity as Managing Directors of the subsidiaries – includes as follows:

1. A fixed salary component payable on a pro-rata basis in 13 monthly installments. The fixed component of the Board members' remuneration totalled 950,000 Euro.
2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee shares and applicable as a percentage from an operating result of 0.4 million Euro. The management bonus is limited to 25% of the total compensation package without restricted stocks under item 3. The variable part of the Board members' remuneration totalled 309,000 Euro.
3. A further bonus in the form of stocks, from consolidated earnings exceeding 2 million Euro before taxes and after deduction of all management bonuses and employee shares. Where this amount is exceeded, each member of the Board receives one share for each 300 Euro of exceeding profit. The number of "restricted stocks" is limited to 5,000 shares per Board Member. The shares are subject to a qualifying period of five years. The income tax relating to the non-cash benefit of the share transfer is borne by the

company. The current market value of this bonus including the income tax payable on it amounted to 340,000 Euro.

4. Pension commitments existed for three of the five members of the Managing Board. The provisions for pensions (DBO) for these three members totalled 249,000 Euro.

Based on the resolution passed by the shareholders' meeting on July 13, 2006, an individualized disclosure of the Board members' compensation can be withheld for a period of five years, in compliance with § 315a para. 1 HGB (German Commercial Code) in conjunction with § 314 para. 1 no. 6a sentences 5 to 9. (§ 314 para. 2 sentence 2 in conjunction with § 286 para. 5 HGB.

Benefits payable on leaving the Managing Board have not been agreed. However, a termination bonus may be specified in individual termination agreements.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board was decided in the shareholders' meeting on July 13, 2006, based on a proposal submitted by the Managing Board and the Supervisory Board. The articles of incorporation of init have been amended accordingly.

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals 9,000 Euro p.a. for the members and 18,000 Euro p.a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable remuneration is limited to 300% of the fixed remuneration and is calculated using the following formula:

V= ((0.5*share price/5.1 + 0.5*profit/2 million) -1) * fixed component

Where V (variable component) is less than zero, the variable component does not apply and only the fixed component of the remuneration is payable.

Breakdown of the remuneration of the Supervisory Board in 2006:

Name	Fixed component in Euro	Variable component in Euro
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18,000	20,538
Bernd Koch	9,000	10,269
Fariborz Khavand	9,000	10,269

Particulars of shareholders' equity

The capital stock of init AG amounting to 10,040 million Euro is divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of 1 Euro per share. The shares have been issued and fully paid up.

For the rights and obligations related to the shares, please refer to § 118 ff. of the German Stock Corporation Act.

The Managing Board is not aware of any restrictions relating to the voting rights or the transfer of shares.

Dr. Gottfried Greschner directly or indirectly holds 3,571,400 shares in init AG. This corresponds to around 35.6% of the capital stock.

init AG currently holds a total of 360,000 shares (as at December 31, 2006: 366,415 shares).

There are no shares with special rights. No voting control for shares held by employees exists.

Statutory requirements and provisions of the articles on the appointment and dismissal of members of the Managing Board and on amendments to the articles of incorporation

For the appointment and dismissal of members of the Managing Board, please refer to §§ 84, 85 AktG (German Stock Corporation Act). Amendments to the articles of incorporation are subject to the legal provisions of §§ 133, 179 AktG.

Authority of the Managing Board to issue and repurchase stock

At the annual shareholders' meeting on July 13, 2006, a resolution was passed to create capital to the amount of 5,020,000 Euro. With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 5,020,000 Euro by July 13, 2011, through a single or repeated issuing of up to 5,020,000 ordinary shares against contributions in cash or in kind. The new shares are to be taken over by credit institutions that will be obliged to offer them to investors for sale. However, with the approval of the Supervisory Board, the Managing Board is authorized to withdraw the pre-emptive right, so that up to 1,004,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price. The aim is to balance peak amounts, to open up additional capital markets, to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind, and to turn up to 250,000 new shares into employee stocks.

