Annual Report 2010

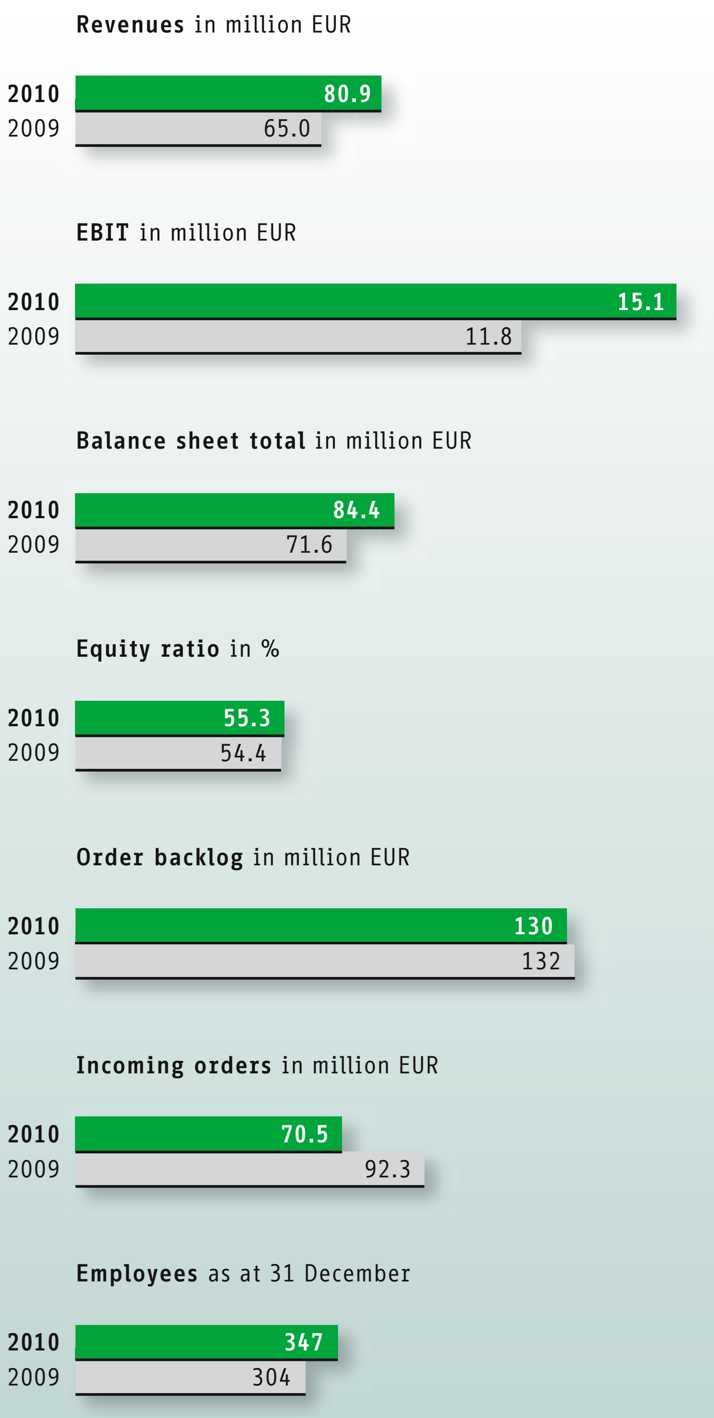
init

innovation in traffic systems AG

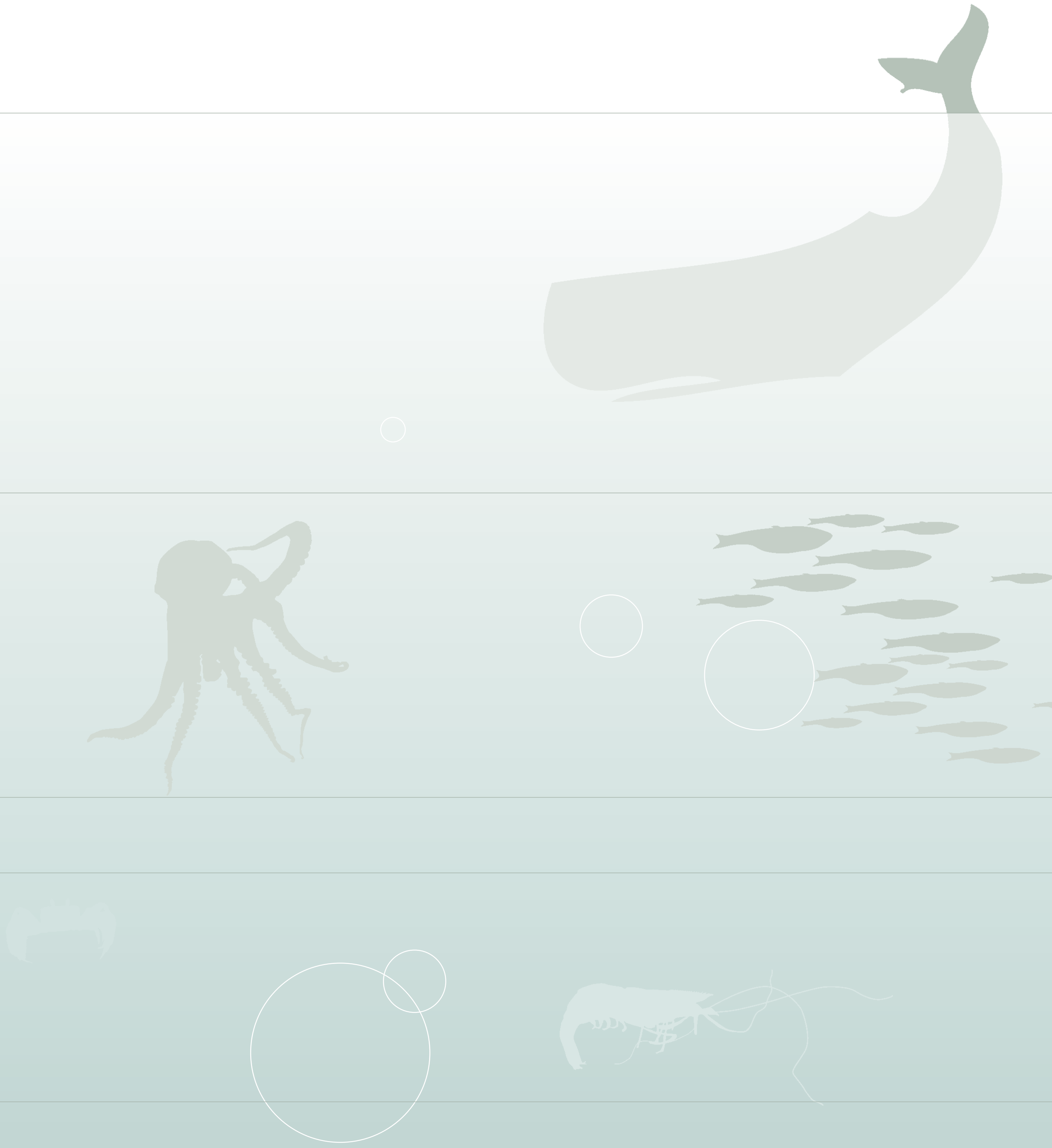
init at a glance

	2010	2009
Balance Sheet		
Balance sheet total	EUR 84,421k	EUR 71,610k
Shareholders' equity	EUR 46,667k	EUR 38,977k
Subscribed capital	EUR 10,040k	EUR 10,040k
Equity ratio	% 55.3	% 54.4
Return on equity	% 21.5	% 21.3
Non-current assets	EUR 13,484k	EUR 14,297k
Current assets	EUR 70,937k	EUR 57,313k
Income Statement		
Revenues	EUR 80,913k	EUR 64,955k
Gross profit	EUR 27,292k	EUR 23,037k
EBIT	EUR 15,085k	EUR 11,754k
EBITDA	EUR 17,592k	EUR 14,157k
Annual net profit	EUR 10,014k	EUR 8,314k
Earnings per share	EUR 1.00	EUR 0.84
Dividend	EUR 0.60	EUR 0.30
Cash Flow		
Cash flow from operating activities	EUR 14,615k	EUR 5,570k
Share		
Issue price	EUR 5.10	EUR 5.10
Peak share price	EUR 15.89	EUR 11.30
Bottom share price	EUR 9.15	EUR 4.75

init at a glance



2010



CONTENT

The diet of the humpback whale primarily consists of tiny crustaceans called krill. To concentrate the krill in a smaller area, humpback whales can produce a veil of rising bubbles which forces the food to the top of the water where it ingests the shrimp-like creatures as it swims by. Incidentally, the food chain starts with plankton – the staple food of the krill.

Ladies and gentlemen,
dear Shareholders,

Early in 2010, hardly anyone expected that the global economy would recover so quickly from the major recession. The targets and forecasts given by companies for the financial year were rather cautious. In contrast, init had set a target 10 per cent increase in revenues and earnings early on for init AG.

What seemed rather ambitious back then has now far exceeded the actual development. Revenues at init improved by 24.6 per cent to EUR 80.9m whereas our annual net profit rose by as much as 20.4 per cent to 10.0 million EUR. As a result, 2010 turned out to be the best year in the 28-year history of our company. This development benefitted our shareholders in equal measure in the preceding financial year. Throughout the year, init's share gained some 45 per cent in value to mark several new records. We owe this success first and foremost to our employees. Not only are they highly motivated and qualified, they are also committed and involved as co-partners. We make efforts to promote this line of thinking: All our roughly 350 employees worldwide contribute to the overall success of our company and therefore receive a profit-sharing bonus in stock and cash, which is granted in addition to other fringe benefits.

Persistent growth dynamics through "German engineering"

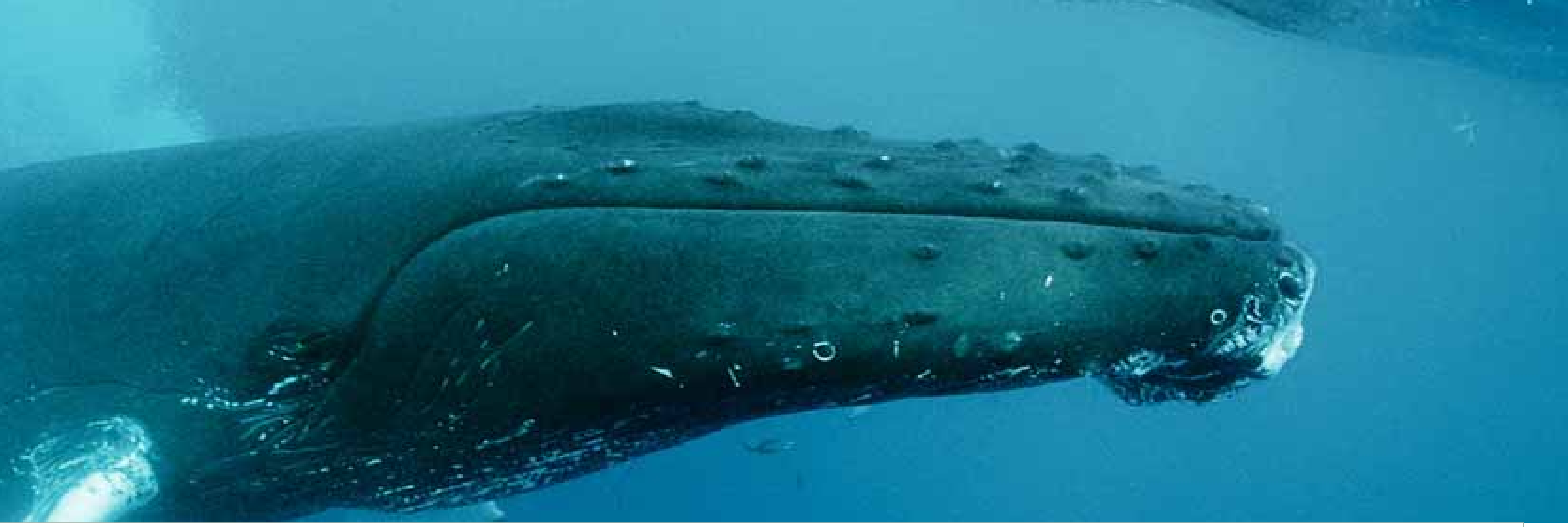
Some 70 per cent of our employees are university graduates who are largely involved in hardware and software development. Their focus is continuously on advancing our products, integrating new technologies and – in close agreement with our customers – getting innovations ready for the market. As we have learnt from many international projects and long-standing business relations, our customers appreciate init not only for the technological capabilities of our products, but we are also highly regarded for our competent co-operation and reliable implementation of project specifications. This is an expression of init's team spirit, which is present in all of our establishments and which has made init synonymous with "German engineering" throughout the world.

As a provider of telematics, planning and Electronic Fare Collection Systems for buses and trains, init now operates on four continents and has become a global leader in this field.

Our intention is to continue our successful streak over the next few years. The prerequisites for this have already been created. One of the reasons for the ongoing advance of init is its current order volume of EUR 130.6m, which is equivalent 160 per cent of our annual revenues. Furthermore, the state aid programmes initiated in 2009 will likely affect our contract situation into fiscal 2011, as the process from the call for tenders to the decision usually takes a year, if not longer. We therefore can expect a number of contract placements particularly in the first half of 2011, from which init should stand to benefit.

Boom in setup of public transport systems

Due to the increasing shortage of resources, rising energy prices, the impact of the climate change and the



necessity to manage traffic flows more efficiently, the need for integrated solutions such as currently offered and already implemented by init in a number of major projects is growing in all parts of the world. One such example is Dubai, which will host the UITP World Congress in April 2011 for the international organisation for public transport authorities and operators with its 3,400 affiliated transport companies and infrastructure providers from 90 countries.

Dubai is considered by the UITP to be a prime worldwide example of a trendsetting, integrated public transport system. Its neighbouring emirate, Abu Dhabi, plans to do one better. Again, with init as its technology partner, the economically prosperous emirate has made it its goal to set up a reliable, efficient and ecologically sustainable public transport system. This puts the United Arab Emirates at the head of global development in intelligent transportation technology. But even western industrialised nations, from Australia to the USA, are expected to approach init with an increasing demand for our solutions.

Further growth factors in our markets are the networking of telematics systems in local and long-distance transport, as well as the combination of ticketing and telematics systems. Already, init provides sophisticated and field-tested solutions here. By way of example, init is currently implementing an integrated telematics, information and e-ticketing system for the bus network of a region in Bavaria with a population of over 10 million. This system will be closely linked with the rail transport system.

Growing number of tenders for integrated telematics and payment systems

Selling electronic tickets via chip card, Internet or mobile phone, known as e-ticketing, globally is a new growth market. E-ticketing has proven to help transport companies gain new customers and make public transport more attractive. From the combined onboard computer with ticket printer all the way to clearing payment transactions, the e-ticketing solutions offered by init incorporate all the necessary equipment and services. To our knowledge, init is also the only supplier able to deliver complete, integrated telematics (ITCS – Intermodal Transport Control System) and ticketing solutions. This opens up considerable cost benefits, simplifies the overall solution, avoids unnecessary interfaces, saves space for the driver, and provides entirely new and innovative solutions.

As a result, we believe the chances are good for init to continue growing in the years ahead, after what was the sixth consecutive year of success for init in 2010. For you, our shareholders, this raises the prospect of a fair dividend and stock valuation.

We look forward to continuing on this road with you and thank you for your trust and confidence in us.

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

Master's degree
in economics (CSO)
Dr. Jürgen Greschner
joined the company in 1996 and founded INIT Inc. in Chesapeake (Virginia/USA); on the init Managing Board, he has been responsible for global sales since 2004.

Master's degree
in computer science (COO)
Joachim Becker
is the co-founder of init and a member of the Managing Board. He heads the Telematics Software and Services section.

Master's degree in engineering (CEO)
Dr. Gottfried Greschner
(Chairman of the Managing Board) founded INIT GmbH in 1983 and today he is responsible for Business Development, Personnel, Purchasing, Logistics and Production.

Master's degree in engineering (FH) (COO)
Wolfgang Degen
has been with init since 1990. As a member of the Managing Board, he is in charge of the Mobile Telematics and Fare Collection Systems section.

Master's degree in economics (CFO)
Bernhard Smolka
is responsible for Finances, Controlling and Investor Relations; in 2001, he was appointed as CFO of init AG.

A guiding lead: Fish in a shoal react in a flash with seemingly synchronised precision. Around five per cent of the fish fulfil special functions in the shoal. Investigations have shown that these fish are fractions of a second faster than the rest in taking the right direction.

Success on a strong foundation

In an interview for this annual report, init founder and CEO, Dr. Gottfried Greschner, talks about the success factors and future of the company.

Dr. Greschner, you currently have plans hanging in your office for the extension of init's business premises. Can we assume good prospects for the next few years?
Dr. Gottfried Greschner: We do, indeed, need more space for new staff as init continues to grow steadily. Even the general mood of crisis in the economy over the past few years has had no significant effect on our company. We continue to grow moderately by our own efforts.

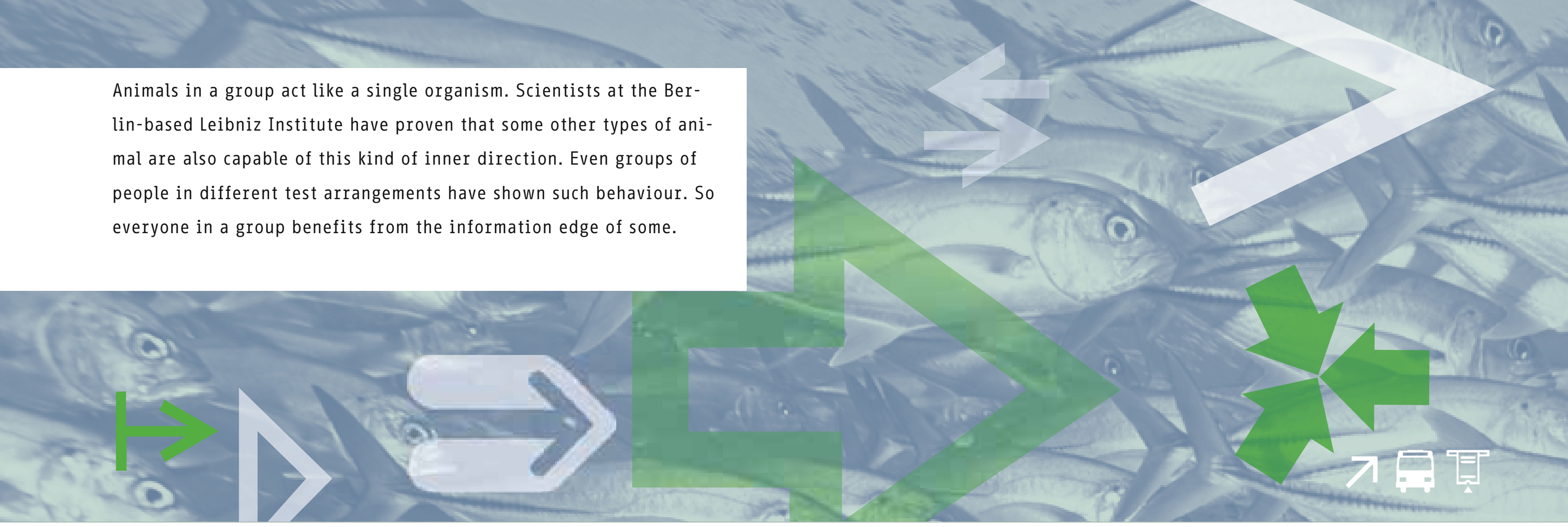
Can you summarise init's success factors in three descriptives?
Dr. Gottfried Greschner: Yes – our innovative strength, our employees, and the integration of all systems as a one-stop solution.

What would you consider the key milestones of success in the past financial year?
Dr. Gottfried Greschner: A major step forward for init was opening up the Arab region, marked by the contract won for a major project in Abu Dhabi and by our activities in Dubai. You need to understand the power that goes out from this region and creates much attention especially in the Asian territory. In Germany, we have largely completed the full integration of two applications for over 3,000 vehicles in our project for the Bavarian transport companies of Deutsche Bahn: The control system and the ticketing for the four regional transport companies in this network work hand in hand to provide the latest state of the art multimodal transportation solution. We are therefore the first company with technology that consistently facilitates every task and function involved in public transport.

