innovation in traffic systems AG

Annual Report 2009

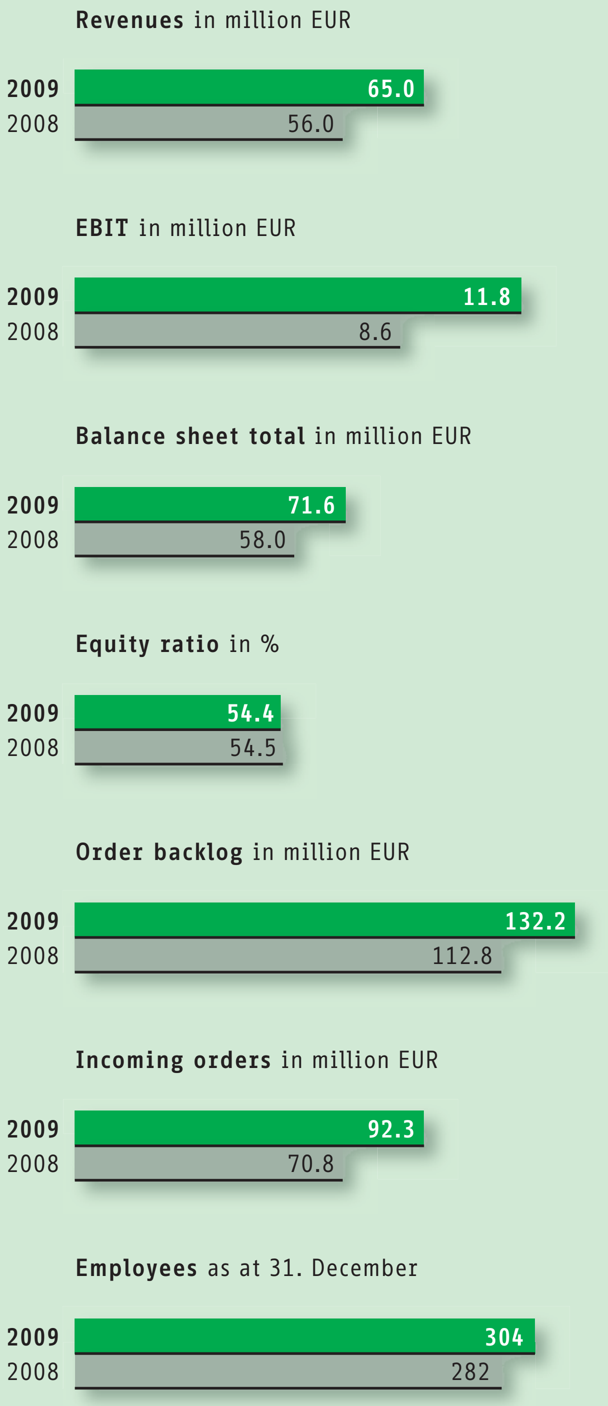
Growth – natural and sustainable

STRONG ROOTS FOR SUCCESS

init at a glance

	2009	2008
Balance Sheet		
Balance sheet total	EUR 71,610k	EUR 57,951k
Shareholders' equity	EUR 38,977k	EUR 31,596k
Subscribed capital	EUR 10,040k	EUR 10,040k
Equity ratio	% 54.4	% 54.5
Return on equity	% 21.3	% 18.7
Non-current assets	EUR 14,297k	EUR 15,186k
Current assets	EUR 57,313k	EUR 42,765k
Income Statement		
Revenues	EUR 64,955k	EUR 55,993k
Gross profit	EUR 23,037k	EUR 17,224k
EBIT	EUR 11,754k	EUR 8,597k
EBITDA	EUR 14,157k	EUR 10,169k
Annual net profit	EUR 8,314k	EUR 5,912k
Earnings per share	EUR 0.84	EUR 0.60
Dividend	EUR 0.30	EUR 0.16
Cash Flow		
Cash flow from operating activities	EUR 5,570k	EUR 7,146k
Share		
Issue price	EUR 5.10	EUR 5.10
Peak share price	EUR 11.30	EUR 8.80
Bottom share price	EUR 4.75	EUR 4.45

init at a glance



2009

init

CONTENT

Ladies and gentlemen,
dear Shareholders,

Amidst the worst crisis affecting the global economy in over 80 years, our company – init innovation in traffic systems AG – is able to present yet another record balance sheet. Undeterred by the deep economic trough, init has reached a new peak. 2009 proved to be the best year in the history of our company – in more ways than one. It was a year in which we managed not only to achieve but even to exceed some of our rather ambitious targets. The key figures:

- Revenues rose by over 16 per cent to EUR 65m.
- Earnings before interest and income taxes (EBIT) improved by over 36 per cent to EUR 11.8m.
- Annual net profit increased by over 40 per cent to EUR 8.3m, as did the earnings per share (EUR 0.84).
- The order backlog at year-end stood at EUR 132m, up 17 per cent on the previous year.

Our success in 2009 was based on top performances in many areas. The new functionality of our MOBILE-ITCS control system, for instance, earned us an innovation award from the Association of German Transport Companies (VDV). In both Germany and the USA, init was voted one of the best and most family-friendly employers.

All-time high for init shareholders

As our shareholders, 2009 was an excellent year for you. Setting out to conquer new heights, init's share climbed to a new all-time peak of over 11 euros. As a result, the Managing Board and the Supervisory Board of init innovation in traffic systems AG intend to propose a dividend increase to EUR 0.30 at the Annual General Meeting.

But as nice as it is to look back on these successes, it would be fatal to rest on past laurels. The fact, however, that init has now written record figures for the fifth year in a row shows that we are up to this challenge. And not only on the stock market where, as we all know, the future is traded.

It also, and primarily, applies to our business. For over 25 years now, init has focused on the future of mobility and finding innovative answers to a wide range of problems in each new project. We continue to learn, however, and use our experience gained in now over 400 international projects for the good of our customers, both existing and new. The result is a steady stream of innovations that are focused on our customers' requirements. This edge in both experience and technology has made us a sought-after partner for new projects. Reliable completion of these projects, however, is equally important. This has assured our relationship with customers for many years to come and ensured a steady increase in follow-up orders as well.

New business opportunities through infrastructure programmes

There is another crucial advantage to our business model and the market for init products. The demand for intelligent telematics, planning and fare collection systems for buses and trains is not subject to short-term cycles. Rather, it continues to increase over the long term. Intelligent infrastructures such as developed, produced and sold by init help transport companies increase their efficiency and provide a more attractive service. As a result, investments in appropriate init solutions quickly pay off. At the same time, telematics systems for local public transport actively contribute to climate protection and the reduction of carbon dioxide emissions while providing mobility in conurbations. This is why the modernisation or development of local public transport systems worldwide now features large in-state aid programmes initiated to improve the infrastructures and boost the economy.

Expert and skillful cultivation of an apple tree increases its crop. But it also makes it a changeable object of cultural value that lasts for many generations.

In this context, one of the crucial challenges facing the future of mobility is the requirement to network different local public transport systems with long-distance rail transport and other transport operators. init's integrated telematics and fare collection system is already a marketable commodity and is currently implemented in Bavaria to improve regional bus transport in this region. The system will manage over 3,000 vehicles of different transport providers, combine all relevant data in a standardised system, make this information available to passengers in real-time, and handle the “clearing” of payment flows.

Only system solutions such as these enable providers to make local public transport as efficient, effective, attractive and competitive as it needs to be in the future. This is why state authorities and institutions have now committed themselves quite formally to increased investments and the development of infrastructures. Funds for infrastructure investments made available worldwide through economic aid programmes specifically in Western industrialised nations range in the three-digit billions. The majority of these funds is allocated to local public transport systems. Only recently, the American Senate authorised around USD 10.7bn for the development of local public transport in the USA. As a result, we expect to see a wealth of new possibilities and business opportunities arise for init.

Tackling the next peak

“Boosting Public Transport: Action!” is a slogan which brings the current mood in the sector to the point. It is no accident either that this is the motto of the next world congress of the UITP, the International Organisation of Public Transport, which has a membership of 3,100 transport companies and infrastructure providers from 90 countries. The congress will be held in Dubai in April 2011. According to the UITP, Dubai has one of the most sophisticated and trendsetting local public transport systems in the world, set up by its local transport authority, RTA. Here, too, init has provided over 1,500 vehicles and the new operations control centre with hardware and software since 2007.

These facts also answer the question as to where init will go from here, how will we proceed after our successful peak in 2009. Our company is not exempt from the storms raging in the economy and the ill winds blowing in the still latent financial and economic crisis. However, the long-term foundation of growth in our sector along with record levels of orders and the significant number of project tenders worldwide will keep us steady and moving forward to tackle the next peak. The global economy in 2010 is predicted to grow again, albeit at a moderate level. Growth is forecast primarily for the Asian region. This encourages us to sound out potential new markets in Asia. In the USA, and indeed in other markets in which init has established itself over the years, we expect the number of tenders for local public transport systems to continue at a high level, if not increase. Based on these factors, we already have our eyes set firmly on the next peak, aiming for higher ground in sales and earnings to exceed this year's figure by over 10 per cent by the end of 2010.

We would be delighted if you as our shareholders continued with us on this path and thank you for your confidence in us.

Dr. Gottfried Greschner
for the Managing Board of
init innovation in traffic systems AG

Dr. Jürgen Greschner *Joachim Becker*

Dynamic networking

Transport companies using the products of technology leader init have a competitive edge which far exceeds the mere product benefits. Based on modular telematics and fare collection systems, init covers the complete value-added chain from planning to servicing. Depending on the requirements, customers worldwide can use init's innovative solutions as stand-alone products, for a gradual extension or for integration in an existing transport system.

Sustainable products and a culture of openness in an effective network have been the hallmarks of init for over 25 years. Priority is given to an intensive personal exchange among our staff and with customers at their location. Keeping hierarchies flat, our employees each seize the opportunity to take personal responsibility for the benefit of the customer, using their know-how efficiently and reliably to ensure each project is a complete success. But init stands out from other companies for yet another reason – our Managing Board is actively involved in operations supervising its own projects both in Germany and abroad.

init's track record of success began with Chairman of the Board **Dr. Gottfried Greschner** (63). A certified electrician, his focus as research associate was on computer-based operations control systems before being awarded a doctorate (Dr.-Ing.) at the University of Karlsruhe. His studies concluded, he founded INIT GmbH in Karlsruhe and set about establishing the company at global level to become a sought-after local transport systems supplier. On the Managing Board of init innovation in traffic systems AG, Dr. Greschner is responsible for Business Development, Personnel, Purchasing, Logistics and Production.

Wolfgang Degen *Dr. Gottfried Greschner* *Bernhard Smolka*

Joachim Becker (54) is the co-founder of init, having helped shape the company and its development since 1983. As a member of the five-strong Managing Board, the trained computer scientist today heads the Telematics Software and Services section.

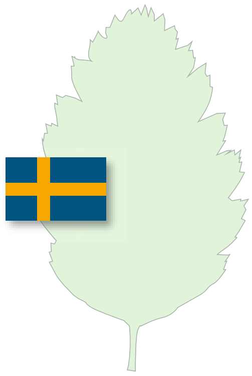
Wolfgang Degen (51) boasts a career of almost 20 years at init. Various innovations arousing much attention were launched under his direction. On the Board, the qualified communication engineer is responsible for Mobile Telematics and Fare Collection Systems.

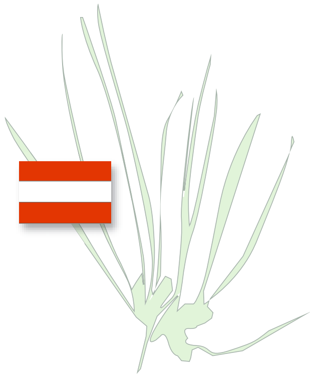
In 1996, **Dr. Jürgen Greschner** (48) followed his older brother into the family-owned business. Founding INIT Innovations in Transportation, Inc., Chesapeake, Virginia/USA, at the end of the nineties, he laid the foundation for init's success in North America. On the init Managing Board, he has been responsible for global sales since 2004.

Bernhard Smolka (49) is the "master of figures" at init. With the company's track record of success, 2009 is the fifth consecutive year for which he could draw up a record balance sheet. Following his studies in business management, he held various posts in finances and controlling before he was appointed CFO of init AG in 2001, the year of the company's IPO (Initial Public Offering).

Thousands of nature lovers from all over the world travel to North America to experience the Indian Summer. Once a year, in a perfect choreography, the leaves of trees in the rambling forests change from green to a tapestry of breathtaking colours. Triggered by fluctuating temperatures during the day and at night, the leaves progressively lose their chlorophyll, replaced by other colours that were hitherto masked by the dominant green.


Common beech


Swedish haw


Swiss stone pine

Global player from Karlsruhe

Hundreds of thousands of visitors at the Olympic Games in Vancouver were able to enjoy the convenience and reliability of the local public transport system – not least thanks to extensive modernisation measures. Having invited bids at international level, Vancouver's transport services ultimately opted for an integrated telematics system from init. The noteworthy contract, worth CAD 35m, begs comparison to a record-breaking Olympic performance – init pro-vided 1,300 vehicles with the on-board computer COPILOTpc and a Bus Communication System. The contract further provided for a digital mobile radio solution and the setup of the Intermodal Transport Control System MOBILE-ITCS. Incidentally, many of the international visitors at the Olympic Games enjoy similar benefits at home based on local public transport solutions provided by init. Since its startup, the Karlsruhe-based specialist has implemented over 400 hardware and software based projects in 17 countries on four continents.

Successful subsidiary

Operating at global level, init is committed to a strategy of local presence for the convenience of its customers. Some 50 employees, for instance, currently work for INIT Innovations in Transportation, Inc., its subsidiary set up in Chesapeake in the US State of Virginia. In 2009, the North American arm of init celebrated its tenth anniversary. Whereas the first projects were based in the east of the USA, init has increasingly managed over the past few years to secure projects at America's West Coast. The contract from Vancouver along with other currently ongoing projects in San Francisco and Portland marked its final breakthrough in the American West. The successful subsidiary helps local transport companies in North America provide faster and more efficient local transport and thus a more attractive service. With state investment funds and subsidies linked to exact passenger figures, init's automatic passenger counting system has proved a key factor in firmly establishing the company in the USA.

Maintaining an efficient network

Taking the step across the Atlantic was the next logical move to ensure further involvement in international projects. The start had been made in 1990 when init was awarded a large-scale project in Sweden. Today, Stockholm's transport company remains one of init's many satisfied customers. This affirms that efforts to establish a long-term cooperation based on trust is the right way to proceed. Based on an efficient network linking init customers with each other and with the company, both sides exchange their wealth of knowledge and experience in regular User Meetings. Not infrequently, these meetings lead to new approaches which init may be able to translate into solutions for the general benefit of its customers.

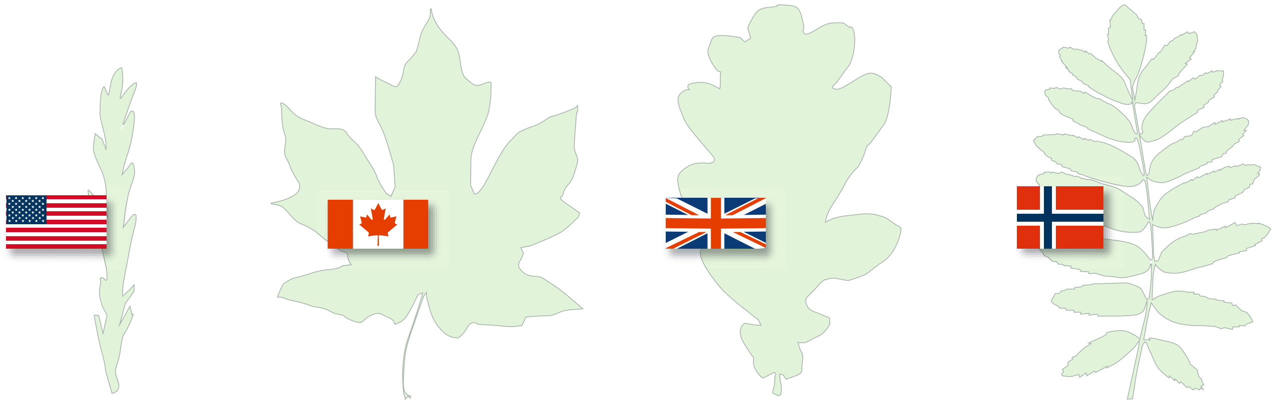
1983 Foundation of INIT GmbH in Karlsruhe

1988 Breakthrough in German market with computer-based operations control system for Osnabrück

1989 Baden-Württemberg Innovation Award

1990 First major international contract from Stockholm, Sweden

1995 Branch-out into "electronic fare collection systems" involving a project in Hamburg



Giant redwood | Maple | English oak | Mountain ash

Global sustainability

The IPO of init AG in 2001 finally blazed the trail for change in the company. Once begun as a university spin-off, init today has advanced to become a global leader. Permanent init locations outside Germany and the USA now include Canada, Australia, Great Britain and the United Arab Emirates. In Dubai, for example, init is currently involved in the setup of one of the most modern and highly effective transport systems in the world. Its headquarters in Karlsruhe, meanwhile, continue to play a central role for innovations. Here, key aspects of the development work are performed. In so doing, the company benefits vastly from its location in the heart of Karlsruhe, a technology region known for its successes in science and research. University research here is focused specifically on the areas of software development, transport technology and telematics. Due to its strong position in the market, init also proves an attractive partner in regard to topical issues including climate protection and CO2 reduction. Countries such as Canada and Australia, which are highly dedicated to climate protection, will continue to invest in init technology in the future. After all, init's products help transport companies provide faster and more reliable local transport and thus present passengers with an attractive alternative to private transport.

1999
Startup of INIT Innovations in Transportation, Inc. in Chesapeake, Virginia/USA

First major contract in the USA (Akron/Ohio)

2000
Startup of init innovation in traffic systems AG

2001
init innovation in traffic systems AG launches IPO

2002
Innovation: on-board computer COPILOTpc sets new standards

2003
Major contract from Houston Metro, USA

2004
Major project in Oslo, Norway

National Transport Award for init telematics system in London

Social responsibility as a corporate value

init's products are geared to ensure sustainability and the responsible use of resources. But init also takes responsibility in a social context. Along with supporting a wide range of social, cultural and sports activities, init makes a point of promoting the next generation. This includes financial support for children's charities as much as initiatives aimed at advancing and developing young executives and entrepreneurs. But social responsibility is a principle practised even within the company – employees are involved in a voluntary profit sharing programme paid in cash and in shares and receive EUR 500 net for the birth of each child, and a child care allowance of up to EUR 400 per month and child. These perks and the dynamic practice of cooperation at work have gained init the 2009 "Best Place to Work" award of the Hampton Roads business journal 'Inside Business' in Virginia/ USA. init's commitment to being a family-friendly company was further recognised by the Junior Chamber in Karlsruhe, which granted the company its BFamily Award.

2005
New York City opts for init system for on-demand transport/paratransit

2006
Major project in The Hague, Netherlands

Vancouver modernises local public transport for 2010 Olympic Games in cooperation with init

2007
Dubai sets up modern local transport system – init involved in project

init acquires major project for area-wide bus transport in Bavaria

After Dubai and Canada, init establishes a further subsidiary in Australia

2008
initplan GmbH takes over the INTERPLAN division of PTV AG to expand activities

2009
First contract from New Zealand and largest individual contract to date in the USA (Portland)

Trees grow by themselves – but much can be done to help them thrive as features in a carefully designed environment. Expert pruning and well cultivated soil are repaid with beauty and healthy growth. Incidentally, a fully-grown birch tree produces some 13 kg of oxygen a day!

init share reaches new all-time high

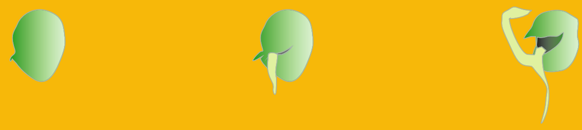
For the shareholders of init innovation in traffic systems AG, 2009 proved to be the best year since our listing in July 2001. Off to a good start into the new year, init's share initially followed the negative trend of the TecDAX. From mid-February, however, it successfully broke out from the generally negative movement to rally in a steady-up drift with intermittent short-term profit takings.

After breaking through the 9 euro mark for the first time at the end of the third quarter, the share – boosted by good news from the company and highly positive feedback in investor talks – continued to soar in the fourth quarter. By mid-December it marked a new all-time high of EUR 11.30.

Since our IPO on 24 July 2001, init has more than doubled in value. In contrast, the DAX barely managed to keep the price level steady, while the TecDAX dropped significantly in the same period. Investors buying our share early in the year were subsequently pleased to see their investment double by the end of December.

But init's shareholders had more reason to rejoice than merely in this exceptional performance; the dividend was to increase accordingly. The shareholders' meeting on 20 May 2009 decided to raise the distribution for the 2008 financial year to EUR 0.16 (2007: EUR 0.14). Based on new record profit for init and growth prospects continuing intact and with dividend payments increasingly important in investment decisions of potential investors, the Managing Board and the Supervisory Board now propose a further increase in dividend. Hence the shareholders' meeting set for 12 May 2010 will be asked to vote on a dividend payment of EUR 0.30 per share.

In order to germinate, a grain needs the right environmental conditions for growth such as water, warmth, oxygen, and also light. The seedling which breaks through the seed coat is initially nourished by its own endosperm. As a young plant, it then joins the natural cycle of give and take.



Analyst see further potential in share

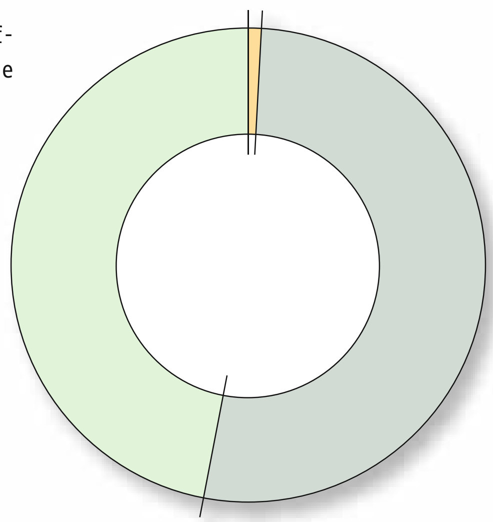
The strong performance of the company and growth prospects continuing intact meant that init innovation in traffic systems AG increasingly attracted attention among institutional investors in 2009. The trend widened when the corporate value of init jumped above the 100m euro barrier – a key benchmark which for many institutional investors is a threshold from which they can buy shares in a company.

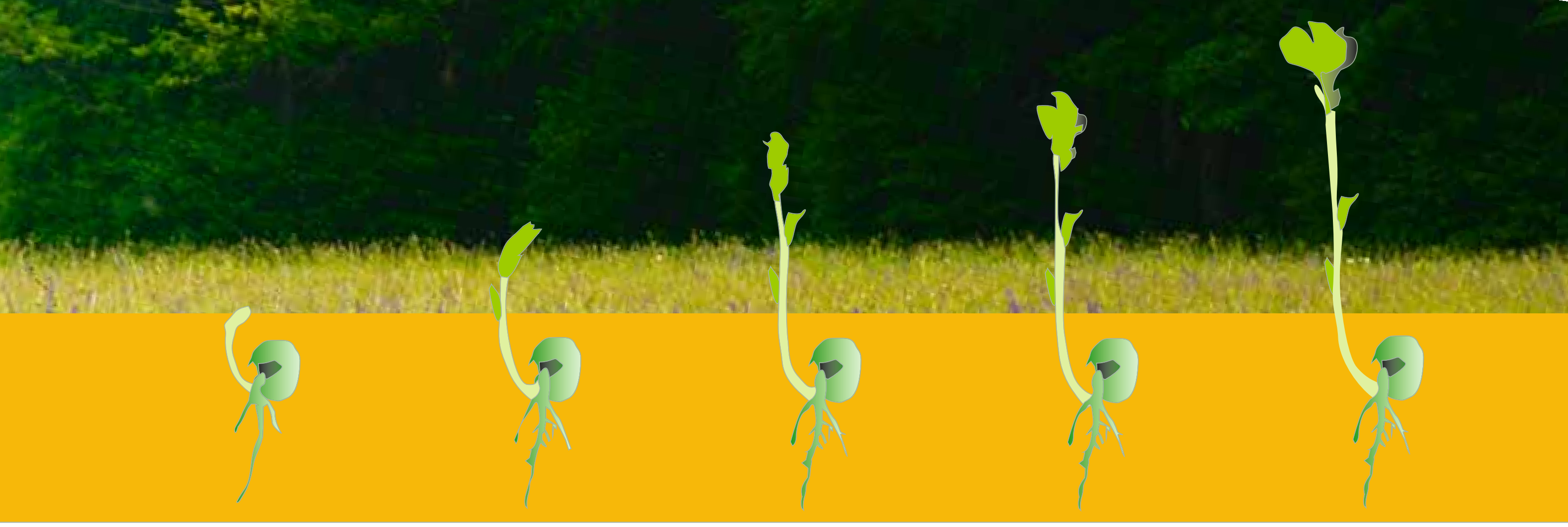
As a consequence, init met with keen interest at numerous presentations and road shows for investors in Germany, Switzerland, Belgium and France. In addition to maintaining regular contact with investors, init also participated in capital market conferences and in the German Equity Forum of Deutsche Börse in Frankfurt.

