WITH THE FUTURE IN MIND

Annual report 2011

innovation in traffic systems AG

PROJECTS

worldwide

Montréal

Details:
380 Buses

Benefits:
Automatic Passenger Counting, Data evaluation and analysis system, Data validation and matching module, MOBILEgis, Vehicle IT platform, Infrared motion analyzer, WLAN

Dublin

Details:
1,050 Buses

Benefits:
Intermodal Transport Control System, Vehicle IT platform, Traffic signal priority system, Data evaluation and analysis system, Report generation system, Interior displays, TDMA data channel

Stockholm

Details:
2,100 Buses, Passenger information at 177 Passenger Displays

Benefits:
Intermodal Transport Control System, Real-Time Passenger Information, Vehicle IT platform with touch screen, driver interface, Interior displays, Traffic signal priority system

Dubai

Details:
1,900 Buses, 500 Displays

Benefits:
Intermodal Transport Control System, Real-Time Passenger Information, Vehicle IT platform, Automatic route survey, Large driver interface, Enhanced GPS localization, Ethernet and rearview camera

New York

Details:
1,970 Access-a-Ride Vehicles

Benefits:
Intermodal Transport Control System, Enhanced GPS localization, Compact on-board PC with integrated touch screen, Driver navigation, Connection to paratransit management system, Report generation system

Munich

Details:
450 Buses, 96 Light-Rail Vehicles

Benefits:
Intermodal Transport Control System, Real-Time Passenger Information, Planning and Data Management, Automatic route survey, Data evaluation and analysis system, Vehicle IT platform, Intermodal transfer protection, Integration with DEFAS (Bavarian travel information-systems)

Tasmania

Details:
220 Buses, 3 Depots, 30 Ticket Agencies

Benefits:
Smartcard-Ticketing-System, Data download via WLAN, Automated vehicle location, Ticket management and clearing system, Data evaluation and analysis system

Christchurch

Details:
300 Vehicles, 1 Ferry

Benefits:
E-Ticketing-System using Proximity-Technology, PC-based ticket printer with on-board computer functionality, Communication via GPRS, Retention of existing Metrocard

LEGEND
Locations
Realised Projects

SOCIETY

SOCIAL RESPONSIBILITY

ECONOMY

WITH THE FUTURE

IN MIND

Diminishing resources, increasing environmental pollution, population growth and new problems faced by every individual – these are the challenges in our sights right now. Our wish is to help overcome them by developing effective technologies. In this way we are working towards a positive future – for our customers, for society and for our employees.

ECOLOGY

GROUP KEY FIGURES
IFRS

EUR '000	31/12/2011	31/12/2010	Change in %
Balance Sheet			
Balance sheet total	109,756	84,421	30.0
Shareholders' equity	56,938	46,667	22.0
Subscribed capital	10,040	10,040	0.0
Equity ratio (in %)	51.9	55.3	-
Return on equity (in %)	26.4	21.5	-
Non-current assets	19,806	13,484	46.9
Current assets	89,950	70,937	26.8
Income Statement			
Revenues	88,736	80,913	9.7
Gross profit	36,294	27,292	33.0
EBIT	20,430	15,085	35.4
EBITDA	22,891	17,592	30.1
Annual net profit	15,057	10,014	50.4
Earnings per share (in EUR)	1.51	1.00	50.7
Dividend (in EUR)	0.80	0.60	33.3
Cash Flow			
Cash flow from operating activities	17,433	14,615	19.3
Share			
Issue price (in EUR)	5.10	5.10	0.0
Peak share price (in EUR)	19.99	15.89	25.8
Bottom share price (in EUR)	13.06	9.15	42.7

PRODUCT OVERVIEW

TELEMATIC SOFTWARE AND SERVICES

Intermodal Transport Control System
MOBILE-ITCS

Real-Time Passenger Information
MOBILE-STOPinfo

On-Demand and Paratransit Service and Scheduling
MOBILE-PARAnet

Depot Management
MOBILE-DMS

Automatic Passenger Counting
MOBILE-APC

Data Evaluation and Analysis
MOBILEstatistics

Planning and Data Management
MOBILE-PLAN

Personnel Assignment
PERDIS

Ticket Management and Clearing
MOBILEvario

COMMUNICATION / WAYSIDE

WLAN

GSM, GPRS, UMTS, DAB, TETRA, Voice-over-IP

Data Module
DATAstation
SPEEDcard and -drive

Passenger Information Displays
PIDstation
PIDintegral
PIDmatrix
PIDscreen

Traffic Signal Priority
LISA

IP Communication Gateway
IProuter

Vehicle Location
GPSgo

Ticket vendors
PROXstation
TOUCHfare

MOBILE TELEMATIC AND FARE COLLECTION SYSTEMS

On-Board Computers
COPILOT

Ticket Vendor with Integrated On-Board Computer Functions
EVENDpc

Ticket Vendors
TOUCHmobil
TOUCHcoin
TOUCHbill
PROXmobil

Passenger Information Displays
PIDmobil
PIDvisio

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FIVE-YEAR FINANCIAL SUMMARY

DEAR LADIES AND GENTLEMEN DEAR SHAREHOLDERS,

With this annual report we are pleased to present you with the seventh record performance in succession. After a strong final quarter, init innovation in traffic systems AG has clearly exceeded its revenue and earnings targets for 2011.

Revenues rose by around 10 per cent to EUR 88.7m (2010: EUR 80.9m). We are pleased to say that growth in profits was even more robust. Consolidated net profit grew by 50 per cent to EUR 15.1m (2010: EUR 10.0m). This corresponds to earnings per share of EUR 1.51 (2010: EUR 1.00). For the first time we also succeeded in crossing a hitherto insurmountable threshold in terms of EBIT (earnings before interest and taxes), which rose to EUR 20.4m (2010: EUR 15.1m).

These are figures that speak for the quality of our systems, the efficiency of our technology, the competence of our staff and the constant growth achieved by init in an interesting market. So this are figures that all of us in the init group can be proud of.

However, we do not intend to be blinded by these figures. This is something we simply cannot afford to do. It was particularly the extraordinarily positive development in the fourth quarter that pushed the init group beyond its targets despite the increased risks for economic growth in 2011. We could reliably assume that the measures postponed for the time being in the third quarter could largely be made up for in the fourth quarter. But quarterly revenues of EUR 33.5m – let us recall that this is equivalent to init's annual revenues for 2005 – is something out of the ordinary and was not to be expected.

The increase in earnings, which was extremely disproportionate on balance, was favoured by two special influences. EBIT, for instance, contains the release of risk provisions for Dubai of EUR 1.3m, made possible by the receipt of payments, as well as a special effect from the full takeover of id systeme GmbH for some EUR 1.5m.

As good as successful figures like those achieved by init in 2011 are, we must not be tempted into simply carrying on as before, believing without further reflection that growth will continue. Experience shows that slip-ups are made when times are good. "Good times" for init have now lasted for seven years. So we need to be all the more aware of what is happening in the world, of changes in our market and new needs that our customers are developing.

For there is one thing about which there can be no doubt: all over the world local transport systems have to be built up, expanded and modernised in order to guarantee and promote mobility as the engine behind the economic prosperity of social systems. We see this in a continually increasing number of international tenders for transport and telematics projects and in the many packages of measures to develop the transport infrastructure. In Europe additional investments to the tune of billions are supposed to be made in local public transport; the same is the case in America, Asia, Australia and Africa. This results in a long-term and sustainable growth scenario in the market for our hardware and software products and our telematics, planning and electronic fare collection systems.

At the same time, our market is undergoing a profound transformation and not only in technical terms. Two trends are becoming increasingly important: the networking of telematics systems in local and long-distance transport and the convergence of ticketing and telematics systems.

We responded to both trends at an early stage and, together with our customers, have implemented sophisticated solutions which are now in everyday use. In Bavaria, for instance, more than 3,000 vehicles from various transport companies have an integrated telematics, information and e-ticketing system from init for the "Bayrischen Busgesellschaften der Deutschen Bahn" project where the coordination of transfer connections is linked with the information systems of the rail transport system.

We have caused an international sensation as far as the integration of telematics and ticketing systems is concerned, and not only with this solution. We have already completed large-scale projects in this area in the UK and Australia. In Sacramento in 2011 we were awarded the contract for the first e-ticketing project in the USA – with very innovative technology. In future, passengers will be able to buy a ticket with their credit cards more or less in passing and pay for it simply by scanning the card.

Technological innovations like these will also continue to drive growth in our market. These are more than just "apps" – for demonstration purposes we have also implemented a control system operated by iPhone – they are very special software solutions that help transport operators to save costs. For instance, we have developed a software which helps optimise the deployment of vehicles so that around three to five vehicles can be saved out of a fleet of 100. This solution has met with great interest, especially in large conurbations such as those in Asia.

However, the many new possibilities that are opening up should not blind us to the fact that the general economic risks have become noticeably aggravated in recent months. In many countries necessary budget consolidation measures are restricting the scope for public sector investments in the future – such as in the transport infrastructure. To what extent this will lead to a reduction in project tenders in our market for traffic telematics cannot be predicted at present, but this is an aspect that should not be overlooked in prudent business planning.

With the figures actually achieved in 2011 – which have anticipated part of the growth we originally planned for 2012 – the benchmark for the current financial year has been set very high. At EUR 117m, however, our order backlog is at a very high level, as is the number of tenders. We are therefore very confident that revenues and earnings (without special influences) will be up again in 2012.

For you, our shareholders, we also intend to raise the dividend as an expression of our gratitude for your loyalty to our company and to set a positive sign for the future.

Karlsruhe, March 2012
for the Managing Board of init innovation in traffic systems AG

Dr. Gottfried Greschner
Chairman of the Managing Board (CEO)

MANAGING BOARD MEMBERS

DR.-ING. GOTTFRIED GRESCHNER

Chairman of the Managing Board (CEO)

CV: Studies in electrical engineering at the University of Stuttgart. Research work in the field of intermodal transport control systems as an academic assistant at the University of Karlsruhe. 1983 Doctorate at the University of Karlsruhe to gain qualification of Dr.-Ing. (Doctor of Engineering). 1983 founder and managing partner of INIT GmbH, Karlsruhe. Appointed as Chairman of the Managing Board of init AG on 25 April 2001.

Private life: Alongside his work, Dr. Greschner is interested in football, basketball and amateur sports in general. He is also strongly committed to social matters.

DIPL.-INFORM. JOACHIM BECKER

Member of the Managing Board, Telematics Software and Services (COO)

CV: Studies in information technology at the Institute of Technology in Karlsruhe. Joined INIT GmbH in 1983. Head of the technical operating division since 1989. 1996 Management member and Departmental Head Monitoring Systems. Joachim Becker was appointed a member of the Managing Board of init AG on 25 April 2001.

Private life: Outside his work, Mr Becker is an active volleyball player and is interested in football. He is also a family man and likes travelling abroad to get to know foreign cultures.

DIPL.-ING. (FH) WOLFGANG DEGEN

Member of the Managing Board, Mobile Telematics and Fare Collection Systems (COO)

CV: Studies in communications engineering at Karlsruhe University of Applied Sciences. Development and quality control engineer in several mid-sized companies. Joined INIT GmbH in 1990. Management member and Departmental Head Fare Collection Systems since 1996. Wolfgang Degen was appointed a member of the Managing Board of init AG on 25 April 2001.

Private life: To keep himself physically and mentally fit, Mr Degen goes running several times a week. As well as running, he is devoted to interior design, sailing and sports clubs in the Karlsruhe region.

DIPL.-KFM. DR. JÜRGEN GRESCHNER

Member of the Managing Board, Sales (CSO)

CV: Studies in technically oriented business management at the University of Stuttgart. Academic assistant and project management in a special research area at the Deutsche Forschungsgemeinschaft (DFG – German Research Foundation). 1996 Doctorate to gain qualification of Dr. rer. pol. (Doctor of Political Science) at the University of Stuttgart. 1996 joined INIT GmbH Karlsruhe as commercial manager. 1999 founding and independent management of INIT Innovations in Transportation, Inc., Chesapeake, Virginia, USA. Since January 2004 CSO at init AG and Managing Director of INIT GmbH.

Private life: To switch off after work, Dr. Greschner participates in many sports and goes walking. He also likes to travel to work by bike.

DIPL.-KFM. BERNHARD SMOLKA
Member of the Managing Board, Finance (CFO)

CV: Studies in business management at the University of Mannheim. Investment controlling at Gebrüder Kömmerling Kunststoffwerke GmbH, Pirmasens. Head of the department responsible for group accounting, controlling and finance. Member of the extended management team. 2000 project manager at M&A Consultants AG, Mannheim. Appointed as CFO of init AG in June 2001.

Private life: To keep figures out of his head, Mr Smolka is passionate about cooking. He reads a lot and usually spends his holidays in Tuscany.

The Managing Board of init innovation in traffic systems AG (from left to right):
Dr. Jürgen Greschner, Joachim Becker, Wolfgang Degen, Dr. Gottfried Greschner, Bernhard Smolka

INTERVIEW WITH THE CHAIRMAN OF THE MANAGING BOARD (CEO)

2011 was a very eventful year. What were the most decisive developments for you as Chairman of the Managing Board at init?

Greschner: It was crucial to us that we made good progress with our large-scale projects, that we were able to further improve our market position and that suburban public transport services continue to grow. By 2025 the number of passengers will double worldwide. That makes our market very, very exciting.

Can you put a figure on the growth in this market?

Greschner: We assume our market will experienced strong growth over the next ten years and that we will grow with it.

Do you view environmental factors such as steps to reduce carbon dioxide emissions as a driver for growth?

Greschner: They play an ever-greater role. On the one hand, on a per-head basis, public transport produces only a fraction of the emissions of private transport. However, there is another aspect that should not be neglected: Large city centers are swamped by traffic. We can see this very clearly in the example of Dubai. Two years ago, we equipped Dubai with a modern guidance system. Meanwhile, far more than 1,000 buses are in operation and they are jam-packed. Our customer tells us that our system improves not only punctuality, but also the quality of their services, helping to alleviate transport problems. I hear similar reports from customers in North America and Australia. These are boom regions that need a high quality of public transport simply to avoid a complete transport break-down and to ease the pressure on the environment. That's where we can help.

"A functioning local public transport system is the best way to lower pollution. The fact that the number of passengers rises when there are modern systems in place to guarantee punctuality and service is something that our customers experience every day."

How do you see the market developing in view of ever scarcer resources and rising fuel prices? Are customers demanding further reductions in consumption?

Greschner: Yes, and that's why we – independently of the optimisation gains offered by our operating system – are developing a software solution which can lead to demonstrable opportunities to save three to five vehicles in a fleet of 100. This immediately saves costs and reduces fleet consumption. We have already visited some of the big cities of the Far East, where we found an enormous amount of interest for these optimisation processes.

Many countries are now finding themselves with a dilemma. On the one hand, they want to pursue investment in transport infrastructure for environmental reasons, but on the other, the sovereign debt crisis is forcing them to consolidate spending. Doesn't that pose a risk to your market?

"We feel compelled to support those who are less-advantaged. It is not a question of whether this help delivers a return; we see it simply as our responsibility to society."

Greschner: In my experience it's actually quite the opposite. A lot of investment is being made, particularly in North America, in order to eventually save in the long term. We have never had so many tenders in North America or in the UK, and demand has risen in Germany too.

Alongside the approach of combining ecology and economy in one business model, one of init's fundamental principles is taking on social responsibility. What is the company doing in this area?

Greschner: For us, social responsibility means helping where we can. As far as our donations for social objectives are concerned, we concentrate on our own region, although we also get involved worldwide where it makes sense to do so. For example, we actively support an organization which helps and cares for severely disabled young people. Another approach we have adopted in the company is giving a chance to people who have not completed their studies or who are considered hard-core unemployed. We have had positive experiences here.

“Without the commitment of our employees, we would not be where we are today. We support and challenge people, and give them the opportunity to show what they are capable of. This is the spirit that drives our company.”

Does social engagement pay off for init as a company too?

Greschner: That can’t be calculated in euros and cents. It involves instead a fundamental attitude towards the environment, society, the people you deal with and humanity as a whole. A philosophy of social responsibility is that one must live within the company. This is decisive in terms of the spirit in which people work within a company. I’m always surprised by the independence employees show, choosing to work until late into the night when it comes to getting tendering documents finished on time. If they didn’t do this, we would lose the contract before the call for tenders even closed.

Employees are one of the main factors behind init’s success. Now that the competition for the best people is getting more intense, how is init adapting?

Greschner: We work very closely with universities in the region and we helped set up a faculty for transport telematics at the Technical University. In all probability, we will set up an endowment chair there, where research and training will be carried out that is of interest to us. This is just one of many efforts we are making with regard to new employees. We also carry out training ourselves and we hope to further reinforce this. With an eye on demographic development in the next few years, we are also thinking about using our international network in order to win over young talent from other countries such as Spain.

In 2011, init again recorded a record result, growing beyond what was planned. Can this momentum really be maintained over the next few years?

Greschner: Basically yes, but of course we won't manage equivalently high growth year for year. I think an average of ten to fifteen per cent is realistic over the next few years, but there will always be fluctuations up and down. With the 2011 figures we’ve already set the bar very high, but in 2012 we will be able to build on this.

In doing so, will you continue to pursue your strategy of growing only organically, or do you also plan to expand in the market through purchases?

Greschner: We need to make sure that we don't get complacent in these good times. In football, as in business, a fundamental principle applies: Mistakes are made during the good times. We take that very much to heart when it comes to acquisitions. We do indeed get a lot of offers, but our priority is organic growth.

In 2011 init shares have stood up well, but market perspectives in general are somewhat gloomier. What can shareholders expect in 2012?

Greschner: I think we'll manage moderate growth in 2012 too. Our growth perspectives for the long term are intact, and this should be reflected in share prices.

Over the last few years init has gradually increased dividends. Will you stick to this dividend strategy?

Greschner: Yes, we are hoping for further increases.

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

"Investments form the basis of long-term savings. In times of diminishing funds, operators around the world have realised this. We are pleased to help our customers get the optimum for their vehicle fleet."

GOOD

FOR THE ENVIRONMENT

Environmentally-friendly driving thanks to MOBILEvhm

Rapid acceleration, an endlessly repeated sprint to the next traffic light, then sudden braking – such driving can be witnessed on a daily basis, predominantly in city traffic. When bus drivers have trouble keeping to timetables, the temptation to put their foot down is strong. But, sometimes it is simply habit that dictates driving behaviour. MOBILEvhm will help to change this in future – to benefit the environment, passengers and transport companies.

In rural areas especially, efficient local public transport is important. By applying our technologies, we help to combine lines as service-on-demand and so save resources.

VHM – SAVES RESOURCES, REDUCES CO_2-EMISSIONS.

PASSENGERS, BUS DRIVERS AND TRANSPORT OPERATORS – THE BENEFITS OF THE MONITORING SYSTEM

Sustainable public transport operators are doing an important part for a healthier environment. We help them by providing the necessary system and software solutions.

Environmentally-friendly. For the future.

MORE INFORMATION

For many public transport users it sounds like a dream: You're waiting at the bus stop. The bus arrives punctually. It looks clean and tidy. And it gets you safely to your destination without breaking down – in accordance with the timetable. But how realistic is this image? The answer can only be: "It depends". However, if the operator relies on MOBILEvhm in its buses, then passengers really can be sure they will reach their destination punctually and comfortably.

At init, vhm stands for Vehicle Health Monitoring, which is pretty self-explanatory. Our system stores information about the condition of the bus, acceleration and braking during the journey and the engine's stop times. This way the public transport operator can recognise maintenance requirements in advance and carry out the necessary steps. In addition MOBILEvhm helps to avoid break downs during service and to save resources and leads to more sparing use of fuel and oil. The vehicle fleet is therefore not only more economical, but is also less burdensome on the environment.

