Overcoming challenges

Interim Report 2/2013

init
innovation in traffic systems AG

init at a Glance

As worldwide leading supplier of telematics and electronic fare collection systems for busses and trains, init helps transport companies making public transport more attractive, faster and more efficient. Meanwhile, more than 400 customers around the globe rely on our sophisticated solutions and benefit from our unique understanding of the challenges faced by public transport providers.

More than 30 years of experience have resulted in an integrated product range that covers all key tasks of public transport companies and is strictly focused on their production processes. Customer-oriented services complement the portfolio consequently.

Group Key figures
according to IFRS

EUR '000	2013	2012	Change in %
Balance Sheet (30/06)			
Balance sheet total	103,733	96,248	7.8
Shareholders' equity	54,196	53,433	1.4
Subscribed capital	10,040	10,040	0.0
Equity ratio (in %)	52.2	55.5	
Return on equity (in %)	5.2	9.3	
Non-current assets	28,770	20,090	43.2
Current assets	74,963	76,158	–1.6
Income Statement (01/01 – 30/06)			
Revenues	37,057	42,050	–11.9
Gross profit	14,059	14,546	–3.3
EBIT	4,157	7,571	–45.1
EBITDA	5,435	8,765	–38.0
Net profit	2,801	4,955	–43.5
Earnings per share (in EUR)	0.29	0.52	–44.8
Dividend (in EUR)	0.80	0.80	0.0
Cash Flow			
Cash flow from operating activities	527	4,963	–89.4
Share			
Issue price (in EUR)	5.10	5.10	
Peak share price (in EUR)	26.89	19.15	40.4
Bottom share price (in EUR)	21.41	13.60	57.4

Corporate Bodies

Supervisory Board

- Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau, Meerbusch (Chairman)
  Consulting engineer specialising in local transportation
- Hans-Joachim Rühlig, B.A.M, Ostfildern (Vice-Chairman)
  Financial Managing Director, Ed. Züblin AG, Stuttgart
- Drs. Hans Rat, Schoonhoven
  Managing Director Beaux Jardins B. V., Schoonhoven

Managing Board

- Dr. Gottfried Greschner (Chairman), M.Sc.
  Business Development, Personnel, Legal, Purchasing, Logistics and *Production*
- Joachim Becker, M.Sc. in Information Science
  Business Division: Telematics Software and Services
- Wolfgang Degen, M.Sc.
  Business Division: Mobile Telematics and Fare Collection Systems
- Dr. Jürgen Greschner, B.A.M.
  Sales and Marketing
- Bernhard Smolka, B.A.M.
  Finance, Controlling and Investor Relations

Directors' Holdings

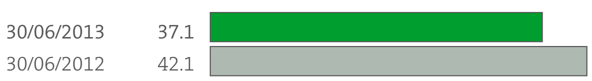
Managing Board	Number of shares
Dr. Gottfried Greschner, CEO	3,487,550*
Joachim Becker, COO	338,533
Wolfgang Degen, COO	54,579
Dr. Jürgen Greschner, CSO	93,550
Bernhard Smolka, CFO	27,550

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

Supervisory Board	Number of shares
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	–
Hans-Joachim Rühlig	–
Drs. Hans Rat	–

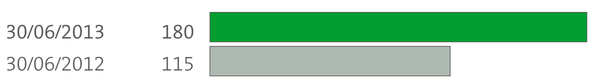
Revenues Q1–Q2

in million EUR



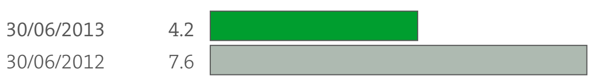
Order backlog

in million EUR



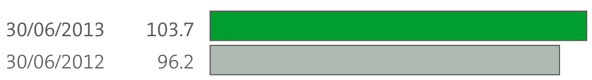
EBIT Q1–Q2

in million EUR



Balance sheet total

in million EUR



Letter to the Shareholders

Dear Ladies and Gentlemen, dear Shareholders,

The market for init products and systems, coupled with the demand for intelligent transport infrastructure solutions, represents a sustainable high-growth market with few equals. Apart from the continuing unbroken long-term growth trend for this sector – the UITP (International Association of Public Transport) anticipates that passenger numbers will double by 2025 – there is a multitude of innovations and new and potential developments that we wish to and are able to exploit for our company and for you, our shareholders.

In addition, in the first half of 2013 we also received a host of signals which augur well for the future of init. For example we received a very favourable response to the new version of our fully-integrated MOBILE system solution showcased at the UITP World Congress held in Geneva at the end of May together with the accompanying web-based passenger information module.

Besides these opportunities for the future, init's potential is also reflected in concrete terms in its order backlog. Despite the weaker demand due to the state of the economy, incoming orders are in the first half of 2013, at EUR 36.3m, is above the figure for the previous year, and the order backlog, at EUR 180m, exceeds the figure for the previous year by as much as 56.5 per cent.

Whenever new major public transport projects are put out to tender, init is usually one of the players involved. Our hardware and software controls the world's largest public transport vehicle fleets. These major projects are the driving force behind init's growth.

On the other hand complex international projects also always involve special risks. For example, dependence on upstream technological services carried out by partners can lead to delays which can also have a short-term impact on init's value-added. This besides the fall in hardware shipments compared to the previous year is the reason why init did not achieve its target figures for revenues and earnings in the first half of 2013.

Thus in the second quarter revenues were EUR 20.1m, just over 10 per cent short of the previous year's figure, and revenues for the half-year were EUR 37.1m (2012: EUR 42.1m). Earnings before interest and tax (EBIT) were also below plan in the period under review, at EUR 4.2m (2012: EUR 7.6m).

