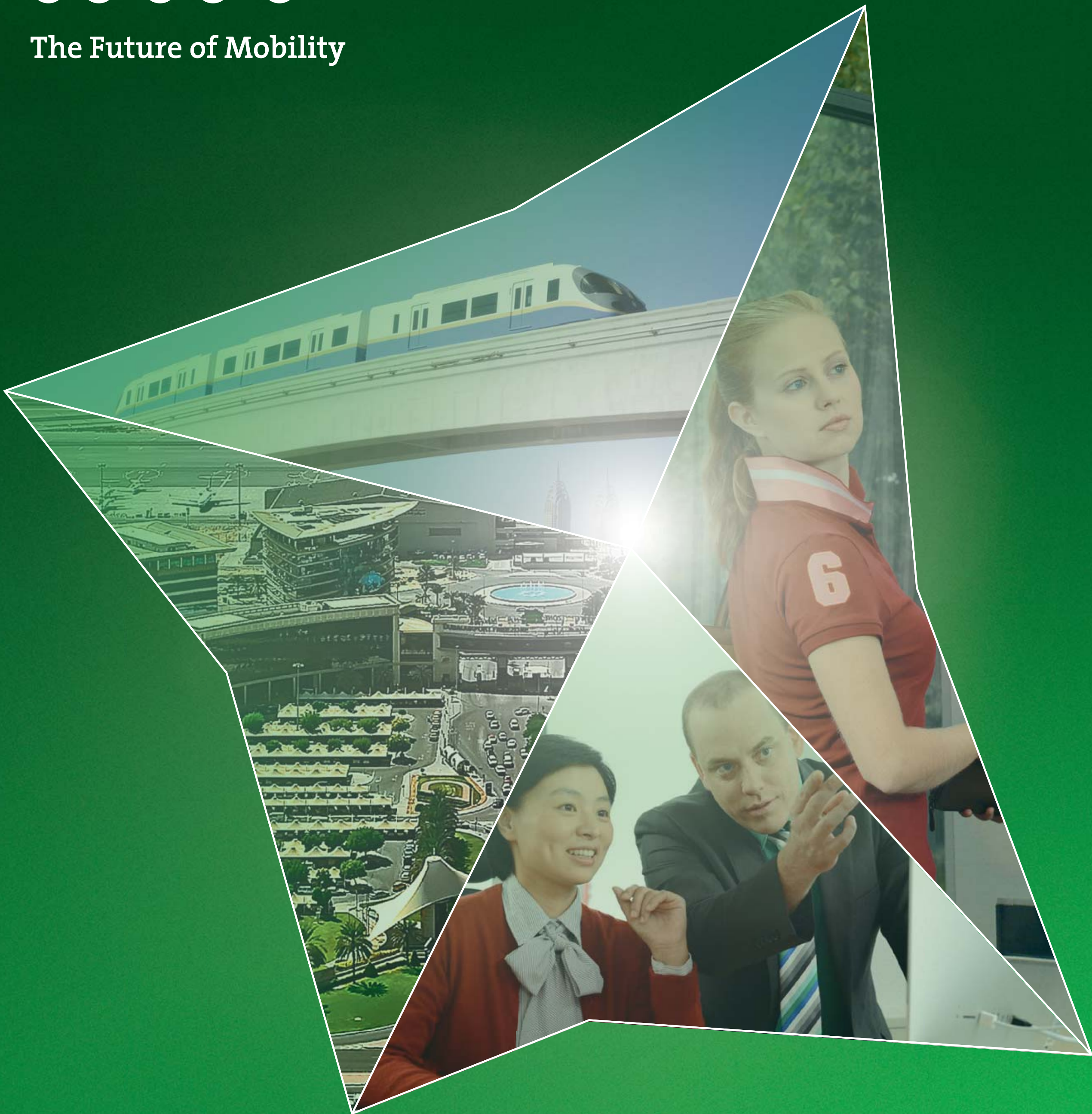
The Future of Mobility



Annual Report 2014

In line with the market
What drives init

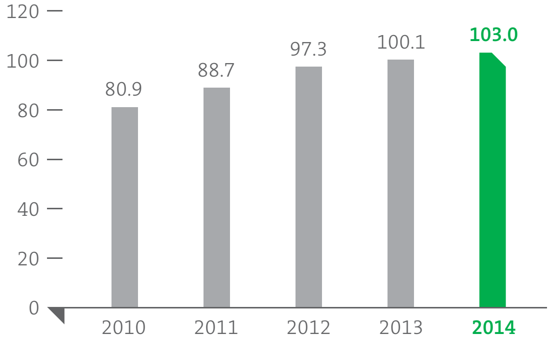
Group key figures

IFRS

EUR '000	2014	2013	Change in %
Balance Sheet (31/12)			
Balance sheet total	128,774	118,313	8.8
Shareholders' equity	67,770	62,092	9.1
Subscribed capital	10,040	10,040	0.0
Equity ratio (in %)	52.6	52.5	
Return on equity (in %)	17.8	19.4	
Non-current assets	34,537	28,198	22.5
Current assets	94,237	90,115	4.6
Income Statement (01/01–31/12)			
Revenues	102,993	100,120	2.9
Gross profit	36,581	37,456	–2.3
EBIT	18,685	17,725	5.4
EBITDA	21,690	20,501	5.8
Consolidated net profit	12,067	12,068	0.0
Earnings per share (in EUR)	1.20	1.21	–0.2
Dividend (in EUR)	0.80	0.80	0.0
Cash Flow			
Cash flow from operating activities	502	11,435	–95.6
Share			
Issue price (in EUR)	5.10	5.10	0.0
Peak share price (in EUR)	25.80	26.89	–4.1
Bottom share price (in EUR)	18.50	21.15	–12.5

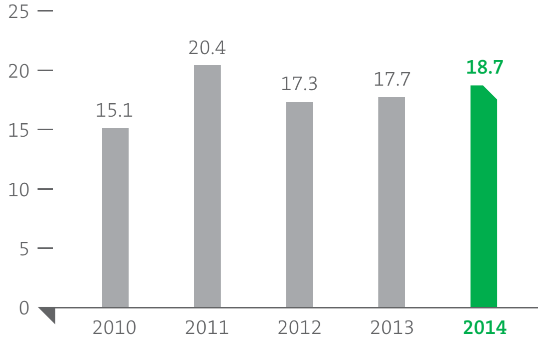
Revenue development

(in million EUR)



EBIT development

(in million EUR)



In line with the market
What drives init

The name init stands for innovations in the optimisation of public transport through intelligent telematics, planning, dispatching and ticketing solutions. The company's systematic focus on international growth markets consistently reinforces its global leadership.

init achieves this success by having a strategy that is purposefully aligned to customer requirements, a structure that supports this strategy perfectly, and a corporate culture that creates space for employees to contribute their own ideas and enjoy their own success.

Thus, the company will continue to play its part to ensure that bus and rail transportation becomes more attractive, efficient, and the first choice for an increasing number of travellers.

Content

What drives init

Dear Sir or Madam,
Dear Shareholders,

The past year has shown us just how quickly seemingly fixed pillars of our economic and currency systems can be rocked. Apparent certainties are no longer that, while the level of uncertainty has grown. Being able to preserve stability and demonstrate reliability in this environment is not a given.

We are therefore delighted that we are able to document precisely this in the 2014 Annual Report of init innovation in traffic systems AG. We have largely achieved our objectives, have once again generated record revenue and closed the financial year very successfully.

Our figures also demonstrate that we did not engage in any risky ventures during 2014. init deliberately kept its distance from risky markets and transactions which may have promised a profit in the short-term, but which would have weighed on the balance sheet over the longer term. For this reason, we were also - in contrast to our competitors - spared from payment defaults in 2014 and were able to further increase our revenues.

Our approximately 500 employees have worked to ensure the successful completion of init projects across four continents, the stable and reliable operation of our systems for more than 400 customers, the punctual running of tens of thousands of buses and trams around the world and the safe arrival of millions of passengers at their destination every day. We would like to take this opportunity to express our extreme gratitude for this!

The init share was thus also able to record a high level of stability. This reflects the confidence of investors in our corporate strategy based on sustainable growth.

We also want to continue along this path to success in future. 2015 has started very well for us. Innovative technologies, increasing demand for ticketing and integrated intermodal transport control systems in North America and Europe as well as a first pilot project in the Asian market provide us with opportunities for sustainable growth.

In order to exploit these, we need to invest in a timely manner. Following the successful expansion of our Karlsruhe site, we will therefore soon expand our branch in Chesapeake in the US. This is a necessary requirement in order to also secure our business success abroad over the long-term.

Thank you for the trust you have placed in us!

For the Managing Board

Dr. Gottfried Greschner, CEO
init innovation in traffic systems AG

Dr. Gottfried Greschner, CEO
(top left)

Joachim Becker, COO
(bottom left)

Dr. Jürgen Greschner, CSO
(top right)

Bernhard Smolka, CFO
(bottom right)

Managing Board Members

DR.-ING. GOTTFRIED GRESCHNER

> Chairman of the Managing Board (CEO)

> Born 1946

> Managing Board member since 2001

Vita

> Studies in electrical engineering at the University of Stuttgart. Research work in the field of fleet management 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 Director of INIT GmbH, Karlsruhe.

Awards:

> 1989 "Innovation award from the federal state of Baden-Wuerttemberg – Dr.-Rudolf-Eberle-Preis".

> 2002 "Entrepreneur of the Year".

> 2014 Special Career Service Award as part of the "Talent in Mobility Awards 2014" in Paris.

DIPL.-KFM. DR. JÜRGEN GRESCHNER

> Managing Board member, Sales (CSO)

> Born 1961

> Managing Board member since 2004

Vita

> Studies in technically oriented business management at the University of Stuttgart. Project manager in a special research area at the Deutsche Forschungsgemeinschaft (DFG – German Research Foundation).

> 1996 Doctorate to gain qualification of Dr. rer. pol. (Doctor in Economic and Social Science) at the University of Stuttgart.

> 1996 joined INIT GmbH Karlsruhe as commercial director.

> 1999 Founding and President / CEO of INIT Innovations in Transportation Inc., Chesapeake / VA, US.

DIPL.-INFORM. JOACHIM BECKER

> Managing Board member, Telematics Software and Services (COO)

> Born 1956

> Managing Board member since 2001

Vita

> 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.

DIPL.-KFM. BERNHARD SMOLKA

> Managing Board member, Finance (CFO)

> Born 1961

> Managing Board member since 2001

Vita

> Studies in business management at the University of Mannheim.

> 1989–2000 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.

Interview with
the CEO Dr. Gottfried Greschner

Dr. Greschner, how satisfied are you with the performance of init in 2014?
I am very satisfied. We have achieved what we planned, although it was not easy in this environment.

What were the biggest challenges in 2014?
The biggest challenge was managing three major projects at the same time. In Luxembourg, the VDV core application, the German ticketing standard, was implemented abroad by init for the first time. In doing so, we implemented functions that had previously not even been realised before in Germany in this manner. For the Rheinbahn project in Düsseldorf, we had to completely replace the current system of a competitor. In Montreal – our largest project at present – the challenge was developing the entire system predominantly in French. For a project of this scale, this represented new territory for us.

Düsseldorf, Luxembourg and Montreal are examples of smartcities, where new opportunities in all areas of life are arising due to the spread of smartphones and apps. Does this have an impact on new tenders?
Yes. For us, however, this ultimately opens up a wider range of applications for our systems. In North America, for example, the need for new payment systems is currently on the rise. This ranges from individual card systems for transport companies to ID-based systems such as for credit cards. In the US, Portland is our flagship project here. Interestingly, things are moving in a different direction in Europe, with tickets or money being booked to a card. This is also the case in France and United Kingdom. I am very excited to see which technology will ultimately win. My prediction is that these systems will co-exist with each other for quite a while. However things turn out, we are experts in all of the relevant areas.

So will the much-anticipated standardisation not come about as quickly as had been expected?

I am absolutely convinced that we will not see a standard system here. While there will be fewer different systems, there will not be a "global standard". This, of course, represents an opportunity for a medium-sized company such as init, to serve all of these standards.

Is this specialist knowledge for transport companies still important when faced with today's global competition?

Yes. Our competitive advantage is precisely that we have specialist knowledge regarding what transport companies need. We have our own planning tool – a powerful software package that can be used to optimise, structure and manage all of the relevant processes. At the next level, we then have the ITCS, an integrated control system that we can use online to control large fleets of vehicles. Our largest system here is in operation in Bavaria with more than 3,000 vehicles. We have put one of the most advanced systems of this kind into operation in Nottingham for four companies with more than 1,000 buses and trams. To master a project on this scale requires a great deal of specialist knowledge, built up over a period of decades as well as special software. We have both of these.

In major cities, the transport systems – private and public transport – are being increasingly linked with one another. Car-sharing models and the first automatically guided vehicles are new factors that now also must be added to the equation. Do you tend to view these developments as chances or risks for init?

These developments provide us with opportunities to develop ourselves further. We are also involved in several research projects in this area. The role of init here is to provide the interfaces and information for other systems and also to take information from other systems and process it further. This is something we have already put into practice in many cases. One example in this regard is the on-demand bus service in Bavaria, where we already operate and control more than 30 on-demand buses running in rural areas. Our strategy is to gradually grow into these technologies and establish ourselves with these transport associations. This has paid off.

What do you believe will be the most important technological developments for the future?

For me, the most important technological development is e-ticketing. This will make it ever easier to use buses and trams, for example with a check-in / check-out system. Simply show your card, check in when you get on the tram and check out again when you get off. The most favourable fee in each case is then charged. This system is already in place in some cities. The next stage of development here will be to integrate other card systems, including credit cards. Thanks to new technology, the systems will also become increasingly efficient, for example as regards passenger information. We have developed an app that captures your surroundings using the smartphone's built-in camera. The locations of the nearest stops are then displayed in this image. Simply click on the respective stop once and the next departure times are provided. Click again and you are then told the quickest way to get to the stop in question.

In Asia, there are many urban areas, so-called megacities, where the traffic flows need to be controlled appropriately. Is this a market that init will increasingly turn to?

Yes. With the technology at our disposal, we have already found a starting point. We now have our first pilot project. This is exciting, as it involves controlling passenger flows and because the result may enable the transport company to save millions. In Asia, a great deal of activity will be seen in this area in future. Thanks to our German technology, our quality and our know-how, we can certainly make a significant contribution to solving the mobility problems experienced by Asia's megacities.

In this context, how do you view other markets such as South America or Africa?

It's all at too early a stage for us. The transport companies there are simply not at the required technological level. The Asian market expects highly developed technology and a high level of quality. In South America, this technology needs to be, above all else, inexpensive – and even cheaper in Africa. This just isn't our market.

In recent times, the performance of the euro has been very beneficial for the competitiveness of init? Do you see any new opportunities here?

Yes, of course. We traditionally generate around 50 per cent of our revenues in the dollar area. Nevertheless, we also provide part of the service in the US. It certainly helps us if the euro is weak but the effect is not as great as it would be if we were to process everything in Europe.

What is the situation then with Switzerland following the recent depreciation of the euro against the Swiss franc?

The companies in Switzerland and also our competitors located there have been shaken by this development. However, Swiss transport companies can now make cheap purchases in the eurozone. We are optimistic that we can win one or two projects there. Nevertheless, this will primarily involve replacement investments and the market for this is not so huge.

On the other hand, there has also been an increase in geopolitical risks recently. Does this represent a threat for the development of init?

I only see risks at a macroeconomic level. When a war breaks out, we all suffer. Specific risks for init should not be sought in individual countries, but rather in terms of technology, where we always need to be at the cutting edge. We are not active in Russia, Ukraine and the eastern European markets, although we do receive a large number of enquiries. We deliver absolutely nothing to these states and this is also not something we are looking to do, simply because there is no transparency there as regards the tendering process and the markets are also dominated by just a few groups. As such, we are not losing any markets as a result of the current crisis.

Which markets is init particularly focussing on?

Markets which have high technological standards and a high standard of life, such as the Scandinavian markets, are important for us. We are very successful here and we have also started the new year with considerable follow-up orders from this region. The United Kingdom is an important market for us, as we have something to offer here in terms of technology and the local transport companies are also willing to invest in this. In France, we are hoping to establish ourselves even more. And of course, the focus is furthermore on the North American market as well as on the Asian megacities.

Where should init's growth come from during this year and in subsequent years?

2015 has started very well and with new orders. We have seen an increase in maintenance contracts and have a good basic order backlog. We have also recently won several new system tenders in Germany. This shows that we remain on a growth path. And we have two sustainable growth drivers: The first is North America and the overall ticketing issue, with intermodal transport control systems also being renewed here in some cases. The situation is also likely to be similar in some European markets and we also have good opportunities here. The second growth driver is the Asian market. While we still need to be a little patient here, I am convinced that upon the successful completion of the currently ongoing pilot project we will quickly be able to also work in Asia in a profitable manner.

Thank you very much for talking to us, Dr. Greschner!

Markets

Mobility in transition

In the coming years, public transport will only continue to increase in importance worldwide, especially in the fast-growing metropolitan regions. With its unique expertise, innovative hard- and software solutions, and international network, init is optimally prepared for flourishing in this transitioning market.

Drivers of innovation

Public transport is becoming an increasingly important factor for ensuring quality of life in both urban and rural areas. Therefore, it is not surprising, that the International Association of Public Transport (UITP) is aiming to double public transport's market share by 2025. For init, this will result in the advantage of being active in a growing market.

The demands of the market are changing continuously, because mobility itself is shifting in response to the progressive urbanisation of large cities and metropolitan areas, the demographic change and new technical possibilities. In addition, the general efforts to make public transport more attractive and efficient are leading to internationally varying requirements.

Comprehensive market expertise

With its solutions, init offers answers to the challenges faced by transport companies all over the world. Whether for the conceptual renewal of transport in rural areas or the expansion of existing structures in major cities, init's product portfolio reflects the widest range of customer requirements, and addresses all traffic and operational scenarios.

This especially applies to the coverage of market-specific features, for example due to differing labour regulations. Here too, init has comprehensive know-how thanks to its systematic international orientation. This proximity to potential local customers is paying off and enabling the company to tap into emerging markets.

One of the current growth drivers is the trend towards connected mobility, i.e. the improved integration of different transport systems and companies. Moreover, the integration of upstream or downstream transportation modes – such as bicycles or electric-car rentals – creates closed mobility chains.

As in other areas, digitalisation is also having a noticeable impact on public transport markets. With its product portfolio, init has responded to this ongoing development.

Luxembourg implements an integrated solution

A pioneering inter-mobility project is currently being realised in the heart of Europe. The Luxembourg Ministry of Sustainable Development and Infrastructure and the Transport Association, Verkéiersverbond Luxembourg, have agreed on a mobility project for the whole country – and on init as the right partner for the project. Consequently, an integrated telematics and ticketing system has been established that ensures maximum cross-linking of different public transport systems, including the Luxembourg railway.

In the near future, bus services of 37 transport companies will be managed in a single client-based system. In this way, passengers will benefit from the cross-company passenger information. With multi-modal ticketing, they can also buy tickets for all associated carriers. In Luxembourg, the cross-linking goes even further and includes other service providers in the mobility chain. For instance, passengers can also open their secure bicycle parking space with their mobility card.

Luxembourg is a flagship project in other respects, too. For example, in terms of technical management, where init provides comprehensive hosting and other services for this highly integrated system.

CONNECTED MOBILITY

In April 2014, TriMet, the transport authority from Portland, Oregon, USA, commissioned init to implement an account-based fare management system that also enables payments using contactless credit cards and NFC phones. C-Tran, its neighbouring company from Vancouver, Washington, then adopted the solution in early 2015. The project creates a cross-state ticketing system offering passengers maximum convenience at the best possible price.

Dovetailing the services of different transport modes is a key element of ultra-modern ticketing systems. The Luxembourg project, for example, includes secure bicycle parking spaces which can also be opened at PROX-mobil terminals using the nationwide mobility card, mKaart.

Rethinking **mobility**

Strategy

init's vision is to make technological progress available quickly for public transport. Innovations are not an end in themselves, but rather contribute to achieving the customers' objectives.

Public transport wins

The goal of transport companies is to get more and more people to switch to buses and trains while operating economically. init supports them by providing integrated soft- and hardware solutions that on the one hand allow them to offer their passengers an attractive service, and on the other, to control their operational processes as effectively as possible.

A good example of this is the Intermodal Transport Control System, MOBILE-ITCS. This fleet management tool creates a win-win situation for all parties: Passengers arrive comfortably and on time at their destination, the work of transport employees is facilitated, and companies are more successful all-round.

Holistic, integrated and modular

Because init considers the various operational control processes holistically, the company can offer integrated overall solutions that cover all operational tasks. This is where init's solutions demonstrate their strength. They offer functional added value and allow transport companies to exploit synergies. But customers who initially opt for only one module from the init product portfolio, also benefit from this in-depth understanding of the processes.

init's success is built on close, long-standing relationships with their customers. Even after a project has been completed, init encourages intensive dialogue, for example, at user conferences.

Linking knowledge

Swarm intelligence is a current buzz word that init has been putting into practice for a long time. The principle of collective intelligence has aided the development of innovative products through the close cooperation with universities and transport associations over the years. Other innovation drivers are participation in research projects and ideas from customers. For example, init offers customers at user conferences and during working groups the opportunity to collectively influence future product development.

The project developer

Besides a modular portfolio, init's corporate strategy includes establishing an international presence in promising growth markets, and focusing on the specific requirements of customers.

This means in particular that init works hand in hand with customers. In this way, solutions are jointly created that optimally reflect the conditions at the transport company and which address the latest market trends. And since every challenge increases knowledge, other init customers benefit from this expertise, too. The large number of successfully completed projects for more than 400 customers makes one thing clear: Transport companies worldwide are opting for init's experience-based advantage.