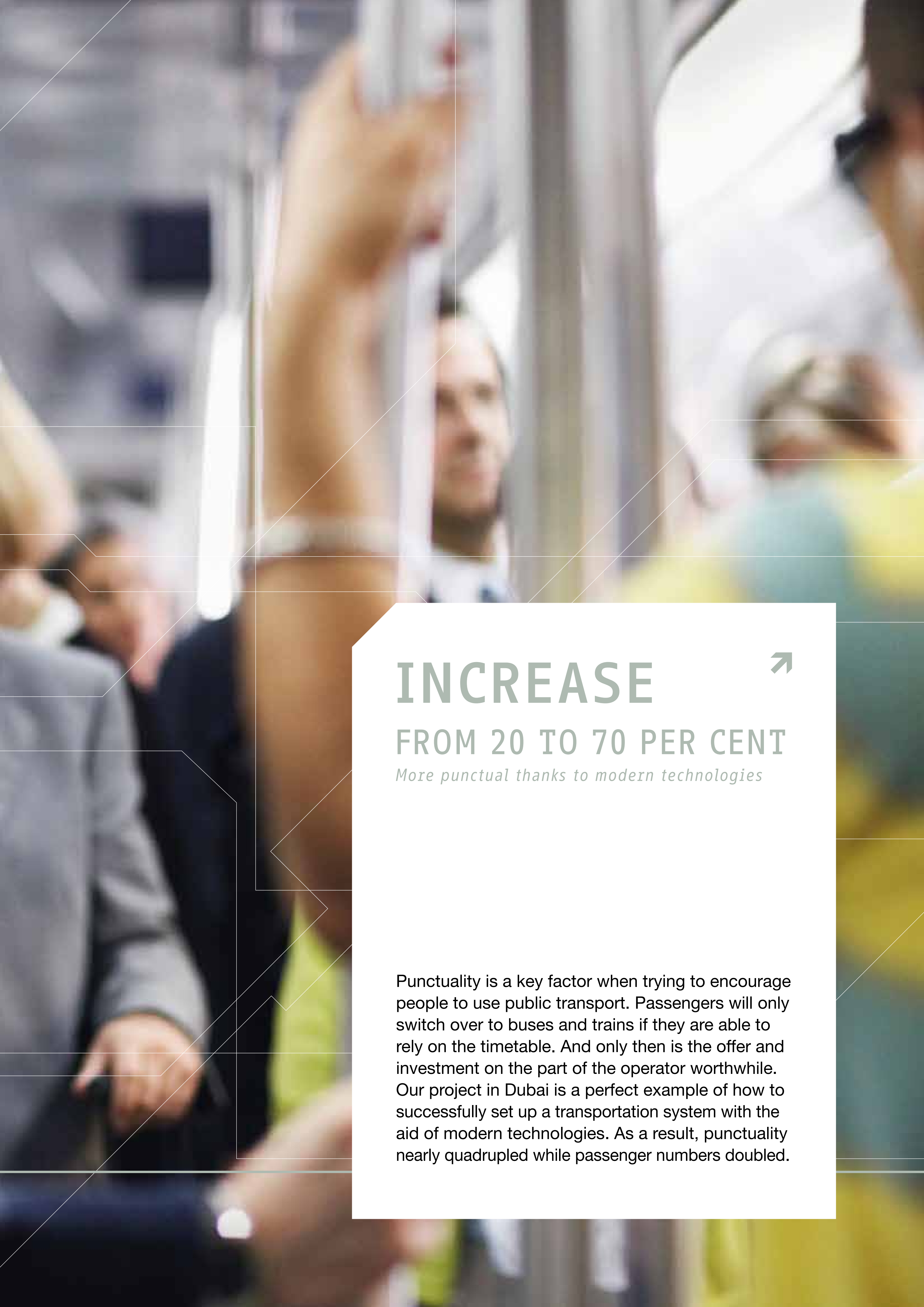
BENEFITTING FROM VHM

Passengers benefit from punctuality and better maintained vehicles. These are factors that are among their top priorities and needs, and which the transport operator can meet with little effort thanks to pre-emptive maintenance. Our Vehicle Health Monitoring System means the public transport operator can now see if any irregularities arise – especially between normal checking intervals. This way faults can be rectified quickly, before these result in negative consequences for operations. For passengers, this finally consigns to history the nightmare of buses pulling into a stop in a cloud of black exhaust fumes and breaking down shortly afterwards halfway along the route. And what could be more apt for winning over new passengers to using public transport?

MOBILEvhm helps the driver to optimise his driving style. Does he drive in higher gears? Does he allow the vehicle to coast along in the traffic flow? How long are the stop times with the motor running? Our system stores this information and analyses it – and does so anonymously where required. Together with individual drivers or the group as a whole, the public transport operator can agree on and implement measures for more environmentally-friendly driving.

FOR THE ENVIRONMENT

Together with pre-emptive maintenance, an optimised driving style offers the most efficient contribution to environmental protection, because reduced fuel consumption and lower CO_2 emissions are the result. And where public transport operators use hybrid or fuel cell buses there is twice the benefit from the monitoring system, since they can see if the environmentally-friendly technology fulfils what the manufacturer promises.



INCREASE

FROM 20 TO 70 PER CENT

More punctual thanks to modern technologies

Punctuality is a key factor when trying to encourage people to use public transport. Passengers will only switch over to buses and trains if they are able to rely on the timetable. And only then is the offer and investment on the part of the operator worthwhile. Our project in Dubai is a perfect example of how to successfully set up a transportation system with the aid of modern technologies. As a result, punctuality nearly quadrupled while passenger numbers doubled.

ECONOMICAL, PUNCTUAL, MORE PASSENGERS – USING TECHNOLOGIES EFFECTIVELY

Transport companies around the world are facing a host of challenges. This is why we think along international lines and offer the right solution to suit any need.

Punctuality. For the passengers.

PUBLIC TRANSPORT IN DUBAI

Dubai is synonymous with sweltering daytime temperatures, low petrol prices, three-, four- and even seven-lane roads, as well as a passion for cars – hardly the ideal conditions for setting up a serviceable public transport system. Nevertheless, the Roads and Transport Authority Dubai (RTA) managed to do just that and has successfully set up a modern transport system including buses and an urban railway system. And our technologies helped Dubai's public transport operator to do so.

PUNCTUAL AND SERVICE-ORIENTED

Punctuality was one of RTA's main goals. After all, this is something the passengers expect. Dense traffic, severe congestion and countless construction sites were among the challenges in Dubai. Our MOBILE-ITCS, a system designed to enable the monitoring and managing of such complex operations, was therefore the perfect solution. It allows the dispatchers to locate exactly where the buses are, while enabling them to identify disruptions and take immediate action. Furthermore, in the near future, the dispatchers will even have a real-time view of the bus stops, thanks to digital cameras. If there are a lot of passengers waiting, they can deploy additional buses at short notice and thus quickly disperse the crowds.

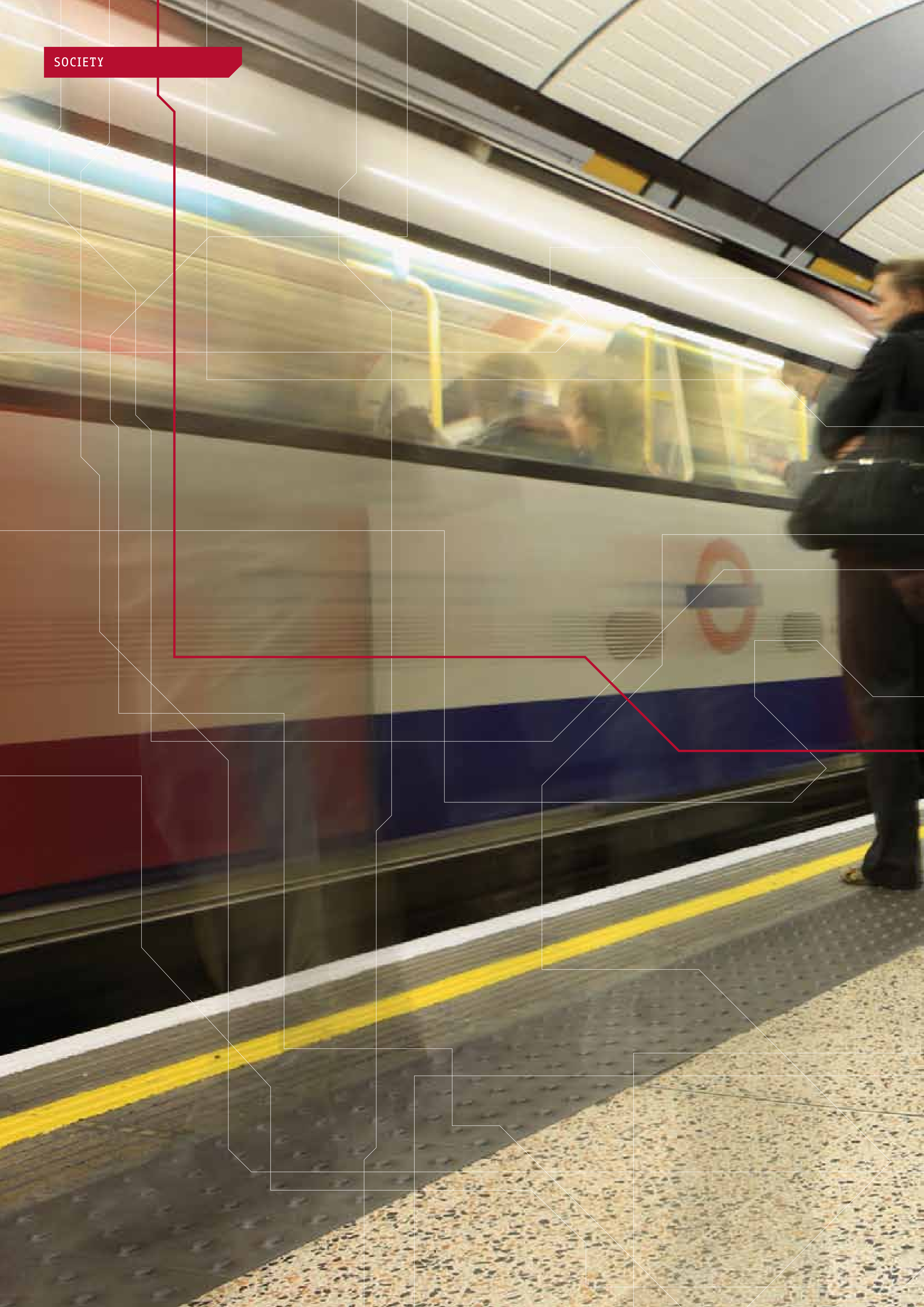
All this is improving RTA's service quality; the number one priority of the public transport operator in Dubai. As a service-oriented transport company, RTA attaches great importance to being able to conveniently keep its passengers fully informed at any time. Passengers are informed of the actual departure times via a number of different channels: On the one hand, with the aid of a web-based journey planner, and on the other hand via displays at the bus stops and train stations. In the future, additional information, informing passengers that RTA will be deploying further buses during rush-hour, will make life even more convenient. However, in Dubai service isn't simply about information prior to the departure of buses and trains; passengers are even kept up to date inside the vehicles – acoustically by means of announcements and optically via the installed displays. Our convenient solutions make this possible.

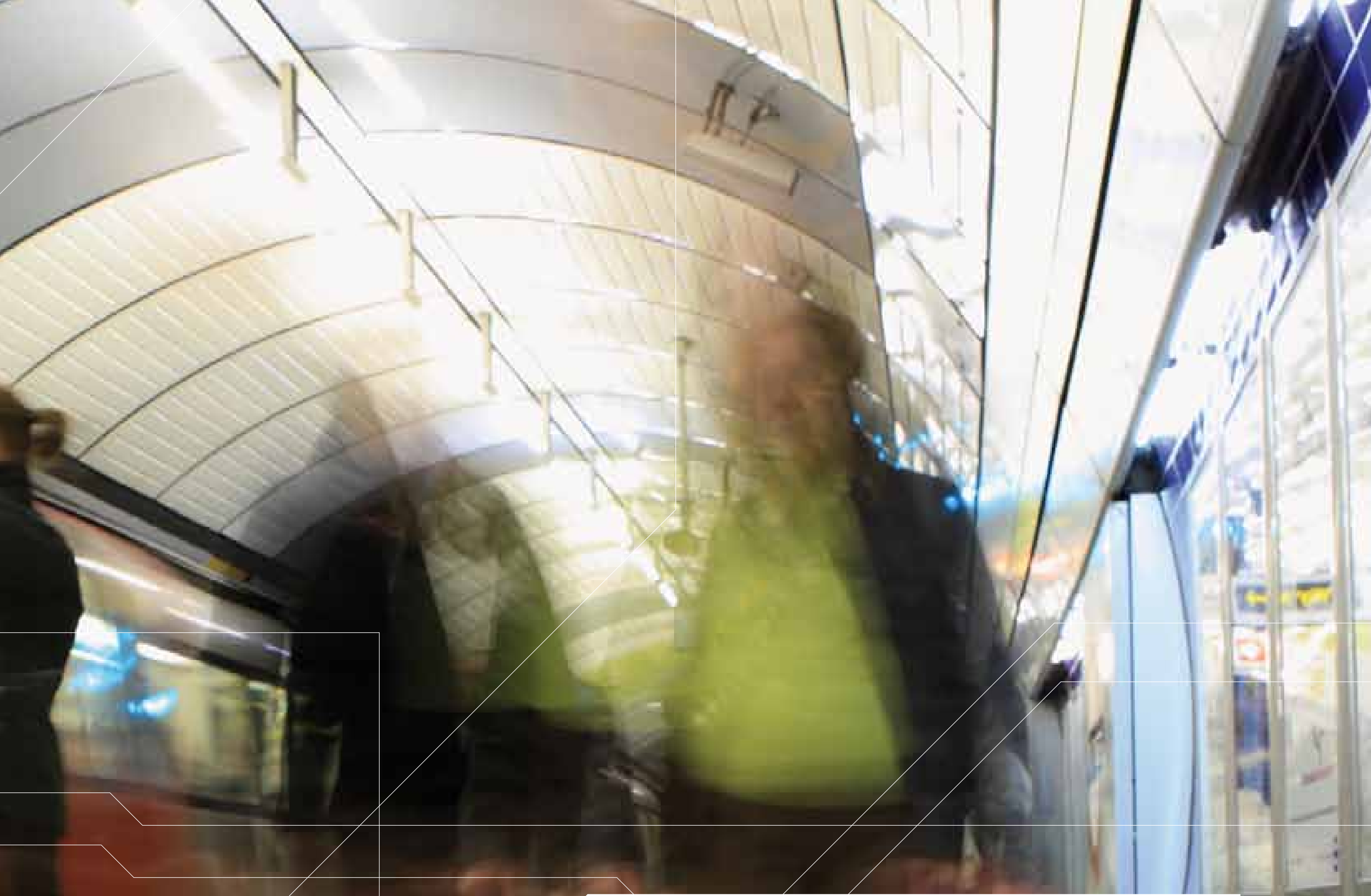
SUCCESSFUL

Our modern technology laid the foundations for RTA's success story. Thus, following the introduction of the system, punctuality almost quadrupled from 20 per cent to around 70 per cent. At the same time, passenger confidence has increased, which is attested to by the fact that the number of users has doubled to 12 per cent of the population since 2005. This figure is set to increase to as much as 30 per cent by 2020. For RTA this means that the investment in the infrastructure was well worthwhile. More passengers mean higher revenues and increased cost-effectiveness. As a result, both the transport company and the people living on the Arabian Gulf are benefiting from technologies developed in Karlsruhe.

12 PER CENT – THE NUMBER OF PASSEN-GERS HAS DOUBLED.

Fewer cars on the roads create a better quality of life. Modern means of transport equipped with our efficient systems are instrumental in gaining new passengers for local public transport.





PTx2

THE GLOBAL PROGRAMME

For an urban future worth living

More and more people are being drawn to the cities, particularly in the "Asia-Pacific" region. But in these places, the situation on the roads is already often disastrous. Traffic jams, accidents and pollution caused by exhaust fumes make life difficult for residents and road users alike. In a bid to improve the quality of life in these cities, the UITP has initiated the project PTx2, a forward-looking strategy aimed at doubling the market share of local public transport by 2025. Our modern technologies can and will play a crucial part in this.

PTx2 – NUMBER OF JOBS IN LOCAL PUBLIC TRANSPORT DOUBLED.

Many new jobs are created through suitable concepts. As an engine of growth, local public transport secures the future of many people.

ENVIRONMENT, HEALTH AND JOBS – DEVELOPING TRANSPORT CONCEPTS FOR THE FUTURE

Constantly growing cities with huge population increases require new transport concepts. In realising them, we support local public transport operators by providing modern technologies.

WHY ANOTHER NEW CONCEPT?

It's 7.30 in the morning. Packed tightly, the cars are almost on top of each other on a six-lane motorway entering a metropolis somewhere in the world. It seems as though they haven't moved a yard for ages. Things don't look any better in the city either. A long convoy of vehicles laboriously crawls its way through the streets. The drivers honk their horns and pedestrians look agitated, labouring under the heavy fumes. It's a normal day on the roads in the morning rush hour. And although the car drivers only reach their destinations slowly, public transport does not appear to offer an alternative. Unreliable, few and far between – the reasons are many and varied. The International Association of Public Transport (UITP) aims to change all this. Through its PTx2 (Public Transport Times Two) programme it wants to double the share of local public transport by 2025.

By 2005, there were already 3.2 billion people living in cities around the globe. By 2025 this figure will rise to 4.5 billion. That also means that traffic will increase by 50 per cent, and in the Asia-Pacific region by as much as 66 per cent – and with all that growth comes the negative consequences as well: for quality of life in the cities, for our environment and energy reserves. The forward-looking UITP programme comes just in time. PTx2 will provide a boost to local public transport through offers tailored to lifestyles and networked mobility management, promising a better quality of life and the more careful use of resources.

IMPACT

The UITP has played out the situation in 2025 in a variety of scenarios. For example, how will things look if urban traffic continues to grow at the same rate? And what will the effect of PTx2 be? The result speaks clearly in favour of the programme: fuel consumption would fall, having a positive effect on reserves of raw materials and their cost. Reduced CO_2 emissions will support the climate goals agreed in Cancún. The number of traffic fatalities would also drop. And the health of the population could be improved, since fewer jams will leave more time for exercise. What's more, PTx2 will create jobs in public transport – from 7 million today to 14 million in 2025.

Local public transport. For a better quality of life.

BENEFITS

The programme will lead to greater comfort for passengers, since coordinating public transport with their needs and the requirements of growing cities will ensure a more punctual and better service – ideal conditions to motivate people to take the bus or train. PTx2 also means increasing sales for transport companies, for example by using more efficient technologies and attracting more customers. And PTx2 will provide us with enormous opportunities to grow as our technologies will enable us to make a vital contribution to the ability of public transport operators to implement the programme, making local public transport efficient and ensuring that cities continue to be worth living in.

FAIRNESS

BFAMILY AWARD 2011

init AG – an outstanding company

Employees who feel at ease in a company and get the support they need are a crucial factor for the company's future success. We rely on motivated and committed employees. And to spark their enthusiasm for our company, we do our part too: with support for workers who have carer duties or childcare responsibilities, and with a work-life balance concept.

CARE DUTIES, CHILDREN TO LOOK AFTER, WORK-LIFE BALANCE – RECOGNISING PERSONNEL ISSUES OF THE FUTURE

Social responsibility with regard to employees is the key to success. And this is also true for gaining new recruits.

FAMILY-FRIENDLY

Family-friendly.
For the employees.

How can you reconcile work and family? What happens when a child suddenly gets ill? What happens when relatives unexpectedly need care? These are questions our employees ask themselves, too. And when it comes to applicants, the answers to such questions can be crucial for their decision in favour of or against the company. So for us it makes total sense: We don't leave anyone to figure out these issues alone. We take responsibility for our employees. Even young recruits know the value of this approach.

The BFamily Award 2011 represents the reward for our efforts. For the second time in a row, the Wirtschaftsjunioren Karlsruhe organisation has acknowledged us as one of the most family-friendly companies in the region. We won over the award's jury with our comprehensive, own-initiative efforts as we help our staff, for example, with contact details to find a kindergarten place and the offer of a generous grant for childcare.

FLEXIBLE

Give and take is our philosophy. With flexible working hours, part-time work models and – in an emergency – short periods of time off, we offer our employees solutions that take their family situations into account. These include large-scale social commitments and sometimes even active assistance. A quick call to the authorities or the opportunity to bring a child to the office for a few hours – these are just two examples of how we can take the strain off our employees in simple ways. We do all we can and benefit from it: in the form of focused and committed employees who identify with our company.

What always counts for us is flexibility – and that applies not just in exceptional situations in life, but quite normally in everyday work. We believe this is part of a good work-life balance. And this is the way we can best meet the needs of our employees. Anyone who has to stay late in the evening to receive a phone call from an overseas customer simply comes into the office later the next day. Anyone who has to work one or two days from home at any point can arrange this with us. We do everything we can in a spirit of mutual benefit – a bit of give and take.

PROMOTING YOUNG TALENT WITH A GLOBAL OUTLOOK

This way we manage to win over and keep committed employees for the company. We find contacts, for example, at schools and universities. We present at information events such as the KIT (Karlsruhe Institute of Technology) faculties evening in the first semester. And through projects like "TheoPrax – Students between Theory and Practice" we demonstrate possible career paths: so that we can continue to count on competent employees in the future as well.

INIT – ACTIVE IN THE KARLSRUHE REGION.

For us, social responsibility does not end with the company. We support social projects and get involved in sports, youth and cultural projects.

INIT SHARE

Continues to hold up well despite market turbulence

Following a good start to 2011, international equity markets did not live up to the often high expectations. Key stock markets were unable to sustain the peaks they reached in the first half of the year, in some cases the highest levels for several years, against the backdrop of the still unresolved sovereign debt crisis in Europe and drastically increasing risks for the global economy. Instead, most price barometers took a nosedive. The benchmark indices fell sharply in the third and fourth quarters due to increasing warning signs for economic performance in Europe, although also to some extent in countries that had been experiencing a boom, such as China. Year-end prices were significantly below the level at the start of the year.

The German stock index DAX lost more than 17 per cent of its value on balance in 2011, with strong fluctuations – firstly to a three-year high, then to a two-year low. The net result of the index for leading technology stocks, the TecDAX, was even worse, down a good 24 per cent. The German stock market indicators nevertheless returned quite good performance in comparison with most European indices.

In this turbulent environment the init innovation in traffic systems AG share (ISIN DE0005759807) also initially reached an all-time high of EUR 19.99, followed by profit-taking. Eventually the price performance of the init share was also hit by the general market turbulence, even though concerns about a slowdown in the growth of the market for init products proved to be unfounded up to the end of the period under review. As a result, the init share closed the year down almost 5 per cent since the start of 2011, although this loss was recouped in just the first few days of 2012. Since then the price has been stabilising further.