Based on excellent fundamental data and growth prospects, analysts have further raised the upside target for init innovation in traffic systems AG and maintain their buy recommendation. The fair value of the share is currently seen to range between EUR 12 and 16.

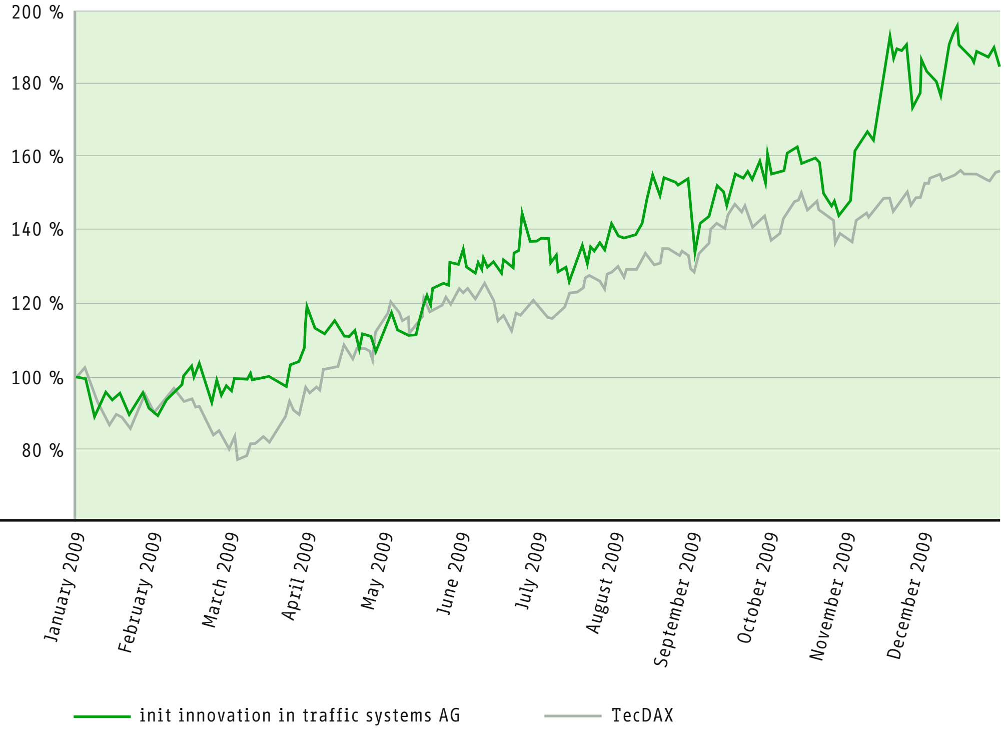
Shareholders' structure

The shareholders' structure of init innovation in traffic systems AG did not change significantly in the reporting period. Shares are held as follows:





Performance



Basic share information

Exchange:	Frankfurt Stock Exchange
Index / Segment:	Prime Standard, Regulated Market, GEX (German Entrepreneurial Index)
Class:	No-par bearer shares (at EUR 1 each)
ISIN:	DE 0005759807
WKN:	575 980
Code:	IXX
Designated sponsors:	Commerzbank AG Close Brothers Seydler AG
Capital stock today:	10,040,000 no-par bearer shares
Market capitalisation (as at 31 December 2009):	EUR 107.6m

Karlsruhe, the headquarters of init AG, is one of the last major European cities founded on the drawing board. When founding the city, Karl-Wilhelm, Margrave of Baden-Durlach, got his inspiration from nature: the castle lies in the centre of a circle from which – modelled on the sun's rays – roads lead into the city to the south and avenues to the north. This modern planning provided the best prerequisites for rapid growth.

Ladies and gentlemen, dear Shareholders,

Despite the general financial and economic crisis prevailing in the world economy throughout fiscal 2009, we are pleased to announce yet another very successful year for init.

The following report will provide you with details of the activities of the Supervisory Board in the 2009 financial year, ensuring transparency of the Board's deliberations and decisions throughout this period.

In the past 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 duties of acting in an advisory capacity to the Managing Board and monitoring its affairs. The briefings and discussions in the Supervisory Board meetings included key facts and measures relating to, and affecting, the company and its operations. The Supervisory Board was also directly involved in all fundamental decisions of the company.

Where legal or statutory regulations required the consent of the Supervisory Board for measures to be taken, these were deliberated in detail and presented for a resolution. The Chairman of the Supervisory Board, along with the remaining board members in individual matters, kept in close contact with the Managing Board all throughout the financial year. Transactions requiring reporting were disclosed on an ad hoc basis. Between the meetings, the Chairman of the Supervisory Board notified the members of the board both in writing and verbally of talks held with the Managing Board.

Focal points of the Supervisory Board meetings

In its four regular meetings in 2009, the Supervisory Board monitored the development of the group, as the Managing Board detailed the status of the company and the trend of business. Based on the reports of the Managing Board, the Supervisory Board primarily discussed the economic situation including economic and liquidity planning, incoming orders, order backlog, any concealed risks and key business transactions, projects of particular note, and the mid- and long-term corporate strategy including organisational matters and personnel planning. The Supervisory Board also convened with the Managing Board to discuss the quarterly statements of account prior to their publication and grant approval for their disclosure.

In detail, the four Supervisory Board meetings were used to discuss the following issues with the Managing Board: The meeting convened on 18 March 2009 focused on the annual financial statements of init AG and the consolidated financial statements as at 31 December 2008. The Supervisory Board received a detailed report from the auditor to explain the result of the audit. Along with audit related queries, the Supervisory Board then posed questions primarily on such other matters as the main bases of accounting and valuation, early risk detection, specific audit procedures used at subsidiaries, prevention of irregularities, and individual issues relating to the management letter. Further focal points of the meeting included the proposal of dividend distribution and the agenda for the annual general meeting due on 20 May 2009. In the meeting on 19 May 2009, the main item discussed other

than such ongoing issues as the economic trend and personnel development of the company, liquidity planning, market trend and order situation involved the order of business of the annual general meeting to be held the following day. A further point for discussion with the Managing Board was the revision of the pension scheme for the latter.

In the Supervisory Board meeting on 29 September 2009, the Managing Board reported on the economic development in the first six months of 2009 and in the ongoing third quarter of 2009. The President of our US American subsidiary, INIT Innovations in Transportation, Inc., Mr. Roland Staib, reported on the trend of business in North America as a key market for init AG. Mr. Staib was then available to discuss in detail current projects and their progress, prospects, planning, personnel structure and the general market policy in the USA. Other issues included the planned expansion of our Karlsruhe site and the directors and officers insurance, which will have to be revised in the future due to new regulations.

In the final meeting in fiscal 2009, held on 15 December 2009, the auditor provided a detailed report on the German Accounting Law Modernisation Act (BilMoG) and the German Management Compensation Act (VorstAG) explaining their effects on init innovation in traffic systems AG and the added responsibilities for the Managing Board and the Supervisory Board. This, in detail, involved resolutions passed on the amendment of the existing risk management system, the documentation related to the system of internal audits, and the efficiency evaluation. A further decision was made to compare management salaries at both horizontal and vertical level. The Managing Board then briefed the Supervisory Board on the economic development as at the end of November 2009. As in the previous three meetings in fiscal 2009, key issues besides the economic trend included cash planning in the init group, economic planning for 2010, the personnel development in the init group, the market development and the order situation in the various markets as well as subsidiary reporting.

Audit of annual and consolidated financial statements

The annual financial statements and the status report of init innovation in traffic systems AG as well as the consolidated financial statements and the group status report were prepared on the basis of the principles of the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS).

The annual financial statements and the status report of init innovation in traffic systems AG, the consolidated financial statements and the group status report as at 31 December 2009 were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft. The Mannheim-based auditing firm was appointed by the shareholders' meeting as auditors of init innovation in traffic systems AG and as group auditors. The above statements and reports were issued with an unqualified audit certificate. The annual financial statements and status report and the consolidated financial statements and group status report along with the audit reports issued by the auditor were made available to all members of the Supervisory Board.

Supervisory Board: Bernd Koch, Chairman Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau, Fariborz Khavand

The annual financial statements and status report and the consolidated financial statements and group status report along with the audit certificates and audit reports issued by the auditor were discussed in detail with the Managing Board and the auditor at the meeting of the Supervisory Board held on 11 March 2010. The auditors reported on key results of their audit, specifically the system of internal audits and the risk management system in relation to the reporting process. Further aspects of their report included services provided in addition to the audit and their independence as auditors as defined by appropriate regulations under the Commercial Code. Questions posed by members of the Supervisory Board were subsequently answered. On the basis of its own examination, the Supervisory Board therefore 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 the Supervisory Board with its proposal on the appropriation of profits. It intends to propose to the shareholders' meeting on 12 May 2010 that net profits for the year of EUR 10,411,605.37 for init AG be utilised as follows: EUR 0.30 per dividend bearing share is to be distributed; the remainder is to be carried forward to new account. The proposed appropriation of profits was endorsed by the Supervisory Board.

We conclusively checked the annual financial statements, the status report and the proposal on the appropriation of profits along with the consolidated financial statements and the group status report on 11 March 2010. No objections were raised. The Supervisory Board agrees with the audit result. The annual financial statements prepared by the Managing Board of init innovation in traffic systems AG are thus approved and the consolidated financial statements adopted.

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

"Following our dutiful audit and assessment, we hereby confirm that 1. the actual information contained in the report is correct, 2. payments of the company for the legal transactions specified in the report were not inappropriately high, and 3. there are no circumstances in regard to the measures specified in the report providing reason for a significantly different assessment from that given by the Managing Board."

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

The Supervisory Board was also actively involved in the implementation and monitoring of compliance with the German Corporate Governance Code, taking into account the amendments to the Code on 18 June 2009.

On 15 December 2009, the Managing Board and the Supervisory Board jointly revised their declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG). The revised version is available to shareholders as a permanent feature on the company website.

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 also applies to the Supervisory Board.

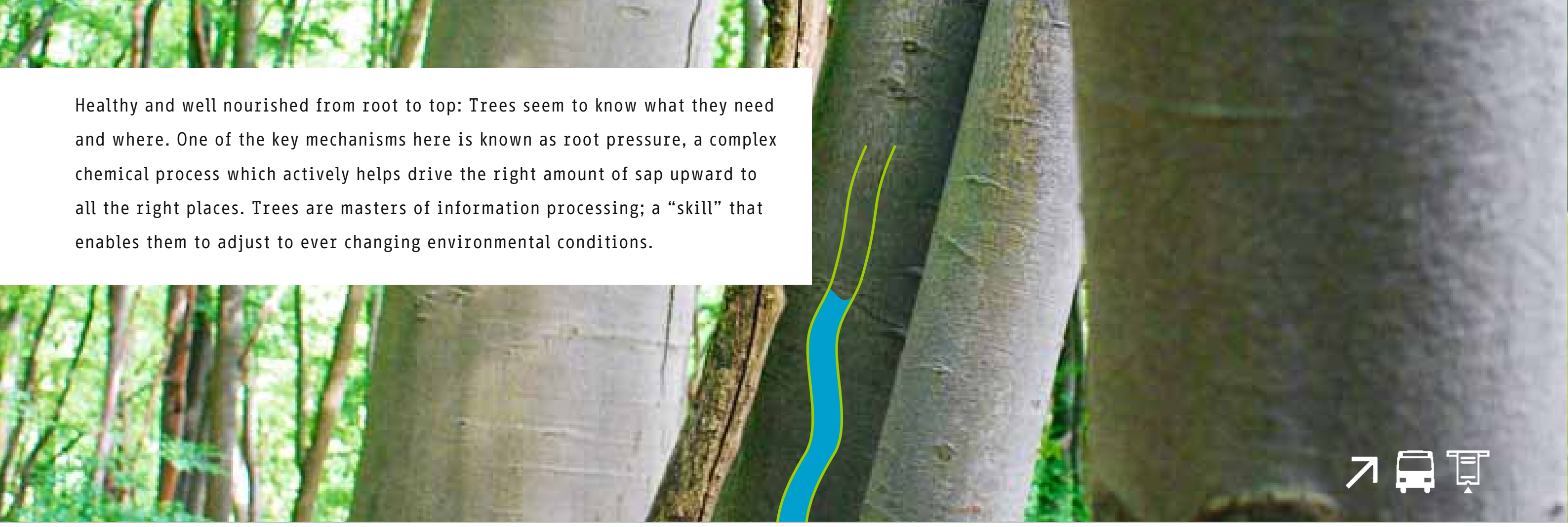
init innovation in traffic systems AG complies with the recommendations of the Government Commission on the German Corporate Governance Code with only a few exceptions. The annual general meeting is convened by post rather than by electronic notification to all German and foreign financial service providers, shareholders and shareholder associations. It is also published in the electronic Federal Gazette. Simultaneously, all information to be disclosed is made available to the shareholders on the website of init innovation in traffic systems AG (item 2.3.2 of the Code). Furthermore, the existing D&O insurance does not provide for an excess payable by members of executive bodies (item 3.8 para. 2 of the Code), as this is a group insurance for Managing Board, Supervisory Board and executives both in Germany and abroad. It also does not specify an age limit for members of the Managing or Supervisory Board (items 5.1.2, para. 2 and 5.4.1 para. 1 of the Code). Based on the resolution passed at the general meeting on 13 July 2006, the management salaries are not individually disclosed in the annual report (item 4.2.4 of the Code).
Once again, no committees were set up in the preceding financial year. Since the Supervisory Board of init innovation in traffic systems AG does not comprise more than three members, the set-up of Supervisory Board committees (item 5.3.1 of the Code), specifically of an audit committee (item 5.3.2 of the Code) and a nomination committee (item 5.3.3 of the Code), is neither necessary nor practicable in the interest of the company and its shareholders. These duties are performed by the Group Supervisory Board.

Changes to this declaration of compliance which may be necessary in the course of the financial year will be made in agreement with the Managing Board and be available to all shareholders on the website of init innovation in traffic systems AG.

The Supervisory Board would like to thank all employees and the Managing Board for their commitment and great dedication in 2009. In so doing, you have once again contributed to a highly successful financial year for init in its now over 25 years of history. Our thanks also to our shareholders, customers, and business partners for their trust in our company.

Karlsruhe, March 2010
For the Supervisory Board

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



Healthy and well nourished from root to top: Trees seem to know what they need and where. One of the key mechanisms here is known as root pressure, a complex chemical process which actively helps drive the right amount of sap upward to all the right places. Trees are masters of information processing; a "skill" that enables them to adjust to ever changing environmental conditions.

PIDscreen: maximising information for satisfied passengers

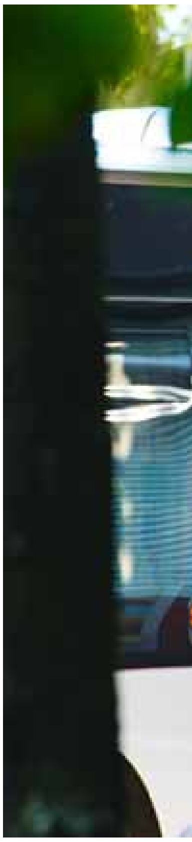
Whether in Dubai or Karlsruhe: passengers throughout the world waiting for public transport want to know when and where exactly their vehicle will leave. They want to be notified promptly and comprehensively of delays and other relevant occurrences; further useful information is also welcome. A good passenger information system therefore greatly influences how passengers perceive the quality of services provided by a transport company.

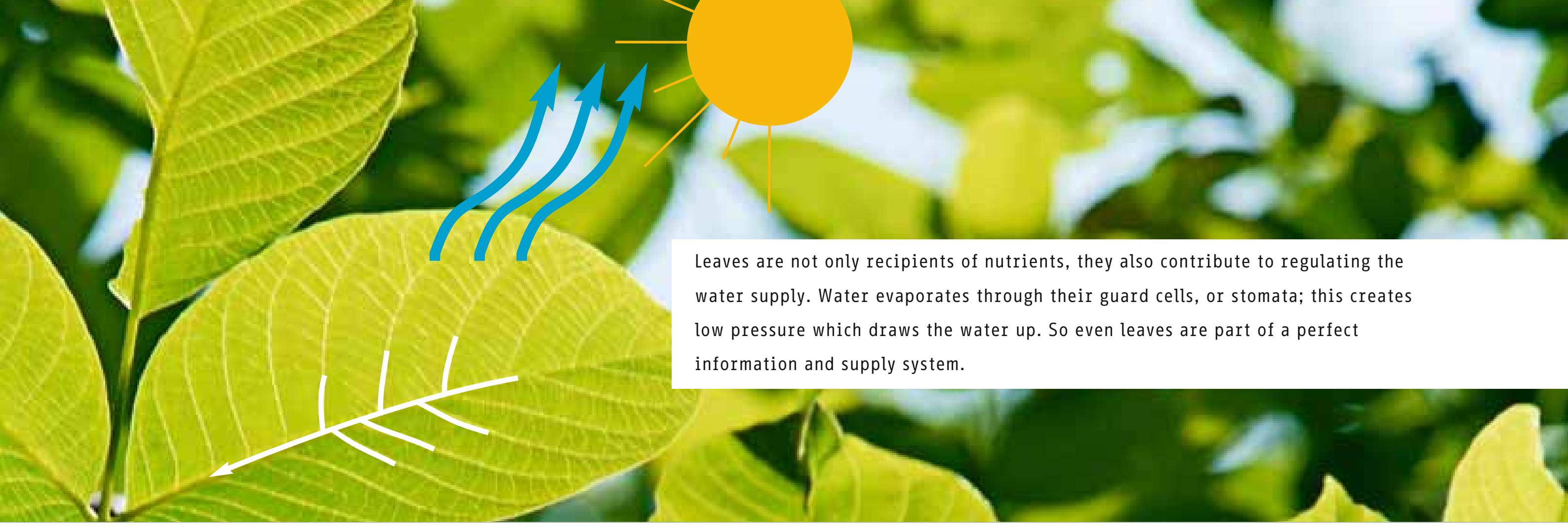
Comprehensive information brilliantly displayed

LED displays are widely used at stops and stations to provide passengers with the most important basic information including destination, line number and arrival of the next vehicles. Using a TFT display vastly increases the range of possibilities. The PIDscreen from init includes all the technical advantages resulting from the latest developments of this medium. It is the most recent member of init's PID (Passenger Information Display) products. The 37-inch colour display with over a million pixels shows images, pictograms, maps, animations and videos in DVD quality. All information provided by the Real Time Passenger Information System (RTPI) thus reaches the waiting passengers promptly and without technology related concessions. The PIDscreen can also be equipped with additional memory capacity for multimedia data as and when required. Eight gigabyte cards are available as a standard – sufficient for video data in high quality for several hours. These properties make the PIDscreen a versatile medium providing a wide range of functions well beyond simple passenger information – from weather forecasts all the way to individual infotainment.

State-of-the-art technology – reliable and robust

Thanks to a brightness sensor, the background lighting automatically adjusts to current lighting conditions to ensure excellent readability. Several temperature sensors and an efficient cooling system protect the display from overheating. The six millimetre thick





Leaves are not only recipients of nutrients, they also contribute to regulating the water supply. Water evaporates through their guard cells, or stomata; this creates low pressure which draws the water up. So even leaves are part of a perfect information and supply system.

anti-glare safety glass and the stainless steel housing provide protection against the elements and vandalism. All components are easy to access for maintenance work. The PIDscreen contains a high performance computer board with numerous interfaces and all-digital display connection. The Windows® XP Embedded operating system makes it possible to use cost-efficient standard software. The applications are stored on a Compact Flash card to ensure maximum reliability.

Versatile use

Whereas Dubai, as one example, ordered PIDscreens expressly for the purpose of increasing passenger convenience, Rotterdam's transport provider RET uses them for its own purposes. Here, the versatile displays keep staff up to date. As a result, RET has managed to reduce the stopping times during driver changes and thus increase the punctuality of its vehicles; drivers know at any time when to be ready and which vehicle to take over. As elsewhere for passengers, all necessary information is available at a glance here. Wherever used, init's PIDscreen stands for quality of service in public transport.

Reliable and versatile: init's passenger information systems provide information all around the world – optimally visualised.

State-of-the-art ticketing: ticket printer, on-board computer and check-in terminal in one

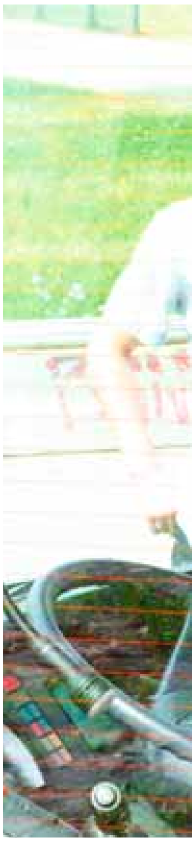
Passengers expect maximum convenience whether they buy a ticket from the driver or use mobile ticket terminals. As a ticket printer, EVENDpc helps drivers issue the right ticket in minimum time while finding the relevant information on their displays. Transport companies using the EVENDpc, however, appreciate it for more than its functions as a ticket printer of the latest generation. The compact device hides a complete on-board computer. The driver is kept up to date at all times about the route, the timetable situation and other vehicles to ensure such aspects as connection protection. The EVENDpc works with Windows® XP Embedded to provide a complete solution based on a standard IT platform. This ensures that standard software can be used where necessary or a navigation system is easy to install.

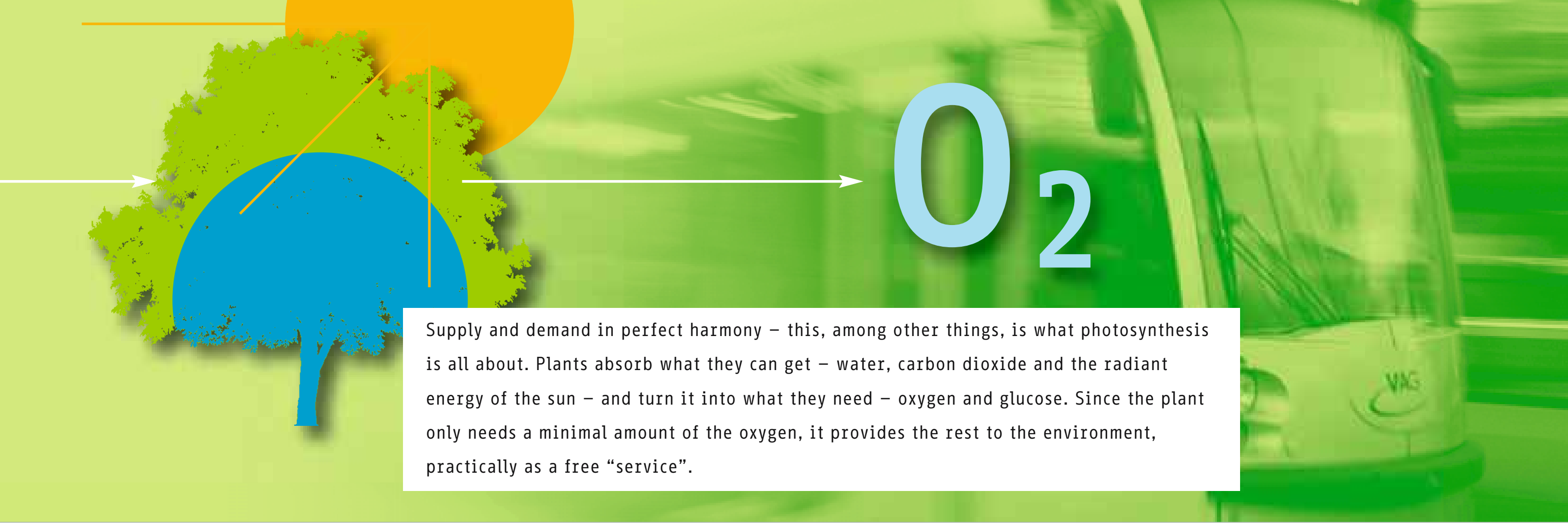
Allrounder revolving around the ticket

When buying a paper ticket, the display of the EVENDpc advises the customer of the ticket selected and its price. For transport companies using highly modern, electronic fare collection systems, the EVENDpc provides an integrated proximity reader for contactless chip cards to facilitate check-in and check-out "in passing". It also supports 2D bar codes on paper or the mobile phone. Up to four security modules ensure secure processing of each transaction. All data related to the ticket sale are available as the basis for accounting, with an easy apportioning of revenues within the transport associations.