However, in the next two quarters, which are the strongest in init's fiscal cycle, we anticipate significantly improved figures. As in a number of projects the revenue-generating hardware shipments and installations will start to be made.

We therefore also anticipate that we will achieve our forecast for 2013 – revenues of EUR 105m with operating earnings (EBIT) of EUR 18m.

We remain convinced of the opportunities for the future offered by our market and the resulting sustainable growth potential of our company. In September, with its slogan “Grow with Public Transport”, the UITP is starting a campaign in 92 countries designed to convince their governments of the need for further investment in improved transport infrastructure and new public transport systems. They are the prerequisite for being able to create more growth, new jobs and higher quality of life in agglomerations with better protection of our natural resources.

Nothing emphasises better what we, at init, are working for.

We hope that you will continue to support us in this and thank you for your trust.

For the Managing Board of
init innovation in traffic systems AG

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

Share and Investor Relations

Following the all-time high: the wait for new stimuli

The init innovation in traffic systems AG share (ISIN DE0005759807) reached a new all-time high of EUR 26.89 during the first half year in 2013. The continuously positive growth prospects and an order backlog of more than one-and-a-half times planned annual revenues won over a growing number of investors. In addition the dividend policy, aimed at achieving adequate shareholder participation, also gained the approval of both the Annual General Meeting on 16 May and stock exchange participants.

When the general stock trading environment deteriorated again from the end of May and doubt grew as to economic growth expectations for 2013, init was among the stocks which suffered profit-taking. However, at the end of June the init share price had risen slightly compared to 2012 year-end, to EUR 23.93. This means a price rise of about 35 per cent on an annualised basis. To put that in context: the similarly booming German share index (DAX) rose by 22.5 per cent in this period, and the index of leading German technology stocks, the TecDAX, was up by about 25 per cent. By contrast, the broader Prime Technology Index managed a rise of only about 10 per cent.

In spite of slightly reduced valuations following the figures for the first quarter, institutions and analysts that constantly monitor the init share see further upside with targets between EUR 24 and EUR 30. At this valuation level the init share already meets the market capitalisation requirements for inclusion in the TecDAX.

Dividend and growth prospects met with approval of the shareholders

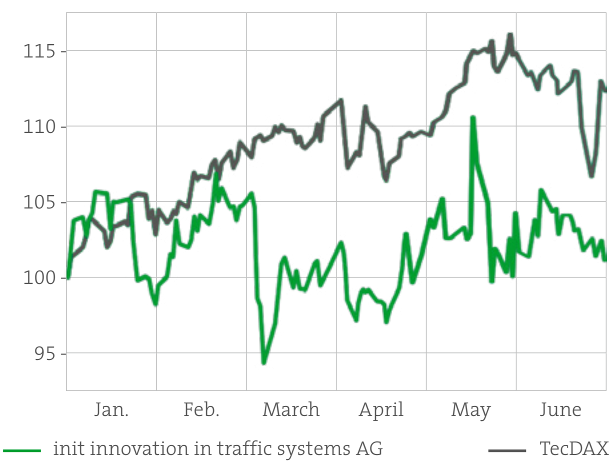
The unchanged dividend of EUR 0.80 per share and the continuously positive growth prospects were met with approval from the shareholders at this year's Annual General Meeting in Karlsruhe. Approval of the appropriation of profit and of the discharge of the Managing Board was similarly high, with voting results of 100 and 98.5 per cent respectively.

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
Capital stock today	10,040,000 no-par bearer shares
Market capitalisation (as of 28 June 2013)	EUR 240.3m

Performance January to June 2013 (Xetra)

(indexed)



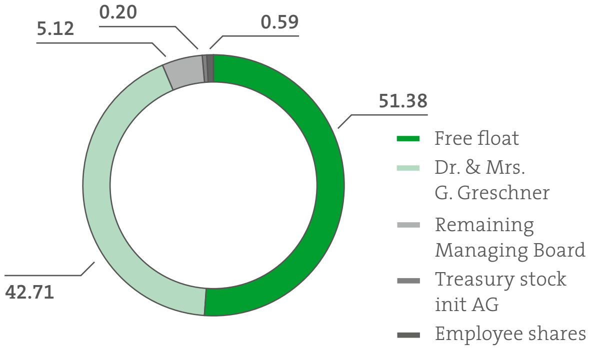
Unchanged shareholder structure

init continued to receive a good response at analysts' meetings and investor roadshows. Overall the shareholder base was further expanded, although there were no significant changes in the shareholder structure of init innovation in traffic systems AG in the period under review. The shareholding distribution is shown in the diagram as of 30 June 2013.

Up-to-date information about the init share and our Investor Relations services can be found on our website *www.initag.com*.

Shareholder structure as of 30 June 2013

(in %)



By definiton of the German Stock Exchange the free float of init AG is 55.61 per cent.

Group Status Report

Economic environment

In its latest global outlook (Global Economic Outlook, July 2013) the International Monetary Fund (IMF) made a slight downward revision to its forecast for global economic growth in 2013. It now expects growth in the global economy of only about 3 per cent (previously: 3.3 per cent). At the same time it sees new risks for the business climate from weakening of growth in the newly-industrialising and developing economies and a more severe recession in the eurozone. On this basis economic output in the countries previously driving growth such as China and India should grow by a total of about 5 per cent in 2013 (previous forecast: 5.3 per cent), with the growth rate in China for example falling to below 8 per cent. The OECD even goes as far as to anticipate a contraction in economic output in the eurozone by about 0.6 per cent (previously: 0.4 per cent), caused in particular by weak domestic demand in the southern euro states and France. While Germany is an exception here, with expected growth of 0.3 per cent in 2013 (previous forecast: 0.6 per cent), growth remains weak here, too, at an estimated 1.3 per cent in 2014. No more than 0.9 per cent growth is forecast for the eurozone in 2014 (previously: 1.0 per cent).