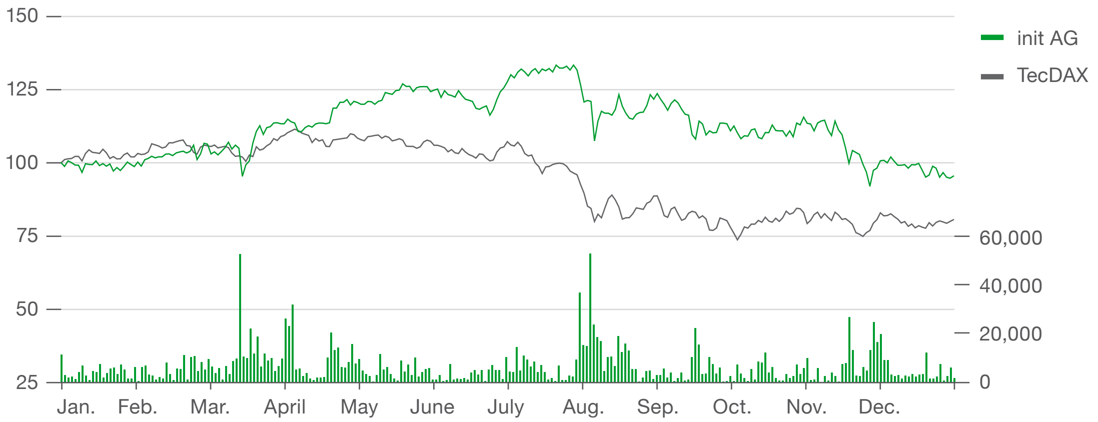
With the dividend doubling to EUR 0.60, init shareholders nonetheless had a cause for joy in 2011. Taking into account the 50 per cent rise in annual net profit and the excellent liquidity position, the Managing Board and the Supervisory Board of init innovation in traffic systems AG will also propose a further increase in the dividend to EUR 0.80 at the annual shareholders' meeting scheduled for 16 May 2012.

Analysts continue to view the init share predominantly as a "buy" with price targets of EUR 19 to 20.

In order to boost liquidity in the share, init's Investor Relations team took part in the major capital market conferences in 2011, such as the German Equity Capital Forum, and held several roadshows for European and international investors. In addition, a further designated sponsor was engaged from March 2012 onwards to raise the liquidity of the share.

Performance of the init share in financial year 2011 (2 January to 31 December 2011)

(indexed / volume in units)



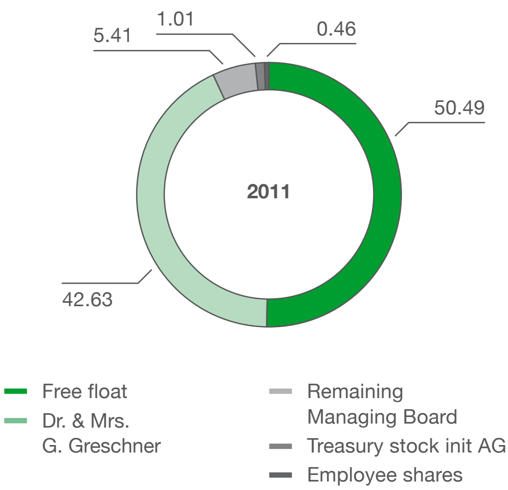
STOCK REPURCHASE AND SHAREHOLDER STRUCTURE

Although capital stock turnover increased in the course of 2011, it only resulted in slight changes in the shareholder structure of init innovation in traffic systems AG. With the objective of having sufficient shares available for current and future employee share ownership programmes, manager incentive programmes and/or as an acquisition currency, the Managing Board of init innovation in traffic systems AG decided to use phases of relatively large price declines to acquire treasury stock (in accordance with Section 71 (1) (8) of the German Stock Corporation Act (AktG)), in exercise of the authorization granted by the annual general meeting on 12 May 2010. A total of 60,000 shares were repurchased in 2011. The treasury stock as of 31 December 2011 totalled 101,537 shares.

Shareholdings were distributed as follows as at the cutoff date:

Shareholdings as at 31 December 2011

(in %)



Current information on the init share and on our Investor Relations services is available on the Internet at www.initag.com.

Basic share information	
Exchange	Frankfurt Stock Exchange
Index/Segment	Prime Standard, Regulated Market
Class	No-par bearer shares (at EUR 1 each)
ISIN	DE0005759807
WKN	575 980
Code	IXX
Designated sponsors	Commerzbank AG Silvia Quandt & Cie, AG
Capital stock today	10,040,000 no-par bearer shares
Market capitalisation (as of 30 December 2011)	EUR 142.6m

DEAR SHAREHOLDERS,

In the financial year 2011, init again successfully continued to grow.

However, due to the national debt crisis, the uncertainty at the stock exchanges increased from August onwards. This situation was also reflected in the development of the company's share price.

At the last Annual General Meeting in the financial year ended, Mr Hans-Joachim Rühlig was elected as Supervisory Board member in the place of Mr Bernd Koch, who had served on the Supervisory Board for 10 years. Mr Rühlig also takes care of the duties of the independent finance expert pursuant to Section 100 (5) of the German Stock Corporation Act (AktG). Mr Fariborz Khavand stepped down from his office as Supervisory Board member as of 29 February 2012, as announced at the last Annual General Meeting. Drs. Hans Rat assumed this post starting on 1 March 2012. At the last Annual General Meeting on 24 May 2011, Mr Rat was elected as replacement for Mr Khavand.

In this report, my colleagues and I would like to provide information about our activity, especially about the supervision of the Managing Board, for which the Supervisory Board is responsible pursuant to the articles of incorporation, and to make the deliberations and decisions of the Supervisory Board in the financial year 2011 transparent for you.

Last year, the Supervisory Board of init innovation in traffic systems AG obtained regular, timely and comprehensive information from the Managing Board in order to fulfil its duty to provide advice to the Managing Board and to monitor its management. The briefings and discussions at the Supervisory Board meetings concerned all important aspects and measures pertaining to the company and business operations.

Where statutory provisions or the articles of incorporation required the approval 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 and, for individual issues, the other members of the Supervisory Board kept in constant close contact with the Managing Board throughout the financial year. Transactions requiring reporting were disclosed on an ad-hoc basis. Between meetings, the Chairman of the Supervisory Board informed the Supervisory Board in a timely manner, both orally and in writing, of discussions with the Managing Board.

FOCAL POINTS OF THE SUPERVISORY BOARD MEETINGS

The Supervisory Board monitored the group's development at its four ordinary meetings and one extraordinary meeting in 2011. The Managing Board provided detailed information on the company's situation and the business performance. Based on the reports of the Managing Board, the discussions focused especially on the economic situation, including the business and liquidity planning, incoming orders, the order backlog, latent risks, important business transactions, projects of special significance and the medium and long-term group strategy, as well as organisational issues and personnel planning. Furthermore, the Managing Board and the Supervisory Board discussed all quarterly financial statements prior to their publication, before the Supervisory Board released the financial statements for publication. Coordination of the quarterly reports between the Supervisory Board and the Managing Board as well as the release of the quarterly reports took place by phone and electronically.

We discussed the following subjects with the Managing Board at the five Supervisory Board meetings:

At the meeting held on 9 March 2011, we dealt with the annual financial statements of init AG and the consolidated financial statements as at 31 December 2010 and listened to the auditors' detailed explanations of the audit results. Apart from audit-related questions, the Supervisory Board also interviewed the auditor on other issues such as material accounting and valuation principles, early risk detection, specific audit procedures applied at subsidiaries, prevention of irregularities and individual issues of the management letter. Other key topics at this meeting included the proposal for distribution of a dividend, the agenda for the Annual General Meeting to be held on 24 May 2011 and the status report of the Managing Board on the planned development measures at the Karlsruhe site. Moreover, the Supervisory Board decided to reappoint all members of the Managing Board until 31 March 2016. In the determination of the total remuneration of the individual members of the Managing Board, the Supervisory Board ensured that these were in due relation to the duties and performance of the respective member of the Managing Board and to the situation of the company. The allotted total remuneration does not exceed the usual remuneration, as the Supervisory Board determined on the basis of an arm's length comparison. The base salary and variable remuneration components were adapted to the business performance. Furthermore, the remuneration structure focuses on effective corporate performance. The variable remuneration components are therefore aligned with a perennial assessment base; the Supervisory Board has agreed a cap for extraordinary developments.

Apart from ongoing issues such as the economic trend and personnel development of the company, liquidity planning, market trend, and order situation, the main subject discussed at the meeting on 23 May 2011 was the agenda of the Annual General Meeting to be held on the following day. Moreover, the Supervisory Board authorised the Managing Board to increase the

The Supervisory Board of init innovation in traffic systems AG (from left to right):
Drs. Hans Rat, Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau, Hans-Joachim Rühlig

capital of the init subsidiaries, to invest in the production company Simtech Electronic Taicang Co. Ltd., to establish a production company in the USA and to establish a subsidiary in Switzerland. Furthermore, the rules of procedure of the Managing Board were amended with respect to transactions subject to the approval of the Supervisory Board, and the Managing Board reported on the current status of the planned development measures at the Karlsruhe site.

The only subject of the extraordinary Supervisory Board meeting on 24 May 2011 after last year's Annual General Meeting was the election of the Supervisory Board Chairman and of a Vice-Chairman. Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau was nominated and elected as Chairman, and Mr Dipl.-Kfm. Hans-Joachim Rühlig as Vice-Chairman. Both of them accepted the election.

At the meeting on 13 September 2011, the Managing Board reported on the economic development in the first six months of 2011 and in the ongoing third quarter of 2011. Other subjects included the effects of the US savings measures on the init projects in North America and of the stock exchange crisis on init. Furthermore, the Managing Board reported on the status of the capital increases at the subsidiaries, the cooperation with Simtech and the development measures at the Karlsruhe site. The purchase of the remaining interests of 56 per cent in id systeme GmbH was also discussed, and the Managing Board was requested to continue to pursue the negotiations and to submit a proposal to this end to the Supervisory Board.

At the last meeting of the financial year 2011 on 14 December 2011, the Managing Board reported on the status of the building project at the Karlsruhe site and on the acquisition of id systeme GmbH. The Managing Board also informed the Supervisory Board of the economic development as of the end of November 2011. Other key issues included the cash planning in the group, the economic planning for 2012, the performance and order situation on the various markets and personnel development. The Supervisory Board agreed to the purchase of the remaining interests of 56 per cent in id systeme GmbH on the basis of a concrete Managing Board draft.

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 status report of init innovation in traffic systems AG and the consolidated financial statements and group status report as of 31 December 2011 were audited by Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, Germany, which the Annual General Meeting had appointed as auditors of init innovation in traffic systems AG and as group auditors. All said statements and reports were granted an unqualified audit opinion. The annual financial statements, status report, consolidated financial statements, group status report and audit reports of the auditor were made available to all members of the Supervisory Board.

The annual financial statements, status report, consolidated financial statements and group status report as well as the audit opinions and audit reports of the auditor were discussed in detail with the Managing Board and auditors at the Supervisory Board meeting held on 14 March 2012. The auditors reported on key results of their audit, especially also on the internal control and risk management system in relation to the reporting process. The auditors also provided information on services rendered in addition to the audit and on their independence as defined in commercial law. Questions posed by members of the Supervisory Board were answered in detail. On the basis of its own examination, the Supervisory Board came to the conclusion that the applied audit procedure was appropriate and adequate and that the figures and calculations contained in the financial statements had been audited in sufficient depth and were coherent.

The Managing Board presented its proposal for the appropriation of profits to the Supervisory Board. According to the proposal, the following appropriation of the net profit of EUR 19,193,201.38 is to be recommended at the Annual General Meeting on 16 May 2012: distribution of an amount of EUR 0.80 per dividend-bearing share. The remaining profit is to be carried forward. The Supervisory Board endorsed this proposal.

On 14 March 2012, we conclusively checked the annual financial statements, the status report, the proposal for the appropriation of the net profit, the consolidated financial statements and the group status report. No objections were raised. Therefore, we agree to the audit result. The annual financial statements of init innovation in traffic systems AG as prepared by the Managing Board have thus been adopted, and the consolidated financial statements have been approved.

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, Germany, also audited the report about the relationships with affiliated companies ("dependent company report") prepared by the Managing Board under Section 312 of the German Stock Corporation Act (AktG). The auditor issued the following audit opinion concerning the result:

"Based on our due audit and assessment, we confirm that

1. the actual information contained in the report is correct,
2. payments of the company for the legal transactions listed in the report were not unduly high, and
3. in connection with the measures listed in the report, there was nothing to imply an assessment substantially different from that of the Managing Board."

The Supervisory Board also checked the dependent company report. It did not raise any objections against the final statement of the Managing Board or against the result of the audit by the auditors.

CORPORATE GOVERNANCE CODE

The Supervisory Board was actively involved in the implementation and monitoring of the compliance with the German Corporate Governance Code. In this context, the amendments to the German Corporate Governance Code of 26 May 2010 were taken into consideration. On 24 May 2011, the Managing Board and the Supervisory Board jointly issued an updated Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act and made it permanently accessible to the shareholders on the company's website.

Pursuant to Section 3.10 of the German Corporate Governance Code, the Managing Board also reports on behalf of the Supervisory Board on the corporate governance at init innovation in traffic systems AG in this annual report.

Should this Declaration of Conformity be affected by any changes in the course of the financial year, we will update these without delay in cooperation with the Managing Board and make them 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 performance in the financial year 2011. On behalf of the entire Supervisory Board, I would also like to use this opportunity to express my gratitude to Mr Koch and Mr Khavand for the many years of loyal and constructive collaboration. Our shareholders, customers and business partners also deserve our thanks for their trust.

Karlsruhe, March 2012
For the Supervisory Board

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

GROUP STATUS REPORT 2011

init innovation in traffic systems AG, Karlsruhe

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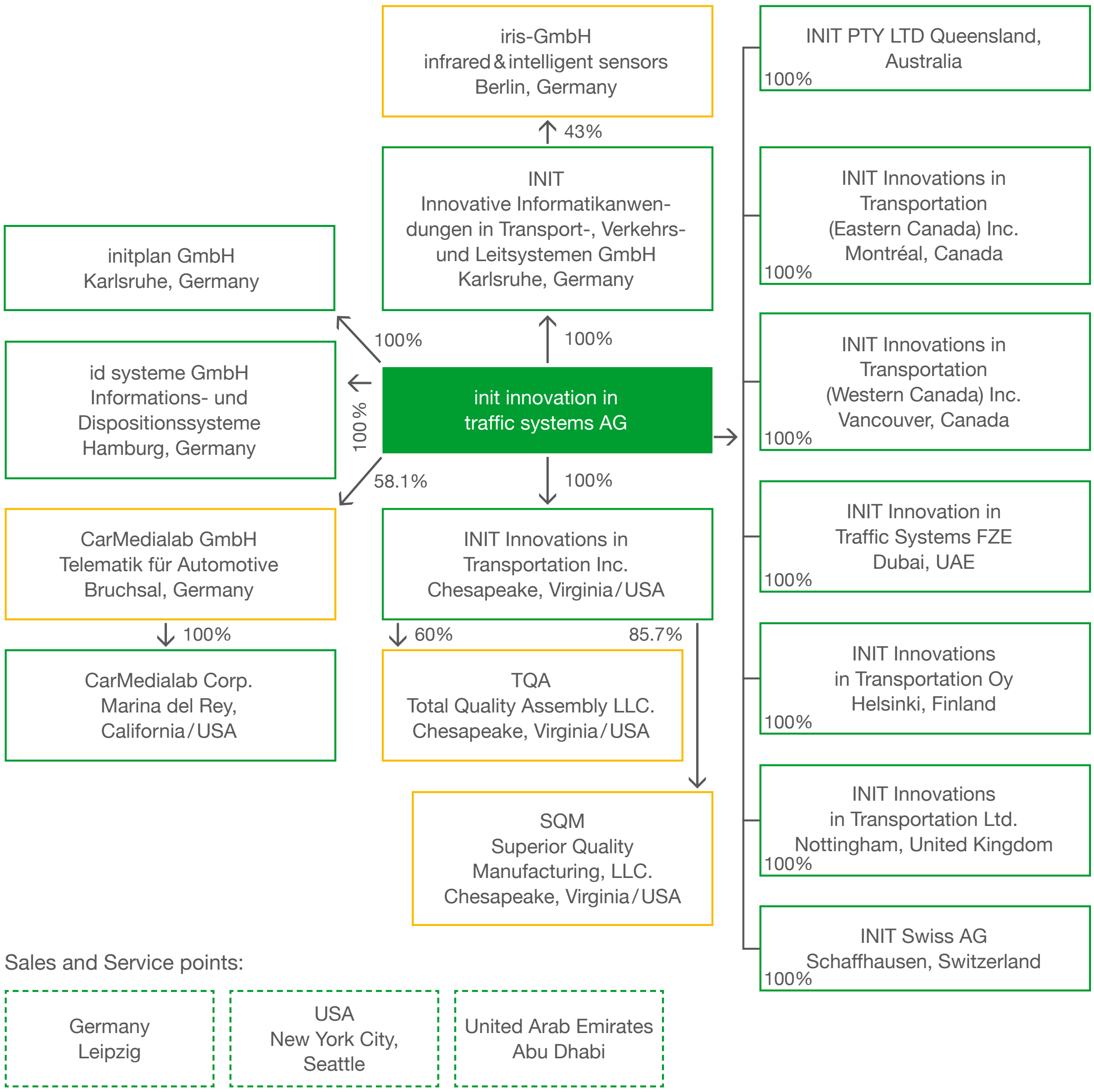
BUSINESS AND GENERAL CONDITIONS

GROUP STRUCTURE AND BUSINESS OPERATIONS



Business segments and organisational structure

The init group is a leading international system house for telematics, planning and electronic fare collection systems. Our solutions optimise buses and trains operating in local public transport, making it a more attractive service for passengers.

By providing these products and services, init contributes to improving the quality of services offered in terms of customer orientation, punctuality, convenience, service, safety, and shorter travel times. It also enables transport companies to reduce their costs and/or boost their economic efficiency. 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. This puts transport companies in a better position to meet society's continuously growing mobility requirements and hold up in an increasingly competitive environment that is characterised by rationalisation and liberalisation.

Participations
In the Automotive business segment, init AG holds a 58.1 per cent stake in CarMedialab GmbH. CarMedialab GmbH develops onboard units, related software and operates backend systems as a telematics service provider. Key services include telediagnosis and smart charging of electric vehicles. In 2011, a subsidiary was set up in the USA to open up this market.

INIT GmbH holds a 43 per cent share in iris-GmbH infrared & intelligent sensors, Berlin (iris-GmbH).

iris-GmbH is a developer and manufacturer of sensor components and products for automatic passenger counting. iris develops, produces and supplies optoelectronic sensors for integration into various systems.

Revenues at iris-GmbH totalled EUR 7.3m (2010: EUR 7.7m), net earnings from ordinary activities amounted to EUR 0.8m (2010: EUR 1.1m). This meant that although the company reached its projections, they were significantly below the prior-year figures. The percentage return on sales before taxes stood at 11.0 per cent (2010: 14.3 per cent). Substantial growth in sales and earnings is expected for 2012 as a result of tenders that the company has won.

In 2011 the focus was on the launch of the new DIST 500 sensor. The first projects with the new sensor have been successfully completed. A feature of the sensor is that an analyser is no longer required and, as a rule, only one sensor per door needs to be installed. The accuracy of counting was also further increased.

Until 29 December 2011, init AG held a 44 per cent investment in id systeme GmbH, Hamburg. The remaining 56 per cent of the shares were acquired by means of a purchase agreement becoming effective on the same date, such that init AG now holds 100 per cent of the shares. The balance sheet of id systeme GmbH was fully consolidated, while earnings were 44 per cent consolidated as "at equity". In the preceding financial year, id systeme generated sales of EUR 2.6m (2010: EUR 2.8m), resulting in an annual net profit of EUR 185k (2010: EUR 368k) and achievement of its projections. Acquisition of the remaining shares is an advantage from a strategic viewpoint, since tenders for planning and driver dispatch systems are issued together, particularly in the USA. Consequently, init customers get everything from one source.

As a result, the Managing Board of init innovation in traffic systems AG expects that the sales potential for id systeme will double in the next five years. At the same time, init benefits from synergy effects in international sales and in strategic market development.

Management and control

init AG has a dual management system, consisting of Managing Board and Supervisory Board. The Managing Board of init AG comprises five members. As the top-level company, init AG determines the corporate strategy and superordinate control, resource allocation, financing and communication with the main target groups in the corporate environment, in particular the capital markets and the shareholders.

There were no personnel changes on the Managing Board in the 2011 financial year. There was one replacement on the Supervisory Board of init AG in the 2011 financial year. In May 2011, Bernd Koch resigned as Supervisory Board member. Hans-Joachim Rühlig took his place.

Important business processes

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

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. 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 that we require is assured by having our own staff assist in 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.

In order to comply with “Buy America” requirements, init set up a production firm (SQM LLC.) in the USA together with one of its producers. The company assembles various items of equipment from the init product range. Some years ago a cable manufacturing operation (TQA LLC.) was developed in conjunction with a supplier for the same reasons. It is now a very successful producer of cables for the American market.

Environmental protection and resource conservation
Since its establishment almost 30 years ago, init has a special obligation to protect the environment and conserve resources. init’s products have a long history of helping transport companies to provide faster, more competitive and energy-saving mobility, thus also reducing the environmental impact of fine dust and exhaust gases. The reduction of carbon dioxide emissions is particularly essential to prevent an imminent climatic disaster. Efficient public transportation systems, such as those made possible through init’s solutions, are making an increasingly important contribution.

Within the company as well, init actively implements these basic ecological principles along the entire value added chain and in the individual corporate divisions, starting from procurement and production through to distribution. 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.

In addition, the init group has purchased two electric cars, for example, which are used for short journeys. Over the past few years init has also invested in a range of 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.