Comprehensive information

Integrating announcements and communication, the EVENDpc for the first time combines all the main ITCS functions in a single ticket printer. Its communication module supports GPRS (General Packet Radio Service) and EDGE (Enhanced Data Rates for GSM Evolution) for radio data transmissions. The operating data are transmitted to the control centre with data supplied to the vehicles via a WLAN module also integrated in the device. The on-board computer continuously keeps track of the current location of a vehicle, compares this with the schedule and notifies the control system. An integrated, easy-to-use navigation system makes it possible to deploy drivers flexibly even on unknown routes; the high usability reduces the time required for familiarisation. The 8.4" colour display with touch function ensures maximum user comfort. All of init's





Supply and demand in perfect harmony – this, among other things, is what photosynthesis is all about. Plants absorb what they can get – water, carbon dioxide and the radiant energy of the sun – and turn it into what they need – oxygen and glucose. Since the plant only needs a minimal amount of the oxygen, it provides the rest to the environment, practically as a free "service".

user interfaces are designed individually to meet the requirements of each transport provider.

Joint effort for optimal service

With numerous standard interfaces, the EVENDpc can easily be integrated into the existing systems of transport companies. The superior economic efficiency of the EVENDpc makes it suitable for large-scale application. DB Stadtverkehr Bayern is but one of init's customers already reaping the benefits of this system; by the end of 2010, over 3,000 EVENDpc will be in use here. Well over 900 devices will also be delivered to the region around Dresden, where init is currently involved in setting up an area-wide control and fare collection system for two transport associations: the Verkehrsverbund Oberelbe and the Zweckverband Verkehrsverbund Oberlausitz-Niederschlesien.

Maximum convenience for drivers and passengers for ticket purchases in the vehicle: the EVENDpc simplifies a wide range of functions in a single, space-saving device.

Traffic flows not merely by coincidence. Many of its mechanisms have been scientifically analysed. Applying this knowledge can help significantly optimise the mobile side of everyday life.

MOBILE-ITCS: the customised fleet management system

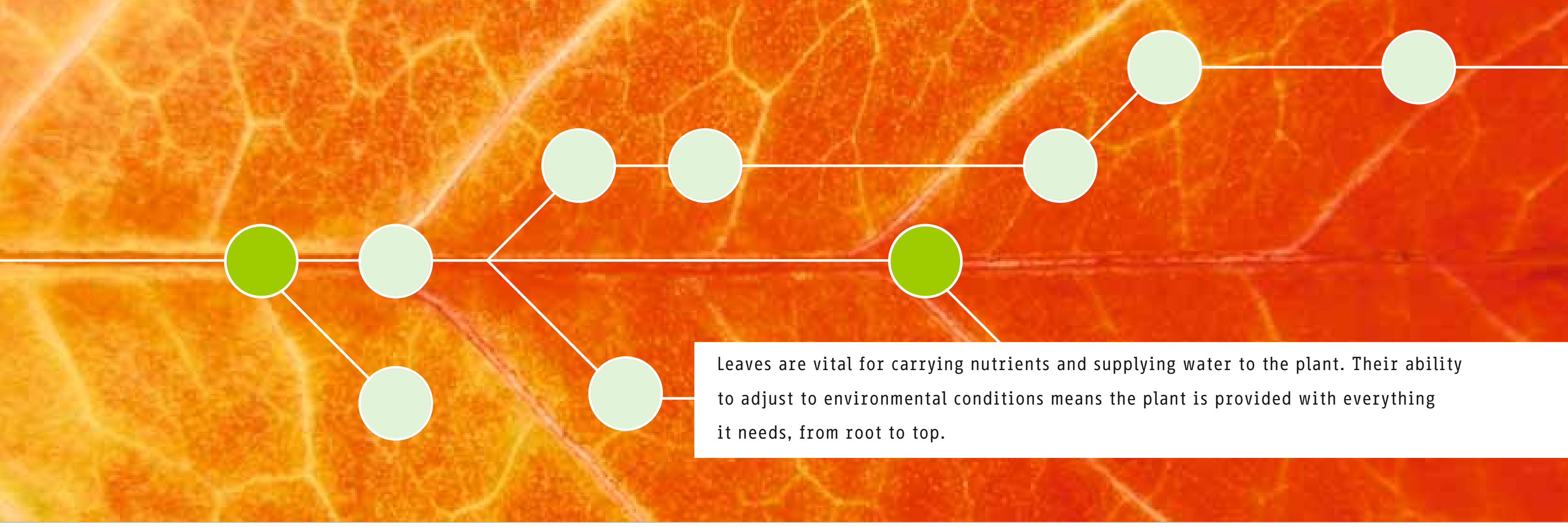
The public transport system relies on a central control system for all its main functions. It is the workplace of the dispatcher and the heart of the whole operations control. To provide efficient and convenient passenger transport, the control system must meet the requirements of each transport provider down to the last detail. This is where the Intermodal Transport Control System MOBILE-ITCS from init comes in. Intermodal stands for the ability to integrate and coordinate information and services of such different means of transport as buses or trams. MOBILE-ITCS is a Java-based system and thus runs on all platforms; it is a core element of the integrated telematics system MOBILE. The modular design of MOBILE-ITCS makes it possible to customise all subsystems to match the needs of transport companies of any size; further system components can be integrated as and when required.

Real data – effectively processed in an optimised network

As a key task, the MOBILE-ITCS is designed to optimise normal operations. It evaluates all incoming real data and, using standard interfaces, enables transport providers with different equipment and instrumentation to exchange data. Passenger information can thus be linked in a network involving different transport providers. MOBILE-ITCS compares target and actual data for a continuous check of timetable feasibility. MOBILE-ITCS is an effective and convenient tool for dispatchers to work on three to six high-definition screens. The Windows® user interface provides an at-a-glance overview of the traffic situation at any time in their service area, allowing the dispatchers to take specific measures enabled by the ITCS to counteract disturbances. On-board computer and control centre are in constant communication via a wireless data link to exchange and compare information on vehicle location and distance travelled.

Award for an innovative module

Passengers expect up-to-date travel information during normal operations, and even more so where unforeseen events result in changes. MOBILE-ITCS meets these high standards. A recent example, the new “online detour” module demonstrates init’s innovative capacity. The ITCS expert panel of the Association of German Transport Companies (VDV) presented init with



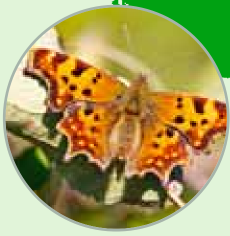
Leaves are vital for carrying nutrients and supplying water to the plant. Their ability to adjust to environmental conditions means the plant is provided with everything it needs, from root to top.

the 2009 itcs Innovation Award for its latest development. The module enables qualified ad-hoc reactions to current disturbances in the flow of traffic. Detours are easily generated on the spur of the moment on the city map. Drivers automatically receive navigation information on the detour route and updated information for connection protection. Meanwhile, passenger information displays keep passengers in the vehicle and at the stops updated at all times about any changes. The module is already in use at DB Stadtverkehr Bayern. According to the ITCS expert panel, local transport companies from the conurbations will soon join the regional DB bus transport operators in reaping considerable benefits from the module.

Continuous enhancements

init maintains an open line of communication with its customers. The crucial idea for its online diversion solution thus came from the ITCS Working Group. Here, init employees meet with customers for a regular exchange to discuss potential new components. The ITCS Working Group will continue to work on providing further impetus for innovative enhancements of init's wide range of products.

MOBILE-ITCS integrates and coordinates the data and services of such different modes of transport as buses and trams.



Frequently, there are up to one thousand types of animals that live on and in a tree. They form a precisely harmonised symbiotic community which also includes numerous types of plants and mushrooms.

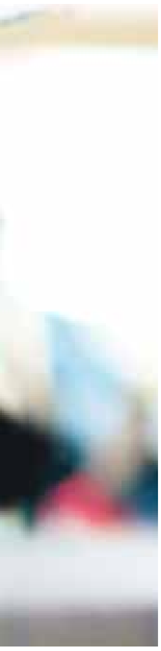
Well connected: integrated init systems in daily use

Reliability and convenience turn passengers into satisfied customers. Necessary changes of transport operator or mode of transport on their journey must not affect the quality of the service. Transport providers make the grade when all the components involved are optimally dovetailed – both in the daily work of each transport company and between systems in a regional network. With this in mind, each of init's projects is focused on the integration of all systems involved.

Seamless exchange

init is one of the few providers worldwide to provide a complete solution for all aspects of a transport company – from operations planning and control and the fare collection system all the way to statistical analyses. At the same time, all products are divided into modular subsystems; their selection, use and fine-tuning depend on the specific tasks at hand. Whether a company is equipped throughout with init's solutions or merely uses individual components – the new and existing systems complement each other. Specially devised interfaces help init integrate existing customer equipment to ensure a seamless data exchange. init keeps track of all the details. The system can be upgraded and extended at any time, as seen in the example of Munich City Council. Prior to the Football World Cup in 2006, the city's authorities had the control centre of its transport services equipped with the Intermodal Transport Control System MOBILE-ITCS. In a next step, it is now providing its vehicles with further init solutions.

Efficient solutions make for satisfied customers: init provides sustainable systems that will still be here tomorrow.



Maximum efficiency

As multi-client systems, init supplies solutions that enable neighbouring transport services to cooperate by combining their infrastructures. The regional companies of DB Stadtverkehr Bayern have put this into practice almost entirely throughout Bavaria. Every transport company here has different requirements such as existing vehicle equipment and ticket standards. init takes every one of them into account. Each company involved only has access to individually authorised data. This is to ensure that the companies in the network do not gain knowledge of sensitive data relating to another company. init further ensures that the electronic fare management functions are fully integrated into the ITCS system. As a result, transport companies benefit from a shared ITCS and e-ticketing system. Shared access to relevant data is, after all, the basis for maximum efficiency in daily operations.

Effective investments with a future

One of the first transport companies to implement a groundbreaking, computer-based operations control system based on init products was Stadtwerke Osnabrück in 1988. Over 20 years and a number of system extensions later, Stadtwerke Osnabrück continues to bank on the innovative capacity of init – and with it, transport companies all over the world. By using products from init, companies effectively invest in systems that will still be here tomorrow, for a sustainable future of their own operations.

Content

Annual Financial Statements 2009

Group Status Report

The init group is an internationally operating system house for telematics, planning and electronic fare collection systems for public transport.

In a complete value-added chain, init develops, produces, installs, integrates, and maintains software and hardware products for the planning, management and operation of transport companies. In its over 25 years of history, init has realised in excess of 400 national and international projects involving integrated solutions with telematics and fare collection systems for transport companies on four continents.

By using init technology, public transport companies are able to meet their daily demands while increasing the quality of services offered in terms of customer orientation, punctuality, convenience, service, safety, and shorter travel times. init technology also helps reduce costs. This puts transport companies in a better position to hold up in an increasingly competitive environment through liberalisation and rationalisation and meet the continuously growing mobility requirements.

init offers a product portfolio that satisfies the requirements of the public transport sector and integrates them into one system. The modular product concept allows both an individual combination of single modules and the integration of and into other systems via standardised interfaces. As a result, init stands out from its competitors due to a more comprehensive, efficient, and flexible product offering.

init customers are provided with intelligent solutions from a single source. This includes routing and human resource planning, depot and terminal management, computer-aided operations control systems (ITCS – Intermodal Transport Control System), passenger information and counting systems all the way to trend-setting electronic ticketing and the related clearing of payment transactions.

init technology helps transport companies increase their efficiency and provide a more attractive service. Good passenger information, fast connections and user-friendly ticketing systems all contribute to higher passenger figures. This, in turn, increases the acceptance and use of transport systems which is reflected in the reduction of carbon dioxide emissions and particulate matter. As a group, init thus directly contributes to the protection of our environment and our natural resources.

Business trend and situation

General economic setting and summary of business trend

In the 2009 financial year, the world economy experienced the worst crisis in 80 years. According to the IMF (International Monetary Fund), global economic performance shrank by around 1%, Germany's economy was down by as much as around 5% in 2009. Worldwide, governments increased their investments spending, created consumer incentives and reduced taxes to combat the crisis. This helped prevent a complete crash while providing concentrated support to stave off the imminent collapse of the financial system. Dubai, in particular, was hit hard by the financial crisis. The government of Dubai asked creditors of the holding company Dubai World and its subsidiary Nakheel for a respite in repaying loans. Government bonds due could eventually be repaid with aid from its neighbouring emirate Abu Dhabi.

Despite some progress, the financial crisis is far from over. Due in particular to the serious problems in the banking sector and the significant debt of private households, the growth rate in many countries is likely to be much less than expected. The ECB (European Central Bank) estimates that banks in the Euro zone alone still face potential writedowns of some EUR 553bn. These risks limit the financial margin of banks and raise the question to what extent the banks are able to satisfy the increasing funding requirements of companies (credit crunch). Economic researchers and experts unanimously agree, however, that the global economy has seen the worst and has bottomed out. Forecasts for the next few years predict moderate recovery for the global economy. Growth drivers will primarily be Asian threshold countries such as China and India. These have benefited from significant domestic demand and high investments in their infrastructure. Economic performance in 2010 is expected rise by 5 to 10% here.

Meanwhile, the economies in the more advanced markets of the West and in Germany are expected to gather momentum rather more slowly in 2010, according to reports by the IMF, UNO (United Nations) and the World Bank. A more significant upturn is not yet in sight here. Even the US economy has grown much slower to date than expected. This is due to the fact that companies have drastically cut their spending and reduced their inventories more quickly. Growth in the USA is predicted to range between 2.5 and 3% in 2010, Europe is expected to grow between 1 and 1.5%, and Germany, by around 1.5%. The global economy on the whole should expand at a rate of 2 to 2.5%.

Whereas the general economic setting and prospects on the whole are but moderate, the growth rates and opportunities of init continue to be rather more encouraging.

Telematics and electronic fare collection systems improve the efficiency of transport companies and help them provide a more attractive service. Investments in appropriate init solutions thus quickly pay off. At the same time, telematics systems for public transport actively contribute to climate protection and to the reduction of carbon dioxide emissions while providing mobility in conurbations. This is why the modernisation or development of public transport systems worldwide features large in state aid programmes initiated to improve the infrastructure and boost the economy. init as a leading supplier benefits in particular from these growth factors as it provides solutions that feature cutting-edge technology and a modular product range which can seamlessly integrate third-party systems. init boasts know-how gained in over 400 projects worldwide. While the economic environment around init was defined by a deep recession, the demand for init systems continued to grow in the preceding financial year.

To date, init as a group has not seen any appreciable adverse effects resulting from the financial crisis. It was able once again to outperform its sales and earnings targets in the 2009 financial year. At EUR 65.0m (2008: EUR 56.0m), init on the whole generated revenues that set a fresh record in the history of the company – for the fifth time in a row.

In terms of individual quarters, the revenues in the first three quarters topped prior-year figures by some 30%. At EUR 20.7m, the fourth quarter, however, just missed the level achieved in the previous year (Q4 2008: EUR 22.0m).

Overall, init generated foreign revenues of EUR 47.2m (2008: EUR 41.2m), which corresponds to 72.7% (2008: 73.5%) of total revenues.

At EUR 17.7m (2008: EUR 14.8m), sales in Germany continued at a high level in 2009.

In Europe (without Germany), revenues rose by 32.2% to EUR 14.5m (2008: EUR 10.9m), this figure reflecting the scheduled progress of a number of major projects.

In North America, revenues stabilised at EUR 17.6m (2008: EUR 18.8m). Fiscal 2010, however, will likely see growth in the two-digit range, as major projects primarily acquired in 2008 and 2009 will add to revenues. Furthermore, stimulus money in the billions is made available for the development of public transport, which leads init to expect a growing number of tenders from this region.

High levels of growth in the other countries (Australia and Dubai) meant that revenues for init here rose from EUR 11.4m in 2008 to EUR 15.1m in 2009, up by 32.8%.

In part, the trend in each market thus also reflects different fundamentals. Government investment programmes initiated as a response to the financial crisis will not show effect until the following years, but will lead to further tenders. The speed at which contracts will then be awarded varies significantly from one project and country to the next. In the preceding financial year, the tender volume remained at the high level. As things stand at the moment, 2010 may even present us with a higher number of tenders.

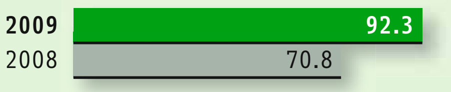
To handle these projects and allow us to realise further growth without loss of efficiency, init created appropriate capacities in 2009 and hired additional staff.

Order situation

Growth in the market for init products continued unperturbed by the general financial and economic crisis in the preceding financial year. The trend remains intact. This is reflected particularly in the volume of orders in the init group.

In fiscal 2009, incoming orders totalled EUR 92.3m (2008: EUR 70.8m) to exceed our projections of EUR 75m quite significantly. While init all but missed the exceptional result of EUR 95.9m in the 2007 financial year, the rate of new orders in 2009 clearly exceeded revenues realised to lay the foundation for further growth in the following years.

Incoming orders in million EUR



Once again, init was able to secure major contracts in Germany, Europe, the Middle East, New Zealand and America. This was in addition to several follow-up orders or contract extensions from long-standing init customers. Those of note primarily include the transport services in Oslo, Nuremberg, New York City, Dubai and Vancouver. Follow-up deliveries, service contracts and contract extensions alone generated new business worth around EUR 34m.

Further growth for init is based on a solid foundation, reflected in such aspects as the backlog. At EUR 132.2m (2008: EUR 112.8m), it once again reached a new record at the end of 2009. As a result, the backlog of existing orders was up by around 17% on the previous year.

The existing order backlog splits into some 45% for fiscal 2010, 35% for 2011 and around 20% for 2012 and beyond.

Order backlog in million EUR

The level of new orders by region provides a different picture. Orders booked in Europe (without Germany) totalled EUR 14.3m (2008: EUR 14.5m) to remain around prior-year level. Some tenders in Great Britain, however, are pending a decision. Here, init stands a good chance of winning these contracts.

In Europe, init managed to gain a number of new customers in the preceding financial year. In January 2009, Rotterdam's transport provider RET (Rotterdamse Electrische Tram) as init's third major customer in the Netherlands ordered an ITCS (Intermodal Transport Control System). On the whole, some 400 vehicles of RET are to be upgraded. The contract is worth several millions of euros.

A further major contract for init came from the British Midlands, from NCT Nottingham City Transport. A total of 122 buses, including 67 double-deckers, are to be provided with the on-board computer COPILOTpc, the TOUCHit operating panel and the on-board display PIDmobil.

The customer base in Europe thus continued to grow. A factor which will result in further revenues in the future through system extensions and upgrades. In this context, init received follow-up orders worth millions from Oslo and Stockholm in 2009. In Oslo, some 240 additional vehicles are to be equipped with init technology, while 80 stops will be provided with the PIDstation display solution. For our customer AB Storstockholms Lokaltrafik, init will fit over 100 junctions with TSP (Traffic Signal Priority) and equip around 60 buses and trams. Buses and trams are to be given priory at traffic-light crossings to enable them to reach their destinations faster and relieve the burden on the environment.

At EUR 46.8m (2008: EUR 19.2m), the intake of new orders in North America was particularly satisfactory.

Overall, North America accounted for follow-up contracts for init ranging in the two-digit millions. Following the main project involving over 1,800 vehicles, our customer MTA New York City Transit decided to upgrade a further 450 paratransit vehicles. A whole series of follow-up contracts came from the transport companies Translink in Vancouver and YRT York-Region in Ontario, Canada. Meanwhile, Dallas Area Rapid Transit (DART), Texas, also decided to extend its Vehicle Business System (VBS) and use init hardware and software in a further 48 trams.

Early in the year, init acquired a contract for the equipment of further Siemens trams for Salt Lake City. Here, 70 trams will be provided with the on-board computer COPILOTpc and a passenger counting system.

New customers for init included TTC Toronto Transit Commission in Canada, where vehicle manufacturers have opted to provide a total of 120 vehicles with init technology for an operations control system.

The largest contract in the 2009 financial year – worth over EUR 25m – also came from North America. Here, init has been commissioned as a general contractor by Tri-County Metropolitan Transportation District of Oregon (TriMet, Portland), one of the leading public transport providers in the USA with in excess of 100 million passengers a year, to provide an integrated control system with automatic vehicle location and passenger counting function. In cooperation with General Electric Transportation LLC init will also implement a digital mobile radio system. The contract further includes the equipment of 660 buses, 350 paratransit vehicles, 117 trams and 8 service vehicles with the COPILOTpc and the TOUCHmon operating panel. TriMet operates bus routes over a wide area, along with a tram and service-on-demand network in the Portland region. At around 2 million people, this is one of the fastest growing economic regions in North America. The public transport system set up and operated by TriMet is considered one of the most innovative systems in the USA. Portland follows Seattle and Vancouver as the third largest metropolitan region on the Pacific Northwest Coast. The transport operators of the two other cities had already opted for init as a telematics system supplier. init thus managed to increase its presence on America’s West Coast.

In Dubai, init was able to secure a follow-up contract in 2009 and win a tender for a passenger information system. The existing main contract involving around 1,300 vehicles was extended by equipment for some 800 vehicles. This equipment will be supplied directly to European bus manufacturers to be installed as part of the vehicle production process. In Dubai, init will then integrate the new buses into the ITCS developed by init and handle the servicing of the technology.

In May 2009, init also managed to break into a new market winning its first contract involving a smart card ticketing system in New Zealand. Overall, init will provide over 300 vehicles of four bus companies in and around the city of Christchurch on New Zealand’s South Island with the EVENDpc, init’s integrated on-board computer and electronic ticket printer. The system will also integrate two point of sale locations and a ferry. init’s background and clearing system, MOBILEvario, will handle the accounting and revenue breakdown between the transport companies. The system will further integrate the “Metrocard” previously used by the bus companies for ticket sales. init’s PC-based ticket printer with on-board computer function has read and write capability for these cards. This increases the customer-friendliness, as passengers can continue to use their accustomed card without having to replace it. This benchmark project for the development of an efficient public transport system in New Zealand provides init with a contract volume in the lower one-digit millions.

In addition to a range of follow-up contracts and smaller orders, init added further important projects in Germany to its books. Generally, however, the order intake here was down and failed to meet our expectations. New business in Germany totalled EUR 17.2m (2008: EUR 36.7m).

In September 2009, init was commissioned by Stadtwerke München with the setup of a mobile communication platform for Munich's "metro" trains. Along with a centralised system, init will also provide the software and hardware for some 60 underground trains and set up around 52 radio stations. The contract is valued at over EUR 4m.

The special purpose association of the Zweckverband Verkehrsverbund Oberlausitz-Niederschlesien (ZVON), which combines eleven transport companies, exercised the option of having around 200 coaches equipped and integrated into the init system used by the Verkehrsverbund Oberelbe. Equipment involves the EVENDpc, which integrates both an on-board computer and a ticket printer. This contract is of central importance to init. Its VDV core application of the Association of German Transport Companies, a standard for all types of electronic tickets in Germany, aims to prevent isolated applications in the future and thus create a sustainable technical standard. The contract is worth over EUR 2m.

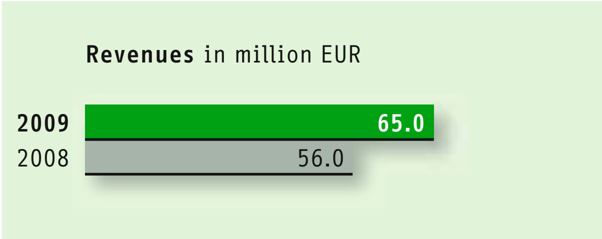
A further key contract was placed by Stadtwerke Wuppertal involving the extension of its dynamic passenger information system. Here, init will replace the old central VMS system with a modern Java system and include various of the MOBILE-PLAN software modules.

