Overcoming

challenges

Annual report 2012

init

innovation in traffic systems AG

Company profile

As worldwide leading supplier of telematics and electronic fare collection systems for busses and trains, init helps transport companies making public transport **more attractive, faster and more efficient.**

Meanwhile, **more than 400 customers around the globe** rely on our sophisticated solutions and benefit from our unique understanding of the challenges faced by public transport providers.

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

init supports

Planning & Scheduling	Operations & Real-Time Passenger Information	Electronic Fare Management	Analysing & Optimising
From planning timetables to optimised deployment of vehicles and drivers – we provide our customers the tools to get the most out of their resources.	Keeping an eye on the traffic situation, increasing punctuality, fixing disruptions quickly and keeping passengers well-informed: we help transport companies offer their customers a service of the highest quality.	Whether smartcard, barcode, check-in/check-out or paper ticket, our ticketing solutions make it easy for passengers to pay the right fare. And our customers enjoy our easy-to-use fare management system, too.	How smoothly is your operation running? What does the demand look like? Where could you make improvements? We help our customers find answers to these questions and many more. As the only provider we include automated data feedback in our planning tools.

Overcoming challenges

Technologies and markets undergo constant change and create new challenges for companies. This means, one has to keep up – or, even better, to be at least one step ahead. This is something at which init is highly successful. Critical factors for init's successful international growth are its innovative technology, customer proximity and excellent service. These are demonstrated by the new projects in Nottingham, Sacramento, Düsseldorf and Montreal. init is also ideally equipped to take on its next challenge of tapping into the Asia-Pacific market with the founding of its new subsidiary in Singapore.

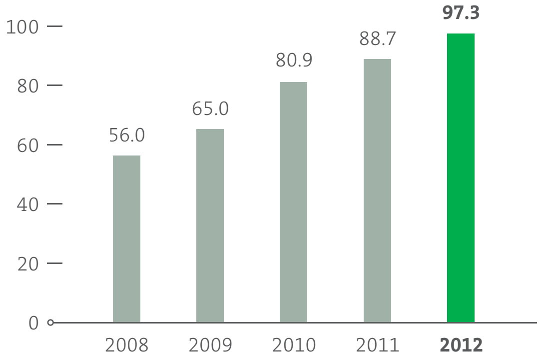
Imagery: init ensures that its customers' processes run both smoothly and effectively. To a great extent, the innovative, complex hardware and software solutions that underlie these processes remain invisible. In the Annual Report 2012 we use (graphic) elements to symbolically represent the printed circuit boards and programming codes used in these solutions.

Group key figures

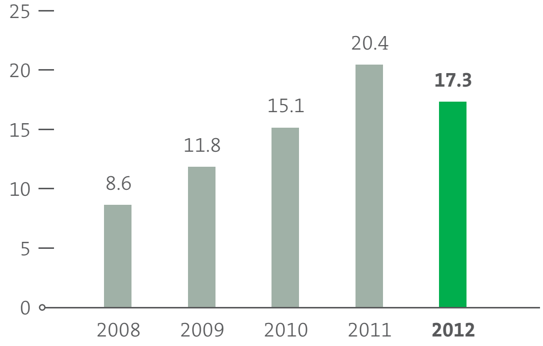
IFRS

EUR '000	2012	2011	Change in %
Balance Sheet (31/12)			
Balance sheet total	110,452	109,756	0.6
Shareholders' equity	57,757	56,938	1.4
Subscribed capital	10,040	10,040	0.0
Equity ratio (in %)	52.3	51.9	
Return on equity (in %)	18.8	26.4	
Non-current assets	27,603	19,806	39.4
Current assets	82,849	89,950	–7.9
Income Statement (01/01–31/12)			
Revenues	97,297	88,736	9.6
Gross profit	34,006	36,294	–6.3
EBIT	17,318	20,430	–15.2
EBITDA	19,895	22,891	–13.1
Consolidated net profit	10,872	15,057	–27.8
Earnings per share (in EUR)	1.11	1.51	–26.1
Dividend (in EUR)	0.80	0.80	0.00
Cash Flow			
Cash flow from operating activities	11,332	17,433	–35.0
Share			
Issue price (in EUR)	5.10	5.10	0.00
Peak share price (in EUR)	25.70	19.99	28.60
Bottom share price (in EUR)	13.60	13.06	4.10

Revenue development (in million EUR)



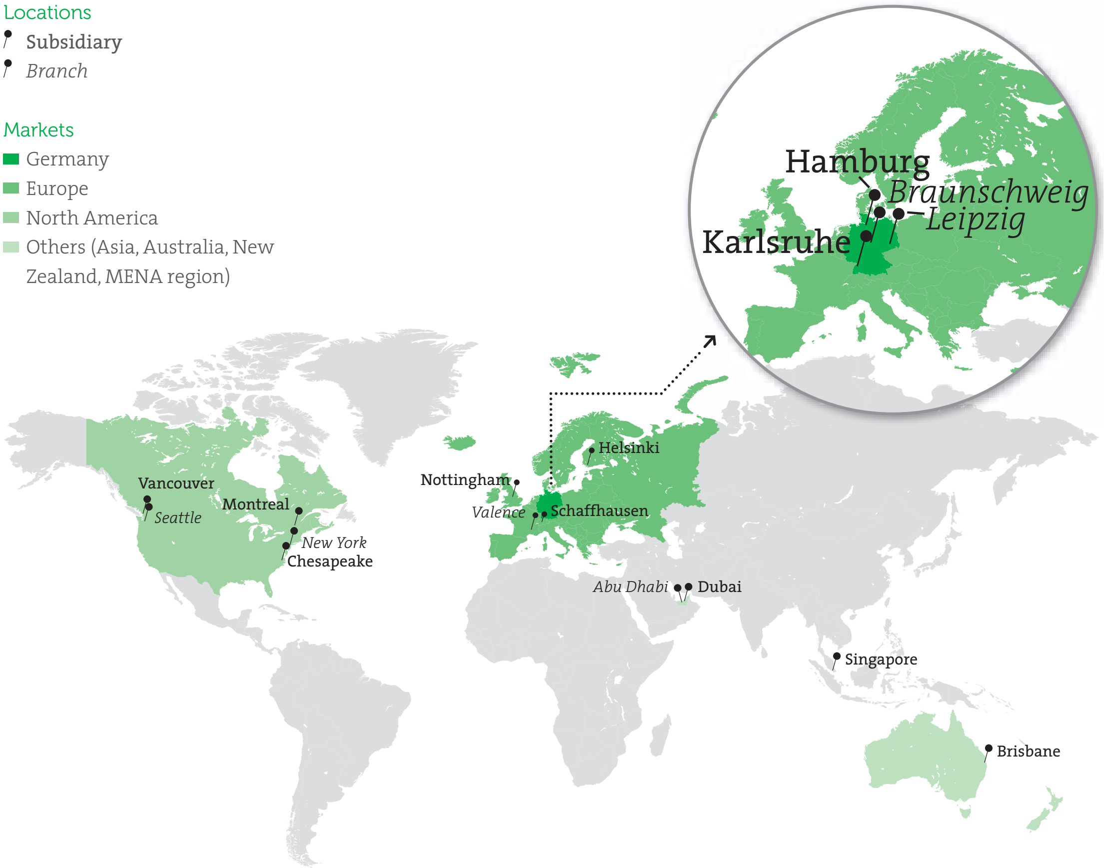
EBIT development (in million EUR)



Markets and locations

Locations
Subsidiary
Branch

Markets
Germany
Europe
North America
Others (Asia, Australia, New Zealand, MENA region)



Key figures by region

Revenue distribution (in million EUR)	Incoming orders (in million EUR)	Employees
46.7 North America	**62.7** North America	**325** Germany
21.8 Germany	**49.3** Germany	**67** North America
14.8 Others	**38.8** Europe	**14** Others
14.0 Europe	**1.5** Others	**5** Europe




Content

Overcoming challenges

14 Düsseldorf
18 Nottingham
22 Montreal
26 Singapore

6 Foreword
9 Managing Board Members
10 Interview with the chairman of the managing board Dr. Gottfried Greschner
14 Overcoming challenges
30 Report of the Supervisory Board
34 Corporate Governance Report
38 Investor Relations

40 Group Status Report
41 Business and general conditions
50 Earnings, financial and asset position
59 Events after the reporting date
59 Risk and opportunities report
65 Prospects report and outlook

68 Consolidated Financial Statements
69 Consolidated Income Statement
69 Consolidated Statement of Comprehensive Income
70 Consolidated Balance Sheet
72 Consolidated Statement of Changes in Equity
74 Consolidated Cash Flow Statement
75 Notes
124 Audit Opinion
125 Responsibility Statement by the legal Representatives

126 Annual Financial Statements of init AG
127 Income Statement
128 Balance Sheet

130 Service
130 Glossary
132 Financial calendar and Imprint

Five-year financial summary

Dear Ladies and Gentlemen, Dear Shareholders,

2012 was a good year for the stock market despite all the fluctuations and uncertainties. For owners of German stocks, it was actually the best year in ten years if the performance of the German DAX index is used as the benchmark. The price index of the 30 leading German stock companies gained 29 per cent in value last year. The DAX thus improved its annual average performance in the last decade to 3.6 per cent.

init innovation in traffic systems AG is neither as large nor as significant as the German blue chips. In terms of the result for you as our shareholders, however, init does not need to shy away from comparison with them – in either the short or long term. 2012 was the most successful year since init's initial public offering in July 2001 with an increase in value of around 64 per cent in share price performance. The init share set several new record highs. At the beginning of October 2012, it was listed at an all-time high of EUR 25.70.

If the dividend paid in 2012 of EUR 0.80 – consistent with a dividend yield of more than 3 per cent – is factored in, the result is even more impressive. Even when seen over a 10-year period: init AG shows an average annual increase in value of more than 13 per cent, thus far outperforming all the 30 leading stock companies in Germany.

Of course, init also experienced downturns (in price) over the last few years. But overall, our share and our company showed a stable uptrend even during times of crisis, as evidenced by the key company figures: in the last decade the number of init employees has almost doubled, group earnings have tripled and annual net profit has even increased tenfold.

Many factors have had to come together for this to happen. The fundamental requirement is highly qualified and motivated employees. They ensure the quality of our systems, the performance of our technology, the ability of our company to innovate and the satisfaction of our customers on four continents. They are the reason why init has consistently won ground-breaking tenders and forward-looking projects every year. 2012 was no exception. We were awarded major contracts from Rheinbahn/Via in Germany, the Luxembourg transport system and the Société de Transport de Montréal in Canada with an impressive total volume of more than EUR 100 million. You can read more about these projects on page 14 of this annual report.

Success stories like these make all of us here at init happy and even a little proud of what we have achieved. If, however, we consider the growth of the last decade as a whole, we can see something else emerging quite clearly: our company benefits from "global megatrends". Global megatrends are key factors for the growth of business sectors. They have a major impact on the development of social, political and economic structures over the long term.

The most important megatrend continues to be global population growth. No other megatrend affects social and economic structures to such a large degree. By the year 2050, the world population will increase from its current level of 7 billion to more than 9.4 billion people – mainly in Africa and Asia. Around two thirds of them, more than 6 billion people, will live and work in cities. Urbanisation is the second megatrend, which can already be felt today in init's international business and will become even more pronounced over the next few years.

F. l. t. r.: Dr. Jürgen Greschner, Bernhard Smolka, Dr. Gottfried Greschner, Joachim Becker and Wolfgang Degen

The growing urbanisation of our world is creating a whole range of opportunities. Megacities, which are defined as large cities with more than 10 million inhabitants, like the ones emerging primarily in Africa, America and Asia, will make a significant contribution to increasing the productivity and prosperity of a national economy. To accomplish this, targeted investments are needed in their infrastructure. Billions will have to be spent on expanding and modernising their transport systems. This will require the kind of systems and components that init has already successfully installed for more than 400 customers around the globe.

Our future customers are less likely to be individual transport companies and more transport authorities responsible for specific metropolitan areas, regions or entire countries. Transport authorities are responsible for transportation networks that span structures.

We see this trend quite clearly in growth markets in North America and Australia – but mainly in Asia. When we recently opened our subsidiary in Singapore, we were surprised at the level of interest. We had the opportunity to establish a lot of new contacts with people in charge from booming cities and megacities in China, Japan and Malaysia. Many of them were already familiar with init through reference projects in Australia, Canada, the USA and the United Arab Emirates.

We are held in high regard thanks to our system solutions and the high standard of our services. On this basis – and now also due to our local subsidiary – we are well-equipped to capitalise on new, long-term potential for growth in Asia over the next few years.

We will thus continue to benefit from the global megatrends of population growth and urbanisation if we can successfully compete at a global level. This is why we are doing everything in our power to further improve our existing technologies and develop new solutions together with our customers. Even if our earnings are lower in the short term as a result, this is, however, the cornerstone for init's long-term success.

In 2013, our sales will exceed the EUR 100 million mark for the first time. Our order level of around EUR 177 million and new tenders that are taking shape give us reason to look to the future with optimism.

We are looking forward to tackling the upcoming challenges of developing new markets and hope to benefit from the global megatrends together with you.

Thank you for the trust you have placed in us.

Karlsruhe, March 2013

For the Managing Board

Dr. Gottfried Greschner
CEO
init innovation in traffic systems AG

Managing Board Members

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

CV: Studies in electrical engineering at the University of Stuttgart. Research work in the field of 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 partner of INIT GmbH, Karlsruhe. Appointed as Chairman of the Managing Board of init AG on 25 April 2001.

Dipl.-Inform. Joachim Becker
Member of the Managing Board, Telematics Software and Services (COO)

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

Dipl.-Ing. (FH) Wolfgang Degen
Member of the Managing Board, Mobile Telematics and Fare Collection Systems (COO)

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

Dipl.-Kfm. Dr. Jürgen Greschner
Member of the Managing Board, Sales (CSO)

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

Dipl.-Kfm. Bernhard Smolka
Member of the Managing Board, Finance (CFO)

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

Interview with the chairman of the managing board Dr. Gottfried Greschner

1 ___ init in 2012 – Dr Greschner, how satisfied are you with the year?