Environmental protection and resource conservation is also firmly anchored in init’s corporate guidelines.

Key markets and competitive position

In its almost 30 years of corporate history, init has realised in excess of 400 national and international projects. Our integrated solutions for telematics, planning and fare collection systems make us a partner of transport companies on four continents.

Its international operations provide init with a global network of subsidiaries that deliver local support for projects and look after customers. The biggest subsidiaries outside Germany are located in North America with some 63 employees and in Dubai, UAE, with 9 employees. The most important operating units are situated at the Karlsruhe site. Not only is software and hardware developed here and new technologies implemented, but this is also where the group’s strategy is defined.

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. 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.

Legal and economic factors

Worldwide, efforts are increasing to meet rising demands for mobility in conurbations and regions. For example, the International Association of Public Transport (UITP) estimates that the number of passengers will double by 2025. This requires development of the transport infrastructure by making the appropriate investments. Not least, init products help to reduce carbon dioxide emissions and fine dust, thus making a direct contribution to environmental protection.

Around 90 per cent of our customers are public or state-subsidised transport companies. For this reason, tenders for new projects are often only held when the corresponding state funding is available.

RESEARCH AND DEVELOPMENT REPORT

As a high-tech company, research and development play a key role at init. On the one hand it is necessary to place technical innovations on the market at just the right time. On the other hand it is essential to observe technical progress and market developments closely to allow us to turn them into fully-developed innovative products in good time. The high standard of qualification of our employees in research and development, combined with collaboration with universities and research institutes, ensures that we 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.

init products are impressive due to their state-of-the-art technology. Their modular structure and high level of standardisation enable them to be used as standalone units or, depending on the transport company's requirements, to be integrated individually into an intelligent overall solution. It is also easy to extend the system gradually, as well as implement new releases and applications.

R&D employees

In 2011, about 200 hardware and software developers worked at init on the further development of existing and various new products and innovations. In addition, numerous customer-specific software developments and interfaces were realised.

R&D investment

In 2011, init spent a total of EUR 2.7m (2010: EUR 2.5m) for the basic development of new products not involving customer financing. This is equivalent to 3.0 per cent (2010: 3.0 per cent) of revenue. In addition, the group effected customer-funded new and further developments within the scope of projects adding up to round five times the amount again.

R&D developments

Software development

Together with an improved GIS (graphical interface), new functions such as more flexible context menus and improved routing were integrated into the ITCS software. User-friendliness was also significantly increased through enhanced search functionality. Mixed views now reduce the dispatcher's workload since the system provides an overview of all the vehicle schedules and, at the same time, the details of the selected schedule. Regions can be freely marked and a text message can be sent to all vehicles that drive into this sector within a definable timeframe (e.g. within the next hour), or an appropriate announcement can be made.

A revised history function for management of complaints and lost property will enable dispatchers to determine retrospectively, even over several days, the location of the vehicle in question at any particular time.

Transfer information was also improved. If a passenger enquires, the driver can query the actual transfer options dynamically at one of the next stops on his route. By these means the passenger can also be informed of coincidental connections that only came about because the connecting vehicle was late. This information may also be provided to the passengers on the PIDvisio interior displays in the vehicle.

The software for rail replacement transport was extended. If there is a breakdown in the rail service, the dispatcher can immediately prepare a special timetable during ongoing operations. In just a few steps, this alternative is ready, based on available resources. Once additional resources become available, the special schedule can be adapted immediately to the new situation. Further support is provided to dispatchers through possible detours being displayed as well as available vehicles or drivers being identified automatically. Naturally, this information is displayed in real time to the drivers and passengers in the vehicle, at the stop or in ONLINEinfo.

The line disruption (line termination) feature was further refined, since it is now also possible to include detours to the new terminals.

init has filed a new patent for passenger counting. Linking the vehicle's windscreen wiper with the passenger counting sensor via the on-board computer, together with a thermometer, delivers a completely new data quality. The background to this is as follows: on rainy days or when temperatures are very low, the number of passengers increases since, especially in university towns, many students then leave the bicycle at home and take the bus or tram. The data obtained in this manner could be used in the transport companies' planning. It helps to distribute the revenue of transport associations more precisely and provides indicators of vehicle punctuality in rain, snow and ice.

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. Development in 2011 focused primarily on new graphical interfaces, which make routine work easier for planners. In cooperation with Freie Universität Berlin (FU), the optimisation algorithms were developed further in relation to "robustness". This makes it possible to take the risk of late arrival into account as early as the optimisation phase, resulting in even more reliable planning. The partnership with FU Berlin has already given rise to two professorships, four doctorates and a number of graduate dissertations. An initplan employee will also receive a doctorate soon within the scope of this cooperation.

Hardware development

The hardware sector at init continued to focus on the COPILOTpc 2, which will shortly be used in the first projects. 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. As did its predecessor, the COPILOTpc 2 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.

The IProuter is an intelligent unit providing a communications platform for any vehicle that is not yet fitted with COPILOTpc 2. It has a number of interfaces, enabling it to operate as a central communications gateway for other vehicle equipment. It also handles numerous communication channels (WLAN, WiMAX, UMTS, GSM/GPRS, CDMA), which provide the bandwidth required for modern telematics systems. The IProuter makes it possible to switch seamlessly between the communication channels used by the transport company, and automatically selects the best method for the specific data transfer. In addition, the integrated mobile access point provides passengers with Internet access via WLAN. The IProuter runs on Linux, since this is the only operating system to provide the appropriate routing functionality. For service purposes, it also integrates a display which can be used to call up status information.

init's reader device for electronic tickets is called PROXmobil. Using NFC (Near Field Communication), contactless cards can be read, making ticketing even easier. The ticket reader is fitted with trendsetting technology, so it will in future be possible to pay for tickets using mobile phones or contactless credit cards (EMV procedure).

The TOUCHmon control unit was fitted with a fingerprint reader. Bus drivers can verify their identity on the control unit using fingerprints. This ensures that only authorised drivers operate the vehicle.

init has developed its own hardware test device, the Multi-Remote Testbox 3. It can be used to test all the interfaces in a device and document them in a test report. The Testbox provides device-specific serial numbers and the MAC addresses.

Automotive

CarMedialab is developing the Flea3, the successor platform for use in special-purpose fleets and limited series among car manufacturers. Key design goals were more performance, greater flexibility and faster startup times, which are urgently required for use in applications similar to series production. A number of telematics services for diagnosis, smart charging and new mobility schemes have become established on the market in recent years. CarMedialab's Flea3 now creates the basis for greater parallelism and the addition of further vehicle-related services, and for further growth in future.

Research projects

Currently, init is involved in the EBSF research project and the IP-based communication in public transport research project in Germany. One of these research projects, EBSF (European Bus System of the Future), is particularly noteworthy. 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.

OVERVIEW OF BUSINESS TRENDS

General economic setting

The growth momentum of the global economy slowed considerably in the course of the 2011 financial year. Following the powerful growth in the first half of the year, economic development stagnated in western industrialised countries, while the economic performance of emerging countries grew further, although at a slower speed. Germany was the economic engine of the Eurozone, growing at a rate of 3 per cent more strongly than initially forecast.

Towards year-end, however, growth forecasts globally had to be corrected downwards, in some cases substantially. The forecasts were also less optimistic for the strongest economy in the world, the USA. Its politicians only managed to reach agreement on raising the upper limit for borrowing at the 11th hour and avert a default. This introduced a considerable measure of uncertainty into markets.

The key issues for western industrial nations in 2011 were the sovereign debt crisis, the threat of national bankruptcy in Greece and the aid packages to save the Euro. The European Central Bank (ECB) has recently resumed buying government bonds from periphery countries. This is intended to prevent countries such as Italy and Spain from being drawn further into the turmoil of the sovereign debt crisis. As a result, the ECB is de facto financing these countries' government spending by printing bank notes. From a general economic viewpoint, the risks for the global economy have increased considerably as a consequence.

The need to consolidate national budgets is becoming an increasingly pressing matter for western industrialised countries on both sides of the Atlantic. Thus, governments in Europe and North America must cut expenditure and investments under the constraint of fiscal consolidation and at the same time support the financial sector. This could result not only in growing social conflicts but also in a reluctance to purchase and invest by consumers and companies. Much will depend on the extent to which the new governments in key countries such as Greece, Italy and Spain succeed in implementing reforms and get rapid results in budget consolidation.

For 2012, economists still expect growth of around 1.5 per cent for Europe. In the case of the Eurozone, on the other hand, the OECD paints a much gloomier picture. The economic output of the 17 Euro countries will shrink in the first quarter and is not expected to re-enter positive territory until the second quarter onwards. OECD experts forecast Eurozone economic growth of 0.2 per cent for the whole of 2012. In contrast, growth of 2.3 per cent is expected for the USA. The World Bank's forecast for emerging and developing countries is even a gain of about 6.3 per cent.

Overall sector-specific conditions

The market for telematics, planning and fare collection systems for buses and trains remains a growth market. Recent studies forecast annual growth of about 15 per cent on average. This corresponds to the UITP's forecast that public transport passenger numbers will double by 2025.

On the whole, init benefits from this in its position as a global leader in the supply of high-tech infrastructure solutions. International business in particular is a driver of growth for the company, with init constantly tapping into new markets. In 2011, for example, the init group won the first tender in its corporate history in Switzerland and set up a subsidiary there to reinforce sales in the local market.

In the USA, the INIT Inc. subsidiary set up the production company SQM together with one of our suppliers in order to comply with the requirements of the Buy America Act on the US market. The facility began to produce various hardware components in September 2011.

Consolidation of public-sector budgets also impacts on the development of transport infrastructure, the investment propensity of transport operators and the provision of funding. Nevertheless we have so far not detected any major impact on our market, apart from postponement of tenders and their award.

It is not currently possible to give a reliable estimate of the extent to which this will affect the future business position of the init group. Substantial funds continue to be available in North America for the development of public transport, which leads init to expect a growing number of tenders from this region in 2012.

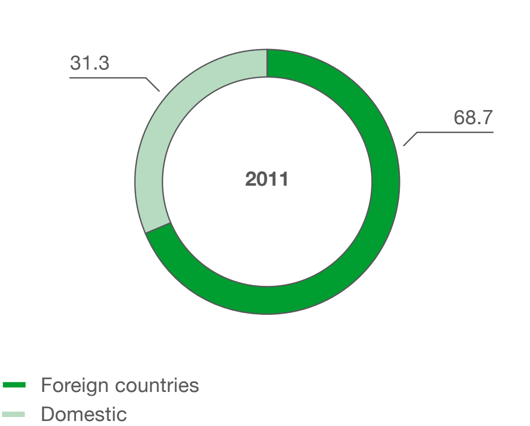
Rising passenger figures also make investment in local public transport absolutely essential. There are, not least, also ecological reasons in favour of an efficient local transport system, since the more passengers use public transport, the lower the emissions of fine dust and carbon dioxide.

Business trend

Despite the turbulence on capital markets and the growing risks for the economy, the init group reached its revenues and earnings targets in the 2011 financial year, in some cases even significantly exceeding them. The positive performance in the fourth quarter in particular was a primary factor in achieving another very successful financial year.

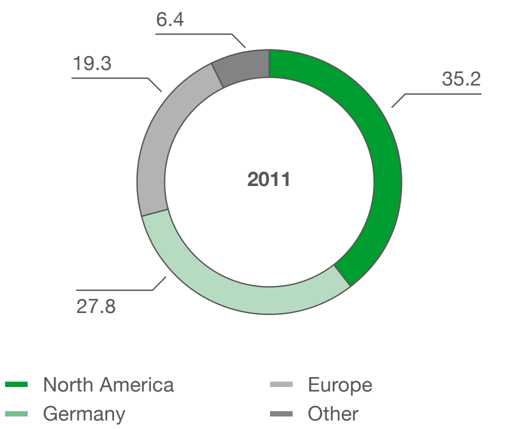
Revenue distribution 2011

(in %)



Revenues by region 2011

(in million EUR)



The distribution of sales within the init group is traditionally uneven: the first quarter is usually the weakest and the fourth quarter the strongest in terms of sales. This has been re-confirmed in the preceding financial year. In terms of Q1–Q3, sales during the individual quarters in 2011 were slightly below the previous year's level. This was more than compensated in the fourth quarter, with revenues of EUR 33.5m and quarterly earnings (EBT) of EUR 9.2m.

Overall, init as a group generated the highest revenues of any financial year in its history, EUR 88.7m (2010: EUR 80.9m). At EUR 20.4m (2010: EUR 15.1m), EBIT was even substantially higher than its target. It should be noted, however, that the acquisition of id systeme GmbH produced an additional positive effect of about EUR 1.5m. In accordance with IFRS 3, the 44 per cent of shares already held were valued up to the purchase price of the remaining 56 per cent of the shares.

EUR 60.9m (2010: EUR 50.4m) of revenues were generated outside Germany, corresponding to 68.7 per cent of total revenues (2010: 62.3 per cent).

The strongest foreign market in the reporting period was North America. Here, revenues rose to EUR 35.2m (2010: EUR 28.0m), because several large-scale projects made good progress on schedule.

The other countries (Australia and Dubai) saw revenues decline on the previous year. Revenues fell from EUR 7.7m in 2010 to EUR 6.4m in 2011. Compared to the previous year, major ongoing projects such as Abu Dhabi and Brisbane are only at the conception stage. Rollout will take place in the first quarter of 2012 at these locations.

In Europe (excluding Germany), revenues totalled EUR 19.3m (2010: EUR 14.6m), i.e. 32.2 per cent above the prior-year level.

At EUR 27.8m (2010: EUR 30.5m) in the 2011 financial year, revenues in Germany fell year-on-year, due primarily to completion of the major contract from the Bavarian transport operator "DB Stadtverkehr Bayern".

The generally very successful business performance was reflected for the most part also in the share price in 2011. For the first time the init share reached a price level of just under EUR 20. This was a new all-time high, even though it was then followed by profit-taking over the rest of the year. We refer to the Investor Relations chapter for a detailed commentary on the share price.

Overall statement on business trend by the company management

2011 was a very successful financial year for init. Operating cash flow continued to improve and is now EUR 17.4m, with the result that init's financial position is excellent. Due to the high level of cash flow from operations, available liquidity significantly exceeds financial liabilities. The equity ratio has declined somewhat in comparison with the previous year; it now stands at 51.9 per cent. The long-term financing of future investments and of operational business is secured. All these factors constitute a very good basis for the 2012 financial year.

EARNINGS, FINANCIAL AND ASSET POSITION

EARNINGS POSITION

Revenues and earnings development

The 2011 financial year was again very successful for the init group and essentially affirmed our growth targets. Income is even far above budget, although is also due to one-off effects. For example, the 44 per cent of shares already held in id systeme GmbH were valued up by gradual share acquisition to the purchase price of the remaining 56 per cent of the shares. This was reflected as around EUR 1.5m in the new record earnings before taxes, some EUR 20.5m. In addition, the risk provision (discount of receivables) for the outstanding accounts receivable in Dubai were reduced by EUR 1.3m to EUR 0.5m, as the relevant payments were received.

Group revenues rose to EUR 88.7m (2010: EUR 80.9m). In terms of revenues, the Telematics and Electronic Fare Collection Systems segment accounted for EUR 85.0m (2010: EUR 77.4m) and Other segments generated EUR 3.7m (2010: EUR 3.5m).

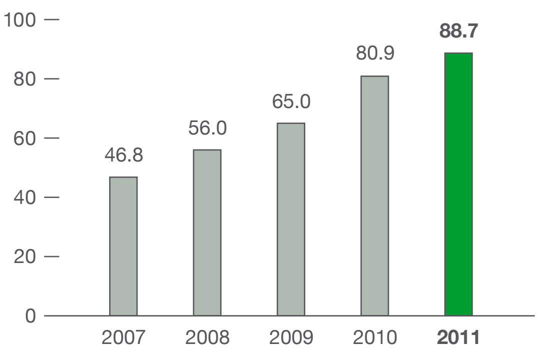
Aided by higher sales and dissolution of the risk provision for Dubai, gross profit rose to EUR 36.3 million (2010: EUR 27.3m), an increase of 33.0 per cent (2010: 18.7 per cent). Production costs fell from 66.3 per cent to 59.1 per cent of revenues, due to cost savings for materials and dissolution of the risk provision for Dubai.

As a result of further internationalisation and the formation of new subsidiaries, distribution and administration costs increased by 23.8 per cent to EUR 15.6m (2010: EUR 12.6m).

The net interest income (balance of interest income and interest expenses) totalled EUR 73k (2010: EUR -34k), primarily resulting from the difference between interest income and overdraft and Euro loans raised throughout the year and the property financing in Karlsruhe.

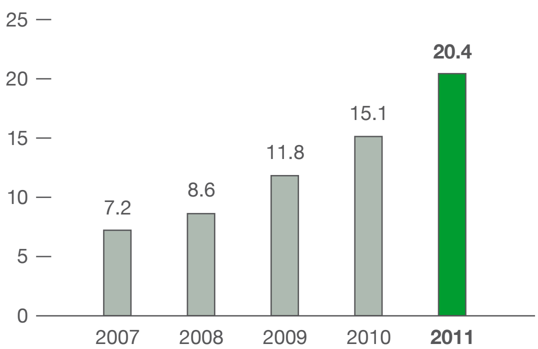
Revenue development

(in million EUR)



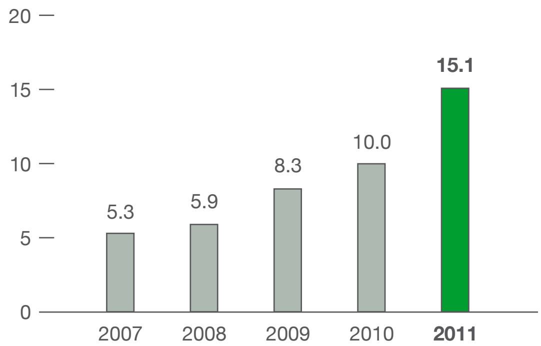
EBIT development

(in million EUR)



Net profit development

(in million EUR)



Overall, earnings before interest and taxes (EBIT) were significantly about the prior-year level, at EUR 20.4m (2010: EUR 15.1m), including the one-off effects. EBIT was distributed across each of the segments as follows: Telematics and Electronic Fare Collection Systems accounted for EUR 19.8m (2010: EUR 14.7m), Other segments EUR 0.6m (2010: EUR 0.4m). The EBIT margin stood at 23.0 per cent (2010: 18.7 per cent).

The same applies to consolidated net profit for the year, which was up from EUR 10.0m in the previous year to EUR 15.1m. This corresponds to earnings per share of EUR 1.51 (2010: EUR 1.00). At about 26.6 per cent, the overall tax ratio was significantly below the previous year's level, due to the tax-neutral upvaluation of id systeme GmbH and the reduction of the risk provision for Dubai. The return on equity was 26.4 per cent (2010: 21.4 per cent) while the return on total investment was up from 11.9 per cent in 2010 to 13.7 per cent.

Incoming orders

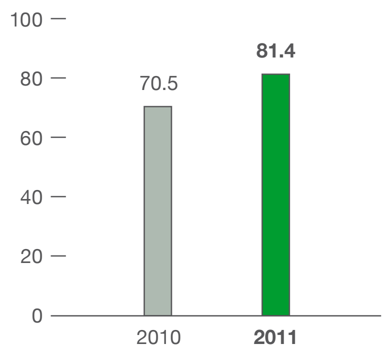
Although incoming orders were again at a high level in the 2011 financial year, they did not fully meet expectations. For example, decisions about tenders or the award of orders that should have been made in the fourth quarter have been postponed until the first quarter of the following year.

All in all, the init group booked new orders worth EUR 81.4m (2010: EUR 70.5m) in 2011. There are still a number of tenders at the decision-making stage, however, such that further new orders can be expected soon in the first quarter of 2012. The order level amounted to EUR 117m (2010: EUR 130m) at year-end, thus securing further success in 2012.

So far, we have not registered any negative effects on the init group's order situation from the sovereign debt crisis in industrialised countries, which is associated with drastic cuts in national budgets. Internationally, our market is still characterised by a large number of new public tenders. Our long-term customer relationships from the over 400 projects successfully concluded worldwide with over 300 transport companies will secure a stable business base for init, as they normally lead to follow-up orders and maintenance contracts. For example, 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 about EUR 25m in new orders.

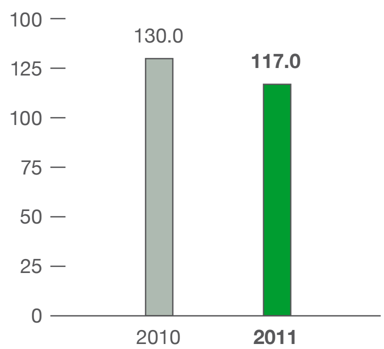
Incoming orders

(in million EUR)



Order backlog

(in million EUR)



The planning systems segment posted very encouraging results, gaining a number of new customers. Incoming orders (including orders from within the group) increased from EUR 2.4m to EUR 3.9m, an increase of 62.5 per cent.

New orders in each of the regions consisted of the following:

Germany

Along with a range of follow-up contracts and smaller orders in 2011, init again added further important projects in Germany to its books. Orders here were significantly down from the prior-year level, to EUR 15.6m (2010: EUR 20.3m).

A new customer acquisition for init was the tram operator, Hanauer Straßenbahn, in January 2011. The decision in favour of init was taken after a comparative test run, in which init prevailed against the competition. In Hanau, 54 buses will be fitted with the EVENDpc ticket printer. It also acts as an on-board computer and enables the customer to expand the system in future. Even in the current project, the EVENDpc performs telematics functions in the vehicle and controls the announcements for each stop. Investment in announcement equipment was not needed, as the announcement module was already integrated in the EVENDpc.