In 2009, the funds made available worldwide for infrastructure investments through economic aid programmes specifically in Western industrialised nations ranged in the three-digit billions. A big part of these funds is used for public transport systems. init therefore expects tenders to increase in 2010 and trigger further stimulating effects and growth for our company.

Earnings position

In the preceding financial year, init group was able to enhance and develop its above-average growth potential. The completion of major projects in Karlsruhe, Bavaria, Dublin, Oslo, Dubai, Australia and New Zealand formed the basis for helping us achieve our targets. International business for the company accelerated in particular, aided by persistently high levels of demand for telematics and electronic fare collection systems for public transport, replacements ordered by long-standing init customers and the additional funds made available by governments worldwide for investment in the traffic infrastructure.

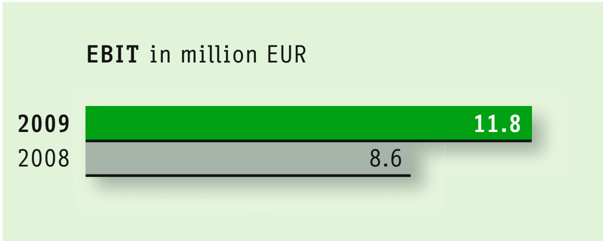
At 16%, business thus expanded more significantly than expected, up from EUR 56.0m in 2008 to EUR 65.0m. Aided once again by favourable exchange rates and savings in procurement, init's profitability actually rose disproportionately. As a result, earnings from operations in the init group climbed to a new record of EUR 11.2m, after EUR 8.1m in the previous year, despite the inclement economic conditions generally.



Gross profit improved to EUR 23.0m (2008: EUR 17.2m), up by 33.7% (2008: 4.1%). Underlying this, however, is a relative reduction in the production cost of revenues from 69.2% to 64.5% of revenues due to more favourable exchange rates and lower purchase prices as well as a reduction in production costs. While sales and administration costs, in absolute figures, also continued to rise due to the further internationalisation of the group, relative savings here totalled 1.5 percentage points in relation to revenues compared to the previous year.

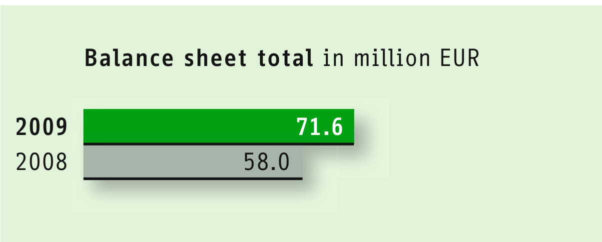
The net interest income (balance of interest earned and interest paid) totalled EUR -176,000 (2008: EUR -305,000), primarily resulting from Euro loans raised throughout the year and the property financing in Karlsruhe.

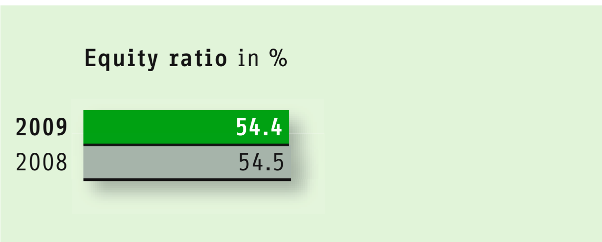
Earnings before interest and taxes (EBIT) totalled EUR 11.8m, thus significantly exceeding the figure for 2008 (EUR 8.6m) as the previous most successful financial year. As a result, the EBIT margin stood at 18.1% (2008: 15.4%). The same applies to consolidated net profit for the year, which at EUR 8.3m (2008: EUR 5.9m) corresponds to earnings per share of EUR 0.84 (2008: EUR 0.60). The return on equity was 21.3% (2008: 18.7%) while the return on total investment was up from 10.2% in 2008 to 11.6%.



Financial and earnings position

The financial and earnings position of the init group continued to develop positively in the 2009 financial year. As at 31 December 2009, the balance sheet total had risen by around EUR 13.7m on the previous year to total EUR 71.6m (2008: EUR 58m). Due to the net profit achieved for the year, the company's equity capitalisation once again improved. Equity rose to EUR 39.0m by year-end (2008: EUR 31.6m), up by 23.4% on the previous year. The equity ratio was 54.4% (2008: 54.5%).





The liabilities to banks aggregated EUR 2.3m as at 31 December 2009 (2008: EUR 2.3m) and primarily resulted from the financing of premise extensions in Karlsruhe. The property was financed through a bank loan of EUR 1.2m. At 3.7% interest, the loan has a term of 20 years with a fixed interest period of 10 years. The first two years are a period of grace. The first repayment is due by 30 June 2010. The debt-equity ratio of the group was 83.7%, after 83.4% in 2008.

With business and earnings showing an encouraging trend, init was able once again to improve its financial strength in fiscal 2009. The company is therefore in a position to finance further growth plans in the group on its own. It does, however, continue to have guarantee and credit lines available in the amount of around EUR 76m. As at the cutoff date, 44.7% of this amount had been used up.

Operations in the reporting period generated fresh capital for init. The operating cash flow totalled EUR 5.6m (2008: EUR 7.1m) and thus remained below our projections. It must be taken into account here though that our excellent order situation and the growing number of tenders required funding for procurements and for sales and marketing measures. These will not generate income until some time later. A further factor contributing to this decrease was the fact that customers prolonged their periods of payment due to struggles related to the economic crisis. We do, however, expect that cash flow will improve significantly throughout the 2010 financial year, as we are due considerable payments from a number of major projects.

As at the end of December 2009, liquid funds including short-term securities totalled EUR 9.5m (2008: EUR 6.8m), up by 39.7%.

Capital expenditure of EUR 0.9m in 2009 (2008: EUR 1.8m) primarily related to the modernisation of the company premises, replacement investments and rationalisation investments.

Participations

In North America, and increasingly in other key markets, automatic passenger counting systems are in high demand by public transport providers. A crucial component of these systems are sensors which are able to record precisely how many passengers get on and off the vehicles. In order to satisfy this demand and provide innovative solutions, init and the two managing directors founded iris GmbH infrared & intelligent sensors, Berlin, back in 1991, in which init now holds a share of 43%. Operating as a leader in the field of infrared sensors, the company was also able to increase its sales and earnings expectations in 2009. Sales here totalled EUR 7.9m (2008: EUR 6.5m), while net earnings from ordinary activities amounted to EUR 1.3m, up quite considerably on the prior-year figure (2008: EUR 0.7m). This corresponds to a percentage return on sales before taxes of 16.4% (2008: 10.5%). Included at equity in init's consolidated financial statements, we expect that iris GmbH will see respectable results both in terms of sales and earnings in 2010.

Business activities at iris GmbH were advanced with the same determination as in the previous year. Currently, the company is expecting a major contract as subsupplier of a German company in South America. iris GmbH also acquired new customers. In 2010, the company will continue to invest in the development of a new 3D sensor for higher resolution to secure its technological lead. The new sensor technology will also open up further areas of application, as in biometry, passenger counting and property surveying. The new product is scheduled to be ready for the market by the end of 2010.

Since 2002, init has held 44% of the shares in id systeme GmbH, Hamburg. The personnel planning software, PERDIS, developed by id systeme, is integrated in init's product range to increase the application possibilities of init's software, MOBILE-PLAN. In the preceding financial year, id systeme GmbH generated sales of EUR 2.4m (2008: EUR 2.6m), resulting in an annual net profit of EUR 146k (2008: EUR 268k).

In 2010, id systeme will focus on acquiring new customers for the PERDIS software in Europe, North America and the Middle East.

Production

The value-added chain in the init group is focused on the development, production management, quality assurance, implementation, servicing and maintenance of integrated hardware and software solutions for key aspects of a transport company.

To avoid significant fixed costs in plant maintenance and to ensure that cyclical fluctuations in capacity utilisation do not affect business, init has deliberately decided against its own production facilities. Instead, the production of hardware is outsourced to qualified producers as subcontractors who work closely with our init engineers. The required quality is assured by providing our own staff to support each stage of the production process, from prototyping and test series to serial production. This allows us to keep the production costs to a minimum while meeting the high standards of quality.

init also avoids dependence on individual suppliers or service providers. This allows us to switch suppliers should one of our business partners be unavailable. In the 2009 financial year, init continued to establish business relations with new suppliers in the Far East, Turkey and in the USA. Where possible, delivery contracts are based on US dollars to ensure that part of the exchange risk relating to our dollar income can be reduced by dollar expenditure. As part of our priority management objectives we also focus on the further optimisation of our production processes with the aim of reducing costs while maintaining first-rate quality in production.

Personnel

Well educated and entrepreneurial staff are key to the success of a company. For this reason, we make sure that the qualification, further education and involvement of each individual in the success of the company are part and parcel of the corporate philosophy of init.

Around 65% of permanent init employees have a university degree, specifically in information technology, e-technology, HF technology, physics, mathematics, and industrial engineering. init maintains close contact to the University of Karlsruhe and the technical colleges in the Karlsruhe region to follow new technological developments and to put us in a position to identify technical changes early on. We provide students with practical work in part-time positions and supervise dissertations and master and bachelor theses.

Training visits to the group headquarters in Germany help ensure that new employees in North America, England, Australia and Dubai are able in these markets to meet the high demands our customers make on our technology. At the same time, employees from Germany spend several weeks a year at our subsidiaries to improve the communication and ensure equally high levels of knowledge worldwide in each project, technology and product. We also make sure that a certain percentage of the jobs at our subsidiaries is filled with specialists from Germany.

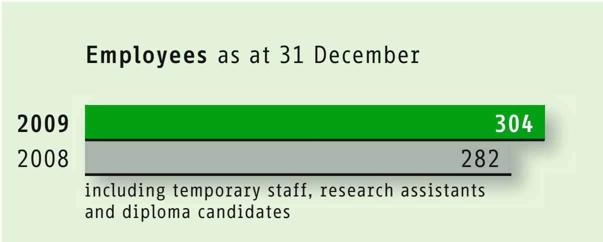
The success of our company depends to a large degree on our employees. Consequently, the Managing Board decided on 25 February 2009 to involve employees in the company profits based on the operating result. Every permanent employee will receive a profit share of EUR 4,750 for 2009 (staff in the USA, of USD 6,600). Trainees will receive a profit share of 25% of the amount granted to employees. The appropriate amounts are included in the financial statements as other liabilities. In the context of non-profit-linked asset sharing, each employee (excluding trainees) will also receive 100 shares in the company. These shares are subject to a qualifying period of two years.

As part of our corporate philosophy, init is committed to establishing the principle of family and employee support not only in our mission statement and our ethical policy. Rather, it is to be practised in every area of our company. All employees therefore receive a one-off payment for the birth of a child, init-based child benefits, and a monthly child care allowance.

Perks such as these and close, responsible cooperation at work have gained init the reputation of being a popular employer. In 2009, this was confirmed both in Germany and the USA by winning two awards. In May 2009, init received the “BFamily Award” from the Junior Chamber in Karlsruhe in recognition of its status as one of the most family-friendly companies in the technology region of Karlsruhe. The award is granted to increase awareness of family-friendly personnel policies in companies and to introduce new ideas to businesses which facilitate the reconciliation of family and work.

Our subsidiary INIT Inc. in Chesapeake, USA, was given the title "Best place to work", ranking first in the category "Small Companies". This award was awarded by the business journal "Inside Business".

As at 31 December 2009, the init group employed 304 staff (2008: 282) including temporary staff, research assistants and diploma candidates. A total of 269 employees (2008: 249) held permanent positions as at the cutoff date, 30 of whom were employed on a part-time basis. 16 employees were in apprenticeships, training to be IT specialists, electronic communication technicians, stock management specialists, industrial and office clerks. Furthermore, init offers the possibility of training in electrical engineering, mechatronics, information technology, industrial engineering and business management within the scope of courses at the University of Cooperative Education.



Based on our high volume of orders, init as a group is set to see further growth. To ensure that each project is kept on schedule, init adjusted its level of personnel in both Germany and Dubai in the 2009 financial year. These increased capacities will help init achieve the growth targets set for 2010 and cope with a continuing satisfactory order situation. Only moderate personnel increases will be required in fiscal 2010.

Environmental protection

The foundation of init in 1983 was based on the desire to promote and advocate environmental protection. It has been one of the key priorities of the company ever since. From its very first project, involving demand-driven bus transport, init has contributed significantly to reducing harmful carbon dioxide emissions and ensuring more efficient mobility. The innovations that followed at init in the area of transport telematics all serve the very same purposes.

As the climate summit held in Copenhagen in December 2009 once again highlighted, worldwide efforts are needed to reduce carbon dioxide emissions and prevent the looming climate catastrophe. Efficient public transport systems are a crucial factor in this, faring better by far in eco- and carbon dioxide audits than private transport.

Our products help transport companies provide fast, competitive and resource-saving mobility. This is our direct contribution to environmental and climate protection. Out of this sense of ecological and ethical responsibility, init also pays particular attention to environmental protection in our own company. It begins with our 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, environmentally friendly and lead-free materials and sold in reusable packaging. Disused equipment can 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.

As a further aspect, all business processes in the init group are assessed and optimised under the aspect of sustainability.

Research and development report

Innovative capacity provides a cutting edge in competition. For this reason, 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 in good time. The high standard of qualification of our employees in the research and development department enables us to react quickly to new technological developments and changing requirements of the market and to be flexible in catering to the changing needs of our customers.

In 2009, over 200 hardware and software developers at init worked on the further development of existing and various new products and innovations. This was in addition to realising numerous customer-specific software developments and creating new interfaces to radio systems.

The most promising of our new developments is the EVENDpc, a PC-based system which combines ticket printer and on-board computer in a single device. The EVENDpc is particularly optimal where customers require both a ticketing and a control system. It fulfils both these functions. Along with cost savings for the customer, the EVENDpc also saves space in the vehicle, as it combines many of the functions which today still require a range of different devices. The EVENDpc is currently one of the most versatile and technically sophisticated devices on the market and is particularly suited for the requirements of electronic ticketing and payment by mobile phone.

Similar to the COPILOTpc and COPILOTtouch on-board computers, the EVENDpc is based on a PC architecture using Windows® XP Embedded as the operating system. This simplifies the software development and allows us to use third-party software to provide transport companies with flexibility and reliable investments. For the first time, init has now integrated the announcement function and voice radio via GSM in a ticket printer. The device also supports GPRS and EDGE (Enhanced Data Rates for GSM Evolution) for radio data transmission. A WLAN module ensures mass data transmission between the EVENDpc and the control centre. The device also integrates the antennas for GSM, GPRS and WLAN to ensure maximum simplicity in terms of installation and cabling in the vehicle. The device is easily operated using a colour screen with touch function. An integrated card reader for contactless chip cards ensures electronic fare management. The ticket printer uses the approved thermal printer with "easy paper loading"-function of the EVENDsmart. Where necessary, the CHIPmobil card reader can easily be integrated for contact card systems. The EVENDpc can also be provided with a one-dimensional (1D) or two-dimensional (2D) bar code reader to read tickets in paper version or on mobile phones.

Further improvements were also made to the software for MOBILEvario, init's central ticket management and clearing system. Now multi-client capable, the software can be used, for example, to account for a number of operators in a transport network without enabling any to view data related to their competitors. The MOBILEvario software also handles the clearing of fare receipts for automatic revenue distribution between the individual transport companies in the network.

In terms of planning systems, our team particularly worked on advancing integrated optimisation approaches for vehicle and crew scheduling. These are already successfully used by our first urban and regional customers. The main target functions here include a reduction of wasted mileage, vehicles and drivers and more socially responsible service schedules for the crew.

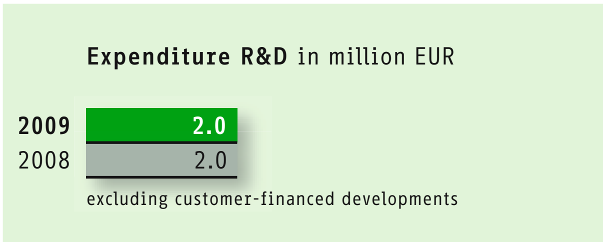
The MOBILE-ITCS software from init was enhanced by adding numerous new functions. One of the key enhancements was the "online diversion" software module. It allows transport companies to react promptly to reported disruptions and generate diversions without loss of time. At the same time, init's system ensures that passengers in the vehicles and at the stops are provided with real-time information on these diversions and the appropriately modified timetables. init's solution has crucial advantages over conventional control systems (Intermodal Transport Control Systems, ITCS). The latter can only define diversions in the planning systems ahead of time but not react to current disruptions. “As a striking innovative feature, init’s system consistently provides subsequent levels including vehicles and drivers with all necessary information,” the ITCS expert panel of the Association of German Transport Companies (VDV) stated and therefore presented init with the ITCS Innovation Award.

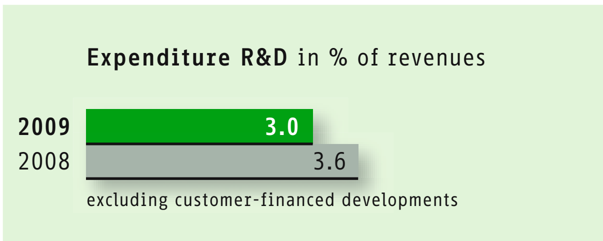
In the USA, the development team of init is predominantly working on the further development of our software module, MOBILE-PARAnet, and on the development of an interface to other paratransit systems in the American market. The software module helps optimise the on-demand bus transport service for disabled and elderly people (paratransit). In connection with other software and hardware modules of our integrated telematics system, MOBILE, it also facilitates the online management of the vehicles. Our American subsidiary is currently also developing additional software modules for requirement-based bus transport in the German market.

In the group, CarMedialab is the integration partner of Daimler AG for intelligent charging management in the new “smart fortwo electric drive”. The specially developed range of functions for the “smart fortwo electric drive” is used for the first time in eMobility in Berlin, a joint venture between Daimler and RWE. Charging electricity has thus become even more convenient than refuelling. Requirements include easy technical handling (“plug & charge”) and the automatic exchange of information between the vehicle and the charging station during the charging process – as easy as for a mobile phone. Once contact between vehicle and charging station has been established by the charging cable, the electronics on board the “smart fortwo electric drive” and the charging point enable the exchange all relevant information such as the identification data for the electricity contract to be exchanged with the electricity grid. The charging process is automatically activated only once the personal ID is recognised. Among other things, this ensures convenient, simple and, above all, secure billing at all times. At the same time, data protection is guaranteed in all processes through the encryption and anonymisation of customer data.

init is currently involved in a number of research projects. One of these worth mentioning is EBSF (European Bus System of the Future). The aim of this project is to operate control systems with the vehicle equipment of different manufacturers. This is particularly important where bus routes are allocated to different transport companies in a city or where several bus companies in a regional network service the same area. The project specifically requires the setup of IP-based communication structures with open interfaces. This issue is also the focus of the IP-based Communication in public transport research project in Germany in which init is also involved. init currently also participates in the Transfer Austria research project.

On the whole, init spent EUR 2.0m (2008: EUR 2.0m) on the development of new products not involving customer financing in 2009, corresponding to 3.0% (2008: 3.6%) of sales. In addition, the group effected customer-funded new and further developments within the scope of projects adding up to at least five times the amount again.





Risk report

As a global operator, a technology-oriented company such as init is faced with a number of risks that may affect its financial and earnings position. Along with general economic and cyclical risks, which are beyond the control of the company, there are operating and technical risk factors that may impact our future sales and earnings trend. All risks are continuously analysed and evaluated by the management of init and its subsidiaries to ensure that appropriate measures can immediately be initiated, where necessary, and potentially detrimental effects minimised.

The main risks for init are divided into the following categories:

1) Contract law
2) Project risks
3) Financial risks
4) Other risks

The other risks include the core areas Production, Development, Purchase/Logistics, Personnel, Sales, Business Planning, and IT.

Risks are recorded, analysed and evaluated, and adequate risk prevention measures implemented, in a risk management system. This forms an integral part of our business and decision-making processes. Both the Managing Board and the Supervisory Board are kept informed of imminent risks. Prior to making a decision on important measures, these are discussed in detail by the appropriate bodies, and their prospects and risks weighed against each other.

Inherent operating risks, such as a backlog of projects, quality-related or human resources risks, are regularly recorded and monitored by way of monthly reports. Financial risks, the incoming order situation, supply backlogs, and the liquidity situation are analysed daily or weekly to ensure that appropriate measures can immediately be initiated, where necessary. Market, development and strategic risks are monitored on a quarterly basis. Risks relating to legal aspects and contracts are worked on and examined by our in-house lawyers, where necessary with the support of external expert lawyers.

As an internationally operating company, init is subject to the cyclical trends of the global economy and of the individual countries in which its projects are implemented. Consequently, the global financial and economic crisis that has prevailed since late 2008 also poses a potential risk to the business development of init. A number of government aid programmes have been implemented in the industrialised nations to counteract this crisis and to restimulate the economy through investments worth billions. The infrastructure sector, in particular, which includes public transport, is a focal point of these investments. This will bring with it additional business opportunities for init.

The market for transport services, in which inits' customers are primarily involved, is essentially dependent on the political will for improvement of public transport and on the funds made available for it. 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. Based on our current assessment and upon implementation of the most recent political declarations of intent, many of the key markets for init should, however, still see increased investment activities of the states. Government subsidies could, however, be significantly reduced in the future to combat inflationary tendencies.

A crucial success factor for the init group is project management. The successful handling of projects depends on their completion as scheduled, the scope of each individual project, the enforceability of contractual terms, the readiness of the customer to be involved in the project 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 depends to a degree on the availability of sufficiently qualified personnel. init takes account of these factors by operating a long-term personnel policy which includes the involvement of employees in the success of the company. In case of a pandemic, a sufficient number of home offices are available to ensure that the majority of init's employees is able to access the company servers using secure VPN connections to perform necessary work from home. A proportion of the Internet costs are assumed by the company.

For each major project, init 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.

Vehicles can only be equipped successfully if the hardware is made available at the right time and in the right quantity, and if it is of the required quality. Poor quality or hidden faults may otherwise require cost-intensive rectifications or replacements that will affect the margin.

To date, init has never had any claims against it on grounds of product defects or based on warranty which had a considerable impact on the financial and earnings position of the group. Future claims, however, cannot completely be ruled out. All the more since init is also dependent on its suppliers and subcontractors in terms of quality, schedule effectiveness and price.

Hardware and software as developed and marketed by init are subject to rapid changes and constant innovations. In order to limit the development technology risk, we must, on the one hand, 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. init also takes note of any customer suggestions and requests, which then factor in the product development. Despite all this, the development of new products can incur considerable costs without necessarily resulting in the desired success.

New competitors continuously try to break into the market with cut-throat prices to gain market shares at the expense of init. 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 and technology. Owing to the increase in the number of competitors, however, init is at times faced with the risk of decreasing prices and margins as well as the loss of tenders.

The financial crisis has also increased the risk of bad debt losses. While over 95% of init's customers are public transport companies, a number of governments experienced financial difficulties in 2009 (e.g. Greece, Dubai, Iceland), to the effect that bad debt losses cannot be ruled out in the future. The collection period for accounts receivable in days has significantly increased resulting in cash flows predictability risks and liquidity risks.

As at 31 December 2009, init had outstanding accounts in the amount of around EUR 7.5m in Dubai, adjusted for advance payments received. From the press we learn that Dubai has serious payment problems as a result of the financial crisis. While we do not expect to lose any or all of these receivables, we may face considerable delays in payment contrary to the terms agreed. This risk was taken into account by way of appropriate value adjustments.

Contracts concluded in foreign currency involve exchange 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 forward exchange dealings and currency options. Since init also tries to keep its options open here and focus on active management, it may consequently incur losses. Due to our risk policy, however, we consider this risk of loss to be minimal.

The investments of init include stocks, fixed-interest securities and fixed-term deposits. Exchange and interest change risks can therefore reduce the financial result of the group.

On the whole, the Managing Board currently rates the risks to which init as a group is exposed as comparatively minimal due to our solid financial and earnings position and our largely positive business prospects.

Internal control and risk management system pertaining to the financial reporting process

The internal control and risk management system pertaining to the financial reporting process is not defined by law. We understand internal control and risk management to be a comprehensive system and follow the definitions provided by the Institute of Public Auditors (IDW) in Düsseldorf, Germany, on the internal control system pertaining to the financial reporting process and the risk management system. According to this definition, an internal control system is understood to mean the principles, processes and measures introduced by the management of a company which are focused on the organisational implementation of decisions passed by the management to ensure:

- The efficiency and cost-effectiveness of operations (this includes the protection of assets including the prevention and identification of economic impairment),
- The truth and fairness of internal and external accounting, and
- Compliance with the legal requirements relevant to the company.