Greschner: I am very satisfied with the year. We reached our sales targets even though our results fell slightly short. What really counts though is that we significantly increased our order level – to around EUR 170 million – and we achieved this with annual sales of under EUR 100 million. This means we are clearly on track with growth. We are also very satisfied with our growth prospects in various markets. One ground-breaking development was winning the contract from Rheinbahn/Via, where we have replaced the systems of several competitors at the same time. As a result, we are now excellently positioned as market leader in Germany. Even though the competition was tough and the margins narrow, follow-up and maintenance orders are likely here.

2 ___ Overall, in 2012, init was not able to beat the record set the year before. Why is this?

Greschner: Firstly, it must be noted that the operating result in 2011 was driven upwards by two special factors: the reversal of the risk provision for Dubai and the full takeover of id systeme GmbH resulting in the appreciation of the company shares held by init as necessary in accordance with IFRS. These special effects accounted for a total of around EUR 3 million. If this is taken into account, then we did not perform worse in operating terms than in the previous year. However, we did not reach our target. The reasons for this include investment costs for new markets such as Asia and France, high start-up costs for our SQM (Superior Quality Manufacturing, LLC.) subsidiary in the USA and the fact that several projects took longer than planned. This negatively affected margins. We also cannot overlook the fact that a major contract worth over EUR 30 million was delayed because a competitor raised an objection. But, on the other hand, as I said we now have a high level of orders and very solid growth prospects as a result.

3 ___ init was awarded very large projects in 2012: Rheinbahn/Via, Luxembourg, Montreal. What is the status of these projects?

Greschner: We have got off to a quick and successful start with the Rheinbahn project and in Montreal because the customers are also keen for these to be implemented swiftly. So, we are making very good progress at a fast pace. In Luxembourg, the first project meeting is now getting underway. It is, of course, much easier for us there than in Montreal, partly because German is the project language and also because it is not so far away from Karlsruhe. But it is not a walk in the park; we have a lot of work to do there as well.

4 ___ Many people expect 2013 to be a very difficult year. The growth forecasts for the economy overall have been retracted. What is your assessment of the market for init?

Greschner: Firstly, we have a very high order level, which is more than 50 per cent higher than our sales volume last year. So, the existing order level alone offers us prospects for growth. Of course, the question is how many new orders we will have this year. On this point, I can say that we are currently involved in so many tenders that we are having difficulty processing them. As a result, I think our growth prospects remain intact.

5 ___ In the current economic situation, the margins of many companies that compete internationally are coming under pressure. Even for companies that have generated double-digit returns for many years. Have you also noticed this in your market?

Greschner: To be fair, I have to say that we cannot rule out this possibility. So far, we have always been able to compensate for pressure on margins by reducing production costs. Let me give you an example: we originally estimated the production cost for an on-board computer at twice as high as the cost at which we can now produce it. We are constantly working with our suppliers and production service providers to lower production costs. The only thing that is currently putting us under a bit of pressure is the “Buy America” law in the USA. This rule requires us to produce more hardware in the USA.

6 ___ With projects financed by the public sector, there is now often a tendency to drag out or postpone them as a result of budgetary problems. Do you see this as a risk in init’s market as well?

Greschner: No. If large-scale projects in our market are postponed, it is usually because the customer is taking longer to process the tenders internally or there are objections to the decision. We have not seen a tendency for projects to be delayed due to a lack of funding.

Dr. Gottfried Greschner,
founder and chaiman of the managing board of init AG

7 ___ What are the technological challenges in init’s market?

Greschner: We have to adapt to new software technologies by changing and further developing the user interfaces. This is something we are continuously working on. With many technologies, we are at the forefront and we have received many awards. One example is the ad hoc detour: in the event of a disruption, this technology allows our customers to define a new route and new stops with just a few mouse clicks and to create an up-to-date timetable that is then immediately available in the passenger information system. Use of this technology is on the rise. Moreover, the new smartphones are whetting appetites for new apps and new applications.

8 ___ Are there also new competitors in the marketplace in this area, particularly in software for apps?

Greschner: We are always facing one new competitor or another. But fewer in the area of software, the reason being that all of them have one big drawback in terms of software in the control centre as well as of functionality – this is our speciality: we offer a one-stop solution, which means the customer can, if he wants, get everything from us, from creation of the timetable/crew schedule to operations control

and to the sophisticated software in the vehicle. We can implement new functions in these areas in record time. I recall the example of New York: Within 12 months we implemented a complete navigation system in the vehicle that also works under the challenging conditions that exist in New York. This is something also the big names among our competitors failed to do.

9 ___ Close integration of ticketing and control system is characteristic of the new large-scale projects. Is the previous separation of these sub-markets fading?

Greschner: Yes, evidently. Our customers have clearly said that they will invite to integrated tenders for ITCS and ticketing in the future. We therefore already today offer integrated solutions where the on-board computer in the vehicle is responsible not only for communication and management in the fleet management system but also for passenger information and e-ticketing. We are absolute forerunners in this market today.

10 ___ Focusing on e-ticketing: handling payment transactions is a key element here. Could this become a new business field for init, as a clearing house?

Greschner: We are hard at work in this area. We already handle clearing between different bus companies, e.g. in New Zealand. The unique aspect here is how to handle the settlement because the contract conditions are very complex. To solve this problem, we have developed a very modern, forward-looking technology that our customers really appreciate.

11 ___ Are there other business fields that could interest init?

Greschner: Another business field for us is clearly rail companies. We are now preparing our entry into the rail segment with passenger counting. We have developed a highly accurate, effective and innovative counting system together with our affiliate, iris-GmbH. Sensors above the door measure passengers as they embark and create a three-dimensional image. This makes it possible to record how many passengers get on and off and whether, for example, they are children or adults.

12 ___ You plan to penetrate new regional markets, like Asia. How are you progressing and what kinds of opportunities are there?

Greschner: In Singapore, we opened a regional subsidiary in November, INIT Asia-Pacific Pte. Ltd. I was surprised at how much interest there was and how many potential customers came. I think we have a good chance of success there with the next invitations for tenders. I also attended an international trade show in Perth, which I used to think of as a provincial city in Australia. I was astonished when I saw how dynamic the region is and how many visitors from China, Japan or Singapore go there. With this impression in mind I take the confidence to make the bold prediction that we will have more sales in this region than in North America in five years.

13 ___ What do you expect for init this year?

Greschner: 2013 will certainly be a good year. However, we will probably not notice the major boost to growth until 2014 and 2015 when the major projects we have won are fully reflected in sales.

14 ___ init has boomed over the past few years. You have doubled sales, tripled profits and created almost 200 new jobs in the last five years. Are you close to reaching your limit?

Greschner: That is still a long way off if you consider how demand has developed in our market. There is increasing global awareness that mobility, particularly in the economic powerhouses and metropolitan areas, can only be guaranteed with efficient public transport systems. Carbon dioxide emissions can only be reduced and valuable energy reserves preserved with intelligent system solutions like the ones init offers. This is why billions are being made available in industrial countries, but also increasingly in emerging economies, to set up and modernise such systems. The number of passengers using public transport systems will double worldwide by 2025. This also makes our market very very exciting and creates potential for sustainable growth for init.

15 ___ What can init shareholders expect in the future?

Greschner: We aim to continue stay on track for growth – 2012 was our ninth year of growth in a row measured in terms of sales. From the perspective of the market, our growth prospects will remain intact over the long term and this should also be reflected in the share price. And we also aim to continue paying out a good dividend. This year, we will aim to keep this at 80 cents per share, and in future years we will strive to increase it again as earnings rise.

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

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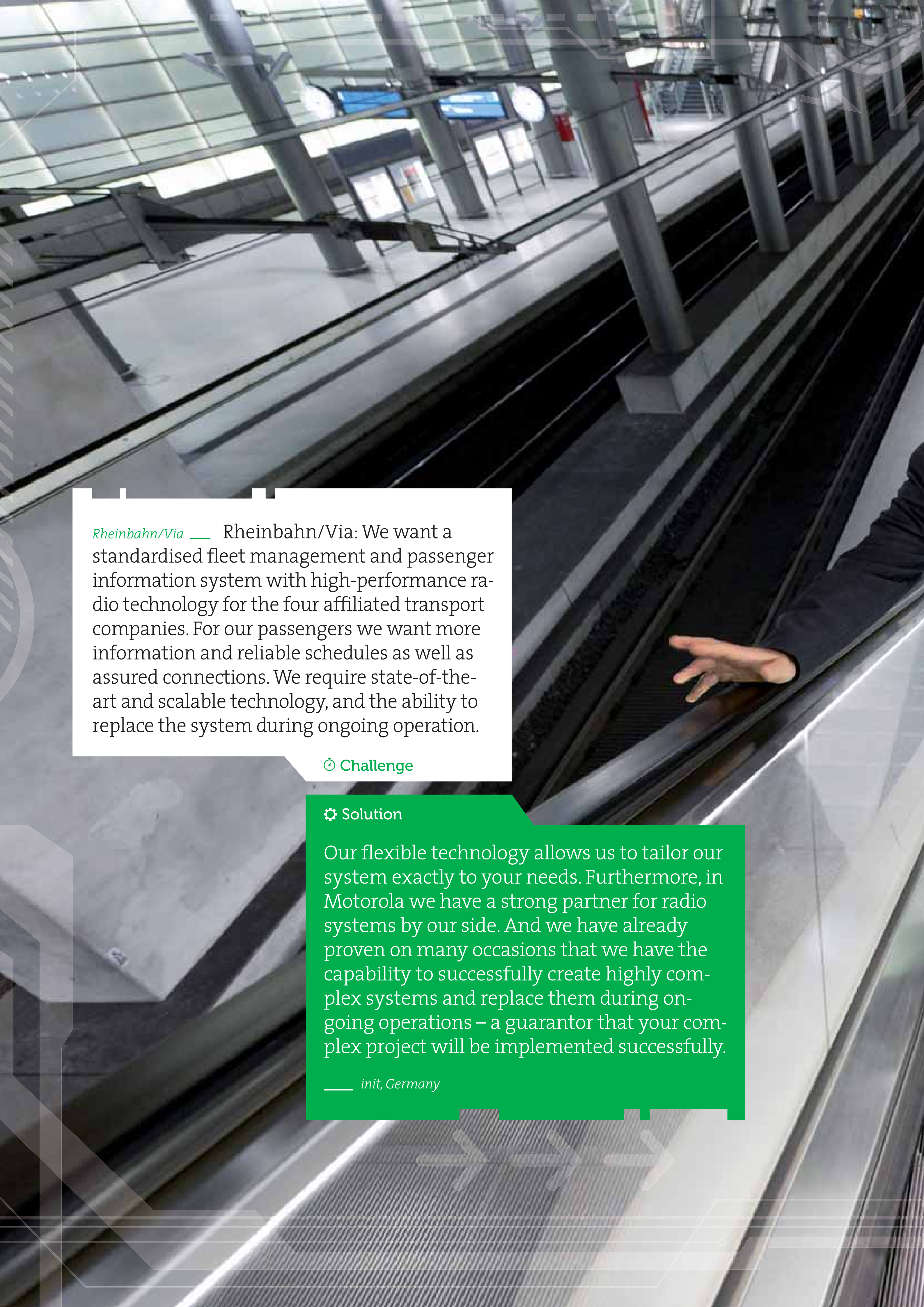
„The number of passengers using public transport systems will double worldwide by 2025. This also makes our market very very exciting and creates potential for sustainable growth for init."



Rheinbahn/Via — Rheinbahn/Via: We want a standardised fleet management and passenger information system with high-performance radio technology for the four affiliated transport companies. For our passengers we want more information and reliable schedules as well as assured connections. We require state-of-the-art and scalable technology, and the ability to replace the system during ongoing operation.

Challenge

Solution

Our flexible technology allows us to tailor our system exactly to your needs. Furthermore, in Motorola we have a strong partner for radio systems by our side. And we have already proven on many occasions that we have the capability to successfully create highly complex systems and replace them during ongoing operations – a guarantor that your complex project will be implemented successfully.

— *init, Germany*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» Düsseldorf

Fleet management and passenger information system for four transport companies – init technology for Rheinbahn/Via

Better support for drivers, a uniform fleet management and passenger information system, more service for passengers: these are the goals specified by the tendering group Rheinbahn/Via. init offers the ideal solution.

Drivers´ benefit: on-board computers with touch screen facilitate work – from radio communication to driver navigation.

Bus, and tram drivers benefit from state-of-the-art technology

Drivers can quickly and easily access information on their touch screens including reports on new traffic jams or driver navigation instructions. Drivers are also quickly notified of any necessary detours as a result of an improved link to the control centre – and they are reliably guided along the new route to their destination with turn-by-turn instructions. Furthermore, the integrated TETRA radio system keeps drivers in continuous contact with their control centre even when the public mobile communication or telephone networks are disrupted. This way, drivers can always be sure, that they always have capable support, no matter what happens when they are behind the wheel.

System replacement

In the future, the bus and tram drivers employed by Rheinbahn AG and Via Verkehrsgesellschaft mbH (with its affiliated transport companies – Duisburger Verkehrsgesellschaft AG, Essener Verkehrs-AG and Mülheimer VerkehrsGesellschaft mbH) will enjoy such conveniently equipped workplaces, because the companies are switching to a new fleet management and passenger information system. Their goal is to offer their passengers a integrated, cutting-edge service in the future. To this end, they are placing their trust in a standardised, client-based system to take advantage of synergies. The requirements are high because the new technology has to be state-of-the-art, flexible and future-proof. In addition, it has to take into account the needs of the individual companies in the consortium, which have numerous specific requirements in terms of the control and communications system as well as the vehicle equipment. Finally, the idea is for passengers to benefit as well – through real-time information available via more channels than before, through more reliable schedules and through more assured connections even when switching from one operating company to another. This is how the four transport companies plan to improve their service and thus encourage car drivers to switch to public transport.

Did you know?

Implementation of the new fleet management and passenger information system for the four transport companies in the Rhine-Ruhr region is one of the largest telematics projects ever carried out for public transport in Germany. More than 1,000 buses and trams will be outfitted and around 2,000 radio units will be installed.