The largest contract in Germany, worth more than EUR 2m, came from Ingolstadt. init is equipping the control centre and 167 vehicles with hardware and software at Ingolstädter Verkehrsgesellschaft mbH (INVG). The EVENDpc is also used in this case for all ticketing and ITCS functions. It not only ensures perfect communication with the control centre and reliable data supply and disposal in the vehicle, but also supports conventional sale of tickets by the driver. As a complete on-board computer, the EVENDpc also handles passenger information.

Following a Europe-wide tender, init won the contract to develop a computer-aided operational control system from a Regensburg-based public transport company, GFN (Gesellschaft zur Förderung des öffentlichen Personennahverkehrs im Landkreis Regensburg mbH), together with 14 cooperation partners. This will integrate the company into the control system of the Bavarian transport operator “Stadtverkehr Bayern”, which was implemented by init. The system’s multi-client capability ensures that each connected company can only see its own data. A total of more than 130 vehicles will be fitted with the EVENDpc. The contract is worth over EUR 1.5 million.

Europe

In Europe, several expansion and follow-up orders were gained in addition to maintenance contracts. For example, in Oslo around 90 additional vehicles will be fitted with the init system. An order was received from Stockholm to supply more than 250 vehicle sets to extend the vehicle fleet with the init system. Both these contracts together are worth over EUR 2m.

Several follow-up contracts were also generated in the UK. For example, init equipped 99 buses for the Arriva transport operator.

Australia

In Brisbane, init was commissioned with the installation of a control and real-time passenger information system as well as equipping initially more than 130 vehicles with hardware and software. The order volume for this pilot phase is around AUD 5 million. After successful completion of the test and pilot phase, the option exists to equip the vehicles of all 19 bus operators in the transport association. The total volume would then increase by several million Euros. This order is the first in which init is implementing a control system in the Oceania region. This gives the contract a high reference value, since init has so far only been involved in ticketing systems in Australia and New Zealand.

North America

The major contract from Denver/USA was the highlight here. init will equip the entire vehicle fleet of more than 1,000 buses with a control and passenger information system. In addition, 170 trams and more than 320 paratransit vehicles will be fitted with new digital voice radio. The integrated system also enables more than 150 additional emergency and security vehicles as well as on-duty staff to be located using GPS-aided voice radio. The contract value here is more than USD 30m.

init will implement a network-wide smartcard-based ticketing solution for more than 500 vehicles and 80 stops on behalf of the Sacramento transport association (SACOG). This will allow the customer to increase the efficiency and punctuality of the vehicles, as the bus drivers will no longer need to sell tickets, with a significant reduction in boarding times. The contract comprises the introduction of the PROXmobil passenger terminal, PROXstation, on-board computer with GPS positioning, EVENDpc sales terminals and the MOBILEvario ticket management and clearing system. The contract is worth several million Euros. It is planned to enable use of contactless credit cards for the passenger terminal in the vehicle, which will make it even easier for the passenger to buy a ticket. The project also has the nature of a reference since it is the first ticketing system in the USA that init is implementing. So far, init has only installed ITCS systems in North America.

The Canadian city of Toronto awarded init a major contract at year-end from the GO Transit company for a new control and information system. GO Transit carries about 57m passengers each year. The contract comprises a control system with the very latest vehicle positioning and on-board computer for around 427 vehicles as well as a solution for automatic passenger counting. Acoustic and visual displays as well as interfaces to passenger information will also be implemented at the stops. The contract value is more than CAD 7m.

Multi-period overview of earnings situation

Financial year EUR m	2007	2008	2009	2010	2011
Revenues	46.8	56.0	65.0	80.9	88.7
Gross profit	16.5	17.2	23.0	27.3	36.3
EBIT	7.2	8.6	11.8	15.1	20.4
Consolidated net profit for the year	5.3	5.9	8.3	10.0	15.1

FINANCIAL AND ASSET POSITION

Finance analysis

The financial and asset position of the init group continued to improve in the 2011 financial year.

With business and earnings showing an encouraging trend, the init group was able once again to improve its financial strength in fiscal 2011. 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 81m. On the cut-off date, 42.0 per cent of this amount had been used. In addition, init has a bond line in the USA of USD 75m, of which USD 22m had been used as of the cut-off date.

Investment analysis

Capital expenditure of EUR 2.0m in 2011 (2010: EUR 1.2m) primarily related to the modernisation of the company premises, replacement investments and rationalisation investments. In addition, EUR 3.8m was capitalised as software, of which EUR 3.3m relates to the software of id systeme GmbH.

Liquidity analysis

The operating cash flow totalled EUR 17.4m (2010: EUR 14.6m), thus quite significantly over the prior-year figure. It must be taken into account here though that some 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 to suppliers) totalled EUR 49.0m (2010: EUR 38.5m).

As of the end of December 2011, liquid funds including short-term securities totalled EUR 23.7m (2010: EUR 18.7m), up by 26.7 per cent.

Asset structure analysis

As of 31 December 2011, the balance sheet total had risen by around EUR 25.4m over the previous year to a total of EUR 109.8m (2010: EUR 84.4m). The reason for this is the rise in receivables, as it was possible to invoice many projects towards year-end. The increase in cash and recognition of the purchase of the remaining shares in id systeme GmbH also affected the balance sheet total. Due to the strong positive group result, the company's equity capitalisation could again be raised. Equity rose to EUR 56.9 million by year-end (2010: EUR 46.7m), up by 21.8 per cent over the previous year. The equity ratio thus was 51.9 per cent (2010: 55.3 per cent).

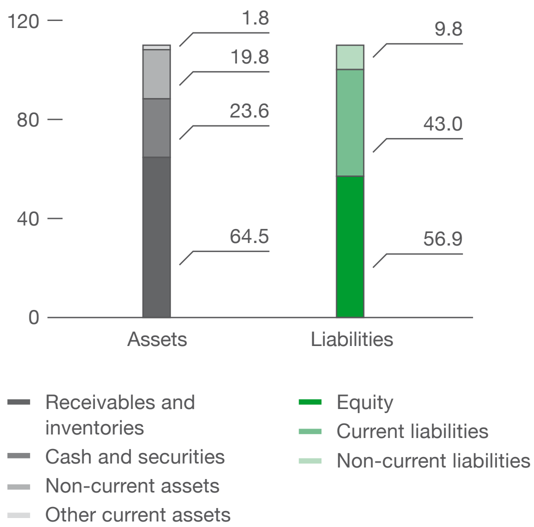
The liabilities to banks aggregated EUR 1.1m as of 31 December 2011 (2010: EUR 1.5m) and primarily resulted from the financing of premise extensions in Karlsruhe. The property was financed through a bank loan of EUR 1.2m. The balance due under this loan is EUR 1.1m. At 3.7 per cent interest, the loan 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 made on 30 June 2010.

The increase in short-term debt from EUR 29.9m to EUR 43.0m primarily results from the rise in liabilities to suppliers at EUR 4.7m, the rise in liabilities resulting from POC at EUR 2.6m, the rise in provisions at EUR 3.9m and higher income tax liabilities at EUR 4.2m.

Pension provisions have increased by EUR 1.1m, due to recognition in liabilities of past service costs and ongoing liabilities and due to the acquisition of id systeme GmbH.

Balance sheet total 2011

(in million EUR)



The debt-equity ratio (dept capital / equity capital*100) of the group was 92.8 per cent, after 80.9 per cent in 2010, up by 11.9 percentage points on the previous year.

Multi-period overview of financial and asset position

Financial year EUR m	2007	2008	2009	2010	2011
Equity	26.7	31.6	39.0	46.7	56.9
Dept capital	17.8	26.4	32.6	37.7	52.9
Cash	3.7	6.8	9.3	18.4	23.5
Balance sheet total	44.5	58.0	71.6	84.4	109.8
Operating cash flow	-2.6	7.1	5.6	14.6	17.4

Personnel

Well-educated and entrepreneurially oriented 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 init's corporate philosophy.

Qualification

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.

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 ensure 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.

In fiscal 2011, the number of personnel in the group was adjusted in Germany, England, Dubai, Australia 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 business. As a result, only moderate personnel increases will be required in the 2012 financial year.

Employee profit-sharing

Corporate success at init depends to a large degree on our employees, as they are the ones who drive the company forward through their experience and motivation. Consequently, the Managing Board decided on 19 April 2011 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 2011 (staff in the USA, of USD 7,400). 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 50 shares in the company. The shares are subject to a qualifying period of two years.

Employee figures

As of 31 December 2011, the init group employed a total of 377 staff (2010: 347) including temporary workers, research assistants and diploma candidates. A total of 337 employees (2010: 307) held permanent positions on the cut-off date, 39 of whom were employed on a part-time basis.

16 employees were in apprenticeships, training to be IT specialists, electronic communication technicians, stock management specialists, industrial and office clerks. Furthermore, init offers the possibility of training in electrical engineering, mechatronics, information technology, industrial engineering and business management within the scope of courses at the University of Cooperative Education.

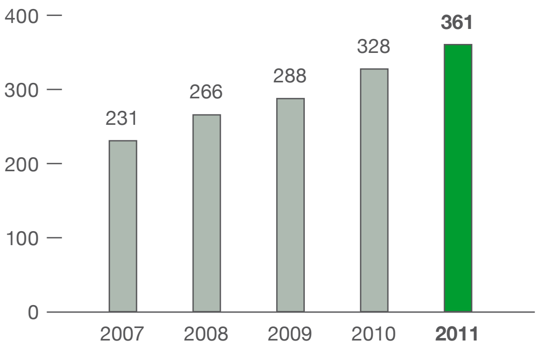
These additional employees will enable init to achieve the growth targets set for 2012.

Social benefits and family support

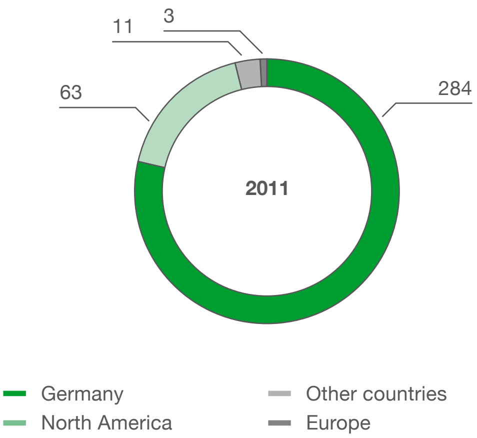
It is absolutely essential to retain our employees' expertise within the company in order to sustain the company's success. In addition to a number of fringe benefits, we offer our employees flexible working times to ensure family – and particularly childcare – and work can be reconciled. Our social benefits also include contributions of up to EUR 400 per child and month to childcare costs, as well as the creation of home workplaces. 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 employees.

Number of employees

(without trainees)



Employee distribution 2011



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.

Ethical guidelines and diversity

One of the key management priorities of the company is to promote equal opportunities for everyone and to further improve the working environment. These principles have been formulated as ethical guidelines and made available for every employee 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 proportion of women in top positions is about 18 per cent within the init group, placing it above the average for comparable high-tech companies. We nevertheless view this as insufficient and are making efforts to increase the proportion.

LEGAL STRUCTURE OF THE GROUP

Corporate Governance Report

The principles of responsible and good company management determine the actions of the management and control bodies at init AG. The term 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 – German Corporate Governance Code), 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 – 2011
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 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 each year, 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 24 May 2011, 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. 2 of the Code). The Supervisory Board has not given any specific goals for its composition. In proposing candidates in future to the shareholders' meeting, the Supervisory Board will also have to take account of the legal requirements and give exclusive priority to the professional and personal qualification of the person – irrespective of their gender (item 5.4.1 para. 2 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 (three members).

Details of Corporate Governance practices and of the Managing Board's and Supervisory Board's 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 is entitled to 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 begins 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 AG. 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 to support their Chairman in the performance of this duty. The Chairman of the Supervisory Board informs the other members of the Supervisory Board.

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 4,023,347 shares in the company, which corresponds to 40.07 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.

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 2011 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 2011 totalled EUR 1,428k (2010: EUR 1,099k).
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 before taxes of EUR 10.0 million. 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 2011 totalled EUR 300k (2010: EUR 340k).
3. A further bonus for 2011 in the form of 2,500 shares, from consolidated earnings exceeding EUR 10.0m before taxes and after deduction of all management bonuses. Where this amount is exceeded, each member of the Board receives 150 shares for each EUR 1m of exceeding profit. For three Board members, the number of shares is limited to 10,000 and for two Board members, to 6,000. 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 fair value of this remuneration including income tax payable on it totalled EUR 517k (2010: EUR 710k).

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 722k in 2011 (2010: EUR 235k).
5. A defined contribution plan instead of a direct pension commitment exists for two members of the Managing Board. This expenditure in 2011 amounted to EUR 7k (2010: EUR 7k).
6. An additional defined contribution plan exists for four members of the Managing Board. In 2011, expenditure for this item amounted to EUR 57k (2010: EUR 52k).

Based on the resolution passed by the shareholders' meeting on 24 May 2011, 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 2011.

Remuneration system for the Supervisory Board
The remuneration of the Supervisory Board applied to date was decided in the shareholders' meeting on 24 May 2011, 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 18,000 p.a. for the members and EUR 36,000 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 200 per cent of the fixed remuneration and is calculated using the following formula:

V = [(0.5 * share price / 10 + 0.5 * EBT / 10,000,000)-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 2011:

Name	Fixed component in Euro	Variable component in Euro
Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	36,000	31,032
Fariborz Khavand	18,000	15,516
Bernd Koch (until 24 May 2011)	7,101	6,121
Hans-Joachim Rühlig (from 24 May 2011)	10,899	9,395

Particulars of 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, Karlsruhe, directly or indirectly holds 3,480,000 shares in init AG. This corresponds to around 34.7 per cent of the capital stock. As of 31 December 2011, init AG held a total of 101,537 shares (as of 31 December 2010: 94,186 shares).

There are no 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 24 May 2011, 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 23 May 2016, 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 2011 totalled 94,186 shares. Based on the resolution passed at the annual shareholders' meeting on 12 May 2010, the company is authorised to purchase treasury stock. On 10 August 2011, a decision was made to repurchase 20,000 shares. The shares were repurchased at an average price of EUR 17.37 between 10 August and 22 August 2011. A decision to repurchase a further 20,000 shares was made on 19 September 2011. The shares were repurchased at an average price of EUR 16.39 between 21 September and 11 November 2011. A decision to repurchase a third block of 20,000 shares was made on 18 November 2011. The shares were repurchased at an average price of EUR 14.78 between 23 November and 8 December 2011. In 2010, 40,000 shares were acquired at an average price of EUR 13.67. Within the scope of an employee profit sharing scheme for 2011, a total of 14,312 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, managing directors and high performers, 37,337 shares were transferred in the first quarter of 2011 with a qualifying period of five years. A further 1,000 shares were issued to employees within the scope of a bonus agreement without qualifying period. On the whole, the current treasury stock totalled 101,537 shares as of 31 December 2011.

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 after the reporting date were drawn up.

RISK AND OPPORTUNITIES REPORT

RISK AND OPPORTUNITIES MANAGEMENT SYSTEM

As a global operator, a technology-oriented company such as init is faced with a number of risks that could 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 concerning legal aspects and contracts are worked on and examined by our in-house lawyers, where necessary with the support of external expert lawyers.

INDIVIDUAL RISKS

Contract risks

The profit margins that can be obtained from fixed price contracts could diverge from the original estimates due to changes in costs or unexpected technical difficulties. If contractual requirements are not met, it can result in substantial contractual penalties, claims for compensation, refusal to pay or termination of the contract.

Claims amounting to approx. EUR 2m have been raised against us in connection with an international cooperation agreement. We consider these claims, at the level asserted, to be unjustified. Appropriate provisions have been constituted.

Project and product risks

A crucial success factor for the init group is project management. 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.

Financial risks

In view of the latest economic developments and the high levels of public debt in the USA and Europe, combined with the potential impact of measures to consolidate budgets, considerable uncertainty is attached to our assessment of the general economic situation and of our market. In addition to the threat of insolvency in individual countries, there is also a higher risk of bad debt losses. While a large number of init's customers are state-subsidised or public transport companies, it is nonetheless the case that some states have recently also undergone financial difficulties (e.g. Greece, Dubai, Ireland). As a result, it is not unlikely that we will face bad debt losses in the future. In addition, contractually established payment terms could change to our disadvantage, with the result that we could encounter cash flow predictability risks and liquidity risks.

As of 1 January 2011, init had outstanding accounts in the amount of around EUR 9.0m in Dubai. These were reduced significantly in the course of the year and amount to EUR 4.0m as at year-end. However, we do not expect to lose any or all of these receivables. On the positive side, regular payments are being made and the level of accounts receivable has come down significantly. The risk provision made through the appropriate value adjustments was largely dissolved as a result.

Exchange rate risks

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. In 2011, init used this strategy to compensate for currency risks to the maximum extent possible.

Exchange and interest change risks

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. 25 kg of gold was purchased for risk diversification purposes. This investment is subject to market price fluctuations.

Other risks

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. The government debt crises and the resulting public spending cuts thus also pose a potential risk to the business development of 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 on the part of the states. Government subsidies could, however, be significantly reduced in the future to combat sovereign debt. The financing options of our customers could deteriorate as a consequence, with the result that intentions to buy our products and services could change, be postponed or even be cancelled. Prices could also fall significantly as a result of the unfavourable market situation.

A number of government aid programmes have been implemented in the industrialised nations to counteract this crisis and to re-stimulate 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.

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 faced with the risk of decreasing prices and margins as well as the loss of tenders.

Market risks are also incurred through political conflicts, e.g. in the Middle East, and could have an adverse effect on the further business development of the init group.

Human resources risks

The experience and qualification of employees are the key to the success of the init group. 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.

It is nevertheless not possible to rule out the possibility that experts or key individuals leave the company or vacancies cannot be filled with the appropriately qualified staff. 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.

ASSESSMENT OF THE OVERALL RISK POSITION

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 Institut der Wirtschaftsprüfer (Institute of Public Auditors) 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 reliability 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 include the following elements in particular:

- 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 the group status report, including a separation of functions and of pre-defined authorisation processes in relevant areas;
- uniform accounting is primarily ensured through 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

init is currently involved in numerous public tenders in Germany and abroad. Many of these tenders will be decided in the next few months, so we can expect high volumes of new incoming orders in terms of amount.

Funds running into the billions have been released for the expansion of public transport and are still available in the USA. As a result, we are still expecting a large number of new public tenders in the USA in the current financial year.

The tenders won in the area of ticketing in the USA and for an integrated control and passenger information system in Brisbane / Australia have a high strategic importance for init, as in the USA only control system orders and in Australia only ticketing orders have been implemented so far. init has therefore obtained two important references which lead us to expect that further orders will be generated in these areas in future.

Active marketing in France and the Asia-Pacific region is also producing additional potential. The sales team has been strengthened for this purpose, with the first tenders in the pipeline.

init can also cite a reference in Switzerland, now that the first contract has been completed successfully in that country. In order to develop the Swiss market, init has set up a subsidiary in Schaffhausen, which will be built up rapidly as further orders are received.

Our acquisition of the remaining 56 per cent of the shares in id systeme GmbH places us in an ideal position to take part in major tenders for planning and staff scheduling. In North America, tenders for these functions are often issued together. As a result the init group can present itself in a uniform way and offer everything from one source.

We also see a great advantage in the growing interest of transport companies in integrated systems. In this case, init is ideally equipped with its electronic ticket printer with on-board computer function EVENDpc for combining ticketing and ITCS. In this connection, we will benefit from our international references, which have a signal effect for many new potential customers from all over the world and should be an advantage when it comes to additional infrastructure investments. Our subsidiary CarMedialab GmbH is becoming increasingly better established in the Automotive sector as a development partner for large car manufacturers. A number of telematics services for diagnosis, smart charging and new mobility schemes have been placed on the market in recent years. With Flea3, a new development as the successor platform for use in special-purpose fleets and limited series among car manufacturers, CarMedialab is now creating the basis for further growth in the future. CarMedialab GmbH has set up a subsidiary in California to develop the US market.

PROSPECTS REPORT AND OUTLOOK

GENERAL ECONOMIC CONDITIONS

The general economic risks increased perceptibly in 2011 as a result of the sovereign debt crisis. In some countries, recessive tendencies are already apparent, while in North America and Germany, the economy is slowing significantly. Global economic growth is still being carried for the most part by the Asian region and South America.

Necessary measures for fiscal consolidation and for the provision of funds for rescue packages have overextended the national budgets of many countries, without any end in sight for the financial and sovereign debt crisis. In general, it is expected that industrial nations in Europe and North America in particular will intensify their measures for fiscal consolidation in 2012 and subsequent years. Funding cuts for investment and state subsidies cannot be ruled out in this regard.

Economic growth is expected to slow down generally in 2012, with Europe in particular approaching a recession again. The International Monetary Fund expects overall growth of up to 2 per cent for advanced economies (Europe, North America, Japan, Australia/New Zealand and South-East Asia). The Bundesbank's assessment for Germany envisages growth of 0.5 to 1 per cent. Considerably higher figures continue to be forecast for emerging markets (BRIC countries, South America, Africa). The International Monetary Fund's view is that these countries should propel global economic growth into the 4 per cent range in 2012.

More extensive forecasts are fraught with too many uncertainties at present, due to the ongoing difficulties in overcoming the financial and sovereign debt crisis, and many question marks about the economic and political development in the USA, China and in Arab countries.