What makes public transport so interesting for decision-makers all around the globe?
Dr. Gottfried Greschner: A smoothly functioning public transport system is one of the fundamentals of sustainable economic development. It must be efficient and transparent, but at the same time economical. Economic efficiency and optimised timetables are closely connected. In April 2011, we will use the opportunity to present our latest contribution to this, along with our potential for the future, at what is currently the biggest mobility event, the UITP* conference in Dubai.

Dr. Gottfried Greschner, CEO of init AG

*UITP: Union Internationale des Transports Publics – the international organisation for public transport authorities and operators with around 3,400 members in 92 countries



Animals in a group act like a single organism. Scientists at the Berlin-based Leibniz Institute have proven that some other types of animal are also capable of this kind of inner direction. Even groups of people in different test arrangements have shown such behaviour. So everyone in a group benefits from the information edge of some.

How is it that init is successful in so many different metropolitan areas in the world? Are the requirements of a transport network in New Zealand not entirely different than, say, in the USA?
Dr. Gottfried Greschner: Our performance is characterised by the term "German engineering" – a quality feature, which our North American customers in particular associate with our work. It means that our know-how covers every aspect of the requirements of transport companies – from installation to servicing, the hardware and software, all the way to radio technology. Needless to say, we also handle later adaptations through appropriate software versions. We are able, on the one hand, to build a modular system based on existing applications and can also, on the other, provide completely new and cost-efficient equipment for vehicles, stations and control centres from one source. What works successfully in New York can also be used in Dubai – albeit with modifications based on the customer's requirements. If a customer wants to use the same highly modern, contactless e-ticketing system as, say, in Nottingham, we will adapt it to the customer's pricing system. This clearly makes us unique.

What will the challenges be for init in the next few years?
Dr. Gottfried Greschner: The development in Eastern Europe and in Australia and Finland will no doubt catch our interest. But we also see a number of potential new areas of activity in highly developed urban areas such as Hong Kong or Kuala Lumpur. And we have the significant growth opportunities in the back of our mind which the plans of the UITP present: The association has made it its goal to double the number of passengers in public transport by 2025. These prospects indicate that our need for qualified new staff will continue to grow. To meet this need in the long-term, we have been cooperating for quite some time now with

the Technical University in Karlsruhe, among others, and are currently negotiating an endowed chair.

What should future init employees know about their role?

Dr. Gottfried Greschner: Some 60 per cent of our colleagues are developers. Their role is to find one-stop solutions to all our customers' requirements; priority is given to technical and economic coherence. This, in turn, gives our colleagues in sales the assurance that init's solutions, with all our innovative ability, are always focused first and foremost on the local realities.

In your view, what distinguishes init as an employer?

Dr. Gottfried Greschner: We believe that motivation, satisfaction and appreciation are closely connected. Job satisfaction depends quite considerably on whether and how far you are able to maintain a balance between private responsibilities and interests, and job requirements. This is why we help parents with aspects such as childcare through an allowance of up to EUR 400 a month and offer feasible part-time work schedules. Over and above that, our voluntary profit-sharing scheme in cash and stock involves our employees as proper co-partners.

How do you see your own role in the company in the medium term?

Dr. Gottfried Greschner: In the long term, it is planned that my brother, Dr. Jürgen Greschner, will take over as CEO, Wolfgang Degen will become his deputy, and I will change to the Supervisory Board. I'm already focusing my attention more strongly on our international personnel policy and on the strategic orientation of our company. I want to find even more precise answers to which innovations will further reinforce and consolidate our position in the global market.

Dr. Greschner, thank you very much for the interview.

Dr. Gottfried Greschner in an interview with Doreen Reithmann and Andrea Schreiner.

Dolphins often extend their radius by enormous stretches to find new food resources. They communicate using a complex repertoire of sounds and find their targets with the help of ultrasound location.

init share continues on winning streak

Amidst the turbulent environment of the international money markets, init innovation in traffic systems AG continues on a strong note. Holding up well throughout 2010, its share maintained the dynamic rise begun in the preceding year. Following a satisfactory start, init's share price peaked in the first half of the year to set a new record. This was topped once again in November, when it was quoted at EUR 15.89 due to growing demand from institutional investors. Towards the end of 2010 and in the following weeks, the share remained strong enough to keep above the 15-Euro mark.

As a result, init's shareholders saw their investments gain 45 per cent over the year. In 2010 this was in addition to a dividend increase to EUR 0.30 (2009: EUR 0.16) per share. The Managing Board and the Supervisory Board intend to propose to the annual shareholders' meeting in 2011 that the dividend be increased to EUR 0.60 per dividend bearing share. This amount includes an ordinary dividend of EUR 0.45 and a one-off bonus dividend of EUR 0.15 per share to mark the 10th anniversary of init on the stock exchange in 2011.

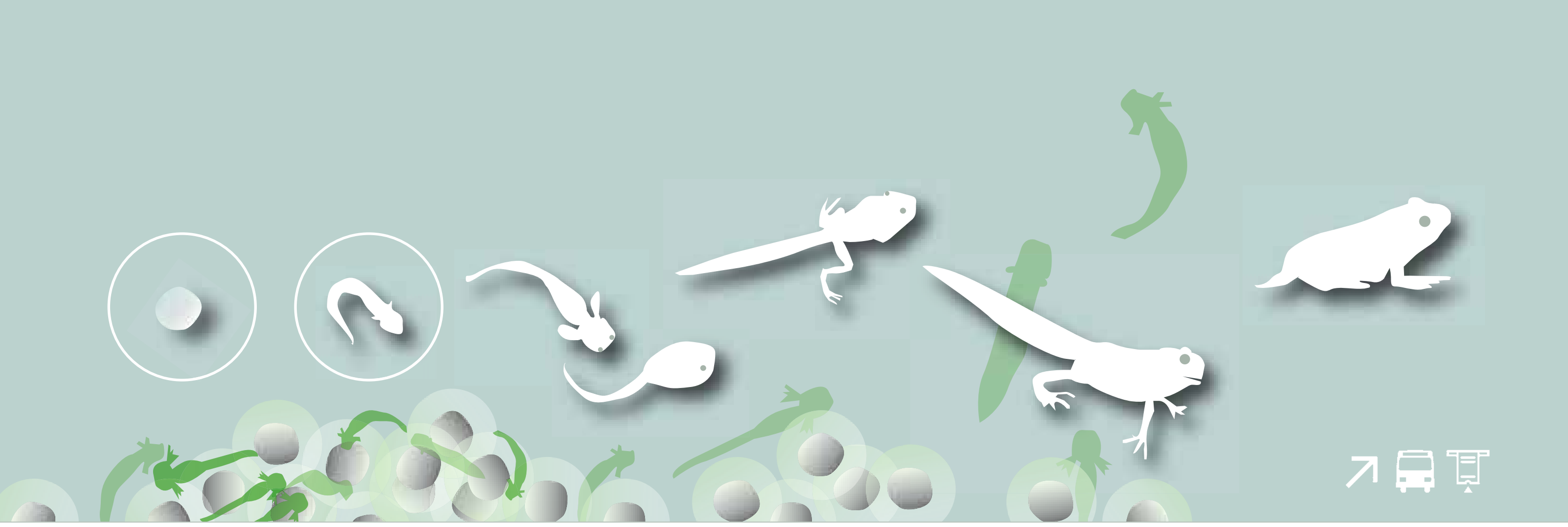
Stock repurchase programme implemented

At the annual general meeting held on 12 May 2010, init's shareholders expressed satisfaction at the course the company was taking. As a result, the meeting formally approved the actions of the Managing Board of init innovation in traffic systems AG for the third consecutive year by 100 per cent of the votes. The vote for the Supervisory Board matched similar levels.

The shareholders' meeting also renewed its authorisation to purchase treasury stock of up to 1,004,000 shares (which corresponds to a maximum of 10 per cent of the current capital stock) by 11 May 2015. The Managing Board decided to utilise this authorisation from as early as 17 May 2010, purchasing a total of 40,000 shares up to a ceiling of EUR 14.00. The shares were purchased in the period from 17 May until 10 June 2010 at an average price of EUR 13.67 including incidental costs. The purchase of the no-par bearer shares was handled by Close Brothers Seydler Bank AG, the financial institution commissioned by init innovation in traffic systems AG, through the stock exchange (XETRA trading). The number of repurchased stock corresponds to a share of 0.4 per cent of the capital stock.

The repurchased shares will be used for existing and future employee profit-sharing schemes, for executive incentive programmes and as cash for growth.

At the end of 2010, the company held treasury stock of 94,186 shares.



Shareholders' structure

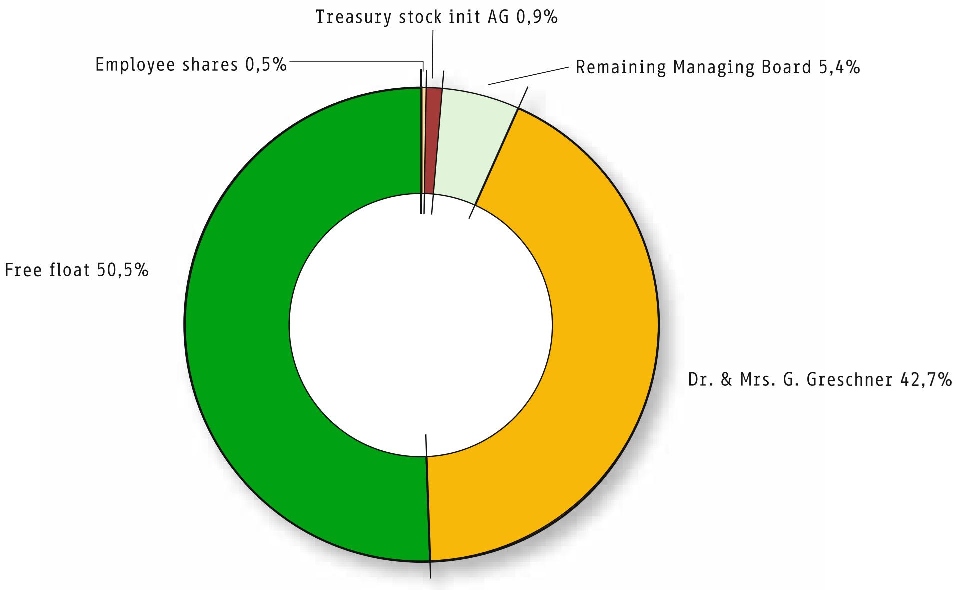
The shareholders' structure of init innovation in traffic systems AG remained steady in the reporting period. On the whole, however, the number of institutional investors increased over the course of the year. In mid-December 2010, Swisscanto (LU) Portfolio Funds Management Company S.A., Luxembourg, disclosed that its voting share in init innovation in traffic systems AG had exceeded the 3 per cent threshold and as of 8 December 2010 stood at exactly 3.03 per cent (304,475 voting rights).

**On 31 December 2010,
the shares were held as follows:**

Raised upside targets

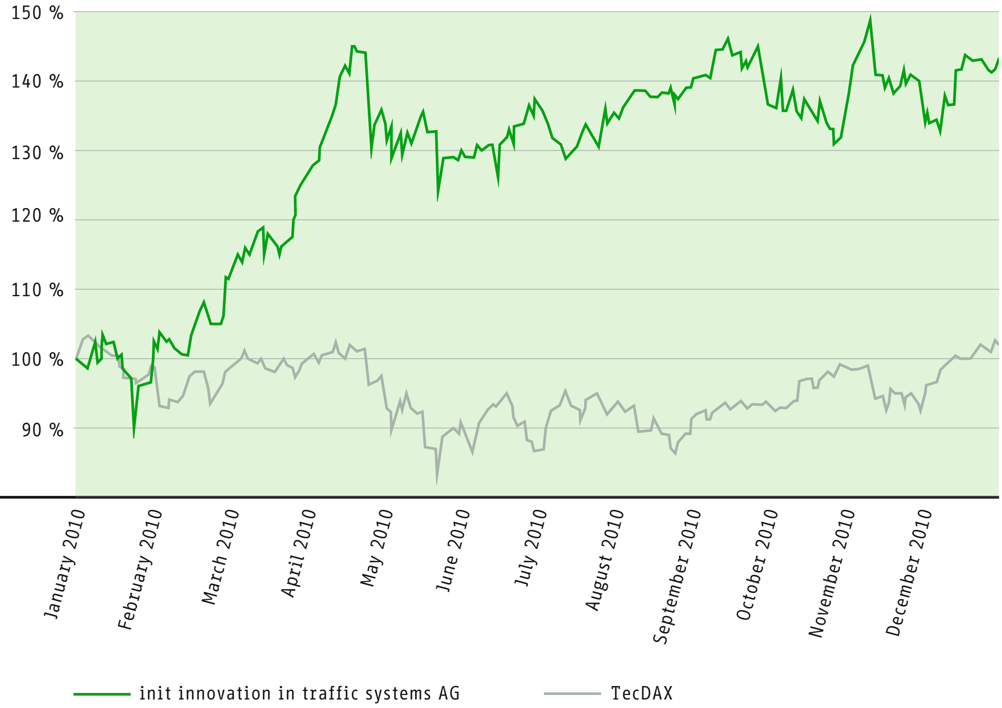
Along with fostering the relationship with our shareholders, our Investor Relations work focused on further efforts to improve the share's liquidity. Our aim, in part, is to satisfy the demand of new investors for init's share. Institutional investors were addressed both individually and at road shows. The Managing Board also presented init at several key capital market conferences.

Based on our excellent business development in 2010, the continued, highly dynamic order situation, and the intact growth trend in init's markets, analysts and market operators, have further raised the upside targets for init innovation in traffic systems AG. The fair value of the share is currently seen to range between EUR 16 and EUR 20.



Nature's tactical workings are particularly obvious in the metamorphosis from tadpole to frog. The change into an almost completely different, lung-breathing creature happens within only a few weeks. In this phase, the animal briefly loses its mouth and uses the resources from its regressing tail.

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 Bank AG
Capital stock today	10,040,000 no-par bearer shares
Market capitalisation (as of 31 December 2010)	EUR 150.6m

Ladies and gentlemen,
dear Shareholders,

Once again, init innovation in traffic systems AG can look back on a highly successful financial year. The new records set throughout the year are clearly reflected in our share price.

The following report will provide you with details of the activities of the Supervisory Board in the 2010 financial year, ensuring transparency of the Board's deliberations and decisions in this period.

In the reporting period, the Supervisory Board performed its duties diligently in compliance with the relevant laws and the Articles of Association. The Managing Board of init innovation in traffic systems AG informed the Supervisory Board regularly and comprehensively of its activities in the past year 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.

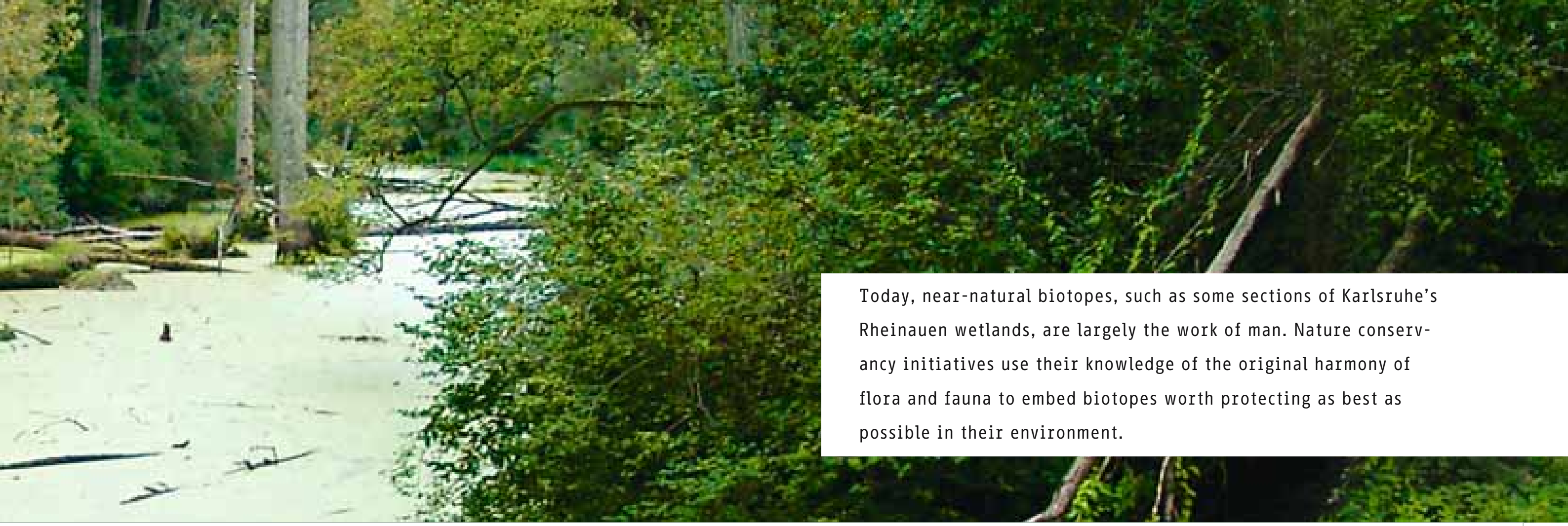
Where legal or statutory regulations required the consent of the Supervisory Board for measures to be taken, these were deliberated in detail and presented for a resolution. The Chairman of the Supervisory Board, along with the remaining board members in individual matters, kept in close contact with 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 and in a extraordinary meeting in 2010, 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 with the Managing Board the economic situation including economic and liquidity planning, incoming orders, order volume, 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 discussed with the Managing Board the quarterly statements of account prior to their publication, and granted approval for their disclosure upon written agreement.

In detail, the five Supervisory Board meetings in all were used to discuss the following issues with the Managing Board:

The meeting convened on 11 March 2010 focused on the annual financial statements of init AG and the consolidated financial statements as of 31 December 2009. The Supervisory Board received a detailed report from the auditor to explain the result of the audits. 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 on organisational improvements. The Managing Board commented in detail on the current structure of the internal control system. Further focal points of the meeting included the status report prepared by the Managing



Today, near-natural biotopes, such as some sections of Karlsruhe's Rheinauen wetlands, are largely the work of man. Nature conservancy initiatives use their knowledge of the original harmony of flora and fauna to embed biotopes worth protecting as best as possible in their environment.

Board on planned development measures at our headquarters in Karlsruhe, the proposal of dividend distribution, and the agenda for the annual general meeting due on 12 May 2010. Based on the rules of procedure, the Supervisory Board also authorised the Managing Board to set up the subsidiaries in Abu Dhabi, U.A.E., and Helsinki, Finland.

In the meeting on 11 May 2010, 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. The Managing Board also delivered a written and verbal interim report on the internal control system, which was discussed with the Supervisory Board. Focus was given to such issues as contract law, project risks/reporting, financial risks and other risks. Finally, the Managing Board briefly reported on the status of planned development measures.

In the extraordinary Supervisory Board meeting on 23 July 2010, the board primarily discussed issues related to the composition of the Supervisory Board and the Managing Board in the next term of office. Other topics dealt with included the status of planned development measures, the incoming orders and order volume trend, the current economic development, and a discussion of projects.

In the meeting on 29 September 2010, the Managing Board reported on the economic development in the first six months of 2010 and in the ongoing third quarter of 2010. Other issues included the planned development measures at our headquarters in Karlsruhe, the internal control system, and further consideration of the composition of the Supervisory Board in the next term of office.

In the final meeting in fiscal 2010 held on 15 December 2010, the Managing Director of our Australian subsidiary INIT PTY LTD, Mr. Bernd Gorenflo, reported on the trend of business in Australia and New Zealand. Current projects in Christchurch, New Zealand, and Hobart, Tasmania, and their development status were discussed in detail with him, as were the opportunities, planning, personnel structure and the general market policy in Australia/New Zealand.

The Managing Board then briefed the Supervisory Board on the economic development as of the end of November 2010. Other key issues included cash planning in the group, economic planning for 2011, the personnel development, the potential composition of the Supervisory Board from the next term of office, the market development and the order situation in the various markets as well as the deliberation of the report delivered by Supervisory Board member Bernd Koch, who visited our subsidiary INIT Inc. in Chesapeake, USA, where he discussed specific issues related to American INIT projects on behalf of the Supervisory Board.