Project facts

- Four independent transport companies
- Different radio and vehicle equipment
- System changeover during ongoing operation
- Better information for passengers

A big challenge demands expertise and flexibility

The implementation of the new fleet management and passenger information system is an extremely complex project. The unique challenge: the four different existing systems will be replaced by a single client-based system while the services remain in operation. This means that, despite completely replacing the equipment and the central software, buses and trams will still have to run, the control centre will have to be operational and contact with drivers guaranteed. In view of these high standards, Rheinbahn/Via only considered working with a supplier who already had a proven track record in setting up highly complex systems, which is why the consortium chose init to be the general contractor for one of the largest ever public transport projects in Germany. Crucial to this decision were, in addition to init's sophisticated overall solution, its leading client-based telematics system as well as its proven expertise in migrating complex systems.

trent barton, Nottingham — We aim to offer our passengers the best possible service, which is why we want our ticketing system to be more convenient. We want our customers to be able to use other tickets available in Nottingham as well. We also see the importance of having a future-proof solution. Which system will allow us to tackle these challenges most effectively?

Challenge

Solution

Our ticketing system is a match for your needs and will help you overcome these challenges. There are numerous advantages for your passengers: they will benefit from the check-in/check-out concept and will also be able to use the network-wide Nottingham City Card. Furthermore, you can also participate in the region's real-time information system to keep your customers up-to-date. — *init, Nottingham*


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Nottingham

Payment can be this easy. How cashless payment with smartcards makes it easier for passengers to use public transport.

More service with convenient ticketing – Nottingham and Sacramento place their trust in init solution.

The Nottingham and Sacramento transport companies were both facing the challenge of establishing a simplified and integrated fare collection system. init impressed them with innovative ticketing concepts and sophisticated technology solutions.

Maximum passenger convenience: e-ticketing from init

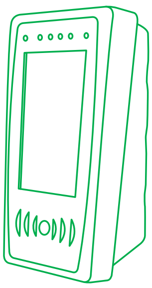
You get on the bus, tap your smartcard to the card reader and look for a seat. When you get off, you touch your card again at the terminal and the ticket price is automatically deducted from the prepaid card. Payments can be this easy on public transport. No need to rummage around for coins. No need to wait for change. No queues for the bus. Ultimately, the results are less boarding times and more reliable schedules.

Passengers are delighted about the added service they receive, even when just one public transport operator offers this type of ticketing system. The service becomes even more convenient when all the transport companies in the region rely on e-ticketing – and accept the same smartcard. Passengers can then use all buses, trams and trains in the network with just a single prepaid card or season ticket. Passengers can access public transport more easily and arrive at their destinations more quickly and conveniently. And they are much happier with the public transport services in their region.

The future is brighter: Better service in Nottingham and Sacramento

Even more passengers in the British city of Nottingham will be able to enjoy a payment system of this kind in the future. For quite some time, users of trent barton, a private bus company, have already been reaping the benefits of the check-in/check-out ticketing system implemented by init. But things got complicated if passengers had to switch to a service with a different operator.

Project facts



Nottingham

- Prepaid card (MANGO) scanned at the card reader when getting on/off
- Network-wide acceptance of the Nottingham City Card based on the UK ITSO standard
- The system automatically calculates the lowest price for trips travelled

A different ticketing system meant that their MANGO card was no longer valid. But this is about to change: they will also be able to use this card on Nottingham trams (NET) in the future. The consortium of operators, Tramlink, also commissioned init to install a ticketing system. The passengers of both init customers will also be able to use the Nottingham City Card, which will be accepted by all operators in Nottingham. This will create a regional system, making it easier for passengers to switch from one operator to another. The integrated init technology also allows trent barton to be incorporated into the real-time passenger information system for the Nottingham region, thus further enhancing service quality of service as a result. With providing intelligent concepts, init is helping to create a highly convenient regional service in the liberalised British market.

Did you know?

In Great Britain, public transport is a service- and competition-oriented matter, because of the almost fully privatised and liberated public transport system. For passengers, this also means that different ticketing systems and tariff schemes make it more difficult to travel with different operators.

Bus and rail transport will also be convenient in the Sacramento metropolitan area (USA). The Sacramento Area Council of Governments (SACOG) has decided to introduce a region-wide, smartcard-based ticketing system. The operators of several bus and commuter lines have signed up to implement this system. For passengers, this means that they will be able to use these lines with their Connect Transit Card and switch easily between the different operators. The transfer tickets they currently require will no longer be needed. This service should help the public transport system in Sacramento achieve one of its goals: passenger growth.

Overcoming the challenge with the right partner

In Nottingham, the decision was influenced by the positive experiences with init solutions. The Americans were won over by init's professional and technical expertise and its proven successes in project realisation. The fact that it is not just the original operators who now rely on the concept is a testament of the init solutions' appeal. The success factors: a broad portfolio of innovative products, which perfectly cover the specific requirements in the various markets, and all-round service.

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STM, Montreal ___ Our goal is to increase the number of passengers by 40 percent and produce 20 to 30 percent fewer CO_2 emissions by 2020. For STM, this means: We want to give our customers more service and keep them better informed. And we want to reduce the number of times our vehicles have to stop en route. In this context, we attach a lot of importance to an excellent organisational structure. Which solution can init offer us?

Challenge

Solution

Our Fleet Management and Real-Time Passenger Information System is the ideal solution for your needs. The system has proven successful in numerous locations around the world for many years. Several local projects are often linked with one another. But our organisational structure ensures that all of the steps necessary have been undertaken just as planned.

___ *init, Montreal*

» Montreal

Satisfied passengers and a solid contribution to environmental protection – in pursuit of a common goal in Montreal

The challenges faced by the transportation company STM are: to increase customer satisfaction, to attract more passengers and to produce fewer CO_2 emissions. The best solution for achieving this goal is the init fleet management and real-time passenger information system.

STM's visions for the future

Passengers can find out when their bus will arrive at the bus stop right from their home computer. They already know if their bus will be late because the buses automatically transmit their location to the control centre. This makes it possible to estimate the actual departure times and keep passengers informed via Internet, smartphone and wayside displays. The buses also benefit from the green wave controlled by a subsystem. They make good time even when traffic is heavy and only stop at bus stops to let passengers on or off.

Benefits for passengers and the transport company

This is what the Société de transport de Montréal (STM) envisages for its future transportation system. The Canadians have three goals with this brilliant vision for the future: satisfied customers, cost efficiency and more corporate and environmental sustainability.

The extensive information truly enhances service for passengers. After all, they can avoid having to wait at bus stops if they already know the exact departure time of the buses beforehand. And they can also adjust to unexpected delays when necessary. Traffic control offers further benefits. The addition of reserved bus lanes and the green wave let buses flow continuously through traffic; customers are happy that their travel time is shorter and schedules are more reliable. It is true that well-informed passengers who reach their destinations quickly are satisfied customers. They like to ride public transport and share their positive experiences – an important step by STM to increase the number of passengers over the next few years.

Not having to stop at traffic lights also means: fewer costs and lower CO_2 emissions. The vehicles come under less strain because they are no longer constantly switching between braking, stopping and accelerating. For the company, this means: lower maintenance costs and fuel consumption. And the environment benefits because there is much less pollution – a goal that STM plans to achieve by 2020.

The challenge: the right supplier

Even though it sounds easy, it is actually a major technical challenge. Which is why it was important for STM to find a supplier for the fleet management and passenger information system that meets these high requirements and allows the Montreal company to live up to its good reputation. After all, STM already won an award for the best public transport system in North America in 2010.

Consequently, the Canadians called for international tenders for this project. They looked at reference projects around the world. And they compared and assessed different projects before they ultimately opted for init. We won over the people in charge in Montreal with three important aspects: the successful

Did you know?

STM's internal business consultancy supports this project and all related projects. Work schedules track progress and guarantee on-time implementation. Requirements are thus high for everyone involved. init fulfils these requirements with its organisational strength.

deployment of our systems throughout the world, our many years of experience and our organisational strength.

Joint implementation

Working together with STM, we have since successfully reached the first milestones in this extensive project. Many other steps will follow in the coming years. Our proximity to the customer is particularly important in tackling this challenge together. Thanks to our Montreal office, we are familiar with local requirements and can give the company the best possible support and advice for implementation. Our international presence once again proves to be a crucial factor in the success of an ambitious project.

Project facts

- Real-time Passenger Information System for detailed passenger information over different media
- More reliable schedules through successful management of disruptions and a bus priority system
- Optimum driver support
- Interfaces to other systems for optimum control

Well-informed at the bus stop. We are helping STM reach its goals with our fleet management and real-time passenger information system.

UITP (International Association of Public Transport) ___
Our goal is to double the market share of public transport worldwide by 2025 which we defined in our PTx2 strategy. We see enormous potential particularly in Asia with its numerous megacities. Gridlock can only be prevented there by getting more people to use public transport.

Challenge

Solution

We can help the megacities of Asia reduce traffic congestion. Transport companies can use our technology to make their local public transport system so attractive and reliable that more and more people are willing to switch to buses, trams and trains. Our subsidiary gives us the capability to adapt perfectly to regional requirements. ___ *init, Singapore*


» Singapore

Making public transport more appealing in Asia's megacities – this is the aim of init's new Singapore office.

Megacities in Asia are suffering enormously from traffic congestion as car use spirals out of control. Their goal is to improve this situation by attracting more passengers to switch to a modern and efficient system of public transport. init is supporting them with an integrated intelligent transport technology, 30 years of experience and a specific understanding of the region's requirements.

Megacities and their challenges

More than 50% of all megacities with more than ten million inhabitants are located in Asia. The dramatic migration from the countryside to the cities means that these megacities are continuing to grow – and with this growth there is a corresponding growth in the volume of traffic congesting the available roads.

This is an enormous challenge for these cities as more and more people are travelling from A to B for their daily lives, the majority using a car or motorcycle to get there. The consequences for the cities and their inhabitants are already damaging: never-ending traffic jams, noise and high pollution levels are adversely affecting the quality of life for all. The increasing risk of accidents and illness is evident.

This situation can only be improved if public transport can successfully shift the majority of the growing traffic from private transport to buses, trams and trains. But to achieve this goal, transport companies need to make travelling by bus, tram and train more attractive. Excellent service, fast travel times and high reliability will be required to get people excited about the local public transport system. These prerequisites can only be fulfilled with the right partner.

init with a local presence

Through its subsidiary in Singapore, init can now focus on meeting the specific requirements of public transport providers in the Asia-Pacific region. This means that staff based in the region can work with and support our customers. Experiencing the specific requirements first-hand allows them to better develop solutions for customers in the region as a result. In turn, the transport companies benefit from a readily available local contact and from the experience and expertise of a globally operating company that has already successfully implemented projects around the world. Our global references have proved to be a key advantage because many Asian cities are looking at public transport systems developed in Europe and look at cities like Munich and Stockholm as models for their own future.

Did you know?

init is one of a small number of suppliers of integrated telematics and ticketing systems to have a subsidiary in the region. init is actively working with UITP (International Association of Public Transport) at its Singapore office, for example, on the planned knowledge transfer at the recently created Regional Center of Excellence.

Growth in Asia

With its subsidiary in Singapore, init will initially concentrate on several large cities and countries in the Asia-Pacific region. These include Singapore, Hong Kong, Korea, Malaysia, Macau, Taiwan, Thailand and Vietnam. The infrastructure in these places readily meets the requirements necessary to set up modern fleet management, passenger information and ticketing systems. The Thai capital

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Instead of traffic chaos: better service means more passengers on the local public transport system.

of Bangkok, for example, already has a modern subway and tram system. The next goal there is to improve the bus systems, which offers interesting opportunities.

init is still tracking development in countries like China, India and Indonesia with great interest. After all, the population in these countries is experiencing strong growth and the desire to move to the major cities is further intensifying the already challenging transport situation.

Market facts

init opened its subsidiary INIT Asia-Pacific Pte. Ltd. in Singapore on 8 November 2012 and is now actively developing the Asia-Pacific market from here.

Dear Shareholders,

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 2012 financial year transparent for you.

Last year, the Supervisory Board of init innovation in traffic systems AG obtained regular, timely and comprehensive information from the Managing Board in order to fulfil its duty to 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).

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.

Focal points of the Supervisory Board meetings

The Supervisory Board monitored the group's development at its four ordinary meetings in 2012. The Managing Board provided detailed information on the company's situation and its business performance. Based on the reports of the Managing Board, the discussions focused especially on the economic situation including business and liquidity planning, new orders, the order level, latent risks, compliance issues, important business transactions, projects of special significance and the medium and long-term group strategy including organisational issues and personnel planning. Furthermore, all quarterly financial statements were discussed with the Managing Board prior to their publication and then approved by the Supervisory Board for publication.

The following specific issues were discussed with the Managing Board in the total of four Supervisory Board meetings:

At the meeting on 14 March 2012, we discussed the init AG annual financial statements and the consolidated financial statements as at 31 December 2011 and listened to the auditor's detailed explanations of the audit results. Apart from audit-related questions, the Supervisory Board also interviewed the auditor on other issues such as material accounting and valuation principles, early risk detection, specific audit procedures applied at subsidiaries, prevention of irregularities particularly in relation to anti-corruption measures and individual issues of the management letter. The meeting also focused on the proposal for dividend distribution, the agenda for the Annual General Meeting to be held on 16 May 2012, the Managing Board's status report on the planned expansion measures at the Karlsruhe site and the resolution on the stock bonus for the Managing Board.

In addition to ongoing issues such as economic performance and changes in company personnel, liquidity planning, market development and order level, the meeting on 15 May 2012 also focused in particular on the agenda of the Annual General Meeting to be held the next day. Following in-depth discussions of the issues raised, the Supervisory Board also authorised the Managing Board to acquire the adjacent properties and buildings at Käppelestr. 10 and Käppelestr. 8 and 8a and signed the Declaration of Compliance with the German Corporate Governance Code in the version dated 26 May 2010.

At the meeting on 17 September 2012, the Managing Board reported on economic performance in the first half of 2012 and for the ongoing third quarter of 2012. Other topics included the development of initperdis GmbH, the status of the purchase of the adjacent properties and buildings at Käppelestr. 10 and Käppelestr. 8 and 8a as well as the status of the expansion of Käppelestr. 4–6 with a new high-rise. The Supervisory Board also approved the formation of a subsidiary in Singapore. To facilitate execution of the new construction project, the Supervisory Board gave its approval to the transfer of the lease that exists between INIT GmbH and Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG for the old building at Käppelestraße 6 from INIT GmbH to init AG.