The economists now forecast weaker growth for the US, too, at about 1.7 per cent in 2013 (previously: 1.9 per cent), though this should increase to 2.7 per cent (previously: 3 per cent) by 2014. However, on this basis the massive cuts in state spending triggered by the “fiscal cliff” will not prevent continued growth in the US economy.

Sector-specific performance

In the view of the Chairman of the UITP (International Public Transport Association), newly-elected in May, the most urgent problem in public transport is the securing of financing for expansion of the required infrastructure. Due to the weak economic situation in many countries and the resulting consolidation of public-sector budgets fewer subsidies are available in many cases. On the other hand, according to the UITP, willingness to build and expand public transport has reached a new peak in many regions; in Europe, North America, Arabia and Asia, extensive resources continue to be available for expansion of public transport, as the large and growing number of international invitations to tender shows.

A further current trend is the replacement of hardware and the modernisation of software in ageing telematics systems.

Economic basis of the group

The economic basis of the group as stated in the 2012 Group Status Report remains unchanged.

Report on earnings, assets and financial position

General performance

The negative developments in the trading environment did not impair the trading situation of init innovation in traffic systems AG in the reporting period. Now as previously init group is working on a large number of international invitations to tender for hardware and software products and telematics, planning and electronic fare collection systems. In the second quarter of 2013 init group failed to achieve its target figures for both revenues and earnings. This was due to project delays and missed hardware shipments, as the new major projects are still in the specification phase.

Orders

In the second quarter init acquired new orders worth a total of EUR 21.2m (Q2 2012: EUR 14.2m). The order backlog as at 30 June 2013 is about EUR 180m and exceeds the figure for the previous year of EUR 115m by about 56 per cent.

Incoming orders table by region:

in million EUR	01/04–30/06/2013	01/04–30/06/2012
Germany	4.1	3.0
Rest of Europe	2.7	8.7
North America	13.2	2.4
Other countries (Australia, UAE)	1.2	0.1
Group total	**21.2**	**14.2**

Of the incoming orders EUR 20.4m (Q2 2012: EUR 12.8m) is accounted for by the “Telematics and Electronic Fare Collection Systems” segment and EUR 0.8m (Q2 2012: EUR 1.4m) by the “Other” segment. In contrast the order backlog at CarMedialab GmbH had to be reduced by EUR 0.8m due to a termination of a framework agreement.

Total incoming orders volume for the first half of the year was EUR 36.3m (Q1–Q2 2012: EUR 29m) and is in line with our plan. We assume that our 2013 incoming orders target of at least EUR 95m will be achieved.

Earnings position

Revenues of EUR 20.1m (Q2 2012: EUR 22.4m) were generated in the second quarter of 2013.

Breakdown of revenues by region for the first half of the year:

in million EUR	01/01–30/06/2013	%	01/01–30/06/2012	%
Germany	8.2	22.1	10.3	24.4
Rest of Europe	7.2	19.4	6.4	15.2
North America	18.1	48.9	21.1	50.3
Other countries (Australia, UAE)	3.6	9.6	4.3	10.1
Group total	**37.1**	**100.0**	**42.1**	**100.0**

Revenues based on customer's location.

Of the group revenues of EUR 37.1m (Q1–Q2 2012: EUR 42.1m) the "Telematics and Electronic Fare Collection Systems" segment accounted for EUR 34.6m (Q1–Q2 2012: EUR 39.7m), which represents about 93 per cent (Q1–Q2 2012: about 94 per cent). Group revenues are thus about 16 per cent below our plan, which can be attributed to missed hardware shipments. The new major projects are currently still in the specification phase. Work on the first vehicle installations can be started in the third quarter, which will then be reflected in higher revenues.

The "Other" segment, which includes planning systems, driver dispatch systems and automotive, generated revenues with third parties to the value of EUR 2.4m (Q1–Q2 2012: EUR 2.3m). This represents about 7 per cent (Q1–Q2 2012: about 6 per cent) of group revenues.

Operating and administrative costs were slightly higher than those of the previous year, they increased by EUR 0.3m to EUR 8.6m due to increased salary and marketing costs.

Earnings before interest and tax (EBIT), at EUR 4.2m, were much lower than in the first half of 2012 (EUR 7.6m) and due to the lower sales volume are similarly below plan.

The "Telematics and Electronic Fare Collection Systems" segment accounts for EUR 4.7m (Q1–Q2 2012: EUR 8.3m) and the "Other" segment for EUR -0.5m (Q1–Q2 2012: EUR -0.7m). The foreign exchange losses to the value of EUR 0.3m are for the most part due to the forward currency transactions concluded and the reporting date valuation of foreign exchange receivables (Q1–Q2 2012: exchange rate gains of EUR 2.4m).

Net interest income is EUR -155k (Q1–Q2 2012: EUR -61k). The interest costs are for the most part due to interest on back tax payments and real estate financing at the Karlsruhe location.

The net profit is EUR 2.8m (Q1–Q2 2012: EUR 5.0m), representing earnings per share of EUR 0.29 (Q1–Q2 2012: EUR 0.52).

The total comprehensive income is EUR 3.4m (Q1–Q2 2012: EUR 4.5m). The amount contains EUR 0.6m from unrealised gains on currency translation.

Net assets and financial position

Balance Sheet Total fell by EUR 6.7m compared to 31 December 2012, to EUR 103.7m, what is essentially due to the reduction in cash from the dividend payout.