On January 1, 2005 the company's treasury stock amounted to 237,000 shares. Based on the resolution passed at the annual shareholders' meeting on May 11, 2005, replaced by the resolution of July 13, 2006 the company is authorized to purchase treasury stock. On March 21, 2005, the Managing Board decided on a stock repurchase of up to 50,000 shares. A further stock repurchase was decided on July 14, 2006 to the amount of 210,000 shares. In 2006, the company acquired 103,690 shares (previous year: 50,000) with an imputed share of 103,690 Euro (1.0 per cent) in the equity capital, purchased at an average price of 7.39 Euro (previous year: 3,84 Euro) per share. Within the scope of an employee profit sharing scheme for the 2005 and 2006 fiscal years, a total of 21,775 shares were transferred to employees. The shares are subject to a qualifying period of two years. A further 2,500 shares were transferred to employees within the scope of a bonus agreement without qualifying period. In January 2007, a further 13,585 treasury stock was repurchased. In February 2007, 20,000 shares at 7.50 Euro each were transferred over the counter to a new investor. On the whole, the current treasury stock thus totals 360,000 shares.

The treasury stock was repurchased for use as consideration within the scope of mergers and to acquire other companies or parts of companies or participations, or, where required, for the opening up of additional capital markets or to issue them to employees or members of the Managing Board.

Prospects

init innovation in traffic systems AG looks forward to yet another highly successful year, its third in succession. Current indicators give rise to expect a continuation of the dynamic growth already experienced in 2005 and 2006. Thus, for example, not only is the general economic setting even more favorable than in previous years. The specific markets in which init operates also show a positive trend.

In Europe and North America, the funds available for investments in local public transportation and the development of “intelligent infrastructure“ run into the billions. At the same time, the increasing competitive pressure has led the transportation companies to increase the efficiency, quality and attractiveness of their services. The latter also applies to the “problem market“ in Germany. Here, the restrictive investment policy of the government continues to restrain the economic activity. However, the systems here need to be modernized in order to avoid jeopardizing the mobility specifically in conurbations.

In North America and Europe, all these factors have led to an increase in demand for products and solutions from init, boosted also by prominent reference projects acquired in places such as Munich, New York, Oslo, Stockholm and Vancouver. This is evident in the high level of orders as much as in a persistently significant number of tenders, especially at international level. Consequently, the numerous tenders in which init has already participated and is awaiting a decision in the next few months, and tenders anticipated in the further course of the year, specifically in North America, give reason to expect an appropriately high intake of new orders in the 2007 fiscal year.

In view of the substantial number of product innovations and new customer-oriented solutions, along with our good market position, init has excellent prospects for further growth. Our current sales planning for fiscal 2007 is already largely secured by existing orders. New orders thus promise a continuation of our positive business trend in 2008 and beyond.

In 2006, init once again managed quite successfully to improve its profitability. On the cost side, for example, further progress was made both in terms of resource acquisition and the optimization of our internal processes. In the prevailing fierce competition, init thus managed not only to maintain, but to improve, its two-digit EBIT margin.

Cause for concern, here, is the current weak Dollar, which could have a negative effect on our margin since the unfavorable exchange rates cannot be fully passed on in the form of higher prices. North America currently is the most important market for init.

Nevertheless, the Managing Board is confident that init will be able in 2007, for the third year in succession, to achieve an increase in both sales and earnings above the market average.

Karlsruhe, March 2, 2007

The Managing Board

Dr. Gottfried Greschner	Joachim Becker	Wolfgang Degen
Dr. Jürgen Greschner	Bernhard Smolka	

This is a translation from German language. The audit opinion issued in German language refers to the consolidated financial statements and group management report originally prepared in German language and not to the English translation of the consolidated financial statements and group management report.

Independent Auditors' Report

We have audited the consolidated financial statements prepared by the init innovation in traffic systems Aktiengesellschaft, Karlsruhe, comprising the income statement, the balance sheet, cash flow statement, statement of recognized income and expenses, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and the supplementary provisions of the articles of incorporation and bylaws are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and the supplementary provisions of the articles of incorporation and bylaws and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Mannheim, March 2, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Matner	Reiter
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Balance Sheet of December 31, 2006

Assets	Notes Item No.	€	31.12.2006 €	31.12.2005 T€
A. Fixed assets				
I. Contributed assets	III.1			
Land and buildings		9,265.77	9,265.77	0
II. Financial assets	III.2			
1. Shares in affiliated companies		17,066,131.31		15,525
2. Loans to affiliated companies		120,000.00		0
3. Investments in associates		381,468.10		731
4. Loans granted to investments and participations		0.00	17,567,599.41	120
B. Current assets				
I. Accounts receivable and other assets	III.3			
1. Accounts receivable from affiliated companies		5,090,656.80		3,441
2. Accounts receivable from investments and participations		0.00		2
3. Other current assets		62,192.53	5,152,849.33	78
II. Marketable securities				
1. Treasury stock		1,665,352.28		992
2. Other marketable securities		741,502.66	2,406,854.94	795
III. Bank assets			**1,563,097.65**	**1,078**
C. Prepaid expenses			25,278.55	23
			26,724,945.65	**22,785**