The last meeting of the 2012 financial year on 6 December 2012 was attended by the managing directors of initperdis GmbH and initplan GmbH to report on the development of initperdis GmbH and discuss future prospects and strategies. The Managing Board also reported on the status of the construction project at the Karlsruhe site and the associated ownership structures and the planned cost thresholds. Other focal points included economic performance as of the end of November 2012, cash planning in the group, financial planning for 2013, market development and order level in the different markets, personnel development and potential risks. The Supervisory Board also approved the proposed resolution on the Managing Board stock bonus.

The Supervisory Board of init innovation in traffic systems AG (f.l.t.r.):
Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau, Hans-Joachim Rühlig, Drs. Hans Rat

Audit of annual and consolidated financial statements

The annual financial statements and the status report of init innovation in traffic systems AG as at 31 December 2012 were prepared on the basis of the principles of the German Commercial Code (HGB). The consolidated financial statements and the group status report as at 31 December 2012 were prepared on the basis of the principles of the International Financial Reporting Standards (IFRS).

All the documents specified were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, which had been appointed auditor of init innovation in traffic systems AG as well as group auditor by the Annual General Meeting, and were issued with 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 opinions and audit reports were discussed in detail with the Managing Board and the financial auditors at the Supervisory Board meeting on 13 March 2013. The 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. On the basis of its own review, the Supervisory Board came to the conclusion that the applied audit procedure was appropriate and adequate and that the figures and calculations contained in the financial statements had been audited in sufficient depth and were coherent.

The Managing Board presented its proposal for the appropriation of profits to the Supervisory Board. According to the proposal, the following appropriation of the net profit of EUR 16,616,545.99 is to be recommended to the Annual General Meeting on 16 May 2013: distribution of an amount totalling EUR 0,80 per dividend-bearing share. The remaining profit is to be carried forward. The Supervisory Board endorsed this proposal.

On 13 March 2013, we conducted a conclusive review of the financial statements, the status report and the proposal for the appropriation of net profit as well as the consolidated financial statements and the group status report. No objections were raised. We therefore agree to the results of the audit. The financial statements of init innovation in traffic systems AG as prepared by the Managing Board have thus 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 13 March 2013.

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 26 May 2010 were taken into consideration. On 15 May 2012, the Supervisory Board and the Managing Board jointly issued an updated Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) and made it permanently accessible to the shareholders on the company's website.

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

Should this Declaration of Compliance be affected by changes during the course of the financial year, we will update it immediately together with the Managing Board and make it available to all shareholders on the website of init innovation in traffic systems AG.

The Supervisory Board would like to thank all employees as well as the Managing Board for their commitment and performance in the 2012 financial year. Our shareholders, customers and business partners also deserve our thanks for their trust.

Karlsruhe, March 2013

On behalf of the Supervisory Board

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

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 – 2012

In compliance with Section 161 of the German Stock Corporation Act (AktG), the Managing Board and the Supervisory Board of a listed corporation are required to declare compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Official Gazette each year, and to disclose any deviation from these recommendations. The Declaration of Compliance with the Code must be 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 15 May 2012:

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 26 May 2010 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 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. 2 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

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

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.

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).

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. It decides on all matters assigned to it by law, such as the election of members of the Supervisory Board, the discharge of the Managing Board, the appropriation of profits and amendments to the articles of incorporation.

Supervisory Board

The Supervisory Board acts in an advisory capacity to the Managing Board and monitors its affairs. It is also responsible for appointing members of the Managing Board and defining their number. 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. Members of the Supervisory Board are appointed by the end of the Annual General Meeting which votes on the discharge for the fourth financial year after commencement of the term of office. The financial year in which the term of office begins is not counted. Members of the Supervisory Board can be re-elected.

Managing Board

The Managing Board is the management body of the stock corporation. It manages the affairs of the company and is bound by the German Stock Corporation Act to uphold the interests and business policies of the company. The Managing Board 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 five 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.

Our ethical guidelines play a key role in our decisions on how to implement our corporate vision and mission. They serve as a basis for everything we do, creating trust, credibility and transparency. They are a key factor in the success of our company. Our ethical guidelines are published on our 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 financial statements, at press and telephone conferences and in the quarterly reports.

Information is also published in press and ad-hoc releases. All disclosures and publications are made available on our website under “Investor Relations”.

In accordance with Section 15 of the German Securities Trading Act (WpHG), init innovation in traffic systems AG has created an insider list. The relevant individuals have been notified of their legal duties and sanctions.

Accounting and auditing

The consolidated financial statements are prepared in compliance with the principles of the IFRS. Following their preparation by the Managing Board, the consolidated financial statements are audited by the auditor and approved by the Supervisory Board. They are disclosed within 90 days 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.

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 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 3,994,587 shares in the company as of 31 December 2012, which corresponds to 39.8 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 2012 financial year is available at www.unternehmensregister.de.

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init share

Driven by growth to an all-time high – share liquidity doubles

For the shareholders of init innovation in traffic systems AG (ISIN DE0005759807), 2012 was the most successful year to date since the initial public offering in July 2001. Driven by good financial results and growth prospects stemming from the extremely high number of incoming orders with profits from three major projects totalling around EUR 152 million, the init share hit several new record highs. The all-time high of EUR 25.70 was reported at the beginning of October 2012. Even though this was followed by profit-taking, the high price level was maintained until the end of the year (see graphic).

Even excluding the dividend, the init share gained around 64 per cent in value in 2012. In its best year on the German stock exchange in 10 years, the share once again significantly outperformed the German Stock Index (DAX) and the index of leading German technology stocks, the TecDAX, which gained 29 per cent and 21 per cent, respectively, in the same period.

Based on the solid business development and the reported financial results, institutes and analysts who continuously rate the init share gradually increased their price forecasts over the course of 2012. They are currently viewing the init share as a "hold" or "buy" with price targets of between EUR 24 and 30.

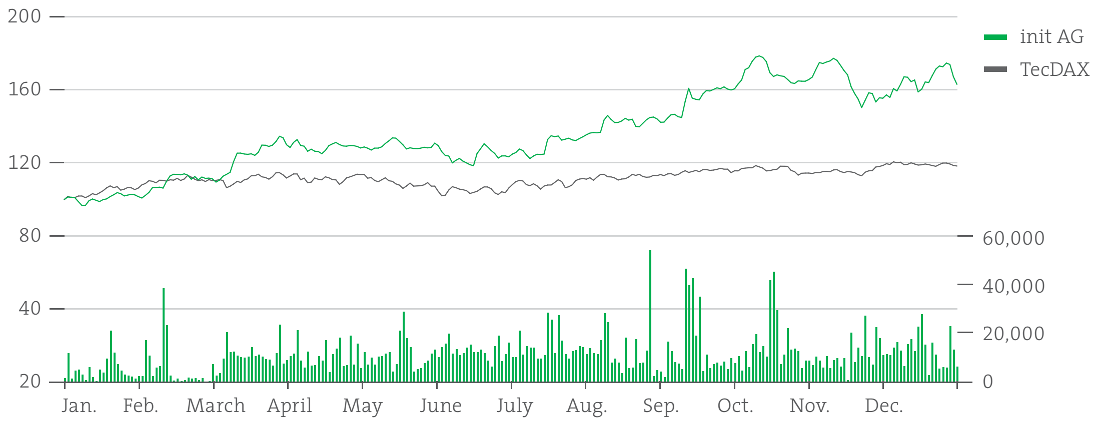
If the dividend paid out in 2012 is included, the performance of the init share is even better. On 16 May 2012, the Annual General Meeting proposed a payout of EUR 0.80 per share (2011: EUR 0.60) from the record earnings in 2011. This was the sixth time in a row that the dividend increased.

The Managing Board of init AG will propose a constant dividend of EUR 0.80 at the 2013 Annual General Meeting.

With its market capitalisation of up to EUR 250 million (at a share price of Euro 25), which has since been reached, init innovation in traffic systems AG, has already satisfied one of the requirements for inclusion in the TecDAX, which lists the 35 most highly capitalised technology shares.

init's Investor Relations efforts are mainly focused therefore on increasing the trading volume, i.e. share liquidity, so that the company is also recommended for admission to the TecDAX on the basis of this criterion. In the period under review, the average daily trading volume was increased from around 6,000 shares to more than 12,000. The init share thus improved in the ranking of TecDAX candidates in terms of trading volume.

Performance of the init share in the financial year 2012 (2 January to 31 December 2012)
(indexed/volume in units)



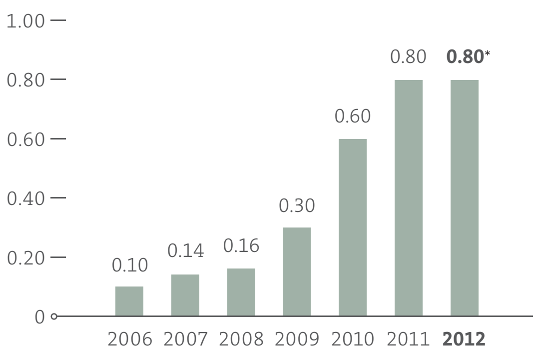
In view of this opportunity and the prospects for growth that remain intact, the init Investor Relations team stepped up contact with institutional investors in the period under review, presenting init AG in roadshows in Frankfurt, London, Zurich, Brussels and Vienna. In addition, we took advantage of the opportunity to showcase the company and its prospects at three national and international capital market conferences and at the German Equity Forum of the German stock exchange in Frankfurt.

Stock repurchase and shareholder structure

The Managing Board of init innovation in traffic systems AG actively engages in share repurchase to create enough flexibility for employee incentive programmes or possible acquisitions. The Board thus decided, on 1 February 2012, to acquire up to 20,000 treasury stocks (in accordance with Section 71 (1) (8) of the German Stock Corporation Act (AktG)) in exercise of the authorisation granted by the Annual General Meeting on 12 May 2010 for agenda item 6. The repurchased shares will be used for existing and future employee share ownership programmes, for management incentive programmes and/or as an acquisition currency.

Accordingly, a total of 2,200 shares were repurchased at an average price incl. fees of EUR 14.52 on 2 and 3 February 2012. After this, the repurchase programme scheduled to run until 31 March 2012 ended without further acquisition.

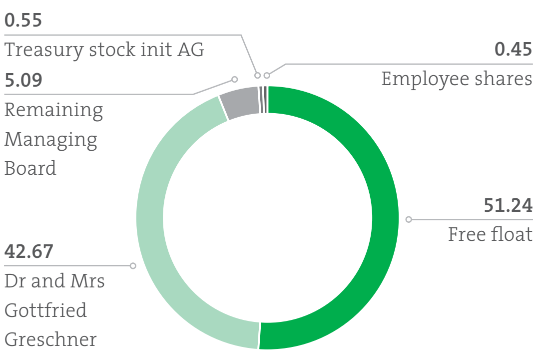
Dividend development (in EUR)



* dividend proposed at the Annual General Meeting

There were no significant changes to the shareholder structure of init innovation in traffic systems AG during the reporting period.

Shareholder structure as of 31.12.2012 (in %)



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

Basic share information	
Exchange	Frankfurt Stock Exchange
Index/Segment	Prime Standard, Regulated Market
Class	No-par bearer shares (at EUR 1 each)
ISIN	DE 0005759807
WKN	575 980
Code	IXX
Designated sponsors	Commerzbank AG
Capital stock today	10,040,000 no-par bearer shares
Market capitalisation (as of 31 December 2012)	EUR 232.1m

Group Status Report

init innovation in traffic systems AG, Karlsruhe

41 Business and general conditions
41 Group structure and business operations
44 Corporate management and objectives
46 Research and development report
47 Overview of business trends

50 Earnings, financial and asset position
50 Earnings position
53 Financial and asset position
59 General statement on the economic situation

59 Events after the reporting date

59 Risk and opportunities report
59 Risk and opportunities management system
60 Individual risks
63 Assessment of the overall risk position
63 Internal control and risk management system pertaining to the financial reporting process
64 Opportunities

65 Prospects report and outlook
65 General economic conditions
66 Sector development
66 Expected business development and outlook for the init group

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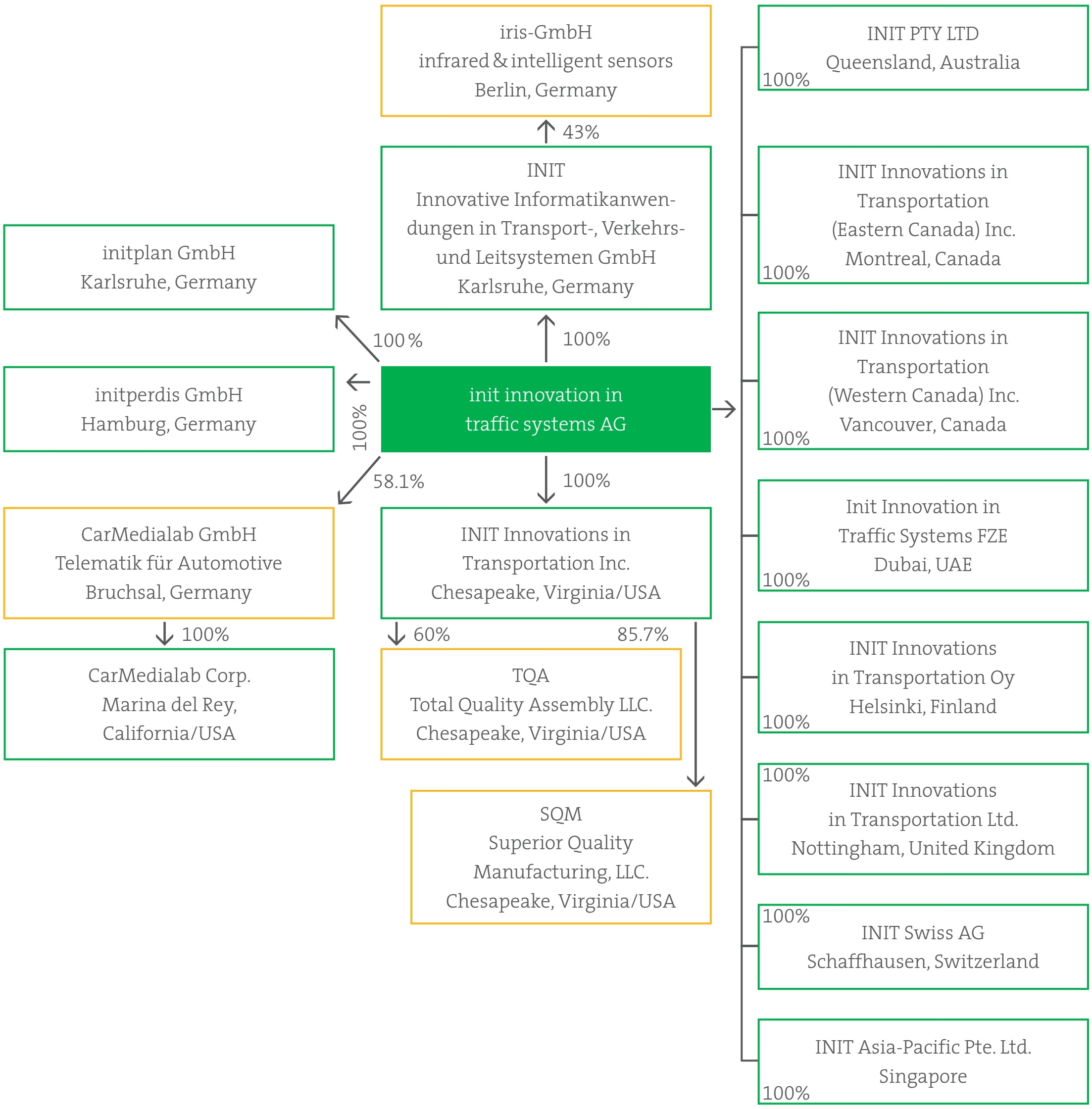
Business and general conditions

Group structure and business operations

Legal structure of the group



Sales and Service points:

Germany Leipzig	France Valence	USA New York City, Seattle	United Arab Emirates Abu Dhabi

Business areas and organisational structure

The init group is an international system house for telematics, planning and electronic fare collection systems for local public transport. With our integrated solutions for telematics, planning and fare collection systems, we work together with leading transport companies around the world.