Operating cash flow is EUR 0.5m (Q1–Q2 2012: EUR 5.0m) at the end of the reporting period and is expected to improve in future with payment inflows from major projects. The cash flow decrease is preliminary due to the low net income and the reduction of provisions and other liabilities. **Cash flow from investment activities** is EUR -2.6m (Q1–Q2 2012: EUR -1.6m), mainly the result of payments for replacement and new capacity investments.

Total equity of EUR 54.2m is higher than previous year (Q2 2012: EUR 53.4m) and thus moves at high level.

The **equity ratio** is 52.2 per cent (Q2 2012: 55.5 per cent).

Short and long-term liabilities to banks in the amount of EUR 4.8m (31/12/2012: EUR 4.0m) mainly relate to real estate loans and a short-term loan from INIT Inc., Chesapeake, Virginia/US.

Liquid assets, including short-term securities and bonds, amount to EUR 11.1m in the reporting period (31/12/2012: EUR 20.5m) and are thus short of the figure for the previous year, but will significantly improve in future. The fall-off is due to payment of the dividend and up-front financing for projects.

The available **guarantees and credit lines** continue to secure financing of business activities and their expansion. The credit line from banks was increased by EUR 12m to EUR 75m in the second quarter.

Personnel

As of 30 June 2013, init group employs 438 staff (Q2 2012: 418) including temporary staff, academic assistants and students. Another 17 (Q2 2012: 16) employees are currently in apprenticeship.

Annual average number of employees by region:

	30/06/2013	30/06/2012
Employees in Germany	346	323
Employees in Europe	4	3
Employees in North America	72	73
Employees in other countries	16	19
Total	**438**	**418**

Opportunities and risks

The opportunities and risks described in the 2012 Annual Report (p. 59 et seq.) remain unchanged. Provisions have been made for all identifiable risks. We do not consider there to be any risks jeopardising the continued existence of the company.

Demands were made of us under an international co-operation agreement that we do not regard as justified. The provision formed for this purpose in the 2011 financial year was retained. Our general contractor has failed to transfer to us payments from the end-user in the amount of EUR 2.0m arising under this co-operation agreement. The claim is being legally pursued by init. There is a risk that claims may be forfeited. A corresponding risk provision was formed for this purpose in 2012.

Activities are currently being run to improve the revenue and profit of CarMedialab GmbH, Bruchsal. However, it is not guaranteed that these measures will be effective. To this extent there is a risk that financial charges will impact on group net profit.

Due to radio segment-related technical difficulties in an American project, init is co-operating with the subcontractor to find a solution. It cannot be ruled out that the solution will lead to additional costs which will have a negative impact on the contribution margin.

Events after the reporting date

There have been no significant events subsequent to the reporting date.

Related party transactions

Transactions with related companies and individuals are listed under “Other Disclosures” on page 19.

Forecast and outlook

The forecast presented in the 2012 Annual Report (p. 65 et seq.) remains unchanged.

With our reference projects together with numerous new products and applications we are well equipped for upcoming invitations to tender. In addition to this we anticipate that our market can also be expanded further in 2013. Provided no unexpected events or further project delays occur we should achieve our growth target for 2013 with sales of EUR 105m and operating earnings (EBIT) of just over EUR 18m.

Now that the drafting of the contract for our new construction project is largely completed, we will invest about EUR 10m by the end of 2014 to enable us to realise further growth and to create space for new jobs.

Karlsruhe, 8 August 2013

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

Responsibility Statement
To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group 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 for the remaining months of the financial year.

Consolidated Income Statement (IFRS)
from 1 January 2013 to 30 June 2013 (unaudited)

EUR '000	01/04 to 30/06/2013	01/04 to 30/06/2012	01/01 to 30/06/2013	01/01 to 30/06/2012
Revenues	20,064	22,418	37,057	42,050
Cost of revenues	–11,432	–13,719	–22,998	–27,504
Gross profit	**8,632**	**8,699**	**14,059**	**14,546**
Sales and marketing expenses	–2,939	–2,687	–5,550	–5,390
General administrative expenses	–1,701	–1,488	–3,082	–2,875
Research and development expenses	–1,137	–896	–1,860	–1,905
Other operating income	621	296	1,125	643
Other operating expenses	–275	–92	–325	–101
Foreign currency gains and losses	–159	812	–340	2,443
Operating profit	**3,042**	**4,644**	**4,027**	**7,361**
Income from associated companies	64	107	129	172
Other income and expenses	–15	–30	1	38
Earnings before interest and taxes (EBIT)	**3,091**	**4,721**	**4,157**	**7,571**
Interest income	4	88	70	127
Interest expenses	–99	–101	–225	–188
Earnings before taxes (EBT)	**2,996**	**4,708**	**4,002**	**7,510**
Income taxes	–900	–1,574	–1,201	–2,555
Net profit	**2,096**	**3,134**	**2,801**	**4,955**
thereof attributable to equity holders of parent company	2,117	3,172	2,875	5,137
thereof minority interests	–21	–38	–74	–182
Undiluted net profit per share in EUR	0.21	0.32	0.29	0.52
Average number of floating shares	10,019,980	9,969,855	10,007,454	9,958,078

Consolidated Statement of Comprehensive Income (IFRS)
from 1 January 2013 to 30 June 2013 (unaudited)

EUR '000	01/04 to 30/06/2013	01/04 to 30/06/2012	01/01 to 30/06/2013	01/01 to 30/06/2012
Net profit	2,096	3,134	2,801	4,955
Net gains (+) / net losses (-) on currency translation	–1,048	643	645	–414
Unrealised gains / losses	–1,048	643	645	–414
Reclassification to the income statement	0	0	0	0
Net gain (+) / net losses (-) in available-for-sale financial assets	0	2	0	2
Unrealised gains / losses	0	2	0	2
Reclassification to the income statement	0	0	0	0
Other comprehensive income	–1,048	645	645	–412
Total comprehensive income	**1,048**	**3,779**	**3,446**	**4,543**
thereof attributable to equity holders of the parent company	424	3,817	2,875	4,725
thereof minority interests	–21	–38	–74	–182