Liabilities	Notes Item No.	€	31.12.2006 €	31.12.2005 T€
A. Shareholders' equity	III. 4			
I. Subscribed capital		10,040,000.00		10,040
II. Additional paid-in capital		9,621,874.98		9,622
III. Unappropriated income provisions for treasury stock		1,665,352.28		992
IV. Balance sheet profit		2,779,963.40	24,107,190.66	120
B. Provisions	III. 5			
1. Provisions for pensions		65,459.00		60
2. Tax accruals		436,667.00		1,330
3. Other provisions		404,039.60	906,165.60	245
C. Liabilities	III. 6			
1. Trade accounts payable		31,519.50		57
2. Accounts payable to investments to affiliated companies		1,453,138.50		60
3. Accounts payable to investments and participations		0.00		0
4. Other liabilities thereof taxes 197,630.84 € (previous year: 238 T€) thereof social security contributions 0.00 € (previous year: 13 T€)		226,931.39	1,711,589.39	259
			26,724,945.65	**22,785**
Contingent liabilities	III. 7		12,247,748.85	14,018

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Income Statement for the Period from January 1, 2006, to December 31, 2006

			01.01.2006- 31.12.2006	01.01.2005- 31.12.2005
		€	€	T€
1.	Revenues		2,054,172.37	2,023
2.	Other operating income		98,373.81	133
3.	Personnel expenses			
	a) Wages and salaries	877,638.03		731
	b) Social security and other pension costs, thereof in respect of old-age pensions incl. 13,437.22 € (previous year: 18 T€)	134,561.89	1,012,199.92	125
4.	Other operating expenses		967,258.57	884
5.	Income from a profit and loss transfer agreement		4,789,630.09	3,180
6.	Income from investments		96,800.00	34
7.	Other interest and similar income thereof 57,032.70 € (previous year: 1 T€) from affiliated companies		154,311.18	57
8.	Depreciation on marketable securities		58,472.51	3
9.	Interest and similar expenses thereof 0,00 € (previous year: 0 T€) from affiliated companies		74.00	6
10.	**Result from ordinary activities**		**5,155,282.45**	**3,678**
11.	Income taxes		-1,981,377.81	-1,380
12.	Other taxes		158,672.62	0
13.	**Annual net profit**		**3,332,577.26**	**2,298**
14.	Profit carried/loss carried forward from previous financial year		120,084.32	-1,883
15.	Transfer to earnings reserve for own shares		-672,698.18	-295
16.	**Balance sheet profit**		**2,779,963.40**	**120**

Statements of Changes in Fixed Assets of December 31, 2006

	Historical and manufacturing costs			
	01.01.2006	Additions	Disposals	Reclassifications
	€	€	€	€
I. Contributed assets				
Land and buildings	0.00	9,265.77	0.00	0.00
Total contributed assets	**0.00**	**9,265.77**	**0.00**	**0.00**
II. Financial assets				
1. Shares in affiliated companies	15,524,827.58	1,191,303.73	0.00	350,000.00
2. Loans to affiliated companies	0.00	0.00	0.00	120,000.00
3. Investments in associates	731,468.10	0.00	0.00	-350,000.00
4. Loans granted to investments and participations	120,000.00	0.00	0.00	-120,000.00
Total financial assets	**16,376,295.68**	**1,191,303.73**	**0.00**	**0.00**
Total	**16,376,295.68**	**1,200,569.50**	**0.00**	**0.00**

	Accumulated amortization/depreciation				Book values	
31.12.2006	01.01.2006	Additions	Disposals	31.12.2006	31.12.2006	31.12.2005
€	€	€	€	€	€	€
9,265.77	0.00	0.00	0.00	0.00	9,265.77	0.00
9,265.77	**0.00**	**0.00**	**0.00**	**0.00**	**9,265.77**	**0.00**
17,066,131.31	0.00	0.00	0.00	0.00	17,066,131.31	15,524,827.58
120,000.00	0.00	0.00	0.00	0.00	120,000.00	0.00
381,468.10	0.00	0.00	0.00	0.00	381,468.10	731,468.10
0.00	0.00	0.00	0.00	0.00	0.00	120,000.00
17,567,599.41	**0.00**	**0.00**	**0.00**	**0.00**	**17,567,599.41**	**16,376,295.68**
17,576,865.18	**0.00**	**0.00**	**0.00**	**0.00**	**17,576,865.18**	**16,376,295.68**