The risk management system comprises the totality of all organisational regulations and measures established to identify and handle risks relating to the business activities of the company.

The following structures and processes have been implemented with respect to the financial reporting processes of our consolidated companies:

The Managing Board has overall responsibility for the internal control and risk management system pertaining to the group's financial reporting process.

The principles, the operational and organisational structure, and the processes of the accounting-related internal control and risk management system are laid down in a manual and in organisation instructions. These are reviewed and revised regularly in line with current external and internal developments. With respect to the financial reporting processes of our consolidated companies and the group's financial reporting process, we consider features of the internal control and risk management system essential which may significantly affect the group accounting and the overall view presented by the consolidated financial statements including group status report. These in particular include the following elements:

- Identification of key areas of risk and control relevant to the financial reporting process,
- Controls designed to monitor the financial reporting process and its results at management level in regular board meetings,
- Preventive control measures for the group's accounting and finance and in operating and performance related company processes which generate essential information for the preparation of the consolidated financial statements including group status report, including a separation of functions and of pre-defined authorisation processes in relevant areas.
- Uniform accounting is ensured primarily by a group accounting manual.
- Accounting data are regularly spot checked for completeness and accuracy.
- The subsidiaries provide the parent company with onthly reports on their business trend and submit monthly accounts. Ongoing projects are reported on a quarterly basis. Major foreign companies in the group are visited once or twice a year. Particular focus here is placed on these companies' figures and projects.
- Measures to ensure proper EDP-based processing of accounting-related facts and figures.
- The group has also implemented a risk management system for the group-wide financial accounting process which includes measures to identify and assess material risks along with appropriate risk-reducing measures to ensure adequacy of the consolidated financial statements.

Opportunities and prospects report

While reports of the effects of the financial and economic crisis, job cuts, insolvencies, and rising unemployment figures continue to dominate the business press on a daily basis, experts nevertheless agree that the crisis has bottomed out despite remaining difficulties in the banking sector. The numerous state aid programmes introduced to combat the financial crisis, support the automobile industry and boost the economy should have a stimulating effect. In December 2009 alone, the American Senate authorised around USD 10.7bn for the development of public transport. As a result, we expect to see a number of new tenders to materialise in the USA.

In Europe, and specifically in Great Britain, we can also see a rising trend in tenders. In Germany, on the other hand, we anticipate the volume of tenders to remain at a similar level to 2009. The Middle East and Australia also provide good prospects for us in terms of winning new tenders.

The region expected to show the most significant growth in the next few years, however, will be Asia. Here, great efforts are made as elsewhere to set up public transport systems that ensure mobility and avoid a daily breakdown of traffic. init therefore intends to participate in various selected tenders in the Asian region. Initial contacts with transport companies could already be established.

It stands in good stead for init here that we have proven in many significant projects over the past few years that the company is able to execute contracts in any region in the world with great schedule effectiveness. As a result, init has excellent references that act as a signal for potential new customers all over the world and should benefit in particular from planned additional infrastructure investments.

Due to extensive government aid programmes to help stem the global economic crisis, public debt in many countries has risen exorbitantly. In the medium term, this involves the risk of inflationary tendencies which may force the central banks to raise the interest rates. Public spending would then need to be cut quite drastically, which no doubt would also affect subsidies for public transport. init is counteracting this scenario with further internationalisation efforts and the development of new markets. A further stabilising factor for the company is the growing number of follow-up contracts to extend existing systems.

In terms of the necessity of transport companies to budget rather more carefully, init has made efforts to provide such new developments as the EVENDpc. This product raises our chances with companies which require a control system along with a ticketing system but cannot afford to, or do not want to, invest in two separate systems. Since the EVENDpc combines all the necessary components including operating panel, ticket printer, e-ticketing, communication system, vehicle location equipment, and on-board computer under Windows® XP Embedded in a single device, customers not only save on hardware, but also maintenance and installation costs. Used purely as a ticketing system, the EVENDpc is still one of the technologically most sophisticated devices in the market and can be equipped entirely to suit the customer's requirements. Along with the sale of paper tickets, further components which can be integrated include an e-ticketing system based on the VDV core application, mobile phone tickets or other variants of electronic fare management.

Corporate Governance Report

Corporate Governance refers as much to responsible company management for long-term value added as to transparency and openness in communicating with shareholders. It has been a key pillar of the corporate culture of init innovation in traffic systems AG since its inception.

Under the present principles of the relevant Code in Germany (GCGC), Corporate Governance affects every aspect of the corporate management and monitoring system. 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. Efficient cooperation between the Managing Board and the Supervisory Board, respecting the interests of shareholders, openness and transparency in company communication thus are key aspects of good Corporate Governance.

In the following, we aim to provide a transparent and comprehensible picture of the rules and regulations applicable in Germany and demonstrate how these are lived out by init.

Declaration of Compliance with the German Corporate Governance Code - 2009

In compliance with Section 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 may 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 18 June 2009 with the following exceptions and make the following declaration of compliance in accordance with Section 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.

Shareholders and shareholders’ meeting

The shareholders’ meeting was convened by post rather than electronically, inviting all national and international financial service providers, shareholders and associations of shareholders. It was also advertised in the Electronic Federal Gazette. The necessary documents for the shareholders’ meeting were made available to shareholders on the website of init AG (item 2.3.2 of the Code).

Joint aspect for Managing Board and Supervisory Board

The D&O insurance does not provide for an excess payable by members of executive bodies (item 3.8 para. 2 of the Code) 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 13 July 2006, the company refrains from individualised disclosure of the Board members' salaries in its annual report (item 4.2.4 of the Code). Furthermore, it does not specify an age limit for members of the Managing Board (item 5.1.2 para. 2 of the Code).

Supervisory Board

No age limit has been specified for members of the Supervisory Board (item 5.4.1 para. 1 of the Code). The Supervisory Board has not set up any committees (item 5.3.1 of the Code), an audit committee (item 5.3.2 of the Code), or a nomination committee (item 5.3.3 of the Code) since the specific conditions do not exist and this is considered impractical due to the size of both the company and the Supervisory Board (3 members).

Details of Corporate Governance practices and of the Managing Boards' and Supervisory Boards' working principles

Shareholders and shareholders' meeting

At the shareholders' meeting, the shareholders exercise their rights, including their right to vote. The meeting decides on all matters assigned to it by law such as the election of members of the Supervisory Board, the discharge of the Managing Board, the appropriation of profits and amendments to the articles of incorporation. At the shareholders' meeting, the shareholders are also given opportunity to address the meeting on any items on the agenda, to pose relevant questions and to bring forward pertinent motions. Shareholders can exercise their voting rights at the shareholders' meeting either in person, through a duly authorised representative or by a proxy of init innovation in traffic systems AG subject to instructions. Each share grants one vote.

The annual shareholders' meeting of init AG is held within the first five months of the financial year. The meeting is chaired by the Chairman of the Supervisory Board. It decides on all matters assigned to it by law such as the election of members of the Supervisory Board, the discharge of the Managing Board, the appropriation of profits and amendments to the articles of incorporation.

Supervisory Board

The Supervisory Board acts in an advisory capacity to the Managing Board and monitors its affairs. It is further responsible for the appointment of members of the Managing Board and the determination of their number. The Supervisory Board of init innovation in traffic systems AG comprises three members who bring additional expertise into the management of the company due to their many years of experience as entrepreneurs and in executive functions. Members of the Supervisory Board are appointed by the end of the shareholders' meeting which votes on the discharge for the fourth financial year after commencement of the term of office. The financial year in which the term of office commences is not counted. Members of the Supervisory Board can be re-elected.

Managing Board

The Managing Board is the management body of the stock corporation. It manages the affairs of the company and is bound by the German Stock Corporation Act to uphold the interests and business policies of the company. The Managing Board informs the Supervisory Board regularly, promptly and comprehensively of any key issues relating to the company's business trend, risks and corporate strategy.

The Managing Board of init innovation in traffic systems AG currently comprises five members. Contrary to other companies, each is very much actively involved in the day-to-day operations of their respective areas of responsibility which they manage. In agreement with the practices of responsible business management, they thus stay close to the key reference groups of a company, its customers, suppliers, employees and its shareholders. This enables them to react promptly to new situations.

Transparency

Consistent, comprehensive and prompt information are a key principle at init. The results and situation of the company are reported in the financial statements, at press and telephone conferences, and in the quarterly reports.

Furthermore, information is published via press and ad-hoc releases. All disclosures and notifications are made available on our website in the "Investor Relations category".

In accordance with Section 15 of the German Securities Trading Act (WpHG), init AG has set up an insider list. The relevant individuals were notified of their legal duties and sanctions.

Accounting and auditing

The consolidated financial statements are prepared in compliance with the principles of the IFRS. Following their preparation by the Managing Board, the consolidated financial statements are audited by the auditor and approved by the Supervisory Board. They are disclosed within 90 days from the end of the financial year. Within the scope of the audit, the auditor promptly advises the Chairman of the Supervisory Board of all key issues and events which may arise during the audit.

Working principles of the Managing Board and Supervisory Board

The Managing Board and the Supervisory Board of init innovation in traffic systems AG work in close cooperation for the good of the company and its shareholders. The Managing Board informs the Supervisory Board promptly and comprehensively of all relevant matters of corporate governance and business development, the risk situation and risk management. In addition, the Chairman of the Managing Board is required both verbally and – where so required – in writing to advise the Chairman of the Supervisory Board regularly of the course of business and the situation of the company including its affiliated companies. All members of the Managing Board are asked to support their Chairman in the performance of this duty.

Motions for resolutions and detailed written documents are passed to the Supervisory Board in writing one week prior to its meeting.

The areas of responsibility of members of the Managing Board ensue from the organisational chart. Irrespective of their allocation of duties, however, each member of the Managing Board is responsible for the overall management of the company. Measures and business affecting one or several areas of responsibility must be agreed with the appropriate board members involved. Extraordinary business or transactions involving a high economic risk require the approval of the entire Managing Board. Certain transactions such as the acquisition of companies or participations require the consent of the Supervisory Board.

The Managing Board convenes in regular meetings and, unless otherwise stipulated, passes decisions based on a simple majority of the votes cast.

Shareholdings of the Managing Board and the Supervisory Board

On the whole, the Managing Board directly or indirectly holds 4,053,347 shares in the company, which corresponds to 40.37% 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 Notes to the Consolidated Financial Statements.

Pursuant to 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 dis-closure requirement includes any acquisition or sale exceeding EUR 5,000 per calendar year. init AG publishes all such transactions promptly. A list of the notified Directors' Dealings in fiscal 2009 is available under "Annual document" on our website at www.initag.de.

Remuneration system for the Managing Board and the 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 determined by the size of the company, its economic and financial situation, and the amount and remuneration structure of comparable companies.

The remuneration system for the Managing Board at init innovation in traffic systems AG – also in their capacity as managing directors of our subsidiaries – includes as follows:

1. A fixed salary component payable on a pro-rata basis in 13 monthly instalments. The fixed component of the Board members' remuneration in 2009 totalled EUR 1,064k (2008: EUR 1,021k).

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 EUR 0.4m. 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 in 2009 totalled EUR 326k (2008: EUR 330k).

3. A further bonus for 2009 in the form of shares, from consolidated earnings exceeding EUR 2m before taxes and after deduction of all management bonuses. Where this amount is exceeded, each member of the Board receives one share for each EUR 300 of exceeding profit. The number of "restricted shares" is limited to 5,000 per Board member. The shares are subject to a qualifying period of 5 years. The income tax on the non-cash benefit of the share transfer is borne by the company. The present value of this remuneration including income tax payable on it totalled EUR 491k in 2009 (2008: EUR 224k).

4. Pension commitments exist for three of the five members of the Managing Board. The provisions for pensions (DBO) for these three members totalled EUR 271k in 2009 (2008: release of EUR 52k).

5. A defined contribution plan instead of a direct pension commitment exists for two members of the Managing Board. This expenditure in 2009 amounted to EUR 6k (2008: EUR 6k).

6. An additional defined contribution plan exists for four members of the Managing Board. In 2009, expenditure for this item amounted to EUR 44k (2008: EUR 40k).

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

Benefits payable to members leaving the Managing Board have not been agreed. However, a termination bonus may be specified in individual termination agreements. This was not the case in 2009.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board was decided in the shareholders' meeting on 13 July 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 EUR 9k p.a. for the members and EUR 18k 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*price/5.1 + 0.5 * profit/2m) -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 2009:

EUR	Fixed	Variable
Name		
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18,000	47,411
Bernd Koch	9,000	23,705
Fariborz Khavand	9,000	23,705

Particulars of the shareholders' equity

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

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 3,525,000 shares in init AG. This corresponds to around 35.1% of the capital stock. As at 31 December 2009, init AG held a total of 110,219 shares (as at 31 December 2008: 164,655 shares).

There are no holders of shares with special rights.

No voting control exists for shares held by employees.

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 Sections 84, 85 AktG (German Stock Corporation Act). Amendments to the articles of incorporation are subject to the legal provisions of Sections 133, 179 AktG.

Authority of the Managing Board to issue and repurchase stock

At the annual shareholders' meeting on 13 July 2006, a resolution was passed to create capital to the amount of EUR 5,020,000. With the approval of the Supervisory Board, the Managing Board is authorised to increase the company's capital stock by up to EUR 5,020,000 by 13 July 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 are obliged to offer them to investors for sale. However, with the approval of the Supervisory Board, the Managing Board is authorised 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 the issue price is specified. 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.

The treasury stock as of 1 January 2009 totalled 164,655 shares. Based on the resolution passed at the annual shareholders' meeting on 27 May 2008, replaced by the resolution on 20 May 2009, the company is authorised to purchase treasury stock. No decision was passed in 2009 to repurchase treasury stock. In 2008, the company acquired 20,000 shares at an average price of EUR 5.53. Within the scope of an employee profit sharing scheme for 2009, a total of 22,542 shares were transferred to employees. A further 994 shares were transferred to employees retroactively for 2008. The shares are subject to a qualifying period of two years. Based on the motivation scheme for members of the Managing Board and managing directors, a total of 30,000 share were transferred with a qualifying period of 5 years. A further 1,000 shares were transferred to employees within the scope of a bonus agreement without qualifying period. 100 shares were retransferred from the employee profit sharing scheme in 2007. On the whole, the current treasury stock as at 31 December 2009 totalled 110,219 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 opening up additional capital markets or to issue them to employees or members of the Managing Board.

Events after the reporting date

No events of special note which had a significant effect on the asset, financial and earnings situation of the company occurred during the preparation of the balance sheet.

Prospects

The global economy in 2010 is predicted to grow again, albeit at a moderate level. Growth is forecast primarily for the Asian region. This encourages init to put out feelers towards Asia to open up new markets. In many other init markets, government aid programmes launched to boost the economy are hoped to have a stimulating effect on our operations. Only recently, the American Senate released a total of USD 10.7bn for the development of transport systems in the USA. We therefore expect to see a rise in the number of tenders particularly in the USA.

But even in other countries, tendering for public transport systems should continue at a high level. A further growth factor for init are follow-up contracts from ongoing or completed major projects in Europe, the USA, the United Arab Emirates and Australia.

With innovative products, individual customer solutions and system competence proven in a wide range of international reference projects, init has worked hard to establish itself at the top of the global market for telematics, planning and electronic fare collection systems for public transport. As a result, our company has become a sought-after partner for both the development and modernisation of transport infrastructures.

Our excellent standing is underlined by a record number of orders totalling in excess of EUR 132m as at 31 December 2009. These extend far into 2011. On this basis and in view of the transport projects initiated in many parts of the world, we anticipate business in our group to continue on an upward trend. In terms of figures, our targets for the 2010 financial year, specifically, include sales revenues of EUR 72m and earnings before interest and taxes of over EUR 13m.

Risk factors that may compromise our achievement of these targets, however, are the rising raw material prices and the significant volatility in the financial markets. Weak currencies such as the US Dollar, the Dirham, the British Pound, the Norwegian Krone, or the Swedish Krona tend to result in lower margins for init, as the monetary influences cannot fully be passed on in the form of higher prices. This could have a negative impact on our earnings trend as could the postponement of projects and delayed payments due to the financial plight of some of our customers.

Karlsruhe, 5 March 2010
The Managing Board

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

Consolidated Income Statement for 2009 (IFRS)

EUR '000	Notes No.	1/1 to 31/12/2009	1/1 to 31/12/2008
Revenues	5, 37	64,955	55,993
Cost of revenues	6	-41,918	-38,769
Gross profit		**23,037**	**17,224**
Sales and marketing expenses		-6,235	-6,106
General administrative expenses		-3,812	-3,404
Research and development expenses	7, 23	-1,602	-1,371
Other operating income	8	597	415
Other operating expenses		-58	-170
Foreign currency gains/losses	9	-735	1,558
Operating profit/loss		**11,192**	**8,146**
Income from associated companies	10, 24	421	276
Other income and expenses	11	141	175
Earnings before interest and taxes (EBIT)		**11,754**	**8,597**
Interest income		83	174
Interest expenses		-259	-479
Earnings before taxes (EBT)		**11,578**	**8,292**
Income tax	12, 25	-3,264	-2,380
Net profit		**8,314**	**5,912**
thereof attributable to equity holders of parent company		8,325	5,912
Minority interests		-11	0
Net profit and diluted net profit per share in EUR	14	0.84	0.60

Consolidated Balance Sheet as at 31 December 2009 (IFRS)

Assets

EUR '000	Notes No.	31/12/2009	31/12/2008
Current assets			
Cash and cash equivalents	17, 33	9,327	6,806
Marketable securities	18, 33	158	14
Trade accounts receivable	19, 33	16,175	9,466
Future receivables from production orders (percentage of completion method)	19, 33	15,091	16,923
Accounts receivable from related parties	36	0	4
Inventories	20	15,343	7,685
Income tax receivable		5	51
Other current assets	21	1,214	1,816
Current assets, total		**57,313**	**42,765**
Non-current assets			
Tangible fixed assets	22	4,876	4,955
Goodwill	23	2,081	2,081
Other intangible assets	23	2,907	3,695
Interest in associated companies	24	2,059	1,852
Accounts receivable from related parties	36	68	68
Deferred tax assets	25	724	1,062
Other assets	26	1,582	1,473
Non-current assets, total		**14,297**	**15,186**
Asset, total		**71,610**	**57,951**

Liabilities and shareholders' equity

EUR '000	Notes No.	31/12/2009	31/12/2008
Current liabilities			
Bank loans	27	1,166	1,129
Trade accounts payable	27	3,284	2,672
Accounts payable of percentage of completion method	19, 27	8,715	5,262
Accounts payable due to related parties	27, 36	305	170
Advance payments received	27	1,765	2,249
Income tax payable		1,061	1,060
Provisions	29	3,555	3,907
Other current liabilities	28	5,784	4,482
Current liabilities, total		**25,635**	**20,931**
Non-current liabilities			
Long-term debt less current portion	27	1,129	1,200
Deferred tax liabilities	25	3,189	2,037
Pensions accrued and similar obligations	30	2,606	2,082
Other non-current liabilities	28	74	105
Non-current liabilities, total		**6,998**	**5,424**
Shareholders' equity			
Attributable to the equity holders of the parent company			
Subscribed capital	31	10,040	10,040
Additional paid-in capital	31	4,377	3,950
Treasury stock	31	-477	-789
Consolidated unappropriated profit		25,626	18,881
Other reserves	31	-771	-680
		38,795	**31,402**
Minority interests		182	194
Shareholders' equity, total		**38,977**	**31,596**
Liabilities and shareholders' equity, total		**71,610**	**57,951**

Consolidated Cash Flow Statement for 2009 (IFRS)

EUR '000	**1/1 to 31/12/2009**	1/1 to 31/12/2008
Cash flow from operating activities:		
Net income	8,314	5,912
Depreciation and amortisation	2,403	1,572
Profit (-) / Losses (+) on the disposal of fixed assets	39	4
Change of provisions and accruals	172	1,876
Change of inventories	-7,658	-1,861
Change in trade accounts receivable and future receivables from production orders (POC)	-4,877	-6,433
Change in other assets, not provided by/used in investing or financing activities	543	-620
Change in trade accounts payable	612	-769
Change in advanced payments received	2,969	5,757
Change in other liabilities, not provided by/used in investing or financing activities	1,407	1,540
Amount of other non-cash income and expenses	1,646	168
Net cash from operating activities	**5,570**	**7,146**
Cash flow from investing activities:		
Proceeds from sales of tangible fixed assets	1	1
Investments in tangible fixed assets and other intangible assets	-1,143	-2,054
Investments in software development	-432	-670
Inflows from associated companies and loans receivable	215	411
Inflows from the sale of marketable securities as part of short-term cash management	-111	5
Net cash flows used in investing activities	**-1,470**	**-2,307**
Cash flow from financing activities:		
Dividend paid out	-1,580	-1,378
Cash Payments for the purchase of treasury stock	0	-111
Proceeds (+) / Redemption (-) of bank loans	-34	-225
Net cash flows used in financing activities	**-1,614**	**-1,714**
Net effects of currency translation and consolidation changes in cash and cash equivalents	35	-67
Increase/Decrease in cash and cash equivalents	**2,521**	**3,058**
Cash and cash equivalents as at the beginning of the period	6,806	3,748
Cash and cash equivalents as at the end of the period	**9,327**	**6,806**

Consolidated Statement of Comprehensive Income for 2009 (IFRS)

EUR ‘000	**1/1 to 31/12/2009**	1/1 to 31/12/2008
Net profit	**8,314**	**5,912**
Currency translation	100	142
Actuarial losses (previous year: gains) on defined benefit obligations for pensions, recognised in the shareholders’ equity	-297	125
Net gain (+) / net loss (-) in available-for-sale financial assets	77	-22
Deferred taxes on valuation adjustments, recognised directly in the shareholders’ equity	29	-36
Other comprehensive income	**-91**	**209**
Total comprehensive income	**8,223**	**6,121**
thereof attributable to equity holders of the parent company	8,234	6,121
thereof minority interests	-11	0

Consolidated Statement of Changes in Equity as at 31 December 2009 (IFRS)

			Attributable to equity holders	
EUR '000	Subscribed capital	Additional paid-in capital	Consolidated unappropriated profit	Treasury stock
Status as at 31/12/2007	**10,040**	**3,973**	**14,347**	**-977**
Net profit			5,912	
Other comprehensive income				
Total comprehensive income			**5,912**	
Dividend paid out			-1,378	
Share-based payments		-23		299
Acquisition of treasury stock				-111
Status as at 31/12/2008	**10,040**	**3,950**	**18,881**	**-789**
Status as at 31/12/2008	**10,040**	**3,950**	**18,881**	**-789**
Net profit			8,325	
Other comprehensive income				
Total comprehensive income			**8,325**	
Dividend paid out			-1,580	
Share-based payments		427		312
Rounding difference				
Status as at 31/12/2009	**10,040**	**4,377**	**25,626**	**-477**

of the parent company				**Minority interest**	**Shareholders' equity, total**
Other reserves					
Difference from pension valuation	Difference from currency translation	Stock market valuation of securities	Total		
98	**-983**	**-4**	**26,494**	**194**	**26,688**
			5,912		5,912
89	142	-22	209		209
89	**142**	**-22**	**6,121**		**6,121**
			-1,378		-1,378
			276		276
			-111		-111
187	**-841**	**-26**	**31,402**	**194**	**31,596**
187	**-841**	**-26**	**31,402**	**194**	**31,596**
			8,325	-11	8,314
-268	100	77	-91		-91
-268	**100**	**77**	**8,234**	**-11**	**8,223**
			-1,580		-1,580
			739		739
			0	-1	-1
-81	**-741**	**51**	**38,795**	**182**	**38,977**

Notes to the Consolidated Financial Statements for 2009 (IFRS)

General disclosure

init innovation in traffic systems Aktiengesellschaft, Karlsruhe ("init AG"), was established on 18 August 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 EUR 1.00. This sum exceeded the historic book values by EUR 5,211k. Thus, the net book value of the transfer totalled EUR 808k.

The 2009 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 the methods applied in the previous year. In addition, the group also used the new, or rather the revised standards, which are mandatory for the financial year commencing on 1 January 2009.