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

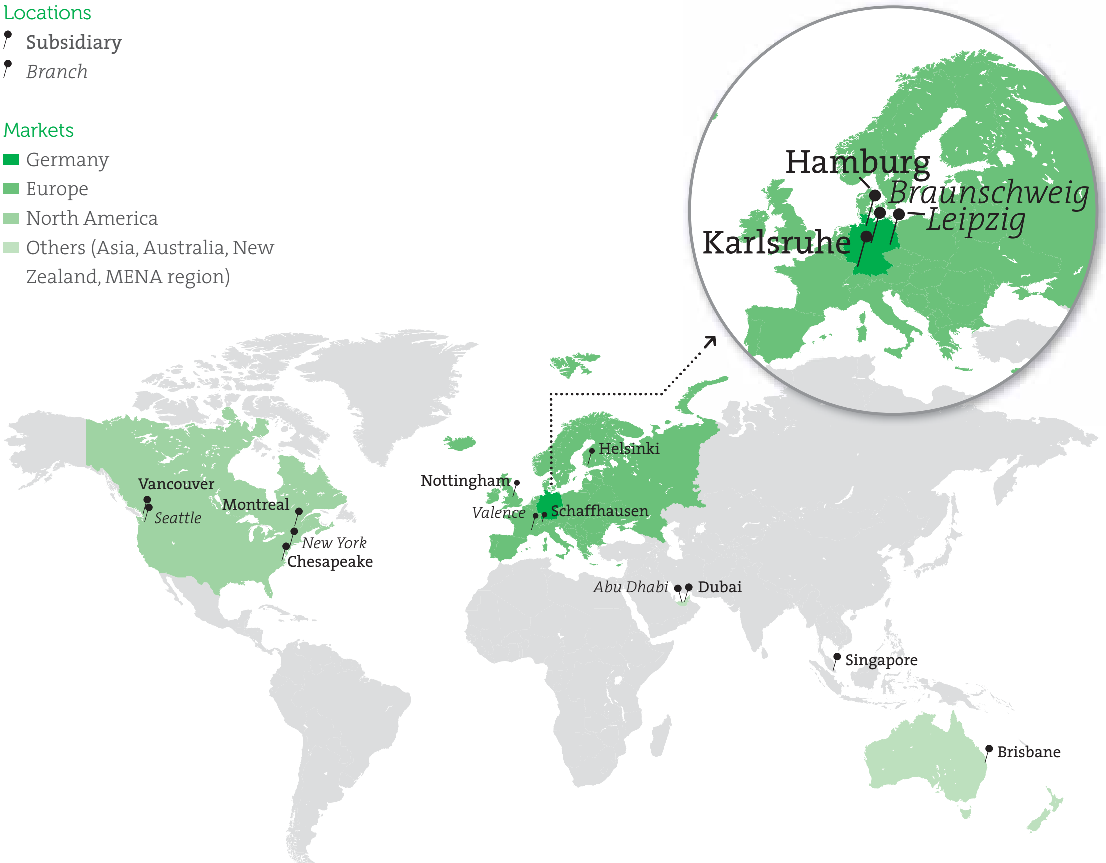
By providing these products and services, init contributes towards improving the quality of transport services offered in terms of customer orientation, punctuality, convenience, service, safety and shorter travel times. It also enables transport companies to reduce their costs and/or boost their economic efficiency. Moreover, these measures reduce carbon dioxide emissions that are harmful to the environment, 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.

Based on the products and services offered by the segments and for the purpose of managing the corporation, the corporate group is subdivided into 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 combined under the segment entitled "Other".

Key locations

Locations
- Subsidiary
- *Branch*

Markets
- Germany
- Europe
- North America
- Others (Asia, Australia, New Zealand, MENA region)



The Group has the following segments with reporting requirements:

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

Management and control

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

There were no personnel changes on the Managing Board in the 2012 financial year. There was one replacement on the Supervisory Board of init AG in the 2012 financial year. On 29 February 2012, Fariborz Khavand resigned as a Supervisory Board member. Drs. Hans Rat took his place on 1 March 2012.

Important business processes

Value-added chain and resource management

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 the key aspects of a transport company. The production of hardware is outsourced to qualified producers as subcontractors who work closely 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 comply with "Buy America" requirements on the US market, init operates two production firms in the USA. Superior Quality Manufacturing, LLC. (SQM LLC.) assembles various items of equipment from the init product range. Some years ago a cable manufacturing operation, Total Quality Assembly, LLC. (TQA LLC.), was developed in conjunction with a supplier for the same reasons.

As part of our priority management objectives, we also focus on the optimisation of our production processes with the aim of reducing costs while maintaining first-rate quality in production. To keep production costs to a minimum, init is focusing on its key strengths in development.

There are no dependencies on individual suppliers or service providers. This allows us to switch suppliers should one of our business partners be unavailable. To reduce production costs even further, init continued to establish its supplier relations in the Far East, Turkey, the Czech Republic and the USA. Where possible, delivery contracts are based on US dollars to ensure that part of the exchange risk relating to our dollar income can be reduced by dollar expenditure.

Key markets and competitive position

Throughout its long corporate history, init has realised numerous successful projects for over 400 international customers. Our integrated solutions for telematics, planning and fare collection systems make us a partner of transport companies on four continents.

Its international operations provide init with a global network of subsidiaries that deliver local support for projects and look after customers. The biggest subsidiaries outside Germany are located in North America with 67 employees and in Dubai, UAE, with 12 employees. The most important operating units with 312 employees are situated at the Karlsruhe site. Not only is software and hardware developed here and new technologies implemented, but this is also where the group's strategy is defined. Another 21 people are employed at initperdis GmbH in Hamburg.

A modular product concept allows both an individual combination of single modules and the integration of and into other systems via standardised interfaces. As a result, init stands out from its competitors due to a more comprehensive, efficient and flexible product offering. This covers all the operational aspects of a transport company: from planning and dispatch to operations management and passenger information as well as electronic fare management, all the way through to analysis and optimisation of the operations.

Legal and economic factors

User-friendly ticketing systems, good passenger information and quick connections help transport companies increase their efficiency, boost the attractiveness of their transport services and, in doing so, ensure growing passenger numbers. In the end, increased acceptance and use of transport systems also results in a reduction of carbon dioxide and particulate matter emissions. In this way, the init group makes a direct contribution to environmental protection.

Worldwide, efforts are increasing to ensure mobility in metropolitan areas and regions while also reducing the impact of traffic streams on the environment. For example, the International Association of Public Transport (UITP) is aiming to double passenger numbers by 2025. Efforts such as these trigger investments in infrastructure from which init, as a leading international provider of integrated solutions for optimising bus and rail traffic, benefits and will continue to do so.

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.

Corporate management and objectives

Internal control system

The internal control system of the init group is essentially made up of the following components:

- regular, weekly Managing Board meetings
- weekly liquidity summaries and monthly rolling liquidity planning
- monthly rolling sales forecasts for the current financial year
- monthly budget evaluations
- quarterly project analyses
- quarterly results forecasts
- risk and opportunity management

The init group is controlled using annual projections for revenues, earnings before interest and taxes (EBIT) and incoming orders, which are checked on a rolling basis using analyses of the deviation between target and actual figures. The insights revealed by these analyses are then used to prepare forecasts and develop an action plan if necessary.

Financial objectives

The init group plans to boost its revenues by an average of ten per cent every year for the next five years at a nearly stable return on sales. The majority of this growth is to be organic. The high order backlog in 2012 has paved the way for this continued growth.

Non-financial objectives

Our actions are measured based on the satisfaction of our customers. We achieve this through collaboration with our business partners in a spirit of trust as well as strict adherence to our quality principles: technological edge, cost efficiency and reliability of our products. We also set great store by delivery reliability and a commitment to service. We have defined the basic principles governing our commercial activities in our ethical guidelines. These provide us with a framework for our day-to-day activities.

The management and every member of staff have undertaken to comply with the quality policy and continuously improve our management system in accordance with DIN EN ISO 9001:2008.

In everything we do, our focus is on people. This holds true with regard to our business partners, users and employees as well as our social commitments. The organisation Wirtschaftsjunioren Karlsruhe has now recognised us twice as a family-friendly company in the Karlsruhe Technology Region. We have also received other distinctions in the USA (Best Places to Work) and Dubai (Best Cooperative Supplier).

Environmental protection and resource conservation

Environmental protection and resource conservation are firmly anchored in init's corporate guidelines.

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

Moreover, in acknowledgement of our environmental and ethical responsibilities we pay particularly close attention to environmental protection within our own company. This begins with init employees, who are expressly encouraged to limit trash disposal and to separate any that is unavoidable, and continues throughout our product design and development work. Our products are consistently made from recyclable, environmentally friendly, lead-free materials and sold in reusable packaging. Old equipment can be returned to init, where it is disposed of in an ecologically friendly manner. This also applies to batteries and packaging material. In other areas as well, including exhibition stand construction, init ensures the usage of reusable components.

In addition, the init group has purchased two electric cars that are used for short journeys. Over the past few years init has also invested in a range of energy-saving measures. As a result, for instance, heat exchangers now make it possible for us to heat and cool some of the offices at our Karlsruhe site using waste heat from our servers.

During the upcoming work to expand and modernise the company's headquarters in Karlsruhe, a focus will be placed on ecological, energy-saving aspects with the aim of further improving our company's overall ecobalance.

Goal achievement guidelines

Public transport is vital in a modern society. As one of the leading providers of telematics, planning and electronic fare collection systems for buses and trains, init helps transport companies make their public transport systems faster, safer, more attractive and more efficient. With innovative mobility concepts, init plays a part in guaranteeing that forward-looking transport companies have a technical edge. Whether economical standard solutions or customer-specific, tailored solutions are needed – as a provider of complete solutions init develops, produces, installs and maintains integrated hardware and software solutions to satisfy every major requirement of a transport company. init solutions boost the efficiency of transport companies and that, in turn, leads to satisfied passengers.

Participations

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

In 2012, CarMedialab ("Other" segment) generated revenue of EUR 1.2m (2011: EUR 2.4m) and – due to the cost of tapping the US market as well as declining demand for telematics boxes for electric cars – a loss of EUR 0.5m (2011: profit of EUR 0.1m), which impacted earnings.

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

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

Revenues at iris-GmbH totalled EUR 8.9m (2011: EUR 7.3m), earnings from ordinary activities amounted to EUR 0.9m (2011: EUR 0.8m). This meant that the company was able to exceed its projections. The percentage return on sales before taxes stood at 10.0 per cent (2011: 11.0 per cent). Similar sales and earnings figures are expected for 2013.

In 2012, efforts revolved around the development of a low-cost sensor for projects that require a lower level of counting accuracy.

Until 29 December 2011, init AG held a 44 per cent investment in initperdis GmbH (formerly id systeme GmbH), Hamburg ("Other" segment). The remaining 56 per cent of the shares were acquired by means of a purchase agreement effective on the same date, such that init AG now holds 100 per cent of the shares. The financial statements of initperdis were fully consolidated (2011: balance sheet fully consolidated, earnings were 44 per cent consolidated as "at equity").

For the init group this resulted in a revenue contribution of EUR 2.3m in 2012 and a negative effect on results of EUR 0.5m due to the scheduled depreciation of EUR 0.7m on the software appreciation performed within the scope of the purchase price allocation.

Research and development report

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

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

R&D employees

In 2012, about 220 hardware and software developers (around 30 of them in the "Other" segment) worked at init's Karlsruhe, Bruchsal and Hamburg sites on enhancing existing products and developing new ones. In addition, numerous new customer-specific software developments and interfaces were realised.

R&D investment

In 2012, the init group spent a total of EUR 3.8m (2011: EUR 2.7m) on the basic development of new products not involving customer financing. Of this, around EUR 1.2m was attributable to the "Other" segment and EUR 2.6m was attributable to the "Telematics and Electronic Fare Collection Systems" segment. This is equivalent to 3.9 per cent (2011: 3.0 per cent) of revenue. In addition, the group accomplished customer-funded new and further development within the scope of projects adding up to around four times that amount again.