Rapid response to changing markets

Purchasing the appropriate ticket is one of the biggest access barriers in public transport. For this reason, advanced transport companies are placing a strong emphasis on intuitive, comfortable ticketing systems. init is responding with innovative concepts such as best-price calculation, check-in / check-out systems, and interlinked sales systems that integrate different service providers in the mobility chain.

Providing real-time information is also becoming more and more vital, in particular through the use of apps and other new information channels. init is steadily expanding its product range in response to the increasing importance of mobile devices and platforms such as Facebook and Twitter. ONLINEinfo, for example, optimally processes traffic information for new media.

Customer focus

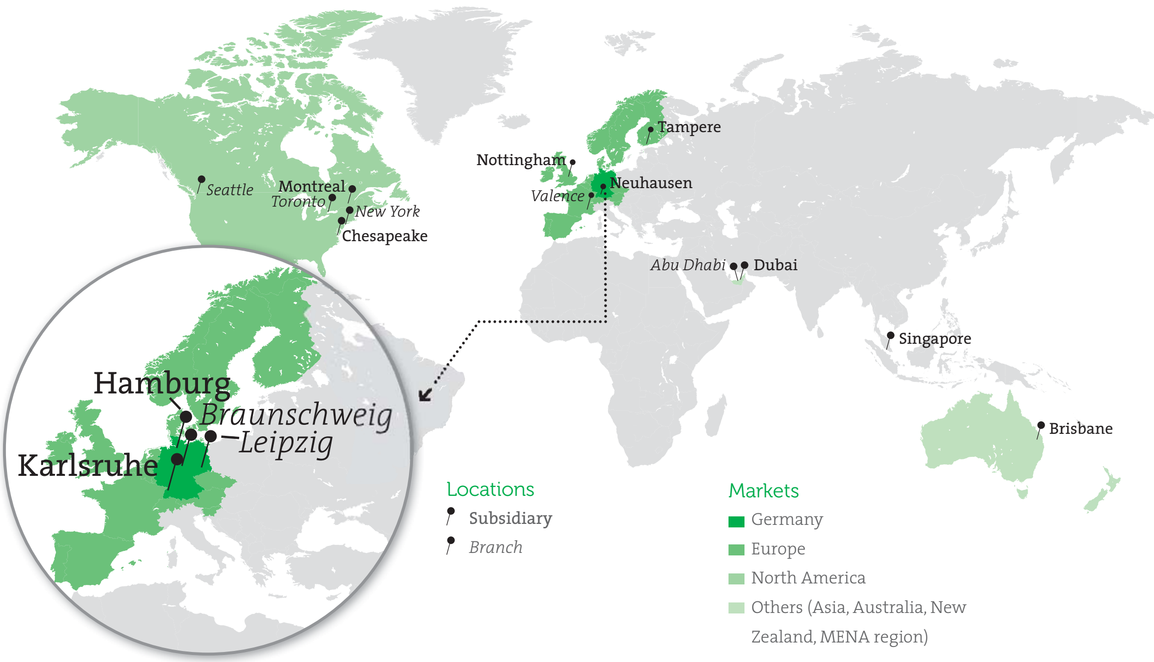
With its international orientation, init is well positioned for further growth. The structure of the company is continuously adapted to always provide the best possible support to customers.

Closer to the market

Hundreds of successful projects are a clear indication that transport companies are opting for the telematics, planning, dispatching and ticketing systems of the Karlsruhe-based company. Much of this success is due to the company's dedication to always be close to its customers. Subsidiaries and offices in Europe, North America, the Middle East and the Asia-Pacific region mean that the company is able to live up to its role as a reliable project partner, with the employees in every country speaking the customer's language. Not only are they often native speakers, but also proven public transport experts. They know the specific local requirements as well as the best international solutions, thereby securing a clear competitive advantage for init.

GOING LOCAL

The only way to devise the perfect solution is by gaining a clear picture of the specific requirements and constraints. For this reason, init is always close to their customers, like here in the Dubai Airport Free Zone.



The init tower at the headquarters is scheduled for completion in May 2015 and offers a good opportunity for optimising structures and processes. It will have space for around 200 additional workplaces, thereby allowing for a work-process-oriented layout.

IDEALLY POSITIONED

init is now based in 17 locations around the world, enabling them to provide optimum customer care, as well as open up new markets.

To ensure this advantage is ongoing, the corporate structure must be continuously adapted to keep in step with changing markets. Where are new offices required to develop promising markets? Where should an office become more independent? Where does it need head office support? All these questions are ones that init continuously asks itself in order to identify and exploit opportunities for improvement.

Structure follows strategy

The internal corporate structure follows the principle of the learning organisation. Here too, the ultimate goal is to meet the needs of the markets in the best possible way. If needs change or if a solution proves unsuccessful, structures change in the dynamic company. For example, teams are restructured in order to process customer orders more efficiently, capacities are expanded, or new divisions set up, such as technical management. Each of these steps is aimed at supporting the corporate strategy as best as possible.

Creating **space**

Culture

The corporate culture at init shapes the daily interactions amongst employees, with customers and partners. It promotes employee capability and innovation, and is the foundation for the company's success.

Ideal conditions

init wants its employees to work independently and to be passionate about their work and – with flexible working hours, family-friendly regulations and opportunities for education and sport – has established ideal conditions for attracting them. The work culture is characterised by horizontal hierarchies, and the opportunity to quickly take on responsibility and contribute one's own ideas.

init employees appreciate this leeway, and it is why they generally contribute their skills and ideas to the company over many years. The employees share in the company's success and have for many years enjoyed higher than average bonuses in the form of additional payments and shares, thanks to the outstanding corporate results.

Long-term cooperation is also the hallmark of init's relationship with its customers. It is characterised by trust, reliability and comprehensive service. This ensures the ongoing success of the projects realised for customers. Together with them, init develops their systems further and continuously adapts them to new requirements.

Allowing others to benefit from its success is an idea that characterises the company's social commitment. init participates in social, educational, cultural and sports projects – both regionally and beyond.

SUCCESSFUL TOGETHER

The will to assume responsibility and to enjoy freedom of action, the desire to be creative and to be part of a team, the pleasure of doing a job that makes a difference in people's lives, and the joy of achieving success – these are all attributes of an init employee.

Dear Sir or Madam,

In this report, my colleagues and I would like to inform you about our activities, particularly about the supervision of the Managing Board for which the Supervisory Board is responsible pursuant to the articles of incorporation and the German Stock Corporation Act, and to make the deliberations and decisions of the Supervisory Board in the 2014 financial year transparent for you.

The 2014 financial year was another very pleasing year for init AG. Earnings before interest and taxes exceeded the previous year's level, and the return was exceptional. The financial crisis affecting numerous states, however, led to the postponement of investments. Despite this, the Supervisory Board sees considerable potential for the future. It expects that init will share in this development due to its global positioning. However, init's customers appear to be becoming more price-sensitive.

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 advise the Managing Board and monitor its management. The briefings and discussions at the Supervisory Board meetings involved all the important issues and measures pertaining to the company and business operations. The Supervisory Board did not form any committees due to the size of the company and the size of the Supervisory Board (three members). It has undergone an efficiency review as part of a self-evaluation. This focussed on organisational issues, information for the Supervisory Board and human resources matters. The members of the Supervisory Board took part in training measures.

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. In addition, transactions relevant to reporting were disclosed on an ad-hoc basis. Between meetings, the Chairman of the Supervisory Board informed the members of the Supervisory Board in a timely manner, orally and in writing, of any discussions with the Managing Board. The members of the Supervisory Board were present at all five meetings.

The financial year was also dominated by personnel changes. At the close of 30 June 2014, Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau stepped down as Chairman of the Supervisory Board of init AG due to his age. The Supervisory Board and Managing Board held a celebration to express their appreciation for the outgoing Chairman's dedication to the group over 13 years.

At the Annual General Meeting on 15 May 2014, Dipl.-Ing. Ulrich Sieg was elected as a new member of the Supervisory Board from 1 July 2014. The current Deputy Chairman, Dipl.-Kfm. Hans-Joachim Rühlig, was elected as Chairman with immediate effect at a constitutive meeting on 1 July 2014. Drs. Hans Rat was elected as Deputy Chairman at the same meeting.

Focal points of the Supervisory Board meetings

The Supervisory Board monitored the group's development at its four ordinary meetings and one constitutive meeting in 2014. The Managing Board provided detailed information on the company's situation and its business performance. Based on the reports by the Managing Board, the following areas in particular were discussed: the economic situation including business and liquidity planning, new orders, order backlog, potential risks, compliance issues, legal disputes, key business processes, projects

Hans-Joachim Rühlig,
Chairman of the Supervisory Board
(top left)

Drs. Hans Rat, Deputy Chairman
of the Supervisory Board
(top right)

Ulrich Sieg, Member of the
Supervisory Board (bottom left)

of particular importance, critical subsidiaries and medium- and long-term corporate strategy, including organisational issues and human resources planning / development. Furthermore, all quarterly financial statements were discussed with the Managing Board. The Managing Board reported regularly on the status of the expansion project at the Karlsruhe location. The building is scheduled for occupation at the end of May.

Alongside the aforementioned matters, the following specific issues were discussed with the Managing Board at the four ordinary Supervisory Board meetings:

At the meeting on 19 March 2014, we addressed the consolidated financial statements of init AG and the annual financial statements of the main group companies, all dated 31 December 2013, as well as the dependent company report for 2013. We had the results of the audits explained to us in detail by the auditor. The auditor was questioned by the Supervisory Board about the audit and additional topics, including key accounting and valuation principles, accounting in accordance with the German Commercial Code (HGB) and IFRS, early risk detection, specific audit procedures in the subsidiaries, prevention of irregularities in particular with respect to anti-corruption-related measures and individual matters in the Management Letter. Other topics at this meeting included the proposal to pay a dividend, the agenda for the Annual General Meeting taking place on 15 May 2014, the revised business plan for 2014 and personnel changes in the Supervisory Board and Managing Board. The rules of procedure of the Supervisory Board were also amended, and the outstanding second management level employees were appointed.

At the meeting on 14 May 2014, in addition to the ongoing issues, the procedure at the Annual General Meeting to be held on the following day was discussed in particular. In addition, the performance of the subsidiaries was discussed and evaluated in detail, and the outstanding employees of the second management level beneath the Managing Board were presented. Additionally, personnel changes in the Managing Board were discussed, and the relationship between Management Board and employee compensation was explained by the Managing Board.

At the meeting on 9 October 2014, the Managing Board reported on business performance in the first half of 2014 and in the current third quarter of 2014 and discussed the issues involved with the Supervisory Board. In addition, the rules of procedure of the Managing Board and Supervisory Board were amended.

At the final meeting of the 2014 financial year, on 16 December 2014, in addition to the routine issues, the business plan for 2015, market trends and the order situation in the various markets were also discussed. Furthermore, the Supervisory Board approved the resolution on the Managing Board share bonus, and advised on and signed the Declaration on the German Corporate Governance Code pursuant to the version of 24 June 2014.

Audit of annual and consolidated financial statements

The annual financial statements and the status report of init innovation in traffic systems AG as of 31 December 2014 were prepared on the basis of the principles of the German Commercial Code (HGB). The consolidated financial statements and the group status report dated 31 December 2014 are set up according to International Financial Reporting Standards (IFRS) principles.

All these documents have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, appointed by the Annual General Meeting as auditor of init innovation in traffic systems AG and group auditor. They all received an unqualified audit opinion. The annual financial statements and status report, consolidated financial statements and group status report as well as the auditor's audit reports were provided to all members of the Supervisory Board.

The annual financial statements and status report, consolidated financial statements and group status report as well as the auditor's audit reports were discussed in detail with the Managing Board and the auditors at the Supervisory Board meeting of 18 March 2015. The responsible auditors reported on the key results of their audit, in particular on the internal control and risk management system in relation to the reporting process. The auditors also provided information on the services rendered in addition to the audit and on their independence as defined in commercial law. Detailed answers were given to questions raised by the members of the Supervisory Board. Based on this evidence and its own audit, the Supervisory Board came to the conclusion that the applied auditing procedures were reasonable and appropriate and that the figures and computations contained in the financial statements had been adequately tested and are consistent.

The Managing Board has presented its proposal to the Supervisory Board on the appropriation of profits. Under the proposal, the following appropriation of retained earnings in the amount of EUR 17,412,695.68 will be recommended at the Annual General Meeting on 13 May 2015: Distribution of a sum total of 80 cents per dividend-bearing share. The remaining profit is to be carried forward. The Supervisory Board endorsed this proposal.

We conclusively examined the annual financial statements, the status report and the proposal for the appropriation of profit, the consolidated financial statements and the group status report on 18 March 2015. No objections were raised. We therefore agree with the results of the audit. The financial statements of init innovation in traffic systems AG as prepared by the Managing Board have been adopted and the consolidated financial statements approved.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, also audited the report on 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 the audit and assessment performed in accordance with our professional duties, we hereby confirm that

- the factual statements contained in the report are correct,
- payments of the company for the legal transactions referred to in the report were not inappropriately high and
- 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 reviewed the dependent company report. It did not raise any objections to the final statement of the Managing Board or the results of the audit by the auditors.

The Supervisory Board also adopted the Supervisory Board's report at its meeting on 18 March 2015.

Corporate Governance Code

The Supervisory Board actively implemented and monitored compliance with the German Corporate Governance Code. In this context, the amendments to the German Corporate Governance Code of 24 June 2014 were taken into consideration. On 16 December 2014, the Managing Board and the Supervisory Board jointly issued an updated Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to 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 corporate governance at init innovation in traffic systems AG in this annual report.

Should any changes be made to this Compliance Statement during the financial year, we, together with the Managing Board, will immediately update this information and make it available to all shareholders on the homepage of init innovation in traffic systems AG.

The Supervisory Board thanks all employees and the Managing Board for their dedication and hard work in 2014. Our thanks also go to our shareholders, customers and business partners for their trust.

Karlsruhe, March 2015

On behalf of the Supervisory Board
Dipl.-Kfm. Hans-Joachim Ruhlig
Chairman of the Supervisory Board

Supervisory Board Members

DIPL.-KFM. HANS-JOACHIM RÜHLIG

> Ostfildern, Germany

> Born 1948

> Supervisory Board member since 2011 / Chairman since 2014

> Elected until AGM 2016

Vita

> Independent financial expert within the meaning of § 100 para 5 AktG

> Since 1994 at Ed. Züblin AG, from 2007 to 2013 in the Managing Board as CFO

Other Supervisory Boards or Advisory Boards

> none

DRS. HANS RAT

> Schoonhoven, Netherlands

> Born 1945

> Supervisory Board member since 2012 / Deputy Chairman since 2014

> Elected until AGM 2016

Vita

> From 1998 to 2012 Secretary General of the International Association of Public Transport (UITP)

> Honorary Secretary General of UITP

> Managing Director of Beaux Jardins B.V., Schoonhoven, Netherlands

Other Supervisory Boards or Advisory Boards

> none

DIPL.-ING. ULRICH SIEG

> Jork, Germany

> Born 1949

> Supervisory Board member since 2014

> Elected until AGM 2016

Vita

> Since 1978 at Hamburger Hochbahn AG, from 1999 to 2014 in the Managing Board for bus and metro

> Technical consultant for the public transport journal "Nahverkehrspraxis"

> Consulting engineer specialising in public transport

Other Supervisory Boards or Advisory Boards

> Member of the Supervisory Board of SECURITAS Holding GmbH, Duesseldorf, Germany

Corporate Governance Report

Under the present principles of the relevant code in Germany (GCGC – German Corporate Governance Code), corporate governance spans the entire corporate management and monitoring system. The Code aims to enhance 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 are thus key aspects of good corporate governance.

In the following, we aim to provide a transparent and clear picture of the rules and regulations applicable in Germany and describe how they are internalised at init.

Declaration of Compliance with the German Corporate Governance Code as amended on 24 June 2014

In compliance with the 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 Federal Official Gazette each year, and to disclose any deviation from these recommendations. The Declaration of Compliance with the Code must be accessible on the company's website 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 deviations in its annual Declaration of Compliance. Deviations from the suggestions of the Code do not require disclosure. The Managing Board and Supervisory Board thus made the following declaration on 16 December 2014:

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 dated 24 June 2014 with the following exceptions and make the following Declaration of Compliance in accordance with Section 161 of the AktG.

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

Interaction between the Managing Board and the Supervisory Board

> The D & O insurance does not provide for an excess payable by members of the Supervisory Board (item 3.8 para. 3 of the Code).

  init innovation in traffic systems AG does not believe that agreeing to an excess would encourage the performance and motivation of the members of the Supervisory Board and the willingness to hold this office.

Managing Board

> A quantitative limit on the variable compensation elements is defined as follows (item 4.2.3 para. 2 of the Code):

  The variable compensation in cash is limited to 33.3 per cent of the base salary. In addition, there is a stock bonus, which is limited to a maximum number of shares.

- The individualised disclosure of the remuneration for the Management Board can be omitted if the Annual General Meeting decides so by a three-quarters majority (item 4.2.4 of the Code).

  The Annual General Meeting on 24/05/2011 decided with a three-quarters majority not to report the individualised disclosure of the remuneration for Management Board members for a period of five years.

- An age limit is not specified for members of the Managing Board (item 5.1.2 para. 2 of the Code).

  Age limits for members of the Managing Board are not considered by init innovation in traffic systems AG to be in the company's interests in a market that requires flexibility and special expertise.

Supervisory Board

- The Supervisory Board has not formed 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 init considers this impractical due to the size of both the company and the Supervisory Board (three members).

- No age limit has been specified for members of the Supervisory Board. The Supervisory Board has not given any specific goals for its composition (item 5.4.1 para. 2 of the Code).

  In proposing future candidates at the Annual General Meeting, the Supervisory Board will take account of the legal requirements and focus exclusively on the professional and personal qualifications of the person – regardless of gender.

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

Shareholders and the Annual General Meeting

At the Annual General 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 Annual General Meeting, shareholders have the opportunity to address the meeting on any items on the agenda, to raise relevant questions and to file motions. Shareholders can exercise their voting rights at the Annual General 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 carries one vote.

The Annual General Meeting of init innovation in traffic systems AG is held within the first eight months of the financial year. The Annual General Meeting is chaired by the Chairman of the Supervisory Board.

Supervisory Board

The Supervisory Board acts in an advisory capacity to the Managing Board and monitors its affairs. It is also responsible for appointing members of the Managing Board and defining their number. Aspects of the diversity are taken into account in the selection. The Supervisory Board of init innovation in traffic systems AG comprises three members who bring additional expertise to the management of the company thanks to their many years of experience in executive roles. The Supervisory Board considers itself to be independent according to its own assessment.

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 provides the Supervisory Board with regular, timely and comprehensive information about any key issues relating to the company's business development, risks and corporate strategy.

The Managing Board of init innovation in traffic systems AG currently comprises four members. Unlike with other companies, each member is very actively involved in the day-to-day operations of their respective company units, which they also manage. In keeping with the practices of responsible business management, they are therefore very close to the key reference groups of a company, its customers, suppliers, employees and shareholders. This makes it possible for them to react quickly to new situations.

The ethical guidelines of init innovation in traffic systems AG play a key role in the decisions on how to implement the corporate vision and mission. They serve as a basis for everything the company does, creating trust, credibility and transparency. They are a key factor in the success of our company. The ethical guidelines are published on init website under "Company / Philosophy".

Transparency

Consistent, comprehensive and timely information are a fundamental principle at init innovation in traffic systems AG. The results and business situation of the company are reported in the annual and quarterly reports as well as in ad-hoc and current press releases which are accessible after publication in German and English on the init website under the Investor Relations section.

In addition, shareholders and the public will find there information on the organisational structure of init AG, on the members of the Management Board and the Supervisory Board. Also dates for regular financial reporting are summarised in the financial calendar.

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 after the end of the financial year. Within the scope of the audit, the auditor immediately advises the Chairman of the Supervisory Board of all key issues and events which may arise during the audit. The Supervisory Board monitors the independence of the auditor and proposes to the Annual General Meeting an auditor for election.

Working principles of the Managing Board and Supervisory Board

The Managing Board and 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 provides the Supervisory Board with timely and comprehensive information about all relevant issues 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 – if necessary – in writing to advise the Chairman of the Supervisory Board regularly about business development and the situation of the company including its affiliated companies. All members of the Managing Board must 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 provided to the Supervisory Board in writing one week prior to its meeting.

The areas of responsibility of members of the Managing Board are based on 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 transactions affecting one or more business areas 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 participating interests, 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

In total, the Boards directly or indirectly hold 3,836,383 shares in the company as of 31 December 2014, which corresponds to 38.2 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.

Securities transactions of Managing Board and Supervisory Board members or people closely connected to them must be published immediately. The disclosure requirement includes any acquisition or sale exceeding EUR 5,000 per calendar year. init innovation in traffic systems AG publishes these transactions immediately. A list of the reported Directors' Dealings in the 2014 financial year is available at www.unternehmensregister.de.

Investor Relations

Share price follows sustainable growth trend

The prices on the leading share markets were subject to major fluctuations in 2014. While crises and political conflicts in the Middle East and in Ukraine triggered huge setbacks in the short-term, the medium to long-term trend continued to be defined by historically low interest rates and persistently expansive monetary policy of the central banks in Europe, North America and Asia. The resulting surplus liquidity propelled the share markets in particular, prompting new highs on a broad front for the leading indices and their securities.