Consolidated Balance Sheet (IFRS)

as of 30 June 2013 (unaudited)

Assets

EUR '000	30/06/2013	31/12/2012
Current assets		
Cash and cash equivalents	10,950	20,329
Marketable securities and bonds	113	157
Trade accounts receivable	16,981	18,068
Future receivables from production orders ("Percentage-of-Completion-Method")	24,217	25,893
Inventories	18,263	15,021
Income tax receivable	1,096	23
Other current assets	3,343	3,358
Current assets, total	74,963	82,849
Non-current assets		
Tangible fixed assets	8,677	7,156
Investment property	6,297	6,340
Goodwill	4,388	4,388
Other intangible assets	3,281	3,574
Interest in associated companies	2,008	1,879
Deferred tax assets	2,224	2,122
Other assets	1,895	2,144
Non-current assets, total	28,770	27,603
Assets, total	**103,733**	**110,452**

Liabilities and shareholders' equity

EUR '000	30/06/2013	31/12/2012
Current liabilities		
Bank loans	1,178	240
Trade accounts payable	5,378	5,183
Accounts payable of "Percentage-of-Completion-Method"	5,905	5,999
Accounts payable due to related parties	170	102
Advance payments received	4,876	1,545
Income tax payable	368	3,964
Provisions	8,541	9,920
Other current liabilities	7,997	10,915
Current liabilities, total	34,413	37,868
Non-current liabilities		
Long-term debt less current portion	3,670	3,768
Deferred tax liabilities	4,626	4,087
Pensions accrued and similar obligations	6,040	5,884
Other non-current liabilities	788	1,088
Non-current liabilities, total	15,124	14,827
Shareholders' equity		
Attributable to equity holders of the parent company		
Subscribed capital	10,040	10,040
Additional paid-in capital	6,175	5,579
Treasury stock	–237	–650
Surplus reserves and consolidated unappropriated profit	39,577	44,718
Other reserves	–1,364	–2,009
	54,191	57,678
Minority interests	5	79
Shareholders' equity, total	54,196	57,757
Liabilities and shareholders' equity, total	**103,733**	**110,452**

Consolidated Cash Flow Statement (IFRS)

from 1 January 2013 to 30 June 2013 (unaudited)

EUR '000	01/01 to 30/06/2013	01/01 to 30/06/2012
Cash flow from operating activities		
Net income	2,801	4,955
Depreciation	1,278	1,194
Losses on the disposal of fixed assets	112	12
Change of provisions and accruals	–1,223	–193
Change of inventories	–3,242	–3,237
Change in trade accounts receivable and future receivables from production orders (PoC)	2,763	14,113
Change in other assets, not provided by / used in investing or financing activities	–809	–1,093
Change in trade accounts payable	195	–2,999
Change in advanced payments received and liabilities from PoC method	3,237	–4,543
Change in other liabilities, not provided by / used in investing or financing activities	–6,746	–2,494
Change in investment book value (not affecting cash flow)	–129	–172
Amount of other non-cash income and expenses	2,290	–580
Net cash from operating activities	**527**	**4,963**
Cash flow from investing activities		
Inflows from sales of tangible fixed assets	11	15
Investments in tangible fixed assets and other intangible assets	–2,569	–1,121
Investments in marketable securities as part of short-term cash management	–18	–500
Net cash flows used in investing activities	**–2,576**	**–1,606**
Cash flow from financing activities		
Dividend paid out	–8,016	–7,976
Cash payments for the purchase of treasury stock	0	–32
Payments received from bank loans incurred	957	0
Redemption of bank loans	–117	–33
Net cash flows used in financing activities	**–7,176**	**–8,041**
Net effects of currency translation and consolidation changes in cash and cash equivalents	–154	212
Increase in cash and cash equivalents	**–9,379**	**–4,472**
Cash and cash equivalents at the beginning of the period	20,329	23,524
Zahlungsmittel und Zahlungsmitteläquivalente am Ende der Periode	**10,950**	**19,052**

Selected Explanatory Notes for Q2 2013 (IFRS)

Notes to the Interim Financial Statements

The init group is an international system house for intelligent transportation systems (ITS). Business activities are divided into the *telematics* and *electronic fare collection systems, planning systems, driver dispatch systems* and *automotive divisions*.

The quarterly financial statements as at 30 June 2013 have been produced in accordance with the International Financial Reporting Standards (IFRS) and meet the requirements of IAS 34.

The consolidated interim financial statements are presented in euros. All figures have been rounded to the nearest thousand euros unless stated otherwise.

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.

The interim group status report and interim consolidated financial statements as at 30 June 2013 have not been audited.

The interim financial statements for the second quarter were submitted to the Supervisory Board on 25 July 2013.

Principles of Accounting and Valuation

The interim financial statements have been prepared using the same principles of accounting and valuation used to produce the consolidated financial statements as at 31 December 2012, which are described in detail in the notes to the consolidated financial statements.

Application of New Accounting Standards

New accounting standards applied for the first time in the first half year of 2013 did not have any significant impact on our consolidated financial statements.

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

The amendment to IAS 12 was published in December 2010 and has to be applied in the first financial year that begins on or after 1 January 2013. The amended IAS 12 contains a simplification whereby, for the purpose of calculating deferred taxes on investment property, it is presumed that the fair value of an investment property will be recovered through sale. This presumption can be rebutted. A disposal should always be presumed for property that is not subject to wear and tear and is valued using the new valuation model.