R&D developments

Hardware and software development

In 2012, init's hardware and software developers worked on new software and hardware products and innovations as well as on the further development of existing products. In addition, numerous customer-specific software developments and interfaces were realised, including a GUI (graphical user interface) in Arabic as well as various new functions in MOBILE-ITCS (vehicle location system), MOBILEstatistics, MOBILEic (data definition and reports) and MOBILEvhm (vehicle health management). In the hardware sector, the latest generation of onboard computers COPILOTpc2, an onboard IP communication gateway IProuter and the passenger terminal PROXmobil2 were made ready for serial production. A graphic schedule was developed in the area of planning and work was performed on a browser-based version of the planning system. Software for depot management as well as new functions (such as monthly dispatch and graphical dispatch functions) were developed at init's subsidiary initperdis GmbH.

Research projects

init is currently involved in two research projects: EBSF (European Bus System of the Future) and IP-based communication in local public transport in Germany. We see a lot of potential in the EBSF research project, in particular. The aim of this project is to operate control systems with vehicle equipment from different manufacturers. This is important where bus routes are allocated to different transport companies in one city or where several bus companies in a regional network serve the same area. The project specifically requires the setup of IP-based communication structures with open interfaces.

Overview of business trends

General economic setting

Global economic performance in 2012 was weaker than expected. Recessionary trends intensified to such an extent during the second half of the year, in particular, that it became necessary to revise growth forecasts for 2013 as well. Global economic output during the reporting period grew by just over 2.0 per cent and thus fell short of expectations.

Economic problems in western industrial countries and the resultant downturn in demand for products from developing countries were the main factor behind this poor performance. Growth has slowed down in the BRIC countries (Brazil, Russia, India and China), for instance, countries which had previously been considered economic engines.

The financial crisis in the Eurozone primarily impacted the southern European countries, which slipped even further into recession as a result of the consolidation measures introduced. Despite the fact that some European economies such as Sweden, Switzerland and even Germany, for instance, still succeeded in achieving robust growth, we were forced to adjust our projections downwards here as well.

Growing at a rate of around 2.2 per cent, the USA, on the other hand, achieved its growth target though here, too, unresolved budgetary issues clouded the economic outlook for 2013.

Despite some progress in combating Europe's financial crisis, the global economy is still exposed to considerable risks and uncertainties that point to subdued development in 2013 as a whole. Apart from the risk of setbacks in the battle against the euro crisis as well as unresolved budgetary and government debt problems in the USA, other risks are posed by declining spending for consumer goods and investments in China as well as military conflicts in North Africa and the Middle East. Correspondingly, institutions like the World Bank, the Organisation for Economic Co-operation and Development (OECD) and other economic researchers have corrected their growth expectations downwards. The World Bank anticipates global economic growth of 2.4 per cent during 2013 with 2014 finally bringing a stronger upturn and growth in excess of 3.0 per cent once again.

The Eurozone entered into a recession during the last quarter of 2012 and will also have to expect economic output to decline during the current year as well. Germany, however, should be able to manage a turnaround during the first half of 2013, which would initially enable it to close the year with slight growth followed by stronger growth rates of around 2.0 per cent from 2014 onwards.

In the USA, most European countries and Japan, additional steps must be taken to consolidate government budgets since that is the only way to preserve the confidence of both consumers and producers in the currency's stability. This could impact public-sector financing of transport projects. Infrastructures around the world, on the other hand, and particularly those in the transport sector, require considerable modernisation. In light of rising energy costs as well as the enormous mobility requirements of economic powerhouses and metropolitan areas, demand is on the rise for intelligent transport infrastructure solutions such as those offered by init.

Overall sector-specific conditions

In an uncertain global economic environment, the market for telematics, planning and electronic fare collection systems for buses and trains is a long-term growth market. According to a UITP strategy, passenger numbers will double by 2025. Growing passenger numbers make investments in local public transport absolutely essential. There are, not least, also ecological reasons in favour of an efficient local transport system because the more passengers use local public transport, the lower the emissions of fine dust and carbon dioxide.

On the whole, init AG benefits from this in its position as a global leader in the supply of high-tech infrastructure solutions. International business in particular is a driver of growth for the company, with init constantly tapping into new markets. In 2012, for example, init founded a subsidiary in Singapore to tap into markets in Asia.

Despite the fact that the consolidation of public-sector budgets also impacts the development of transport infrastructure, the investment propensity of transport operators and the provision of funding, we have not yet detected any major negative impact on our market.

It is not currently possible to give a reliable estimate of the extent to which this will affect the future business position of the init group. Substantial funds continue to be available in Europe, North America and Asia for the development of local public transport, which leads init to expect a growing number of tenders from these regions in 2013.

Business trend

The distribution of sales within the init group is traditionally uneven over the course of the financial year: the first quarter is usually the weakest and the fourth quarter is the strongest in terms of sales. This has been re-confirmed in the preceding financial year.

In the fourth quarter of 2012 alone, the init group generated revenues of EUR 32.8m (2011: EUR 33.5m) with an operating profit (before interest and taxes, EBIT) of EUR 6.6m (2011: EUR 9.1m), whereby it must be kept in mind that the fourth quarter of 2011 included around EUR 2.0m in positive one-off effects.

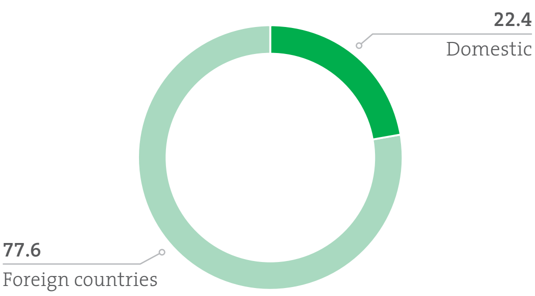
For the year as a whole, the init group posted a new revenue record of EUR 97.3m (2011: EUR 88.7m), which put the company slightly above its projection of EUR 95.0m. However, EBIT amounted to EUR 17.3m, slightly lower than in the previous year (EUR 20.4m). Here it must be kept in mind that the acquisition of initperdis GmbH in 2011 resulted in a one-off positive effect of around EUR 1.5m in accordance with the provisions of the

International Financial Reporting Standards (IFRS). In line with IFRS 3, the 44 per cent of shares already held by the company had to be revalued to the purchase price of the remaining 56 per cent of the shares. Furthermore, a portion of the risk provision for the accounts receivable in Dubai was released in 2011, which gave rise to an additional positive effect on results of around EUR 1.3m.

While init essentially achieved its sales growth target, the projected result of EUR 19.0m was not fully realised, which can be attributed to the EUR 0.5m loss of CarMedialab ("Other" segment), the EUR 0.4m in start-up costs at SQM and the EUR 0.6m value adjustment for accounts receivable in Dubai (both in the "Telematics and Electronic Fare Collection Systems" segment).

77.6 per cent of total revenue was generated outside Germany (2011: 68.7 per cent).

Revenue distribution 2012 (in %)



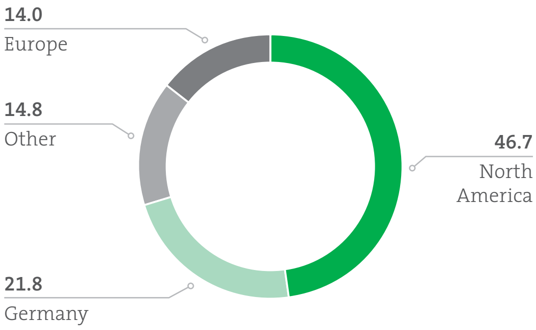
The strongest foreign market in the reporting period was North America. Here, revenues rose to EUR 46.7m (2011: EUR 35.2m) due to progress made in large-scale projects.

The other countries (Australia and Dubai) also saw revenues increase over the previous year, up from EUR 6.4m in 2011 to EUR 14.8m in 2012. Compared to the previous year, this year brought the rollout phase of major projects in Abu Dhabi and Brisbane.

In Europe (excluding Germany), revenues totalled EUR 14.0m (2011: EUR 19.3m), i.e. 27.5 per cent below the prior-year level, which can be attributed to long, drawn-out contract negotiations.

At EUR 21.8m (2011: EUR 27.8m) in the 2012 financial year, revenues in Germany also fell year-on-year, due primarily to a shift in the mix of small and large-scale projects. The large-scale "Rheinbahn" project will cause revenues to rise again in the years to follow.

Revenues by region 2012 (in million EUR)



The group's good performance was also generally reflected in the share price in 2012. For the first time the init share reached a price level of over EUR 25. This was a new all-time high, even though it was then followed by profit-taking over the rest of the year. We refer to the Investor Relations chapter for a detailed commentary on the share price.

Earnings, financial and asset position

Earnings position

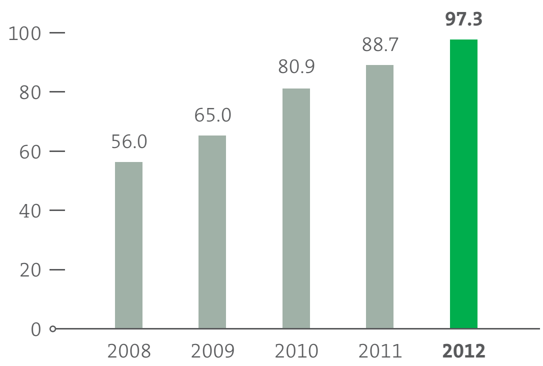
Revenues and earnings development

In light of the record number of incoming orders and the highest revenues ever earned in the history of the init group, the 2012 financial year was once again a successful one despite the decline in earnings. The group's earnings before taxes amounted to EUR 17.2m (2011: EUR 20.5m). When making a year-on-year comparison it must be kept in mind that the result of the 2011 financial year contained more than EUR 2.8m in one-off special effects. These included the write-up of the group's 44 per cent stake in initperdis GmbH to the purchase price for the remaining 56 per cent as a result of the group's gradual acquisition of these shares as well as the discounts for the outstanding accounts receivable in Dubai which were reduced considerably as the relevant payments were received.

However, we were unable to fully reach our projected earnings before taxes of EUR 19.0m. This was particularly due to start-up expenses incurred for production at SQM LLC. ("Telematics and Electronic Fare Collection Systems" segment) in North America as well as declining demand for telematics boxes for electric cars in the automotive industry ("Other" segment). Scheduled depreciation of software at initperdis ("Other" segment) in the amount of EUR 0.7m also made a negative contribution towards earnings in 2012. initperdis software was to be presented on the statements at EUR 3.2m within the scope of the purchase price allocation.

Group revenues rose to EUR 97.3m (2011: EUR 88.7m). In terms of revenues, the Telematics and Electronic Fare Collection Systems segment accounted for EUR 92.6m (2011: EUR 85.0m) and the Other segment generated EUR 4.7m (2011: EUR 3.7m).

Revenue development (in million EUR)



Gross profit fell by EUR 2.3m to EUR 34.0m (2011: EUR 36.3m), a decrease of 6.3 per cent (2011: increase of 33.0 per cent). Production costs rose from 59.1 per cent to 65.1 per cent of revenues due to higher costs and lower contribution margins.

As a result of further internationalisation, the expansion of sales and marketing activities as well as administration and the establishment of new subsidiaries, distribution and administration costs increased by 3.2 per cent to EUR 16.1m (2011: EUR 15.6m).

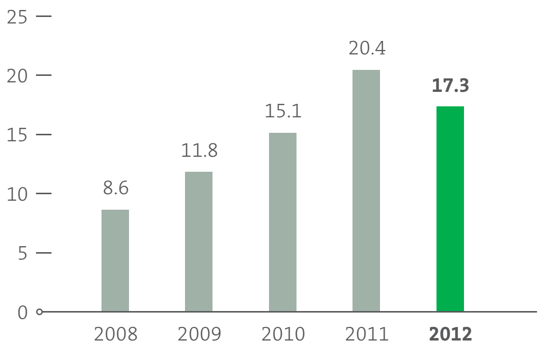
Foreign currency gains include positive effects from the valuation of forward exchange transactions amounting to EUR 0.6m as well as the valuation of receivables and liabilities in foreign currencies on the balance-sheet date.

The net interest income (balance of interest income and interest expenses) totalled EUR -165k (2011: EUR 73k), primarily resulting from increased working capital credit line balances throughout the year and property financing in Karlsruhe.

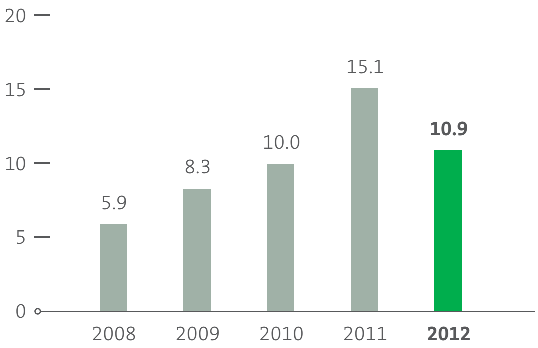
Overall, earnings before interest and taxes (EBIT) fell short of the previous year at EUR 17.3m (2011: EUR 20.4m including one-off effects). EBIT was distributed across each of the segments as follows: Telematics and Electronic Fare Collection Systems accounted for EUR 17.2m (2011: EUR 19.8m), Other segments EUR 0.1m (2011: EUR 0.6m). The EBIT margin stood at 17.8 per cent (2011: 23.0 per cent including one-off effects).

Group comprehensive income dropped from EUR 16.5m to EUR 7.8m. Apart from the EUR 4.2m reduction in consolidated net profit, the decline is the result of actuarial losses of EUR 1.4m stemming from a reduction in the interest rate from 5.14 per cent to 3.0 per cent when calculating pension provisions and unrealised losses of EUR 1.6m from foreign currency conversion. For details on trends, please refer to our Statement of Comprehensive Income.