Amendments to the accounting principles and valuation methods have been caused by applying the following new or revised standards:

- IFRS 7 "Financial Instruments: Disclosures"
- IAS 1 "Presentation of Financial Statements"
- IAS 23 "Borrowing Costs"
- "Improvements to International Financial Reporting Standards 2008"

IFRS 7 "Financial Instruments: Disclosures"
The amendments to IFRS 7 provide for extended disclosures on the measurement of financial instruments at fair value and the liquidity risks. For each class of financial instruments measured at fair value, the measurement inputs used in determining the fair value must be specified using a 3-level hierarchy. Reconciliations from the beginning balance to the ending balance of financial instruments whose fair value is determined using level 3 inputs and significant transfers between levels of the fair value measurement hierarchy must be disclosed. The amendments further clarify the disclosures required in regard to the liquidity risk relating to derivatives. Disclosures relating to the measurement of fair value have been extended accordingly. Disclosures relating to the liquidity management were not significantly affected by these amendments.

IAS 1 "Presentation of Financial Statements"

The revised standard IAS 1 was published in September 2007 and applies for the first time to financial years commencing on or after 1 January 2009. The main changes relate to the presentation and disclosure of financial information in financial statements. The new standard affected the method of disclosing financial information of the group, but not the recognition and measurement of assets and liabilities in the consolidated financial statements.

IAS 23 "Borrowing Costs"

The revised standard IAS 23 rescinds the previous right of option of the old standard to recognise borrowing costs that directly relate to qualifying assets immediately as an expense. As of this financial year, borrowing costs are required to be capitalised as acquisition and production costs. The application of this standard did not significantly affect the assets, liabilities, financial position and earnings situation of the consolidated financial statements.

"Improvements to International Financial Reporting Standards 2008"

This general standard, published as part of the annual improvements process, contains a series of amendments to various standards concerning the removal of inconsistencies and the clarification of phrases. It includes 35 amendments and is split into two parts – amendments that result in changes for presentation, recognition, or measurement purposes and amendments that are terminology or editorial changes only. These did not have any significant effect on the company's consolidated financial statements.

The group did not opt for an early application of the following standards and IFRIC interpretations which have already been issued but have not yet become effective. The following differentiation was made:

IFRS and IFRIC interpretations adopted by the EU under the comitology procedure which have not yet become effective:

IAS 27 "Consolidated and Separate Financial Statements"

The revised standard IAS 27 primarily concerns the accounting treatment of minority interests that will fully share in the group's losses in the future, and transactions resulting in a loss of control at a subsidiary. The transition provisions basically require a prospective application. It therefore does not have any effect on the assets and liabilities resulting from such transactions prior to the first application of the new standard.

Amendment to IAS 32 "Classification of Rights Issues"

This amendment to IAS 32 was published in October 2009 and applies for the first time to financial years commencing on or after 1 February 2010. It alters the definition of a financial liability such that rights issues and certain options may be classified as equity instruments. This applies specifically if a company offers the rights pro rata to all of the existing owners of the same class of its own non-derivative equity instruments in order to acquire a fixed number of the company's own equity instruments for a fixed amount in any currency. This standard is not currently expected to have any significant effect on init.

Amendments to IAS 39 "Qualifying Underlying Transactions"

The amendments to IAS 39 were published in July 2008. Retrospective application of the amendments is mandatory for financial years beginning on or after 1 July 2009. It is clarified that it is permissible to designate only part of the changes to the fair value or the cash flow fluctuations of a financial instrument as an underlying transaction. This includes the designation of inflation risks or one-sided risks in a hedge. These amendments do not at present have any effect on init, since the company currently abstains from presenting this as hedge accounting and takes changes in market values relating to forward exchange transactions into account in the net earnings.

IFRS 1 "First-Time Adoption of IFRS"

The revised standard IFRS 1 was published in November 2008 and applies for the first time to financial years commencing on or after 1 July 2009. The revision relates to editorial changes only and to a restructuring of the standard. It does not affect the accounting and valuation regulations pertaining to first-time adopters.

IFRS 3 "Business Combinations"

The revision of IFRS 3 primarily concerns the introduction of an option relating to the recognition of minority interests (purchased goodwill method vs full goodwill method), the remeasurement of investments relating to step acquisitions recognised in profit or loss, and accounting for contingent consideration. The amendments to the standard apply to financial years commencing after 1 July 2009. The transition provisions require a prospective application of the revised standard. Assets and liabilities resulting from business combinations prior to first-time application of the new standard are not affected by these changes. These changes only affect the reporting of future acquisitions and therefore cannot at this point be fully assessed.

Amendments to IFRS 5 as part of the "Improvements to IFRS 2008"

The amendments under the improvement project 2008 were published in May 2008 and – with the exception of IFRS 5 (here, from 1 July 2009) – apply for the first time to financial years commencing on or after 1 January 2009. The amendments to IFRS 5 clarify that a company committed to a sale involving loss of control of a subsidiary that qualifies for held-for-sale classification must classify all of the assets and liabilities of that subsidiary as held for sale, even if the company will retain a non-controlling interest in its former subsidiary after the sale. The application of these amendments is not expected to have a significant effect on the company's consolidated financial statements.

IFRIC 12 "Service Concession Arrangements"

IFRIC 12 was published in November 2006 and basically applies for the first time to financial years commencing on or after 1 January 2008. This interpretation was endorsed by the European Union in March 2009 and is of mandatory application in the EU on commencement of the first financial year after 30 June 2009. This interpretation governs the recognition of obligations obtained and rights received under service concession agreements in the financial statements of the service concession operator. The companies included in the consolidated financial statements are not considered concession operators as contemplated by IFRIC 12.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC 15 was published in July 2008 and applies for the first time to financial years commencing on or after 1 January 2009. This interpretation was endorsed by the European Union in July 2009 and is of mandatory application in the EU on commencement of the first financial year after 31 December 2009. This interpretation provides guidance on the time and scope of income realised from projects for the construction of real estate. IFRIC 15 will not affect the company's consolidated financial statements, as its scope does not apply to the company.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
IFRIC 16 was published in July 2008 and applies for the first time to financial years commencing on or after 1 October 2008. This interpretation was endorsed by the European Union in July 2009 and is of mandatory application in the EU on commencement of the first financial year after 30 June 2009. IFRIC 16 provides guidance for identifying the foreign currency risks that can be hedged within the scope of hedging a net investment, for establishing which group companies can hold the hedge instruments for the purpose of hedging the net investment, and for determining the foreign currency gain or loss to be reclassified from equity to profit or loss following the sale of the foreign operation hedged. This interpretation is to be applied prospectively. IFRIC 16 does not apply to init and therefore is not expected to affect the company's consolidated financial statements.

IFRIC 17 "Distributions of Non-Cash Assets to Owners"
IFRIC 17 was published in November 2008 and applies for the first time to financial years commencing on or after 1 July 2009. This interpretation provides guidance on accounting for obligations that provide for non-cash dividends to be distributed to shareholders. It deals in particular with the time, measurement and disclosure of this obligation. This interpretation applies prospectively, but will not have any effect on the company's consolidated financial statements.

IFRIC 18 "Transfers of Assets from Customers"
IFRIC 18 was published in January 2009 and applies for the first time to financial years commencing on or after 1 July 2009. This interpretation provides guidance on accounting for agreements in terms of which a company receives non-cash assets or cash from a customer which the company must use to connect the customer to a network and/or give the customer permanent access to the supply of goods or services. This interpretation deals in particular with the recognition criteria of customer contributions and the time and scope of revenue realised in the course of such business transactions. This interpretation applies prospectively, but will not have any effect on the company's consolidated financial statements.

IFRS and IFRIC interpretations not yet adopted by the EU under the comitology procedure which have not yet become effective:

The following standards and interpretations have not yet been endorsed by the EU are not applied by the group.

Amendment to IFRS 1 "Additional Exemptions for First-Time Adopters"
The amendment to IFRS 1 was published in July 2009 and applies for the first time to financial years commencing on or after 1 January 2010. IFRS 1 was amended to allow for full retrospective application of the IFRS for measurement of oil and gas assets and for leasing contracts.

Amendment to IFRS 2 "Group Cash-Settled Share-Based Payment Transactions"
The amendment to IFRS 2 was published in June 2009 and applies for the first time to financial years commencing on or after 1 January 2010. The amendment includes a change in the definition of share-based payment transactions and the scope of IFRS 2 and provides further guidance on accounting for group share-based payment transactions. Within the scope of these amendments, the provisions of IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "Group and Treasury Share Transactions" were incorporated in IFRS 2 and both interpretations subsequently withdrawn.

“Improvements to International Financial Reporting Standards 2009”
The second general standard, published as part of the annual improvements process, includes improvements to twelve standards and interpretations, primarily to remove inconsistencies and to clarify phrases (except otherwise specified, to be applied for the first time to financial years commencing on or after 1 January 2010).

IFRS 9 “Financial Instruments: Classification and Measurement”
IFRS 9 was published in November 2009 and applies for the first time to financial years commencing on or after 1 January 2013. The revised standard introduces new regulations relating to the classification and measurement of financial assets. The standard will gradually replace IAS 39 “Financial Instruments”.

Amendment to IFRS 1 “Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters”
The amendment to IFRS 1 was published in January 2010 and applies for the first time to financial years commencing on or after 1 July 2010. The revised standard permits first-time adopters of IFRS to apply the transition provisions pertaining to the amendments to IFRS 7 “Improving Disclosures”, published in March 2009.

IAS 24 “Related Party Disclosures”
The revised standard IAS 24 was published in November 2009 and applies for the first time to financial years commencing on or after 1 January 2011. It changes the definition of related parties and exempts state-controlled companies from the disclosure requirements pertaining to transactions with the state and with other companies controlled by this state. The standard is to be applied retrospectively.

Amendment to IFRIC 14 “Prepayments of a Minimum Funding Requirement”
The amendment to IFRIC 14 was published in November 2009 and applies for the first time to financial years commencing on or after 1 January 2011. The application of IFRIC 14, published in July 2007 for the purpose of limiting a defined benefit asset to its achievable amount, had some unintended consequences for companies in certain countries. The amendment is aimed to permit companies to recognise as an asset voluntary prepayments of minimum funding contributions.

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”
IFRIC 19 was published in November 2009 and applies for the first time to financial years commencing on or after 1 July 2010. This interpretation clarifies the treatment of extinguishing financial liabilities by issuing equity instruments.

Except for the extended disclosures in the consolidated financial statements, the future application of the above standards and interpretations not yet adopted by the EU Commission as part of the endorsement process will not have any significant effect on the group’s assets, liabilities, financial position and earnings situation.

The consolidated financial statements are always prepared using the acquisition 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 otherwise stated, all figures were rounded to a full thousand (i.e. EUR k).

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 and Electronic Fare Collection Systems" and "Other".

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

2. Mergers

Consolidated Group

Fully consolidated companies:

The group of consolidated companies of init AG comprises the subsidiaries INIT GmbH, Karlsruhe, 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."), INIT PTY LTD, Queensland, Australia ("INIT PTY"), Init Innovation in Traffic Systems FZE, Dubai ("Init FZE"), and initplan GmbH, Karlsruhe ("initplan"), 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 financial year of all included companies ends on 31 December.

Company formations in 2009
There were no company formations in the 2009 financial year.

Company formations in 2008
There were no company formations in the 2008 financial year.

Mergers in 2009
There were no mergers within the meaning of IFRS 3 in 2009.

Mergers in 2008
Acquisition of the business segment "Interplan":
The object of initplan GmbH is the development and implementation of planning software for transportation companies.

With effect from 1 January 2008, initplan GmbH acquired the init-owned software MOBILE-Plan from INIT GmbH and the planning software Interplan from PTV AG in Karlsruhe. The acquisition costs for the interplan business segment were EUR 100k.

The fair values at the time of acquisition are as follows:

EUR '000	Reported on acquisition
Licences	100

Cash outflow due to acquisition of business segment:

EUR '000	Reported on acquisition
Cash outflow	-100

No goodwill or intangible assets, which would have to be reported separately under IAS 38, were identified.

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 Notes. 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 on 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 acquisition cost against the group share in the revalued shareholders' capital of the consolidated subsidiaries at the time of getting control. The recognisable assets, liabilities and contingent claims and 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 capitalised and subjected to an impairment test in line with IFRS 3 "Business Combinations"/ IAS 36 "Impairment of Assets". Negative differences are recognised in the profit and loss immediately after the acquisition. In case of deconsolidations, the remaining book values of the positive differences are taken pro-rata 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”. The functional currency of INIT Inc., TQA, Eastern Canada Inc., Western Canada Inc., INIT PTY and Init FZE 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).

Exchange rates	Annual averages		Rate at cutoff date	
	2009	2008	**2009**	2008
1 Euro equals in US dollars	1.3905	1.4633	1.4333	1.4094
1 Euro equals in CAN dollars	1.5848	1.5579	1.5035	1.7223
1 Euro equals in AUS dollars	1.6049	1.7318	1.7654	2.0408
1 Euro equals in Dirham	5.1057	5.3726	5.2632	5.1760

Estimates and Assumptions

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 on the balance sheet, the specification of contingent liabilities as on the cutoff date, and the statement of income and expenditure during the period under review. The actual amounts may deviate from these estimates.

The most important forward-looking assumptions and any other significant sources of uncertainty in the estimations that exist on the reporting date which could give rise to the risk of having to adjust the book value of assets and liabilities in the next financial year are explained below.

Impairment of Goodwill

At least once a year, the group checks whether the goodwill is impaired in value. This check requires an estimation of the use value of the cash-generating units to which the goodwill is allocated. To this end, the corporate management must estimate the foreseeable future cash flows of the cash-generating units and, in addition, must also select an appropriate discount rate in order to calculate the cash value of these cash flows. On 31 December 2009, the book value of the goodwill was EUR 2,081k (previous year: EUR 2,081k). For further information, please refer to section 23 of the Notes.

Pensions and Other Payments after Ending the Employment Relationship

The expenditure from defined-benefit plans is calculated using actuarial methods, made on the basis of assumptions relating to discount rates, future wage and salary increases, mortality and future pension increases. Due to the long-term nature of these plans, such assumptions are subject to significant uncertainties. On 31 December 2009, the accruals for pension liabilities were EUR 2,606k (previous year: EUR 2,082k). For further information, please refer to section 30 of the Notes.

Development Costs

Development costs are capitalised as per the accounting principles and valuation methods presented above. To calculate the values to be capitalised, the corporate management must make assumptions on the amount of cash flow expected in future from assets, on the interest rates to be applied and on the time frame for the influx of expected future cash flows generated by assets. In our best estimation, the book value of the capitalised development costs is EUR 2,355k on 31 December 2009 (previous year: EUR 3,120k).

Assumptions and estimations are also necessary for reporting and valuing future receivables from long-term order completion, for value adjustments on doubtful receivables and for contingent liabilities and other provisions. They are also needed when determining the current market value of non-current tangible and intangible assets and when applying deferred taxes to tax losses carried forward.

Due to the rapid technological change, the depreciation period in fiscal 2009 was reduced to three years. Taking the original useful economic life of five years as the basis, the depreciation would have reduced by EUR 411k.

Realisation of Income

Income is realised 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 realised:

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 at the cutoff date is determined by the ratio of costs accrued to the total costs ("cost-to-cost" method).

Income from product sales is realised 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 realised until the installation has been completed.

Interest income is realised 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 capitalised (please refer to the explanations on other intangible assets).

Advertising Costs

Advertising costs are entered as expenses 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. Financial investments other than those reported at their current market value affecting the current-period result are also taken into account with transaction costs attributable directly to the acquisition of the asset. The group specifies the classification of its financial assets on initial recognition and is required to review the allocation at the end of each financial year, where permissible and appropriate.

The purchase and sale of financial assets as customary in the market is reported on 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.

The current market value of financial investments traded in organised markets is determined using the current price (buying rate) quoted on the cutoff date. The current market value of financial investments without an active market is determined using valuation methods. These valuation methods include the use of recent business transactions between competent and independent business partners willing to enter into a contract, the comparison with the current market value of another, basically identical, financial instrument, the analysis of discounted cash flows, and the use of other valuation models.

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 recognised as a separate item in the shareholders’ equity. Once the financial investment is derecognised or its value found to be impaired, the cumulated gain or loss previously recognised in the equity capital is reported through profit and loss affecting the current-period result.

Loans and Trade Accounts Receivable

Loans and trade accounts receivable are non-derivative financial assets with fixed or estimable payments not listed in an active market. After initial inclusion, the loans and receivables are reported at net book value less impairment. Profits and losses are entered in the operating result related to the accounting period if the loans and receivables are charged off or impaired, and within the scope of amortisation. 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.

Derivative Financial Instruments and Hedge Accounting

The group uses derivative financial instruments such as forward exchange contracts, currency options and swap transactions to hedge against currency risks. These derivative financial instruments are reported at their current market value at the time of conclusion of the contract and in the following periods, are measured at their current market value. Derivative financial instruments are reported as assets if their current market value is positive, and as liabilities, if their current market value is negative.

Profits or losses from changes in the current prices of derivative financial instruments not meeting the hedge accounting criteria are 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 always has a counter-effect on the net income realisation.

The current price of forward exchange contracts is determined with reference to the current forward exchange rates for contracts with similar maturity structures.

The group currently abstains from presenting this as hedge accounting and takes changes in market values relating to forward exchange transactions into account in the net earnings.

Inventories

Inventories are valued at their acquisition and production costs or the lower net sales price realisable on 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 depreciation and other production-related expenses. Cost of debt is reported as an expense in the period in which the debts were accrued. Impairment losses are recognised where necessary.

Tangible Fixed Assets

Tangible fixed assets are valued at acquisition cost less scheduled depreciation. The depreciation of the historical acquisition cost follows the straight-line method over the asset depreciation period. Low-value fixed assets are depreciated over a period of between three and five years. The depreciation of fixed assets are included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “General administrative expenses”.

The asset deprecation periods are as follows:

Buildings	50 years
Buildings on third-party land	9-10 years
Plant and machinery	3-5 years
Other installations, factory and office equipment	3-10 years

Goodwill

Goodwill from mergers is valued at acquisition 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 claims and liabilities. After initial recognition, the goodwill is reported at acquisition cost less cumulated 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 acquisition cost and depreciated under a straight-line method over the asset amortisation period of three to ten years. The amortisation of purchased intangible assets is included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “General administrative expenses”.

In accordance with IAS 38 “Intangible Assets”, the company capitalises 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 capitalised until the software is marketed and offered for sale.

After initial recognition of the development costs, the cost method is used according to which the asset is reported at acquisition cost less cumulated amortisation and cumulated impairment losses. Software development costs are amortised per product using straight-line depreciation over a maximum period of five years. Due to the rapid change in technology, the amortisation period was reduced to three years in the 2009 financial year. The depreciation and amortisation commence at the time of sale to the customer and are included under “Cost of revenues”. Furthermore, capitalised software development costs are checked for impairment of value if events or changes have occurred which suggest that the net book value of an assets 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 and European Union Subsidies

Public and European Union 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 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 realised (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 recognised in accordance with IAS 12 “Income Taxes” 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 levelled. 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 30.0%. Deferred tax assets for unused tax losses carried forward of a subsidiary are recorded to the extent that taxable income is likely to be available for these, so that the loss carried forward can actually be used.

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 utilisation 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 on 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 EUR 38,368k (previous year: EUR 26,504k).

6. Cost of Revenues

The costs of revenues are composed as follows:

EUR '000	2009	2008
Cost of materials and purchased services	21,043	21,892
Personnel expenses	11,936	10,730
Depreciation	2,049	1,277
Valuation adjustments on inventories	768	724
Other	6,122	4,146
Total	**41,918**	**38,769**

7. Research and Development Costs

EUR '000	2009	2008
Software development	1,709	1,634
Less capitalised software development expenses as per IAS 38	-432	-670
Hardware development and research costs	325	407
Total	**1,602**	**1,371**

8. Other Operating Income

This item includes EUR 161k (previous year: EUR 0) from public and European Union subsidies for research projects.

9. Foreign Currency Gains and Losses

EUR '000	2009	2008
Unrealised currency gains/losses from derivative financial instruments, receivables and liabilities	-425	163
Balance of realised currency gains and losses	-118	1,021
Currency gains/losses from consolidation transactions	-192	374
Total	**-735**	**1,558**

10. Income from Associated Companies

EUR '000	2009	2008
Income from the "at equity" method	421	276

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 financial year totalled EUR 214k (previous year: EUR 177k).

12. Income Taxes

EUR '000	2009	2008
Current income taxes	1,732	2,481
Deferred income taxes	1,532	-101
Total	**3,264**	**2,380**

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

EUR '000	**2009**	2008
Earnings before taxes	11,578	8,292
Theoretical income tax expenditure/yield at 30%	3,473	2,488
Used tax loss carryforwards	-12	-1
Tax rate differences – foreign subsidiaries	-254	-133
Tax effect of the non-deductible/ taxed expenses and income	48	31
Tax effects of tax-free increases in net worth	16	0
Taxes unrelated to accounting period	142	133
Tax effects from results of associated companies	-129	-83
Other	-20	-55
Effective income tax expenditure at 28,2% (2008: 28.7%)	**3,264**	**2,380**

13. Net Earnings and Losses from Other Financial Assets and Liabilities

The net earnings from the other financial assets and liabilities are as follows:

EUR '000	**2009**	2008
Loans and receivables	111	410
Financial assets available for sale	-61	0
Financial liabilities recognised at cost	70	97
Financial assets and liabilities reported at their current market value affecting the current-period result	-345	319
Total	**-225**	**826**

In addition to successful disposals, impairments and reinstatements of original values, the net earnings from the loans and receivables also include foreign currency effects.

The net profit and loss of the financial assets and liabilities reported at their current market value affecting the current-period result essentially include the results from changes in the market value.

14. 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 on the cutoff dates, the diluted earnings per share could not be calculated.

	2009	2008
Consolidated earnings in EUR '000	8,325	5,912
Consolidated earnings adjusted for special influences in EUR '000	8,325	5,912
Weighted average number of shares issued	9,895,660	9,859,474
Undiluted earnings per share in EUR	0.84	0.60
Undiluted earnings per share adjusted for special influences in EUR	0.84	0.60

15. Paid and Proposed Dividends

EUR '000	**2009**	2008
Ordinary dividends declared and paid during the financial year	1,580	1,378
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2009: 30 cents per share (2008: 16 cents per share)	2,979	1,580

16. Personnel Expenses

The personnel expenses totalled EUR 20,249k (previous year: EUR 18,225k).

Notes on the Consolidated Balance Sheet

17. Cash and Cash Equivalents

EUR '000	2009	2008
Deposits with credit institutions	3,950	2,697
Short-term deposits (fixed deposits/call money)	5,377	4,109
Total	**9,327**	**6,806**

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 EUR 9,327k (previous year: EUR 6,806k).

18. Securities

This item refers to shares with a total current market value of EUR 158k (previous year: EUR 14k). The gain of the securities before deferred taxes reported directly in the equity capital in 2009 amounted to EUR 59k (previous year: loss of EUR 26k). There was no sale of securities in the year under review.

19. Trade Accounts Receivable

EUR '000	2009	2008
Trade accounts receivable, gross	16,359	9,581
Less cumulative value adjustments	-184	-116
Subtotal	**16,175**	**9,466**
Future receivables from production orders	15,091	16,923
Total	**31,266**	**26,389**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2009	2008
As at 1 January	116	49
Transfer to expenditure	75	132
Utilisation	-1	0
Release	-1	-72
Currency effects	-5	7
As at 31 December	**184**	**116**

On 31 December, the age structure of trade accounts receivable was as follows:

EUR '000	2009	2008
Book value	31,266	26,389
Adjusted accounts receivable	313	124
Neither delinquent nor impaired	23,187	21,840
Delinquent but not value-impaired		
< 30 days	1,323	2,676
30-60 days	1,436	981
60-90 days	3,577	483
90-180 days	1,792	388
> 180 days	7	13

The delinquent accounts receivable of EUR 8.1m (previous year: EUR 4.5m) include EUR 5.2m from the projects in Dubai.

The receivables from the percentage of completion method, which are reported together with the trade accounts receivable, and the future receivables from production orders continuously allow for impairment factors in concurrent project costing. In the 2009 financial year, provisions for risks of EUR 0.7m were set up primarily for the projects in Dubai as a safeguard against actual or expected defaults in payment.

Over and above that, there were no indications on the cutoff date to suggest that the debtors of the receivables not subject to value impairment would not meet their financial obligations.

General portfolio allowances were not set up on account of the lack of history.