SECTOR DEVELOPMENT

It is too early to ascertain the extent to which the measures to consolidate public-sector budgets will also lead to a reduction in project tenders in the market for transport telematics, in which init is one of the leading exponents. In the new financial year we are not yet registering any indications that savings and budgetary cuts due to the euro crisis will have a negative impact on the init group's growth opportunities.

Nevertheless, every country continues to be faced with a pressing need to develop or modernise local transport systems, bearing in mind the expected doubling of passenger numbers worldwide by 2025. Corresponding investments are ultimately essential to guarantee mobility and thus ensure the economic efficiency of a society. This need creates a sustained growth perspective for init as a supplier of systems and components which are essential for qualitative and quantitative improvements in the transport sector. With innovative products, individual customer solutions and a wide range of international reference projects, init AG is well equipped to continue holding its own on the market for transport telematics, even in a gloomy economic climate, and to benefit from this sustained growth trend.

EXPECTED BUSINESS DEVELOPMENT AND OUTLOOK FOR THE INIT GROUP

Despite new macroeconomic risks, the init group has continued its longstanding pattern of growth as expected in the past financial year. Targets have been met in most cases, while the earnings and financial basis has been further strengthened. We have laid the foundation for potential growth in the future by opening up new markets (France, Switzerland) and through new product developments, together with market expansion for established products. Looking ahead to 2012, this provides us with a high degree of visibility in relation to revenues, earnings and finances.

Based on the high order volume and the large number of public tenders in which init is currently involved, we see good growth opportunities for our company to perform disproportionately well in 2012, relative to the general economic picture. For this reason, we expect 2012 to see revenues rise to more than EUR 95m, with earnings before interest and taxes of round about EUR 19m.

Performance beyond the 2012 financial year will basically depend on how many new large-scale projects the init group can gain in the next 15 months. We are nonetheless optimistic that we can also achieve steady growth in the 2013 financial year.

In the past, init's business model has proved to be very robust and resilient in the face of general negative economic tendencies. In addition, we have gained further substance in 2011 and developed our position in the market for transport telematics throughout the world. All in all, we expect that init will continue to do well in the years ahead and will be able to participate appropriately in the expected growth of our sector.

Future-oriented investments are required in order to realise further growth. One component of this is the much-needed expansion of the headquarters in Karlsruhe. Here we exceeded the capacity limits in 2011, so we have had to expand the premises. The investment cost of doing so is expected to reach some EUR 9m. However, this extension does create space for new jobs, especially in research and development, as well as allowing logistical and work-related organisational processes to be optimised. This also supports our objective of boosting efficiency and earning power within the init group.

IMPORTANT NOTE:

This group status report should be read in the context of the audited consolidated financial data and the consolidated Notes. The report contains forward-looking statements, which are based on current plans, assumptions and estimates. Forward-looking statements are in all cases only applicable at the time they are made. They are subject to uncertainty and risks. As a result, the actual outcome may diverge considerably from forecasts if uncertainties arise or basic assumptions turn out to be inaccurate.

Karlsruhe, 9 March 2012

The Managing Board


Dr. Gottfried Greschner


Joachim Becker


Wolfgang Degen


Dr. Jürgen Greschner


Bernhard Smolka

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CONSOLIDATED INCOME STATEMENTS
for 2011 (IFRS)

EUR '000	Notes No.	1/1 to 31/12/2011	1/1 to 31/12/2010
Revenues	5, 36	88,736	80,913
Cost of revenues	6	-52,442	-53,621
Gross profit		**36,294**	**27,292**
Sales and marketing expenses		-10,221	-8,012
General administrative expenses		-5,332	-4,611
Research and development expenses	7, 22	-2,716	-2,489
Other operating income	8	1,695	1,016
Other operating expenses		-203	-4
Foreign currency gains and losses	9	-780	1,257
Operating profit		**18,737**	**14,449**
Income from associated companies	23	293	423
Other income and expenses	10	-92	213
Holding Gain (aquisition id systeme)	2	1,492	0
Earnings before interest and taxes (EBIT)		**20,430**	**15,085**
Interest income		338	146
Interest expenses		-265	-180
Earnings before taxes (EBT)		**20,503**	**15,051**
Income taxes	11, 24	-5,446	-5,037
Net profit		**15,057**	**10,014**
thereof attributable to equity holders of parent company		15,015	9,926
thereof minority interests		42	88
Net profit and diluted net profit per share in EUR	13	1.51	1.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for 2011 (IFRS)

EUR '000	1/1 to 31/12/2011	1/1 to 31/12/2010
Net profit	**15,057**	**10,014**
Net gains (+)/net losses (-) on currency translation	**1,533**	**508**
Unrealised gains/losses	1,533	508
Reclassification to the income statement	0	0
Actuarial losses on defined benefit obligations for pensions, recognised in the shareholders' equity	**-83**	**-65**
Net gain (+)/net losses (-) in available-for-sale financial assets	**-38**	**-13**
Unrealised gains/losses	0	-10
Reclassification to the income statement	-38	-3
Other comprehensive income	**1,412**	**430**
Total comprehensive income	**16,469**	**10,444**
thereof attributable to equity holders of the parent company	16,427	10,356
thereof minority interests	42	88

CONSOLIDATED BALANCE SHEET
as of 31 December 2011 (IFRS)

ASSETS

EUR '000	Notes No.	31/12/2011	31/12/2010
Current assets			
Cash and cash equivalents	16, 32	23,524	18,380
Marketable securities and bonds	17, 32	154	324
Trade accounts receivable	18, 32	29,015	15,243
Future receivables from production orders ("Percentage-of-Completion-Method")	18, 32	20,590	19,295
Accounts receivable from related parties	35	2	9
Inventories	19	14,850	15,444
Income tax receivable		105	0
Other current assets	20	1,710	2,242
Current assets, total		**89,950**	**70,937**
Non-current assets			
Tangible fixed assets	21	5,925	5,182
Goodwill	22	4,388	2,081
Other intangible assets	22	4,259	1,687
Interest in associated companies	23	1,618	2,221
Accounts receivable from related parties	35	68	68
Deferred tax assets	24	1,345	661
Other assets	25	2,203	1,584
Non-current assets, total		**19,806**	**13,484**
Assets, total		**109,756**	**84,421**

LIABILITIES AND SHAREHOLDERS' EQUITY

EUR '000	Notes No.	31/12/2011	31/12/2010
Current liabilities			
Bank loans	26	71	471
Trade accounts payable	26	7,582	2,908
Accounts payable of "Percentage-of-Completion-Method"	18, 26	8,939	6,345
Accounts payable due to related parties	26, 35	280	94
Advance payments received	26	664	4,665
Income tax payable		6,723	2,514
Provisions	28	9,535	5,617
Other current liabilities	27	9,212	7,320
Current liabilities, total		**43,006**	**29,934**
Non-current liabilities			
Long-term debt less current portion	26	988	1,059
Deferred tax liabilities	24	3,699	4,067
Pensions accrued and similar obligations	29	3,754	2,652
Other non-current liabilities	27	1,371	42
Non-current liabilities, total		**9,812**	**7,820**
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	30	10,040	10,040
Additional paid-in capital	30	5,122	4,793
Treasury stock	30	-1,196	-660
Surplus reserves and consolidated unappropriated profit		41,590	32,565
Other reserves	30	1,071	-341
		56,627	**46,397**
Minority interests		311	270
Shareholders' equity, total		**56,938**	**46,667**
Liabilities and shareholders' equity, total		**109,756**	**84,421**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
as of 31 December 2011 (IFRS)

	Attributable to equity holders			
EUR '000	Subscribed capital	Additional paid-in capital	Surplus reserves Consolidated unappropriated profit	Treasury stock
Status as of 31/12/2009	**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**
Status as of 31/12/2010	**10,040**	**4,793**	**32,565**	**-660**
Net profit	-	-	15,015	-
Other comprehensive income	-	-	-	-
Total comprehensive income	**-**	**-**	**15,015**	**-**
Dividend paid out	-	-	-5,990	-
Share-based payments	-	329	-	437
Acquisition of treasury stock				-973
Rounding difference				
Status as of 31/12/2011	**10,040**	**5,122**	**41,590**	**-1,196**

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		
-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
			-1		-1
-146	**-233**	**38**	**46,397**	**270**	**46,667**
-146	-233	38	46,397	270	46,667
-	-	-	15,015	42	15,057
-83	1,533	-38	1,412	-	1,412
-83	**1,533**	**-38**	**16,427**	**42**	**16,469**
-	-	-	-5,990	-	-5,990
-	-	-	766	-	766
			-973	-	-973
				-1	-1
-229	**1,300**	**0**	**56,627**	**311**	**56,938**

CONSOLIDATED CASH FLOW STATEMENT
for 2011 (IFRS)

EUR '000	1/1 to 31/12/2011	1/1 to 31/12/2010
Cash flow from operating activities		
Net income	15,057	10,014
Holding Gain (aquisition id systeme)	-1,492	0
Depreciation / amortisation	2,461	2,507
Losses on the disposal of fixed assets	15	6
Change of provisions and accruals	4,793	2,108
Change of inventories	594	-101
Change in trade accounts receivable and future receivables from production orders (POC)	-14,863	-3,272
Change in other assets, not provided by / used in investing or financing activities	-104	-1,034
Change in trade accounts payable	4,642	-376
Change in advanced payments received and liabilities from POC method	-1,407	530
Change in other liabilities, not provided by / used in investing or financing activities	7,298	2,746
Change in investment book value (not affecting cash flow)	-293	-422
Amount of other non-cash income and expenses	732	1,909
Net cash from operating activities	**17,433**	**14,615**
Cash flow from investing activities		
Investments in tangible fixed assets and other intangible assets	-2,415	-1,510
Investment in id systeme	-1,915	0
Inflows from associated companies and loans receivable	425	260
Investments in nobel metal	-937	0
Investments in marketable securities as part of short-term cash management	-82	-188
Net cash flows used in investing activities	**-4,924**	**-1,438**
Cash flow from financing activities		
Dividend paid out	-5,990	-2,986
Cash payments for the purchase of treasury stock	-973	-547
Redemption of bank loans	-471	-765
Net cash flows used in financing activities	**-7,434**	**-4,298**
Net effects of currency translation and consolidation changes in cash and cash equivalents	69	174
Increase in cash and cash equivalents	**5,144**	**9,053**
Cash and cash equivalents at the beginning of the period	18,380	9,327
Cash and cash equivalents at the end of the period	**23,524**	**18,380**

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init innovation in traffic systems AG, Karlsruhe (IFRS)

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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").

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 2011 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 with the following exceptions. IFRS applied and/or revised as on 1 January 2011 which are relevant to init:

IAS 24 – RELATED PARTY DISCLOSURES

The revised IAS 24 was issued in November 2009 and applies for the first time to financial years commencing on or after 1 January 2011. It amends the definitions of related parties and persons in order to simplify the identification of relationships and transactions between related parties. It also provides a partial exemption from disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a state ('state-controlled entities') in relation to transactions with other state-controlled entities. The standard is to be applied retrospectively. The amended definitions result in further disclosures relating to the group of associated companies of the group. This amendment, however, does not have any significant effect on the group's assets, liabilities, financial position and earnings situation.

"IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS 2010"

The collective standard published in May 2010 contains a number of amendments to various IFRS. The points of application and transitional regulations are specified individually for each standard. Its application did not result in any relevant changes.

The remaining mandatory IFRS to be applied to financial years commencing on or after 1 January 2011 do not have any effect on the consolidated financial statements of init AG.

DEVELOPMENTS WITHIN THE IASB LEGISLATION:

The IASB has published the following standards and interpretations, which have already been introduced into European law in the context of a comitology procedure, but which were not mandatory as yet for the 2011 financial year. The group did not opt for an early application of these standards and interpretations, but will apply these once they become mandatory where endorsed.

EU ENDORSEMENT RECEIVED:

Amendment to IFRS 7 – Disclosure of the Transfer of Financial Assets

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. The standard applies for the first time to financial years commencing after 1 July 2011. The amendment will not have any significant effect on the group's assets, liabilities and financial position.

EU ENDORSEMENT OUTSTANDING:

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

The standard applies for the first time to financial years commencing after 1 July 2011. The amendment removes the fixed adoption dates for elimination of financial assets and liabilities. In addition, the amendment also clarifies how presentation of financial statements should be resumed in accordance with IFRS after a period where the company was unable to comply fully with IFRS due to severe hyperinflation of its functional currency. The standard is not expected to have any significant effect on the init group.

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. 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. IFRS 9 applies for the first time to financial years commencing on or after 1 January 2015. The project is expected to be finalised in 2012. 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.

IFRS 10 – Consolidated Financial Statements

The standard establishes a uniform control concept which applies to all companies including special purpose entities. The new standard replaces the previous regulations of IAS 27 and the interpretation SIC-12. It applies for the first time to financial years commencing after 1 January 2013. No significant effects on the group are expected from this standard.

IFRS 11 – Joint Arrangements

The standard replaces IAS 31 and SIC-13. It eliminates proportionate consolidation for joint ventures in the future and applies for the first time to financial years commencing after 1 January 2013. No significant effects on the group are expected from this standard.

IFRS 12 – Disclosure of Interest in Other Entities

The standard sets out uniform disclosure requirements for the relevant section of the consolidated financial statements and consolidates the disclosures for subsidiaries previously set out in different standards. It applies for the first time to financial years commencing after 1 January 2013. No significant effects on the group's assets, liabilities, financial position and earnings situation are expected from this standard.

IFRS 13 – Fair Value Measurement

The standard stipulates the guidelines for fair value measurements and defines comprehensive qualitative and quantitative disclosures. It does not specify the point at which assets and liabilities must or can be measured at fair value. The standard applies for the first time to financial years commencing after 1 January 2013. No significant effects on the init group are expected from this standard.

Amendment to IAS 1 – Presentation of Other Comprehensive Income

The standard applies for the first time to financial years commencing after 1 July 2012. No significant effects on the group's assets, liabilities, financial position and earnings situation are expected from this standard.

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

The amendment to IAS 12 aims to simplify the accounting. It (refutably) assumes that the book value realised in full by its sale is always decisive for the measurement of deferred tax relating to investment property reported at the current market value. The standard applies for the first time to financial years commencing after 1 January 2012. No significant effects on the init group are expected from this standard.

IAS 19 – Employee Benefits (revised 2011)

The revisions made range from basic amendments, such as the determination of the expected return on plan assets and removing the corridor approach, all the way to mere clarifications and rephrased sections. It applies for the first time to financial years commencing after 1 January 2013. The effects of these changes are currently investigated by the group.

IAS 27 – Separate Financial Statements

The scope of IAS 27 is limited to accounting for investments in subsidiaries, joint ventures, and associated companies in separate financial statements. It applies for the first time to financial years commencing after 1 January 2013. No significant effects on the init group are expected from this standard.

IAS 28 – Investments in Associates and Joint Ventures (revised 2011)

The standard applies for the first time to financial years commencing after 1 January 2013. It extends the requirements for application of the equity method to include investments in joint ventures. No significant effects on the group's assets, liabilities, financial position and earnings situation are expected from this standard.

Amendment to IAS 32 and IFRS 7 – Offsetting Financial Assets and Financial Liabilities

The amendment to IAS 32 and IFRS 7 was published in December 2011. It addresses inconsistencies in the application of the offsetting requirements by adding application guidance. It applies for the first time to financial years commencing after 1 January 2013. The existing basic requirements related to offsetting financial instruments, however, are retained. No significant effects on the init group are expected from this standard. Amendments to IFRS 7 concern explanatory notes on the changeover to IFRS 9 (to be applied for the first time to financial years commencing on or after 1 January 2015).

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 BUSINESS COMBINATIONS

Consolidated Group

Name	Registered seat	Share 2011	Share 2010
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH ("INIT GmbH")	Karlsruhe	100%	100%
INIT Innovations in Transportation Inc. ("INIT Inc.")	Chesapeake / Virginia, USA	100%	100%
INIT Innovations in Transportation (Eastern Canada) Inc. / INIT Innovations en Transport (Canada Est) Inc. ("Eastern Canada Inc. ")	Montréal, Canada	100%	100%
INIT Innovations in Transportation (Western Canada) Inc. ("Western Canada Inc. ")	Vancouver, Canada	100%	100%
INIT PTY LTD ("INIT PTY")	Brisbane / Queensland, Australia	100%	100%
Init Innovation in Traffic Systems FZE ("Init FZE")	Dubai, United Arab Emirates	100%	100%
initplan GmbH ("initplan")	Karlsruhe	100%	100%
INIT Innovations in Transportation Oy ("INIT Oy")	Helsinki, Finland	100%	100%
INIT Innovations in Transportation Limited ("INIT Ltd")	Nottingham, Great Britain	100%	100%
INIT Swiss AG ("INIT Swiss")	Neuhausen, Switzerland	100%	–
id systeme GmbH ("id systeme")	Hamburg	100%	44%
CarMedialab GmbH ("CML")	Bruchsal	58.1%	58.1%
CarMedialab Corp. ("CML Corp.")	Marina del Rey / California, USA	58,1% through CML	–
TQA Total Quality Assembly LLC ("TQA")	Chesapeake / Virginia, USA	60% through INIT Inc.	60% through INIT Inc.
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake / Virginia, USA	85.7% through INIT Inc.	–
iris-GmbH infrared & intelligent sensors ("iris")	Berlin	43% through INIT GmbH	43% through INIT GmbH

Associated companies:
Up until 29 December 2011, init AG held 44 per cent of the shares in id systeme GmbH, Hamburg ("id systeme"). Under a purchase contract dated 29 December 2011, the share was increased to 100 per cent.

INIT GmbH holds 43 per cent of the shares in iris. The associated companies are included at equity in the consolidated financial statement. Through acquisition of the remaining shares in id systeme, the balance sheet of this company was fully consolidated and the result included at equity.

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

Company Formations in 2011

SQM in Chesapeake/USA was established on 23 May 2011. SQM is a cooperation between INIT Inc. and its long-term production partner, Simtech. It signifies a further milestone towards compliance with the “Buy America” regulations. Day-to-day operations focus on the manufacture of init-specific equipment. The acquisition costs amounted to EUR 463k. INIT Inc. holds 85.7 per cent of the shares.

INIT Swiss was established on 7 July 2011 to handle the sales and project activities of init in the Swiss market. The acquisition costs amounted to EUR 83k. In the same year, a capital increase was completed to the amount of EUR 412k. init AG holds 100 per cent of the voting rights.

CML Corp. was established on 30 November 2011. This subsidiary will focus on developing the business of CML in the USA. The acquisition costs amounted to EUR 8k. CML holds 100 per cent of the shares.

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 companies (INIT Oy: EUR 110k, INIT Ltd: EUR 301k). EUR 100k of this was paid into the additional paid-in capital at INIT Oy.

Business combinations in 2011

On 29 December 2011, init AG acquired the remaining 56 per cent of the shares in id systeme GmbH in Hamburg. Previously, init AG had held 44 per cent of the shares in the company, so that its share, as a result, increased to 100 per cent. The 44 per cent share had previously been consolidated at equity. On 31 December 2011, id systeme was fully consolidated in the group’s balance sheet at 100 per cent. The annual net profit was included at equity in the consolidated income statement at 44 per cent.

The investment was made for strategic reasons on the grounds that major tenders are often simultaneously for both planning and driver dispatch systems. Its aim therefore was to extend the product portfolio of the init group. This commitment ties in with the strategy pursued by init in the future and is an ideal platform for further joint development.

The fair values of the identifiable assets and liabilities of id systeme at the time of acquisition break down as follows:

Assets

EUR ‘000	
Cash and cash equivalents	573
Accounts receivable and other assets	311
Tangible assets	56
Other intangible assets	3,293
Deferred tax assets	55
Total	**4,288**

Liabilities

EUR '000	
Liabilities	510
Provisions	227
Deferred tax liabilities	1,056
Total	**1,793**
Fair value of net assets	2,495
Goodwill from company acquisition	2,308
Total consideration for gradual company acquisition	**4,803**

The agreed fixed purchase price for the 56 per cent of the shares acquired amounted to EUR 2,488k. In addition, a variable purchase price (earn out) was agreed. This is dependent on achieving 90 per cent of the sales targets agreed for the years 2012 to 2016 and for each of the two buyers amounts to 10 per cent of the actual annual net profit generated. The earn out is limited to a total of EUR 500k for each of the two buyers.

At the time of acquisition, the fair value of the contingent consideration (earn out) taking account of the corporate planning amounted to EUR 360k and is included in the long-term liabilities. The nominal value of this consideration is around EUR 440k.

The fair value of the accounts receivable amounted to EUR 204k. This corresponds to the gross amounts of the contractual receivables. We expect all receivables to be collected.

The book value (at equity) of the previous 44 per cent share at the time of acquisition amounted to EUR 463k (including prorated result in 2011). In connection with the acquisition of the additional shares, the fair value of the previous share was redetermined. The revalued 44 per cent share amounted to EUR 1,955k. The profit of EUR 1,492k resulting from the revaluation was entered under “Holding gain” in the consolidated income statement affecting the current-period result.

The annual net profit of id systeme for 2011 amounted to EUR 185k, and since the acquisition was realised at year-end, was taken into account at equity (at 44 per cent). If the company had been acquired early in 2011, id systeme would have generated revenues to the amount of EUR 2,552k for the init group. From the date of acquisition on 29 December 2011 up until 31 December 2011, id systeme did not generate any sales or earnings.

The incidental acquisition costs totalled EUR 61k and were recorded as expenses in the administrative expenses item of the consolidated income statement.