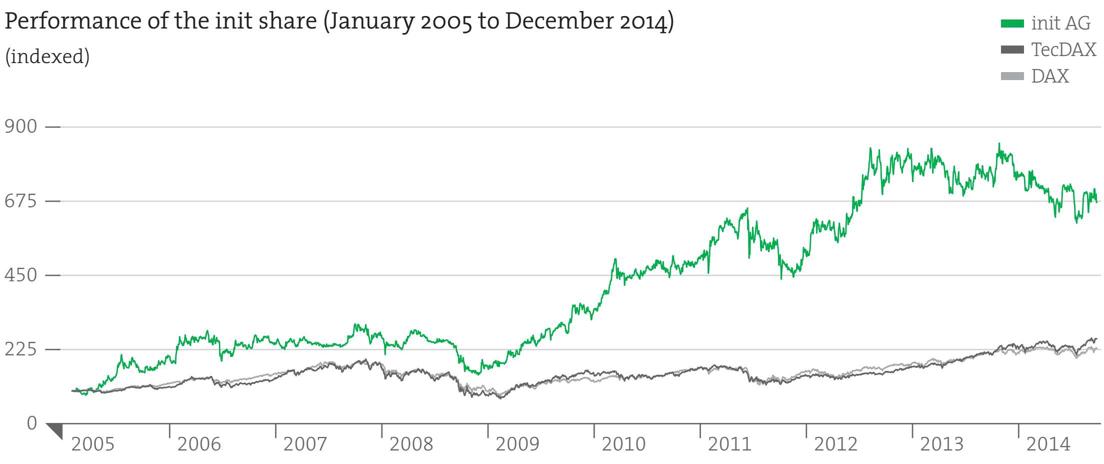
The share of init innovation in traffic systems AG (ISIN DE0005759807) was somewhat overshadowed by this development in 2014, but was generally able to hold its ground at a high level. It continues to follow a sustainable growth trajectory which is ultimately also defining the market for init systems. For example, the init share has now increased its value sevenfold over the last ten years, while the German stock index (DAX) and the technology sector index (TecDAX) have only gained a good 130 and 160 per cent, respectively, over the same period.

After a promising start to 2014, with price gains and an approach of the init share of EUR 25.80 to the all-time high, sentiment deteriorated on the stock markets again. This was due to political uncertainty resulting from the Ukraine crisis. The result was a slight dip, with the price of the init share fluctuating and declining to EUR 18.50 by the end of July.

Publication of init's half-yearly figures, which exceeded the forecasts, prompted a price rebound. Initially, this recovery was halted in October amid fresh fears of an economic downturn and the escalating conflict in Ukraine, with the result that the init share, like the DAX and TecDAX, fell to its lowest point in mid-October. However, following the publication of the nine-month figures, the price rallied, and by the close of the year the init share was trading at EUR 20.51. Compared with the end of 2013, and without taking account of the EUR 0.80 dividend, this meant a loss of around 12 per cent, while the DAX and TecDAX posted gains of around 3 and 17 per cent, respectively, over this period.

Based on the long-term prospects of init innovation in traffic systems AG, two of four stock analysts recommend the share as a "buy", while the others see it at least as a "hold" at the current level. The target prices range from EUR 22.50 to EUR 28.80.

Performance of the init share (January 2005 to December 2014)
(indexed)



Source: Bloomberg

The overwhelmingly positive assessment of the init share is also the result of an intensive investor relations drive. Alongside its specialised IR service, init offers interested investors the chance to get to know the company better at various events and to enjoy greater personal contact. For example, the init management took part in capital market conferences in Frankfurt as well as roadshows in Geneva, Zurich and London. Moreover, init is one of the original participants of the German Equity Forum.

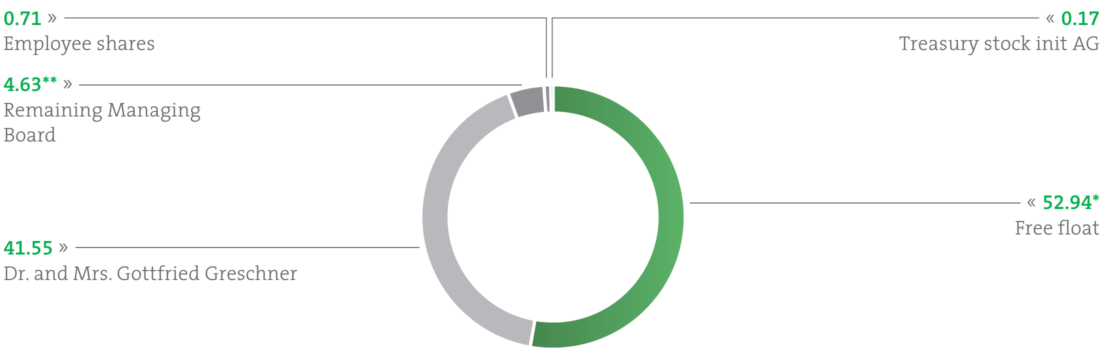
An interest expressed repeatedly by numerous institutional investors is in the acquisition of larger bundles of shares. While the average liquidity of the init share, with an average daily volume of 9,300 shares, rose by 15 per cent on the previous year, the demand from institutional investors remains huge. Given this situation, the main shareholder and company founder, Dr. Gottfried Greschner, surrendered 70,000 shares in January 2014 in order to boost the liquidity of the share.

Changes in the shareholder structure and share buyback

One outcome of these measures were further changes in the shareholder structure over the reporting period, with a few institutional investors increasing their stock in init innovation in traffic systems AG.

The Managing Board of init innovation in traffic systems AG also decided on 9 September 2014 to acquire up to 20,000 treasury shares (in accordance with Section 71 (1) (8) of the German Stock Corporation Act (AktG)) in exercise of the authorisation granted to it by the Annual General Meeting on 12 May 2010 under agenda item 6. This buyback was realised by as early as 29 September 2014. A total of 20,000 shares were acquired at an average price of EUR 22.05 (excluding incidental costs). The shares were purchased on the stock exchange (XETRA trading) by Commerzbank AG.

Shareholder structure as of 31/12/2014 (in %)



* by definition of the German Stock Exchange the free float of init AG is: 56.95%
** thereof 4.01% are included in the free float

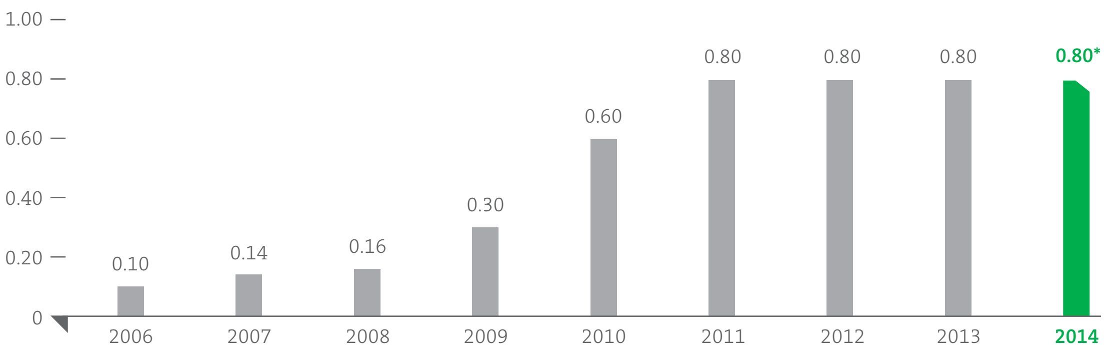
Increase in net asset value and no change to dividend

One of the pillars of init's corporate policy is maintaining the balance between having a shareholder-friendly dividend policy and increasing the company's net asset value for future growth. This means that once again this year the net profit will be left in the company to guarantee the financial strength needed for upcoming investments.

The Managing Board and Supervisory Board of init innovation in traffic systems AG will therefore propose to the the Annual General Meeting, to pay out an unchanged dividend of EUR 0.80 for each dividend bearing share. The decision on this will be taken by the Annual General Meeting of init shareholders on 13 May 2015 in the Convention Center in Karlsruhe.

Dividend development

(in EUR)



* dividend proposed at the Annual General Meeting 2015

Basic share information:

Exchange	Frankfurt Stock Exchange
Index / Segment	PrimeStandard, Regulated Market
Class	no-par bearer shares (at EUR 1 each)
ISIN	DE 0005759807
WKN	575 980
Code	IXX
Designated sponsors	Commerzbank AG / ODDO SEYDLER BANK AG
Capital stock today	10,040,000 no-par bearer shares
Market capitalisation (as of 31 December 2014)	EUR 205.92m

Group Status Report 2014

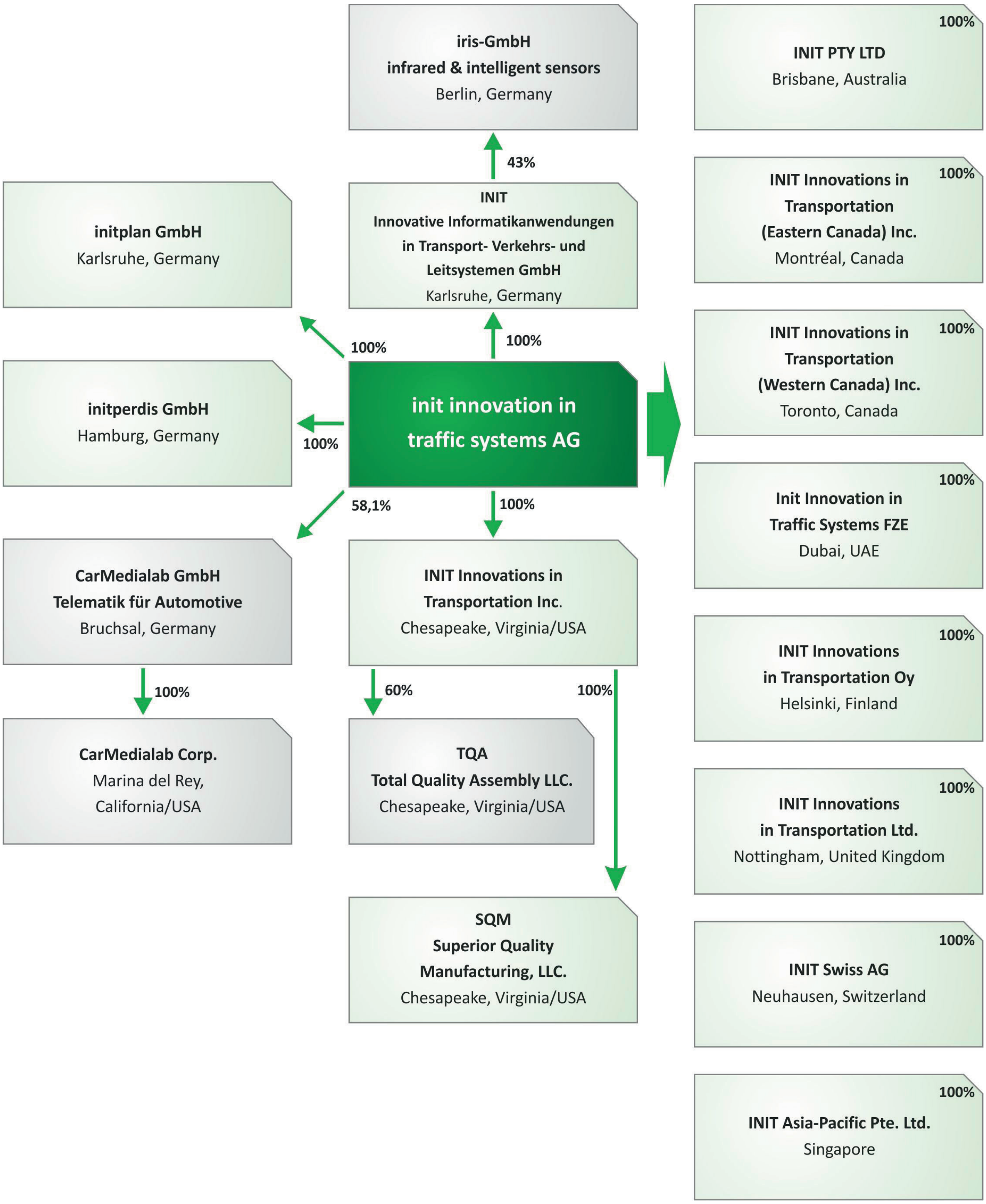
init innovation in traffic systems AG, Karlsruhe

Group principles

Group Business Model

Organisational structure of the group

The init group is a leading international system house for telematics, planning, dispatching and electronic fare collection systems. Our solutions optimise the buses and trains deployed in public transport and increase its attractiveness in the eyes of passengers.



By providing these products and services, init contributes towards improving the quality of public transport services offered in terms of customer orientation, punctuality, convenience, service, safety and shorter travel times. At the same time, init enables transport companies to reduce their costs and/or boost their economic efficiency.

Moreover, init products help reduce carbon dioxide emissions that are harmful to the climate, lessen environmental damage and conserve resources. init's system solutions can put transport companies in a better position to meet society's growing mobility requirements and assert themselves in a competitive environment characterised by rationalisation and liberalisation.

In a complete value-added chain, init develops, produces, integrates, installs and maintains software and hardware products for the planning, management and optimisation of transport companies to help them meet their daily requirements.

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 summarised under the reportable segment "Other".

The corporate group has the following reportable segments:

1. The "Telematics and Electronic Fare Collection Systems" segment encompasses integrated systems for managing public transport, fare collection systems, passenger information 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).

Business processes

The value-added chain in the init group essentially includes the development, production management, quality assurance, implementation, servicing and maintenance of integrated hardware and software solutions for all key tasks within transportation companies. Hardware manufacturing is outsourced to qualified producers who work closely as subcontractors with our init engineers. The quality 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.

In order to meet the "Buy America" requirements in the US business, init runs two production operations in the USA. Superior Quality Manufacturing, LLC. (SQM) assembles various devices from the init product family and acts as a contract manufacturer for INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH, Karlsruhe (INIT GmbH).

With Total Quality Assembly LLC. (TQA) init has built up a cable production operation in partnership with a supplier.

It is one of our top management priorities to optimise production processes and reduce manufacturing costs while maintaining quality demands at a consistently high level. In order to keep production costs as advantageous as possible, init concentrates on their core competence development.

There are no dependencies on individual manufacturers or service providers. This allows us to quickly switch suppliers should one of our business partners be unavailable.

Key markets and competitive position

Our integrated solutions for telematics, planning, dispatching and electronic fare collection systems make us a partner to transport companies on four continents. init has successfully realised numerous projects for more than 400 international customers during a corporate history that spans more than 30 years. Its international operations provide init with a global network of subsidiaries that deliver local support for projects and look after customers.

The most significant operative units, with approximately 352 employees, are located at the Karlsruhe site. Here, not only are software and hardware developed and new technologies implemented, but this is also where the group's strategy is defined. The biggest group companies outside Germany are in North America, with 78 employees, and in Dubai, UAE, with 14 employees.

In addition to Europe and North America, the core sales markets are increasingly the Asia Pacific region and the Arab world. At the same time, the regional distribution of revenue volume is heavily contingent on large-scale projects and varies accordingly.

INIT GmbH holds a 43 per cent stake 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 opto-electronic sensors for integration into various systems.

In the Automotive division ("Other" segment), init AG holds a 58.1 per cent stake in CarMedialab GmbH. CarMedialab GmbH (CML) develops on-board units (intelligent broadcasting and telematics units) for vehicles, plus the associated software, and operates back-end systems as a telematics service provider. Key services include telediagnosis and smart charging of electric vehicles. CarMedialab is also working on enhancing its "vehicle health monitoring" and "driver behaviour" software products which init implements for public transport customers. init has the option of acquiring additional shares in CML.

A modular product concept allows both an individual combination of single modules and integration with 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 range covers all operative tasks within transport companies: from planning and dispatching, through operations management,passenger information and electronic fare management, to the analysis and optimisation of operations.

init has thus assumed a leading position in the telematics, planning, dispatching and electronic fare collection systems market in public transport. init systems currently manage fleets comprising several thousand vehicles around the world.

External factors

User-friendly ticketing systems, reliable customer information and fast transport links help transport companies to enhance the attractiveness of their passenger services, and therefore ensure rising passenger numbers. In the end, increased acceptance and use of transport systems also results in a reduction of carbon dioxide and particulate matter emissions. This way, the init group is also making a direct contribution to environmental conservation.

Population growth, increasing urbanisation and impending traffic gridlock are leading to growing public transport passenger numbers. In order to cope with the rapidly growing demand for mobility and simultaneously avoid pollution, billions must be invested in intelligent traffic systems. Willingness to expand public transport is therefore growing in many countries and regions. Another current trend is hardware substitution and software modernisation of ageing telematics systems.

Over 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. Funding cuts and public budget consolidation measures thus indirectly have a great influence on the init group's business development.

Corporate objectives

Financial objectives

Over the next few years, the init group's strategic objective is to increase its average long-term revenues by over ten per cent, with an EBIT of 15 per cent to 20 per cent of revenues. The majority of this growth is to be organic. Having ended 2014 with a high order backlog and in light of the large number of tenders expected over the coming years, the cornerstone for continued growth has been laid.

Non-financial objectives

Customer satisfaction
Customer satisfaction is of pivotal importance at init. We achieve this through trust-based collaboration with our business partners and strict compliance with our quality principles: the technological advantage, cost-effectiveness and reliability of our products. We also set great store by delivery reliability and a commitment to service. We have set down the principles of our business dealings in our ethical guidelines. These provide us with a framework for our day-to-day activities. An annual customer survey is carried out to check that these objectives are being met. During the reporting year our customers gave us an average rating of "good" (previous year: "good").

Employee qualification and know-how
Well trained and entrepreneurial employees are the key to business success. For this reason, it is part of init's corporate philosophy to ensure that every individual receives training, continuing professional development and a share in the company's success. In total, around 180 employees took part in internal and external training measures in 2014.

Some 65 per cent of init's permanent employees have a university degree, particularly in the fields of information technology, e-technology, HF technology, physics, mathematics and industrial engineering. init maintains very close contact with the Karlsruhe Institute of Technology (KIT) and the universities of applied sciences in the Karlsruhe area in order to keep track of the latest technological developments and be able to identify technical changes early on. In this connection, we provide students with practical work in part-time positions and supervise theses at the bachelor's and master's levels as well as dissertations.

New employees at the subsidiaries undergo on-site training at the group's headquarters in Germany to ensure that customers' high demands on our technology can also be met locally. Conversely, employees from Germany also spend several weeks a year at the subsidiaries, either within the scope of their training or in connection with ongoing projects, as a means of promoting communication and cooperation while simultaneously ensuring that the expertise flowing into individual projects, technologies and products is maintained at the same high level around the globe.

Management and control system

init AG has a dual management system, consisting of a Managing Board and a Supervisory Board. The Managing Board of init AG consists of four members, who simultaneously perform and manage key operational roles (Marketing, Distribution, Product Development, Purchasing, Human Resources and Finance). As the company leading the group, init AG defines the corporate strategy and assumes resource allocation, financing and communication with the important target groups in the corporate environment, in particular with the capital market and the shareholders.

The following personnel change took place on the Managing Board in the 2014 financial year:

Wolfgang Degen, Chief Operating Officer of init AG, resigned from the Managing Board on 30 June 2014 at his own request; however, he will still be serving the group as Managing Director at INIT GmbH until 31 March 2016. The Chairman of the Managing Board, Dr. Gottfried Greschner, took over management of Operations from Wolfgang Degen at the Board level.

The init group is managed via annual planning for revenues, earnings before interest and taxes (EBIT) and incoming orders, which are reviewed on a rolling basis using plan/actual analyses. The insights revealed by these analyses are then used to prepare forecasts and develop an action plan if necessary.

Competitive strategy

As a full-service provider, init develops, produces, integrates, installs and maintains integrated hardware and software solutions for all important tasks within transport companies. In doing so we aim at innovative mobility concepts that secure a technical advantage for forward-looking transport companies, in order to make their services more attractive, more efficient and faster.

Significant factors here are:

- Innovation: Using the know-how that we have gathered over many years and with our great dedication to development, we convert new technologies into practical applications.
- Thinking in systems: Deployed autonomously or built into systems – our modular overall solutions offer a maximum degree of flexibility during planning and operation.
- Investment security: When it comes to technologies, interfaces and software, we are guided by international standards that will continue to exist tomorrow. In many cases, init has itself set standards through customised, tailored solutions.
- Customer proximity: init is where its customers are. This applies to our sites just as much as to our thinking and actions. Customers thus become partners whom we join to get things moving, and with whom we create new offerings in long-standing partnerships.
- Internationality: init has been in the market for more than 30 years, about 25 of these internationally. Our active participation in pioneering projects on four continents today ensures contact with ultra-modern development standards and a focus on international solutions. This is technology transfer that takes our customers forward and thus secures init a unique competitive position.

Research and Development

The Research and Development department plays a key role at init. On the one hand, technical innovations and developments on the market have to be observed in order to turn these into innovative products at an early stage. On the other, the challenge lies in bringing technical innovations onto the market at the right time. Our employees' high standard of qualification in research and development, combined with collaboration with universities and research institutes, ensures that we react quickly to new technological developments and changing market requirements and that we are flexible in adapting to our customers' constantly changing needs.

In financial year 2014, approximately 200 hardware and software developers at init (of whom approx. 40 are in the "Other" segment) worked at the Karlsruhe, Brunswick, Bruchsal and Hamburg locations on both new products and the continuing development of existing ones. In addition, numerous new customised software developments and interfaces were realised.

In total, in 2014 EUR 3.0m (previous year: EUR 3.6m) was spent within the init group on the basic development of new products independently of customers. Of this, EUR 1.9m was accounted for by the "Telematics and Electronic Fare Collection Systems" segment and around EUR 1.1m by the "Other" segment. This is 2.9 per cent (previous year: 3.6 per cent) of revenue. In addition, the group accomplished customer-funded, project-based new and further developments adding up to around six times that amount again. As in the previous year, no development costs were capitalised.