Production Orders

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

EUR '000	31/12/2009	31/12/2008
Costs accrued plus profits from projects not yet invoiced	25,988	19,431
Less progress payment invoices	-19,612	-7,770
Balance	**6,376**	**11,661**
Thereof: future receivables from production orders	15,091	16,923
Thereof: liabilities from percentage of completion (see Liabilities)	8,715	5,262

20. Inventories

EUR '000	2009	2008
Raw materials and supplies	224	256
Goods (reported at net sales price)	11,727	6,345
Work in process (reported at production cost)	19,799	842
Deposits received	-19,612	-819
Deposits paid	3,205	1,061
Total	**15,343**	**7,685**

A total of EUR 768k (previous year: EUR 724k) for inventory depreciation was recorded as expense. The expense is included in the "Cost of revenues".

21. Other Current Assets

EUR '000	2009	2008
Derivative financial instruments	289	849
Accruals	240	115
Tax refund claims	350	336
Loans	0	75
Due from personnel	99	76
Cash in transit	15	0
Other	221	365
Total	**1,214**	**1,816**

On the cutoff date, there were no indications to suggest that the value of the other assets was impaired.

22. Tangible Fixed Assets

EUR '000	Land and buildings	Technical installation, plant and machinery	Factory and office equipment
Acquisition and production costs			
As at 1 January 2009	3,535	316	5,825
Additions in current financial year	7	14	869
Disposals in current financial year	0	48	150
Currency differences	-11	-5	-1
As at 31 December 2009	3,531	277	6,543
Depreciation			
As at 1 January 2009	278	203	4,240
Additions in current financial year	120	38	772
Disposals in current financial year	0	44	124
Currency differences	-2	-2	-4
As at 31 December 2009	396	195	4,884
Book value as at 31/12/2009	**3,135**	**82**	**1,659**

EUR '000	Land and buildings	Technical installation, plant and machinery	Factory and office equipment
Acquisition and production costs			
As at 1 January 2008	2,813	319	5,015
Additions in current financial year	731	7	1,061
Disposals in current financial year	39	19	269
Currency differences	30	9	18
As at 31 December 2008	3,535	316	5,825
Depreciation			
As at 1 January 2008	209	162	3,912
Additions in current financial year	88	42	554
Disposals in current financial year	22	6	247
Currency differences	3	5	21
As at 31 December 2008	278	203	4,240
Book value as at 31/12/2008	**3,257**	**113**	**1,585**

The tangible fixed assets essentially concern the administration building at Käppelestr. 4, two residential buildings, office equipment and technical installations. The depreciation follows the straight-line method over the asset depreciation period. The depreciation in 2009 totalled EUR 930k (previous year: EUR 684k) and is included in the consolidated statement of operations under "Cost of revenues", "Sales and marketing expenses" and "General administrative expenses".

23. Intangible Assets

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As at 1 January 2009	2,081	9,111	2,529
Additions in current financial year	0	432	253
Disposals in current financial year	0	0	0
Currency differences	0	-7	-2
As at 31 December 2009	2,081	9,536	2,780
Depreciation			
As at 1 January 2009	0	5,991	1,954
Additions in current financial year	0	1,197	276
Disposals in current financial year	0	0	0
Currency differences	0	-7	-2
As at 31 December 2009	0	7,181	2,228
Book value as at 31/12/2009	**2,081**	**2,355**	**552**

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As at 1 January 2008	2,081	8,422	2,252
Additions in current financial year	0	670	274
Disposals in current financial year	0	0	1
Currency differences	0	19	4
As at 31 December 2008	2,081	9,111	2,529
Depreciation			
As at 1 January 2008	0	5,453	1,582
Additions in current financial year	0	519	369
Disposals in current financial year	0	0	0
Currency differences	0	19	3
As at 31 December 2008	0	5,991	1,954
Book value as at 31/12/2008	**2,081**	**3,120**	**575**

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 “Telematics and Electronic Fare Collection Systems” and
- Cash-generating unit “Other”, comprising planning systems and the automotive segment.

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

EUR ‘000	2009	2008
Telematics and Electronic Fare Collection Systems	1,877	1,877
Other	204	204
Total	**2,081**	**2,081**

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 10.7% before taxes.

The following assumptions taken as a basis for the calculation of the use value of the two units “Telematics and Electronic Fare Collection Systems” and “Other” 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 financial years prior to the planning period. For the cash-generating “Telematics and Electronic Fare Collection Systems” unit, the factor applied was 34.0% and for “Other” it was 33.5%.

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 7.5% (without growth deduction) after taxes was applied to both cash-generating units, which consists of a basic interest rate of 4.25%, a risk premium of 5.0% and a growth discount of 1.0%.

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 capitalised in compliance with IAS 38 "Intangible Assets" to the amount of EUR 2,355k (previous year: EUR 3,120k) for the products APC, MOBILEvario Level II, COPILOTpc/touch, and NAVIGATION.

In 2009, the amortisation of the capitalised amounts totalled EUR 1,197k (previous year: EUR 519k). Amortisation costs were not recorded. The amortisation of internally generated software is included in the consolidated statement of operations under "Cost of revenues".

Due to the rapid technological change, the depreciation period in fiscal 2009 was reduced to three years. Taking the original useful economic life of five years as the basis, the depreciation would have reduced by EUR 411k.

The capitalised software developments of JANET Levels I, II and III, MOBILE-PLAN Levels I and II, TOUCHmobil Levels I and II, MOBILEvario Level I, COPILOTpower, Janet Level IV, PIDmobil, PIDstation, and MOBILE-PARAnet have now been fully amortised.

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 EUR 552k (previous year: EUR 575k). The amortisation of the capitalised amounts in 2009 totalled EUR 276k (previous year: EUR 369k) and is included in the consolidated statement of operations under "Cost of revenues", "Sales and marketing expenses" and "General administrative expenses".

24. Shares in Associated Companies

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

EUR '000		Balance-sheet total 31/12	Equity 31/12	Total liabilities 31/12	Revenues	Profit
iris	**2009**	5,428	3,401	2,027	7,874	830
	2008	5,033	3,071	1,962	6,466	369
id systeme	**2009**	1,152	606	546	2,375	146
	2008	1,324	461	863	2,567	268
Total	**2009**	**6,580**	**4,007**	**2,573**	**10,249**	**976**
	2008	6,357	3,532	2,825	9,033	637

Writedowns of the shares in associated companies were not required.

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

The object of iris GmbH is the development, production and sale of sensors, and sensor- and information-processing systems. In 2009, the pro-rata result from this equity consolidation amounted to EUR 357k (previous year: EUR 158k). A distribution of EUR 215k was made in the financial year (previous year: EUR 121k).

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 EUR 267k. The pro-rata result from the equity consolidation in 2009 totalled EUR 64k (previous year: EUR 118k). A distribution of EUR 0 was made in the financial year (previous year: EUR 189k).

25. Deferred Taxes

The deferred tax assets and liabilities are as follows:

	Consolidated Balance Sheet		Consolidated Income Statement	
EUR '000	**31/12/2009**	31/12/2008	**2009**	2008
Deferred tax assets				
Pension accruals	87	120	-33	0
Provisions	91	215	-124	138
Derivatives	0	33	-33	33
Differences acc. to tax law of foreign group companies and IFRS	283	367	-84	204
Consolidation transactions	5	60	-55	55
Foreign currency assets and liabilities	74	94	-20	6
Other	33	8	25	8
Loss carried forward	151	165	-14	0
Total deferred tax assets	**724**	**1,062**		
Deferred tax liabilities				
Capitalised software	706	936	230	-45
Application of POC method	2,297	662	-1,635	-126
Loss-free valuation	0	13	13	-13
Foreign currency assets and liabilities	87	74	-13	-74
Low-value fixed assets	0	23	23	4
Differences acc. to tax law of foreign group companies and IFRS	0	0	0	7
Derivatives	80	255	175	-142
Goodwill	29	25	-4	4
Other current assets	26	0	-26	12
Pension accruals	0	72	30	7
Consolidation transactions	-36	-23	13	23
Total deferred tax liabilities	**3,189**	**2,037**		
Deferred tax expenditure/income			**-1,532**	**101**

Deferred tax assets amounting to EUR 151k (previous year: EUR 165k) were accrued for previously unused tax losses carried forward at a subsidiary. On 31 December 2009, the unused corporate tax loss carried forward was EUR 507k (previous year: EUR 550k).

On 31 December 2009, there were no deferred tax liabilities on retained earnings of subsidiaries on the grounds that appropriate distributions are not planned for the foreseeable future. If such distributions were made, the tax burden would be insignificant for the group. The temporary differences in connection with shares in subsidiaries totalled EUR 6.1m (previous year: EUR 4.5m).

26. Other Non-Current Assets

EUR '000	2009	2008
Asset value of pension liability insurance	1,392	1,178
Security deposits	125	150
Loans	37	46
Other	28	99
Total	**1,582**	**1,473**

On the cutoff date there were no indications to suggest that the value of the other assets was impaired.

27. Liabilities

EUR '000	31/12/2009			31/12/2008		
		Residual term			Residual term	
	Total	< 1 year	> 5 years	Total	< 1 year	> 5 years
Bank liabilities	2,295	1,166	845	2,329	1,129	918
Trade accounts payable	3,284	3,284	0	2,672	2,672	0
Accounts payable from percentage of completion	8,715	8,715	0	5,262	5,262	0
Accounts payable to related parties	305	305	0	170	170	0
Advance payments received	1,765	1,765	0	2,249	2,249	0
Income tax liabilities	1,061	1,061	0	1,060	1,060	0
Other liabilities	5,858	5,784	30	4,587	4,482	0

Terms relating to the above financial liabilities:

The bank liabilities of EUR 2,295k (previous year: EUR 2,329k) relate, firstly, to a long-term loan of EUR 1,200k (previous year: EUR 1,200k) for financing the building at Käppelestr. 4, Karlsruhe, which is fully secured by a land charge, and, secondly, to an overdraft of EUR 795k (previous year: EUR 729k) and a Euro credit of EUR 300k (previous year: EUR 400k), which together total EUR 1,095k (previous year: EUR 1,129k).

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	**2009**	59,045	2,445	43,500	13,100
Credit insurance companies	**2009**	17,000	0	17,000	0
Banks	2008	36,900	2,400	24,000	10,500
Credit insurance companies	2008	17,000	0	17,000	0

The credit and guarantee lines are sufficient to finance the further growth of the company. On 31 December 2009, the cash line utilisation totalled EUR 1,095k (previous year: EUR 1,129k), the guarantee lines, EUR 32,956k (previous year: EUR 26,021k).

No interest is charged on the trade accounts payable.

For the terms and conditions relating to the accounts payable to related parties, please refer to item 36 of the Notes.

For the terms and conditions relating to the liabilities from derivative financial instruments included in the other liabilities, please refer to item 32 of the Notes.

28. Other Liabilities (long-term and short-term)

EUR '000	**31/12/2009**			31/12/2008		
		Residual term			Residual term	
	Total	< 1 year	> 5 years	Total	< 1 year	> 5 years
Tax liabilities	819	819	0	791	791	0
Due to personnel	3,388	3,388	0	2,818	2,818	0
Derivative financial instruments	315	315	0	530	530	0
Social security liabilities	10	10	0	46	46	0
Remaining work	490	490	0	0	0	0
Other	836	762	30	402	297	0
Total	**5,858**	**5,784**	**30**	**4,587**	**4,482**	**0**

29. Accrued Liabilities

EUR '000	As at **01/01/09**	Usage	Release	Transfer	As at **31/12/09**
Accrued liabilities for warranties	1,486	169	110	421	1,628
Accrued liabilities for insufficient production costs	2,378	902	816	995	1,655
Other accrued liabilities	43	20	6	255	272
Total	**3,907**	**1,091**	**932**	**1,671**	**3,555**

EUR '000	As at 01/01/08	Usage	Release	Transfer	As at 31/12/08
Accrued liabilities for warranties	977	977	0	1,486	1,486
Accrued liabilities for insufficient production costs	1,065	501	147	1,961	2,378
Other accrued liabilities	61	2	20	4	43
Total	**2,103**	**1,480**	**167**	**3,451**	**3,907**

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

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

The accrued liabilities for deficient production costs were established for services still outstanding in invoiced orders or for services received in the period under review which had not yet been invoiced.

30. 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: actuarial interest rate 5.3% (previous year: 5.8%), 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 at the individual cutoff dates based on personnel data as at the respective cutoff dates.

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

EUR '000	**2009**	2008
Pension accruals at the beginning of the year (Defined Benefit Obligation - DBO)	2,082	2,010
Past service cost	20	0
Service cost	86	87
Interest cost	121	110
Actuarial losses (+) / gains (-)	297	-125
Pension payments	0	0
Pension accruals (DBO) at the end of the year under review	**2,606**	**2,082**

With regard to the defined benefit plans, the expenses for pension payments consist of the following:

EUR '000	**2009**	2008
Service cost	86	87
Interest cost	121	110
Past service cost	20	0
Expenses for pension payments	**227**	**197**

In the consolidated statement of operations, the service cost and the past service cost are included in the "Cost of revenues" (EUR 14k), the "Sales and marketing expenses" (EUR 37k) and the "General administrative expenses" (EUR 35k) and the interest paid in this item.

EUR '000	**31/12/2009**	31/12/2008
Cumulated amount of the actuarial gains and losses included in the shareholders' equity, after deleting deferred taxes	81	-187

EUR '000	**2009**	2008
Performance-oriented liability (DBO) 31/12	2,606	2,082
Adjustments of the liability based on experience	27	11

The pension accruals (DBO) attributable to members of the Managing Board totalled EUR 1,443k (previous year: EUR 1,172k).

Defined Contribution Plans

In the 2002 financial 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 EUR 222k (previous year: EUR 181k), of which EUR 50k (previous year: EUR 46k) were attributable to the members of the Managing Board.

31. 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 EUR 1.00. The shares have been issued and fully paid up.

Floating shares:

	2009	2008
As at 01/01	9,875,345	9,844,278
Acquisition of treasury stock	0	-20,000
Reassignment of issued stock to employees	-100	0
Issue of stock to Managing Board and managing directors	30,000	30,000
Issue of stock to employees	24,536	21,067
As at 31/12	9,929,781	9,875,345

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

Managing Board	Number of shares	Supervisory Board	Number of shares
Dr. Gottfried Greschner, CEO*	3,525,000	Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	0
Joachim Becker, COO	320,983	Bernd Koch	0
Wolfgang Degen, COO	89,000	Fariborz Khavand	0
Dr. Jürgen Greschner, CSO	97,364		
Bernhard Smolka, CFO	21,000		

* 3,485,000 of which held by Dr. Gottfried Greschner GmbH & Co. Vermögensverwaltungs KG

Authorised Capital

At the annual shareholders' meeting on 13 July 2006, a resolution was passed to create capital to the amount of EUR 5,020,000. With the approval of the Supervisory Board, the Managing Board is authorised to increase the company's capital stock by up to EUR 5,020,000 by 13 July 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 authorised 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 EUR 3,141k result from the premium of the shares sold at the time of the initial public offering. EUR 295k were transferred from 2005 to 2008 as part of the recognised expenses from the share-based remuneration (see item 38) and EUR 427k in 2009. Due to the sale of treasury stock in 2007, the capital reserves increased by EUR 514k.

Treasury Stock

The treasury stock as at 1 January 2009 totalled 164,655 shares. Based on the resolution passed at the annual shareholders' meeting on 27 May 2008, replaced by the resolution of 20 May 2009, the company is authorised to purchase treasury stock. No decision was made in 2009 to repurchase treasury stock. Within the scope of the incentive scheme for members of the Managing Board and managing directors in the 2009 financial year, a total of 30,000 shares were transferred with a qualifying period of 5 years. A further 1,000 shares were transferred to employees within the scope of a bonus agreement without qualifying period, along with 23,536 shares with a qualifying period of two years within the scope of an employee profit-sharing scheme. 100 shares were retransferred from the employee profit-sharing scheme in 2007. On 31 December 2009, the number of treasury stock thus reduced to 110,219 shares.

The company's treasury stock was valued at acquisition cost at EUR 477k (previous year: EUR 789k) and openly deducted from the equity capital. Of the treasury stock as at 31 December 2008 of 110,219 shares with an imputed share of EUR 110,219 (1.1%) in the capital stock, 1,139 resulted from the capital increase in 2002 and 109,080 from the company's stock repurchasing programme. The shares were repurchased at an average price of EUR 4.33 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 Provisions

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

Difference from currency transaction:
This reserve is used to record differences due to converting the financial statements from foreign currencies into the reporting currency.

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

32. 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.

Foreign Currency Risk

Due to foreign revenues, specifically in the USA, Canada, Dubai, Great Britain, New Zealand, Norway, Australia and Sweden, the change in the exchange rates for US Dollar/Euro, Canadian Dollar/Euro, Dirham/Euro, British Pound Sterling/Euro, New Zealand Dollar/Euro, Norwegian Krone/Euro, Australian Dollar/Euro and Swedish Krona/Euro 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.

IFRS 7 provides that disclosures of market risks require sensitivity analyses that show the effects of hypothetical changes in risk variables on the operating result and the equity. init is primarily exposed to an exchange risk. The effects are determined by relating the hypothetical changes in the risk variable to the amount of financial assets and liabilities at the reporting date.

If the value of the Euro to the foreign currencies reported by init on 31 December 2009 had been up by 10% in the year under review, the operating result would have been EUR 2,237k lower. This breaks down as follows: -EUR 2,325k to cash in banks, accounts receivable and liabilities and -EUR 29k to currency options, set against appreciation in forward exchange transactions at EUR 117k. If, however, the value of the Euro to all foreign currencies reported by init on 31 December 2009 had been down by 10%, the operating result would have been EUR 2,338k higher. This operating result debit breaks down as follows: -EUR 19k to forward exchange transactions, compensated for by appreciation in currency options at EUR 32k and by cash in banks, accounts receivable and liabilities at EUR 2,325k.

If, in the 2008 financial year, the value of the Euro to the foreign currencies reported by init on 31 December 2008 had been up by 10%, the operating result would have been EUR 869k higher. This breaks down as follows: -EUR 626k to cash in banks, accounts receivable and liabilities and currency options at -EUR 27k, compensated for by appreciation in forward exchange transactions at EUR. If, however, the value of the Euro to all foreign currencies reported by init on 31 December 2008 had been 10% down, the operating result would have been EUR 1,205k lower. This operating result debit breaks down as follows: -EUR 1,976k to forward exchange transactions and EUR 145k to currency options, partially compensated for by appreciation of the cash in banks, accounts receivable and liabilities at EUR 626k.

Risk of Default

The group concludes transactions exclusively with recognised, 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 recognisable 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 recognised, 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 in the form of a change in their current market value. Due to their insignificant nominal amounts, this risk is quite low.

Liquidity Risk

On 31 December 2009, the financial liabilities of the group had the following maturities. The particulars are based on contractual, non-discounted payments plus agreed or anticipated interest payments (cash flows).

EUR '000	Book value	2010	2011	2012-2014	> 2014
Non-derivative financial liabilities					
Other financial liabilities	6,279	5,168	114	327	1,082
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	315	315	0	0	0
Derivative financial assets	-289	-289	0	0	0
Total		**5,194**	**114**	**327**	**1,082**

As at 31 December 2008, the future cash flows from the financial liabilities were as follows:

EUR '000	Book value	2009	2010	2011-2013	> 2013
Non-derivative financial liabilities					
Other financial liabilities	9,197	7,892	0	75	1,230
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	530	530	0	0	0
Derivative financial assets	-849	-849	0	0	0
Total		**7,573**	**0**	**75**	**1,230**

33. Explanatory Notes on the Financial Instruments

Classification and 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 31 December 2009 and shows their classification in appropriate measurement categories according to IAS 39:

		Valuation acc. to IAS 39				
EUR '000	Book value	Loans and receivables	Financial assets available for sale	Financial liabilities recognised at cost	Financial assets and liabilities reported at their current market value affecting the current-period result	Current market value
Cash and cash equivalents	9,327	9,327				9,327
Loans and receivables	16,644	16,644				16,644
Receivables from the percentage of completion method	15,091	15,091				15,091
Securities	158		158			158
Derivative financial assets without a hedging relationship	289				289	289
Derivative financial liabilities without a hedging relationship	-315				-315	-315
Financial liabilities	-6,279			-6,279		-6,279

On 31 December 2008, the classes and book values were as follows:

		Valuation acc. to IAS 39				
EUR '000	Book value	Loans and receivables	Financial assets available for sale	Financial liabilities recognised at cost	Financial assets and liabilities reported at their current market value affecting the current-period result	Current market value
Cash and cash equivalents	6,806	6,806				6,806
Loans and receivables	11,347	11,347				11,347
Receivables from the percentage of completion method	16,923	16,923				16,923
Securities	14		14			14
Derivative financial assets without a hedging relationship	849				849	849
Derivative financial liabilities without a hedging relationship	-530				-530	-530
Financial liabilities	-9,197			-9,197		-9,197

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.

Hierarchy of Fair Values

The group uses the following hierarchy to determine and report the fair value for a financial instrument for each valuation technique:

Level 1: Quoted (unadjusted) prices for identical assets or liabilities in active markets

Level 2: Valuation technique in which all inputs significantly affecting the fair value are either directly or indirectly observable

Level 3: Methods using inputs which significantly affect the fair value and are not based on observable market data.

EUR '000	Fair value as at **31/12/2009**	Level 1	Level 2	Level 3
Financial assets recognised at fair value through profit or loss				
Derivative financial assets without a hedging relationship	289		289	
Available-for-sale financial assets				
Securities	158	158		
Financial liabilities recognised at fair value through profit or loss				
Derivative financial liabilities without a hedging relationship	-315		-315	

EUR '000	Fair value as at 31/12/2008	Level 1	Level 2	Level 3
Financial assets recognised at fair value through profit or loss				
Derivative financial assets without a hedging relationship	849		849	
Available-for-sale financial assets				
Securities	14	14		
Financial liabilities recognised at fair value through profit or loss				
Derivative financial liabilities without a hedging relationship	-530		-530	

In the reporting period ending 31 December 2009 and the reporting period ending 31 December 2008, there were no reclassifications between the fair value categories of Level 1 and Level 2 nor any reclassifications into or out of the fair value category of Level 3.

Risk of Default

The group does not have any material risk of default concentrations. This is due, on the one hand, to the fact that over 90% of the orders are from public authorities. On the other, the orders are usually paid on account or billed on the basis of predefined performance progress. Furthermore, the bills receivable are checked and/or dunned every fortnight for receipt of payment. The losses of receivables outstanding for the 2009 financial year totalled EUR 1k (previous year: EUR 0).

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 Arabian Dirham, US Dollars and Canadian Dollars from firm commitments. The following derivative financial instruments were concluded:

	Nominal value		Market values	
EUR '000	**31/12/2009**	31/12/2008	**31/12/2009**	31/12/2008
Forward exchange transactions	12,961	19,627	-47	-20
Currency options	2,024	3,951	21	339
	14,985	23,578	**-26**	319

The exercise of maturities dates extend until June 2010.

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 EUR 571k, of which EUR 366k is 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 2026 and amount to:

EUR '000	**31/12/2009**	31/12/2008
< 1 year	1,011	946
1 – 5 years	2,954	3,093
> 5 years	5,460	5,934
Total	**9,425**	**9,973**

Contingent Liabilities

As in the previous year, there were no contingent liabilities on 31 December 2009.

Legal Disputes

Within the scope of its business activities, the company is involved in one pending lawsuit at the time of the cutoff day. The company does not expect the result of this legal dispute to have any substantial detrimental effect on the asset, earnings or liquidity situation.

Other Disclosures

35. Additional Notes to the Cash Flow Statement

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

EUR '000	2009	2008
Interest payments	-110	-230
Interest receipts	83	174
Receipts from dividend distributions	215	311
Income tax payments	-1,723	-1,405
Income tax receipts	66	46

The cash flows of investments in tangible fixed assets relate to the maintenance of capacities and expansion investments.

36. Related Party Transactions

The companies included in the consolidated financial statement and the associated companies are listed in the section on the consolidated group.

EUR '000	Associated companies		Other related party transactions	
	2009	2008	2009	2008
Income from sales to related parties and persons	0	0	0	0
Payments from related parties and persons	1,585	604	366	366
Due from related parties and persons on 31/12	68	72	61	61
Due to related parties and persons on 31/12	305	170	0	0

Associated Companies

The amounts due from related parties and persons include loans amounting to EUR 68k (previous year: EUR 68k) and relate to iris. These amounts are shown in the balance sheet under non-current assets.