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 of 31 December 2010 were audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft.

In a healthy ecosystem, animals and plants themselves provide the premises for supporting each other synergetically. This natural cooperation can be observed in some places in Karlsruhe's Rheinauen wetlands. It is one of the great challenges of our time to find a sustainable way to accommodate man's requirements in these systems.

Supervisory Board
Bernd Koch

Supervisory Board
Fariborz Khavand

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.

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 9 March 2011. The auditors reported on key results of their audit, specifically the internal control and 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 answered in detail. 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 24 May 2011 that net profits for the year of EUR 13,530,786.00 be utilised as follows: a total of EUR 0.60 per dividend bearing share is to be distributed. This amount includes an ordinary dividend of EUR 0.45 and a one-off bonus dividend of EUR 0.15 per share to mark the 10th anniversary of init on the stock exchange in 2011. The balance of profit 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 9 March 2011. 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 therefore 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 on relationships with associated companies (dependent company report). The auditor issued the following audit opinion 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

Chairman of the Supervisory Board Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau

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 26 May 2010. On 1 July 2010, 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 existing D&O insurance does not provide for an excess payable by members of Supervisory Board (item 3.8 para. 2 of the Code). 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 disclosed individually 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 promptly 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 dedication in 2010. Our thanks also to our shareholders, customers, and business partners for their trust in our company.

Karlsruhe, March 2011
For the Supervisory Board

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

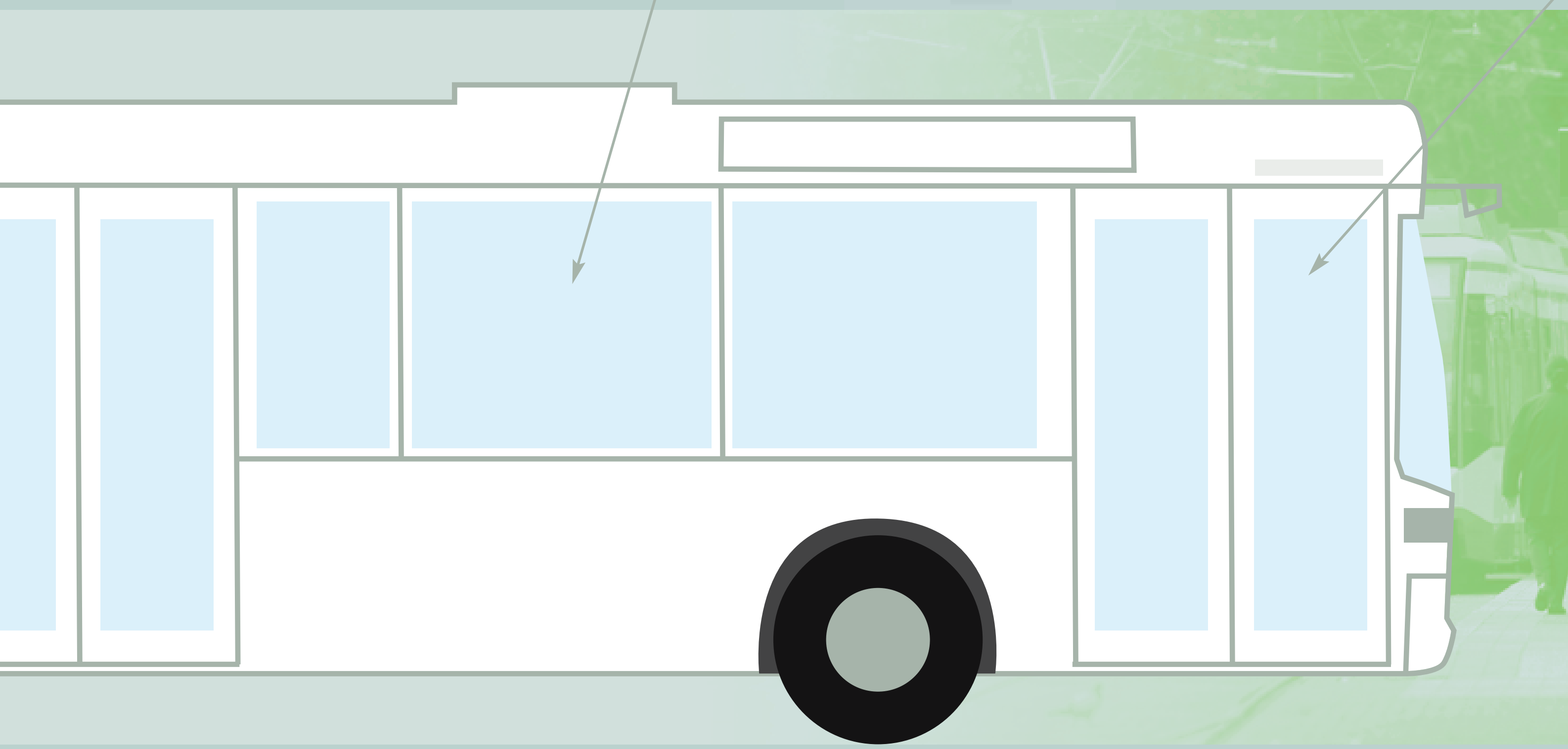
Sophisticated products for modern local transport

Telematics and Electronic Fare Collection Systems from init make local public transport more attractive in that they enable streamlined, effective organisation of all processes related to mobility. All of init's products feature a modular concept with joint data management and custom-fit interfaces – such as the transport operator's control centre, the Intermodal Transport Control System, ITCS in short. From real-time passenger information to the exact apportioning of revenues among the service providers based on reliable data, init puts its full innovative ability into the service of comfortable local public transport which can be planned effectively but also helps save resources.

*The customer-operated terminal **PROXmobil** is equipped for any specification of e-ticketing – including automatic fare search through check-in / check-out processes with prompt best-price calculation.*

PASSENGER

*Up-to-date information on the route as well as individual infotainment, presented on a high-definition TFT screen: **PIDvisio***



IProuter
The IProuter in the vehicle links all available communication channels of the transport companies involved, selects the appropriate channels and displays status information at any time on the small screen. It also provides passengers with access to the Internet.

DRIVER

Convenient operating unit with monitor function: ***TOUCHmon***

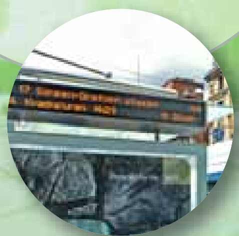
On-board computer for flexible use on Windows® XP basis: ***COPILOTpc II***

Innovative ticket printer and on-board computer: the ***EVENDpc*** *is an all-in-one solution based on a standard IT platform. In addition to the sale of paper tickets, it can also be used among other things to process 2-D-barcodes on paper or via mobile phone. Including announcement and communication capability, it integrates all the important ITCS functions.*

STOP

With independent power supply: the outdoor display ***PIDsolar***

Up-to-the-minute real-time information on a 37-inch display: ***PIDscreen***



Perfect adjustment to the requirements of the site and the needs of transport operators thanks to a modular concept: the flexible outdoor display ***PIDstation.***

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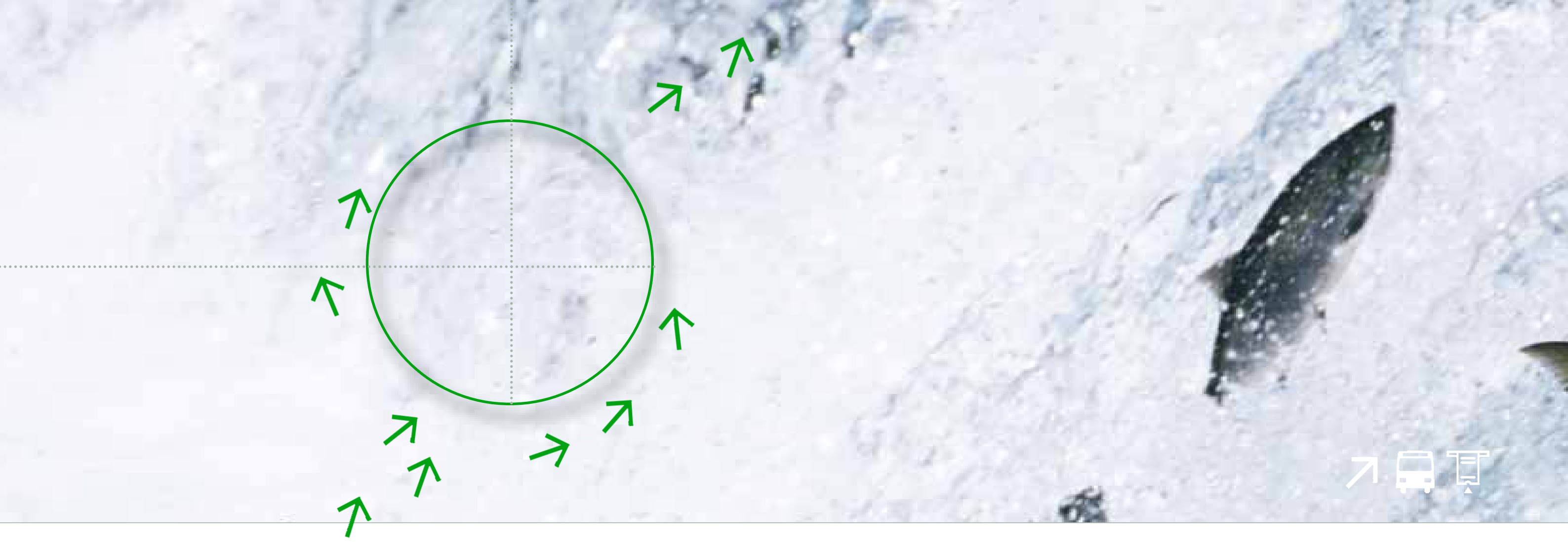


Passenger information: Coordination in the flow

Finding a seat and arriving on-time and relaxed – that, in a nutshell, is an ideal journey using public transport. init provides the technical requirements to make sure this happens even under the most challenging conditions. The basis for this is reliable real-time information.

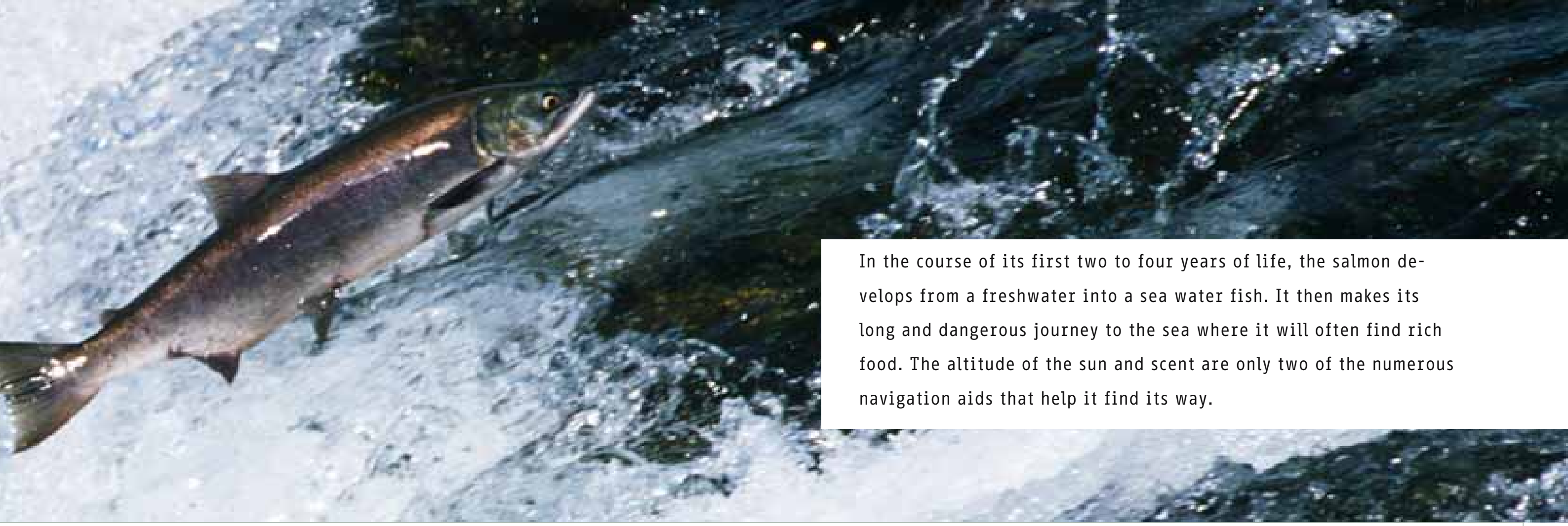
Steady information flow in the vehicle

Is there enough time for a coffee before changing trains? MOBILEtransferinfo is the name of the technology that helps answer any such questions. Today, the transport networks of The Hague, Dresden and the Bavarian transport companies of Deutsche Bahn are fitted with this system. The on-board computer in the vehicle constantly retrieves real-time information from the transport operator's control centre. Via a display in the vehicle, both the driver and the passengers know at any time which connection is available and when.

The init widget: Conveniently well-informed

If you want to use public transport in and around Halle, you can now call up the stop or station you need on your PC to find out about potential deviations from the timetable. This is made possible by a small, browser-independent program – a widget, which on request pops up on the screen. This widget is now also made available by Halle's transport operator, the HAVAG. All you need is Java, which most PC users will have on their system. Based on the same technological platform, init also offers the professional widget, which provides screens in public sectors – e.g. in cinemas or at stops and stations – with information. All that is needed is a screen and a socket to use this professional widget. Data are retrieved through mobile radio communication.

Having the necessary information available at the station means relaxed and wisely used waiting periods – a key contribution to passenger satisfaction.



In the course of its first two to four years of life, the salmon develops from a freshwater into a sea water fish. It then makes its long and dangerous journey to the sea where it will often find rich food. The altitude of the sun and scent are only two of the numerous navigation aids that help it find its way.

Mobile tagging: Typing unnecessary

Conventional mobile online passenger information often requires several interference-prone operating steps. Mobile tagging from init, on the other hand, radically simplifies the search: the user points his mobile phone onto a 2-D-barcode – e.g. fitted directly at the stop or station – and takes a photo. This starts up the connection to the appropriate website so that up-to-date information on the relevant departure times and connections are quickly available.

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Augmented reality

init has developed an application for the iPhone and other smartphones which augments pictures or camera views of the user's location with additional, computer-generated information – such as any available connections or the distance to the next stop or station. In this way, the user no longer needs a map or timetable, but is guided solely by this augmented reality application, which has been available since summer 2010.

Where exactly am I, and which direction do I need to take? An increasing number of passengers will find the answer to this question in the most simple manner in the future using init's new app "MOBILEinfo" for the iPhone.

Symbiose

Not only animals of the same species join to build a community, but even different species form useful bonds. Some marine animals, for instance, go to what are known as cleaning stations. The cleaner wrasses waiting there will clean and heal the skin of their hosts and find their food there.

High-tech ticketing

With transport networks increasingly linking up, there is a growing need for exact control methods for all ticketing options: from paper monitoring for the ticket sale, to automatic validity checks, all the way to the apportioning of revenues (clearing). As a background system with multi-client capability, MOBILEvario facilitates the exact clearing of all revenues based on reliable data. The EVENDpc, one of the cores of technical development at init, is ready for current and future individual solutions. It combines the functions of a cutting-edge ticket printer with a PC-based on-board computer. As one of only a few providers, init makes it possible to integrate electronic fare management fully into the operating control system.

Who, when, where: Up-to-date answers

The EVENDpc not only makes contactless check-in and out possible using a card reader, it can also automatically register the validity of a chip card in terms of zone and date. In addition, it is able to process 2-D-barcodes on paper or via mobile phone. In Germany, init therefore provides the optimal conditions for supporting electronic ticketing based on the VDV's (Association of German Transport Companies) core application. Its nationwide use is currently in preparation. In 2010, init convinced transport companies - with the most diverse requirements and needs - of the benefits of its ticketing solutions. This won us contracts tendered by transport operators in Giessen, Hanau, Bremerhaven and the British Hertfordshire.

Punctual departure: The EVENDpc minimises waiting times through fast and convenient ticketing, and ensures exact apportioning of revenues within the transport association.

Maximum comfort: Example Christchurch

In 2010, init equipped some 330 vehicles and a ferry in the New Zealand city of Christchurch with its proprietary technology. The existing Metrocard ticketing system was fully integrated and upgraded in the process.

The EVENDpc can read the previous contactless cards, as well as top up and charge the electronic purse. Details can now also be displayed and the card topped up on the Internet; the introduction of electronic tickets is currently in preparation. The EVENDpc is now available in all vehicles of the Regional Council customer, Environment Canterbury – naturally in mirror image version for driving on the left.

The Christchurch lines are serviced by six different operators. Thanks to the multi-client capability of all of init's products, revenues are apportioned to each operator based on specific figures rather than using a predefined key, as is often the case. This is possible with the new software module, Clearing House, developed by init for its ticket management and clearing solution, MOBILEvario. Passengers have the option of charging their season tickets online and viewing an exact history of their usage and journeys. Each transport operator can also filter, link and analyse the data related to ticket sales and use it for highly effective planning of future measures.

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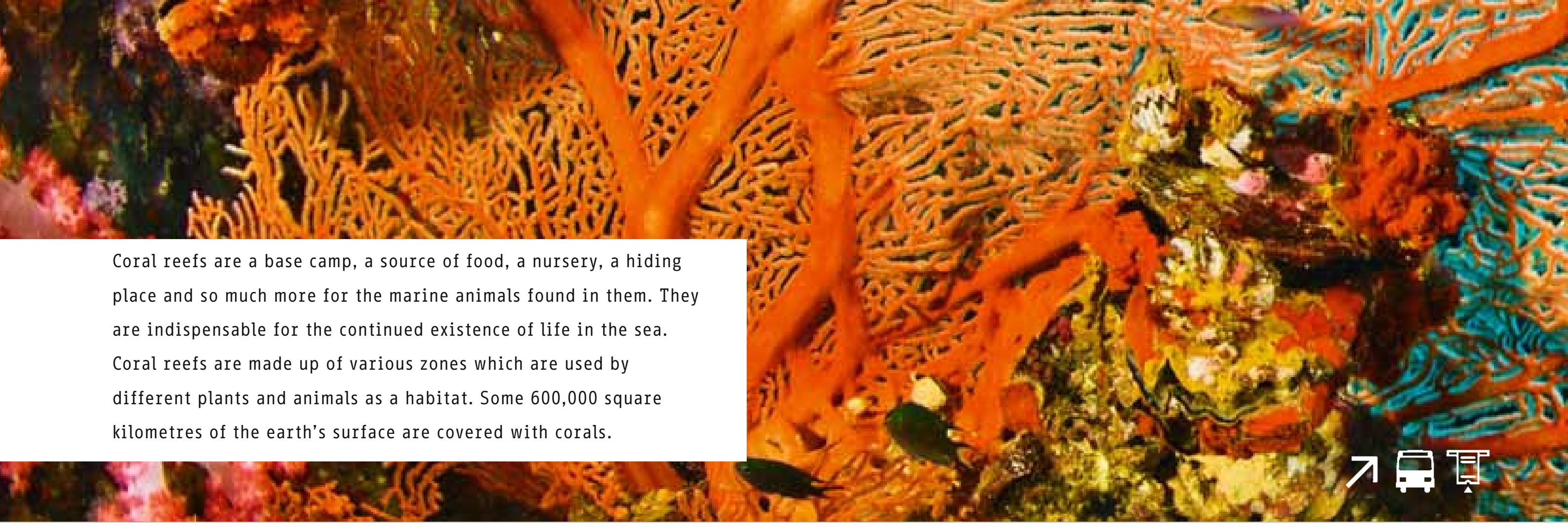

Coral reefs are a base camp, a source of food, a nursery, a hiding place and so much more for the marine animals found in them. They are indispensable for the continued existence of life in the sea. Coral reefs are made up of various zones which are used by different plants and animals as a habitat. Some 600,000 square kilometres of the earth's surface are covered with corals.

Success on a solid foundation

The name init – innovation in traffic systems – already refers to one of the company's most important keys to success: innovation. Quite frequently, init is one of the first users of new technological standards, but this is not the overriding objective for the latest new and further developments. Rather, priority is given to the question as to what is the best and, therefore, the right answer for the customer – and thus for the market – to the dynamic changes of modern local transport.