One new hardware product is a stationary ticket vending machine called VENDstation. This machine features an easy-to-use user interface and a 15" TFT touchscreen display that is not only easy to read in any lighting but also large enough to present a clear overview of a wide range of fares. With this machine, even passengers unfamiliar with local fares can find the information they need quickly. Once the right ticket has been found, passengers can then choose from among several different payment methods: credit card, smartcard or cash. The ticket is then either booked onto the passenger's smartcard or printed on paper.

The new MOBILEsymon software solution helps transport company administrators monitor the smooth functioning of key hardware modules and software processes as well as the IT infrastructure and the communications system. Moreover, init's back office software was enhanced with the addition of the EBE (penalty fare) module as well as a browser-based application for ticket sales (points of sale and online shops).

For planning and driver dispatching ("Other" segment), a new authority module was added to the systems which can calculate the percentage of transport services performed by different operators.

init is currently involved in the InREAKT research project. InREAKT aims to automate the identification of safety-critical situations and emergencies in public transport through the use of a combined video and sound detection system. The task of identifying a safety-critical situation or emergency is transferred to an event management system in the transport company's control centre which offers guidance for staff. This knowledge base is built on self-learning structures so that the decision-making aids provided there are improved continuously.

Economic report

General economic and sector-specific conditions

The global economy failed to meet growth expectations once again in 2014. This represents a continuation of the trend seen in previous years: initially confident assessments required considerable downward adjustment by the end of the year. All in all, the expectations of economic experts at the World Bank and the International Monetary Fund (IMF) for the past year also proved too optimistic as well. With growth in global manufacturing output at 2.6 per cent (according to the World Bank's latest report on "Global Economic Prospects" from January 2015), the projected growth trend of over 3 per cent failed to materialise and instead left growth roughly on a par with the level seen in the previous year. Widely divergent developments were once again seen in the main economic regions. Accordingly, the prospects for 2015 and the years thereafter also differ greatly.

Industrial countries are currently benefiting from the sharp supply-side drop in the price of oil, yet this is also accompanied by a considerable decline in demand from oil-exporting countries.

While the economy is picking up in North America and the United Kingdom, two vital markets for init, recovery in the eurozone and Japan is floundering. North America and the United Kingdom saw economic growth of over 2.4 per cent in 2014, whereas growth in the eurozone and Japan only reached 0.8 per cent and 0.1 per cent, respectively.

While Germany boasted one of the top growth rates in the eurozone, namely 1.5 per cent, there were also signs of a deflationary trend here, too, along with the correspondingly negative consequences this has on investments and future growth.

At the same time, internal problems, political uncertainties and weaker external demand mean that China as well as large emerging markets like Russia and Brazil are no longer able to act as growth engines of the global economy to the extent that they have previously. While China's economy was still growing at a rate of 7.4 per cent in 2014, the growth rates of Russia (0.6 per cent) and Brazil (0.1 per cent) approached the zero mark.

Despite the fact that expectations for 2015 were generally retracted in light of a downturn in the demand for goods in some parts of the world, the World Bank still foresees a revival with global value added growing by 3 per cent in the current year; the IMF even talks about 3.5 per cent. According to this, the global economy as a whole should grow even more strongly during the subsequent years. This growth is to be driven by a continued expansive monetary policy, an easing of the situation surrounding public budgets and low financing costs for investments.

Not only China and India but also the emerging markets of Eastern Asia and the Pacific region, including Australia and New Zealand, are expected to become frontrunners in terms of global development with growth rates of over 6 per cent in some cases. init has already gained a foothold there through its own subsidiaries and participates in large tenders.

In init's currently most important markets, the World Bank and IMF also predict growing momentum for 2015 and the years to follow. Economic growth in 2015 in North America, for instance, should exceed 3 per cent, whereby this growth is mainly attributable to the impact of low oil and energy prices on income. An increase of 2.7 per cent is expected in the United Kingdom and in the eurozone growth will likely exceed the 1 per cent mark once again. In Germany, economic development will again be slightly more dynamic at 1.3 per cent.

However, economic experts also foresee a series of risks that could potentially jeopardise this positive development. These include not only increasing tension between Russia and the West, but also other geopolitical crises, volatile commodity and financial markets as well as the continued danger of stagnation or deflation in the eurozone. China, too, will not be able to maintain its current growth rate.

For init, however, these risks are also offset by new opportunities, particularly in terms of sector-specific development. One reason behind this is the currently weak euro. The depreciation seen in the past few months is having a positive impact on init's price competitiveness in large, international tenders. At the same time, progress made in terms of consolidating public budgets as well as the need for a stimulating fiscal policy to strengthen growth in western industrialised countries should bring an increase in infrastructure investments.

The mobility factor takes on special importance with regard to sustained economic development in both industrialised countries and emerging markets. More than half of the world's population now lives in metropolitan areas (referred to as mega cities, mega regions or mega corridors) that are of crucial importance to their countries' economy because 80 per cent of their added value and production are concentrated in those areas. There, efficient mobility is a key factor for the region's economic activity, with public transport systems forming the backbone.

Investments in intelligent transportation infrastructure solutions, such as those offered by init, pay off not only from an environmental and social perspective. Experts have calculated that the economic impact of such an investment is three to four times higher than the investment's original amount. What is more, compared to investments in other sectors, these result in the creation of twice as many jobs as well as increased productivity throughout all aspects of a region's economy. Functioning transport systems also attract additional companies.

Urbanisation is a global megatrend that dramatically increases the demands placed on public transport systems as a result of multiplying passenger numbers. In industrialised countries, urban cores (such as London) increasingly spread into their surrounding areas and assimilate more and more suburbs (Greater London Area). Plus, in emerging markets, particularly China and India, new urban agglomerations or mega regions will arise. Accordingly, a growing number of people will use public transport. The international industry association UITP expects public transport passenger numbers around the world to double by 2025.

The prevention of traffic gridlock, reduction of particulate matter and carbon dioxide emissions, and the necessity to conserve energy and other natural resources are further long-term drivers of growth on the transport telematics market. As a result, additional large international tenders are on the horizon for the development and modernisation of public transport systems in Europe, North America and Asia. With its unique track record, init is extremely well positioned in these markets.

Business trend

The distribution of revenues within the init group is traditionally uneven over the course of the financial year: the first quarter is usually the weakest and the fourth the strongest. This was once more confirmed in the financial year just ended.

Thus, the first quarter, with revenues of just under EUR 19m (previous year: EUR 17m), slightly exceeded our expectations. EBIT was EUR 0.3m and was therefore EUR 0.8m below the previous year's figure. Incoming orders in the first quarter amounted to around EUR 29.4m. In the second quarter, too, with revenues of EUR 24.8m, the group was around EUR 4.7m above the previous year's total, with EBIT, at EUR 6.1m, likewise considerably exceeding the previous year's level of EUR 3.1m. Incoming orders in the second quarter amounted to EUR 14.2m, some EUR 7m under the previous year's level. In the third quarter, revenues saw a year on year increase of EUR 1.7m to EUR 25.7m, with EBIT, at EUR 3.7m, only slightly above the previous year's (EUR 3.3m). The reason for the improvement in revenues lay in hardware deliveries related to the major Rheinbahn, Luxembourg and Montreal projects. At EUR 12.1m, incoming orders in the third quarter may have exceeded those of the previous year (EUR 10.4m) yet they still fell considerably short of our expectations.

In the fourth quarter of 2014 alone, with revenues of EUR 33.5m (previous year: EUR 39m), the init group generated earnings before interest and taxes (EBIT) of EUR 8.6m (previous year: EUR 10.2m). However, at around EUR 78.1m, incoming orders for the year as a whole lagged considerably behind our estimate (EUR 105m).

Position

Earnings position

For the year as a whole, the init group achieved a new revenue record at EUR 103m (previous year: EUR 100.1m), which put it within the planned range of EUR 103 – 107m. This corresponds to growth of 2.9 per cent, substantially lower than the long-term average growth target of more than 10 per cent. However, we are confident to achieve above-average growth rates in the coming years.

The proportion of revenues generated by the "Telematics and Electronic Fare Collection Systems" division was EUR 97.6m (previous year: EUR 94.6m) and by the "Other" segment EUR 5.4m (previous year: EUR 5.5m).

Revenues within the segments are largely in line with the planned revenues.

72.1 per cent of total revenues were generated outside Germany (previous year: 75 per cent). As in previous years, the strongest foreign market in the reporting period was North America. Here, revenues rose to EUR 45.3m (previous year: EUR 41.7m) due to several large-scale projects.

In the remaining countries (Australia and UAE), a decline in revenues was recorded compared with the previous year. Here, revenues fell from EUR 8.3m in 2013 to EUR 5.2m in 2014 due to lower order volumes.

In Europe (except Germany), too, revenues declined to EUR 23.8m (previous year: EUR 25.1m). Essentially this is accounted for by the processing of the major projects in Great Britain and Luxembourg.

Revenues in Germany, on the other hand, increased year on year to EUR 28.7m in financial year 2014 (previous year: EUR 25.0m). Like this year, a large portion of next year's revenues will be generated through the large-scale Rheinbahn project.

EBIT amounted to EUR 18.7m (+5.6 per cent), thus exceeding the previous year's figure (EUR 17.7m) and in line with our expectations (EUR 17m to EUR 19m).

EBIT was distributed across the individual segments as follows: "Telematics and Electronic Fare Collection Systems" EUR 19.2m (previous year: EUR 17.3m), "Other" segment EUR -0.5m (previous year: EUR 0.4m). The EBIT margin stood at 18.1 per cent (previous year: 17.7 per cent).

The trend within the "Other" segment shows a decline in EBIT compared to the previous year due to the sharp reduction in incoming orders in the area of data provision at initplan GmbH as well as declining revenues in driver dispatching. Overall, EBIT in the "Other" segment fell EUR 1.0m short of compared to the highest level of the target.

The return on revenues within the group was 11.7 per cent (previous year: 12.1 per cent).

Gross profit decreased by EUR 0.9m to EUR 36.6m (previous year: EUR 37.5m), which corresponds to a reduction of approximately 2.4 per cent (previous year: increase of approximately 10 per cent). At the same time, as a result of purchased services and increases in staff expenses, the cost of revenues fell from 62.6 per cent to 64.5 per cent of sales. Sales and administrative expenses mainly rose as a result of increases in staff expenses and amounted to EUR 17.1m (previous year: EUR 16.5m).

The foreign currency gains of EUR 0.9m (previous year: foreign currency losses of EUR 1.3m) mainly relate to positive effects of gains realised from payments received in a foreign currency (particularly US dollars). The US dollar, for instance, appreciated by around 13 per cent compared to the euro. Since init generates more than 40 per cent of its revenues in North America, receivables are correspondingly high, which also has led to positive effects from currency translation. These were offset by negative effects from the valuation of forward exchange dealings.

The other operating income of EUR 1.4m (previous year: EUR 1.9m) essentially comprises rent income, allocated benefits in kind as well as income from subsidies.

The net interest income (balance of interest income and interest expenses) totalled EUR –452k (previous year: EUR –189k) and results principally from the property financing in Karlsruhe, the share of interest on the pension provisions and the overdraft loans taken up over the year.

Despite higher earnings before taxes the net profit remained on a par with the previous year at EUR 12.1m. This is due to the higher tax rate which resulted from the reduction in earnings at the Dubai subsidiary. That led to earnings per share of EUR 1.20 (previous year: EUR 1.21). The tax rate of 33.8 per cent is slightly higher than the previous year (31.2 per cent). The return on equity stood at 17.8 per cent (previous year: 19.4 per cent) and return on total capital at 9.4 per cent (previous year: 10.2 per cent).

Total comprehensive income rose from EUR 12.1m to EUR 13.3m. This increase is the result of the balance of unrealised currency gains in the amount of EUR 2.6m (previous year: loss of EUR 0.5m) and actuarial losses of EUR 1.4m (previous year: gain of EUR 0.5m) due to the decrease in the interest rate from 3.67 per cent to 1.96 per cent used for calculating pension accruals. Regarding the development, please refer to our statement of comprehensive income.

Incoming orders

In financial year 2014 incoming orders exceeded those of the previous year yet still failed to meet our expectations. This was due to certain tenders not being decided in our favour and also to delays in the tender procedures. All told, incoming orders totalled EUR 78.1m (previous year: EUR 64.9m). Of this, EUR 72.3m was accounted for by the “Telematics and Electronic Fare Collection Systems” segment and EUR 5.8m by the “Other” segment. The group management had planned incoming orders of EUR 105m in 2014. Of this, according to plan, around EUR 100m was accounted for by “Telematics and Electronic Fare Collection Systems”. Around 43.2 per cent of orders were generated in the North American market. Of the other incoming orders, 36.4 per cent were from Germany, 15.7 per cent from Europe and 4.7 per cent from other countries. Incoming orders in North America primarily consisted of the order received from the Tri-County Metropolitan Transportation District of Oregon (TriMet) in Portland. There, init will implement an account-based fare management system with more than 1,100 passenger terminals in vehicles and at stops, 90 mobile ticket validation devices and around 100 sales terminals. Around 1.3 million chip cards will also be delivered. Orders in Europe are largely for follow-up deliveries and maintenance. The group additionally succeeded in landing the largest single order for planning systems in Denmark.

In Germany, init won several new projects. The largest single order was placed by Bremer Straßenbahn AG (BSAG) for a project in Bremen. To this end, more than 330 vehicles, three customer centres, 150 sales points and the larger bus and tram stops will be equipped with electronic printers, a boarding control system and mobile and stationary ticket machines by the end of 2017. Furthermore, a new point-of-sale system will be implemented in the customer centres. The order is worth several million euros.

Orders from Paderborn, Osnabrück, Reutlingen and Lüdenscheid were also booked with a total order value of more than EUR 5m.

New orders were reported in the other countries, as well. In Dubai, for instance, init installed a passenger counting system into some 100 vehicles and also linked the ferries into the existing intermodal transport control system. One outstanding achievement is a small, first-time order in Asia where init is performing a pilot project for passenger counting. This order not only holds potential in terms of follow-up orders but it also represents our first reference project in the Asian region.

The order backlog at year's end amounted to around EUR 122m (previous year: EUR 143m) and will secure continued success in 2015. EUR 120.5m of the order backlog is accounted for by the "Telematics and Electronic Fare Collection Systems" segment and EUR 1.6m by the "Other" segment. The coverage of the orders is approximately 1.2 years.

Internationally, our market is still characterised by a large number of new public tenders. Our long-term customer relationships with over 400 business partners around the world secure a stable business base for init, as they normally lead to follow-up orders and maintenance contracts. We have booked incoming orders of more than EUR 36m as a result of additional deliveries, maintenance contracts and order extensions alone.

For 2015 we anticipate incoming orders within the group of around EUR 112m, of which EUR 106m will be accounted for by the "Telematics and Electronic Fare Collection Systems" segment and around EUR 6m by the "Other" segment.

Multi-period overview of earnings position

Financial year EUR m	2010	2011	2012	2013	2014
Revenues	80.9	88.7	97.3	100.1	103.0
Gross profit	27.3	36.3	34.0	37.5	36.6
EBIT	15.1	20.4	17.3	17.7	18.7
Net profit	10.0	15.1	10.9	12.1	12.1

Financial position

The init group's financial position can be described as solid in financial year 2014.

Capital structure

Liabilities to banks as at 31 December 2014 amounted to EUR 9.1m (previous year: EUR 11.0m) and principally concern the long-term component of the financing ("Telematics and Electronic Fare Collection Systems" segment) of the properties at Kaeppelestrasse 4, 8 / 8a, 10 and of the new building in Karlsruhe amounting to EUR 7.9m (previous year: EUR 9.1m). The Kaeppelestrasse 4 property was financed by a bank loan of EUR 1.2m. The balance outstanding on this loan is EUR 0.8m and the capital repayment on the loan is EUR 71k per annum. The interest rate is 3.7 per cent with a term of 20 years and a fixed interest rate period of ten years. The first repayment was made on 30 June 2010. The properties at Kaeppelestrasse 8 / 8a and 10 were financed in the amount of EUR 3.0m at a variable rate based on 1-month Euribor. The interest rate as at 31 December 2014 was 0.819 per cent. The capital repayment on the loan is EUR 150k per annum. The new development was financed by a bank loan of EUR 6.5m based on 3-month Euribor. The interest rate including margin as at 31 December 2014 was 0.679 per cent. The capital repayment on the loan is EUR 963k per annum. Loans are expressed in euros and are fully mortgage-backed.

Current liabilities increased from EUR 36.1m to EUR 38.4m. This change is made up of a reduction in bank loans of EUR 0.7m, a decrease in accounts payable from PoC due to the increased completion of projects in the amount of EUR 2.4m as well as a decline in advance payments of EUR 0.5m. Provisions fell by EUR 0.1m. The effect was counteracted by a rise of around EUR 2.8m in trade accounts payable and liabilities to related parties. This essentially results, compared with the previous year, from considerably higher billing by our sub-contractors for project-specific services during the fourth quarter. Due to lower tax pre-payments income tax liabilities increased by EUR 1.6m and other liabilities by EUR 1.7m.

Non-current liabilities rose by EUR 2.4m, This is particularly due to the EUR 1.0m increase in deferred tax liabilities and the EUR 2.9m increase in pension accruals attributable to the lower assumed rate of interest.

The group's debt-equity ratio (debt capital/equity capital*100) is 90.0 per cent (previous year: 90.5 per cent), thus almost on a par with the previous year.

Investments

The investments totalling EUR 7.3m in 2014 essentially relate to advance payments for the new building in Kaeppelestrasse ("Telematics and Electronic Fare Collection Systems" segment) and replacement and expansion investments. The predicted investment volume of the new building in Kaeppelestrasse is approximately EUR 13m, which is financed by a bank loan of EUR 6.5m.

The investments totalling EUR 4.5m in 2013 largely related to advance payments for the new building in Kaeppelestrasse ("Telematics and Electronic Fare Collection Systems" segment) and replacement and expansion investments.

99.4 per cent of investments in tangible assets, intangible assets and investment properties are accounted for by the "Telematics and Electronic Fare Collection Systems" segment: (previous year: 98.2 per cent).

Liquidity

Operating cash flow amounted to EUR 0.5m (previous year: EUR 11.4m) and is therefore substantially lower than that of the previous year. This is attributable to delays in incoming payments and high advance financing for large-scale projects. Net working capital (current assets less cash and cash equivalents less trade payables) came to EUR 69.5m (previous year: EUR 49.0m). Cash flow from investing activities amounted to EUR -6.7m (previous year: EUR –4.1m) and essentially relates to investments in tangible fixed assets and investments in the new building in Kaeppelestrasse. Cash flow from financing activities totalled EUR –10.4m (previous year: EUR –1.9m) based on the payment of dividends, the buyback of treasury shares and the repayment of bank loans.

Cash, including short-term securities, came to EUR 9.2m at the end of December 2014 (previous year: EUR 25.6m). This corresponds to a reduction of 64.0 per cent, which is attributable to delays in incoming payments for large-scale projects and payment schedules with an adverse impact on init which lead to high advance financing. The init group is able to meet all its payment obligations and also has a solid financial structure in 2014 due to stable earnings. In addition, the init group has guarantee and credit lines available in the amount of around EUR 102.7m. On the balance sheet date, 52.5 per cent of these were being utilised. Additionally, in the USA init has a bond line of around USD 75.0m (EUR 61.7m) at its disposal, which can also be used in Canada. Around EUR 51.9m had been used as of the balance-sheet date.

Parent company guarantees of EUR 18.6m were in place.

Asset position

The init group's asset position can be described as solid in financial year 2014.

The balance sheet total had risen as at 31 December 2014 by around EUR 10.5m compared with the previous year and amounts to EUR 128.8m (previous year: EUR 118.3m). In addition to the financing of the new building, this is due to increased future receivables from production orders. This rise is accounted for by the good progress made in completing ongoing projects. These services will be billed to the clients in the course of financial year 2015, once the milestones triggering payment have been reached. Inventories have also increased due to the fact that several major projects are now entering the installation phase. Equity had risen to EUR 67.8m at the year end (previous year: EUR 62.1m) and is therefore about 9.2 per cent above the previous year's figure. The equity ratio is therefore 52.6 per cent (previous year: 52.5 per cent) and is consequently nearly on a par with the previous year.

Around EUR 120.3m of segment assets (previous year: EUR 107.6m) is accounted for by the "Telematics and Electronic Fare Collection Systems" division and around EUR 8.4m (previous year: EUR 10.8m) by the "Other" segment.

Multi-period overview of financial and asset position

Financial year EUR m	2010	2011	2012	2013	2014
Shareholders' equity	46.7	56.9	57.8	62.1	67.8
Debt capital	37.7	52.9	52.7	56.2	61.0
Cash	18.4	23.5	20.3	25.4	9.2
Balance sheet total	84.4	109.8	110.5	118.3	128.8
Operating cash flow	14.6	17.4	11.3	11.4	0.5

Principles and objectives of financial management

Securing the liquidity of the init group has top priority. In addition, we aim to maintain and optimise the group's financing capabilities. Financial risks, particularly currency risks, are reduced by the use of financial instruments. To spread risk, init holds its financial resources in more than five different currencies. The group also holds 25kg of gold. The init group is classed by its main banks as "investment grade".

Personnel

In order to complete ongoing projects on time and secure continued growth, init moderately increased its workforce in 2014. With this added capacity, init is well equipped to master its order backlog and the very positive trend expected, so that only minor additions to the workforce will be needed in 2015 as well.

Employee profit-sharing

init's business success depends to a large degree on the employees who drive it forward with their experience and motivation. The Managing Board therefore decided on 14 April 2014 to allow employees to participate in the company's profits, depending on its operating results. Every permanent employee will receive a profit share of EUR 4,000 for 2014 (for certain subsidiaries this regulation could be different). Trainees will receive a profit share of 25 per cent of the amount granted to employees. These sums are recognised in the financial statements as other liabilities. Additionally, each permanent employee received 50 shares in the company in December 2014 in the context of asset sharing (for certain subsidiaries this regulation could be different). These shares are subject to a vesting period of two years.