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Notes to the 2006 Fiscal Year

I. General disclosure

The financial statements of init innovation in traffic systems Aktiengesellschaft, Karlsruhe (init AG), as of December 31, 2006 were prepared in compliance with the statutory provisions of the German Commercial Code (HGB) and the supplementary regulations of the German Stock Corporation Act. The regulations for large stock corporations within the meaning of § 267 para. 3 clause 2 of the German Commercial Code (HGB) apply. The consolidated statement of operations was prepared on the basis of the total expenditure format.

init AG had concluded a control and profit and loss transfer agreement with INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH (INIT GmbH), Karlsruhe, which terminated at the end of December 31, 2006.

II. Accounting and valuation principles

As in the previous year, the following accounting and valuation principles were applied to the preparation of the financial statements:

Fixed assets
Financial assets are reported in the balance sheet at purchase cost less scheduled straight-line depreciation.

Current assets
Trade accounts receivable, accounts receivable from affiliated companies and from investments and participations, and other assets are reported at their nominal value. Accounts receivable in foreign currencies are shown at the exchange rates current on the date of their origin or the higher selling rate as at the cutoff date. Securities are valued at their cost of purchase, less the necessary depreciation pursuant to Section 253 para. 3 of the German Commercial Code (HGB).

Provisions and liabilities
Pension accruals were calculated on the basis of actuarial principles in line with § 6a of the German Income Tax Law (EstG). The underlying assumed rate of interest is 6 per cent. The calculations are based on Klaus Heubeck's Actuarial Tables of 2005 G.

The accrued provisions take into account any foreseeable risks and contingent liabilities and are shown at the amount required based on sound business judgment.

Liabilities are shown at their amounts repayable.

III. Explanations on individual balance sheet items

1. Fixed assets
In a contract of sale dated December 1, 2006, the company purchased the building next door to its Karlsruhe location. The economic transfer of property took place in January 2007. The costs capitalized in 2006 relate to the incidental acquisition costs incurred in connection with this acquisition.

2. Financial investments
The development of the individual items of the fixed assets is shown in the asset statement on the previous page.

By notarial deeds dated January 20, 2006, July 14, 2006 and December 1, 2006, the share in CarMedialab GmbH was increased from 45.0 per cent to 58.1 per cent. The book value of the investments amounts to 608 TEuro.

Within the scope of an increase in equity, the share in INIT Inc., Chesapeake, USA, was increased by 791,640 Euro (1,000 TUSD) to 3,163 TEuro (3,100 TUSD) by way of a resolution passed on May 2, 2006.

The North American market is increasingly important to the init group. In order to establish itself even more firmly here and to ensure local project management, two new subsidiaries of init AG were formed in Canada in 2006. INIT Innovations in Transportation (Eastern Canada) Inc./ INIT Innovations en Transport (Canada Est) Inc., Montréal, Canada, works the French-Canadian part of the country. The English-speaking part of Canada is handled by INIT Innovations in Transportation (Western Canada) Inc. in Vancouver.

We refer to page 86 for the list of the share ownership.

3. Accounts receivable and other assets

The accounts receivable from affiliated companies of 5,091 TEuro (previous year: 3,441 TEuro) mainly include 4,790 TEuro (previous year: 3,180 TEuro) receivables from the transfer of profits from INIT GmbH, 112 TEuro (previous year: 0 TEuro) accounts receivable from the sale of shares within the scope of the employee profit sharing scheme, and tax receivables of 184 TEuro (previous year: 254 TEuro).

The other assets of 62 TEuro (previous year: 78 TEuro) mainly consist of tax refund claims and the asset value of a pension liability insurance.

All accounts receivable and other assets have a residual term of up to one year.

4. Shareholders' equity

The shareholders' equity of init AG developed as follows:

	Capital stock	Capital reserves	Retained earnings	Balance sheet profit	Total
	T€	T€	T€	T€	T€
Shareholders' equity as at December 31, 2005	10,040	9,622	992	120	20,774
Reserves for treasury stock			673	-673	0
Annual net income for 2006				3,333	3,333
Shareholders' equity as at December 31, 2006	10,040	9,622	1,665	2,780	24,107

Subscribed capital

As at December 31, 2006, the subscribed capital of init AG was still 10,040 TEuro. The capital has been fully paid in and is divided into 10,040,000 shares with an imputed share in the equity capital of 1.00 Euro each. This stock exclusively consists of ordinary shares.