EBIT development (in million EUR)



Net profit development (in million EUR)

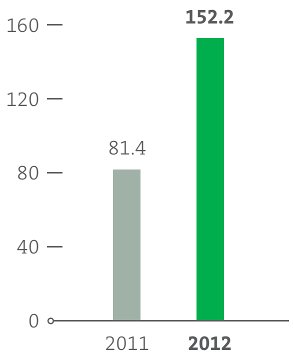


Consolidated net profit fell from EUR 15.1m during the previous year to EUR 10.9m. A tax audit revealed some EUR 0.7m in outstanding taxes to be paid for the years 2007 to 2009. That put earnings per share at EUR 1.11 (2011: EUR 1.51). Due to payments of tax in arrears, the effective tax rate of 36.6 per cent (2011: 26.6 per cent) was significantly higher than the previous year, which had benefitted from tax-free one-off effects (initperdis GmbH and the release of provisions for risks relating to Dubai). Moreover, a significant portion of the profit was generated in the USA, where the effective tax rate is around 38 per cent. The return on equity was 18.8 per cent (2011: 26.4 per cent), while the return on total investment was 9.8 per cent (2011: 13.7 per cent).

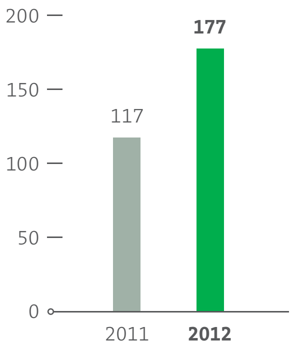
Incoming orders

Incoming orders hit a record high during the 2012 financial year and considerably exceeded our expectations. The large-scale Rheinbahn, Luxembourg and Montreal orders made it possible for the init group to book new orders worth a total of EUR 152.2m in 2012 (2011: EUR 81.4m). Of these, around EUR 146.7m were attributable to the "Telematics and Electronic Fare Collection Systems" segment and EUR 5.5m were attributable to the "Other" segment. The group had projected new orders worth a total of EUR 105.8m, around EUR 100m of which from the "Telematics and Electronic Fare Collection Systems" segment. The order level amounted to around EUR 177m (2011: EUR 117m) at year-end, thus securing further success in 2013 and 2014. Some EUR 174m of the order backlog is attributable to the "Telematics and Electronic Fare Collection Systems" segment.

Incoming orders (in million EUR)



Order backlog (in million EUR)



So far, we have not registered any negative effects on the init group's order situation from the sovereign debt crisis in industrialised countries, which is associated with drastic cuts in national budgets. Internationally, our market is still characterised by a large number of new public tenders. Our long-term customer relationships 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. Additional deliveries, maintenance contracts and order extensions alone accounted for about EUR 20m in new orders.

In 2013, we anticipate incoming orders for the group to total around EUR 105m, with some EUR 99m of this coming from the "Telematics and Electronic Fare Collection Systems" segment and around EUR 6.0m from the "Other" segment.

Planning systems within the "Other" segment continued to perform extremely well, gaining a number of new customers. Incoming orders (including orders from within the group) rose from EUR 3.9m to EUR 4.2m, an increase of 7.7 per cent.

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

Germany

Along with several follow-up contracts and smaller orders in 2012, init again added further important projects in Germany to its books. At EUR 49.3m, orders here were significantly higher than the prior-year level (EUR 15.6m).

The largest order worth more than EUR 35.0m is the Rheinbahn/Via project (Rheinbahn AG together with Duisburger Verkehrsgesellschaft AG, Mülheimer VerkehrsGesellschaft mbH and Essener Verkehrs-AG). This is one of the largest telematics projects for local public transportation in Germany. Over 1,000 buses and trams are to be equipped with init technology, and a radio system will be built for over 2,000 radio units.

Europe

During the second quarter, the O-Busbetrieb (trolley bus operator) of Salzburg AG decided to have init modernise the existing control system including the ticketing system. All in all, some 110 vehicles as well as the transport operator's control centre are to be equipped.

init received another key order from VINCI Construction UK Limited. This project will involve the installation of a stationary fare collection system for Nottingham's tram network. Additionally, the fare collection system will be integrated into the existing MANGO ticketing system provided by trent barton, a long-term customer of init. trent barton will be replacing around 300 EVENDsmart units with its successor, the EVENDpc.

init's largest new order in Europe was placed by the Luxembourg Transport Association for the delivery of an integrated system for control, passenger information and electronic fare collection (e-ticketing). For the association made up of 34 private and three public transport companies of the Grand Duchy, init will equip the operating centres, stops and around 920 vehicles with appropriate hardware and software over the course of the next four years. The order volume for the first stage of extension is in the lower two-digit millions.

New orders in Europe are worth a total of EUR 38.8m (2011: EUR 9.8m).

North America

The situation in North America varies. While the number of large tenders in the USA saw a significant decline in 2012, the number of tenders in Canada rose. Reasons behind this trend included the US elections as well as a reduction in US funding following a record year for local public transportation investments in 2011. Funding in Canada, on the other hand, was increased considerably. Overall, new orders were generated with a total value of EUR 62.7m (2011: EUR 42.6m). The largest new project is an order worth in excess of EUR 40m from Montreal where init will install a control system as well as a real-time passenger information system. Other aspects of the project include the delivery of a radio system, provision of traffic signals for a traffic signal priority system as well as the installation of init technology in approximately 2,000 buses.

init acquired a new US customer, Suffolk County, NY, and will be equipping some 160 buses and 140 paratransit vehicles. MOBILE-ITCS, MOBILEreports, MOBILEstatistics and MOBILE-PLAN will be implemented at the control centre.

Other countries (Australia and the Middle East)

init won some smaller follow-up orders worth around EUR 1.4m (2011: EUR 13.4m) in Brisbane and Dubai. We expect further tenders here in 2013.

Multi-period overview of earnings situation

Financial year EUR m	2008	2009	2010	2011	**2012**
Revenues	56.0	65.0	80.9	88.7	97.3
Gross profit	17.2	23.0	27.3	36.3	34.0
EBIT	8.6	11.8	15.1	20.4	17.3
Consolidated net profit for the year	5.9	8.3	10.0	15.1	10.9

Financial and asset position

Finance analysis

The init group's financial and asset position can be described as solid in fiscal 2012.

With the upturn in business and earnings, the init group once more improved its financial strength in the 2012 financial year, enabling it to finance the group's future growth plans from cash flow. The group also has guarantee and credit lines available of around EUR 80.0m. On the balance-sheet date, 45.5 per cent of this amount had been used. In addition, init has a bond line in the USA of USD 75.0m, which can also be used in Canada. Around USD 24.5m and CND 24.3m had been used as of the balance-sheet date.

Investment analysis

The investments in tangible fixed assets of EUR 9.1m in 2012 (2011: EUR 2.0m) primarily related to the acquisition of the land and buildings at Käppelestr. 8/8a and 10 ("Telematics and Electronic Fare Collection Systems" segment). This investment came to EUR 6.4m and is carried under "Investment property". The real estate is intended to secure the site in the long term, but is initially leased without the option of termination up to 31 December 2017. In addition, EUR 3.6m was capitalised as software in 2012 (2011: EUR 3.8m). This will be amortised over a five-year period. EUR 2.6m of this sum (2011: EUR 3.3m) relates to the software of initperdis GmbH ("Other" segment).

Liquidity analysis

The operating cash flow totalled EUR 11.3m (2011: EUR 17.4m), which was less than in the previous year. This is because some customers extended the agreed payment deadlines against the backdrop of the economic crisis and large projects often have to be pre-financed. The net working capital (current assets less cash and cash equivalents less trade payables) came to EUR 49.7m (2011: EUR 49.0m). The cash flow from investing activities was around EUR -9.4m (2011: EUR -4.9m), mainly due to EUR 6.4m for the purchase of the land and buildings at Käppelestr. 8/8a and 10. Around EUR 3.1m was invested in tangible fixed assets. The cash flow from financing activities came to EUR -5.1m (2011: EUR -7.4m), principally from the dividend payment and the raising of loans.

The cash and cash equivalents, including current securities available for sale, came to EUR 20.5m as of the end of December 2012 (2011: EUR 23.7m), a decrease of 13.5 per cent. However, the cash and cash equivalents were to rise significantly in the first quarter of 2013, as large incoming payments were expected.

Asset structure analysis

The balance sheet total rose as of 31 December 2012 compared to the previous year by around EUR 0.7m and is now EUR 110.5m (2011: EUR 109.8m), mainly because of the investment in land and buildings. The increased receivables from PoC and the rise in other assets also affected the balance sheet total. On the other hand, trade receivables fell substantially. Equity rose as of the year-end to EUR 57.8m (2011: EUR 56.9m), 1.6 per cent above the previous year's figure. The equity ratio was therefore 52.3 per cent (2011: 51.9 per cent).

The liabilities to banks totalled EUR 4.0m as of 31 December 2012 (2011: EUR 1.1m) and primarily relate to the non-current part of the property finance for Käppelestr. 4, 8/8a and 10 in the amount of EUR 3.8m (2011: EUR 1.0m). The Käppelestr. 4 property was financed by a bank loan of EUR 1.2m. The balance outstanding on this loan is EUR 1.0m. At 3.7 per cent interest, the loan has a term of 20 years, with a fixed interest period of ten years. The first two years were a period of grace. The first repayment was made on 30 June 2010. Käppelestr. 8/8a and 10 were financed at a sum of EUR 3.0m at a variable rate based on 1-month Euribor. The interest rate as of 31 December 2012 was 0.9 per cent. The capital repayment on the loan is EUR 150k per annum.

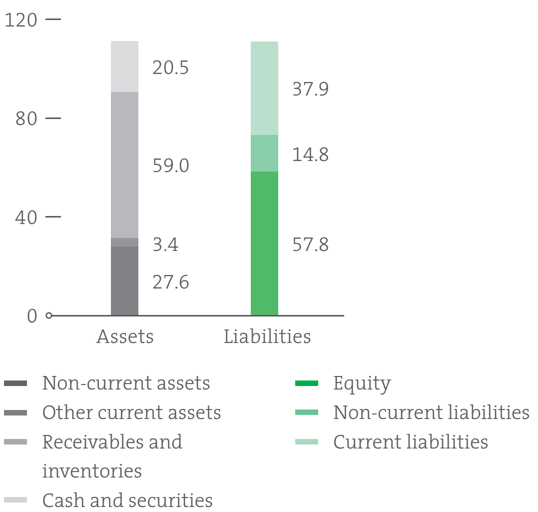
Current liabilities were reduced from EUR 43.0m to EUR 37.9m. Most of the reduction is due to the lower trade payables at EUR 2.4m, the reduction in liabilities resulting from PoC at EUR 2.9m and lower income tax liabilities at EUR 2.8m. Other liabilities, on the other hand, rose by EUR 1.7m.

Pension provisions have increased by EUR 2.1m, chiefly due to the fall in the long-term interest rate.

The group's debt-equity ratio (debt capital/equity capital*100) was 91.2 per cent (2011: 92.8 per cent), representing a decrease of 1.6 percentage points compared to the previous year.

Around EUR 103.0m of segment assets can be assigned to the "Telematics and Electronic Fare Collection Systems" segment and about EUR 10.8m to the "Other" segment.

Balance sheet total 2012 (in million EUR)



Multi-period overview of financial and asset position

Financial year in million EUR	2008	2009	2010	2011	2012
Equity	31.6	39.0	46.7	56.9	57.8
Debt capital	26.4	32.6	37.7	52.9	52.7
Cash	6.8	9.3	18.4	23.5	20.3
Balance sheet total	58.0	71.6	84.4	109.8	110.5
Operating cash flow	7.1	5.6	14.6	17.4	11.3

Principles and objectives of financial management

Securing the liquidity of the init group has top priority. In addition to that, 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

To complete ongoing projects on time and secure further growth, init made moderate adjustments to personnel levels at all its sites in the 2012 financial year. With this added capacity, init is well equipped to be able to master its high order backlog and the probable upward trend, so that only minor additions to the workforce will be needed in 2013.

Qualifications

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.

Around 65 per cent of our 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 University of Karlsruhe and the universities of applied sciences in the Karlsruhe area so as 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 diploma dissertations as well as master's level and bachelor theses.

Employee profit-sharing

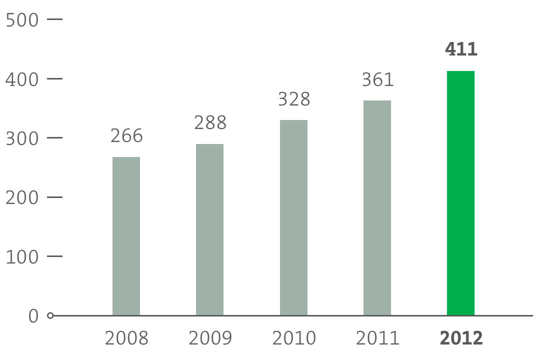
init's business success depends to a large degree on the employees who drive it forward with their experience and motivation. The Managing Board therefore decided on 2 May 2012 to enable employees to participate in the company's profits depending on the operating results. Every permanent employee will receive a profit share of EUR 3,500 for 2012. Trainees will receive a profit share of 25 per cent of the amount granted to employees. These sums are recognised in the annual financial statements as other liabilities. Every permanent employee will also receive 50 shares in the company under a non-profit-linked asset sharing plan. The shares are subject to a lock up period of two years.

Employee figures

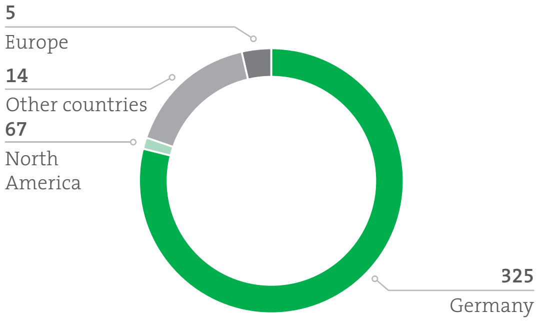
As of 31 December 2012, the init group employed a total of 430 staff (2011: 377) including temporary workers, research assistants and diploma candidates. This includes 46 part-time employees. Of the total number of employees, 369 work for the "Telematics and Electronic Fare Collection Systems" segment.

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

Number of employees without trainees



Employee distribution 2012



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 social benefits, we offer our employees flexible working times to ensure family life – and particularly childcare – and work can be reconciled. init has already received a number of awards as a family-friendly company. A further priority in our company is the health of employees. We therefore regularly organise medical check-ups with health insurance providers, pay the costs of flu injections, provide eye tests and have taken out additional dental insurance and travel health insurance for all employees.

Ethical guidelines

We have set forth our management principles in our ethical guidelines. These represent the basis of init's corporate culture and form a mandatory framework defining our daily actions and decisions at every level, beyond national boundaries 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.