Employee figures

On average over the course of the year, the init group employed a total of 492 staff (previous year: 462) including temporary workers, research assistants and diploma candidates. This includes 51 part-time employees. Of the total number of employees, 425 are accounted for by the "Telematics and Electronic Fare Collection Systems" division.

19 employees were pursuing apprenticeships as IT specialists, IT systems electrical engineers, warehousing specialists, industrial clerks or office clerks. Furthermore, init offers the opportunity of training in the fields of electrical engineering, mechatronics, information technology, industrial engineering and business studies within the scope of courses at the University of Cooperative Education.

Social benefits and family support

It is absolutely essential to retain our employees' expertise within the company in order to sustain its success. In addition to a number of fringe benefits, e.g. covering the cost of daycare, we also offer our personnel flexible working hours so that family and working life can be reconciled. init has already won a number of awards for being a family-friendly company. A further priority in our company is the health of employees. We therefore regularly organise health check-ups in collaboration with health insurance companies, bear the costs of flu vaccinations, and have taken out additional dental insurance and travel health insurance for every employee.

Ethical guidelines

We have set down the principles of our business dealings in our ethical guidelines. They represent the basis of init's corporate culture and shape daily actions and decisions on every level, beyond national borders and in every part of our group.

For example, all employees with the appropriate qualifications have equal access to management positions. With the internationalisation of our business, we therefore now enjoy greater diversity at our top management levels.

General statement on the economic situation

The Managing Board assesses the development of the business in 2014 as satisfactory overall, although the planned incoming orders of EUR 105m were not achieved. Revenues and EBIT are in line with our expectations. With the existing order backlog of EUR 122m, the basis for further growth is secured. Due to stable earnings init has a solid financial structure also in 2014 to finance most of its further growth. The operating cash flow comes to EUR 0.5m and should improve substantially in the coming months as a result of scheduled incoming payments. In light of init's first order from Asia and the ticketing project in Portland, init will have the references it needs to generate additional orders from Asia and ticketing orders in the USA. Revenues and return on equity remain above average. However, a trend towards greater price sensitivity has also been observed in tenders.

Events after the reporting date

No events of special note that had a significant effect on the asset, earnings and financial position of the company occurred after the reporting date.

Forecast, opportunities and risks

Risk and opportunities management system

A global technology-oriented company such as init is faced with a number of risks that could affect its asset, financial and earnings position. Along with general economic and cyclical risks, which are beyond the company's control, there are operating and technical risk factors that may impact our future sales and earnings performance. All risks are continuously analysed and evaluated by the management of init AG and its subsidiaries to ensure a rapid response if required and be able to minimise potentially detrimental effects. Opportunities are identified and managed at Managing Board meetings.

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

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

The other risks include the core areas production, development, purchasing/logistics, personnel, sales, business planning and IT.

Risks are recorded, analysed and evaluated and adequate risk prevention measures derived in a risk management system that covers all business processes and corporate decisions. Both the Managing Board and Supervisory Board are kept informed of imminent risks. Before decisions are made, these risks are discussed in detail by the appropriate bodies and the opportunities and risks weighed up.

The init group examines the risks at all associated companies. No significant changes to the risk management system compared with the previous year have occurred.

Inherent operating risks, such as project delays, quality-related or human resources risks, are recorded and monitored by way of monthly reports. The incoming order situation, financial risks, supply delays and the liquidity situation are analysed weekly to ensure that appropriate measures can be immediately initiated, where necessary. Market, development and strategic risks are examined 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 outside expert counsel.

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.

Project and product risks

A crucial success factor for the init group is project management. For each major project, init implements a project plan for 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 cases of deviations from the target, initiate the appropriate countermeasures. Calculations, the order situation and the project progress are regularly examined for the purpose of a target / performance analysis.

Vehicles can only be equipped successfully if the necessary 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 have had a considerable impact on the asset, financial and earnings position of the group. Future claims, however, cannot completely be ruled out, since init is also dependent on its suppliers and sub-contractors in terms of quality, schedule effectiveness and price.

Financial risks

The init group's financial risks are a central component of the risk management system and deal with the risks relating to the use of financial instruments.

The group concludes transactions exclusively with recognised, creditworthy third parties. All customers requesting credit-based transactions with the group are subjected to credit checks. In addition, accounts receivable are constantly monitored. Recognisable risks of default are taken into account as value adjustments.

In view of the latest economic developments, the high levels of public debt in the USA and Europe and the potential impact of measures to consolidate public budgets, considerable uncertainty is attached to our assessments of the general economic situation and of our market. In addition to the threat of insolvency in individual countries, there is also a high risk of bad debt losses. While a large number of init's customers are state-subsidised or public transport companies, it is still 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. There are currently no significant clusters of default risks within the group, with the exception of the accounts receivable from Dubai. Our general contractor from the first Dubai project did not forward approximately EUR 2m of payments by the end customer to us. init took the matter to a court of arbitration to defend its claim. The ruling in the arbitration proceedings went in init's favour, although the risk that these receivables will still not be recovered remains. An appropriate risk provision has been created.

Contracts concluded in foreign currencies involve exchange rate risks that can affect sales, purchase prices, the valuation of accounts receivable, currency reserves and liabilities and therefore profit as well. init meets these foreign 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, losses cannot be ruled out. Owing to our risk policy, however, we consider this risk of loss to be minimal. A sensitivity analysis on this subject is provided in Note 31.

init's investments include stocks, bonds, fixed-interest securities and fixed-term deposits. Exchange and interest rate risks can therefore affect the group's financial result. To spread risk, init purchased 25kg of gold, which is subject to market price fluctuations. The interest rate risk arising from the two variable-rate loans to finance the properties at Kaeppelestrasse 8/8a and 10 as well as the new building has no significant influence on our earnings, financial and asset position.

Other risks

Economic risks

As an internationally operating company, init is subject to the cyclical trends of the global economy and to the specific economic circumstances of the countries in which its individual projects are implemented. The government debt crises and resulting public spending cuts thus also pose a potential risk to init's business development.

The market for transport services, in which init's customers are primarily involved, is essentially dependent on the political will to improve the infrastructure and the funds made available for it. Delays and the postponement or cancellation of publicly funded investment projects and development funding due to a poor budgetary position can therefore adversely affect the init group's growth. Based on our current assessment and if and when the most recent political declarations of intent are implemented, many of init's key markets should, however, still see increased state investment. Government subsidies could, however, be considerably reduced in the future to combat sovereign debt. Our customers' financing options 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.

On the other hand, a number of government aid programmes have been implemented in the industrialised nations to counteract this crisis and stimulate economic activity 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 risk, we must, on the one hand, keep up with 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 therefore factors suggestions and requests from customers into its product development on an ongoing basis. Nevertheless, the development of new products can incur costs without necessarily resulting in the desired success.

Competitors (including players from outside the industry) continuously try to break into the market on the basis of price and thus gain market shares at init's expense. 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 adequately 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, which could have an adverse effect on the init group's further business development.

Human resources risks

The experience and qualifications 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, support from the customer and specific national laws and regulations.

Apart from unforeseeable technical and customer-specific difficulties, timely completion of projects also depends on the availability of sufficiently qualified personnel. init takes account of this by operating a long-term personnel policy which includes the involvement of employees in the success of the company.

Nevertheless, the possibility cannot be ruled out that experts or key individuals will leave the company or that vacancies cannot be filled with appropriately qualified staff. In the event of a pandemic, a sufficient number of home offices are available to ensure that the majority of init's employees are able to access the company's servers using secure VPN connections and perform necessary work from home. The company pays a share of the employees' Internet service costs.

Opportunities

With new tenders recently won, namely a ticketing project in the USA and an initial project in Asia, init has gained some vital reference projects which will greatly increase our chances of winning future tenders as well. We foresee considerable market potential in the area of ticketing in the next few years, particularly in the USA. A lot of intermodal transport control systems will also be renewed. initperdis, in conjunction with initplan, has succeeded in winning further international customers. In many cases, tenders for planning and driver dispatching are issued together. This means that the init group is in a position to present a single face to the customer 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 to combine ticketing and ITCS with the electronic ticket printer with onboard computer function EVENDpc. We will benefit here from our international references, which have a signal effect for many new potential customers from all over the world and should be of advantage to us when additional infrastructure investments are made.

Forecast

As explained above, the init group was able to achieve its goals in terms of revenues and profit in the financial year just ended. In terms of incoming orders, on the other hand, the group fell considerably short of expectations. We are currently involved in numerous tenders worldwide. We are confident that we will be able to win a large part of these ongoing and pending tenders in financial year 2015. We see particular potential for this in the Asian region. In the USA, on the other hand, the number of tenders declined in the past year due to budget debates and the fiscal cliff. However, we are assuming that this situation will ease again in 2015 due to the latest budget increases.

With an order backlog that continues to be substantial, at approximately EUR 122m, we have already secured a major part of the planned revenues for 2015. Assuming that this order backlog is completed on schedule, that the few orders we still lack can be won soon and that exchange rates remain at their current level, we anticipate a successful year in 2015. Therefore, for 2015 we anticipate revenues of between EUR 104m and EUR 110m at almost unchanged margins, with an EBIT between EUR 17m and EUR 19m. Of the planned revenues, between EUR 98m and EUR 103m is accounted for by the "Telematics and Electronic Fare Collection Systems" segment and EUR 6m to EUR 7m by the "Other" segment. The planned EBIT is split into EUR 16.9m to EUR 18.5m for the "Telematics and Electronic Fare Collection Systems" segment and EUR 0.1m to EUR 0.5m for the "Other" segment. Our planning incorporates total incoming orders for 2015 of EUR 112m. Of these, EUR 106m will be accounted for by the "Telematics and Electronic Fare Collection Systems" segment and EUR 6m by the "Other" segment. The planning of incoming orders is based on the assumptions that tenders will not be delayed and that price competition will not continue to intensify. Actual earnings could deviate significantly from the forecast if uncertainties occur or underlying assumptions prove to be false.

With integrated solutions from telematics, planning, dispatching and electronic fare collection systems and experience from numerous international projects, init is a sought-after partner to transport companies on four continents as they expand their intelligent infrastructure. On this basis, we will be able to extend our range of products and services technologically and regionally and thus participate adequately in the expected growth of our sector.

Against this background, our intention for financial year 2015 is to achieve "good" customer satisfaction once again, to guarantee that our personnel are highly qualified, and to pursue and implement technical innovations.

Assessment of the overall risk position

The Managing Board's view is that, overall, the risks to which the init group is exposed are at present comparatively low, based on the group's solid earnings, financial and asset position and the continued predominantly positive business outlook.

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

The primary objective of init AG's internal accounting-related control and risk management system is to secure the regularity of financial reporting, i.e. to make sure that the consolidated financial statements and group status report comply with all relevant rules and regulations.

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 in Deutschland e.V. (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 in the group with regard 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 closing information reported by init AG and its subsidiaries, which itself is based on entries made in the various entities, forms the underlying data base for the preparation of the consolidated financial statements. The parent company in Karlsruhe, the subsidiary concerned, or external regional accounting companies are responsible for preparing the closing information of the subsidiaries. In the case of subjects requiring special expertise, we sometimes call on external providers for assistance, e.g. to value pension liabilities. The consolidated financial statements are then prepared on the basis of the reported closing information. The stages in the process to prepare the consolidated financial statements are carried out in accordance with the peer-review principle.

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 the 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 corporate processes that generate essential information for the preparation of the consolidated financial statements including the group status report, including a separation of functions and 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 is placed here on a discussion of special issues and an examination of these companies' figures and projects.
> Measures exist to ensure proper IT-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.

Basic features of the remuneration system in accordance with section 315 paragraph 2 no. 4 HGB (German commercial code)

Remuneration system for the Managing Board

The salaries for members of the Managing Board are set by the Supervisory Board. The remuneration is determined by the size of the company, its economic and financial situation, the amount and structure of remuneration at comparable companies as well as its relationship to the salaries paid to staff. The salary system for Managing Board members at init innovation in traffic systems AG – including in their capacity as managing directors of subsidiaries – provides for the following:

1. A fixed salary component payable on a pro rata basis in 13 monthly instalments. The fixed component of the Board members' salaries in 2014 totalled EUR 1,448k (previous year: EUR 1,533k).

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 profit before taxes of EUR 10.0m upwards. The management bonus is limited to 25 per cent of the total compensation package excluding the restricted shares under item 3. The variable component of the Board members' salaries in 2014 totalled EUR 243k (previous year: EUR 255k).

3. An additional management bonus for 2014 in the form 2,500 shares, if net profit before tax and after deduction of all management bonuses exceeds EUR 10m. In this case, each member of the Board receives 150 shares for each EUR 1m of excess profit. For two Board members, the number of shares is limited to 10,000 and for two Board members to 6,000. These shares are subject to a vesting 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 salary including income tax payable on it totalled EUR 625k for the financial year just ended (previous year: EUR 754k).

4. On the basis of the above mentioned remuneration system EUR 153k were paid to a former Board member who is still Managing Director of INIT GmbH.

5. Pension commitments exist for two of the four members of the Managing Board as well as for the Board member who resigned during the year. The increase in pension accruals (DBO) for these three people was EUR 975k in 2014 (previous year: reduction of EUR 138k). The increase results from the decreased calculatory interest rate.

6. A defined contribution plan instead of a direct pension commitment exists for two members of the Managing Board. The expenses for this amounted to EUR 9k in 2014 (previous year: EUR 8k).

7. An additional commitment for a defined contribution plan exists for three members of the Managing Board as well as the Board member who resigned during the year. In 2014, expenses for this item amounted to EUR 86k (previous year: EUR 92k).

In compliance with Section 315a (1) HGB (German Commercial Code) in conjunction with Section 314 (1) no. 6a sentences 5 to 8 HGB, the individualised disclosure of the Managing Board members' salaries can be withheld for a period of five years (Section 314 (2) sentence 2 in conjunction with Section 286 (5) HGB), which the shareholders' meeting on 24 May 2011 resolved to do.

No benefits payable to members leaving the Managing Board have been agreed. However, a termination bonus may be specified in an individual termination agreement. This was not the case in 2014.

Remuneration system for the Supervisory Board

The applicable salaries of the Supervisory Board were decided at the shareholders' meeting of 24 May 2011, based on a proposal put forward by the Managing Board and the Supervisory Board. The articles of incorporation of init innovation in traffic systems AG were amended accordingly.

In addition to the reimbursement of expenditure, the annual salary of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals EUR 18k p.a. for the members and EUR 36k p.a. for the Chairman. The variable component depends in equal amounts on the share price and the net profit before tax. The variable salary is limited to 200 per cent of the fixed salary and is calculated using the following formula:

V= ((0.5*price/10 +0.5*net profit before tax/10m) -1) * fixed component

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

The following is a breakdown of the salary of the Supervisory Board in 2014:

Name	Fixed component in EUR '000	Variable component in EUR '000
Hans-Joachim Rühlig	27	27
Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	18	18
Drs. Hans Rat	18	18
Ulrich Sieg	9	9

Reporting in accordance with § 315 paragraph 4 HGB

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 fully paid up. For the rights and obligations related to the shares, please refer to Sections 118 ff. AktG. (German Stock Corporation Act).

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

Dr. Gottfried Greschner, Karlsruhe, directly or indirectly holds 3,371,100 shares in init AG. This is approximately 33.6 per cent of the capital stock. init AG held a total of 16,904 treasury shares as at 31 December 2014 (as at 31 December 2013: 39,918 shares).

There are no shares with special rights.

No voting control exists for shares held by employees.

Please refer to Note 43 for notifications pursuant to Section 21 (1) of the WpHG (German Securities Trading Act).

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 and 179 AktG.

Authority of the Managing Board to issue and repurchase stock

At the annual shareholders' meeting on 24 May 2011, a resolution to create authorised capital of EUR 5,020,000 was passed. 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 in return for cash or contributions in kind. The new shares are to be taken over by credit institutions that are obliged to offer them to the shareholders for subscription. However, with the approval of the Supervisory Board, the Managing Board is authorised to withdraw the subscription right, so that up to 1,004,000 new shares are 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 equity holdings 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 resolution passed at the annual shareholders' meeting on 12 May 2010 authorised the company to purchase treasury stock.

Corporate management declaration

With regard to the required declaration by the management, please refer to the version in the Corporate Governance Report in the 2014 Annual Report which is available on the Internet at http://www.initag.de/en/investor_relations/corporate_governance.php.

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, 13 March 2015

The Managing Board

Dr. Gottfried Greschner   Joachim Becker

Dr. Jürgen Greschner   Bernhard Smolka

Consolidated Financial Statements

init innovation in traffic systems AG, Karlsruhe

Consolidated Income Statement

for 2014 (IFRS)

EUR '000	Notes No.	1/1 to 31/12/14	1/1 to 31/12/13
Revenues	4, 36	102,993	100,120
Cost of revenues	5	–66,412	–62,664
Gross profit		**36,581**	**37,456**
Sales and marketing expenses		–10,813	–10,427
General administrative expenses		–6,238	–6,078
Research and development expenses	6, 22	–2,964	–3,559
Other operating income	7	1,352	1,883
Other operating expenses	8	–757	–528
Foreign currency gains and losses	9	916	–1,292
Income from associated companies	23	608	270
Earnings before interest and taxes (EBIT)		**18,685**	**17,725**
Interest income		54	114
Interest expenses		–506	–303
Earnings before taxes (EBT)		**18,233**	**17,536**
Income taxes	10, 24	–6,166	–5,468
Net profit		**12,067**	**12,068**
thereof attributable to equity holders of parent company		12,067	12,083
thereof non-controlling interests		0	–15
Net profit and diluted net profit per share in EUR	12	1.20	1.21

Consolidated Statement of Comprehensive Income

for 2014 (IFRS)

EUR '000	1/1 to 31/12/14	1/1 to 31/12/13
Net profit	**12,067**	**12,068**
Items to be reclassified to the income statement:		
Net gains (+)/net losses (–) on currency translation	2,672	–508
Net gain (+)/net losses (–) in available-for-sale financial assets	1	0
Items not to be reclassified to the income statement:		
Actuarial losses on defined benefit obligations for pensions	–1,434	521
Total Other comprehensive income	**1,237**	**13**
Total comprehensive income	**13,304**	**12,081**
thereof attributable to equity holders of the parent company	13,304	12,096
thereof non-controlling interests	0	–15

Consolidated Balance Sheet

as of 31 December 2014 (IFRS)

Assets

EUR '000	Notes No.	31/12/14	31/12/13
Current assets			
Cash and cash equivalents	15, 32	9,213	25,446
Marketable securities and bonds	16, 32	30	153
Trade accounts receivable	17, 32	19,606	17,170
Future receivables from production orders (Percentage of completion method)	17, 32	43,758	31,933
Inventories	18	19,775	12,598
Income tax receivable		0	97
Other current assets	19	1,855	2,718
Current assets, total		**94,237**	**90,115**
Non-current assets			
Tangible fixed assets	20	15,034	9,470
Investment property	21	6,173	6,257
Goodwill	22	4,388	4,388
Other intangible assets	22	1,925	2,818
Interest in associated companies	23	2,023	1,888
Deferred tax assets	24	2,857	1,548
Other assets	25	2,137	1,829
Non-current assets, total		**34,537**	**28,198**
Assets, total		**128,774**	**118,313**

Liabilites and shareholders' equity

EUR '000	Notes No.	31/12/14	31/12/13
Current liabilities			
Bank loans	26, 32	1,197	1,942
Trade accounts payable	26, 32	10,894	8,948
Accounts payable of "Percentage of completion method"	17, 26	2,950	5,339
Accounts payable due to related parties	26, 35	888	55
Advance payments received	26	775	1,287
Income tax payable	26	2,015	380
Provisions	28	8,212	8,298
Other current liabilities	27	11,505	9,823
Current liabilities, total		**38,436**	**36,072**
Non-current liabilities			
Bank loans	26, 32	7,900	9,050
Deffered tax liabilities	24	5,965	4,992
Pensions accrued and similar obligations	29	8,303	5,431
Other non-current liabilities	27	400	676
Non-current liabilities, total		**22,568**	**20,149**
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	30	10,040	10,040
Additional paid-in capital	30	5,947	5,962
Treasury stock	30	–353	–763
Surplus reserves and consolidated unappropriated profit		52,831	48,785
Other reserves	30	–759	–1,996
		67,706	**62,028**
Non-controlling interests		64	64
Shareholders' equity, total		**67,770**	**62,092**
Liabilities and shareholders' equity, total		**128,774**	**118,313**

Consolidated Statement of Changes in Equity

as of 31 December 2014 (IFRS)

		Attributable to equity holders		
	Notes No.	30	30	30
EUR '000		Subscribed capital	Additional paid-in capital	Treasury stock
Status as of 31/12/2012		10,040	5,579	–650
Net profit				
Other comprehensive income				
Total comprehensive income				
Dividend paid out				
Share-based payments			383	721
Acquisition of treasury stock				–834
Status as of 31/12/2013		**10,040**	**5,962**	**–763**
Status as of 31/12/2013		10,040	5,962	–763
Net profit				
Other comprehensive income				
Total comprehensive income				
Dividend paid out				
Share-based payments			–15	852
Acquisition of treasury stock				–442
Status as of 31/12/2014		**10,040**	**5,947**	**–353**

	of the parent company					Non-controlling interest	Shareholders' equity total
	30	29					
		Other reserves					
	Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Stock market valuation of securities	Total		
	44,718	–1,662	–347	0	57,678	79	57,757
	12,083				12,083	–15	12,068
		521	–508	0	13		13
	12,083	521	–508	0	12,096	–15	12,081
	–8,016				–8,016		–8,016
					1,104		1,104
					–834		–834
	48,785	–1,141	–855	0	62,028	64	62,092
	48,785	–1,141	–855	0	62,028	64	62,092
	12,067				12,067		12,067
		–1,434	2,672	–1	1,237		1,237
	12,067	–1,434	2,672	–1	13,304	0	13,304
	–8,021				–8,021		–8,021
					837		837
					–442		–442
	52,831	–2,575	1,817	–1	67,706	64	67,770

Consolidated Cash Flow Statement

for 2014 (IFRS)

EUR '000	1/1 to 31/12/14	1/1 to 31/12/13
Cash flow from operating activities		
Net income	12,067	12,068
Depreciation	3,005	2,776
Gains (–) / Losses (+) on the disposal of fixed assets	–41	36
Change of provisions and accruals	2,786	–2,075
Change of inventories	–7,177	2,423
Change in trade accounts receivable and future receivables from production orders	–14,261	–5,142
Change in other assets, not provided by / used in investing or financing activities	652	881
Change in trade accounts payable	1,946	3,765
Change in advanced payments received and liabilities from PoC method	–2,901	–918
Change in other liabilities, not provided by / used in investing or financing activities	3,874	–5,135
Amount of other non-cash income and expenses	552	2,756
Net cash from operating activities	502	**11,435**
Cash flow from investing activities		
Payments received on disposal of tangible fixed assets	75	143
Investments in tangible fixed assets and other intangible assets	–7,330	–4,503
Investment property	–4	–4
Inflows from associated companies and loans receivable	473	261
Inflows from sales of marketable securities as part of short-term cash management	107	0
Investments in marketable securities as part of short-term cash management	0	–18
Net cash flows used in investing activities	–6,679	**–4,121**
Cash flow from financing activities		
Dividend paid out	–8,022	–8,016
Cash payments for the purchase of treasury stock	–442	–835
Payments received from bank loans incurred	0	7,216
Redemption of bank loans	–1,895	–232
Net cash flows used in financing activities	–10,359	**–1,867**
Net effects of currency translation and consolidation changes in cash and cash equivalents	303	–330
Increase / reduction in cash and cash equivalents	–16,233	**5,117**
Cash and cash equivalents as the beginning of the period	25,446	20,329
Cash and cash equivalents at the end of the period	**9,213**	**25,446**

Additional information regarding the cash flow statement can be found in Note 34.