Approved capital

With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 5,020,000 Euro by July 13, 2011, through a single or repeated issuing of up to 5,020,000 ordinary shares against contributions in cash or in kind. The new shares are to be taken over by credit institutions that will be obliged to offer them to investors for sale. However, with the approval of the Supervisory Board, the Managing Board is authorized to withdraw the pre-emptive right,

- so that up to 1,004,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price,
- to balance peak amounts,
- to open up additional capital markets,
- to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind,
- to turn up to 250,000 new shares into employee stocks.

Treasury stock

On January 1, 2005 the company's treasury stock amounted to 235,000 shares. Based on the resolution passed at the annual shareholders' meeting on May 11, 2005, replaced by the resolution of July 13, 2006 the company is authorized to purchase treasury stock. On March 21, 2005, the Managing Board decided on a stock repurchase of up to 50,000 shares. A further stock repurchase was decided on July 14, 2006 to the amount of 210,000 shares. In 2006, the company acquired 103,690 shares (previous year: 50,000) with an imputed share of 103,690 Euro (1.0 per cent) in the equity capital, purchased at an average price of 7.39 Euro (previous year: 3,84 Euro) per share.

Within the scope of employee profit sharing schemes for the 2005 and 2006 fiscal years, a total of 1,805 treasury stock were transferred to the employees of init AG. A further 20,470 shares were sold to the subsidiaries, INIT GmbH, INIT Inc. USA, INIT Eastern Canada and INIT Western Canada for employee profit sharing purposes. These shares are subject to a qualifying period of 2 years.

The company's treasury stock was valued at purchase cost at 1.665 TEuro (previous year: 992 TEuro). The necessary reserves for treasury stock were formed reducing the net profit for the year. As at December 31, 2006, the treasury stock amounted to 366,415 shares with an imputed share of 366,415 Euro (3.6 per cent) in the equity capital.

The repurchases have been effected since 2002 for use as consideration within the scope of mergers and to acquire other companies or parts of companies or participations, or, where required, for opening up additional capital markets, or for issue to employees and Board members.

5. Provisions

The other provisions were established predominantly for the Supervisory Board compensation to the amount of 72 TEuro (previous year: 32 TEuro), for profit sharing in the form of shares for the Managing Board of 67 TEuro (previous year: 0 TEuro), for outstanding suppliers' invoices of 63 TEuro (previous year: 53 TEuro), for accounting and auditing costs of 62 TEuro (previous year: 43 TEuro), for management bonuses of 54 TEuro (previous year: 47 TEuro), and for the employee profit sharing scheme of 45 TEuro (previous year: 31 TEuro).

6. Liabilities

All liabilities have residual terms of up to one year.

The accounts payable to affiliated companies to the amount of 1,453 TEuro (previous year: 60 TEuro) include tax liabilities of 1,446 TEuro (previous year: 47 TEuro) and trade accounts payable of 7 TEuro (previous year: 13 TEuro).

The other liabilities mainly comprise tax liabilities to the amount of 198 TEuro (previous year: 238 TEuro).

7. Contingent liabilities

As of the cutoff date, the company had contingent liabilities from the following guarantee agreements:

> to the amount of 9,528 TEuro (previous year: 13,993 TEuro) from bank guarantees in favor of INIT GmbH;
> to the amount of 25 TEuro (previous year: 25 TEuro) from a maintenance guarantee in favor of INIT Inc. USA; and
> to the amount of 2,695 TEuro (previous year: 0 TEuro) from a contract performance guarantee in favor of INIT Inc. USA.

IV. Other information

1. Management bodies

Managing Board

Dr. Gottfried Greschner, Karlsruhe	CEO
Mr. Joachim Becker, Karlsruhe	COO
Mr. Wolfgang Degen, Karlsruhe	COO
Dr. Jürgen Greschner, Karlsruhe	CSO
Mr. Bernhard Smolka, Stutensee	CFO

Supervisory Board

Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau, Meerbusch, Chairman	Consulting engineer specializing in local public transportation, member of the Supervisory Board of Berliner Verkehrsbetriebe, member of the Supervisory Board of BT Berlin Transport GmbH, Berlin, member of the Advisory Board of PTM, master's degree at the University of Duisburg/Essen
Mr. Bernd Koch, Lahr, Vice Chairman	Self-employed business consultant, member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Centre in Karlsruhe
Mr. Fariborz Khavand, Wuppertal	Self-employed business consultant

Particulars of board member salaries

In their capacity as executives of the subsidiaries, the members of the Managing Board also received compensation totaling 1,599 TEuro (previous year: 1,291 TEuro) in 2006. This total includes a share-based compensation in the form of 25,000 shares of init AG with a current market price of 340 TEuro (previous year: 0 TEuro) at the time of issue, including the applicable income tax, which is borne by init.