The high economic efficiency of its solutions regularly makes init the clear choice in tenders issued by local transport operators. Due to its high profile in the international market, init is able to translate the enquiries of existing and potential customers into specific development work. The crucial factor is that after the decision is made for a new product, init can implement the development from the design all the way to market readiness in record time. This has gained us a competitive lead of several years.

In demand around the globe

Orders from new customers make up around 60 per cent of global sales. Across national borders, the successful use of init's solutions has a reinforcing effect among transport companies with similar requirements. init's subsidiaries from Finland to Great Britain, all the way to Australia, ensure quick reactions to local conditions. The company's headquarters in Karlsruhe always remains the organisational "backbone" of sales and service. At present, init products are continuously establishing themselves in regions such as the West of the USA and Canada, e.g. in Seattle, San Francisco, San Diego and Toronto. Recently, the local public transport operator in Abu Dhabi joined the list of init's business partners. In addition to the setup of a control and information system, init will also handle the equipment of 500 buses with on-board computers. init has already implemented a comparable system for 2,000 buses in the neighbouring emirate of Dubai.

Dynamic appreciation

In 2010 alone, init was able to welcome 40 employees as new colleagues in all sectors of the company. init is committed in many ways to winning and retaining highly qualified staff. Its location right in the heart of the technology region of Karlsruhe is doubtlessly a useful benefit. For years, init's cooperation with Ph.D., diploma and Cooperative State University students involved in various branches of study have enriched the professional cooperation both in technical and human aspects. Successful trainees – from the office clerk all the way to the IT specialist – have excellent prospects at the end of their training to be offered a position with the company. They can look forward to the bene-

fits of a family-friendly company, which helps bear childcare costs and offers parents effective part-time schedules. Any employee contributing to the success of the company will also share in this success by becoming a co-partner through a profit-sharing scheme in the form of init shares and a monetary bonus.

Employees at init are shown appreciation not only in financial form, but also through deliberately maintaining a work style based on cooperation and open communication. init therefore is prepared both in terms of technology and human resources to continue its role in helping shape local public transport quite significantly over the next few years. In init's subsidiaries, executives from its Karlsruhe headquarters carry the principles of this mindset into the entire world.

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Hearing, not reading: innovative text-to-speech technology in a test. With text-to-speech capability, blind passengers are given the exact same, albeit acoustic, information as those reading the PID displays: a crucial plus factor for convenience and orientation.

Content

Annual Financial Statements 2010

Group Status Report

Strategy and market

The init group is an internationally operating system house for telematics, planning and Electronic Fare Collection Systems for public transport. In its over 25 years of history, init has realised in excess of 400 national and international projects. Our integrated solutions with telematics and Fare Collection Systems make us a partner of leading transport companies worldwide.

In a complete value-added chain, init develops, produces, integrates, installs, and maintains software and hardware products for the planning, management and operation of transport companies to help them meet their daily requirements. In so doing, init contributes to increasing the quality of services offered in terms of customer orientation, punctuality, convenience, service, safety, and shorter travel times, and to reducing costs of these companies. This puts transport companies in a better position to hold up in an increasingly competitive environment that is characterised by liberalisation and rationalisation and meet the continuously growing mobility requirements.

init offers a product portfolio that covers the requirement profiles of the public transport sector and integrates them into one system. init customers are provided with intelligent solutions from a single source. This includes routing and human resource planning, depot and terminal management, computer-aided dispatch/automatic vehicle location system (ITCS – Intermodal Transport Control System), passenger information and counting systems all the way to trendsetting electronic ticketing and the related clearing of payment transactions.

A 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.

User-friendly ticketing systems, good passenger information and fast connections help transport companies increase their efficiency, provide a more attractive service and, as a result, improve their 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 in this way directly contributes to environmental protection. Worldwide, efforts are increasing to ensure mobility in conurbations and regions and to reduce the burden on the environment caused by the volumes of traffic. This involves investments in infrastructures which, in the future, will continue to benefit init as a global leader in the supply of integrated solutions that help optimise bus and train transport.

Business trend and situation

General economic setting and summary of business trend

In the 2010 financial year, the global economy passed from a major recession to a phase of moderate growth. The decline in 2009 by 0.9 per cent was followed by a drastic rise in global economic performance, which came to around 5 per cent in 2010. In saying this, growth in the global economy notably lost momentum throughout the year. Worldwide trade barely continued to increase in the latter half of the year. Whereas the dynamism of economies in the developing and threshold countries slowed, foreign trade in the advanced economies saw a slight decline.

In view of high budget deficits, the financial policies of major industrialised nations are barely able any longer to give new impetus to the economy. Countries such as Portugal, Ireland, Italy, Greece and Spain (PIIGS) are facing the challenge of having to demonstrate with credibility how they are planning to put their budgets back on a solid basis and avoid the collapse of their economies.

As a consequence, the financial policies of most major industrialised nations on the whole were focused on restrictions in the reporting year, after significant spending programmes only a year prior. In the USA, in contrast, measures introduced to stimulate the market were renewed and a further USD 600bn injected into the economy. According to recent news, this has led to an acceleration of the US economy. It is predicted that the United States will grow by around 2.7 per cent in 2011.

The economies in Europe developed rather differently. Some of the PIIGS countries continued to remain in a recession, whereas the classic industrial nations of Western Europe recovered somewhat more strongly. With a growth rate of 3.6 per cent in 2010, Germany gained the status of prime mover in Europe. Along with its export-oriented industry, domestic demand here also for the first time became a key driver promoting economic recovery. The gross domestic product in fiscal 2011, however, is not expected to increase by more than 2.2 to 2.5 per cent.

The duality between persistent growth in the economy, on the one hand, and the necessary consolidation of budgets, on the other, also defines the development in the transport infrastructure market as well as the investment propensity of transport operators. The economic stimulus packages introduced to overcome the economic crisis, for instance, once again produced a growing number of project tenders in 2010. In the further course of the year, however, the more restrictive fiscal policies also resulted in delayed contract decisions and, respectively, in dragged-out infrastructure projects.

On the whole, init as a group continued in 2010 to benefit from its position as a global leader in the supply of integrated telematics and Electronic Fare Collection Systems for buses and trains and once more managed a two-digit rise in sales and earnings. The revenues and earnings targets were again exceeded in the preceding financial year. At EUR 80.9m (2009: EUR 65.0m), init as a group generated the highest revenues of any financial year in its history, and with an annual net profit of EUR 10.0m, also marked the sixth consecutive year of records.

In terms of individual quarters, the revenues in the first three quarters topped prior-year figures by some 30 per cent. At EUR 23.5m, the fourth quarter also notably exceeded the level achieved in the previous year (Q4 2009: EUR 20.7m).

Business trend by region

In 2010, init further expanded its market position particularly in international business. Sales and distribution were strengthened and new subsidiaries set up in Great Britain and Finland, along with an office in Abu Dhabi as hopefully a point in our favour in tenders due to optimised local presence.

Overall, init as a group generated foreign revenues of EUR 50.4m in 2010 (2009: EUR 47.2m), which corresponds to 62.3 per cent (2009: 72.7 per cent) of total revenues.

The strongest foreign market in the reporting period was North America. Here, revenues rose to EUR 28.0m (2009: EUR 17.6m). Additional funds in the billions continue to be made available in the USA for the development of public transport, which leads init to expect a growing number of tenders from this region. On the downside, transport companies in North America often lack qualified personnel, which delays decisions on already existing tenders.

The other countries (Australia and Dubai) saw revenues decline on the previous year. Down from EUR 15.1m in 2009 to EUR 7.7m in 2010, this drop was due to a lack of follow-up orders and the dragged-out completion of existing orders by a year or two due to the financial crisis.

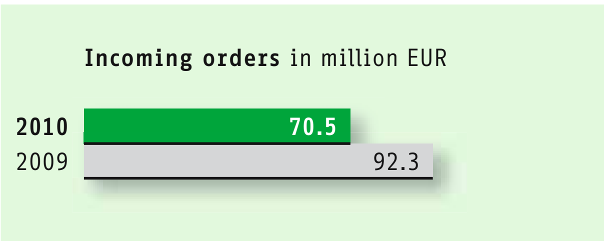
In Europe (without Germany), revenues totalled EUR 14.6m (2009: EUR 14.5m) and so remained at prior-year level.

Revenues in Germany, on the other hand, significantly improved in fiscal 2010, up from EUR 17.7m in 2009 to EUR 30.5m. This rise is due primarily to the major contract from the Bavarian transport operator “DB Stadtverkehr Bayern”, which is scheduled for completion by the end of 2011.

Order situation

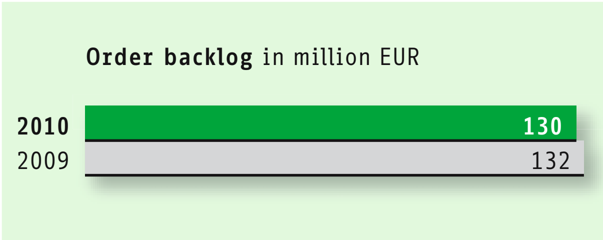
Growth in the market for init products continued unperturbed in the preceding financial year, mirrored in a further rise in enquiries and tenders. The majority of init’s project business is based on government subsidised infrastructure investments, which led to a greater number of acquisitions among transport companies. Government investment programmes such as initiated in 2008 and 2009 as a result of the global financial and economic crisis will not, however, show effect until the following years when tenders for projects are drafted, sent out and decided. How quickly this will lead to the placement of contracts differs from one project and country to another. This can range from a few months to two years.

In the preceding financial year, the volume of tenders worldwide once again topped the prior-year level. In saying this, a number of major tenders were cancelled, redrafted or decisions postponed until fiscal 2011.
Due to the latter trend, in 2010 we could not achieve our ambitious target for incoming orders of EUR 86m by the cutoff date. At EUR 70.5m (2009: EUR 92.3m), incoming orders did, however, total 87 per cent of realised sales in the amount of EUR 80.9m. Together with our existing order backlog this provides us with a good basis. A decision originally expected to be made back in 2010 on a major project worth EUR 25m has now been passed in favour of init, so the gap between actual and target in our order planning has closed again. We also expect to see quite a number of other decisions in ongoing tenders to be made in the first half of 2011.



A large part of orders in the reporting period came from existing customers. Because of long-standing customer relationships, init received numerous follow-up contracts either because of fleet increases, order extensions or system upgrades. Additional deliveries, maintenance contracts and order extensions alone made up over EUR 35m in new orders.

A further indicator of success in business for init is our backlog. While it was somewhat down on the previous year, at around EUR 130m at the end of 2010 (2009: EUR 132.2m) it remained at a very high level. The existing order backlog splits into some 55 per cent for fiscal 2011, 35 per cent for 2012 and around 10 per cent for 2013 and beyond.



In 2010, 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 with one result being that the number of major tenders has increased. Some of these tenders, however, were withdrawn again for various reasons before being reissued. These tenders are due for a decision from the first and second quarters of 2011.

Europe

The level of new orders by region provides a different picture. Orders booked in Europe (without Germany) rose to EUR 17.2m (2009: EUR 14.3m). The rate of new orders thus exceeds the previous year by 20.3 per cent.

In Great Britain, init won a new customer in Hertfordshire County Council (HCC). Its contract is worth over EUR 4m and involves the setup of a control and passenger information system. Over 240 vehicles in total will be provided with init technology.

Our Dutch customer Syntus B.V. placed an order for the equipment of another over 100 vehicles along with the software to upgrade its depot. Further follow-up contracts for init in the millions also came from Great Britain and Norway.

Several follow-up contracts came from Sweden. For the customer, Upplands Lokaltrafik AB, init is due to equip over 240 vehicles with our new on-board computer, COPILOTpc. The contract also involves fitting additional junctions with Traffic Signal Priority and the supply of a passenger information system.

AB Storstockholms Lokaltrafik also placed several orders. Some 35 trains will now be integrated into the existing ITCS system from init and supplied with passenger information. The company also ordered vehicle equipment for over 100 new vehicles and requested new trams to be integrated into init's system. The total volume of incoming orders from Sweden exceeded EUR 5m.

North America

At EUR 15.6m (2009: 46.8m), new business from North America proved unsatisfactory, the volume remaining notably below the previous year. Still, init is currently involved in a good number of tenders here, which leads us to believe that our intake of new orders in 2011 will be significantly higher.

One of our follow-up contracts here came from the transport operator Grand River Transit (GRT) in Waterloo, Ontario. Its existing system is due to be upgraded, with further equipment ordered for another over 100 vehicles. Our customer in Seattle ordered MOBILE-STOP-info displays for passenger information. Both these contracts together are worth over USD 3m.

Portland also placed a follow-up contract. The transport provider TriMet (Tri-County Metropolitan Transportation District of Oregon) commissioned init to equip more than 250 vehicles with our compact on-board computer COPILOTtouch for service-on-demand. In addition, init will install modems for wireless data transfer and voice radio in the vehicles and extend the MOBILE-ITCS control system in the control centre by another nine dispatcher workplaces. The contract value here tops USD 3m. Our customer TransLink in Vancouver, Canada, also placed a follow-up contract with us for the equipment of further vehicles. This contract is worth over USD 2m.

Transport operator MTS in San Diego, USA, is a new customer which init added to its books. MTS ordered the supply and installation of a passenger counting system. On the whole, init will fit 62 trams with our MOBILE-APC passenger counting system and the COPILOTpc on-board computer.

Middle East

In the Middle East, init won a tender put out by the Department of Transport of the Emirate of Abu Dhabi (DOT). Here, init will supply a telematics system comprising a control and information system and equip some 500 vehicles with hardware and software. A further 800 buses may be added as part of the development of the public transport system. The contract value here currently ranges at EUR 16m.

Germany

Along with a range of follow-up contracts and smaller orders in 2010, init again added further important projects in Germany to its books. Orders here were up by around 18.0 per cent on the prior-year level to EUR 20.3m (2009: EUR 17.2m), which met our expectations.

The Verkehrsverbund Südthüringen, comprising Meininger Busbetriebe MBB, KVG Eisenach and PNG Bad Salzungen, commissioned init with the partial upgrade of its existing system. A total of around 300 vehicles are to be equipped and connected to a public digital mobile radio system, while the control centre will get additional software.

Hallesche Verkehrs-AG placed a contract with init for the setup of a digital TETRA wireless network and the modernisation of its existing ITCS system. The contract is worth over EUR 4.5m.

Several follow-up contracts for init came from the Karlsruhe-based transport operator VBK. Among other things, new trams are to be fitted with init equipment and a passenger counting system is to be installed.

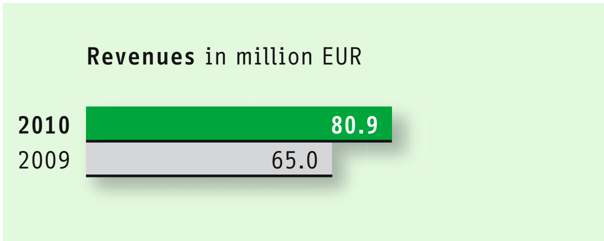
MIT.BUS GmbH in Giessen was added as a new customer. In a Europe-wide tender, the company opted for ticket printers from init. Over the next few months, init will set up a complete Electronic Fare Management System here. Along with our integrated ticket printer with on-board computer function, EVENDpc, other elements in the contract include our clearing system MOBILEvario and MOBILE-PLAN basic for data supply. On the whole, all 55 buses of MIT.BUS GmbH will be provided with init technology.

Hanauer Straßenbahn GmbH (HSB) also opted for the EVENDpc ticket printer from init. Along with the buses, init will also fit 17 ticket POS with the device. All ticket printers will be managed using MOBILEvario.

Earnings position

In the preceding financial year, init as a group was again able to realise its above-average growth potential, seize additional opportunities, and in the end not merely meet, but exceed the projections it had raised in the fourth quarter. The swift completion of major projects formed the basis which allowed us to more than achieve our sales and earnings targets. International business for init increased, aided by persistently high levels of demand for Telematics and Electronic Fare Collection Systems for public transport and, above all, by replacements ordered by long-standing customers and the additional funds made available by governments worldwide for investment in the traffic infrastructure.

At 24.5 per cent, group revenues thus improved more significantly than expected, up from EUR 65.0m in 2009 to EUR 80.9m. Fostered by better exchange rates and savings in procurement, init's profitability once again rose disproportionately. As a result, earnings from operations in the init group climbed to a new record of EUR 14.4m, after EUR 11.2m in the previous year.

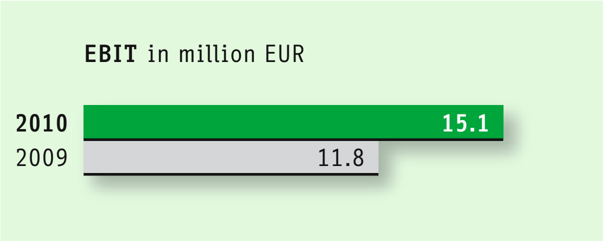


Gross profit improved to EUR 27.3m (2009: EUR 23.0m), up by 18.7 per cent (2009: 33.7 per cent). Production costs rose from 64.5 per cent to 66.3 per cent of revenues due primarily to the rise in personnel costs.

The net interest income (balance of interest income and interest expenses) totalled EUR -34k (2009: EUR -176k), primarily resulting from Euro loans raised throughout the year and the property financing in Karlsruhe.

Earnings before interest and taxes (EBIT) totalled EUR 15.1m, thus significantly exceeding the figure for 2009

(EUR 11.8m) as the previous most successful financial year. As a result, the EBIT margin stood at 18.7 per cent (2009: 18.1 per cent). The same applies to consolidated net profit for the year, which was up from EUR 8.3m in the previous year to EUR 10.0m. The overall tax ratio increased by 5.3 percentage points to 33.5 per cent though due to declining business in Dubai. This corresponds to earnings per share of EUR 1.00 (2009: EUR 0.84). It must be borne in mind here that an appropriate risk provision was used for the default, which negatively affected our result. The return on equity was 21.4 per cent (2009: 21.3 per cent) while the return on total investment was up from 11.6 per cent in 2009 to 11.9 per cent.



Financial and earnings position

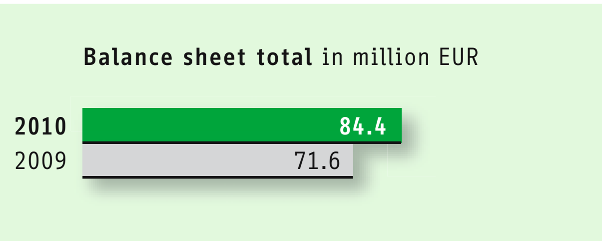
The financial and earnings position of the init group continued to improve in the 2010 financial year. As of 31 December 2010, the balance sheet total had risen by around EUR 12.8m on the previous year to a total of EUR 84.4m (2009: EUR 71.6m). Due to the strong positive group result, the company's equity capitalisation could again be raised. Equity rose to EUR 46.7m by year-end (2009: EUR 39.0m), up by 19.7 per cent on the previous year. The equity ratio thus was 55.3 per cent (2009: 54.4 per cent).

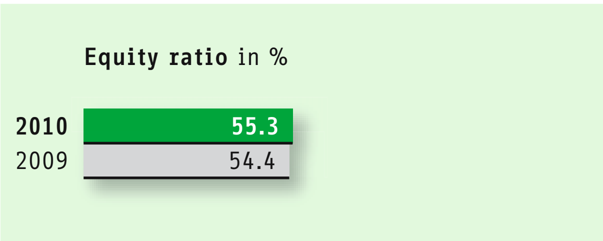
The liabilities to banks aggregated EUR 1.5m as of 31 December 2010 (2009: EUR 2.3m) and primarily resulted from the financing of premise extensions in Karlsruhe. The property was financed through a bank loan of EUR 1.2m. The balance due under this loan is EUR 1.1m. At 3.7 per cent interest, the loan has a term of 20 years with a fixed interest period of 10 years. The first two years were a period of grace. The first repayment was due by 30 June 2010. The debt-equity ratio (outside capital/equity capital*100) of the group was 80.9 per cent, after 83.7 per cent in 2009, down by 2.8 percentage points on the previous year.