IAS 19 Employee Benefits (revised in 2011)

The amendments to IAS 19 were published in June 2011 and have to be applied in the first financial year that begins on or after 1 January 2013. The amendments contain fundamental changes, such as how to calculate expected income from plan assets and the elimination of the corridor method (variations in pension gains and losses are distributed or smoothed out over time), but also include clarifications and revised wording.

Amendments to IAS 32 and IFRS 7 – Disclosures about Financial Instruments

The amendments to IAS 32 and IFRS 7 were published in December 2011 and have to be applied in the first financial year that begins on or after 1 January 2014 and 1 January 2013 respectively. The amendments are designed to eliminate inconsistencies by enhancing the existing disclosure requirements. The existing requirements on disclosures about financial instruments have, however, been preserved. The amendment defines additional disclosure requirements.

IFRS 13 Fair Value Measurement

IFRS 13 was published in May 2011 and has to be applied in the first financial year that begins on or after 1 January 2013. The standard sets out the rules for calculating fair value and defines comprehensive quantitative and qualitative inputs for measuring fair value. The standard does not govern when assets and liabilities can or should be measured at fair value. IFRS 13 defines fair value as the price that a party would receive for selling an asset or would pay to transfer a liability in a standard market transaction at the measurement date.

Consolidated Group

Within the consolidated group as at 31 December 2012 the following change resulted:

Backdated to 1 January 2013 INIT Inc. , Cheasapeake, Virginia/US acquired the remaining 14.3 per cent of the shares of SQM LLC., Cheasapeake, Virginia/US. The purchase price amounted to USD 100k.

Inventories

Inventory write-downs amounted to EUR 257k (30/06/2012: EUR 529k). The charge is included under cost of revenues in the income statement.

Marketable Securities and Bonds

Securities and bonds were written down by EUR 61k (30/06/2012: EUR 11k) due to a value impairment.

Receivables

Write-downs on receivables came to EUR 833k (30/06/2012: EUR 224k). EUR 72k was booked to the income statement for the first six months of 2013 (30/06/2012: EUR 48k).

Property, Plant, Equipment and Intangible Assets

Property, plant and equipment essentially refer to the administration building at Kaeppelestrasse 4, two residential buildings, and office and technical equipment. Capital expenditure for replacement stood at EUR 994k (30/06/2012: EUR 830k). Further EUR 1,103k were invested in plant and machinery. Sales of property, plant and equipment generated profit of EUR 11k (30/06/2012: EUR 15k).

Advance payments totalling EUR 633k (31/12/2012: EUR 361k) were made towards a planned new building (asset under construction).

The software activated within the context of the purchase price allocation of initperdis (financial year 2011) in the amount of EUR 3.3m will be amortised over five years. The scheduled depreciation was applied and is recognised under cost of revenues in the income statement.

Investment Property

Investment property as defined in IAS 40 – property and buildings that are not used for commercial operations – refers to the acquisition of the neighbouring properties at Kaeppelestrasse 8/8a and 10 in 2012.

Rental income was EUR 160k as at 30 June 2013 (30/06/2012: EUR 0k). The corresponding depreciation was EUR 44k (30/06/2012: EUR 0k).

Liabilities

Liabilities are carried at amortised acquisition cost. The current liabilities to banks of EUR 1.2m (31/12/2012: EUR 0.2m) concern the short-term part of the real estate financing of Kaeppelestrasse 4, 8/8a and 10 as well as a short-term loan of INIT Inc., Cheasapeake, Virginia/US. The long-term liabilities to banks of EUR 3.7m (31/12/2012: EUR 3.8m) relate to the long-term part of the real estate financing.

Shareholders' Equity

Subscribed Capital

The capital stock consists of 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.

Authorised Capital

The annual shareholders' meeting on 24 May 2011 passed a resolution to create authorised capital totalling EUR 5,020,000. Subject to approval by 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 one or more issues of up to 5,020,000 bearer shares against contributions in cash or in kind. The new shares will be granted to credit institutions with an obligation to offer the shares to the shareholders for subscription. However, subject to approval by the Supervisory Board, the Managing Board is authorised to withdraw the subscription right in order to:

- issue up to 1,004,000 new shares at a price not substantially lower than the stock market price of the company shares when the issue price is determined
- to balance out 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 a non-cash investment
- to turn up to 250,000 new shares into employee shares.

Additional Paid-in Capital

As at 30 June 2013, additional paid-in capital was EUR 6,175k, comprising EUR 3,141k from the premium on shares sold in the IPO and the 2002 capital increase. A further EUR 1,924k was allocated for employee share scheme expenses for the years 2005 to 2012 and EUR 1,032k in 2013. EUR 436k was reversed following the share transfer to members of the Managing Board and key personnel in 2013. Additional paid-in capital was increased by EUR 514k through the sale of treasury stock in 2007.

Treasury stock

As at 1 January 2013, treasury stock comprised 54,899 shares. In the first quarter of 2013, 34,879 shares were transferred to the incentive scheme for members of the Managing Board, managing directors and key personnel with a five-year lock up period. Consequently, treasury stock totalled 20,020 shares as at 30 June 2013.

Treasury stock is valued at acquisition cost (cost method) at EUR 237k (31/12/2012: EUR 650k) and deducted from shareholders' equity. As at 30 June 2013 the 20,020 shares have an imputed share in capital stock of EUR 20,020 (0.2%). The average repurchase price was EUR 11.84 per share. Treasury stock was purchased for use as a consideration in mergers and acquisitions of other companies or parts of companies, to gain access to new capital markets, or to be issued to staff or members of the Managing Board.