Notes 2014

init innovation in traffic systems AG, Karlsruhe (IFRS)

1. Information about init

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 and is entered in the Commercial Register of the Mannheim District Court (Germany) under HRB 109120. 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 regulated market (Prime Standard) since 1 January 2003.

2. Accounting Principles

The 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. The consolidated financial statements comply with the requirement of §315a HGB.

The consolidated financial statements were prepared in Euro. Unless otherwise indicated, all figures are rounded to a full thousand (EUR k).

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

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.

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

The following standards are applied for the financial year 2014, however there is no impact on the financial, assets and earnings positions of the init group.

Standard	Title
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
Amendment to IFRS 10, IFRS 11 and IFRS 12	Transitional provisions
Amendment to IFRS 10, IFRS 12 and IAS 27	Investment companies
IAS 27	Separate Financial Statements (revised 2011)
IAS 28	Investments in Associates and Joint Ventures (revised 2011)
Amendment to IAS 32	Offsetting Financial Assets and Financial Liabilities
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting

EU endorsement received:

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 2014 financial year. The group did not opt for an early application of these standards and interpretations.

Standard	Title	Application
Amendment to IAS 19	Employee Benefits	1 February 2015
IFRIC 21	Levies	17 June 2014
Annual improvements (2010–2012 cycle)		1 February 2015
Annual improvements (2011–2013 cycle)		1 July 2014

No significant effects on the init group are expected from the amendments to these standards.

EU endorsement outstanding:

The IASB has published the following list of standards and interpretations whose application was not yet mandatory during the 2014 financial year. These standards and interpretations have not yet been adopted into EU law and were not applied by the group.

Standard	Title	Publication by IASB
IFRS 9	Financial Instruments: Classification and Measurement	July 2014
IFRS 15	Revenue from Contracts with Customers	May 2014
IFRS 14	Regulatory deferral Accounts	January 2014
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between an investor and its associate / joint venture	September 2014
Amendment to IAS 27	Equity method in separate financial statements	August 2014
Amendments to IAS 16 and IAS 41	Bearer plants	June 2014
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	May 2014
Amendment to IFRS 11	Acquisitions of an interest in a joint operation	May 2014
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	December 2014
Amendment to IAS 1	Presentation of Financial Statements	December 2014
Improvements to IFRS (2012–2014)		September 2014

No significant effects on the init group are expected from the amendments to these standards – with exception of IFRS 15. The group is currently evaluating the impact of application of IFRS 15 on its consolidated financial statements.

The standards and interpretations listed above will be applied when they take effect within the European Union. There are no plans to apply the new standards in the init group beforehand.

3. Principles of Valuation and Consolidation

Consolidated Group

Name	Registered seat	Share 2014	Share 2013
Fully Consolidated Companies			
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH ("INIT GmbH")	Karlsruhe	100%	100%
INIT Innovations in Transportation Inc. ("INIT Chesapeake")	Chesapeake / Virginia, USA	100%	100%
INIT Innovations in Transportation (Eastern Canada) Inc. / INIT Innovations en Transport (Canada Est) Inc. ("INIT Montreal")	Montreal, Canada	100%	100%
INIT Innovations in Transportation (Western Canada) Inc. ("INIT Toronto")	Toronto, Canada	100%	100%
INIT PTY LTD ("INIT Brisbane")	Brisbane / Queensland, Australia	100%	100%
Init Innovation in Traffic Systems FZE ("INIT Dubai")	Dubai, United Arab Emirates	100%	100%
initplan GmbH ("initplan")	Karlsruhe	100%	100%
INIT Innovations in Transportation Oy ("INIT Helsinki")	Helsinki, Finland	100%	100%
INIT Innovations in Transportation Limited ("INIT Nottingham")	Nottingham, Great Britain	100%	100%
INIT Swiss AG ("INIT Neuhausen")	Neuhausen, Switzerland	100%	100%
initperdis GmbH ("initperdis")	Hamburg	100%	100%
INIT Asia-Pacific Pte. Ltd. ("INIT Singapore")	Singapore	100%	100%
CarMedialab GmbH ("CML")	Bruchsal	58.1%	58.1%
CarMedialab Corp. ("CML Corp.")	Marina del Rey / California, USA	58.1%	58.1%
TQA Total Quality Assembly LLC ("TQA")	Chesapeake / Virginia, USA	60%	60%
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake / Virginia, USA	100%	100%
Associated companies (at-equity)			
iris-GmbH infrared & intelligent sensors ("iris")	Berlin	43%	43%

Backdated to 1 January 2013 INIT Chesapeake acquired in the second quarter the remaining 14.3 per cent of ownership interest in SQM. The purchase price amounted to USD 100k.

Company formations in 2014 and 2013

There were no business formations in 2014 and 2013.

Business combinations in 2014 and 2013

There were no business combinations within the meaning of IFRS 3 in 2014 and 2013.

Consolidation Method

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 reporting 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 fair 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 fair value at the time of acquisition and the resulting profit or loss reported in the consolidated income statement.

The agreed contingent consideration is reported at the fair value at the time of acquisition. In agreement with IAS 39, subsequent changes to the fair 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 recognised at their full market value irrespective of the amount of the non-controlling 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 init AG are prepared in their functional currency according to IAS 21 "The Effects of Changes in Foreign Exchange Rates". The functional currency of INIT Chesapeake, TQA, INIT Montreal, INIT Toronto, INIT Brisbane, INIT Dubai, INIT Nottingham, SQM, INIT Neuhausen, CML Corp. and INIT Singapore 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 reporting 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 reporting 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 a business combination is valued at acquisition cost on initial recognition, measured as transferred consideration excess above the share of the group in the fair 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 decreased. 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 post-employment benefits

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. 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).

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 fair value of non-current tangible and intangible assets and when applying deferred taxes to tax losses carried forward.

Realisation of income

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

Income from system contracts is recorded using the Percentage-of-Completion method. The percentage of completion of orders in progress and such not yet invoiced at the reporting 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 to the customer. 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.

Income from operating leases for investment property is reported evenly over the entire term of the lease in other operating income.

Interest income is realised where interest has accrued.

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

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.

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 fair value and recognised as income or expenses, 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 fair value. Financial investments other than those reported at their fair value and recognised as income or expenses 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 fair value of financial investments traded in organised markets is determined using the current price (buying rate) quoted on the reporting date. The fair 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 fair value of another, basically identical, financial instrument, the analysis of discounted cash flows, and the use of other valuation models.

Securities and bonds

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 fair value (exchange or market price), with gains or losses recognised as a separate item in the shareholder’s 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 or loss.

Trade accounts receivable and future receivables from production orders

Receivables are non-derivative financial assets with fixed or estimable payments not listed in an active market. After initial inclusion, the receivables are reported at the net book value less impairment. Profits and losses are entered in the operating result related to the accounting period if the receivables are charged off or impaired. The future receivables from production orders 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 fair value at the time of conclusion of the contract and, in the following periods, are measured at their fair value. Derivative financial instruments are reported as assets if their fair value is positive and as liabilities if their fair value is negative.

Profits or losses from changes in the current prices of derivative financial instruments not meeting the hedge accounting criteria are immediately recognised as income or expenses. In contrast, the adjustment of order values to the current prices on the reporting 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 because it does not meet the requirements, 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 reporting 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 average useful life.

The average useful lives are as follows:

Buildings	50 years
Plant and machinery	3–5 years
Factory and office equipment	3–10 years

Investment property

The property and land serving to generate rentals from third parties is treated as investment property. The value is determined using the cost method. The depreciation of the financial investments follows the straight-line method over their actual useful life, which is 50 years.

Group as lessor

Leases under which all the opportunities and risks inherent in the property are not substantially transferred by the group to the lessee are classified as operating leases.

Other intangible assets

Purchased intangible assets are valued at acquisition cost and depreciated in a straight-line method over their useful life of three to ten years.

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. No software was capitalised in 2014 and in 2013 because the conditions were not met.

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. 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 decreased. Irrespective of this, these costs are subjected to an impairment test at least once a year until the time of sale to the customers.

Interests in associated companies

The interests 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.

Impairment of assets

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

Deferred tax assets and deferred tax liabilities

The company determines its deferred income taxes using the balance sheet-oriented approach. Accordingly, deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 "Income Taxes" to account for the tax consequences of differences between the balance sheet valuations of the assets and liabilities and the corresponding tax assessment bases, and tax losses carried forward. The deferred tax assets and deferred tax liabilities are calculated on the basis of the prevailing tax rates for the taxable profit in the year in which the differences are expected to be levelled. The effect of changes in the tax rates on deferred tax assets and deferred tax liabilities is accounted for in the period in which the amendment of the law takes effect. The income tax rate taken as the basis was 30.0 per cent. Deferred tax assets for the 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.

Pensions accrued and similar obligations

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 past service cost are recorded immediately affecting net income.

Provisions

The 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

4. Revenues

The revenues are composed of the following amounts:

EUR '000	2014	2013
Revenues resulting from the application of the Percentage-of-Completion method	74,522	77,443
Revenues from maintenance contracts	13,948	12,584
Revenues from additional and replacement deliveries	14,523	10,093
Total revenues	**102,993**	**100,120**

5. Cost of revenues

The costs of revenues are composed as follows:

EUR '000	2014	2013
Cost of materials and purchased services	35,263	34,158
Personnel expenses	20,768	18,724
Depreciation	2,286	2,090
Rental expenses	2,073	1,923
Travel and entertainment costs	1,760	1,550
Valuation adjustments on inventories	812	1,213
Other	3,450	3,006
Total	**66,412**	**62,664**

Other costs of revenues primarily include vehicle costs as well as repair and maintenance expenses.

6. Research and development costs

EUR '000	2014	2013
Software	1,986	3,020
Hardware	978	539
Total	**2,964**	**3,559**

7. Other operating income

The other operating income primarily includes allocated benefits in kind, compensatory payments made by insurance companies, and rent. Additionally EUR 146k (2013: EUR 242k) result from public subsidies and subsidies from the European Union. The income from operating leases for the investment properties at Kaeppelestrasse 8/8a and 10 in Karlsruhe amounted to EUR 212k (2013: EUR 320k).

8. Other operating expenses

The other operating expenses includes EUR 34k (2013: EUR 147k) from losses on disposal of fixed assets, EUR 87k (2013: EUR 87k) depreciation on investment property and expenses consist of write-downs of marketable securities and bond issues totalling EUR 7k (2013: EUR 21k) due to the assumption of a permanent impairment.

9. Foreign currency gains and losses

EUR '000	2014	2013
Balance of unrealised currency gains / losses	–97	–766
Balance of realised currency gains / losses	884	–318
Currency gains / losses from consolidation transactions	129	–208
Total	**916**	**–1,292**

10. Income tax

EUR '000	2014	2013
Current income tax	5,825	4,114
Deferred income tax	341	1,354
Total	**6,166**	**5,468**

The small amount of deferred income taxes compared to last year is mainly attributable to the increase in pension accruals with an opposing increase in future receivables from production orders.

The tax expenditure resulting from the application of the tax rate of init AG changes to income tax expenditure as shown in the following table. The tax rate of the German companies is made up of corporation tax of 15.0 per cent (2013: 15.0 per cent) plus 5.5 per cent solidarity surcharge thereon, and trade tax of 14.35 per cent (2013: 14.35 per cent). For other countries the tax rate varies between 0 and 38 per cent. The average comes up to a rounded theoretical tax rate in the amount of 30.0 per cent.

EUR '000	2014	2013
Profit before income tax	18,233	17,536
Theoretical income tax expenditure at 30.0%	5,470	5,261
Tax rate differences for foreign subsidiaries	782	104
Tax effect of non-deductible/taxed expenses/income	72	83
Tax effects of tax-free increases in net worth	17	53
Taxes unrelated to accounting period	0	–25
Tax effects from results of associated companies	–182	–81
Other	7	73
Effective income tax expenditure	**6,166**	**5,468**
Effective tax expenditure in %	33.8	31.2

The change from the deferred tax assets and deferred tax liabilities to the deferred taxes reported in the consolidated income statement is composed of the following:

EUR '000	2014	2013
Changes to deferred tax assets	–1,309	574
Changes to deferred tax liabilities	973	905
Settled and recognised in equity	615	–145
Currency adjustments	62	20
Deferred tax expense/income	**341**	**1,354**

The effects recognised in equity refer to the reported actuarial gains / losses from defined benefit pension commitments.

11. Net earnings and losses from financial instruments

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

EUR '000	2014	2013
Loans and receivables	2,124	–772
Financial assets available for sale	–7	–21
Financial liabilities recognised at cost	–92	112
Financial assets and liabilities reported at fair value through profit or loss	–1,460	–159
Total	**565**	**–840**

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 fair value through profit or loss essentially include the results from changes in the market value.

12. Net profit per share

The net profit per share is calculated by dividing the consolidated net profit due to the shareholders of the parent company by the weighted number of shares issued (issued capital less treasury shares). Since init AG had not issued any stock options by the reporting dates, there was no diluted net profit per share to be calculated.

	2014	2013
Net profit (shareholders of the parent company) in EUR '000	12,067	12,083
Weighted average number of shares issued	10,016,115	10,011,332
Undiluted net profit per share in EUR	1.20	1.21

13. Paid and proposed dividends

EUR '000	2014	2013
Ordinary dividends declared and paid during the financial year	8,021	8,016
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2014: 80 cents per share (2013: 80 cents per share)	8,018	8,000

14. Personnel expenses

The personnel expenses totalled EUR 34,437k (2013: EUR 32,198k).

Notes on the Consolidated Balance Sheet

15. Cash and cash equivalents

EUR '000	Fair values 2014	Fair values 2013
Deposits with credit institutions (current accounts)	8,960	9,174
Short-term deposits (fixed-term deposits/call money)	253	16,272
Total	**9,213**	**25,446**

16. Securities and bond issues

This item refers to securities and bond issues with a total fair value of EUR 30k (2013: EUR 153k). Due to the assumption of a permanent impairment, the fair value (market value on the reporting date) of the securities and bond issues was reduced by EUR 7k (2013: EUR 21k), and this impairment was recognised as an expense. The fair value of the Greek bonds amounted to EUR 16k at the reporting date (2013: EUR 25k). In 2014 no purchases of securities occurred (2013: EUR 18k). Sales of securities in the current year valued at EUR 115k (2013: EUR 0k).

17. Trade accounts receivable and future receivables from production orders

EUR '000	2014	2013
Gross trade receivables	22,015	18,064
Less cumulative value adjustments	–2,409	–894
Subtotal	19,606	17,170
Future receivables from production orders	43,758	31,933
Total	**63,364**	**49,103**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2014	2013
As of 01/01	894	761
Transfer to expenditure	1,517	259
Drawdown	–9	0
Release	–79	–101
Currency effects	86	–25
As of 31/12	**2,409**	**894**

The expenses from transfer and the income from release are included in the income statement under "Cost of revenues". The increase in value adjustment results primarily from the value adjustment of the first Dubai project.

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

EUR '000	2014	2013
Book value	63,364	49,103
Adjusted gross receivables	3,490	3,955
Neither delinquent nor impaired	59,108	35,459
Delinquent but not value-impaired		
< 30 days	884	7,922
30–60 days	744	1,396
60–90 days	550	1,317
90–180 days	274	382
> 180 days	723	460

The delinquent accounts receivable amount to EUR 6.7m (2013: EUR 15.4m), whereby the projects in Dubai account for EUR 3.4m of this (2013: EUR 4.2m). Of the delinquent accounts receivable in Dubai, around EUR 2.0m (2013: EUR 0.6m) was written down. The general contractor for the first Dubai project did not pass payments from the end customer worth AED 12.1m on to us. init has gone to court to obtain the payment. The arbitral procedure was decided in favour of init. However, there is still the risk of default on these claims.

For future receivables from production orders value-impairing factors are continuously being considered in the context of the concurrently running project calculations.

At the reporting date, there were no indications to suggest that the debtors of the receivables not subject to value impairment would not meet their financial obligations.

Production orders

The production orders valued on the reporting date using the Percentage-of-Completion method but not yet invoiced are as follows:

EUR '000	2014	2013
Costs accrued plus profits from projects not yet invoiced	193,259	138,596
Less payments received	–152,451	–112,002
Balance	**40,808**	**26,594**
Of which: future receivables from production orders	43,758	31,933
Of which: liabilities from Percentage-of-Completion (see Liabilities)	2,950	5,339

18. Inventories

EUR '000	2014	2013
Raw materials and supplies	1,219	1,076
Goods (valued at net realisable value)	16,919	11,046
Deposits paid	1,637	476
Total	**19,775**	**12,598**

19. Other current assets

EUR '000	2014	2013
Derivative financial instruments	0	875
Accruals	560	695
Other tax refund claims	528	643
Due from personnel	157	152
Other	610	353
Total	**1,855**	**2,718**

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

20. Tangible fixed assets

EUR '000	Land and buildings	Plant and machinery	Factory and office equipment	Facilities under construction
Acquisition and production costs				
As of 01/01/2014	4,567	1,504	8,184	1,584
Additions in current financial year	137	72	1,119	5,873
Disposals in current financial year	0	0	545	0
Currency differences	102	200	205	0
As of 31/12/2014	**4,806**	**1,776**	**8,963**	**7,457**
Depreciation				
As of 01/01/2014	938	426	5,005	0
Additions in current financial year	208	155	1,532	0
Disposals in current financial year	0	0	511	0
Currency differences	34	57	124	0
As of 31/12/2014	**1,180**	**638**	**6,150**	**0**
Book value as of 31/12/2014	**3,626**	**1,138**	**2,813**	**7,457**

EUR '000	Land and buildings	Plant and machinery	Factory and office equipment	Facilities under construction
Acquisition and production costs				
As of 01/01/2013	4,566	777	8,145	361
Additions in current financial year	47	758	2,180	1,223
Disposals in current financial year	15	0	2,068	0
Currency differences	–31	–31	–73	0
As of 31/12/2013	**4,567**	**1,504**	**8,184**	**1,584**
Depreciation				
As of 01/01/2013	747	293	5,653	0
Additions in current financial year	214	146	1,287	0
Disposals in current financial year	15	0	1,898	0
Currency differences	–8	–13	–37	0
As of 31/12/2013	**938**	**426**	**5,005**	**0**
Book value as of 31/12/2013	**3,629**	**1,078**	**3,179**	**1,584**

The tangible fixed assets essentially concern the administration building at Kaeppelestrasse 4 in Karlsruhe, two residential buildings leased to employees, office equipment and technical installations. The depreciation follows the straight-line method over the average useful life of the asset. The scheduled depreciation in 2014 totalled EUR 1,895k (2013: EUR 1,647k) and is included in the consolidated income statement under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

The facilities under construction refer to payments made totalling EUR 7,457k (2013: EUR 1,584k) for the new building. No depreciation on the facilities under construction was reported in 2014. Currently there are no restrictions on the right of disposal. The loan for financing the new building is secured by a land charge in the amount of EUR 6.5m (2013: EUR 6.5m). At the end of the year, the contractual commitments for the building plans totalled EUR 4.9m (2013: EUR 10.7m).

21. Investment property

EUR '000	2014	2013
Acquisition costs as of 01/01	6,373	6,369
Additions in current financial year	4	4
Acquisition costs as of 31/12	6,377	6,373
Depreciation as of 01/01	116	29
Additions in current financial year	87	87
Depreciation as of 31/12	203	116
Book value as of 31/12	**6,173**	**6,257**

Composition of earnings from investment property during the period under review:

EUR '000	2014	2013
Rental income from investment property	212	320
Operating expenditure* used to generate rental income	87	87

* including maintenance and repairs

The group does not face any restrictions on the disposal of investment property, nor does it have any contractual commitments to purchase, build or develop any investment property. Moreover, there are no contractual commitments to carry out any repairs, maintenance or improvements.