Based on the resolution passed by the shareholders' meeting on July 13, 2006, an individualized disclosure of the Board members' salaries can be withheld for a period of 5 years, in compliance with § 285 clause 1 no. 9a sentences 5 to 9 HGB (German Commercial Code) (§ 286 sub-section 5 HGB).

The total remuneration of the Supervisory Board members in 2006 amounted to 77 TEuro (previous year: 37 TEuro).

2. Employees

init AG employed an annual average of 16 (previous year: 15) people.

3. Interest in other companies

Company	Registered offices	Equity capital	Share in %	2006 result
INIT Innovative Informatik-anwendungen in Transport-, Verkehrs- und Leitsystemen GmbH	Karlsruhe (D)	TEuro 6,183	100	TEuro 0*)
INIT Innovations in Transportation, Inc.	Chesapeake, VA (USA)	TUSD 4,312	100	TUSD 288
id systeme GmbH	Hamburg (D)	TEuro 241	44	TEuro 180
CarMedialab GmbH	Bruchsal (D)	TEuro 218	58,1	TEuro -262
init telematik gmbh	Karlsruhe (D)	TEuro 54	100	TEuro 1
INIT Innovations in Transportation (Eastern Canada) Inc./ INIT Innovations en Transport (Canada Est) Inc.	Montréal, (CA)	TCAD 88	100	TCAD -12
INIT Innovations in Transportation (Western Canada) Inc.	Vancouver, (CA)	TCAD 102	100	TCAD 2
Total Quality Assembly LLC.	Chesapeake, VA (USA)	TUSD 188	60	TUSD -12
iris GmbH infrared & intelligent sensors	Berlin (D)	TEuro 2,417	43	TEuro 286

*) TEuro 4,790 before profit and loss transfer

As of the cutoff date, the exchange rate for one Euro was 1.3190 US Dollar and 1.5375 CAN Dollar.

4. Information on the auditor's fee

The auditor's fee for the group auditor Ernst & Young AG Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft, Mannheim, included 62 TEuro (previous year: 43 TEuro) for the audit of the financial statements, 0 TEuro (previous year: 17 TEuro) for tax consulting services, and 25 TEuro (previous year: 26 TEuro) for other certification and appraisal services.

5. Declaration of compliance with the German Corporate Governance Code

The declaration of compliance for init AG was made by the Managing Board and the Supervisory Board on December 14, 2006, and was made permanently available to the shareholders on our home page at www.initag.de.

Karlsruhe, March 2, 2007

The Managing Board

Dr. Gottfried Greschner   Joachim Becker   Wolfgang Degen

Dr. Jürgen Greschner   Bernhard Smolka

init innovation in traffic systems Aktiengesellschaft, Karlsruhe Status Report as of December 31, 2006

Abstract

init innovation in traffic systems Aktiengesellschaft, Karlsruhe (init AG) is the umbrella company of the init group and as such is not engaged in any operating activities. init AG is responsible for the administration of the operating companies in the group, for strategic planning and for risk management. The areas of accounting, controlling, human resources, and investor relations of INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH (INIT GmbH) are covered by init AG.

Business trend and situation

Init AG generated sales to the amount of 2,054 TEuro (pervious year: 2,023 TEuro), predominantly through its services for INIT GmbH. It realized an annual net profit of 3,333 TEuro (previous year: 2,298 TEuro). This figure includes the profit transferred from INIT GmbH, of 4,790 TEuro (previous year: 3,180 TEuro).

Key financial performance indicators for init AG include the liquidity and the equity ratio. As of the cutoff date, the liquid funds including securities (without treasury stock) of init AG totalled 2,305 TEuro (previous year: 1,873 TEuro). The balance sheet total amounted to 26,725 TEuro, the equity ratio stood at 90.2 per cent (previous year: 91.2 per cent).

The North American market is increasingly important to the init group. In order to establish itself even more firmly here and to ensure local project management, two new subsidiaries of init AG were formed in Canada. INIT Innovations in Transportation (Eastern Canada) Inc./INIT Innovations en Transport (Canada Est) Inc., Montréal, Canada, (INIT Eastern Canada) works the French-Canadian part of the country. The English-speaking part of Canada is handled by INIT Innovations in Transportation (Western Canada) Inc. (INIT Western Canada) in Vancouver.