Paid Dividends

EUR '000	
Dividend for 2011: 80 cents per share, distributed on 18 May 2012	7,976
Dividend for 2012: 80 cents per share, distributed on 17 May 2013	8,016

Contingent Liabilities/Assets

The init group had no contingent liabilities or assets as at 30 June 2013 or 31 December 2012.

Legal Disputes

init AG and other group companies are involved in legal disputes connected with ongoing business operations that may have an impact on the group's financial situation. Litigation involves a number of variables, and the outcome of individual lawsuits cannot be reliably predicted.

The affected group companies have recognised provisions in the balance sheet for events prior to the reporting date that are likely to result in a liability which can be estimated with reasonable accuracy.

We do not anticipate any other significant negative outcomes that would have a long-term effect on the assets, liabilities, financial position and earnings situation of the init group.

Please see additional information in chapter "Opportunities and risks" in the group status report.

Financial instruments

Classification and Fair Values

The following table states the book values and fair values of the financial instruments of the group reported in the balance sheet on 30 June 2013 compared to 31 December 2012.

The fair value of the listed securities and bond issues (available for sale) was determined using their respective market value. The fair 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. Given the short maturities of the cash and cash equivalents, trade accounts receivable, other assets, trade accounts payable, and other liabilities, it is assumed that their fair value is equal to the book value.

EUR '000	30/06/2013		31/12/2012	
ASSETS	book value	fair value	book value	fair value
Loans and receivables	**52,583**	**52,583**	**64,913**	**64,913**
Cash and cash equivalents	10,950	10,950	20,329	20,329
Trade accounts receivable	16,981	16,981	18,068	18,068
Future receivables from production orders	24,217	24,217	25,893	25,893
Receivables from related parties	0	0	0	0
Other assets (current)	290	290	430	430
Other assets (non-current)	145	145	193	193
Financial assets available for sale	**113**	**113**	**157**	**157**
Securities and bond issues	113	113	157	157
Financial assets reported at fair value through profit or loss	**839**	**839**	**810**	**810**
Derivative financial assets without a hedging relationship	839	839	810	810
LIABILITIES				
Financial liabilities recognised at cost	**12,610**	**12,610**	**11,873**	**11,873**
Bank loans (current and non-current)	4,847	4,847	4,008	4,008
Trade accounts payable	5,378	5,378	5,183	5,183
Liabilities to related parties	170	170	102	102
Other liabilities (current)	1,503	1,503	1,868	1,868
Other liabilities (non-current)	712	712	712	712
Financial liabilities reported at fair value through profit or loss	**51**	**51**	**218**	**218**
Derivative financial liabilities without a hedging relationship	51	51	218	218

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: Techniques in which all input parameters with a material impact on the calculated fair value are directly or indirectly observable.

Level 3: Techniques using input parameters that have a material impact on the calculated fair value but which are not based on observable market data.

EUR '000	30/06/2013				31/12/2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Financial assets available for sale								
Securities and bond issues	**113**	113			**157**	157		
Financial assets reported at fair value through profit or loss								
Derivative financial assets without a hedging relationship	**839**		839		**810**		810	
Financial liabilities reported at fair value through profit or loss								
Derivative financial liabilities without a hedging relationship	**–51**		–51		**–218**		–218	

In the reporting period ending 30 June 2013 and the reporting period ending 31 December 2012, 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.

Segment Reporting

Segment reporting is provided on page 20 of the interim group report.

Other Disclosures

Related Party Transactions

For further information about the associated companies included in the consolidated financial statements please see chapter "Consolidated group" and the annual report 2012.

EUR '000	Associated companies		Other related parties and persons	
	30/06/2013	30/06/2012	30/06/2013	30/06/2012
Trade accounts receivable and other income	0	14	0	0
Trade accounts payable and other expenses	1,353	1,282	237	237
	30/06/2013	31/12/2012	30/06/2013	31/12/2012
Receivables	0	0	0	61
Payables	170	108	0	0

Associated Companies

Payables totalling EUR 170k (31/12/2012: EUR 108k) refer to trade accounts payable to iris-GmbH with a residual term of less than one year. The item is recognised under current liabilities in the balance sheet.

Other Transactions with Related Parties

init AG began renting an office building in Karlsruhe from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG on 1 March 2013 (lease previously held by INIT GmbH). The monthly rent payments are approximately EUR 40k (total annual rent: EUR 475k). The rent is contractually fixed until 30 June 2026. A rental deposit of EUR 61k was provided in 2012. Total payments of EUR 18k made to family members of a Managing Board member were recognised under personnel expenses in the first quarter. In the second quarter these personnel expenses totalled to EUR 32k (30/06/2012: EUR 57k)

Terms and conditions of business transactions with related parties

Transactions (sales and acquisitions) with related parties are executed at market rates. No guarantees exist for receivables and payables in relation to related parties. As at 30 June 2013, the group had not set aside any valuation allowances for receivables from related parties.

Karlsruhe, 8 August 2013

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

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), driver dispatch systems and automotive (analysis systems for the car industry).