The land and property not operated for commercial purposes within the meaning of IAS 40 "Investment Property" concern the neighbouring properties Kaeppelestrasse 8, 8a and 10 in Karlsruhe acquired in 2012. The leases of the buildings were terminated early due to a special right of termination as a result of bankruptcy and end on 31 March 2015. The existing sub-leases were transferred to init AG. With potential new tenants discussions are currently taking place.

The investment property is valued at amortised cost plus incidental costs and recognised on the balance sheet at a book value of EUR 6.2m (2013: EUR 6.3m). The buildings are depreciated on a straight-line basis over a useful life of 50 years.

The fair value at the end of the reporting period amounts to EUR 6.6m and has been calculated by an external assessment by a building surveyor. The report on the market value was created based on the income approach.

The operation, maintenance and care of the land and buildings are handled by the tenants, who also bear the related costs. Consequently, there were no expenses directly allocable to the investment property in 2014 other than scheduled depreciation (2013: EUR 0k).

22. Goodwill and other intangible assets

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As of 01/01/2014	4,388	9,102	5,702
Additions in current financial year	0	0	129
Disposals in current financial year	0	0	38
Currency differences	0	0	14
As of 31/12/2014	**4,388**	**9,102**	**5,807**
Depreciation			
As of 01/01/2014	0	9,102	2,884
Additions in current financial year	0	0	1,022
Disposals in current financial year	0	0	38
Currency differences	0	0	14
As of 31/12/2014	**0**	**9,102**	**3,882**
Book value as of 31/12/2014	**4,388**	**0**	**1,925**

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As of 01/01/2013	4,388	9,572	5,800
Additions in current financial year	0	0	295
Disposals in current financial year	0	451	388
Currency differences	0	–19	–5
As of 31/12/2013	**4,388**	**9,102**	**5,702**
Depreciation			
As of 01/01/2013	0	9,572	2,226
Additions in current financial year	0	0	1,042
Disposals in current financial year	0	451	379
Currency differences	0	–19	–5
As of 31/12/2013	**0**	**9,102**	**2,884**
Book value as of 31/12/2013	**4,388**	**0**	**2,818**

Impairment test of goodwill

To check for impairment of value, the goodwill was allocated to following the cash-generating units: "Telematics and Electronic Fare Collection Systems", "Driver Dispatch Systems" and "Automotive".

The book value of the goodwill:

EUR '000	2014	2013
Telematics and Electronic Fare Collection Systems	1,877	1,877
Driver Dispatch Systems	2,308	2,308
Automotive	203	203
Total	**4,388**	**4,388**

So far no impairment of goodwill was necessary.

The recoverable amount of the above cash-generating units is determined on the basis of the calculation of the economic benefit of 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 8.0 per cent before taxes (2013: 7.3 per cent).

The following assumptions taken as a basis for the calculation of the economic benefit involve forecast uncertainties:

- Revenues
- Free Cashflow
- Discount rate

Revenues: Revenues are planned on the basis of the order backlog, the open and announced tenders, offers made and experiences from the past.

Free Cashflow: Free Cashflow appears from the planned EBIT minus notional taxes, investments and changes of the Net Working Capital as well as the addition of depreciations. Past experience supports the basis of this determination.

Discount rate: The discount rate reflects the estimate of the company management in regard to the risks relating to the cash-generating units. A uniform interest rate of 5.6 per cent (2013: 5.1 per cent) after taxes was applied. Cash flows arising after the period of three years are determined using a growth discount of 1.0 per cent (2013: 1.0 per cent).

Sensitivity analysis on the assumptions
With an increase in the interest rate of 3.5 per cent, the fair value of the cash-generating unit Driver Dispatch Systems would equal the book value.

A reduction in planned revenues and free cash flows about 10 per cent for each year for the cash-generating unit Driver Dispatch Systems means that the fair value equals the book value.

Without the above mentioned changes the fair value as of December 31, 2014 exceeds the book value of the cash-generating unit Driver Dispatch Systems by EUR 2,519k.

Other intangible assets

Licences:
The licences include external software costs as well as programming and consulting in the amount of EUR 1,925k (2013: EUR 2,818k). The scheduled amortisation amounts to EUR 1,022k (2013: 1,042k) and is included in the consolidated income statement under "Cost of revenues".

23. Interests in associated companies

The associated company iris is not publicly listed. The business of iris is the development, production and sale of sensors, and sensor and information processing systems. The earnings before taxes amounted to EUR 1,876k (2013: EUR 801k). The net profit corresponds to the comprehensive income and amounted to EUR 1,414k (2013: EUR 628k).

In 2014, the pro-rata result for init group amounted to EUR 608k (2013: EUR 270k). A distribution was made in the 2014 financial year of EUR 473k (2013: EUR 261k). Depreciation of investments in associated companies were not required.

24. Deferred taxes

The deferred tax assets and liabilities are as follows:

EUR '000	31/12/2014	31/12/2013
Deferred tax assets		
Inventories	410	336
Other assets	1	55
Provisions	1,045	587
Pensions accrued and similar obligations	1,401	570
Total deferred tax assets	**2,857**	**1,548**
Deferred tax liabilities		
Future receivables from production orders	5,039	3,483
Other assets	3	389
Tangible fixed assets	451	429
Goodwill	43	43
Other intangible assets	423	634
Other liabilities	6	14
Total deferred tax liabilities	**5,965**	**4,992**

No deferred tax assets were accrued in 2013 and 2014 for previously unused tax losses carried forward. On 31 December 2014, the unused corporate tax loss carried forward was EUR 668k (2013: EUR 675k).

On 31 December 2014, there were no deferred tax liabilities on retained earnings of subsidiaries on the grounds that appropriate distributions are not planned for the foreseeable future. If such distributions were made, the tax burden would be insignificant for the group. The temporary differences in connection with shares in subsidiaries totalled EUR 21.6m (2013: EUR 17.2m).

25. Other non-current assets

EUR '000	2014	2013
Asset value of pension liability insurance	1,001	961
Security deposits	278	115
Loans	15	18
Gold stock	788	694
Other	55	41
Total	**2,137**	**1,829**

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

26. Liabilities

	31/12/2014			31/12/2013		
	Remaining term			Remaining term		
EUR '000	Total	< 1 year	> 5 years	Total	< 1 year	> 5 years
Bank loans	9,097	1,197	3,166	10,992	1,942	4,182
Trade accounts payable	10,894	10,894	0	8,948	8,948	0
Accounts payable from percentage of completion	2,950	2,950	0	5,339	5,339	0
Accounts payable to related parties	888	888	0	55	55	0
Advance payments received	775	775	0	1,287	1,287	0
Income tax liabilities	2,015	2,015	0	380	380	0
Other liabilities	11,905	11,505	0	10,499	9,823	0

Terms relating to the above financial liabilities:

The bank loans of EUR 9,097k (2013: EUR 10,992k) relate to long-term loans of EUR 7,900k (2013: EUR 9,050k) for financing the buildings at Kaeppelestrasse 4, 8 / 8a, 10 as well as the new building in the Kaeppelestrasse Karlsruhe, which are fully secured by a land charge and the resultant short-term share of EUR 1,184k (2013: EUR 1,217k). They also include overdraft facilities amounting to EUR 13k (2013: EUR 725k).

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	2014	80,695	2,589	65,000	13,106
Credit insurance companies	2014	22,045	0	22,045	0
Bond line for USA and Canada	2014	61,700	0	0	0
Banks	2013	75,335	2,229	60,000	13,106
Credit insurance companies	2013	17,000	0	17,000	0
Bond line for USA and Canada	2013	54,473	0	0	0

The credit and guarantee lines are sufficient to finance the further growth of the company. On 31 December 2014, the cash line drawdown totalled EUR 0k (2013: EUR 709k), the guarantee lines EUR 45,657k (2013: EUR 47,589k), and the bond line EUR 51,870k (2013: EUR 22,150k).

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)

	31/12/2014			31/12/2013		
	Remaining term			Remaining term		
EUR '000	Total	< 1 year	> 5 years	Total	< 1 year	> 5 years
Tax liabilities	927	927	0	1,431	1,431	0
Due to personnel	4,843	4,843	0	4,763	4,763	0
Derivative financial instruments	726	726	0	68	68	0
Social security liabilities	116	116	0	80	80	0
Future liabilities for services not invoiced by subcontractors	3,314	3,314	0	1,651	1,651	0
Others	1,979	1,579	0	2,506	1,830	0
Total	**11,905**	**11,505**	**0**	**10,499**	**9,823**	**0**

28. Provisions

EUR '000	As of 1/1/2014	Currency differences	Usage	Release	Transfer	As of 31/12/2014
Provisions for warranties	3,195	199	113	220	469	3,530
Provisions for insufficient production costs	3,481	110	624	29	1,149	4,087
Provisions for anticipated losses related to projects	16	0	0	16	49	49
Other provisions	1,606	0	53	1,093	86	546
Total	**8,298**	**309**	**790**	**1,358**	**1,753**	**8,212**

All provisions are expected to mature 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.

29. Pensions accrued and similar obligations

For the employees of init AG, INIT GmbH, initplan and initperdis there are both benefit plans and defined contribution pension plans. The liabilities include obligations from current pensions and for pension entitlements of future retirees. Pension liabilities are calculated using the projected unit credit method. These pension commitments grant employees an old-age pension (independent of salary) after attaining the age of 63 (Dr. Gottfried Greschner 65). Risks of defined benefit plans are affected by the capital markets and demographic change. In order to mitigate these risks only defined contribution plans have been offered for several years.

The following parameters were taken into consideration:

Actuarial interest rate in per cent (2013)	1.96 (3.67)
Biometric bases	Klaus Heubeck's "Richttafeln G" (Actuarial Tables) of 2005

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

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

EUR '000	2014	2013
Pensions accrued at the beginning of the year (Defined Benefit Obligation – DBO)	6,098	6,499
Service cost	67	85
Interest cost	221	192
Financial actuarial gains (–) / losses (+)	2,048	–667
Pension payments	–15	–11
Pensions accrued (DBO) at the end of the year	8,419	6,098
Plan assets	–116	–667
Pensions accrued	**8,303**	**5,431**

The plan assets contain the asset value of pension liability insurances and have developed as of the balance sheet date as follows:

EUR '000	2014	2013
Fair Value of the plan assets on 1/1	667	615
Payment from the plan	–575	0
Interest income from plan assets	14	18
Financial actuarial gains (+) / losses (–)	–1	1
Contributions to plan assets by the group	11	33
Fair value of the plan assets on 31/12	**116**	**667**

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

EUR '000	2014	2013
Service cost	67	85
Interest cost	221	192
Expenses for pension payments	**288**	**277**

In the consolidated income statement, the service cost is included in the cost of revenues (EUR 11k), the sales and marketing expenses (EUR 29k) and the administrative expenses (EUR 27k), and the interest paid is reported in the item of the same name.

EUR '000	2014	2013
Cumulated amount of the financial actuarial gains (–) and losses (+) included in the shareholders' equity, after deducting deferred taxes	2,575	1,141

EUR '000	2014	2013
Defined benefit obligation (DBO) on 31/12	8,419	6,098
Adjustments to the DBO based on experience	44	–47

The pension accruals attributable to persons in key management positions totalled EUR 4,106k (2013: EUR 3,131k). Of this EUR 194k apply to a former Board member.

EUR '000	2010	2011	2012	2013	2014
DBO	2,914	4,315	6,499	6,098	8,419

Sensitivities of the principal actuarial assumptions:

The interest rate as well as the life expectancy has been identified as principal actuarial assumptions. Changes would have the following implications:

Implications for the DBO EUR '000	+0,5% actuarial interest rate	–0,5% actuarial interest rate	+1 year life expectancy	–1 year life expectancy
2014	–704	800	367	–367
2013	–464	523	219	–219

The same method was applied in the calculation of the sensitivity of the DBO as for the calculation of the defined benefit obligation.

Asset / Liability Matching Strategy

Reinsurance contracts in the amount of EUR 116k (2013: EUR 667k) have been entered into to compensate risks. The excess obligations are financed from current cash flows due to the small amount.

Future Cash Flows

Expected pension payments (EUR '000):

2015	2016	2017	2018	2019	2020–2024
194	198	207	214	230	1,493

The weighted average maturity of the DBO of the defined benefit plans is 18 years (2013: 17 years).

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. The amount recorded as expenses for contribution-based plans totalled EUR 346k (2013: EUR 346k), of which EUR 98k (2013: EUR 103k) are allocated to the persons in key management positions.

30. Shareholders' equity

Subscribed capital

The capital stock is divided into 10,040,000 no-par bearer shares each accounting for EUR 1.00 of the capital stock. The shares have been issued and fully paid up.

Floating shares:	2014	2013
As of 1/1	10,000,082	9,985,101
Acquisition of treasury stock	–20,000	–35,992
Issue of stock to Managing Board, managing directors and key personnel	26,340	34,879
Issue of stock to employees	16,674	16,094
As of 31/12	**10,023,096**	**10,000,082**

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

Managing Board	Number of shares	Supervisory Board	Number of shares
Dr. Gottfried Greschner, CEO*	3,371,100	Hans-Joachim Rühlig	0
Joachim Becker, COO	342,083	Drs. Hans Rat	0
Dr. Jürgen Greschner, CSO	97,100	Ulrich Sieg	0
Bernhard Smolka, CFO	26,100		

* 3,330,000 of which are held by Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe. At this company, Dr. Gottfried Greschner holds 74.2 per cent.

Concerning the information provided pursuant to § 26 para 1 WpHG we refer to note 43.

Authorised capital

At the annual shareholders' meeting on 24 May 2011, a resolution to create authorised capital of EUR 5,020,000 was passed. 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 in return for cash or contributions in kind.

Additional paid-in capital

The additional paid-in capital on 31 December 2014 amounted to EUR 5,947k, of which EUR 3,141k resulted from the premium of the shares sold at the time of the initial public offering. Due to the sale of treasury stock in 2007, the additional paid-in capital increased by EUR 514k. EUR 2,307k was transferred from 2005 to 2013 as part of the recognised expenses from the share-based remuneration (see item 37). In 2014 EUR 15k were dissolved.

Treasury stock

The treasury stock as on 1 January 2014 totalled 39,918 shares. The resolution passed at the annual shareholders' meeting on 12 May 2010 authorised the company to purchase treasury stock. On 9 September 2014, a decision was made to repurchase up to 20,000 shares of treasury stock; between 11 September and 29 September 2014, 20,000 shares of treasury stock were repurchased at an average price of EUR 22.10. As part of an employee stock ownership plan, shares of init AG were offered to the employees of init group as profit sharing. 16,674 shares were transferred to employees in December 2014. Within the scope of the incentive scheme for members of the Managing Board, managing directors and key personnel in the first quarter of 2014, a total of 26,340 shares were transferred with a vesting period of five years. On 31 December 2014, there were consequently 16,904 shares of treasury stock.

The company's treasury stock was valued at acquisition cost at EUR 353k (2013: EUR 763k) and openly deducted from the equity capital. The total of 16,904 shares as of 31 December 2014 corresponds to an imputed share of EUR 16,904 (0.17 per cent) of the capital stock. The shares were repurchased at an average price of EUR 20.89 per share. The treasury stock was repurchased for use as consideration within the scope of business combinations and to acquire other companies or parts of companies or participations, or, where required, to open up additional capital markets or to issue them to employees and members of the Managing Board.

Surplus reserves and consolidated unappropriated profit

The surplus reserves and consolidated unappropriated profit in the amount of EUR 52,831 (2013: 48,785) includes the retained earnings of init AG and since group affiliation generated results of init AG and the consolidated subsidiaries.

Other reserves

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

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

Market valuation of securities: In this reserve changes in fair value of available-for-sale investments are recognized.

Capital management

The objective of capital management is to ensure financial flexibility for long-term business continuity and to secure strategic activities. Here, the init group focuses on securing liquidity, limit the financial risks and maintain the high equity ratio. The group shows a consistently high equity ratio over the last years. At the annual shareholders' meeting 2011, a resolution to create authorised capital of EUR 5,020,000 was passed.

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 and bonds is the investment of the funds of the group. 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.

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 reporting date. The changes in value are reported in the income statement. There were no changes to the objectives or methods of financial risk management.

The main risks of the group in regard to financial instruments include foreign currency risks and risks of default. The Management regularly reviews and monitors each of these risks, which are described in the following.

Foreign currency risk

Due to foreign revenues, 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 same currency as the underlying secured transaction. The group usually only enters into hedging transactions 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 a currency risk. The effects are determined by relating the hypothetical changes in the risk variables to the amount of financial assets and liabilities at the reporting date.

If the value of the euro relative to the foreign currencies relevant for init on 31 December 2014 had appreciated by 10 per cent, the operating result would have been EUR 647k less. The resulting appreciation of forward exchange transactions would have totalled EUR 1,374k. As a counter-effect, it would also have resulted in expenses of EUR 2,021k owing to cash in banks, accounts receivable and liabilities. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2014 had depreciated by 10 per cent, the operating result would have been EUR 774k higher. This breaks down as follows: EUR 1,247k to forward exchange transactions, compensated by appreciation of cash in banks, accounts receivable and liabilities at EUR 2,021k.

If the value of the euro relative to the foreign currencies relevant for init on 31 December 2013 had appreciated by 10 per cent, the operating result would have been EUR 1,384k higher. The resulting appreciation of forward exchange transactions would have totalled EUR 1,196k. As a counter-effect, it would also have resulted in expenses of EUR 2,580k owing to cash in banks, accounts receivable and liabilities. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2013 had depreciated by 10 per cent, the operating result would have been EUR 1,222k less. This breaks down as follows: EUR 1,358k to forward exchange transactions, partially compensated for by appreciation of cash in banks, accounts receivable and liabilities at EUR 2,580k.

Risk of default

The group does not have any material risk of default concentrations with the exception of the receivables from the first Dubai project, 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, to the fact 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. Allowance for individual receivables is recognised when it is probable that the demands made will not be satisfied. The write-off a receivable against the already recognised impairment will be executed, when all possibilities for collecting the receivables are exhausted and these are considered as uncollectible. The losses of receivables outstanding for the 2014 financial year totalled EUR 9k (2013: EUR 0k).

All customers requesting transactions with the init group based on credit are subjected to a credit investigation. Since the group concludes transactions only with recognised, creditworthy third parties, it does not require collateral.

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.

Interest change risk

The interest change risk to which the group is exposed mainly relates to the variable interest rate borrowings to finance the properties at Kaeppelestrasse 8/8a and 10 and for the financing of the new building in Karlsruhe. Further risks can arise from interest rate changes for financial assets. The interest change risk does not have any significant impact on the assets, liabilities, earnings situation or financial position of the init group.

Liquidity risk

On 31 December 2014, 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).

In order to curb liquidity risks, the liquidity of the init group is controlled by the corporate headquarters. The main aim is to ensure a minimum liquidity of each company to ensure the solvency at all times. Our current projects provide the largest source of liquidity. In addition to these current revenues, the init group ensures its liquidity risk through appropriate lines of credit that can be drawn upon as needed.

EUR '000	Book value	2015	2016	2017 – 2019	> 2019
Non-derivative financial liabilities					
Other financial liabilities	22,825	14,540	1,464	3,952	3,371
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	726	726	0	0	0
Total		**15,266**	**1,464**	**3,952**	**3,371**

The derivative financial liabilities result in payments totalling EUR 14,707k and payments receivable totalling EUR 13,981k.

As on 31 December 2013, the future cash flows from the financial liabilities were as follows:

EUR '000	Book value	2014	2015	2016 – 2018	> 2018
Non-derivative financial liabilities					
Other financial liabilities	20,824	11,604	1,495	4,399	4,438
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	68	68	0	0	0
Derivative financial assets	–875	–875	0	0	0
Total		**10,797**	**1,495**	**4,399**	**4,438**

The derivative financial liabilities result in payments totalling EUR 2,395k and payments receivable totalling EUR 2,327k.

32. Explanatory notes on the financial instruments

Classification and fair values

The following table states the book values of the financial instruments of the group reported in the balance sheet on 31 December 2014 compared to 31 December 2013 and shows their classification in appropriate measurement categories according to IAS 39.

EUR '000	2014	2013
Assets		
Loans and receivables	73,521	**75,062**
Cash and cash equivalents	9,213	25,446
Trade accounts receivable	19,606	17,170
Future receivables from production orders	43,758	31,933
Other assets (current)	569	376
Other assets (non-current)	375	137
Financial assets available for sale	30	**153**
Marketable securities and bond issues	30	153
Financial assets reported at fair value through profit or loss	0	**875**
Derivative financial assets	0	875
Liabilities		
Financial liabilities recognised at cost	22,825	**20,824**
Bank loans (current and non-current)	9,097	10,992
Trade accounts payable	10,894	8,948
Accounts payable due to related parties	888	55
Other liabilities (current)	1,561	153
Other liabilities (non-current)	385	676
Financial liabilities reported at fair value through profit or loss	726	**68**
Derivative financial liabilities	726	68

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.

Hierarchy of fair values to IFRS 13

The group uses the following hierarchy to determine and report the fair value:

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.

The following table shows the fair values of assets and liabilities, with the exception of those with book values are reasonable approximations of fair values:

EUR '000	Fair value as of 31/12/2014	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Investment property	6,555			6,555
Financial assets available for sale				
Marketable securities and bond issues	30	30		
Financial liabilities reported at fair value through profit or loss				
Derivative financial liabilities	726		726	

EUR '000	Fair value as of 31/12/2013	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Investment property	6,432			6,432
Financial assets reported at fair value through profit or loss				
Derivative financial assets	875		875	
Financial assets available for sale				
Marketable securities and bond issues	153	153		
Financial liabilities reported at fair value through profit or loss				
Derivative financial liabilities	68		68	

In the reporting period ending 31 December 2014 and the reporting period ending 31 December 2013, 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.