With business and earnings showing an encouraging trend, init was able once again to improve its financial strength in fiscal 2010. The company is therefore in a position to finance future growth plans in the group from its cash flow. The group also has guarantee and credit lines available in the amount of around EUR 76m. On the cutoff date, 31.0 per cent of this amount had been used up. In addition, init has a bond line in the USA of USD 75m, which had not been used as of the cutoff date.

The operating cash flow totalled EUR 14.6m (2009: EUR 5.6m), exceeding the prior-year figure quite significantly. It must be taken into account here though that customers prolonged their periods of payment due to struggles related to the economic crisis and that major projects often require preliminary financing. The net working capital (current assets – liquid funds – liabilities) from deliveries and other performances totalled EUR 38.5m (2009: EUR 33.9m) and thus remained within our target range.

As of the end of December 2010, liquid funds including short-term securities totalled EUR 18.7m (2009: EUR 9.5m), up by 96.8 per cent.





Capital expenditure of EUR 1.2m in 2010 (2009: EUR 0.9m) primarily related to the modernisation of the company premises, replacement investments and rationalisation investments.

Participations

iris-GmbH infrared & intelligent sensors, Berlin (iris-GmbH), in which init holds a share of 43 per cent, was able to increase its sales and earnings projections.

Revenues at iris-GmbH totalled EUR 7.7m (2009: EUR 7.9m), net earnings from ordinary activities amounted to EUR 1.1m (2009: EUR 1.3m). This corresponds to a percentage return on sales before taxes of 14.3 per cent (2009: 16.4 per cent). We expect that iris-GmbH will see further growth both in sales and earnings in 2011.

The financial year was defined by instability in the supply sector primarily as a result of the financial crisis, which led to deadline shifts in a number of projects.

iris-GmbH is planning to develop business particularly in Latin America. The company was also able to chalk up initial success in Asia with a pilot project near Tokyo and submitted its first proposal in the Indian market through a Russian sales partner. After the introduction of its new IRMA-Basic-CAN product in 2010, iris-GmbH will now focus on such aspects as the launch of its new DIST 500 sensor in 2011.

At 44 per cent, init also holds an investment 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 generated sales of EUR 2.8m (2009: EUR 2.4m), resulting in an annual net profit of EUR 368k (2009: EUR 146k), which clearly exceeded both its projections and its prior-year figures.

After initial partial successes, id systeme will focus in 2011 on acquiring new customers for the PERDIS software in North America and Europe.

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 keep production costs to a minimum, init is focusing on its key strengths in development.

The production of hardware is outsourced to qualified producers as subcontractors who work closely with our init engineers. The quality required by us is assured by providing our own staff to support each stage of the production process, from prototyping to the test series all the way to serial production.

There are no dependencies on individual suppliers or service providers. This allows us to switch suppliers should one of our business partners be unavailable. To reduce production costs even further, init continued to establish its supplier relations 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 optimisation of our production processes with the aim of reducing costs while maintaining first-rate quality in production.

Personnel

In fiscal 2010, the number of personnel in the group was adjusted both in Germany and in the USA to ensure that projects were completed as scheduled and to allow further growth. These added capacities enable init to cope with the high level of orders and the expected further increase in incoming business. As a result, only moderate personnel increases will be required in the 2011 financial year.

Well educated and entrepreneurial staff are the 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.

Training visits to the group headquarters in Germany help ensure that new employees in our subsidiaries 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, either as part of their training or due to ongoing projects, 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 foreign companies is filled with specialists from Germany, as this ensures prompt and smooth communication between our business units.

Around 65 per cent 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.

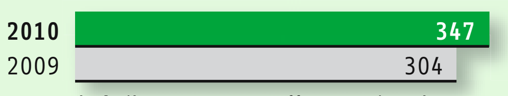
Employee profit-sharing

Corporate success at init depends to a large degree on our employees, as they are the ones to further the company through their experience and motivation. Consequently, the Managing Board decided on 10 May 2010 to involve employees in the company profits based on our operating result. Every permanent employee will receive a profit share of EUR 5,000 for 2010 (staff in the USA, of USD 6,600). Trainees will receive a profit share of 25 per cent 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.

Employee figures

As of 31 December 2010, the init group employed 347 staff (2009: 304) including temporary workers, research assistants and diploma candidates. A total of 307 employees (2009: 269) held permanent positions on the cutoff date, 34 of whom were employed on a part-time basis.

Employees as of 31 December



including temporary staff, research assistants and diploma candidates

These added capacities will enable init to achieve the growth targets set for 2011.

19 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.

Ethical guidelines and diversity

As a result of our growing activities worldwide, the group of people working in the init group has become significantly more diverse in terms of nationality, religion and ideology. Today, init employs people from all five continents who come from more than 10 different nations and all faiths.

One of the key management priorities of the company is to promote equal opportunities for everyone and to further improve the working environment. For this purpose, we have set up guidelines as binding principles for every employee, which are made available in a separate brochure. These represent the basis of init's corporate culture, and as a mandatory framework define our daily actions and decisions at every level, beyond national boundaries and in every part of our group.

Along with the precept of equality of rights and opportunities for every person and a comprehensive ban on discrimination, this also explicitly includes the obligation to respect and appreciate the international and cultural diversity of people in the company as the basis of our success.

As a result, employees with the appropriate qualification have equal access to management positions. With the internationalisation of our business, we now enjoy greater diversity at our top management levels. The number of women in leading positions is also steadily on the increase. In 2010, the rate of women in top positions increased quite notably to around 19 per cent.

Fringe benefits

To further promote this development, we offer our employees flexible working times to ensure family – and particularly childcare – and work can be reconciled. Our fringe benefits also include contributions of up to EUR 400 per child and month to childcare costs as well as the creation of home offices. For this reason, init has already received a number of awards as a family-friendly company. A further priority in our company is the health of our employees. We therefore regularly organise medical check-ups with health insurance providers, assume the costs for flu injections, provide eye tests, and have taken out additional dental insurance and a travel health insurance for every employee.

Environmental protection

The software and hardware products from init help transport companies provide fast, competitive and resource-saving mobility. Increasing the attractiveness of public transport increases the passenger numbers and, as a result, reduces private transport to relieve the burden on the environment. Public transport, after all, fares better by far in environmental and carbon dioxide audits than private transport. 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.

Over the past few years, we have increasingly invested in energy-saving measures. As a result, we are now able, among other aspects, to heat and cool some of the offices at our Karlsruhe headquarters with waste heat from our servers using heat exchangers.

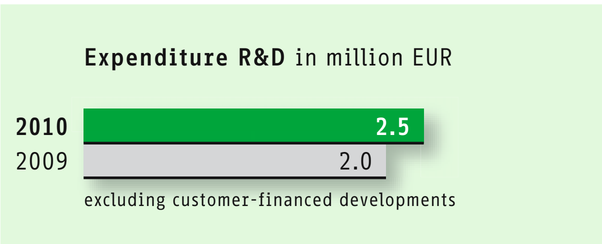
Research and development report

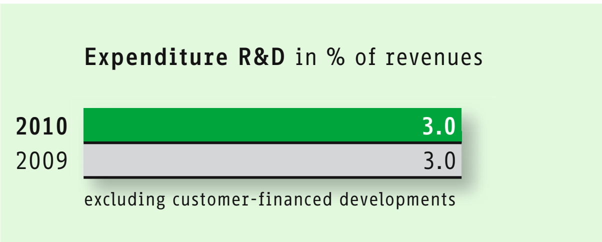
Research and development play a key role at init. Not only do we need to keep an eye on technical innovations and developments on the market to allow us to turn them into innovative products in good time. We are also faced with the challenge of placing technical innovations on the market at just the right 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 2010, init's hardware and software developers 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 interfaces.

In fiscal 2010, init focused quite intensively on the further development of our integrated system. The growing combination of ticketing, ITCS and intermodal, cross-company passenger information systems now requires integrated solutions. This applies both to data supply as much as to the use of combination devices. As a result, init has gradually worked in further developing its combination device EVENDpc. Combination devices reduce the investment costs, as electronic ticket printer and on-board computer are integrated in a single device. In terms of operating processes, this considerably improves the integrated data supply and radio control in the ITCS.

In 2010, init spent a total of EUR 2.5m (2009: EUR 2.0m) for the development of new products not involving customer financing. 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.





Software development

MOBILEdash makes it possible to view up-to-date statistical operating data on a smartphone allowing prompt measures to be taken. MOBILEdash provides concise statistical analyses at a glance. The web application runs within the phone's web browser providing daily operational reports on fleet performance such as punctuality, connection reliability, and vehicle fault messages. The current status is also compared with the general trend. This makes the data easier to interpret and allows the user to initiate direct action. As a result, responsible staff are promptly informed without any delay using their smartphones (e-mail, speed dial function and text messages).

ONLINEinfo is a new web application from init for passenger information. Passengers are able via their smartphones and the Internet to view real-time information on arrival and departure as well as the location and the distance to the next stop. "Google Maps", which is integrated into ONLINEinfo, indicates the way to the next stop. The departure times are shown in line with the displays at each stop and can be viewed even more conveniently via a "mobile tagging" application. Each stop has its own specific Internet address, which is found in the form of a bar code on the stop's notice board. By taking a photo of this bar code using a smartphone, the user automatically receives the real-time departure times of the buses and trains at that particular stop.

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. Our latest development is "The Loop", a software which makes it possible to integrate statistical data from the ITCS and APC systems into the planning process. With the aid of the ITCS, the system records all early or late arrivals and departures for specific vehicles and stops and inputs these into the statistics. Averages and peaks are determined using stochastic methods. These are now directly and automatically fed back into the planning system and, with it, into the planning process. This makes it possible to adjust the planning and significantly increase the planning quality. Automatic Passenger Counting (APC) is used to count passengers getting on and off the vehicles at the stops. These data are also fed back into the planning process to provide the dispatcher with valuable information that will help optimise planning the vehicle sizes.

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). Our American subsidiary is also developing adaptations of these software modules for requirement-based bus transport in the German market.

Hardware development

In the hardware sector, developments at init focused on the COPILOTpc II, the successor of our successful on-board computer, COPILOTpc. As its predecessor, the COPILOTpc II will, of course, run on Microsoft Windows® XP Embedded. This simplifies the creation of software as well as the use of third-party software and ensures flexibility and investment security for the transport operator. Our new development is equipped with a notably more efficient processor (Intel Atom). The device can be fitted with GSM, GPS, UMTS, 3G and WLAN modules to ensure a wide spectrum of applications. A two-PCB solution (CPU module and basic PCB) provides greater flexibility for the integration of future init developments. A further new aspect is our "fall-back concept", which ensures that basic functions, including voice radio, continue to be available in case of disruptions.

Another new development is our IProuter, which takes on the function of a gateway in the vehicle and connects various communication channels. As the COPILOTpc II, this device also integrates init's CPU module. The IProuter runs on Linux, since this is the only operating system to provide the appropriate routing functionality and avoids payment of licence fees. The device can be connected to a WAN (Wide Area Network) using various communication channels (WLAN, WiMAX, UMTS, GSM/GPRS, CDMA). As the control device, the IProuter seamlessly switches channels to ensure quick and efficient communication. The IProuter can also be used as a WLAN Access Point for passengers. As a result, passengers can surf the Internet on their travels and view the latest news. For service purposes, it also integrates a display, which can be used to call up status information.

Automotive

In the group, CarMedialab is the integration partner of Daimler AG for intelligent charging management in the new "smart fortwo electric drive". Charging electricity has thus become even more convenient than refuelling. Once contact between vehicle and charging station has been established by the charging cable, the electronics on board the vehicle and on the charging point enable the exchange of 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.

Research projects

init is currently also 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 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 involved and in charge.

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 delay 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 delay, 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.

Economic risks

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 init's 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.

Project and product risks

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. A 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. 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.

Currently, init has no 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.

Market risks

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.

Financial risks

The financial crisis has also increased the risk of bad debt losses. While a large number of init's customers are state-subsidised or public transport companies, the fact is that some states have now also fallen into financial difficulties (e.g. Greece, Dubai, Ireland). As a result, it is not unlikely that we will face bad debt losses in the future. The days payable outstanding have notably increased with the result that we now encounter cash flow predictability risks and liquidity risks.

As of 31 December 2010, init had outstanding accounts in the amount of around EUR 9.0m in Dubai. 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 are facing considerable delays in payment contrary to the terms agreed. This risk was taken into account by way of appropriate value adjustments. On the whole, init received payments in Dubai of around EUR 3.1m in 2010. Further invoices in the amount of around EUR 1m were settled in January and early February 2011.

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 currency 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, bonds, 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 monthly 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 exist 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

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

While the global economy has not yet fully recovered from the financial crisis, it is to be expected that the market for telematics and payment systems will continue to grow. This must also be seen against the background that many governments are still implementing programmes to help alleviate the financial and economic crisis. At the end of 2009, the American Senate had released a total of around USD 10.7bn for the development of transport systems in the USA. Usually, however, it takes some 12–15 months before these funds can be used by transport companies. This means that contracts are likely to materialise largely in fiscal 2011. In addition, the International Association of Public Transport (UITP) anticipates that passenger figures in public transport worldwide will double by 2025. Add to this the fact that many systems in Europe, and primarily in Germany, have now aged and urgently need to be replaced. This opens up additional business opportunities for init.

To further improve our competitive position in Europe, init has set up two new subsidiaries, INIT Innovations in Transportation Ltd in Nottingham and INIT Innovations in Transportation Oy in Helsinki. These two subsidiaries will enable us to further intensify our service for customers in the UK, the Netherlands, Ireland and Scandinavia. Often, local presence and closeness to the customer are key deciding factors in the allocation of contracts. We have also established a branch of Init Innovation in Traffic Systems FZE in Abu Dhabi to handle a new major contract here.

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. China is currently planning to limit the quota of new private car registrations to get the daily traffic chaos in its major cities under control. init therefore intends to participate in various selected tenders in the Asian region. Initial contacts with transport companies could already be established.

We also see good chances of business due to the growing interest of transport companies in integrated systems. With EVENDpc, our electronic ticket printer with on-board computer functionality, init is well prepared here to link ticketing with ITCS. 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.

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 – 2010

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 26 May 2010 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:

Joint aspect for Managing Board and Supervisory Board

The D&O insurance does not provide for an excess payable by members of Supervisory Board (item 3.8 para. 2 of the Code).

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).

Composition of the Supervisory Board

Based on Section 7 para. 1 of the articles of incorporation, the Supervisory Board is composed of three members who are elected at the annual shareholders' meeting. The term of the current Supervisory Board ends on conclusion of the annual shareholders' meeting in 2011. In line with the recommendations of the Code, the members are elected in individual elections.

The Supervisory Board has not given any specific goals for its composition. In proposing candidates to the shareholders' meeting, the Supervisory Board will in future also have to take account of the legal requirements and give priority to the professional and personal qualification of the person – irrespective of their gender. The Supervisory Board will also ensure sufficient independence of each person.

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 eight 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.

Our ethical guidelines are a key factor in our decisions on how to implement our corporate visions and mission. As a basis for everything we do, they create trust, credibility and transparency. They are a key aspect in the success of our company. Our ethical guidelines are published on our website under "Company/Philosophy".

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 innovation in traffic systems 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 4,024,347 shares in the company, which corresponds to 40.08 per cent of the shares. The Supervisory Board of init innovation in traffic systems AG does not hold any shares.

An individual disclosure of the shares held by the Managing Board is included in the Notes on the Consolidated Financial Statements (page 91).

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 disclosure 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 2010 is available under “Annual document” on our website at www.initag.com.

Remuneration systems for Supervisory Board and Managing 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 2010 totalled EUR 1,099k (2009: EUR 1,064k).

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 per cent of the total compensation package without restricted stocks under item 3.

   The variable part of the Board members' remuneration in 2010 totalled EUR 340k (2009: EUR 326k).

3. A further bonus for 2010 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. For three Board members, the number of shares is limited to 5,000 and for two Board members, to 5,500. The shares are subject to a qualifying period of five 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 710k (2009: EUR 491k).

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 235k in 2010 (2009: EUR 271k).

5. A defined contribution plan instead of a direct pension commitment exists for two members of the Managing Board. This expenditure in 2010 amounted to EUR 7k (2009: EUR 6k).

6. An additional defined contribution plan exists for four members of the Managing Board. In 2010, expenditure for this item amounted to EUR 52k (2009: EUR 44k).

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 can be waived for a period of 5 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 2010.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board applied to date 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 innovation in traffic systems AG 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 9,000 p.a. for the members and EUR 18,000 p.a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable remuneration is limited to 300 per cent of the fixed remuneration and is calculated using the following formula:

$$V = ((0.5 * price/5.10 + 0.5 * profit/2m) - 1) * fixed\ component$$

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 2010:

EUR	Fixed	Variable
Name		
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18,000	54,000
Bernd Koch	9,000	27,000
Fariborz Khavand	9,000	27,000

Particulars of the shareholders' equity

The capital stock of init innovation in traffic systems 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 Sections 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 3,485,000 shares in init AG. This corresponds to around 34.7 per cent of the capital stock. As of 31 December 2010, init AG held a total of 94,186 shares (as of 31 December 2009: 110,219 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 control 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 2010 totalled 110,219 shares.

Based on the resolution passed at the annual shareholders' meeting on 20 May 2009, replaced by the resolution on 12 May 2010, the company is authorised to purchase treasury stock. On 17 May 2010, a decision was made to repurchase up to 40,000 shares. The shares were repurchased at an average price of EUR 13.67 between 17 May and 10 June 2010. No shares had been repurchased in 2009. Within the scope of an employee profit sharing scheme for 2010, a total of 25,033 shares were transferred to employees. 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 shares were transferred with a qualifying period of five years. A further 1,000 shares were transferred to employees within the scope of a bonus agreement without qualifying period. On the whole, the current treasury stock as of 31 December 2010 totalled 94,186 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

Following the surprisingly quick and strong recovery of the global economy in 2010, economic experts predict that growth will slow this year. The consequences of the financial crisis that still need to be overcome are aggravated for some industrialised nations by the added challenge of the need for budget consolidation in connection with further structural reforms. Managing these tasks is of crucial importance for the global economic development and, therefore, an essential parameter for the business trend of the init group.

The states' economic stimulus packages launched to date will, however, show positive effects for init in fiscal 2011, as the related tenders involving infrastructure projects will then be due for implementation. We particularly expect to see a number of decisions to be made in ongoing tender processes in the first and second quarters of fiscal 2011.

A risk in the medium term, however, will be the development of public debt in some countries in the Euro zone, along with high volatility of the exchange rates. Weak foreign currencies tend to result in lower margins for init, since the currency effects can only be passed on to a degree through higher prices. This could have a negative impact on our earnings trend and result in the postponement of projects and payments due to financial bottlenecks on the customer side.

With innovative products, individual customer solutions and 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 the planned modernisation of transport infrastructures and opens up new business opportunities for us.

With orders totalling in excess of EUR 130m as of 31 December 2010, init already has a comfortable basis for a successful financial year in 2011. On this basis, our targets for the 2011 financial year currently include sales revenues of EUR 82m and earnings before interest and taxes of more than EUR 15m. We expect that these figures will rise further still in 2012.