Within the scope of an increase in shareholders' equity, the share in INIT Inc. Chesapeake, USA was raised by 792 TEuro (1,000 TUSD) to 3,163 TEuro (3,100 TUSD).

The share in CarMedialab GmbH was increased from 45 per cent to 58.1 per cent. The investment book value now amounts to 608 TEuro.

In the 2006 fiscal year, the company decided on a stock repurchase of up to 210,000 shares, which was executed in purchases of 103,690 shares. Within the scope of employee profit sharing schemes for the 2005 and 2006 fiscal years, a total of 1,805 treasury stock were transferred to the employees of init AG. A further 20,470 shares were sold to the subsidiaries, INIT GmbH, INIT Inc. USA, INIT Eastern Canada and INIT Western Canada for employee profit sharing purposes. As at December 31, 2006, the treasury stock of the company amounted to 366,415 shares. The book value of the stock as at December 31, 2006 totalled 1,665 TEuro (previous year: 992 TEuro)

On presentation of the proposal on the appropriation of unappropriated profit in March 2007, the number of treasury stock totalled 360,000 shares.

Opportunities and risks of the future development

As a result of the yield from services for its operating subsidiaries and the income from investments and interest, init AG will again be able to compensate for its expenses in the 2007 fiscal year. Consequently, without taking into account the profit and loss transfer of INIT GmbH, the company can once more anticipate a positive result for 2007. The profit and loss transfer agreement between init AG and INIT GmbH was terminated at the end of December 31, 2006.

Since the net earnings of INIT GmbH are likely to be transferred to init AG even without a profit and loss transfer agreement, the further development of init AG depends on the development of its operating subsidiaries. On account of recent contracts, INIT GmbH is expected to report a distinctly positive result in 2007. Its high volume of orders has secured the basic level of work for INIT for the next two years. Provided that the domestic market stabilizes soon, or improves, INIT has goods prospects of above-average growth.

The risks for init AG are mainly connected with the risks of its operating subsidiaries. Contracts in foreign currency involve exchange risks. Init meets these exchange risks by hedging its receipts of payment with forward exchange transactions and options. Since init also tries to keep its options open here, it may incur losses. Due to our risk policy, we expect the risk of loss to be minimal.

The investments of init include stocks, fixed-interest securities and fixed-term deposits. This can lead to losses due to changes in the market price, the exchange rate, or the rate of interest.

The technology in the area of telematics is subject to rapid change. Therefore, new products must be launched at the right time and the technological progress of the market monitored to keep up with the latest developments. Due to the qualification of our employees and the experience of init in the telematics field, we are confident that we will meet this challenge.

Circumstances of specific significance after the cutoff date

Pursuant to a purchase contract of December 1, 2006, init acquired the building next door to its Karlsruhe location with economic ownership from January 2007. The purchase price amounted to around 1.6 mill. Euro, 75 per cent of which were financed in January 2007 by way of a long-term loan.

Remuneration report

Remuneration system for the Managing Board

The remuneration for members of the Managing Board is settled by the Supervisory Board. The remuneration is determined by the size of the company, its economic and financial situation, and the amount and structure of comparable companies.

The remuneration system for the Managing Board – including the Managing Directors of the subsidiaries – includes as follows:

1. A fixed salary component payable on a prorata basis in 13 monthly installments. The fixed component of the Board members' remuneration totalled 950 TEuro in 2006.
2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee shares and applicable as a per centage from an operating result of 0.4 mill. Euro. The management bonus is

limited to 25 per cent of the total compensation package without restricted stocks under item 3. The variable part of the Board members' remuneration in 2006 totalled 309,000 Euro.

3. A further bonus in the form of stocks, from consolidated earnings exceeding 2 mill. Euro before taxes and after deduction of all management bonuses and employee shares. Where this amount is exceeded, each member of the Board receives one share for each 300 Euro of exceeding profit. The number of "restricted stocks" is limited to 5,000 shares per Board member. The shares are subject to a qualifying period of five years. The income tax relating to the non-cash benefit of the share transfer is borne by the company. The current market value of this bonus including the income tax payable on it amounted to 340,000 Euro.
4. Pension commitments existed for three of the five members of the Managing Board. In 2006, the provisions for pensions under the German Commercial Code (HGB) for these three members at our subsidiary INIT GmbH totaled 264,000 Euro.