The goodwill of EUR 2,308k includes the value of expected synergies from the acquisition of the company and the customer base, which was not stated separately. The goodwill was fully allocated to the “Other” segment. The goodwill reported is not expected to be tax-deductible.

Cash Outflow due to Company Acquisition

EUR '000	
Cash acquired with the subsidiary	573
Cash outflow	2,488
Actual cash outflow due to acquisition	**1,915**

Business Combinations in 2010

There were no business combinations within the meaning of IFRS 3 in 2010.

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.

Company mergers are reported using the purchase method. The acquisition costs for the company acquired are measured on the basis of the transferred consideration stated at the current market value at the time of acquisition. Any costs incurred in the context of the merger are reported as expenses and recognised as administrative expenses. For gradual company acquisitions, the equity share previously held by the buyer in the acquired company is redetermined at its current market value at the time of acquisition and the resulting profit or loss reported affecting the current-period result.

The agreed contingent consideration is reported at the current market value at the time of acquisition. In agreement with IAS 39, subsequent changes to the current market value of a contingent consideration constituting an asset or liability are reported in the consolidated income statement or other earnings. A contingent consideration classed as equity is not revalued. Its subsequent payment is reported in the shareholders' capital. Where a contingent consideration does not fall under the scope of IAS 39, it is valued in agreement with the relevant IFRS.

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 when control was acquired. 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 de-consolidations, 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, INIT Ltd, SQM, INIT Swiss, CML Corp. 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 comprehensive income).

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.

Goodwill

Goodwill from mergers is valued at acquisition cost on initial recognition, measured as transferred consideration 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. 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. For further information, please refer to section 22 in this text.

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. For further information, please refer to section 29 in this text.

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 175k on 31 December 2011 (2010: EUR 1,221k).

The depreciation period in the 2011 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.

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

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.

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 amortisations. 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 “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

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 amortisations of purchased intangible assets are included in the consolidated income statement under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

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

After initial recognition of the development costs, the cost method is used according to which the asset is reported at acquisition cost less cumulated amortisation and cumulated impairment losses. Software development costs were amortised per product using straight-line depreciation over a maximum period of three years. The depreciation and amortisation commences at the time of sale to the customer and is 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 Subsidies and European Union Subsidies

Public subsidies and subsidies from the European Union (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 leveled. The effect of changes in the tax rates on deferred tax assets and deferred tax liabilities is accounted for in the period in which the amendment of the law takes effect. The income tax rate taken as the basis was 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 are composed of the following amounts:

EUR '000	2011	2010
Revenues resulting from the application of the percentage of completion method	74,420	69,306
Revenues from maintenance contracts	8,545	6,592
Revenues from additional and replacement deliveries	5,771	5,015
Total revenues	**88,736**	**80,913**

6 COST OF REVENUES

The costs of revenues are composed as follows:

EUR '000	2011	2010
Cost of materials and purchased services	30,552	30,665
Personnel expenses	15,533	13,485
Depreciation	1,912	2,012
Valuation adjustments on inventories	-222	859
Other	4,667	6,600
Total	**52,442**	**53,621**

7 RESEARCH AND DEVELOPMENT EXPENSES

EUR '000	2011	2010
Software development	1,961	1,783
Hardware development and research expenses	755	706
Total	**2,716**	**2,489**

8 OTHER OPERATING INCOME

The other operating income primarily includes EUR 766k (2010: EUR 445k) from allocated benefits in kind, compensatory payments made by insurance companies, and rent. Also included are EUR 715k (2010: EUR 220k) from the reversal of reserves, along with EUR 157k (2010: EUR 211k) from public subsidies and subsidies from the European Union.

9 FOREIGN CURRENCY GAINS AND LOSSES

EUR '000	2011	2010
Balance of unrealised currency gains and losses	-1,041	93
Balance of realised currency gains and losses	-41	1,507
Currency gains / losses from consolidation transactions	302	-343
Total	**-780**	**1,257**

10 OTHER INCOME AND EXPENSES

The other income and expenses consist of writedowns of marketable securities and bond issues totalling EUR 214k (2010: EUR 0k) due to the assumption of a permanent impairment. This is offset against an increase in the asset values of life assurances serving as pension liability insurances to the amount of EUR 122k (2010: EUR 222k). The reduction results from a decreased asset value due to pension payments to an employee of init AG since the middle of the year.

11 INCOME TAX

EUR '000	2011	2010
Current income tax	7,498	4,097
Deferred income tax	-2,052	940
Total	**5,446**	**5,037**

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

EUR '000	2011	2010
Profit before income tax	20,503	15,051
Theoretical income tax expenditure / yield at 30.0%	6,151	4,515
Used tax loss carryforwards	0	-61
Tax rate differences – foreign subsidiaries	-276	685
Tax effect of the non-deductible/taxed expenses / income	110	49
Tax effects of tax-free increases in net worth	6	4
Taxes unrelated to accounting period	-222	-9
Tax effects from results of associated companies	-536	-127
Other	213	-19
Effective income tax expenditure at 26.6% (2010: 33.5%)	**5,446**	**5,037**

Due to the tax-neutral appreciation for id systeme GmbH and the reduction in the provision for risks relating to Dubai, the overall tax ratio of around 26.6 per cent remained notably below the prior year figure.

12 NET EARNINGS AND LOSSES FROM FINANCIAL INSTRUMENTS

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

EUR '000	2011	2010
Loans and receivables	316	237
Financial assets available for sale	-214	-11
Financial liabilities recognised at cost	12	-249
Financial assets and liabilities reported at their current market value affecting the current-period result	-1,423	-333
Total	**-1,309**	**-356**

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.

13 NET PROFIT PER SHARE

The net profit per share is calculated by dividing the consolidated annual net profit due to the shareholders of the parent company by the weighted number of shares issued (subscribed capital less treasury stock). Since init AG did not issue any stock options on the cutoff dates, the diluted net profit per share could not be calculated.

	2011	2010
Net profit in EUR'000	15,015	9,926
Net profit adjusted for special influences in EUR'000	15,015	9,926
Weighted average number of shares issued	9,964,095	9,933,571
Undiluted net profit per share in Euro	1.51	1.00
Undiluted net profit per share adjusted for special influences in Euro	1.51	1.00

14 PAID AND PROPOSED DIVIDENDS

EUR '000	2011	2010
Ordinary dividends declared and paid during the financial year	5,990	2,986
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2011: 80 cents per share (2010: 45 cents per share plus a one-off bonus dividend for 2010 of 15 cents per share)	7,951	5,967

15 PERSONNEL EXPENSES

The personnel expenses totalled EUR 26,773k (2010: EUR 23,483k).

NOTES ON THE CONSOLIDATED BALANCE SHEET

16 CASH AND CASH EQUIVALENTS

EUR '000	Fair values 2011	Fair values 2010
Deposits with credit institutions (current accounts)	14,917	6,210
Short-term deposits (fixed-term deposits/call money)	8,607	12,170
Total	**23,524**	**18,380**

17 MARKETABLE SECURITIES AND BOND ISSUES

This item refers to shares and bond issues with a total current market value of EUR 154k (2010: EUR 324k). The gain of the securities reported directly in the equity capital amounted to EUR 0k (2010: EUR 38k). Due to the assumption of a permanent impairment, the shares and bond issues were devalued by EUR 214k (2010: EUR 0k) to their current market value affecting the current-period result. The current market value of the Greek bonds amounted to EUR 25k at the cutoff date (2010: EUR 82k). There was no sale of securities in the year under review and in the previous year.

18 TRADE ACCOUNTS RECEIVABLE

EUR '000	2011	2010
Trade accounts receivable, gross	29,193	15,328
Less cumulative value adjustments	-176	-76
Subtotal	**29,017**	**15,252**
Future receivables from production orders	20,590	19,295
Total	**49,607**	**34,547**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2011	2010
As of 1 January	76	184
Transfer to expenditure	126	86
Release	-27	-205
Currency effects	1	11
As of 31 December	**176**	**76**

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

EUR '000	**2011**	2010
Book value	49,607	34,547
Adjusted accounts receivable (see below for Dubai)	413	176
Neither delinquent nor impaired	43,201	28,133
Delinquent but not value-impaired		
< 30 days	2,978	1,584
30 – 60 days	643	125
60 – 90 days	304	37
90 – 180 days	228	1,007
> 180 days	2,016	3,559

The delinquent accounts receivable amount to EUR 6.2m (2010: EUR 6.3m), whereby the projects in Dubai account for EUR 3.8m of this (2010: EUR 4.6m). The EUR 3.8m include around EUR 1.8m from the previous year. To take into consideration payment delays that have either already occurred or are expected, a deduction of EUR 0.5m (2010: EUR 1.8m) 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	**2011**	2010
Costs accrued plus profits from projects not yet invoiced	65,552	70,890
Less payments received	-53,901	-57,940
Balance	**11,651**	**12,950**
Of which: future receivables from production orders	20,590	19,295
Of which: liabilities from percentage of completion (see Liabilities)	8,939	6,345

19 INVENTORIES

EUR '000	2011	2010
Raw materials and supplies	616	374
Goods (reported at net sales price)	10,653	11,509
Work in process (reported at production cost)	930	1,456
Deposits received	-869	-595
Deposits paid	3,520	2,700
Total	**14,850**	**15,444**

A total of EUR 222k for inventory appreciation were recorded as income (2010: depreciation of EUR 859k). This amount is included in the cost of revenues.

20 OTHER CURRENT ASSETS

EUR '000	2011	2010
Derivative financial instruments	69	865
Accruals	440	419
Tax refund claims	626	314
Due from personnel	122	114
Other	453	530
Total	**1,710**	**2,242**

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

21 TANGIBLE FIXED ASSETS

EUR '000	Land and buildings	Plant and machinery	Factory and office equipment
Acquisition and production costs			
As of 1 January 2011	3,658	313	7,298
Additions in current financial year	418	152	1,391
Disposals in current financial year	0	35	244
Currency differences	17	7	27
As of 31 December 2011	4,093	437	8,472
Depreciation			
As of 1 January 2011	528	248	5,311
Additions in current financial year	155	38	1,038
Disposals in current financial year	0	34	230
Currency differences	4	6	13
As of 31 December 2011	687	258	6,132
Book value as of 31/12/2011	**3,406**	**179**	**2,340**

EUR '000	Land and buildings	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**

The tangible fixed assets essentially concern the administration building at Kaeppelestraße 4, two residential buildings, office equipment and technical installations. The depreciation follows the straight-line method over the asset depreciation period. The depreciations in 2011 totalled EUR 1,231k (2010: EUR 1,063k) and is included in the consolidated income statement under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

22 INTANGIBLE ASSETS

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As of 1 January 2011	2,081	9,571	3,030
Additions in current financial year	2,307	0	3,801
Disposals in current financial year	0	0	35
Currency differences	0	11	3
As of 31 December 2011	4,388	9,582	6,799
Depreciation			
As of 1 January 2011	0	8,350	2,563
Additions in current financial year	0	1,046	184
Disposals in current financial year	0	0	35
Currency differences	0	11	3
As of 31 December 2011	0	9,407	2,715
Book value as of 31/12/2011	**4,388**	**175**	**4,084**

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**

Impairment Test 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, driver dispatch systems and the automotive segment.

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

EUR ‘000	2011	2010
Telematics and Electronic Fare Collection Systems	1,877	1,877
Other	2,511	204
Total	**4,388**	**2,081**

For further details please refer to item 2 Business Combinations of the notes.

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 9.6 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 profit 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 29.8 per cent and for “Other” it was 37.5 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 6.7 per cent (2010: 7.5 per cent) after taxes was applied to both cash-generating units. Cash flows arising after the period of five years are determined using a growth discount of 1.0 per cent (2010: 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 175k (2010: EUR 1,221k) for the product MOBILEvario Level II.

In 2011, the amortisation of the capitalised amounts totalled EUR 1,046k (2010: EUR 1,134k). 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 2011 financial year is three years.

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 4,084k (2010: EUR 467k). This increase mainly results from the purchase price allocation of id systeme to the amount of EUR 3,267k. The amortisation of the capitalised amounts in 2011 totalled EUR 184k (2010: EUR 310k) and is included in the consolidated income statement under “Cost of revenues”, “Sales and marketing expenses” and “General administrative expenses”.

23 INTEREST IN ASSOCIATED COMPANIES

The associated companies are not publicly listed. The remaining shares in id systeme GmbH were acquired under the purchase contract of 29 December 2011 to the effect that from the same date init AG has held 100 per cent of the shares. Since 44 per cent of the revenues of id systeme GmbH are reported at equity, the company is listed in the following table. This 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	**2011**	6,218	3,800	2,418	7,324	492
	2010	6,605	3,609	2,996	7,700	607
id systeme	**2011**	1,295	284	1,011	2,552	184
	2010	1,524	774	750	2,822	368
Totals	**2011**	7,513	4,084	3,429	9,876	676
	2010	8,129	4,383	3,746	10,522	975

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 GmbH is the development, production and sale of sensors, and sensor- and information-processing systems. In 2011, the pro-rata result from this equity consolidation amounted to EUR 212k (2010: EUR 261k). A distribution of EUR 129k was made in the financial year (2010: EUR 172k).

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 2,307k. The result (44 per cent) from the equity consolidation in 2011 totalled EUR 82k (2010: EUR 162k). A distribution of EUR 297k was made in the financial year (2010: EUR 88k).

24 DEFERRED TAXES

The deferred tax assets and liabilities are as follows:

	Consolidated balance sheet		Consolidated income statement	
EUR '000	**31/12/2011**	31/12/2010	**2011**	2010
Deferred tax assets				
Inventories	124	0	124	0
Other assets	21	163	-142	163
Other intangible assets	12	60	-48	55
Provisions	966	239	727	23
Pension accruals	86	110	-24	-209
Loss carried forward	49	90	-41	-61
Other	32	0	32	-33
Total deferred tax assets	**1,290**	662		
Deferred tax assets id systeme	55	0		
Sum total deferred tax assets	**1,345**	662		
Deferred tax liabilities				
Receivables	2,375	3,413	1,038	-1,065
Other assets	11	0	-11	26
Tangible fixed assets	139	0	-139	0
Goodwill	4	33	29	-4
Other intangible assets	53	366	313	340
Other liabilities	61	255	194	-175
Total deferred tax liabilities	**2,643**	4,067		
Deferred tax expenditure / income			**2,052**	**-940**
Deferred tax liabilities id systeme	1,056	0		
Sum total deferred tax liabilities	**3,699**	4,067		

Deferred tax assets amounting to EUR 49k (2010: EUR 90k) were accrued for previously unused tax losses carried forward at a subsidiary. On 31 December 2011, the unused corporate tax loss carried forward was EUR 165k (2010: EUR 304k).

On 31 December 2011, 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. At the same time, the first-time inclusion of id systeme in the consolidated financial statements increased the amounts by EUR 1,492k due to appreciation of the previous shares. The temporary differences in connection with shares in subsidiaries totalled EUR 13.4m (2010: EUR 8.1m).

25 OTHER NON-CURRENT ASSETS

EUR '000	**2011**	2010
Asset value of pension liability insurance	952	1,352
Security deposits	155	161
Loans	25	28
Gold stock	973	0
Other	98	43
Total	**2,203**	**1,584**

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

26 LIABILITIES

	31/12/2011			31/12/2010		
		Remaining term			Remaining term	
EUR '000	**Total**	< 1 year	> 5 years	**Total**	< 1 year	> 5 years
Bank loans	1,059	71	704	1,530	471	775
Trade accounts payable	7,582	7,582	0	2,908	2,908	0
Accounts payable from percentage of completion	8,939	8,939	0	6,345	6,345	0
Accounts payable to related parties	280	280	0	94	94	0
Advance payments received	664	664	0	4,665	4,665	0
Income tax liabilities	6,723	6,723	0	2,514	2,514	0
Other liabilities	10,583	9,212	0	7,362	7,320	30

Terms relating to the above financial liabilities:

The bank loans of EUR 1,059k (2010: EUR 1,530k) relate to a long-term loan of EUR 988k (2010: EUR 1,059k) for financing the building at Kaeppelestraße 4, Karlsruhe, which is fully secured by a land charge and the resultant short-term share of EUR 71k (2010: EUR 71k). In 2010, it also included a Euro credit of EUR 400k.

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	**2011**	63,694	2,594	48,000	13,100
Credit insurance companies	**2011**	17,000	0	17,000	0
Bond line for USA	**2011**	57,915	0	0	0
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

The credit and guarantee lines are sufficient to finance the further growth of the company. On 31 December 2011, the cash line utilisation totalled EUR 0k (2010: EUR 400k), the guarantee lines EUR 33,646k (2010: EUR 31,535k), and the bond line EUR 17,359k (2010: EUR 0k).

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 35 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 31 of the notes.

27 OTHER LIABILITIES (LONG-TERM AND SHORT TERM)

	31/12/2011			31/12/2010		
	Remaining term			Remaining term		
EUR '000	**Total**	< 1 year	> 5 years	**Total**	< 1 year	> 5 years
Tax liabilities	2,240	2,240	0	882	882	0
Due to personnel	4,687	4,687	0	4,553	4,553	0
Derivative financial instruments	690	690	0	545	545	0
Social security liabilities	75	75	0	59	59	0
Remaining work	22	22	0	226	226	0
Other	2,869	1,498	0	1,097	1,055	30
Total	**10,583**	**9,212**	**0**	**7,362**	**7,320**	**30**

28 PROVISIONS

EUR '000	As of 1/1/2011	Usage	Release	Transfer	As of 31/12/2011
Provisions for warranties	1,692	975	89	1,963	2,591
Provisions for insufficient production costs	3,713	650	1,074	2,538	4,527
Provisions for anticipated losses related to projects	0	0	0	1,104	1,104
Other provisions	212	0	175	1,276	1,313
Total	**5,617**	**1,625**	**1,338**	**6,881**	**9,535**

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.

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

The provisions for anticipated losses related to projects was set up on grounds of the significant technological requirements and various new developments within one project and was determined in concurrently running project calculations.

A dispute in the context of an international cooperation agreement led to claims brought against us to the amount of around EUR 2m. We do not believe that this amount is justified. Appropriate provisions have been set up.

29 PENSIONS ACCRUED AND SIMILAR OBLIGATIONS

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:

	init AG, INIT GmbH, initplan	id systeme
Actuarial interest rate in per cent (2010)	5.14 (5.15)	5.14 (5.15)
Retirement age (2010)	63 years; Dr. Gottfried Greschner 65 years (63 years; Dr. Gottfried Greschner 65 years)	65 years (65 years)
Pension adjustments in per cent (2010)	4; 3 Dr. Gottfried Greschner (4; 2 Dr. Gottfried Greschner)	1.5 (1.5)
Salary increases in per cent	not relevant	not relevant
Fluctuation in per cent (2010)	2 (2)	0 (0)
Biometric bases	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	2011	2010
Pensions accrued at the beginning of the year (Defined Benefit Obligation – DBO)	2,914	2,606
Addition (DBO) from the acquisition of id systeme	470	0
Past service cost	569	0
Service cost	116	105
Interest cost	173	138
Actuarial losses (+)/gains (-)	83	65
Pension payments	-10	0
Pensions accrued (DBO) at the end of the year under review	**4,315**	**2,914**
Plan assets	-561	-262
Pensions accrued	**3,754**	**2,652**

The plan assets contain the asset value of pension liability insurances. The plan assets of id systeme amounted to EUR 274k at the time of acquisition.

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

EUR '000	2011	2010
Service cost	116	105
Interest cost	173	138
Past service cost	569	0
Expenses for pension payments	**858**	**243**

In the consolidated income statement, the service cost is included in the cost of revenues (EUR 20k), the sales and marketing expenses (EUR 50k) and the administrative expenses (EUR 46k) and the interest paid in this item. The past service cost is included in the sales and marketing expenses (EUR 284.5k) and administrative expenses (EUR 284.5k).

EUR '000	31/12/2011	31/12/2010
Cumulated amount of the actuarial gains and losses included in the shareholders' equity, after deleting deferred taxes	229	146

EUR '000	2011	2010
Performance-oriented liability (DBO) 31/12	4,315	2,914
Adjustments of the liability based on experience	-77	6

The pension accruals attributable to members of the Managing Board totalled EUR 2,324k (2010: EUR 1,605k).

EUR '000	2007	2008	2009	2010	2011
DBO	2,010	2,082	2,606	2,914	4,315

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 228k (2010: EUR 184k), of which EUR 64k (2010: EUR 59k) were attributable to the members of the Managing Board.

30 SHAREHOLDERS' EQUITY

Subscribed Capital

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

Floating shares:

	2011	2010
As of 1/1	9,945,814	9,929,781
Acquisition of treasury stock	-60,000	-40,000
Issue of stock to Managing Board, managing directors and key personnel	37,337	30,000
Issue of stock to employees	15,312	26,033
As of 31/12	**9,938,463**	**9,945,814**

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

Managing Board member	Number of shares	Supervisory Board member	Number of shares
Dr. Gottfried Greschner, CEO*	3,480,000	Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	0
Joachim Becker, COO	330,983	Hans-Joachim Rühlig	0
Wolfgang Degen, COO	89,500	Bernd Koch	0
Dr. Jürgen Greschner, CSO	97,864	Fariborz Khavand	0
Bernhard Smolka, CFO	25,000	Drs. Hans Rat	0

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

Authorised Capital

At the annual shareholders' meeting on 24 May 2011, 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 23 May 2016 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,
- 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 2011 amounted to EUR 5,122k, EUR 3,141k of which result from the premium of the shares sold at the time of the initial public offering. EUR 1,138k were transferred from 2005 to 2010 as part of the recognised expenses from the share-based remuneration (see item 37) and EUR 329k in 2011. 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 2011 totalled 94,186 shares. Based on the resolution passed at the annual shareholders' meeting on 12 May 2010, the company is authorised to purchase treasury stock. On 10 August 2011, it was decided to repurchase up to 20,000 shares of treasury stock; two other repurchases of up to 20,000 shares of treasury stock each were decided on 19 September 2011 and on 18 November 2011. In 2011, the company acquired 60,000 shares at an average price of EUR 16.22. Within the scope of the incentive scheme for members of the Managing Board, managing directors and key personnel in the first quarter of 2011, a total of 37,337 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. 14,312 shares with a qualifying period of two years were transferred to employees in connection with the profit-sharing scheme. On 31 December 2011, the number of treasury stock was therefore 101,537 shares.