Through a review of the classification (based on the lowest level input that is significant to the fair value measurement as a whole) of the acquired assets and liabilities is determined whether transfers between the levels have occurred at the end of each reporting period.

The measurement of fair value at Level 2 in the current financial year and the prior year is as follows: derivative financial instruments are determined by discounting the expected future cash flows over the remaining term of the contract at the closing rate.

The measurement of fair value at Level 3 in the current financial year is as follows: The fair value was determined using the discounted cash flow method, taking into account the following parameters: price developments, discount rate and sales value of the property.

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, Canadian dollars and Great Britain pound from firm commitments. The following derivative financial instruments were concluded:

	Nominal value		Market values	
EUR '000	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Forward exchange transactions	13,981	13,463	-726	807

33. Contingencies and other liabilities

Operating lease liabilities – group as lessor

The group has entered into leasing agreements to let out its investment property for commercial usage. The investment property is comprised of office space and production halls not used by the group itself. The buildings leasing contracts were cancelled due to a special right of cancellation in consequence of a bankruptcy and are ending on 31 March 2015.

On 31 December, the following receivables existed for future minimum rental payments related to the non-terminable operating leases:

EUR '000	2014	2013
Up to one year	68	320
Longer than one year and up to five years	0	960
Total	**68**	**1,280**

Operating leases

The group has entered into leasing agreements for vehicles and other business and operating equipment. These leases have an average term of between three and four years and do not include extension options. The annual rental liabilities of the init group totalled EUR 1,939k, 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 expenses of operating leases in the current financial year amount to EUR 1.7m (2013: EUR 1.8m). The future minimum payments under these agreements extend to the year 2026 and amount to:

EUR '000	31/12/2014	31/12/2013
< 1 year	2,113	1,648
1–5 years	3,143	4,164
> 5 years	3,328	3,800
Total	**8,584**	**9,612**

Contingent liabilities

As in the previous year, there were no contingent liabilities on 31 December 2014.

Legal disputes

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

To hedge against risks arising from such disputes, the relevant group companies have set up appropriate provisions in their balance sheets where the dispute concerns an event before the reporting 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 sustained effect on the assets, liabilities, financial position and earnings situation of the init group.

Other disclosures

34. Additional notes on the Cash Flow Statement

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

EUR '000	2014	2013
Interest expenses	–168	–139
Interest income	72	94
Income tax payments	–4,340	–8,085
Income tax receipts	24	87

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

Inflows from dividend distributions amounted to EUR 473k (2013: EUR 261k). Outflows for dividends totalled EUR 8,021k (2013: EUR 8,016k).

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.

	Associated companies		Other related parties and persons	
EUR '000	2014	2013	2014	2013
Trade accounts receivable and other income	0	0	0	46
Trade accounts payable and other expenses	4,321	2,062	540	540
Receivables on 31/12	0	0	0	0
Payables on 31/12	888	55	0	40

Associated companies

The amounts due to related parties and persons relate to trade accounts payable against iris and have a remaining maturity of less than one year. The amounts are shown in the balance sheet under current liabilities.

Other related party transactions

Since November 2014 init AG rents an office building in Karlsruhe with 67.39% from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karslruhe and with 32.61% from Eila Greschner (previously renting 100% from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe). The monthly rent payments are approximately EUR 40k (total annual rent: EUR 475k). The rent is contractually fixed until 30 June 2026. Total payments of EUR 65k (2013: EUR 65k) made to family members of a Managing Board member were recognised under personnel expenses.

Terms and conditions of business transactions with related parties and persons

Sales to, and purchases from, related parties and persons are made under 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 2014 (2013: 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” segment covers integrated systems for controlling local transport, electronic 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).

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 reportable 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 result, which corresponds to the result indicated in the consolidated financial statements.

1 January to 31 December 2014 EUR '000	Telematics and Electronic Fare Collection Systems	Other	Eliminations	Consolidated
Revenues				
With third parties	97,607	5,386	0	102,993
With other segments	761	3,436	–4,197	0
Total revenues	**98,368**	**8,822**	**–4,197**	**102,993**
EBIT	**19,148**	**–474**	**11**	**18,685**
Segment assets	122,752	8,436	–2,414	128,774
Segment liabilities	59,714	3,685	–2,395	61,004
Interest income	66	6	–18	54
Interest expenses	467	57	–18	506
Scheduled depreciation	2,149	856	0	3,005
Cost of revenues	64,533	6,501	–4,246	66,788
Research and development costs	1,898	1,066	0	2,964
Foreign currency gains (+) and losses (–)	907	25	–16	916
Share in profit of associated companies	608	0	0	608
Income tax	6,354	–188	0	6,166
Value impairment	2,821	51	0	2,872
Interest in associated companies	2,023	0	0	2,023
Investments in tangible and intangible assets, and investment properties	7,289	45	0	7,334

In the Telematics and Electronic Fare Collection Systems segment, around 10.2 per cent of the entire revenue was generated with one customer in 2014.

1 January to 31 December 2013 EUR '000	Telematics and Electronic Fare Collection Systems	Other	Eliminations	Consolidated
Revenues				
With third parties	94,633	5,487	0	100,120
With other segments	685	2,898	–3,583	0
Total revenues	**95,319**	**8,385**	**–3,583**	**100,120**
EBIT	**17,325**	**403**	**–3**	**17,725**
Segment assets	110,833	10,760	–3,280	118,313
Segment liabilities	54,769	4,711	–3,259	56,221
Interest income	129	3	–18	114
Interest expenses	267	54	–18	303
Scheduled depreciation	1,860	916	0	2,776
Cost of revenues	60,561	5,786	–3,683	62,664
Research and development costs	2,699	860	0	3,559
Foreign currency gains (+) and losses (–)	–1,263	–37	8	–1,292
Share in profit of associated companies	270	0	0	270
Income tax	5,317	151	0	5,468
Value impairment	931	220	0	1,151
Interest in associated companies	1,888	0	0	1,888
Investments in tangible and intangible assets, and investment properties	4,426	81	0	4,507

In the Telematics and Electronic Fare Collection Systems segment, around 8.5 per cent of the entire revenue was generated with one customer in 2013.

Geographical information

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

Revenues 1/1 to 31/12 EUR '000	2014	%	2013	%
Germany	28,746	27.9	25,010	25.0
Rest of Europe	23,773	23.1	25,091	25.0
North America	45,284	44.0	41,731	41.7
Other countries (Australia, UAE)	5,190	5.0	8,288	8.3
Group total	**102,993**	**100.0**	**100,120**	**100.0**

The revenue information given above is based on the location of the customer.

Non-current assets 31/12 EUR '000	2014	%	2013	%
Germany	22,750	90.4	18,032	88.2
Rest of Europe	230	0.9	322	1.6
North America	2,000	8.0	1,892	9.3
Other countries (Australia, UAE)	175	0.7	187	0.9
Group total	**25,155**	**100.0**	**20,433**	**100.0**

The non-current assets consist of tangible assets, investment property, intangible assets and interests in associated companies.

37. Share-based remuneration

Employee shares

Based on the resolution of the Managing Board of 14 April 2014, published on 7 July 2014 (2013: 6 May 2013), shares of the company were offered as a form of profit sharing (for certain subsidiaries this regulation could be different). In December 2014, the employees entitled to subscribe (excluding e.g. the Managing Board, temporary staff and trainees) each received 50 shares (December 2013: 50 shares) at a price of EUR 20.75 (December 2013: EUR 22.57) per share at the time of the issuance. 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 2014. The shares are subject to a vesting period of two years from the time of transfer. A total of 16,674 shares were transferred (2013: 16,094).

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 359k (2013: EUR 401k). This amount was recorded as expenses.

Management bonuses in the form of stock

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

Where this amount is reached, each of the individuals above receives 2,500 shares. Each is granted a further 150 shares for every EUR 1m of additional profit. The number of bonus shares is limited to 6,000 or 10,000 shares per beneficiary. These shares are subject to a lock-up 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 in the form of shares, 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, 26,340 shares (2013: 34,879) with a lock-up period of five years were granted to the managing directors and to key personnel. The taxes relating to the share transfer are borne by the group.

On 31 December 2014, the valuation was based on 17,575 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 380k (EUR 21.60 per share) for the Managing Board and to EUR 204k (EUR 21.78 per share) for key personnel; these amounts were recorded as expenses in 2014.

38. Events after the balance-sheet date

There were no events after the balance-sheet date that had any significant effect on the asset, financial and earnings position.

39. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

	2014	2013
Employees in Germany	368	347
Employees in rest of Europe	9	4
Employees in North America	78	72
Employees in other countries	18	18
Total	**473**	**441**

Managing Board

The following members make up the Managing Board of init AG:

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

Dr. Gottfried Greschner is also a member of the advisory board of Stadtmarketing Karlsruhe GmbH, Karlsruhe as well as a member of the foundation board of Majolika-Stiftung für Kunst- und Kulturförderung, Karlsruhe.

Changes in the Managing Board of init AG
Wolfgang Degen, COO of init AG, resigned on 30 June 2014 at his own request from the Managing Board. However, he is Managing Director of INIT GmbH until 31 March 2016. The Chairman of the Managing Board, Dr. Gottfried Greschner, has taken over the management of the technical scope of Wolfgang Degen at board level.

Supervisory Board

The members of the Supervisory Board of init AG are:

Dipl.-Kfm. Hans-Joachim Rühlig, Ostfildern, Chairman since 1 July 2014	Former Financial Managing Director of Ed. Züblin AG, Stuttgart
Drs. Hans Rat, Schoonhoven, Deputy Chairman since 1 July 2014	Managing Director of Beaux Jardins B.V., Schoonhoven, Netherlands
Dipl.-Ing. Ulrich Sieg, Jork, Member since 1 July 2014	Consulting engineer specialising in public transportation, Member of Supervisory Board of SECURITAS Holding GmbH, Düsseldorf

Changes in the Supervisory Board of init AG

The Chairman of the Supervisory Board of init AG Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau retired from his position on 30 June 2014. Dr. Gottfried Greschner had previously been elected at the Annual General Meeting of 2011 to succeed Prof. Dr. Girnau on the Supervisory Board. However, since Dr. Greschner has chosen to remain on the Managing Board, he is unable to sit on the Supervisory Board. Accordingly, Dipl.-Ing. Ulrich Sieg, residing in Jork, was elected as a new member of the Supervisory Board at the Annual General Meeting on 15 May 2014 to take up office from 1 July 2014. On 1 July 2014 Dipl.-Kfm. Hans- Joachim Rühlig (before Deputy Chairman) was elected in a statutory meeting as the new Chairman of the Supervisory Board as well as Drs. Hans Rat as Deputy Chairman of the Supervisory Board with immediate effect.

40. Particulars of board member salaries

The members of the Managing Board received total remuneration of EUR 2,316k in the 2014 financial year (2013: EUR 2,542k). This total includes fixed salaries of EUR 1,448k (2013: EUR 1,533k), variable remuneration in the form of management bonuses of EUR 243k (2013: EUR 255k), and EUR 625k (2013: EUR 754k) in the form of shares, including the income tax payable for them. The managing directors of INIT GmbH, who are not members of the Managing Board of init AG, received total remuneration of EUR 476k (2013: EUR 315k). This total includes fixed salaried of EUR 406k (2013 EUR 271k), variable remuneration in the form of management bonuses of EUR 8k (2013: EUR 8k) and EUR 62k (2013: EUR 36k) in the form of shares. EUR 153k of the total of EUR 476k applied to a former board member of init AG. In compliance with Section 315a (1) HGB (German Commercial Code) in conjunction with Section 314 (1) no. 6a sentences 5 to 8 HGB, the individualised disclosure of the Managing Board members' salaries can be withheld for a period of five years (Section 314 (2) sentence 2 in conjunction with Section 286 (5) HGB), which the shareholders' meeting on 24 May 2011 resolved to do.

The total remuneration of the Supervisory Board members for 2014 amounted to EUR 144k (2013: EUR 148k). This includes a variable share of EUR 72k (2013: EUR 76k) and is distributed as follows:

EUR '000	Fixed	Variable
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18	18
Dipl.-Kfm. Hans-Joachim Rühlig	27	27
Drs. Hans Rat	18	18
Dipl.-Ing. Ulrich Sieg	9	9

In the 2014 financial year, the members of the Supervisory Board received EUR 0k (2013: EUR 0k) for consulting activities.

41. Auditing firm

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, received compensation for audits to the amount of EUR 174k (2013: EUR 174k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 5k (2013: EUR 8k). Other appraisal services incurred costs of EUR 6k (2013: EUR 0k), and other services, of EUR 21k (2013: EUR 0k).

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 16 December 2014, and was made available to the shareholders on our website at www.initag.com.

43. Notification under Section 26 (1) of the German Securities Trading Act (WpHG)

On May 22, 2014, BNP Paribas Investment Partners Belgium S.A., Brüssel, Belgien has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on init innovation in traffic systems AG, Karlsruhe, Deutschland, have exceeded the 3% threshold of the Voting Rights on May 21, 2014 and on that day amounted to 3.07% (this corresponds to 308,205 Voting Rights).

On May 22, 2014, BNP Paribas Investment Partners UK Ltd, London, United Kingdom has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on init innovation in traffic systems AG, Karlsruhe, Deutschland, have exceeded the 3% threshold of the Voting Rights on May 21, 2014 and on that day amounted to 3.07% (this corresponds to 308,205 Voting Rights). 3.07% of Voting Rights (this corresponds to 308,205 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 6 of the WpHG (German Securities Trading Act).

Attributed Voting Rights are held by the following shareholders, whose share of the Voting Rights in init innovation in traffic systems AG amounts to 3 percent or more: BNP Paribas Investment Partners Belgium S.A.

On May 22, 2014, BNP Paribas Investment Partners S.A., Paris, France has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on init innovation in traffic systems AG, Karlsruhe, Deutschland, have exceeded the 3% threshold of the Voting Rights on May 21, 2014 and on that day amounted to 3.09% (this corresponds to 309,936 Voting Rights). 3.09% of Voting Rights (this corresponds to 309,936 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 1 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following companies under its control, whose share of the Voting Rights in init innovation in traffic systems AG amounts to 3 percent or more: BNP Paribas Investment Partners Belgium S.A. 3.07% of Voting Rights (this corresponds to 308,205 Voting Rights) are attributed to the company in accordance with Article 22, Section 1, Sentence 1, No. 6 in connection with sentence 2 of the WpHG (German Securities Trading Act). Attributed Voting Rights are held by the following shareholders, whose share of the Voting Rights in init innovation in traffic systems AG amounts to 3 percent or more: BNP Paribas Investment Partners Belgium S.A.

On September 25, 2014, Swisscanto Asset Management International S.A., Luxembourg, Luxembourg has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on init innovation in traffic systems AG, Karlsruhe, Germany, have fallen below the 3% threshold of the Voting Rights on September 24, 2014 and on that day amounted to 2.91% (this corresponds to 292,482 Voting Rights).

44. Approval of consolidated financial statements

In the board meeting on 13 March 2015, the consolidated financial statements and the group status report of init AG drawn up by the Managing Board on 31 December 2014 were approved for forwarding to the Supervisory Board.

Karlsruhe, 13 March 2015

The Managing Board

Dr. Gottfried Greschner   Joachim Becker   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, 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] and supplementary provisions of articles of incorporation and bylaws are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Mannheim, March 13, 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Grathwol	Hällmeyer
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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

Annual Financial Statements of init AG

init innovation in traffic systems AG, Karlsruhe

The full annual financial statements of init AG are available on our website at www.initag.com or send an email to ir@initag.de.

Income Statement
for 2014 (HGB)

EUR '000	01/01 – 31/12/2014	01/01 – 31/12/2013
1. Revenues	5,743	5,954
2. Other operating income thereof from currency translations EUR 53k (2013: EUR 17k)	1,153	907
	6,896	**6,861**
3. Personnel expenses		
a) Salaries	2,027	1,925
b) Social security and expenditures for pensions and other benefits thereof for retirement benefits EUR 30k (2013: EUR 55k)	319	326
4. Depreciation on tangible fixed assets	124	122
5. Other operating expenses thereof expenses for currency translation EUR 4k (2013: EUR 130k)	2,809	2,514
	5,279	**4,887**
6. Income from investments thereof from affiliated companies EUR 0k (2013: EUR 3,250k)	0	3,250
7. Income from profit and loss transfer agreements	7,655	8,589
8. Other interest and similar income thereof from affiliated companies EUR 35k (2013: EUR 33k)	43	42
9. Depreciation on marketable securities and bonds	8	21
10. Expenses from profit and loss transfer agreements	27	0
11. Interest and similar expenses thereof expenses from discounting EUR 7k (2013: EUR 5k)	121	73
	7,542	**11,787**
12. Profit from ordinary activities	**9,159**	**13,761**
13. Income taxes	3,069	2,970
14. Other taxes	30	18
	3,099	**2,988**
15. Net profit	**6,060**	**10,773**
16. Profit carried forward	11,353	8,601
17. Balance sheet profit	**17,413**	**19,374**

Balance Sheet

as of 31 December 2014 (HGB)

Assets

EUR '000	31/12/2014	31/12/2013
A. Non-current assets		
I. Tangible fixed assets		
1. Land, land rights and buildings including buildings on third-party land	8,552	8,554
2. Deposits paid and facilities under construction	7,457	1,584
	16,009	**10,138**
II. Financial assets		
1. Interests in affiliated companies	26,495	26,495
2. Loans to affiliated companies	601	601
	27,096	**27,096**
	43,105	**37,234**
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	9,252	7,730
2. Other assets	344	242
	9,596	**7,972**
II. Securities		
Other securities	30	153
III. Cash and cash equivalents, central bank balances, bank balances and cheques	463	8,012
	10,089	**16,137**
C. Prepaid expenses	66	62
Assets, total	**53,260**	**53,433**

Liabilities

EUR '000	31/12/2014	31/12/2013
A. Shareholders' equity		
I. Subscribed capital	10,040	10,040
./. Treasury shares	–17	–40
	10,023	10,000
II. Additional paid-in capital	**10,927**	**10,860**
III. Surplus reserve		
Other surplus reserve	1,031	644
IV. Balance sheet profit	**17,413**	19,374
	39,394	**40,878**
B. Provisions		
1. Provisions for pensions and similar obligations	148	134
2. Tax provisions	1,272	285
3. Other provisions	1,325	1,095
	2,745	**1,514**
C. Liabilities		
1. Bank loans	9,084	10,268
2. Trade accounts payable	366	33
3. Liabilities to affiliated companies	1,205	126
4. Other liabilities thereof taxes EUR 40k (2013: EUR 40k) thereof for social security EUR 0k (2013: EUR 0k)	466	614
	11,121	**11,041**
Liabilities and shareholders' equity, total	**53,260**	**53,433**

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.

Buy America Act

A United States law that states that no funds may be used in an FTA (Federal Transit Administration) funded project unless all iron, steel, and manufactured products used in the project are produced in the United States. However, there are several waivers that apply to these general provisions. This is relevant for init because the vast majority of public transit infrastructure projects in the US are financed by FTA funding.

Clearing

Calculation and allocation of fares between different operators using common tickets like usual e.g. in transport networks.

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.

EBIT

The EBIT indicates the Earnings Before Interest and Taxes.

E-ticketing / Electronic fare management

The e-ticket (electronic ticket) is a variant of electronic fare management. The ticket 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.

Hosting

Services init offers, which were originally in the responsibility of the customer. Several service stages are possible – from simple deployment of the server infrastructure via technical maintenance of the IT-systems up to operations.

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

Client-based Systems

Client systems allow several – even competing – companies to use the same IT-Infrastructure. A sophisticated user management ensures that every company has only access to their own data.

ONLINEinfo

INIT's module for web-based passenger information provides real-time information via various webservices. For example via websites, apps, mobile tagging or Google Maps.

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.

PROXmobil

The passenger terminal supports all kinds of E-Ticketing. Passengers are able to select a ticket, validate tickets or store a riding authorization, for example in check-in / check-out systems.

Financial calendar

Date	Event
26 March 2015	Publication of 2014 annual report and press / analyst conference in Frankfurt
8 May 2015	Publication of Q1 report 2015
13 May 2015	Annual General Meeting 2015, Kongresszentrum / Konzerthaus Karlsruhe
11 August 2015	Publication of Q2 report 2015
11 November 2015	Publication of Q3 report 2015
23–25 November 2015	Analyst conference, German Equity Forum, Frankfurt

Imprint

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Five-year financial summary of the init group
(IFRS)

EUR '000	2014	2013	2012	2011	2010
Balance Sheet (31/12)					
Balance sheet total	128,774	118,313	110,452	109,756	84,421
Shareholders' equity	67,770	62,092	57,757	56,938	46,667
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ratio (in %)	52.6	52.5	52.3	51.9	55.3
Return on equity (in %)	17.8	19.4	18.8	26.4	21.5
Non-current assets	34,537	28,198	27,603	19,806	13,484
Current assets	94,237	90,115	82,849	89,950	70,937
Income Statement (01/01–31/12)					
Revenues	102,993	100,120	97,297	88,736	80,913
Gross profit	36,581	37,456	34,006	36,294	27,292
EBIT	18,685	17,725	17,318	20,430	15,085
EBITDA	21,690	20,501	19,895	22,891	17,592
Consolidated net profit	12,067	12,068	10,872	15,057	10,014
Earnings per share (in EUR)	1.20	1.21	1.11	1.51	1.00
Dividend (in EUR)	0.80	0.80	0.80	0.80	0.60
Cash Flow					
Cash flow from operating activities	502	11,435	11,332	17,433	14,615
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	25.80	26.89	25.70	19.99	15.89
Bottom share price (in EUR)	18.50	21.15	13.60	13.06	9.15

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