1 January 2013 to 30 June 2013 EUR '000	**Telematics and Electronic Fare Collection Sys.**	**Other**	**Eliminations and adjustments**	**Consolidated**
Revenues				
With third parties	34,611	2,446	0	37,057
With other segments	279	1,120	–1,399	0
Total revenues	**34,890**	**3,566**	**–1,399**	**37,057**
EBIT	**4,677**	**–538**	**18**	**4,157**
Segment assets	99,586	7,278	–3,131	103,733
Segment liabilities	48,238	4,419	–3,119	49,538
Interest income	77	2	–9	70
Interest expenses	218	16	–9	225
Scheduled depreciation	842	439	–2	1,279
Cost of revenues	21,881	2,602	–1,485	22,998
Research and development expenses	1,266	594	0	1,860
Foreign currency gains (+) and losses (-)	–289	–1	–50	–340
Share in profit of associated companies	129	0	0	129
Income tax	1,200	1	0	1,201
Value impairments	66	0	0	66
Share in associated companies	2,008	0	0	2,008
Investments in tangible and intangible assets, and investement property	2,512	56	0	2,568
31/12/2012				
Segment assets	103,023	10,788	–3,359	110,452
Segment liabilities	51,496	4,538	–3,339	52,695
Share in associated companies	1,879	0	0	1,879

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 four divisions: “Telematics and Electronic Fare Collection Systems”, “Planning Systems”, “Driver Dispatch Systems” and “Automotive”. The “Planning Systems”, “Driver Dispatch 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 2012 to 30 June 2012 EUR ‘000	**Telematics and Electronic Fare Collection Sys.**	**Other**	**Eliminations and adjustments**	**Consolidated**
Revenues				
With third parties	39,717	2,333	0	42,050
With other segments	419	982	–1,401	0
Total revenues	**40,136**	**3,315**	**–1,401**	**42,050**
EBIT	**8,352**	**–663**	**–117**	**7,572**
Segment assets	95,261	7,195	–6,208	96,248
Segment liabilities	41,449	3,929	–2,563	42,815
Interest income	118	3	6	127
Interest expenses	184	10	–6	188
Scheduled depreciation	790	424	–20	1,194
Cost of revenues	26,632	2,233	–1,361	27,504
Research and development expenses	1,178	727	0	1,905
Foreign currency gains (+) and losses (-)	2,441	2	0	2,443
Share in profit of associated companies	172	0	0	172
Income tax	2,555	0	0	2,555
Value impairments	405	0	0	405
Share in associated companies	1,790	0	0	1,790
Investments in tangible and intangible assets	1,007	114	0	1,121
31/12/2011				
Segment assets	102,516	10,733	–3,493	109,756
Segment liabilities	51,389	3,957	–2,528	52,818
Share in associated companies	1,618	0	0	1,618

Geographical Information

Non-current assets

EUR '000	30/06/2013	%	31/12/2012	%
Germany	17,721	87.5	17,132	90.4
Rest of Europe	307	1.5	215	1.1
North America	2,012	9.9	1,356	7.2
Other countries (Australia, UAE)	223	1.1	246	1.3
Group total	**20,263**	**100.0**	**18,949**	**100.0**

The long-term assets are composed of tangible fixed assets, investment property, other intangible assets, as well as interest in associated companies.

Consolidated Statement of Changes in Equity (IFRS)

as of 30 June 2013 (unaudited)

	Attributable to equity holders			
EUR '000	Subscribed capital	Additional paid-in capital	Surplus reserves and Consolidated unappropriated profit	Treasury stock
Status as of 31/12/2011	10,040	5,122	41,590	–1,196
Net profit			5,137	
Other comprehensive income				
Total comprehensive income			5,137	
Dividend paid out			–7,976	
Share-based payments		–438		398
Acquisition of treasury stock				–32
Status as of 30/06/2012	**10,040**	**4,684**	**38,751**	**–830**
Status as of 31/12/2012	10,040	5,579	44,718	–650
Net profit			2,875	
Other comprehensive income				
Total comprehensive income			2,875	
Dividend paid out			–8,016	
Share-based payments		596		413
Status as of 30/06/2013	**10,040**	**6,175**	**39,577**	**–237**

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		
–229	1,300	0	56,627	311	56,938
			5,137	–182	4,955
	–414	2	–412		–412
	–414	2	4,725	–182	4,543
			–7,976		–7,976
			–40		–40
			–32		–32
–229	**886**	**2**	**53,304**	**129**	**53,433**
–1,662	–347	0	57,678	79	57,757
			2,875	–74	2,801
	645		645		645
	645		3,520	–74	3,446
			–8,016		–8,016
			1,009		1,009
–1,662	**298**	**0**	**54,191**	**5**	**54,196**

Financial Calendar and Imprint

Date	Event
8 November 2013	Publication Q3 Report 2013
12 – 13 November 2013	Analyst conference, German Equity Forum, Frankfurt
27 March 2014	Publication Annual Report 2013 / Press Conference Frankfurt

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Five-Year Financial Summary of the init Group

IFRS

EUR '000	2012	2011	2010	2009	2008
Balance Sheet (31/12)					
Balance sheet total	110,452	109,756	84,421	71,610	57,951
Shareholders' equity	57,757	56,938	46,667	38,977	31,596
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ratio (in %)	52.3	51.9	55.3	54.4	54.5
Return on equity (in %)	18.8	26.4	21.5	21.3	18.7
Non-current assets	27,603	19,806	13,484	14,297	15,186
Current assets	82,849	89,950	70,937	57,313	42,765
Income Statement (01/01 – 31/12)					
Revenues	97,297	88,736	80,913	64,955	55,993
Gross profit	34,006	36,294	27,292	23,037	17,224
EBIT	17,318	20,430	15,085	11,754	8,597
EBITDA	19,895	22,891	17,592	14,157	10,169
Consolidated net profit	10,872	15,057	10,014	8,314	5,912
Earnings per share (in EUR)	1.11	1.51	1.00	0.84	0.60
Dividend (in EUR)	0.80	0.80	0.60	0.30	0.16
Cash Flow					
Cash flow from operating activities	11,332	17,433	14,615	5,570	7,146
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	25.70	19.99	15.89	11.30	8.80
Bottom share price (in EUR)	13.60	13.06	9.15	4.75	4.45

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