Karlsruhe, 9 March 2011
The Managing Board

Dr. Gottfried Greschner   Joachim Becker   Wolfgang Degen

Dr. Jürgen Greschner   Bernhard Smolka

Consolidated Income Statement for 2010 (IFRS)

EUR '000	Notes No.	1/1 to 31/12/2010	1/1 to 31/12/2009
Revenues	5, 37	80,913	64,955
Cost of revenues	6	-53,621	-41,918
Gross profit		**27,292**	**23,037**
Sales and marketing expenses		-8,012	-6,235
General administrative expenses		-4,611	-3,812
Research and development expenses	7, 23	-2,489	-1,602
Other operating income	8	1,016	597
Other operating expenses		-4	-58
Foreign currency gains and losses	9	1,257	-735
Operating profit		**14,449**	**11,192**
Income from associated companies	10, 24	423	421
Other income and expenses	11	213	141
Earnings before interest and taxes (EBIT)		**15,085**	**11,754**
Interest income		146	83
Interest expenses		-180	-259
Earnings before taxes (EBT)		**15,051**	**11,578**
Income taxes	12, 25	-5,037	-3,264
Net profit		**10,014**	**8,314**
thereof attributable to equity holders of parent company		9,926	8,325
thereof minority interests		88	-11
Net profit and diluted net profit per share in EUR	14	1.00	0.84

Consolidated Balance Sheet as of 31 December 2010 (IFRS)

Assets

EUR '000	Notes No.	31/12/2010	31/12/2009
Current assets			
Cash and cash equivalents	17, 33	18,380	9,327
Marketable securities and bonds	18, 33	324	158
Trade accounts receivable	19, 33	15,243	16,175
Future receivables from production orders (percentage of completion method)	19, 33	19,295	15,091
Accounts receivable from related parties	36	9	0
Inventories	20	15,444	15,343
Income tax receivable		0	5
Other current assets	21	2,242	1,214
Current assets, total		**70,937**	**57,313**
Non-current assets			
Tangible fixed assets	22	5,182	4,876
Goodwill	23	2,081	2,081
Other intangible assets	23	1,687	2,907
Interest in associated companies	24	2,221	2,059
Accounts receivable from related parties	36	68	68
Deferred tax assets	25	661	724
Other assets	26	1,584	1,582
Non-current assets, total		**13,484**	**14,297**
Asset, total		**84,421**	**71,610**

Liabilities and shareholders' equity

EUR '000	Notes No.	31/12/2010	31/12/2009
Current liabilities			
Bank loans	27	471	1,166
Trade accounts payable	27	2,908	3,284
Accounts payable of percentage of completion method	19, 27	6,345	8,715
Accounts payable due to related parties	27, 36	94	305
Advance payments received	27	4,665	1,765
Income tax payable		2,514	1,061
Provisions	29	5,617	3,555
Other current liabilities	28	7,320	5,784
Current liabilities, total		**29,934**	**25,635**
Non-current liabilities			
Long-term debt less current portion	27	1,059	1,129
Deferred tax liabilities	25	4,067	3,189
Pensions accrued and similar obligations	30	2,652	2,606
Other non-current liabilities	28	42	74
Non-current liabilities, total		**7,820**	**6,998**
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	31	10,040	10,040
Additional paid-in capital	31	4,793	4,377
Treasury stock	31	-660	-477
Surplus reserves and consolidated unappropriated profit		32,565	25,626
Other reserves	31	-341	-771
		46,397	**38,795**
Minority interests		270	182
Shareholders' equity, total		**46,667**	**38,977**
Liabilities and shareholders' equity, total		**84,421**	**71,610**

Consolidated Cash Flow Statement for 2010 (IFRS)

EUR '000	**1/1 to 31/12/2010**	1/1 to 31/12/2009
Cash flow from operating activities:		
Net income	10,014	8,314
Depreciation/amortisation	2,507	2,403
Losses on the disposal of fixed assets	6	39
Change of provisions and accruals	2,108	172
Change of inventories	-101	-7,658
Change in trade accounts receivable and future receivables from production orders (POC)	-3,272	-4,877
Change in other assets, not provided by/used in investing or financing activities	-1,034	543
Change in trade accounts payable	-376	612
Change in advanced payments received and liabilities from POC method	530	2,969
Change in other liabilities, not provided by/used in investing or financing activities	2,746	1,407
Change in investment book value (not affecting cash flow)	-422	-422
Amount of other non-cash income and expenses	1,909	2,068
Net cash from operating activities	**14,615**	**5,570**
Cash flow from investing activities:		
Inflows from sales of tangible fixed assets	0	1
Investments in tangible fixed assets and other intangible assets	-1,510	-1,143
Investments in software development	0	-432
Inflows from associated companies and loans receivable	260	215
Investments in marketable securities as part of short-term cash management	-188	-111
Net cash flows used in investing activities	**-1,438**	**-1,470**
Cash flow from financing activities:		
Dividend paid out	-2,986	-1,580
Cash payments for the purchase of treasury stock	-547	0
Redemption of bank loans	-765	-34
Net cash flows used in financing activities	**-4,298**	**-1,614**
Net effects of currency translation and consolidation changes in cash and cash equivalents	174	35
Increase in cash and cash equivalents	**9,053**	**2,521**
Cash and cash equivalents at the beginning of the period	9,327	6,806
Cash and cash equivalents at the end of the period	**18,380**	**9,327**

Consolidated Statement of Comprehensive Income for 2010 (IFRS)

EUR '000	1/1 to 31/12/2010	1/1 to 31/12/2009
Net profit	**10,014**	**8,314**
Currency translation	508	100
Actuarial losses on defined benefit obligations for pensions, recognised in the shareholders' equity	-65	-297
Net gain (+) / net loss (-) in available-for-sale financial assets	-13	77
Deferred taxes on valuation adjustments, recognised directly in the shareholders' equity	0	29
Other comprehensive income	**430**	**-91**
Total comprehensive income	**10,444**	**8,223**
thereof attributable to equity holders of the parent company	10,356	8,234
thereof minority interests	88	-11

Consolidated Statement of Changes in Equity as of 31 December 2010 (IFRS)

	Attributable to equity holders			
EUR '000	Subscribed capital	Additional paid-in capital	Surplus reserves, Consolidated unappropriated profit	Treasury stock
Status as of 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
Acquisition of treasury stock				
Rounding difference				
Status as of 31/12/2009	**10,040**	**4,377**	**25,626**	**-477**
Status as of 31/12/2009	**10,040**	**4,377**	**25,626**	**-477**
Net profit			9,926	
Other comprehensive income				
Total comprehensive income			**9,926**	
Dividend paid out			-2,986	
Share-based payments		416		364
Acquisition of treasury stock				-547
Rounding difference			-1	
Status as of 31/12/2010	**10,040**	**4,793**	**32,565**	**-660**

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		
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		0
			0	-1	-1
-81	**-741**	**51**	**38,795**	**182**	**38,977**
-81	**-741**	**51**	**38,795**	**182**	**38,977**
			9,926	88	10,014
-65	508	-13	430		430
-65	**508**	**-13**	**10,356**	**88**	**10,444**
			-2,986		-2,986
			780		780
			-547		-547
					0
-146	**-233**	**38**	**46,397**	**270**	**46,667**

Notes on the Consolidated Financial Statements for 2010 (IFRS)

General disclosure

init innovation in traffic systems Aktiengesellschaft, Kaeppelestrasse 4-6, Karlsruhe, Germany ("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 per cent 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 per cent 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 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 indicated, all figures are rounded to a full thousand (EUR k).

The 2010 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.

In principle, the accounting practices and valuation methods applied are consistent with the methods applied in the previous year. Amendments to the accounting principles and valuation methods and also amendments concerning the presentation and explanation of the financial statements can result from the application of new or revised standards and interpretations with effect on 1 January 2010.

Developments within the IASB legislation:

The following IASB publications were adopted by the EU and are mandatory for financial years that commence after 31 December 2009:

Standard		Title
IAS	27	Revised IAS 27 Consolidated and Separate Financial Statements
IAS	39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Qualifying Underlying Transactions
IFRS	1	First-Time Adoption of International Financial Reporting Standards
IFRS	1	Amendments to IFRS 1 Additional Exemptions for First-Time Adopters
IFRS	2	Amendment to IFRS 2 Share-Based Payment
IFRS	3	Revised IFRS 3 Business Combinations
IFRIC	12	IFRIC – Interpretation 12 Service Concession Arrangements
IFRIC	15	IFRIC – Interpretation 15 Agreements for the Construction of Real Estate
IFRIC	16	IFRIC – Interpretation 16 Hedges of a Net Investment in a Foreign Operation
IFRIC	17	IFRIC – Interpretation 17 Distributions of Non-cash Assets to Owners
IFRIC	18	IFRIC – Interpretation 18 Transfers of Assets from Customers
Diverse		Improvements to the International Financial Reporting Standards (published by IASB in April 2009)
Diverse		Improvements to the International Financial Reporting Standards (published in May 2008)

The following IASB regulations were adopted by the EU but are not mandatory for the current financial year:

Standard		Title
IAS	24	Revised IAS 24 Related Party Disclosures; applicable for financial years commencing after 31 December 2010
IAS	32	Amendment to IAS 32 Financial Instruments: Presentation; applicable for financial years commencing after 31 December 2010
IFRS	1	Amendment to IFRS 1 First-Time Adoption of International Financial Reporting Standards; applicable for financial years commencing after 30 June 2010
IFRS	1	Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters; applicable for financial years commencing after 30 June 2010
IFRS	7	Amendment to IFRS 7 Financial Instruments: Disclosures; applicable for financial years commencing after 30 June 2010
IFRS	8	Amendment to IFRS 8 Operating Segments; applicable for financial years commencing after 31 December 2010
Diverse		Improvements to IFRSs (Issued in May 2010)
IFRIC	14	Amendments to IFRIC – Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; applicable for financial years commencing after 31 December 2010
IFRIC	19	IFRIC – Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments; applicable for financial years commencing after 30 June 2010

The group will only start to use these regulations as of the financial year in which they become mandatory within the EU.

The EU has not yet adopted the following IASB publications:

Standard		Title
IFRS	9	Financial Instruments: Amortised Cost and Impairment (Issued 12 November 2009)
IAS	12	Amendments to IAS 12 – Deferred tax: Recovery of Underlying Assets
IFRS	1	Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
IFRS	7	Amendments to IFRS 7 – Financial Instruments: Disclosures (issued 7 October 2010)

The standards and interpretations listed above will be applied as and when they become effective within the European Union. Their recognition by the EU will convert the IASB publications to European law. According to current understanding, the group will only be peripherally affected by the above-mentioned changes.

Amendments to the accounting principles and valuation methods and also amendments concerning the presentation and explanation of the financial statements result from the application of the following new or revised standards:

IAS 39 Financial Instruments: Recognition and Measurement – Qualifying Underlying Transactions
It has been clarified that it is permissible to designate as an underlying transaction only a part of the changes of the current market value or of the cash flow fluctuations of a financial instrument. This also includes the designation of inflation risks as a secured risk and/or parts thereof in certain cases.

IFRS 2 "Share-based Payment"
In June 2009, the IASB published an amendment of IFRIC 2 relating to the applicable scope and to the accounting of cash-settled share-based payments in the group. This has no significant effect on the group's assets, liabilities, financial position and earnings situation.

IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (revised)
IFRS 3 (revised) introduces significant changes concerning the accounting of business combinations. This affects the measurement of shares without a controlling interest, the accounting of transaction costs, the initial inclusion and the subsequent measurement of a contingent consideration as well as step acquisitions. These new regulations will have an effect on the level at which goodwill is reported, on the operating result of the reporting period in which the business combination occurred and on future operating results.
IAS 27 (revised) stipulates that a change in the level of investment in a subsidiary that does not lead to a loss of control is to be reported as a transaction with owners in their capacity as owners. Neither goodwill nor a profit or loss can therefore result from such a transaction. In addition, the revision also amended the regulations on the distribution of losses to the owners of the parent company and the holdings without a controlling interest and accounting rules for transactions that lead to a loss of control. The new regulations from IFRS 3 and IAS 27 have an effect on the gaining and loss of control of subsidiaries and on the transactions with holdings without a controlling interest on or after 1 January 2010. This amendment of the reporting method is applied prospectively and did not have any significant effect on the earnings per share.

IFRIC 17 Distributions of Non-Cash Assets to Owners
This interpretation contains guidelines on the accounting of agreements whereby a business undertakes distributions of non-cash assets to owners as a distribution from the reserves or as dividends. This interpretation has no effect on the group's assets, liabilities, financial position and earnings situation.

Improvements to IFRS 2008 and 2009
In May 2008 and April 2009, the IASB published two general standards to change various IFRS standards with the primary objective of removing inconsistencies and clarifying various wordings. The general standards provide a transitional ruling for every amended IFRS standard. Although the application of the following new regulations did lead to an amendment of reporting methods, there was no effect on the assets, liabilities, financial position and earnings situation.

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 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. On the one hand, this revises the definition of related parties in order to make it easier to identify the relationship to a related party. On the other hand, it partly exempts the party related to a public sector entity from disclosure requirements that pertain to transactions with said public sector entity and other business entities related to that public sector entity. The standard specifies retrospective application. This expansion of the definition will foreseeably lead to further details arising in future about who is included in the parties related to the group. The application of the revised definition is currently being looked into. The amendment will, however, have no effect on the recognition and measurement of assets and liabilities in the consolidated financial statements and on the operating results in future financial years.

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. The standard specifies retrospective application. This standard is not currently expected to have any significant effect on init.

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. The standard specifies retrospective application. The initial application will foreseeably not lead to any reporting of an asset resulting from the excess of the plan asset above the value of the defined benefit obligation.

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. The standard specifies retrospective application. For lack of corresponding transactions, no effects on the consolidated financial statements are expected from the application of this interpretation.

"Improvements to International Financial Reporting Standards 2010"
This general standard, published in May 2010, contains a series of amendments to various IFRS standards. The times of application and the transitional rulings are specified for each standard. The group, however, does not expect the application of these amendments to have any effect on the group's assets, liabilities, financial position and earnings situation.

IFRS 3 "Business Combinations"
Transitional regulations for contingent considerations resulting from business combinations that took place before the time when the revised IFRS standard came into force are as follows: The amendment clarifies that the changes to IFRS 7 "Financial Instruments: Disclosures", IAS 32 "Financial Instruments: Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement", which overrule the exclusion of contingent considerations from the scope of these standards, do not apply to those contingent considerations that result from business combinations whose time of acquisition was before the application of IFRS 3 (revised 2008). This amendment shall apply for the first time to financial years commencing on or after 1 July 2010. This ruling allows the contingent considerations agreed in previous years to be reported by the group unchanged and according to the previous accounting method. Subsequent changes from contingent considerations will therefore only affect the goodwill. Conversely, effects that affect the current-period result are not to be expected.
Measurement of holdings without controlling interest: the amendment limits the applicable scope of the measurement policy option inasmuch as only those parts of the holdings without controlling interest which substantiate a current ownership right and, in the case of liquidation, which substantiate a proportionate claim for the owner to the net assets of the company may be measured either at the current market value or relative to the proportionate share of the current ownership right to the identifiable net assets of the acquired company. Any other parts of the holdings without controlling interest are to be measured at their current market value at the time of acquisition, unless another IFRS regulation (e.g. IFRS 2) stipulates a different valuation standard. This amendment shall apply for the first time to financial years commencing on or after 1 July 2010. The group values the holdings without controlling interest at the current market value and therefore does not expect any effects from this clarification.
Non-substituted and voluntarily substituted share-based payment: According to this amendment, a company (in the context of a business combination) is obligated to recognise the substitution of the share-based payment (whether mandatory or voluntary), i.e. it is obligated to allocate between the consideration and the costs incurred by the business combination. If the company substitutes the share-based payment promises of the acquired company, which are forfeited due to the business combination, it recognises these as costs incurred after the business combination. The amendment also clarifies the accounting of share-based payment transactions which the acquiring company is not substituting with its own share-based payment promises: If these are exercisable, they therefore represent shares without controlling interest and are recognised at the market-based value. If these are not exercisable, they are to be valued at the market-based value as if they were granted at the time of acquisition, and are to be allocated between the shares without controlling interest and the costs incurred after the business combination. This amendment shall apply for the first time to financial years commencing on or after 1 July 2010. The standard stipulates prospective adoption as of the time of the first-time adoption of IFRS 3 (2008). Due to the transitional ruling, this amendment will not have any effect on the consolidated financial statement in the financial year of the first adoption.

IFRS 7 "Financial Instruments: Disclosures"

This amendment clarifies the interdependency between the quantitative and the qualitative disclosures, as well as the type and scope of risks from financial instruments. In particular it also includes amendments relating to quantitative disclosures about the risk of default. The amendment is to apply retrospectively. This amendment will foreseeably lead to a slight reduction of disclosures about the financial instruments. It will have no effect on the recognition and measurement of assets and liabilities in the consolidated financial statements and on the net profit.

IAS 1 "Presentation of Financial Statements"

This amendment clarifies the fact that the analysis of the other results for individual equity components must be made either in the statement of changes in equity or in the notes. The amendment is to apply retrospectively. The new standard had 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 27 "Consolidated and Separate Financial Statements"

This amendment clarifies the fact that the knock-on changes resulting from IAS 27 on IAS 21 "The Effects of Changes in Foreign Exchange Rates", on IAS 28 "Investments in Associates" and on IAS 31 "Interest in Joint Ventures" are to be adopted prospectively for financial years commencing on or after 1 July 2009, or at an earlier time if an early adoption of IAS 27 is decided on. This amendment shall apply for the first time to financial years commencing on or after 1 July 2010. The standard stipulates retrospective application.

IAS 34 "Interim Financial Reporting"

This amendment can lead to an expansion of the reporting in the interim report. However, it does not have any effect on the recognition and measurement of assets and liabilities in the consolidated financial statements or on the net profit.

IFRIC 13 "Customer Loyalty Programmes"

This amendment clarifies the fact that when the current market value of a loyalty award credit is measured using the current market value of the award, for which they can be redeemed, any other discounts and attractions granted to the customers who did not acquire any loyalty award credits from an original sale must also be taken into consideration. The amendment is to apply retrospectively; however, it does not have any effect on the init consolidated financial statements since the previous principles of realising revenues in the group already correspond to the interpretation represented by IFRIC.

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

Amendment to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The amendment to IFRS 1 was published in December 2010 and applies for the first time to financial years commencing on or after 1 July 2011. The amendment removes the fixed adoption dates for elimination and the regulations for reporting a profit or loss at the time of their addition as per IFRS 1, and replaces these with the date of transition to the IFRS. In addition, the amendment also clarifies how presentation of financial statements as per IFRS should be resumed after a period when the company was unable to comply with the IFRS because its functional currency was subject to severe hyperinflation.

Amendment to IFRS 7 – Disclosures: Transfer of Financial Assets

The amendment to IFRS 7 was published in October 2010 and applies for the first time to financial years commencing on or after 1 July 2011. The amendment determines extensive new qualitative and quantitative disclosures on transferred financial assets that were not eliminated and on the commitment that continues to exist for transferred financial assets on the reporting date. This amendment will foreseeably further extend the scope of the disclosures on financial instruments. However, it will not affect the recognition and measurement of assets and liabilities in the consolidated financial statements and the results in future financial years.

IFRS 9 Financial Instruments: Classification and Measurement

The first part of Phase I concerning the preparation of IFRS 9 Financial Instruments was published in November 2009 and shall apply for the first time to financial years commencing on or after 1 January 2013. The standard includes new regulations for the classification and measurement of financial assets. According to this standard, debt instruments, dependent on their respective characteristics and under consideration of the business model, are to be presented on the statements either at net book value or at the current market value affecting the current-period result. Equity instruments are always to be reported at the current market value. However, due to the instrument-specific option that was granted and can be exercised at the time of addition of the financial instrument, fluctuations in the value of equity instruments may be reported in other earnings. In this case, only certain dividend income would be recognised for equity instruments. An exception to this are financial assets held for trading that absolutely must be measured at the current market value affecting the current-period result. In October 2010, the IASB concluded the second part of Phase I of the project. As a result, the standard was supplemented by the specifications for financial liabilities and stipulates that the existing classification and measurement regulations for financial liabilities are to be retained, but with the following exceptions: Effects from the change of the entity's own bank for financial liabilities, which were classified as valued at the current market value affecting the current-period result, must be reported without affecting the operating result; in addition, derivative liabilities on unlisted equity instruments must no longer be recognised at acquisition cost. The time frame of application remains unchanged (1 January 2013). Companies are free, however, to adopt the regulations from the 2009 version at an earlier date, doing so separately from the regulations for financial liabilities. Early adoption of the regulations for financial liabilities is also allowed, provided this is done together with the 2009 version. The standard always specifies retrospective adoption. Conclusion of the project is expected for mid-2011. The adoption of the first part of Phase I will have an effect on the classification and measurement of the group's financial assets. No significant effects on the group's assets, liabilities, financial position and earnings situation are expected from the second part of this project phase. In order to present a comprehensive picture of the potential effects, the group will only quantify the effects in connection with the other phases when they are announced.

Amendment to IAS 12 – Deferred Tax: Recovery of Underlying Assets

The amendment to IAS 12 was published in December 2010 and applies for the first time to financial years commencing on or after 1 January 2012. The amendment stipulates that, for certain assets, the deferred tax assets and deferred tax liabilities are measured based on the assumption that the book value of these assets is realised in full by their sale. In the area of jurisdiction of German law, the application of this amendment is not expected to have any effect on the group's assets, liabilities, financial position and earnings situation.