Except for the above pension commitments, no other benefits payable on leaving the Managing Board have been agreed. However, a termination bonus may be specified in individual termination agreements.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board was decided in the shareholders' meeting on July 13, 2006, based on a proposal submitted by the Managing Board and the Supervisory Board. The articles of incorporation of init have been amended accordingly.

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals 9,000 Euro p.a. for the members and 18,000 Euro p.a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable remuneration is limited to 300% of the fixed remuneration and is calculated using the following formula:

V= ((0.5*share price/5.1 + 0.5*profit/2 mill.) -1) * fixed component

Where V (variable component) is less than zero, the variable component does not apply and only the fixed component of the remuneration is payable.

Breakdown of the remuneration of the Supervisory Board in 2006:

Name	Fixed component in Euro	Variable component in Euro
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18,000	20,538
Bernd Koch	9,000	10,269
Fariborz Khavand	9,000	10,269

Non-financial performance indicators

The key non-financial performance indicator for the init group is the qualification and motivation of its employees.

On average, init AG employed a workforce of 16 (previous year: 15) staff in 2006.

On July 12, 2006, the Managing Board decided on giving its employees a share in the company profits based on the operating result. Every permanent employee (part-time staff and new employees on a prorata basis) will receive a maximum profit share of 3,000 Euro. This amount will be paid on approval of the annual financial statements. The appropriate amounts were taken into account in the financial statements. In the context of asset sharing, each employee will also receive 100 shares in the company. The shares are subject to a qualifying period of two years and were already distributed to the employees on December 20, 2006.

Particulars of shareholders' equity

The capital stock of init AG amounting to 10,040,000 mill. Euro is divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of 1 Euro per share. The shares have been issued and fully paid up. For the rights and obligations related to the shares, please refer to § 118 ff. of the German Stock Corporation Act.

The Managing Board is not aware of any restrictions relating to the voting rights or the transfer of shares.

Dr. Gottfried Greschner directly or indirectly holds 3,571,400 shares in init AG. This corresponds to around 35.6 per cent of the capital stock. init AG currently holds a total of 360,000 shares (as at December 31, 2006: 366,415 shares).

There are no shares with special rights.

No voting control for shares held by employees exists.

Statutory requirements and provisions of the articles on the appointment and dismissal of members of the Managing Board and on amendments to the articles of incorporation

For the appointment and dismissal of members of the Managing Board, please refer to §§ 84,85 AktG (German Stock Corporation Act). Amendments to the articles of incorporation are subject to the legal provisions of §§ 133, 179 AktG.

Authority of the Managing Board to issue and repurchase stock

At the annual shareholders' meeting on July 13, 2006, a resolution was passed to create an authorized capital to the amount of 5,020,000 Euro. With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 5,020,000 Euro by July 13, 2011, through a single or repeated issuing of up to 5,020,000 ordinary shares against contributions in cash or in kind. The new shares are to be taken over by credit institutions that will be obliged to offer them to investors for sale. However, with the approval of the Supervisory Board, the Managing Board is authorized to withdraw the preemptive right, so that up to 1,004,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price. The aim is to balance peak amounts, to open up additional capital markets, to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind, and to turn up to 250,000 new shares into employee stocks.

Dividend

The Managing Board proposes a dividend distribution of 0,10 Euro per share.

Concluding statement concerning the dependent company report

Pursuant to Section 312 of the German Stock Corporation Act (AktG), the Managing Board generated a report on the relationship with affiliated companies for the period under review, which was audited by our auditors. The dependent company report of the Managing Board concludes with the following declaration:

“Our company received adequate compensation for the legal transactions and measures specified in this report and was not adversely affected by whether or not these measures were implemented. This assessment is based on the circumstances known to the Managing Board at the time of the transactions to be disclosed.”

Karlsruhe, March 2, 2007

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

Mail from New York: Technology from init is used for the "special" transportation service in the Big Apple

This is a translation from German language. The audit opinion issued in German language refers to the financial statements and management report originally prepared in German language and not to the English translation of the financial statements and the management report.

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Independent Auditors' Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the annual financial statements – together with the bookkeeping system, and the management report of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, for the fiscal year from January 1, 2006 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary provisions of the articles of incorporation and bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements, whether due to error or fraud, materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis as part of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, on the basis of the knowledge we have gained during the audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides an appropriate view of the Company's position and appropriately presents the opportunities and risks of future development.

Mannheim, March 2, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Matner	Reiter
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Mail from Vancouver: init technology in use for the 2010 Winter Olympics

Notes

Notes

Imprint

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