The company's treasury stock was valued at acquisition cost at EUR 1,196k (2009: EUR 660k) and openly deducted from the equity capital. Of the treasury stock as on 31 December 2011 of 101,537 shares with an imputed share of EUR 101,537 (1.01 per cent) in the capital stock, 1,139 resulted from the capital increase in 2002 and 100,398 from the company's stock repurchasing program. The shares were repurchased at an average price of EUR 11.78 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:
In 2010, this reserve included the changes in the current market value of financial investments available for sale.

31 OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

The main financial instruments used by the company – with the exception of derivative financial instruments – include cash, securities, and loans. The purpose of the securities is the investment of funds of the group. The loan is used for the associated company, iris, 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.

In addition, init holds 25kg of gold to minimise the euro risk. Its value is subject to fluctuations because of valuation at its market price on the cutoff date. The changes in value are reported in the income statement affecting the current-period result.

Foreign Currency Risk

Due to foreign revenues, specifically in the USA, Canada, United Arab Emirates, Great Britain, New Zealand, Norway, Australia and Sweden, the change in the exchange rates constitutes a substantial risk. To eliminate this rate change risk, the group uses forward exchange transactions for all major business transactions if payment follows much later than the firm purchase or sale commitment. The hedges must be in the currency as the underlying secured transaction. The group enters into hedging transactions only once a firm commitment has been made.

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

If the value of the Euro to the foreign currencies reported by init on 31 December 2011 had been up by 10 per cent, the operating result would have been EUR 82k higher. The resulting appreciation of forward exchange transactions would have totalled EUR 2,601k. As a counter-effect, it would also have resulted in expenses at EUR 2,519k owing to cash in banks, accounts receivable and liabilities. If, however, the value of the Euro to all foreign currencies reported by init on 31 December 2011 had been down by 10 per cent, the operating result would have been EUR 538k less. This breaks down as follows: EUR 3,057k to forward exchange transactions, partially compensated for by appreciation of cash in banks, accounts receivable and liabilities at EUR 2,519k.

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. The resulting appreciation of currency options would have amounted to EUR 3,274k and EUR 121k of forward exchange transactions. As a counter-effect, it would also have resulted in expenses at EUR 2,644k owing to cash in banks, accounts receivable and liabilities. 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.

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 2011, 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).

	Book value	2012	2013	2014–2016	> 2016
Non-derivative financial liabilities					
Other financial liabilities	10,551	9,289	107	306	849
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	690	690	0	0	0
Derivative financial assets	-69	-69	0	0	0
Total		**9,910**	**107**	**306**	**849**

As on 31 December 2010, the future cash flows from the financial liabilities were as follows:

	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**

32 EXPLANATORY NOTES ON THE FINANCIAL INSTRUMENTS

Classification and Current Market Values

The following table states the book values and the current market values of the financial instruments of the group reported in the balance sheet on 31 December 2011 compared to 31 December 2010 and shows their classification in appropriate measurement categories according to IAS 39.

	2011	2010
ASSETS		
Loans and receivables	**74,722**	**53,797**
Cash and cash equivalents	23,524	18,380
Loans and receivables	30,608	16,122
Receivables from the application of the PoC method	20,590	19,295
Financial assets available for sale	**154**	**324**
Securities and bond issues	154	324
Financial assets reported at their current market value affecting the current-period result	**69**	**865**
Derivative financial assets without a hedging relationship	69	865
LIABILITIES		
Financial liabilities recognised at cost	**10,241**	**6,282**
Financial liabilities	10,241	6,282
Financial liabilities reported at their current market value affecting the current-period result	**690**	**545**
Derivative financial liabilities without a hedging relationship	690	545

The current market value of the listed securities and bond issues (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 31/12/2011	Level 1	Level 2	Level 3
Financial assets recognised at fair value through profit or loss				
Derivative financial assets without a hedging relationship	69		69	
Available-for-sale financial assets				
Securities and bonds	154	154		
Financial liabilities recognised at fair value through profit or loss				
Derivative financial liabilities without a hedging relationship	-690		-690	

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				
Securities and bonds	324	324		
Financial liabilities recognised at fair value through profit or loss				
Derivative financial liabilities without a hedging relationship	-545		-545	

In the reporting period ending 31 December 2011 and the reporting period ending 31 December 2010, 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 with the exception of the receivables from Dubai, for which an appropriate provision for risks was set up. This is due, on the one hand, to the fact that over 90 per cent of the orders are publicly subsidised and, on the other, that the orders are usually paid on account or billed on the basis of predefined performance progress. Furthermore, the accounts receivable are checked and/or dunned every fortnight for receipt of payment. The losses of receivables outstanding for the 2011 financial year totalled EUR 0k (2010: EUR 0k).

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:

EUR '000	Nominal value		Market values	
	31/12/2011	31/12/2010	**31/12/2011**	31/12/2010
Forward exchange transactions	27,464	37,642	-621	306
Currency options	0	2,234	0	14
Total	**27,464**	**39,876**	**-621**	**320**

33 CONTINGENCIES AND OTHER LIABILITIES

Operate 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 1,459k, of which EUR 475k 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	**2011**	2010
< 1 year	1,836	1,241
1–5 years	4,217	3,360
> 5 years	4,601	4,985
Total	**10,654**	**9,586**

Contingent Liabilities

As in the previous year, there were no contingent liabilities on 31 December 2011.

Legal Disputes

Within the scope of current business, init AG along with other group companies are involved in legal disputes that could impact on the economic situation of the group. Legal disputes are subject to many uncertainties, and the outcome of individual actions cannot be predicted with absolute certainty.

To hedge against risks arising from such disputes, the relevant group companies have set up appropriate provisions in their balance sheets where it concerns an event before the cutoff date and where a liability is likely and its amount can be determined with sufficient accuracy.

Over and above this, these disputes are not, in our estimation, expected to have any significant effect on the group's assets, liabilities, financial position and earnings situation.

OTHER DISCLOSURES

34 ADDITIONAL NOTES ON THE CASH FLOW STATEMENT

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

EUR '000	**2011**	2010
Interest expenses	-259	-103
Interest income	305	145
Income tax payments	-3,272	-2,003
Income tax receipts	203	5

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

Inflows from dividend distributions amounted to EUR 425k (2010: EUR 260k). Outflows for dividends totalled EUR 5,990k (2010: EUR 2,986k).

35 RELATED PARTY TRANSACTIONS

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

EUR '000	Associated companies		Other related parties and persons	
	2011	2010	**2011**	2010
Trade accounts receivable and other income	0	0	0	0
Trade accounts payable and other expenses	1,655	2,254	515	366
Receivables on 31 December	70	73	61	61
Payables on 31 December	280	94	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 2k (2010: EUR 5k) are trade accounts receivable with a remaining maturity of less than one year. This amount is exclusively attributable to iris (2010: EUR 3k to iris and EUR 2k 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 280k (2010: EUR 85k and EUR 9k to id systeme). 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 from 1 July 2011 amount to EUR 40k (EUR 475k annually). In the first six months, the rounded monthly rent payments amounted to EUR 30k (EUR 366k annually). The current rental price is contractually fixed until 30 June 2026. Furthermore, a rent deposit of EUR 61k was paid for the office building in Karlsruhe. Payments to the amount of EUR 93.9k made to relatives of a member of the Managing Board were reported as personnel expenses.

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 2011 (2010: 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 40 of the notes.

36 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), automotive (analysis systems for the car industry) and driver dispatch systems. The personnel allocation systems sector relates to id systeme GmbH and was added in 2011, but is only included in the balance sheet items.

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 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 January 2011 to 31 December 2011 EUR '000	Telematics and Electronic Fare Collection Sys.	Other	Eliminations and adjustments	Consolidated
Revenues				
With third parties	84,997	3,739	0	88,736
With other segments	1,433	2,191	-3,624	0
Total revenues	**86,430**	**5,930**	**-3,624**	**88,736**
EBIT	**19,835**	**626**	**-31**	**20,430**
Segment assets	102,516	10,733	-3,493	109,756
Segment liabilities	51,389	3,957	-2,528	52,818
Interest income	339	6	-7	338
Interest expenses	256	16	-7	265
Scheduled depreciation	2,319	142	0	2,461
Cost of revenues	52,442	3,405	-3,708	52,139
R&D costs	1,754	962	0	2,716
Foreign currency gains (+) and losses (-)	-784	4	0	-780
Share in profit of associated companies	293	0	0	293
Income tax	5,418	28	0	5,446
Write-up	1,127	0	0	1,127
Share in associated companies	1,618	0	0	1,618
Investments in tangible and intangible assets	2,090	5,979	0	8,069

1 January 2010 to 31 December 2010 EUR '000	Telematics and Electronic Fare Collection Sys.	Other	Eliminations and 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 tax	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

In the Telematics and Electronic Fare Collection Systems segment around 11.5 per cent of the entire revenue 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).

Sales revenues 31/12

EUR '000	2011	%	2010	%
Germany	27,849	31.4	30,533	37.7
Rest of Europe	19,308	21.8	14,599	18.0
North America	35,175	39.6	28,033	34.6
Other countries (Australia, UAE)	6,404	7.2	7,748	9.7
Group total	**88,736**	**100.0**	**80,913**	**100.0**

Non-current assets 31/12

EUR '000	2011	%	2010	%
Germany	10,406	88.2	7,863	86.5
Rest of Europe	196	1.6	177	2.0
North America	1,084	9.2	892	9.8
Other countries (Australia, UAE)	116	1.0	158	1.7
Group total	**11,802**	**100.0**	**9,090**	**100.0**

37 SHARE-BASED REMUNERATION

Employee Shares

Based on the resolution of the Managing Board of 19 April 2011, published on 2 May 2011 (2010: 10 May 2010), all employees of init AG and its subsidiaries were offered shares of the company as a form of profit sharing. In December 2011, the employees entitled to subscribe (excluding the Managing Board and temporary staff, trainees and suchlike) each received 50 shares (December 2010: 100 shares) at a price of EUR 18.15 (December 2010: EUR 13.87) 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 2011. The shares are subject to a qualifying period of two years from the time of transfer. A total of 14,312 shares were transferred (2010: 25,033).

At the date of publication of the Managing Board resolution, the fair value based on the market price of the equity instruments issued was EUR 260k (2010: EUR 347k), which was recorded as expenses of EUR 169k in 2011 (2010: EUR 175k).

Management Bonuses in the Form of Stock

A further management bonus in the form of stock was granted to the five members of the Managing Board and the Managing Director of INIT Inc., from net profit exceeding EUR 10,000k before taxes and after deduction of all management bonuses and employee shares.

Where this amount is reached, each member of the Board receives 2,500 shares. Each member of the Board is granted a further 150 shares for every EUR 1m of exceeding profit. The number of shares "restricted stock" is limited to 6,000 or 10,000 shares per board member. The shares are subject to a qualifying period of five years. The taxes relating to the share transfer are borne by the company. No legal claim may be made to payment of this bonus, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board. In addition, key personnel and the managing directors of subsidiaries of the company are paid a bonus in the form of shares, the amount of which depends on the level of incoming orders and revenues. On the whole, 38,337 shares with a qualifying period of five years were granted to members of the Managing Board and to key personnel. The taxes relating to the share transfer are borne by the company.

On 31 December 2011, the valuation was based on 30,909 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 346k (EUR 14.77 per share) for the Managing Board and managing directors and to EUR 147k (EUR 19.55 per share) for key personnel; these amounts were recorded as expense in 2011.

38 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.

39 EMPLOYEES, MANAGING BOARD AND SUPERVISORY BOARD

Employees

The annual average number of employees was as follows:

	2011	2010
Employees in Germany	284	260
Employees in rest of Europe	3	2
Employees in North America	63	57
Employees in other countries	11	9
Total	**361**	**328**

Managing Board

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

Dr. Gottfried Greschner, Karlsruhe	Chief Executive Officer
Joachim Becker, Karlsruhe	Chief Operating Officer
Wolfgang Degen, Karlsruhe	Chief Operating Officer
Dr. Jürgen Greschner, Pfinztal	Chief Sales Officer
Bernhard Smolka, Karlsruhe	Chief Financial Officer

Dr. Gottfried Greschner is also on the board of directors of Karlsruher Sport Club (KSC).

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 until 24 May 2011)	Self-employed business consultant, member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Centre in Karlsruhe
Dipl.-Kfm. Hans-Joachim Rühlig, Ostfildern (Vice Chairman from 24 May 2011)	Financial Managing Director of Ed. Züblin AG
Fariborz Khavand, Wuppertal (until 29 February 2012)	Self-employed business consultant, Managing Director of Elco Motores GmbH, Hagen
Drs. Hans Rat, Schoonhoven (from 1 March 2012)	Managing Director of Beaux Jardins B.V., Schoonhoven

40 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 366k (2010: EUR 365k), 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 1,879k (2010: EUR 1,784k), thus totalling EUR 2,245k in the 2011 financial year (2010: EUR 2,149k). This total includes fixed salaries of EUR 1,428k (2010: EUR 1,099k), variable remuneration in the form of management bonuses of EUR 300k (2010: EUR 340k), and EUR 517k (2010: EUR 710k) in the form of stocks, including the income tax payable for them.

Based on the resolution passed by the shareholders' meeting on 24 May 2011, 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 2011 amounted to EUR 134k (2010: EUR 144k). This includes a variable share of EUR 62k (2010: EUR 108k) and is distributed as follows:

EUR '000	Fixed	Variable
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	36	31
Bernd Koch	7	6
Hans-Joachim Rühlig	11	9
Fariborz Khavand	18	16

In the 2011 financial year, the members of the Supervisory Board of the init group received EUR 0k (2010: EUR 0k).

41 AUDITING FIRM

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, received compensation to the amount of EUR 133k (2010: EUR 114k), for individual financial statements, which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 0k (2010: EUR 0k). Certification and appraisal services incurred costs of EUR 0k (2010: EUR 0k), and other services, of EUR 50k (2010: EUR 6k).

42 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 24 May 2011, and was made available to the shareholders.

43 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 4 July 2011, Swisscanto Asset Management International S.A., Luxembourg, Luxembourg, notified us under Section 21 (1) WpHG that on 1 July 2011 its voting interest in our company exceeded the threshold of 3 per cent and on this day amounted to 4.80 per cent (481,966 votes).

44 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

In the board meeting on 9 March 2012, the consolidated financial statements and the group status report of init AG drawn up by the Managing Board on 31 December 2011 were approved for forwarding to the Supervisory Board.

Karlsruhe, 9 March 2012

The Managing Board


Dr. Gottfried Greschner


Joachim Becker


Wolfgang Degen


Dr. Jürgen Greschner


Bernhard Smolka

AUDIT OPINION *

We have issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by the the init innovation in traffic systems Aktiengesellschaft, Karlsruhe, comprising the income statement, the statement of comprehensive income, the statement of financial position, 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, 2011. 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, 9 March 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ketterle Wirtschaftsprüfer [German Public Auditor]	Hällmeyer Wirtschaftsprüfer [German Public Auditor]

* 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.

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 2012

The Managing Board

Dr. Gottfried Greschner　　Joachim Becker　　Wolfgang Degen

Dr. Jürgen Greschner　　Bernhard Smolka

ANNUAL FINANCIAL STATEMENTS

init innovation in traffic systems AG, Karlsruhe

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The full annual financial statements of init AG are available on our website at www.initag.com or contact directly Simone Fritz on +49.721.6100.115 or Janina Bujnoch on +49.721.6100.102.

INCOME STATEMENT
for 2011 (HGB)

EUR '000	Notes Item No.	31/12/2011	31/12/2010
1. Revenues	IV.1	4,343	4,278
2. Other operating income thereof from currency translations EUR 12k (2010: EUR 11k)	IV.2	248	279
		4,591	**4,557**
3. Personnel expenses a. Wages and salaries		1,691	1,591
b. Social security and other pension costs thereof in respect of old-age pensions EUR 46k (2010: EUR 27k)		302	253
4. Depreciation on intangible assets of non-current assets and property, plant and equipment		28	37
5. Other operating expenses thereof from currency translations EUR 19k (2010: EUR 1k)		1,716	1,624
		3,737	**3,505**
6. Income from investments		297	88
7. Income from profit and loss transfer agreements		16,432	8,677
8. Other interest and similar income thereof EUR 7k (2010: EUR 249k) from affiliated companies		119	288
9. Depreciation on marketable securities		237	2
10. Interest and similar expenses thereof EUR 0 (2010: EUR 81k) from affiliated companies		46	131
		16,565	**8,920**
11. Results from ordinary activities		17,419	9,972
12. Extraordinary expenses	IV.3	0	2
13. Income taxes	IV.4	5,766	2,981
14. Other taxes		0	-6
		5,766	**2,975**
15. Annual net profit		11,653	6,995
16. Profit carried forward from previous financial year		7,541	7,425
17. Transfer from/to surplus reserves		0	-889
18. Balance sheet profit		**19,194**	**13,531**

BALANCE SHEET
as of 31 December 2011 (HGB)

ASSETS

EUR '000	Notes Item No.	31/12/2011	31/12/2010
A. Fixed assets			
I. Intangible assets	III.2	0	0
II. Contributed assets	III.3		
Land and buildings		2,035	2,063
III. Financial assets	III.4		
1. Shares in affiliated companies		26,108	20,682
2. Loans to affiliated companies		450	120
3. Investments in associates		0	382
		26,558	**21,184**
		28,593	**23,247**
B. Currents assets			
I. Accounts receivable and other assets	III.5		
1. Accounts receivable from affiliated companies		18,344	9,634
2. Other current assets		22	58
		18,366	**9,692**
II. Marketable securities			
Other marketable securities		154	309
		154	**309**
III. Cash and cash equivalents, bank assets and cheques		3,426	6,609
		21,946	**16,610**
C. Prepaid expenses	III.6	**13**	**63**
		50,552	**39,920**

LIABILITIES

EUR '000	Notes Item No.	31/12/2011	31/12/2010
A. Shareholders' equity	III.7		
I. Subscribed capital		10,040	10,040
./. Treasury stock		-102	-94
		9,938	**9,946**
II. Additional paid-in capital		10,246	9,924
III. Surplus reserve			
Other surplus reserve		273	801
IV. Balance sheet profit		19,194	13,531
		39,651	**34,202**
B. Provisions	III.8		
1. Provisions for pensions and similar obligations		117	97
2. Tax accruals		5,868	2,159
3. Other provisions		896	814
		6,881	**3,070**
C. Liabilities	III.9		
1. Bank loans		1,059	1,129
2. Trade accounts payable		54	66
3. Accounts payable to investments to affiliated companies		1,617	1,085
4. Other liabilities		1,290	368
thereof taxes EUR 1,290k (2010: EUR 362k)			
dthereof social security contributions EUR 0 (2010: EUR 0)			
		4,020	**2,648**
		50,552	**39,920**
Contingent liabilities	III.10	46,724	38,592

GLOSSARY

“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 2
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. The 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 onboard 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).

FINANCIAL CALENDAR AND IMPRINT

Date	Event
Mar 29, 2012	Publication Annual Report 2011 and Press / Analyst Conference in Frankfurt
Apr 19, 2012	Fokus Value Forum, Wien
May 10, 2012	Publication Q1 Report 2012
May 16, 2012	General Annual Meeting 2012, Kongresszentrum / Konzerthaus Karlsruhe
Aug 9, 2012	Publication Q2 Report 2012
Nov 9, 2012	Publication Q3 Report 2012
Nov 2012	Analyst conference, German Equity Forum, Frankfurt

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FIVE-YEAR FINANCIAL SUMMARY OF THE INIT GROUP

IFRS

EUR '000	2011	2010	2009	2008	2007
Balance Sheet					
Balance sheet total	109,756	84,421	71,610	57,951	44,475
Shareholders' equity	56,938	46,667	38,977	31,596	26,688
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ratio (in %)	51.9	55.3	54.4	54.5	60.0
Return on equity (in %)	26.4	21.5	21.3	18.7	20.0
Non-current assets	19,806	13,484	14,297	15,186	13,424
Current assets	89,950	70,937	57,313	42,765	31,051
Income Statement					
Revenues	88,736	80,913	64,955	55,993	46,767
Gross profit	36,294	27,292	23,037	17,224	16,542
EBIT	20,430	15,085	11,754	8,597	7,228
EBITDA	22,891	17,592	14,157	10,169	8,543
Annual net profit	15,057	10,014	8,314	5,912	5,326
Earnings per share (in EUR)	1.51	1.00	0.84	0.60	0.54
Dividend (in EUR)	0.80	0.60	0.30	0.16	0.14
Cash Flow					
Cash flow from operating activities	17,433	14,615	5,570	7,146	-2,617
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	19.99	15.89	11.30	8.80	9.40
Bottom share price (in EUR)	13.06	9.15	4.75	4.45	6.83

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