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”), initplan GmbH, Karlsruhe (“initplan”), INIT Innovations in Transportation Oy, Finland (“INIT Oy”) and INIT Innovations in Transportation Limited, Nottingham (“INIT Ltd”), 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 per cent of the shares, and TQA Total Quality Assembly LLC, Chesapeake/Virginia, USA (“TQA”), in which INIT Inc. holds 60 per cent of the shares.

Associated companies:

init AG holds 44 per cent of the shares in id systeme GmbH, Hamburg (“id systeme”), and INIT GmbH holds 43 per cent 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 2010
INIT Oy was established on 18 March 2010 and INIT Ltd on 26 April 2010. The Finnish company remained inactive in the 2010 financial year. INIT Ltd handles the sales and project activities of the init group in the English and Dutch markets. In both cases, init AG is entitled to 100 per cent of the voting rights. The entire acquisition costs of these establishments amounted to EUR 411k and account for the payments of equity capital of these company (INIT Oy: EUR 110k, INIT Ltd: EUR 301k). EUR 100k of this was paid into the additional paid-in capital at INIT Oy.

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

Mergers in 2010
There were no mergers within the meaning of IFRS 3 in 2010.

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

3. Formal Statement

For the sake of clarity of the statement, individual items in the balance sheet and the consolidated income statement have been combined; these are shown and explained separately in the notes. The consolidated income statement 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 interests. 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 into account proportionally when calculating 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, Init FZE and INIT Ltd corresponds to its national currency. When converting financial statements in a foreign currency to the currency of the init group (Euro), the assets and liabilities are converted using the current rate on the cutoff date, whereas the shareholders' equity is converted using the historic exchange rate. Items of the consolidated income statement 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 reserves).

Exchange rates	Annual averages		Rates on cutoff date	
	2010	2009	**2010**	2009
1 Euro equals in US dollars	1.32789	1.3905	1.325149	1.4333
1 Euro equals in CAN dollars	1.36843	1.5848	1.325070	1.5035
1 Euro equals in AUS dollars	1.44615	1.6049	1.303910	1.7654
1 Euro equals in Dirham	4.87825	5.1057	4.866369	5.2632
1 Euro equals in British Pounds	0.85891	-	0.856560	-

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 2010, the book value of the goodwill was EUR 2,081k (2009: 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 2010, the accruals for pension liabilities were EUR 2,652k (2009: EUR 2,606k). 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. 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 1,221k on 31 December 2010 (2009: EUR 2,355k).

The depreciation period in the 2010 financial year is three years.

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.

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 financial assets "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 shareholder' 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 is included in the consolidated income statement 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 in 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 income statement 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 amortisations and cumulated impairment losses. Software development costs were amortised per product using straight-line depreciation over a maximum period of three years. The depreciations 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 asset could have reduced. Irrespective of this, these costs are subjected to an impairment test at least once a year until the time of sale to the customers.

Shares in Associated Companies

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

Public and European Union Subsidies

Public and European Union subsidies (grants received for two research projects) 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 asset 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 per cent. 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. Long-term provisions are discounted.

Notes on the Consolidated Income Statement

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 41,810k (2009: EUR 38,368k).

6. Cost of Revenues

The costs of revenues are composed as follows:

EUR '000	2010	2009
Cost of materials and purchased services	30,665	21,043
Personnel expenses	13,485	11,936
Depreciation	2,012	2,049
Valuation adjustments on inventories	859	768
Other	6,600	6,122
Total	**53,621**	**41,918**

7. Research and Development Expenses

EUR '000	2010	2009
Software development	1,783	1,709
Less capitalised software development expenses as per IAS 38	0	-432
Hardware development and research expenses	706	325
Total	**2,489**	**1,602**

8. Other Operating Income

This item includes EUR 211k (2009: EUR 161k) from public and European Union subsidies for research projects.

9. Foreign Currency Gains and Losses

EUR '000	2010	2009
Unrealised currency gains/losses from derivative financial instruments, receivables and liabilities	93	-425
Balance of realised currency gains and losses	1,507	-118
Currency gains/losses from consolidation transactions	-343	-192
Total	**1,257**	**-735**

10. Income from Associated Companies

EUR '000	2010	2009
Income from the "at equity" method	423	421

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 222k (2009: EUR 214k).

12. Income Taxes

EUR '000	2010	2009
Current income taxes	4,097	1,732
Deferred income taxes	940	1,532
Total	**5,037**	**3,264**

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

EUR '000	2010	2009
Earnings before income taxes	15,051	11,578
Theoretical income tax expenditure/yield at 30.0%	4,515	3,473
Used tax loss carryforwards	-61	-12
Tax rate differences – foreign subsidiaries	685	-254
Tax effect of the non-deductible/taxed expenses and income	49	48
Tax effects of tax-free increases in net worth	4	16
Taxes unrelated to accounting period	-9	142
Tax effects from results of associated companies	-127	-129
Other	-19	-20
Effective income tax expenditure at 33.5% (2009: 28.2 %)	**5,037**	**3,264**

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	2010	2009
Loans and receivables	237	111
Financial assets available for sale	-11	-61
Financial liabilities recognised at cost	-249	70
Financial assets and liabilities reported at their current market value affecting the current-period result	-333	-345
Total	**-356**	**-225**

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 due to the shareholders of the parent company 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.

	2010	2009
Consolidated earnings in EUR '000	9,926	8,325
Consolidated earnings adjusted for special influences in EUR '000	9,926	8,325
Weighted average number of shares issued	9,933,571	9,895,660
Undiluted earnings per share in EUR	1.0	0.84
Undiluted earnings per share adjusted for special influences in EUR	1.0	0.84

15. Paid and Proposed Dividends

EUR '000	2010	2009
Ordinary dividends declared and paid during the financial year	2,986	1,580
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2010: 45 cents per share (2009: 30 cents per share) plus an one-off bonus dividend for 2010 of 15 cents per share	5,967	2,979

16. Personnel Expenses

The personnel expenses totalled EUR 23,483k (previous year: EUR 20,249k).

Notes on the Consolidated Balance Sheet

17. Cash and Cash Equivalents

EUR '000	2010	2009
Deposits with credit institutions	6,210	3,950
Short-term deposits (fixed deposits/call money)	12,170	5,377
Total	**18,380**	**9,327**

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 18,380k (2009: EUR 9,327k).

18. Marketable Securities and Bonds

This item refers to shares and bonds with a total current market value of EUR 324k (2009: EUR 158k). The gain of the securities before deferred taxes reported directly in the equity capital in 2010 amounted to EUR 38k (2009: EUR 51k). There was no sale of securities in the year under review.

19. Trade Accounts Receivable

EUR '000	2010	2009
Trade accounts receivable, gross	15,328	16,359
Less cumulative value adjustments	-76	-184
Subtotal	**15,252**	**16,175**
Future receivables from production orders	19,295	15,091
Total	**34,547**	**31,266**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2010	2009
As of 1 January	184	116
Transfer to expenditure	86	75
Utilisation	0	-1
Release	-205	-1
Currency effects	11	-5
As of 31 December	**76**	**184**

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

EUR '000	2010	2009
Book value	34,547	31,266
Adjusted accounts receivable (see below for Dubai)	176	313
Neither delinquent nor impaired	28,133	23,187
Delinquent but not value-impaired		
< 30 days	1,584	1,323
30-60 days	125	1,436
60-90 days	37	3.577
90-180 days	1,007	1,792
> 180 days	3,559	7

The delinquent accounts receivable amount to EUR 6.3m (2009: EUR 8.1m), whereby the projects in Dubai account for EUR 4.6m of this (2009: EUR 5.2m). To take into consideration payment delays that have either already occurred or are expected, a deduction of EUR 1.8m (2009: EUR 0.7m) was set as risk precaution for the measurement.

With the accounts receivable that result from the use of the percentage of completion method (shown together with the trade accounts receivable) and with the future receivables from production orders, value-impairing factors are continuously being considered in the context of the concurrently running project calculations. In addition, at the cutoff date, there were no indications 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 due to 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	31/12/2010	31/12/2009
Costs accrued plus profits from projects not yet invoiced	70,890	25,988
Less payments received on orders	-57,940	-19,612
Balance	**12,950**	**6,376**
thereof: future receivables from production orders	19,295	15,091
thereof: liabilities from percentage of completion (see liabilities)	6,345	8,715

20. Inventories

EUR '000	2010	2009
Raw materials and supplies	374	224
Goods (reported at net sales price)	11,509	11,727
Work in process (reported at production cost)	1,456	19,799
Deposits received	-595	-19,612
Deposits paid	2,700	3,205
Total	**15,444**	**15,343**

A total of EUR 859k (2009: EUR 768k) for inventory depreciation were recorded as expenses. The expenses are included in the "Cost of revenues".

21. Other Current Assets

EUR '000	2010	2009
Derivative financial instruments	865	289
Accruals	419	240
Tax refund claims	314	350
Due from personnel	114	99
Cash in transit	0	15
Other	530	221
Total	**2,242**	**1,214**

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 of 1 January 2010	3,531	277	6,543
Additions in current financial year	73	14	1,199
Disposals in current financial year	0	0	520
Currency differences	54	22	76
As of 31 December 2010	3,658	313	7,298
Depreciation			
As of 1 January 2010	396	195	4,884
Additions in current financial year	125	38	900
Disposals in current financial year	0	0	514
Currency differences	7	15	41
As of 31 December 2010	528	248	5,311
Book value as of 31/12/2010	**3,130**	**65**	**1,987**

EUR '000	Land and buildings	Technical installation, plant and machinery	Factory and office equipment
Acquisition and production costs			
As of 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 of 31 December 2009	3,531	277	6,543
Depreciation			
As of 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 of 31 December 2009	396	195	4,884
Book value as of 31/12/2009	**3,135**	**82**	**1,659**

The tangible fixed assets essentially concern the administration building at Kaeppelestr. 4, two residential buildings, office equipment and technical installations. The depreciation follows the straight-line method over the asset depreciation period. The depreciation in 2010 totalled EUR 1,063k (2009: EUR 930k) and is included in the consolidated income statement 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 of 1 January 2010	2,081	9,536	2,780
Additions in current financial year	0	0	224
Disposals in current financial year	0	0	2
Currency differences	0	35	28
As of 31 December 2010	2,081	9,571	3,030
Depreciation			
As of 1 January 2010	0	7,181	2,228
Additions in current financial year	0	1,134	310
Disposals in current financial year	0	0	2
Currency differences	0	35	27
As of 31 December 2010	0	8,350	2,563
Book value as of 31/12/2010	**2,081**	**1,221**	**467**

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As of 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 of 31 December 2009	2,081	9,536	2,780
Depreciation			
As of 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 of 31 December 2009	0	7,181	2,228
Book value as of 31/12/2009	**2,081**	**2,355**	**552**

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	2010	2009
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 9.3 per cent 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 profit
- Discount rate

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

Gross profit: 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 per cent and for “Other” it was 33.5 per cent.

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 6.5 per cent (without growth deduction) after taxes was applied to both cash-generating units, which consists of a basic interest rate of 3.5 per cent, a risk premium of 5.0 per cent and a growth discount of 1.0 per cent.

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 1,221k (2009: EUR 2,355k) for the products MOBILE-APC, MOBILEvario Level II, COPILOTpc/touch and NAVIGATION.

In 2010, the amortisation of the capitalised amounts totalled EUR 1,134k (2009: EUR 1,197k). Amortisation costs were not recorded. The amortisation of internally generated software is included in the consolidated income statement under “Cost of revenues”.

The depreciation period in the 2010 financial year is three years.

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 467k (2009: EUR 552k). The amortisation of the capitalised amounts in 2010 totalled EUR 310k (2009: EUR 276k) and is included in the consolidated income statement under “Cost of revenues”, “Sales and marketing expenses” and “General administrative expenses”.

24. Interest 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	**2010**	**6,605**	**3,609**	**2,996**	**7,700**	**607**
	2009	5,428	3,401	2,027	7,874	830
id systeme	**2010**	**1,524**	**774**	**750**	**2,822**	**368**
	2009	1,152	606	546	2,375	146
Total	**2010**	**8,129**	**4,383**	**3,746**	**10,522**	**975**
	2009	6,580	4,007	2,573	10,249	976

Writedowns of the interest in associated companies were not required.

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

The object of iris is the development, production and sale of sensors, and sensor- and informationprocessing systems. In 2010, the pro-rata result from this equity consolidation amounted to EUR 261k (2009: EUR 357k). A distribution of EUR 172k was made in the financial year (2009: EUR 215k).

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 2010 totalled EUR 162k (2009: EUR 64k). A distribution of EUR 88k was made in the financial year (2009: EUR 0k).

25. Deferred Taxes

The deferred tax assets and liabilities are as follows:

	Consolidated Balance Sheet		Consolidated Income Statement	
EUR '000	**31/12/2010**	31/12/2009	**2010**	2009
Deferred tax assets				
Other assets	163	0	163	-33
Other intangible assets	60	5	55	-55
Provisions	239	448	-209	-228
Pension accruals	110	87	23	-33
Loss carried forward	90	151	-61	-14
Other	0	33	-33	25
Total deferred tax assets	**662**	**724**		
Deferred tax liabilities				
Receivables	3,413	2,348	-1,065	-1,622
Other assets	0	26	26	-26
Tangible fixed assets	0	0	0	23
Goodwill	33	29	-4	-4
Other intangible assets	366	706	340	230
Pension accruals	0	0	0	30
Other liabilities	255	80	-175	175
Total deferred tax liabilities	**4,067**	**3,189**		
Deferred tax expenditure/income			**-940**	**-1,532**

Deferred tax assets amounting to EUR 90k (2009: EUR 151k) were accrued for previously unused tax losses carried forward at a subsidiary. On 31 December 2010, the unused corporate tax loss carried forward was EUR 304k (2009: EUR 507k).

On 31 December 2010, 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 8.1m (2009: EUR 6.1m).

26. Other Non-Current Assets

EUR '000	2010	2009
Asset value of pension liability insurance	1,352	1,392
Security deposits	161	125
Loans	28	37
Other	43	28
Total	**1,584**	**1,582**

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

27. Liabilities

EUR '000	31/12/2010			31/12/2009		
		Residual term			Residual term	
	Total	< 1 year	> 5 years	Total	< 1 year	> 5 years
Bank loans	1,530	471	775	2,295	1,166	845
Trade accounts payable	2,908	2,908	0	3,284	3,284	0
Accounts payable from percentage of completion	6,345	6,345	0	8,715	8,715	0
Accounts payable to related parties	94	94	0	305	305	0
Advance payments received	4,665	4,665	0	1,765	1,765	0
Income tax liabilities	2,514	2,514	0	1,061	1,061	0
Other liabilities	7,362	7,320	30	5,858	5,784	30

Terms relating to the above financial liabilities:

The bank loans of EUR 1,530k (2009: EUR 2,295k) relate to a long-term loan of EUR 1,059k (2009: EUR 1,129k) for financing the building at Kaeppelestr. 4, Karlsruhe, which is fully secured by a land charge, the resultant short-term share of EUR 71k (2009: EUR 71k), as well as an overdraft of EUR 0k (2009: EUR 795k) and a Euro credit of EUR 400k (2009: EUR 300k), which together total EUR 471k (2009: EUR 1,166k).

The following credit and guarantee lines exist:

EUR '000		Overall line	Thereof cash line	Thereof guarantee	Cash or guarantee
Banks	**2010**	59,159	2,559	43,500	13,100
Credit insurance companies	**2010**	17,000	0	17,000	0
Bond line for USA	**2010**	56,597	0	0	0
Banks	2009	59,045	2,445	43,500	13,100
Credit insurance companies	2009	17,000	0	17,000	0
Bond line for USA	2009	0	0	0	0

The credit and guarantee lines are sufficient to finance the further growth of the company. On 31 December 2010, the cash line utilisation totalled EUR 400k (2009: EUR 1,095k), the guarantee lines EUR 31,535k (2009: EUR 32,956k).

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	**31/12/2010**			31/12/2009		
		Residual term			Residual term	
	Total	< 1 year	> 5 years	Total	< 1 year	> 5 years
Tax liabilities	882	882	0	819	819	0
Due to personnel	4,553	4,553	0	3,388	3,388	0
Derivative financial instruments	545	545	0	315	315	0
Social security liabilities	59	59	0	10	10	0
Remaining work	226	226	0	490	490	0
Other	1,097	1,055	30	836	762	30
Total	**7,362**	**7,320**	**30**	**5,858**	**5,784**	**30**

29. Provisions

EUR '000	As of **1/1/10**	Usage	Release	Transfer	As of **31/12/10**
Provisions for warranties	1,628	609	66	739	1,692
Provisions for insufficient production costs	1,655	260	21	2,339	3,713
Other provisions	272	221	0	161	212
Total	**3,555**	**1,090**	**87**	**3,239**	**5,617**

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

The expected maturities of the provisions are all within one year.

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

The provisions for insufficient production costs essentially concern work still outstanding in invoiced orders.

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 5.15 per cent (2009: 5.3 per cent), retirement age of 63 years (Dr. Gottfried Greschner: 65 years), salary increases are irrelevant to pension commitments; pension adjustments of 4 per cent (2 per cent for Dr. Gottfried Greschner), fluctuation deduction of 2 per cent; biometric bases: see Klaus Heubeck's "Richttafeln G" (Actuarial Tables) of 2005.

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

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

EUR '000	**2010**	2009
Pension accruals at the beginning of the year (Defined Benefit Obligation – "DBO")	2,606	2,082
Past service cost	0	20
Service cost	105	86
Interest cost	138	121
Actuarial losses (+) / gains (-)	65	297
Pension payments	0	0
Pension accruals (DBO) at the end of the year under review	**2,914**	**2,606**
Plan assets	**-262**	**0**
Pension accruals	**2,652**	**2,606**

The plan assets contain the asset value of a pension liability insurance.

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

EUR '000	**2010**	2009
Service cost	105	86
Interest cost	138	121
Past service cost	0	20
Expenses for pension payments	**243**	**227**

In the consolidated income statement, the service cost and the past service cost are included in the "Cost of revenues" (EUR 17k), the "Sales and marketing expenses" (EUR 45k) and the "General administrative expenses" (EUR 43k) and the interest paid in this item.

EUR '000	**31/12/2010**	31/12/2009
Cumulated amount of the actuarial gains (-) and losses (+) included in the shareholders' equity, after deleting deferred taxes	146	81

EUR '000	**2010**	2009
Performance-oriented liability ("DBO") 31/12	2,914	2,606
Adjustments of the liability based on experience	6	27

The pension accruals attributable to members of the Managing Board totalled EUR 1,605k (2009: EUR 1,443k).

EUR '000	2006	2007	2008	2009	**2010**
DBO	2,234	2,010	2,082	2,606	2,914

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 184k (2009: EUR 222k), of which EUR 59k (2009: EUR 50k) 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:

	2010	2009
As of 01/01	9,929,781	9,875,345
Acquisition of treasury stock	-40,000	0
Reassignment of issued stock to employees	0	-100
Issue of stock to Managing Board and managing directors	30,000	30,000
Issue of stock to employees	26,033	24,536
As of 31/12	9,945,814	9,929,781

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*	3,485,000	Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	0
Joachim Becker, COO	325,983	Bernd Koch	0
Wolfgang Degen, COO	94,000	Fariborz Khavand	0
Dr. Jürgen Greschner, CSO	97,364		
Bernhard Smolka, CFO	22,000		

* 3,450,000 thereof held by Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs 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.

Additional Paid-in Capital

The additional paid-in capital on 31 December 2010 amounted to EUR 4,793k, EUR 3,141k of which result from the premium of the shares sold at the time of the initial public offering. EUR 722k were transferred from 2005 to 2009 as part of the recognised expenses from the share-based remuneration (see notes 38) and EUR 416k in 2010. Due to the sale of treasury stock in 2007, the additional paid-in capital increased by EUR 514k.

Treasury Stock

The treasury stock as on 1 January 2010 totalled 110,219 shares. Based on the resolution passed at the annual shareholders' meeting on 20 May 2009, replaced by the resolution of 20 May 2010, the company is authorised to purchase treasury stock. On 17 May 2010, it was decided to repurchase up to 40,000 shares of treasury stock. In 2010, the company acquired 40,000 shares at an average price of EUR 13.67. Within the scope of the incentive scheme for members of the Managing Board and managing directors in the 2010 financial year, a total of 30,000 shares were transferred with a qualifying period of five years. A further 1,000 shares were transferred to employees within the scope of a bonus agreement without qualifying period. On 31 December 2010, the number of treasury stock was therefore 94,186 shares.