The other amounts of EUR 4k relate to iris. These are trade accounts receivable with a remaining maturity of less than one year. These amounts are shown in the balance sheet under current assets.

The amounts due to related parties and persons relate to trade accounts payable and have a remaining maturity of less than one year. The amounts are attributable to iris at EUR 280k (previous year: EUR 170k) and to id systeme GmbH at EUR 25k (previous year: EUR 0). The amounts are shown in the balance sheet under 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 EUR 30k (EUR 366k annually). The rental price is contractually fixed until 30 June 2011 and will increase to EUR 475k per year from 1 July 2011 until 30 June 2026. Furthermore, a rent deposit of EUR 61k was paid for the office building in Karlsruhe.

Terms and Conditions of Business Transactions with Related Parties and Persons

Sales to, and purchases from, related parties and persons are made to generally accepted market terms. There are no guarantees at all 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 financial year to 31 December 2009 (previous year: EUR 0).

Remuneration of Persons in Key Management Positions

The members of the Managing Board of init AG and the Managing Directors of INIT GmbH are seen as persons in key management positions. For details on their remuneration, please refer to item 41 of the Notes.

37. Segment Reporting

The corporate group has the following segments that are obliged to report:

1. The "Telematics and Electronic Fare Collection Systems" covers integrated systems for controlling personnel transport, fare collection systems, passenger information systems and passenger counting systems.
2. The category entitled "Other" encompasses planning systems (planning and data management systems) and automotive (analysis systems for the car industry).

Based on the products and services offered by the segments and for the purpose of managing the corporation, the corporate group is subdivided into the following three divisions: "Telematics and Electronic Fare Collection

1/1/2009 to 31/12/2009

EUR '000	Telematics and Electronic Fare Collection Systems	Other	Eliminations & adjustments	Consolidated
Revenues				
With third parties	62,288	2,667	0	64,955
With other segments	600	1,679	-2,279	0
Total revenues	**62,888**	**4,346**	**-2,279**	**64,955**
EBIT	**11,809**	**-89**	**34**	**11,754**
Segment assets	70,952	2,733	-2,075	71,610
Segment liabilities	31,987	1,705	-1,059	32,633
Interest income	92	1	-10	83
Interest expenses	246	23	-10	259
Scheduled depreciation	2,168	235	0	2,403
Cost of revenues	41,084	3,142	-2,308	41,918
R & D costs	992	610	0	1,602
Foreign currency gains (+) and losses (-)	-736	1	0	-735
Share in profit of associated companies	421	0	0	421
Income tax	3,236	28	0	3,264
Value impairments	768	0	0	768
Share in associated companies	2,059	0	0	2,059
Investments in tangible and intangible assets	1,608	167	-200	1,575

Systems", "Planning Systems" and "Automotive". The "Planning Systems" and "Automotive" divisions have been subsumed under the segment entitled "Other".

The management monitors the operating results separately for each division in order to make decisions on the distribution of resources and to estimate the profitability. The profitability is determined based on the operational result, which corresponds to the result indicated in the consolidated financial statements.

1/1/2008 to 31/12/2008

EUR '000	Telematics and Electronic Fare Collection Systems	Other	Eliminations & adjustments	Consolidated
Revenues				
With third parties	53,240	2,753	0	55,993
With other segments	663	1,508	-2,171	0
Total revenues	**53,903**	**4,261**	**-2,171**	**55,993**
EBIT	**8,492**	**75**	**30**	**8,597**
Segment assets	57,081	2,717	-1,847	57,951
Segment liabilities	25,905	1,827	-1,377	26,355
Interest income	180	1	-7	174
Interest expenses	434	52	-7	479
Scheduled depreciation	1,370	202	0	1,572
Cost of revenues	37,859	3,027	-2,117	38,769
R & D costs	832	539	0	1,371
Foreign currency gains (+) and losses (-)	1,563	-5	0	1,558
Share in profit of associated companies	276	0	0	276
Income tax	2,386	-6	0	2,380
Value impairments	724	0	0	724
Share in associated companies	1,852	0	0	1,852
Investments in tangible and intangible assets	2,585	339	-200	2.724

Geographical Information

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).

EUR '000	2009	2008
Revenues with external clients		
Germany	17,718	14,824
Rest of Europe	14,468	10,942
North America	17,636	18,832
Other countries (Australia, UAE)	15,133	11,395
Group total	**64,955**	**55,993**

EUR '000	2009	2008
Non-current assets 31/12		
Germany	8,806	9,387
North America	846	976
Other countries (Australia, UAE)	190	139
Group total	**9,842**	**10,502**

38. Share-Based Remuneration

Employee Shares

Based on the resolution of the Managing Board of 25 February 2009, published on 15 June 2009 (previous year: 10 November 2008), all employees of init AG and its subsidiaries were offered shares of the company as a form of profit sharing. In December 2009, 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 (December 2008: 100 shares) at a price of EUR 7.59 (December 2008: EUR 5.10) 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 with less than one year at the company. To qualify, employees needed to be in permanent employment as of 31 December 2009 (previous year: 31 December 2008). The shares are subject to a qualifying period of two years from the time of transfer.

In December 2009, a total of 22,542 treasury stock (December 2008: 20,067) were transferred under the 2009 profit-sharing scheme. A further 994 shares were transferred to employees retroactively for 2008 in January 2009. The resulting liabilities were included in the 2009 financial statement.

At the date of publication of the Managing Board resolutions, the fair value based on the market price of the equity instruments issued was EUR 171k (previous year: EUR 107k), which was recorded as expenses of EUR 82k in 2009 (previous year: EUR 73k).

Management Bonuses in the Form of Stocks

A further management bonus in the form of stocks was granted to the five members of the Managing Board and the Managing Director of INIT Inc., from consolidated earnings exceeding EUR 2m 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 every EUR 300 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.

On 31 December 2009, 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 EUR 330k (EUR 10.99 per share), which was recorded as expense in 2009.

39. Events After the Balance-Sheet Date

There were no events after the balance-sheet cutoff date that have any significant effects on the asset, financial and earnings situation.

40. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

EUR '000	**2009**	2008
Employees in Germany (six of which at CarMedialab)	229	204
Employees in North America	47	56
Employees in other countries	12	6
Total	**288**	**266**

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, Pfinztal	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 specialising in local public transportation, 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, Managing Director of Elco Motores GmbH, Hagen

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 EUR 323k (previous year: EUR 266k), and in their capacity as Managing Directors or departmental heads of INIT GmbH included in the consolidated financial statements, to the amount of EUR 1,558k (previous year: EUR 1,309k), thus totalling EUR 1,881k in the 2009 financial year (previous year: EUR 1,575k). This total includes fixed salaries of EUR 1,064k (previous year: EUR 1,021k), variable remuneration in the form of management bonuses of EUR 326k (previous year: EUR 330k), and EUR 491k (previous year: EUR 224k) in the form of stocks, including the income tax payable for them.

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

The total remuneration of the Supervisory Board members for the period from 1 January 2009 to 31 December 2009 amounted to EUR 131k (previous year: EUR 100k), which includes a variable share of EUR 95k (previous year: EUR 64k) and is distributed as follows:

EUR '000	Fixed	Variable
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18	47
Bernd Koch	9	24
Fariborz Khavand	9	24

In the 2009 financial year, the members of the Supervisory Board of the init group received EUR 0 for consulting service (previous year: EUR 0).

42. Auditing Firm

The auditing firm Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, received compensation to the amount of EUR 105k (previous year: EUR 92k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 0 (previous year: EUR 0). Certification and appraisal services incurred costs of EUR 0 (previous year: EUR 0), and other services, of EUR 13k (previous year: EUR 5k).

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 15 December 2009, and was made available to the shareholders.

44. Notifications under Section 26 (1) WpHG

Under Section 21 (1) of the German Securities Trading Act (WpHG), init AG was notified as follows:

On 12 May 2009, Ms. Christina Greschner, Karlsruhe/Germany, notified us under Section 21 (1) WpHG that on 11 May 2009 her voting interest in our company exceeded the threshold of 5% and on this day amounted to 7.59% (762,192 votes). Under Section 22 (1) sentence 1 no. 6 WpHG, 3.79% are attributable to her. Voting rights held by Mr. Michael Greschner, whose voting interest in init innovation in traffic systems AG equals or exceeds 3%, are attributed to her. The shareholders' meeting of init innovation in traffic systems AG will be held on 20 May 2009. After the shareholders' meeting, the total voting interest of Ms. Christina Greschner will be 3.80%, corresponding to 381,192 votes.

Under Sections 21 (1) and 24 WpHG, Credit Suisse Group AG, Zurich, Switzerland, notified us on 15 May 2009 in its own name and in the name and on behalf of the following companies as follows:

1. On 6 May 2009, the voting interest of Credit Suisse Securities (Europe) Limited, One Cabot Square, London, E14 4QJ, England, in init innovation in traffic systems AG exceeded the threshold of 3% and on this day amounted to 3.98% (399,100 votes).

2. Due to Credit Suisse Securities (Europe) Limited exceeding the threshold of 3%, as notified above, we hereby further notify you that on 6 May 2009 the voting interest of its affiliated companies, CreditSuisse (International) Holding AG, Bahnhofstrasse 17, 6300 Zug, Switzerland, Credit Suisse Investments (UK), One Cabot Square, London E14 4QJ, England, and Credit Suisse Investment Holdings (UK), One Cabot Square, London E14 4QJ, England, in init innovation in traffic systems AG also exceeded the threshold of 3% and on this day amounted to 3.98% (399,100 votes). Under Section 22 (1) sentence 1 no. 1 WpHG, this voting interest is fully attributable to each of these companies.

3. Furthermore, we hereby notify you that on 6 May 2009 the voting interest of Credit Suisse, Paradeplatz 8, 8001 Zurich, Switzerland, and Credit Suisse Group AG, Paradeplatz 8, 8001 Zurich, Switzerland, in init innovation in traffic systems AG exceeded the threshold of 3% and on this day amounted to 3.98% (399,100 votes). Under Section 22 (1) sentence 1 no. 1 WpHG, this voting interest is fully attributable to each of these companies.

4. The chain of controlling companies is as follows (starting with the bottom company): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group AG.

On 22 May 2009, Dr. Gottfried Greschner notified us as follows under Section 21 (1) WpHG: On 17 May 2009, the voting interest under Section 21 (1) WpHG of Dr. Gottfried Greschner in init innovation in traffic systems AG, Karlsruhe, fell below the threshold of 50% and on this day amounted to 35.81% (corresponding to 3,595,000 votes). Under Section 22 (1) sentence 1 no. 1 WpHG, 35.46% (corresponding to 3,560,000 votes) are attributable to him through Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG.

Under Sections 21 (1) and 24 WpHG, Credit Suisse Group AG, Zurich, Switzerland, notified us on 4 June 2009 in its own name and in the name and on behalf of the following companies as follows:

1. On 26 May 2009, the voting interest of Credit Suisse Securities (Europe) Limited, London, England, in init innovation in traffic systems AG fell below the threshold of 3% and on this day amounted to 0.00 % (0 votes).

2. Due to Credit Suisse Securities (Europe) Limited falling below the threshold of 3%, as notified above, we hereby further notify you that on 26 May 2009 the voting interest of its affiliated companies, Credit Suisse (International) Holding AG, Zug, Switzerland, Credit Suisse Investments (UK), London, England, and Credit Suisse Investment Holdings (UK), London, England, in init innovation in traffic systems AG also fell below threshold of 3% and on this day amounted to 0.00 % (0 votes).

3. Furthermore, we hereby notify you that on 26 May 2009 the voting interest of Credit Suisse, Zurich, Switzerland, and Credit Suisse Group AG, Zurich, Switzerland, in init innovation in traffic systems AG also fell below threshold of 3% and on this day amounted to 0.00 % (0 votes).

4. The chain of controlling companies is as follows (starting with the bottom company): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group AG.

45. Approval of Consolidated Financial Statements

In the board meeting on 5 March 2010, the consolidated financial statements and the group status report of init AG drawn up by the Managing Board on 31 December 2009 were approved for forwarding to the Supervisory Board.

Karlsruhe, 5 March 2010
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.

Audit Opinion

We have audited the consolidated financial statements prepared by the init innovation in traffic systems Aktiengesellschaft, Karlsruhe, comprising the income statement, the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2009 to December 31, 2009. 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 ("Handelsgesetzbuch": "German Commercial Code") 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 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 8, 2010

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ketterle	Schäfer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility Statement by the legal Representatives

"To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group status report includes a fair review of the development and performance of the business and the position of the group, together with a description ot the principal opportunities and risks associated with the expected development of the group in the remaining months of the fiscal year."

Karlsruhe, 5 March 2010
The Managing Board

Dr. Gottfried Greschner | Joachim Becker | Wolfgang Degen

Dr. Jürgen Greschner | Bernhard Smolka

The full annual financial statements of init AG
are available on our website at www.initag.de or
contact Alexandra Weiß on +49.721.6100.0

Income Statement
of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, 1 January 2009 to 31 December 2009 (HGB)

EUR '000	Notes Item No.		2009	2008
1. Revenues	IV. 1		3,587	2,640
2. Other operating income	IV. 2		456	288
3. Personnel expenses				
a) Wages and salaries		1,399		1,175
b) Social security and other pension costs, thereof in respect of old-age pensions EUR 42k (2008: EUR 30k)		230	1,629	187
4. Depreciation on intangible assets of non-current asset and property, plant and equipment			31	32
5. Other operating expenses			1,641	1,438
6. Income from Investments			0	189
7. Income from a profit and loss transfer agreement			4,904	7,042
8. Other interest and similar income, thereof EUR 400k (2008: EUR 239k) from affiliated companies			423	289
9. Depreciation on marketable securities			7	103
10. Expenses from loss assumption initplan GmbH			187	0
11. Interest and similar expenses, thereof EUR 114k (2008: EUR 83k) from affiliated companies			174	127
12. Results from ordinary activities			**5,701**	**7,386**
13. Income taxes	IV. 3		1,428	2,417
14. Other taxes			13	0
15. Annual net profit			**4,260**	**4,969**
16. Profit carried forward from previous financial year			5,917	2,263
17. Transfer from reserves				
Reserves for treasury stock			235	265
18. Balance sheet profit			**10,412**	**7,497**

Balance Sheet
of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, as at 31 December 2009 (HGB)

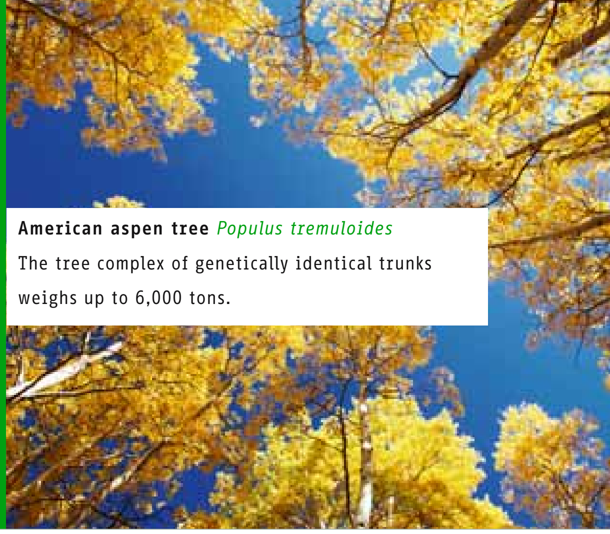
Assets

EUR '000	Notes Item No.		31/12/2009	31/12/2008
A. Fixed assets				
I. Intangible assets	III. 2	10	10	14
II. Contributed assets	III. 3			
Land and buildings		2,090	2,090	2,117
III. Financial assets	III. 4			
1. Shares in affiliated companies		20,272		19,972
2. Loans to affiliated companies		120		120
3. Investments in associates		382	20,774	382
B. Current assets				
I. Accounts receivable and other assets	III. 5			
1. Accounts receivable from affiliated companies		10,634		7,972
2. Other current assets		51	10,685	60
II. Marketable securities				
1. Treasury stock		477		712
2. Other marketable securities		122	599	14
III. Bank assets			2,856	1,108
C. Prepaid expenses	III. 6		2	16
			37,016	**32,487**

Liabilities

EUR '000	Notes Item No.		31/12/2009	31/12/2008
A. Shareholders' equity	III. 7			
I. Subscribed capital		10,040		10,040
II. Additional paid-in capital		9,622		9,622
III. Unappropriated income provisions for treasury stock		477		712
IV. Balance sheet profit		10,412	30,551	7,497
B. Provisions	III. 8			
1. Provisions for pensions and similar obligations		84		78
2. Tax accruals		998		1,058
3. Other provisions		679	1,761	461
C. Liabilities	III. 9			
1. Bank loans		1,200		1,200
2. Trade accounts payable		39		44
3. Accounts payable to investments to affiliated companies		3,135		1,273
4. Other liabilities thereof taxes EUR 322k (2008: EUR 492k) thereof social security contributions EUR 2k (2008: EUR 0)		330	4,704	502
			37,016	**32,487**
Contingent liabilities	III. 10		38,592	28,568

Moso bamboo *Phyllostachys edulis*
The bamboo plant grows several centimetres per hour.



American aspen tree *Populus tremuloides*
The tree complex of genetically identical trunks weighs up to 6,000 tons.

"At equity" method:
The "at equity" method is an accounting technique for investments generally used when the investor in a corporation is able to exert significant influence over the operation and policies of the corporation (associated company). When using this method, the book value of the investment reflects the share of the company's increase/loss in retained earnings.

Cash flow, inflow or outflow of funds in an accounting period:
The cash flow statement describes the changes in liquid funds in an accounting period. The cash flow figure therefore is a key indicator of the financial solvency and the internal financing potential of a company.

Consolidated group:
The consolidated group refers to the totality of all companies included in the consolidated financial statements.

COPILOTpc:
An on-board computer based on the Windows® XP Embedded operating system. As a standard IT platform in the vehicle, it handles classic on-board computer functions. Two interfaces also allow large data volumes to be sent quickly and securely from and to third-party systems. This innovative concept was developed by init specifically for use in the vehicle. It primarily provides transport companies with flexibility and a secure investment, while its modular concept means the system can be extended at any time.

COPILOTtouch:
The COPILOTtouch is a compact vehicle PC with integrated touch screen.

EBIT:
The EBIT indicates the Earnings Before Interest and Taxes.

EBITDA:
EBITDA stands for Earnings Before Interest, Taxes, Depreciation (of fixed assets) and Amortisation (of intangible assets).

E-ticketing/Electronic fare management:
The e-ticket (electronic ticket) is a variant of electronic fare management. The ticket here is stored in an encrypted format as a data record on a chip card. Using a contactless check-in/check-out system, this allows passengers to scan their chip card at the indicated point of the card reader when getting on or off the bus.

EVENDpc:
The EVENDpc is a ticket printer with on-board computer function based on the Windows XP® Embedded operating system. It combines key on-board computer functions such as announcements and GSM communication in a single device and facilitates all forms of e-ticketing.

German Corporate Governance Code:
The German Corporate Governance Code is a body of rules and standards for listed companies. Set up by a government commission of the German Ministry of Justice, its aim is to promote the principles of good and responsible corporate governance. The Code aims to make the rules and regulations for the management and supervision of companies in Germany transparent for both national and international investors.

IAS - International Accounting Standards:
The IAS are international accounting standards that require transparent and comparable information in financial statements.

IFRS - International Financial Reporting Standards:
IFRS are international accounting standards used beyond the European Union, which ensure comparable accounting and disclosure worldwide. The key objective of accounting is to provide decision-oriented information for a wide range of persons interested in the annual financial statements of a company, primarily for investors.

ITCS - Intermodal Transport Control System (CAD/AVL):
The ITCS is a computer-aided, modular information and control instrument. It is the control centre of the transport company. The dispatcher monitors all internal

Banyan tree (strangler fig) *Ficus benghalensis*
The canopy of the tree native to Southeast Asia grows up to 420m in diameter.

"Stratosphere Giant" *Sequoia sempervirens*
The mammoth tree on California's coast grows up to 113m tall.

operations at a glance at his workstation to allow prompt intervention in case of disruptions.

MOBILE-APC /Automatic Passenger Counting system:
Reliable passenger counting is an issue very much on the agenda particularly of transport companies in the USA, as it decides on government subsidies. MOBILE-APC can be used in individual vehicles or lines or in complete vehicle fleets.

MOBILE-PARAnet:
In the USA, transport companies are obliged to ferry elderly or disabled people from door to door. This "paratransit" facility is, in essence, a demand-oriented bus transport service. Developed by init, the MOBILE-PARAnet module is an instrument which enables optimal planning and management of this service.

MOBILE-PLAN:
MOBILE-PLAN is an innovative package solution for scheduling, block and duty building in public transport.

MOBILEvario:
This init software solution automates ticket management and the clearing of sales data generated in the vehicles.

PIDmobil:
The PIDmobil is a LED passenger information display for use in the vehicle.

PIDscreen:
The PIDscreen passenger information display is a TFT panel for outdoor use. The 37" flat screen based on TFT technology displays passenger information, images, pictograms, maps or videos in DVD quality.

PIDstation:
This dynamic LED passenger information display for outdoor use can display between 2 and 16 lines.

PIDvisio:
The PIDvisio passenger information display is a TFT display for use in the vehicle. This display provides the same functions as the PIDscreen.

PoC – Percentage of Completion:
PoC is a method of reporting income from long-term contracts based on the percentage of a contract completed during the reporting period.

"Stimulus Money":
Money used by the US government specifically to boost and stimulate the economy.

TOUCHit:
This is a data terminal with touch screen for interfacing to the on-board computer.

TOUCHmon:
The large-size touch screen of the mobile data terminal TOUCHmon provides bus and tram drivers with an easy-to-view, convenient and robust control panel.

TSP – Traffic Signal Priority:
This system pre-empts traffic lights via radio data transmission. The system helps optimising travel times and ensures schedule effectiveness by switching traffic lights to give buses and trams right of way at traffic light junctions.

VDV core application:
A standard defined by the Association of German Transport Companies (VDV) for all types of electronic tickets in Germany. Its aim in the long run is to ensure that passengers throughout Germany are able to use all electronic fare management systems with a single medium (e.g. smart card).

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
5-year overview of key figures in the init group (IFRS)

		2005	2006	2007	2008	2009
Balance Sheet						
Balance sheet total	EUR	34,115k	36,842k	44,475k	57,951k	71,610k
Shareholders' equity	EUR	18,309k	21,186k	26,688k	31,596k	38,977k
Subscribed capital	EUR	10,040k	10,040k	10,040k	10,040k	10,040k
Equity ratio	%	53.7	57.5	60.0	54.5	54.4
Return on equity	%	14.0	15.9	20.0	18.7	21.3
Non-current assets	EUR	9,747k	10,076k	13,424k	15,186k	14,297k
Current assets	EUR	24,368k	26,766k	31,051k	42,765k	57,313k
Income Statement						
Revenues	EUR	33,406k	36,258k	46,767k	55,993k	64,955k
Gross profit	EUR	10,817k	13,256k	16,542k	17,224k	23,037k
EBIT	EUR	4,219k	5,633k	7,228k	8,597k	11,754k
EBITDA	EUR	6,101k	7,151k	8,543k	10,169k	14,157k
Annual net profit	EUR	2,565k	3,371k	5,326k	5,912k	8,314k
Earnings per share	EUR	0.26	0.36	0.54	0.60	0.84
Dividend	EUR	0.00	0.10	0.14	0.16	0.30
Cash Flow						
Cash flow from operating activities	EUR	10,150k	-1,091k	-2,617k	7,146k	5,570k
Share						
Issue price	EUR	5.10	5.10	5.10	5.10	5.10
Peak share price	EUR	6.42	8.69	9.40	8.80	11.30
Bottom share price	EUR	2.65	5.90	6.83	4.45	4.75

2010 COMPANY CALENDAR

Date	Event
3 February 2010	Small and Mid Cap Conference Close Brothers Seydler Bank AG, Frankfurt
30 March 2010	Publication of 2009 Financial Statements Analyst/Press Conference on Financial Statements, Frankfurt
11 May 2010	Publication of Q1 2010 Report
12 May 2010	Annual General Meeting, Karlsruhe
13 August 2010	Publication of Q2 2010 Report
15 September 2010	Small and Mid Cap Conference Baader Wertpapierhandelsbank, Unterschleissheim
November 2010	Analyst Conference German Equity Forum, Frankfurt
12 November 2010	Publication of Q3 2010 Report

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