The company's treasury stock was valued at acquisition cost at EUR 660k (2009: EUR 477k) and openly deducted from the equity capital. Of the treasury stock as on 31 December 2010 of 94,186 shares with an imputed share of EUR 94,186 (0.94 per cent) in the capital stock, 1,139 resulted from the capital increase in 2002 and 93,047 from the company's stock repurchasing program. The shares were repurchased at an average price of EUR 7.01 per share. The treasury stock was repurchased for use as consideration within the scope of mergers and to acquire other companies or parts of companies or participations, or, where required, for the opening up of additional capital markets or to issue them to employees and members of the Managing Board.

Other Reserves

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

Difference from currency 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, 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 same 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 2010 had been up by 10 per cent, the operating result would have been EUR 751k higher. This breaks down as follows: EUR -2,644k to cash in banks, accounts receivable and liabilities, compensated for by appreciation of currency options at EUR 121k and forward exchange transactions at EUR 3,274k. If, however, the value of the Euro to all foreign currencies reported by init on 31 December 2010 had been down by 10 per cent, the operating result would have been EUR 1,332k less. This breaks down as follows: EUR -14k to currency options and EUR -3,962k to forward exchange transactions, partially compensated for by appreciation of cash in banks, accounts receivable and liabilities at EUR 2,644k.

If the value of the Euro to the foreign currencies reported by init on 31 December 2009 had been up by 10 per cent, 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 forward exchange transactions at EUR -29k, compensated for by appreciation in foreign currency options 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 per cent, the operating result would have been EUR 2,338k higher. This operating result increase breaks down as follows: EUR -19k to foreign currency options, partially compensated for by appreciation in forward exchange transactions at EUR 32k and by cash in banks, accounts receivable and liabilities at EUR 2,325k.

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 2010, the financial liabilities of the group had the following maturities. The particulars are based on contractual, non-discounted payments plus agreed or anticipated interest expenses (cash flows).

EUR '000	Book value	2011	2012	2013-2015	> 2015
Non-derivative financial liabilities					
Other financial liabilities	6,650	5,239	112	319	980
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	545	545	0	0	0
Derivative financial assets	-865	-865	0	0	0
Total		**4,919**	**112**	**319**	**980**

As of 31 December 2009, the future cash flows from the financial liabilities were as follows:

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**

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 on 31 December 2010 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	18,380	18,380				18,380
Loans and receivables	16,122	16,122				16,122
Receivables from the percentage of completion method	19,295	19,295				19,295
Securities	324		324			324
Derivative financial assets without a hedging relationship	865				865	865
Derivative financial liabilities without a hedging relationship	-545				-545	-545
Financial liabilities	-6,282			-6,282		-6,282

On 31 December 2009, 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	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

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 of **31/12/2010**	Level 1	Level 2	Level 3
Financial assets recognised at fair value through profit or loss				
Derivative financial assets without a hedging relationship	865		865	
Available-for-sale financial assets				
Afs securities	324	324		
Financial liabilities recognised at fair value through profit or loss				
Derivative financial liabilities without a hedging relationship	-545		-545	

EUR '000	Fair value as of **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				
Afs securities	158	158		
Financial liabilities recognised at fair value through profit or loss				
Derivative financial liabilities without a hedging relationship	-315		-315	

In the reporting period ending 31 December 2010 and the reporting period ending 31 December 2009, 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 per cent 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 2010 financial year totalled EUR 0k (2009: EUR 1k).

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	**31/12/2010**	31/12/2009	**31/12/2010**	31/12/2009
Forward exchange transactions	37,642	12,961	306	-47
Currency options	2,234	2,024	14	21
Total	**39,876**	14,985	**320**	-26

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 701k, of which EUR 421k 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	**31/12/2010**	31/12/2009
< 1 year	1,241	1,011
1-5 years	3,360	2,954
> 5 years	4,985	5,460
Total	**9,586**	**9,425**

Contingent Liabilities

As in the previous year, there were no contingent liabilities on 31 December 2010.

Legal Disputes

On the reporting date, the group is not aware of any pending legal disputes.

Other Disclosures

35. Additional Notes on the Cash Flow Statement

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

EUR '000	2010	2009
Interest payments	-103	-110
Interest receipts	145	83
Receipts from dividend distributions	260	215
Income tax payments	-2,003	-1,723
Income tax receipts	5	66

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.

	Associated companies		Other related party transactions	
EUR '000	2010	2009	2010	2009
Income from sales to related parties and persons	0	0	0	0
Payments from related parties and persons	2,254	1,585	366	366
Due from related parties and persons on 31/12	73	68	61	61
Due to related parties and persons on 31/12	94	305	0	0

Associated Companies

The amounts due from related parties and persons include loans amounting to EUR 68k (2009: EUR 68k) and relate to iris. These amounts are shown in the balance sheet under non-current assets.

The other amounts of EUR 5k (2009: EUR 0k) are trade accounts receivable with a remaining maturity of less than one year. EUR 3k of this relate to iris and EUR 2k relate to id systeme. 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 85k (2009: EUR 280k) and to id systeme at EUR 9k (2009: EUR 25k). 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 2010 (2009: EUR 0k).

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

1/1/2010 to 31/12/2010

EUR '000	Telematics and Electronic Fare Collection Systems	Other	Eliminations & adjustments	Consolidated
Revenues				
With third parties	77,409	3,504	0	80,913
With other segments	454	1,924	-2,378	0
Total revenues	**77,863**	**5,428**	**-2,378**	**80,913**
EBIT	**14,761**	**466**	**-142**	**15,085**
Segment assets	83,355	3,586	-2,520	84,421
Segment liabilities	37,224	2,006	-1,476	37,754
Interest income	153	4	-11	146
Interest expenses	157	34	-11	180
Scheduled depreciation	2,253	254	0	2,507
Cost of revenues	53,243	3,275	-2,897	53,621
R&D costs	1,639	850	0	2,489
Foreign currency gains (+) and losses (-)	1,254	3	0	1,257
Share in profit of associated companies	423	0	0	423
Income taxes	4,965	72	0	5,037
Value impairments	2,741	0	-19	2,722
Share in associated companies	2,221	0	0	2,221
Investments in tangible and intangible assets	1,374	136	0	1,510

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.

1/1/2009 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 taxes	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

In the "Telematics and Electronic Fare Collection Systems" segment around 12.5 per cent of the entire turnover was generated with one customer.

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).

	2010		2009	
	EUR '000	%	EUR '000	%
Revenues with external clients				
Germany	30,533	37.7	17,718	27.3
Rest of Europe	14,599	18.0	14,468	22.3
North America	28,033	34.6	17,636	27.2
Other countries (Australia, UAE)	7,748	9.7	15,133	23.2
Group total	**80,913**	100.0	**64,955**	100.0

	2010		2009	
	EUR '000	%	EUR '000	%
Non-current assets 31/12				
Germany	7,863	86.5	8,806	89.5
Rest of Europe	177	2,0	0	0,0
North America	892	9.8	846	8.6
Other countries (Australia, UAE)	158	1.7	190	1.9
Group total	**9,090**	100.0	**9,842**	100.0

38. Share-Based Remuneration

Employee Shares

Based on the resolution of the Managing Board of 19 April 2010, published on 10 May 2010 (2009: 15 June 2009), all employees of init AG and its subsidiaries were offered shares of the company as a form of profit sharing. In December 2010, the employees entitled to subscribe (excluding the Managing Board and temporary staff, trainees and suchlike) each received 100 shares (December 2009: 100 shares) at a price of EUR 13.87 (December 2009: EUR 7.59) per share at the time of the publication 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 2010. The shares are subject to a qualifying period of two years from the time of transfer. A total of 25,033 shares were transferred (2009: 22,542).

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 347k (2009: EUR 171k), which was recorded as expenses of EUR 175k in 2010 (2009: EUR 82k).

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 net profit exceeding EUR 2,000k 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 or 5,500 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 for the following years. The bonus is revised and agreed each year by the Supervisory Board.

On 31 December 2010, the valuation was based on 31,000 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 459k (EUR 14.80 per share), which was recorded as expense in 2010.

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:

	2010	2009
Employees in Germany	260	229
Employees in rest of Europe	2	0
Employees in North America	57	47
Employees in other countries	9	12
Total	**328**	**288**

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, Karlsruhe	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 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 a total remuneration of EUR 365k (2009: EUR 323k), and in their capacity as Managing Directors or departmental heads of INIT GmbH included in the consolidated financial statements, they received a total remuneration of EUR 1,784k (2009: EUR 1,558k), thus totalling EUR 2,149k in the 2010 financial year (2009: EUR 1,881k). This total includes fixed salaries of EUR 1,099k (2009: EUR 1,064k), variable remuneration in the form of management bonuses of EUR 340k (2009: EUR 326k), and EUR 710k (2009: EUR 491k) 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 five years, in compliance with Section 315a (1) HGB (German Commercial Code) in conjunction with Section 314 (1) no. 6a sentences 5 to 9 HGB (Section 314 (2) sentence 2 in conjunction with Section 286 (5) HGB).

The total remuneration of the Supervisory Board members for 2010 amounted to EUR 144k (2009: EUR 131k). This includes a variable share of EUR 108k (2009: EUR 95k) and is distributed as follows:

EUR '000	Fixed	Variable
Name		
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18	54
Bernd Koch	9	27
Fariborz Khavand	9	27

In the 2010 financial year, the members of the Supervisory Board of the init group received EUR 0k for consulting service (2009: EUR 0k).

42. Auditing Firm

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, received compensation to the amount of EUR 114k (2009: EUR 105k), for individual financial statements, which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 0k (2009: EUR 37k). Certification and appraisal services incurred costs of EUR 0k (2009: EUR 0k), and other services of EUR 6k (2009: EUR 13k).

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 1 July 2010, and was made available to the shareholders.

44. Notifications under Section 26 (1) of the German Securities Trading Act (WpHG)

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

On 3 May 2010, Ms Christina Greschner, Germany, notified us under Section 21 (1) WpHG that on 3 May 2010 her voting interest in our company exceeded the threshold of 5 per cent and on this day amounted to 7.49 per cent (752,292 votes). Under Section 22 (1) sentence 1 no. 6 WpHG, 3.79 per cent 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 per cent, are attributed to her. The shareholders' meeting of init innovation in traffic systems AG will be held on 12 May 2010. After the shareholders' meeting, the total voting interest of Ms Christina Greschner will be 3.70 per cent, corresponding to 371,292 votes.

Correction of our disclosure under Section 26 (1) WpHG of 3 May 2010:

On 3 May 2010, Ms Christina Greschner, Germany, notified us under Section 21 (1) WpHG that on 3 May 2010 her voting interest in our company exceeded the threshold of 5 per cent and on this day amounted to 7.49 per cent (752,292 votes). Under Section 22 (1) sentence 1 no. 6 WpHG, 3.79 per cent (381,000 votes) 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 per cent, are attributed to her. The shareholders' meeting of init innovation in traffic systems AG will be held on 12 May 2010. After the shareholders' meeting, the total voting interest of Ms Christina Greschner will be 3.70 per cent, corresponding to 371,292 votes.

On 15 December 2010, Swisscanto (LU) Portfolio Funds Management Company S.A., Luxembourg, notified us under Section 21 (1) WpHG that on 8 December 2010 its voting interest in our company exceeded the threshold of 3 per cent and on this day amounted to 3.03 per cent (304,475 votes).

45. Approval of Consolidated Financial Statements

In the board meeting on 9 March 2011, the consolidated financial statements and the group status report of init AG drawn up by the Managing Board on 31 December 2010 were approved for forwarding to the Supervisory Board.

Karlsruhe, 9 March 2011
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 statement of financial position, 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 to December 31, 2010. 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 supplementary provisions of 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 supplementary 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 9, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ketterle	Bergmann
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 of the principal opportunities and risks associated with the expected development of the group in the remaining months of the fiscal year."

Karlsruhe, 9 March 2011
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.com or contact Alexandra Wirthmann on +49.721.6100.0.

Income Statement
of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, 1 January 2010 to 31 December 2010 (HGB)

EUR '000	Notes Item No.	2010	2009
1. Revenues	IV. 1	4,278	3,587
2. Other operating income thereof from currency translations EUR 11k (2009: EUR 1k)	IV. 2	279	456
		4,557	4,043
3. Personnel expenses			
a) Wages and salaries		1,591	1,399
b) Social security and other pension costs thereof in respect of old-age pensions EUR 27k (2009: EUR 42k)		253	230
4. Depreciation on intangible assets of non-current asset and property, plant and equipment		37	31
5. Other operating expenses thereof from currency translations EUR 1k (2009: EUR 4k)		1,624	1,641
		3,505	3,301
6. Income from Investments		88	0
7. Income from profit and loss transfer agreements		8,677	4,904
8. Other interest and similar income thereof EUR 249k (2009: EUR 400k) from affiliated companies		288	423
9. Depreciation on marketable securities		2	7
10. Expenses from loss assumption		0	187
11. Interest and similar expenses thereof EUR 81k (2009: EUR 114k) from affiliated companies		131	174
		8,920	4,959
12. Results from ordinary activities		**9,972**	**5,701**
13. Extraordinary expenses	IV. 3	2	0
14. Income taxes	IV. 4	2,981	1,428
15. Other taxes		-6	13
		2,975	1,441
16. Annual net profit		**6,995**	**4,260**
17. Profit carried forward from previous financial year		7,425	5,917
18. Transfer from/to surplus reserves		-889	235
19. Balance sheet profit		**13,531**	**10,412**

Balance Sheet
of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, as of 31 December 2010 (HGB)

Assets

EUR '000	Notes Item No.	31/12/2010	31/12/2009
A. Fixed assets			
I. Intangible assets	III. 2	0	10
II. Contributed assets	III. 3		
Land and buildings		2,063	2,090
III. Financial assets	III. 4		
1. Shares in affiliated companies		20,682	20,272
2. Loans to affiliated companies		120	120
3. Investments in associates		382	382
		21,184	20,774
		23,247	22,874
B. Current assets			
I. Accounts receivable and other assets	III. 5		
1. Accounts receivable from affiliated companies		9,634	10,634
2. Other current assets		58	51
		9,692	10,685
II. Marketable securities			
1. Treasury stock		0	477
2. Other marketable securities		309	122
		309	599
III. Cash and cash equivalents, bank assets and cheques		6,609	2,856
		16,610	14,140
C. Prepaid expenses	III. 6	63	2
		39,920	**37,016**

Liabilities

EUR '000	Notes Item No.	31/12/2010	31/12/2009
A. Shareholders' equity	III. 8		
I. Subscribed capital		10,040	10,040
./. Treasury stock		-94	0
		9,946	10,040
II. Additional paid-in capital		9,924	9,622
III. Surplus reserves			
Other surplus reserves		801	0
Reserves for treasury stock		0	477
IV. Balance sheet profit		13,531	10,412
		34,202	30,551
B. Provisions	III. 9		
1. Provisions for pensions and similar obligations		97	84
2. Tax accruals		2,159	998
3. Other provisions		814	679
		3,070	1,761
C. Liabilities	III. 10		
1. Bank loans		1,129	1,200
2. Trade accounts payable		66	39
3. Accounts payable to investments to affiliated companies		1,085	3,135
4. Other liabilities thereof taxes EUR 362k (2009: EUR 322k) thereof social security contributions EUR 0 (2009: EUR 2k)		368	330
		2,648	4,704
		39,920	**37,016**
Contingent liabilities	III. 11	39,842	38,592

“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 II:
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 (also known as 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 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-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.

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

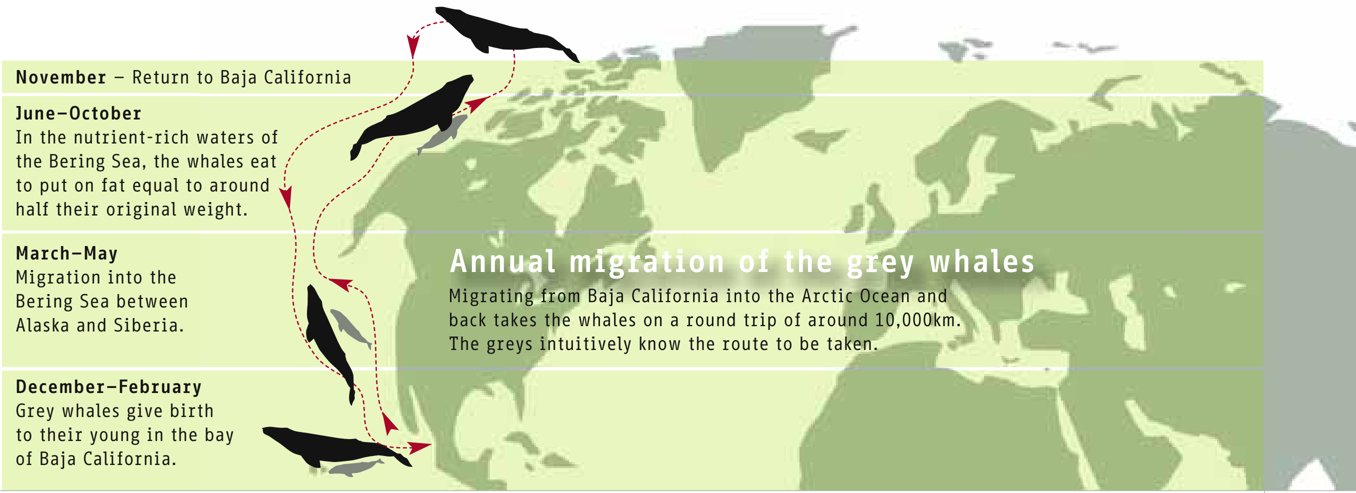
TOUCHmon:
The large-size touch screen of the mobile data terminal TOUCHmon provides bus and tram drivers with an easy-to-view, convenient and robust control panel.

TSP – Traffic Signal Priority:
This system preempts 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).

Multi-year overview of key data in the init group according to IFRS

		2006	2007	2008	2009	2010
Balance sheet						
Balance sheet total	EUR	36,842k	44,475k	57,951k	71,610k	84,421k
Shareholders' equity	EUR	21,186k	26,688k	31,596k	38,977k	46,667k
Subscribed capital	EUR	10,040k	10,040k	10,040k	10,040k	10,040k
Equity ratio	%	57.5	60.0	54.5	54.4	55.3
Return on equity	%	15.9	20.0	18.7	21.3	21.5
Non-current assets	EUR	10,076k	13,424k	15,186k	14,297k	13,484k
Current assets	EUR	26,766k	31,051k	42,765k	57,313k	70,937k
Income Statement						
Revenues	EUR	36,258k	46,767k	55,993k	64,955k	80,913k
Gross profit	EUR	13,256k	16,542k	17,224k	23,037k	27,292k
EBIT	EUR	5,633k	7,228k	8,597k	11,754k	15,085k
EBITDA	EUR	7,151k	8,543k	10,169k	14,157k	17,592k
Annual net profit	EUR	3,371k	5,326k	5,912k	8,314k	10,014k
Earnings per share	EUR	0.36	0.54	0.60	0.84	1.00
Dividend	EUR	0.10	0.14	0.16	0.30	0.60
Cash Flow						
Cash flow from operating activities	EUR	-1,091k	-2,617k	7,146k	5,570k	14,615k
Share						
Issue price	EUR	5.10	5.10	5.10	5.10	5.10
Peak share price	EUR	8.69	9.40	8.80	11.30	15.89
Bottom share price	EUR	5.90	6.83	4.45	4.75	9.15



2011 COMPANY CALENDAR

Date	Event
30/3/2011	Publication of Annual Report 2010 and analyst/press conference on financial statements at the Maritim Hotel in Frankfurt
12/5/2011	Publication of Quarterly Report I/2011
24/5/2011	Annual General Meeting of Shareholders, Congress Centre/Stadthalle Karlsruhe
11/8/2011	Publication of Six-month Report 2011
10/11/2011	Publication of Quarterly Report III/2011
November 2011	Analyst conference German Equity Forum, Frankfurt

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