Remuneration systems for Supervisory Board and Managing Board

Remuneration system for the Managing Board

The remuneration for members of the Managing Board is set by the Supervisory Board. The remuneration is determined by the size of the company, its economic and financial situation, and the amount and structure of remuneration at comparable companies.

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

1. A fixed salary component payable on a pro rata basis in 13 monthly instalments. The fixed component of the Board members' remuneration in 2012 totalled EUR 1,574k (2011: EUR 1.428k).
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 stocks under item 3. The variable component of the Board members' remuneration in 2012 totalled EUR 256k (2011: EUR 300k).
3. A further bonus for 2012 in the form of 2,500 shares, provided that consolidated earnings before taxes and after deduction of all management bonuses exceed EUR 10.0m. In this case, each member of the Board receives 150 shares for each EUR 1m of exceeding profit. For three Board members, the number of shares is limited to 10,000 and for two Board members to 6,000. The shares are subject to a qualifiying period of five years. The income tax on the non-cash benefit of the share transfer is borne by the company. The fair value of this remuneration including income tax payable on it totalled EUR 749k for the fiscal year just ended (2011: EUR 517k).
4. Pension commitments exist for three of the five members of the Managing Board. The provisions for pensions (DBO) for these three members totalled EUR 945k in 2012 (2011: EUR 722k).
5. A defined contribution plan instead of a direct pension commitment exists for two members of the Managing Board. This expenditure amounted to EUR 8k in 2012 (2011: EUR 7k).
6. An additional defined contribution plan exists for four members of the Managing Board. In 2012, expenditure for this item amounted to EUR 86k (2011: EUR 57k).

Based on the resolution passed by the shareholders' meeting on 24 May 2011, the individualised disclosure of the Board members' salaries according to Section 315a para. 1 HGB (German Commercial Code) in conjunction with Section 314 para. 1 no. 6a sentences 5 to 9 HGB can be waived for a period of five years (Section 314 para. 2 sentence 2 in conjunction with Section 286 para. 5 HGB).

Benefits payable to members leaving the Managing Board have not been agreed. However, a termination bonus may be specified in an individual termination agreement. This was not the case in 2012.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board applied to date was decided at the shareholders' meeting of 24 May 2011, based on a proposal submitted by the Managing Board and the Supervisory Board. The articles of incorporation of init innovation in traffic systems AG have been amended accordingly.

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals EUR 18,000 p.a. for the members and EUR 36,000 p.a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable remuneration is limited to 200 per cent of the fixed remuneration and is calculated using the following formula:

V= [(0.5*share price / 10 + 0.5*EBT / 10,000,000) -1] *fixed component

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

The following is a breakdown of the remuneration of the Supervisory Board in 2012:

Name	Fixed component in EUR	Variable component in EUR
Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	36,000	29,751
Hans-Joachim Rühlig	18,000	14,875
Fariborz Khavand (until 29/02/2012)	2,959	2,445
Drs. Hans Rat (from 01/03/2012)	15,041	12,430

Corporate management declaration

For the required corporate management declaration, we refer you to the version available in the Corporate Governance Report in the annual report 2012 and on the Internet at http://www.initag.de/en/investor_relations/corporate_governance.php.

Particulars of shareholders' equity

init innovation in traffic systems AG has a capital stock of EUR 10,040,000, 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 conferred by the shares, we refer you to Sections 118 ff. AktG (German Stock Corporation Act).

The Managing Board is not aware of any restrictions on voting rights or share transfer.

Dr. Gottfried Greschner, Karlsruhe, directly or indirectly holds 3,484,000 shares in init AG. This is around 34.7 per cent of the capital stock. init AG held a total of 54,899 treasury shares as of 31 December 2012 (as of 31 December 2011: 101,537 shares).

There are no shares with special rights.

There is no control of the voting rights for the shares held by employees.

Statutory requirements and provisions of the articles on the appointment and dismissal of members of the Managing Board and on amendments to the articles of incorporation

For the appointment and dismissal of members of the Managing Board, please refer to Sections 84 and 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 of 24 May 2011, a resolution was passed to create authorised capital of EUR 5,020,000. With the approval of the Supervisory Board, the Managing Board is now authorised to increase the company's capital stock by up to EUR 5,020,000 by 23 May 2016, through the single or repeated issuing of up to 5,020,000 no-par shares against contributions in cash or in kind. The new shares are to be taken by banks, which will be obliged to offer them for subscription to the shareholders. However, the Managing Board is authorised, with the approval of the Supervisory Board, to exclude the subscription right so that up to 1,004,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time the issue price is specified. The aim is to balance peak amounts, to open up additional capital markets, to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as an investment in kind, and to provide up to 250,000 new shares as employee shares.

The treasury stock as of 1 January 2012 totalled 101,537 shares. Based on a resolution passed at the shareholders' meeting of 12 May 2010, the company is authorised to purchase treasury shares. On 1 February 2012, a decision was made to repurchase up to 20,000 shares. 2,200 shares were repurchased from 2 February to 31 March 2012 at an average price of EUR 14.52. In 2011, 60,000 shares were acquired at an average price of EUR 16.22. Within the scope of an employee profit sharing plan for 2012, a total of 15,246 shares were transferred to employees. The shares are subject to a lock up period of two years. As part of the incentive plan for members of the Managing Board, managing directors and key personnel, 32,592 shares were transferred in the first quarter of 2012 with a lock up period of five years. A further 1,000 shares were issued to employees under a bonus agreement without qualifiying period. The treasury stock totalled 54,899 shares as of 31 December 2012.

The treasury stock was purchased for use as a consideration in mergers with or acquisitions of companies or parts of companies or participations or, where required, for opening up additional capital markets or issuing shares to employees and members of the Managing Board.

General statement on the economic situation

The Managing Board of the init group considers that business went well overall in 2012. Although the company fell slightly short of the planned consolidated earnings (EBIT) of EUR 19.0m, we laid the foundations of further growth with record incoming orders of EUR 152.2m. init's cash and cash equivalents are more than sufficient to fund further growth. The operating cash flow stood at EUR 11.3m and is likely to improve further in the coming months. With its new large orders, init has the references to be able to handle large contracts with a volume of more than EUR 50.0m. Sales and return on equity remained above average. However, more aggressive price competition was also observed.

Events after the reporting date

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

Risk and opportunities report

Risk and opportunities management system

As a global operator, a technology-oriented company such as init is faced with a number of risks that could affect its financial and earnings position. Along with general economic and cyclical risks, which are beyond the 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 so that they can respond quickly if necessary and minimise possible detrimental effects.

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

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

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

Risks are recorded, analysed and evaluated and adequate risk prevention measures implemented in a risk management system that covers all business processes and corporate decisions. The Managing Board and Supervisory Board meetings receive regular reports about imminent risks. Prior to making decisions on important measures, these are discussed in detail by the appropriate bodies and the opportunities and risks weighed.

Inherent operating risks, such as project delays, quality problems or personnel risks, are recorded and monitored in reports that are updated monthly. The incoming order situation, financial risks, supply delays and the liquidity situation are analysed weekly to ensure that measures can be initiated immediately where necessary. Market, development and strategic risks are monitored on a quarterly basis. Risks concerning legal aspects and contracts are processed and reviewed 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. Failure to meet contractual requirements can result in substantial contractual penalties, claims for compensation, refusal to pay or termination of the contract. Claims amounting to approximately EUR 2.0m have been raised against us in connection with an international cooperation agreement. We consider these claims to be unjustified at the level asserted. Appropriate provisions have been created.

Project and product risks

A crucial success factor for the init group is project management. For each major project, init draws up a project plan for constant progress monitoring. The controlling system enables the company to identify any deviations from the specified time and costs, deliveries and hours worked and, in the case of deviations from the target, initiate the appropriate countermeasures. Calculations, the order situation and project progress are regularly reviewed and plan/actual comparisons made.

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

Currently, no major product defects have occurred and no warranty claims have been asserted against init that have had a considerable impact on the financial and earnings position of the group. Future claims, however, cannot be completely ruled out, particularly since init is partly dependent on its suppliers and subcontractors in terms of quality, schedule effectiveness and price.

Financial risks

The group concludes business transactions solely with reputable and creditworthy third parties. All customers wishing to arrange contracts with the group on the basis of credit are subjected to credit checks. In addition, the level of receivables is constantly monitored. Perceivable default risks are taken into account by 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 in nonetheless the case that some states have recently found themselves in financial difficulties (e.g. Greece, Dubai and Ireland). As a result, it is not unlikely that we will face bad debt losses in the future. In addition, contractually established payment terms could change to our disadvantage, with the result that we could encounter cash flow predictability risks and liquidity risks. There is no significant concentration of default risk in the group with the exception of the receivables from Dubai, for which an appropriate risk provision has been created.

As of 1 January 2012, init had outstanding accounts in the amount of approximately EUR 4.0m in Dubai. These increased to around EUR 8.5m in the course of the year. On the positive side, regular payments are being made and the level of accounts receivable came down again significantly at the beginning of the year 2013. Incoming payments of EUR 3.8m were received. Our general contractor for the first Dubai project failed to pass on to us around EUR 2.0m received from the end customer. init has initiated legal action regarding this claim. There is a risk of default on accounts receivable. An appropriate risk provision has been created.

CarMedialab generated a loss of EUR 0.5m in 2012. Activities to improve sales and earnings are currently being undertaken. However, the effectiveness of these measures cannot be guaranteed. There is therefore a risk that financial charges will affect the consolidated profit.

Exchange rate risks

Contracts concluded in foreign currencies involve exchange rate risks that can affect sales, purchase prices, the valuation of claims, 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 transactions and currency options. Since init also tries to keep its options open here and focus on active currency management, losses cannot be ruled out. Due to our risk policy, however, we consider this risk of loss to be limited. In 2012, init was able to compensate for almost all currency risks with this strategy.

Exchange and interest change risks

init's investments include stocks, bonds, fixed-interest securities and fixed-term deposits. Exchange and interest change risks can therefore affect the group's financial result. 25kg of gold was purchased for risk diversification purposes. This investment is subject to market price fluctuations. The interest change risk from the variable-interest loan used to finance the properties at Kaeppelestraße 8/8a und 10 has no significant impact on the assets, liabilities, earnings situation and financial 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 revitalise economic activity with investments worth billions. The infrastructure sector in particular, which includes local public transport, is a focal point of these investments. This will also bring 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, market requirements and changes must be constantly observed. init therefore incorporates suggestions and requests from customers into its product development on an ongoing basis. Nevertheless, new product development can incur costs without resulting in the desired success.

Competitors repeatedly try to develop the market on the basis of price and thereby gain market share at init's expense. However, as a rule new competitors only remain in the market for a short period of time, as they are unable to meet the technological and customer-specific demands due to a lack of experience and technology. Owing to the increase in the number of competitors, however, init is faced with the risk of decreasing prices and margins as well as the loss of tenders.

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

Human resources risks

The experience and qualifications of employees are key to the success of the init group. Crucial factors here are timely completion, the complexity of the 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 implementing a long-term personnel policy and enabling employees to participate in the company's success.

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

Assessment of the overall risk position

On the whole, the Managing Board currently rates the risks to which the init group is exposed as relatively small due to our solid financial and earnings position and continuing generally positive business prospects.

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

The internal control and risk management system pertaining to the financial reporting process is not defined by law. We understand internal control and risk management to be a comprehensive system and follow the definitions provided by the Institut der Wirtschaftsprüfer 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 respect to the financial reporting processes of our consolidated companies:

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

The principles, the operational and organisational structure, and the processes of the accounting-related internal control and risk management system are laid down in a manual and in organisation instructions. These are reviewed and revised regularly in line with current external and internal developments.

With respect to the financial reporting processes of our consolidated companies and the group's financial reporting process, we consider features of the internal control and risk management system essential which may significantly affect the group accounting and the overall view presented by the consolidated financial statements including 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 company processes that generate essential information for the preparation of the consolidated financial statements including the group status report, including a separation of functions and of pre-defined authorisation processes in relevant areas.
- Uniform accounting is primarily ensured through a group accounting manual.
- Accounting data is regularly spot checked for completeness and accuracy.
- The subsidiaries provide the parent company with monthly reports on their business trend and submit monthly accounts. Ongoing projects are reported on a quarterly basis. Major foreign companies in the group are visited once or twice a year. Particular focus here is placed on these companies' figures and projects.
- Measures exist to ensure proper 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.

Opportunities

In recently winning public tenders for Luxembourg, Montreal and Rheinbahn/Via, init has acquired new customers with "megaprojects". These references are especially important for the additional large tenders we are expecting, particularly from Asia.

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

Active marketing in France and the formation of INIT Asia-Pacific Pte. Ltd., which will address the Asia-Pacific market, are also producing additional potential. The sales team has also been strengthened for this purpose, and init is currently participating in several tenders in France.

initperdis GmbH and initplan GmbH have combined forces to win several new international customers. Tenders for the functions of planning and driver dispatch are often issued together. The init group can now present a single face to the customer and offer the full range from one source. Joint marketing has therefore already borne its first fruits.

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 on-board computer function EVENDpc. In this connection, we will benefit from our international references, which have a signal effect for many new potential customers from all over the world and should be an advantage when additional infrastructure investments are made.

Prospects report and outlook

General economic conditions

Despite some progress in the war against the European financial crisis, the global economy is still subject to considerable risks and uncertainties, which lead us to expect cautious developments overall in 2013. In addition to the risk of setbacks in tackling the Euro crisis and unresolved budgetary and sovereign debt problems in the USA, these include a decline in consumer spending and investments in China and hostilities in North Africa and the Middle East. Institutions such as the World Bank, the Organisation for Economic Co-operation and Development (OECD) and other economic researchers have revised their growth expectations downwards accordingly. The World Bank expects the world economy to grow by 2.4 per cent in 2013, and a more vigorous upturn with more than 3.0 per cent growth in 2014.

The governments of the industrialised countries are still trying to find a way out of the debt crisis with low interest rates and the purchase of government securities by the central banks. This debt reduction strategy entails a major inflationary risk.

The situation in Europe is still precarious. Half of the EU countries are in recession, and this is having an impact on the other EU nations. The Eurozone fell into recession in the last quarter of 2012 and can, accordingly, expect a softening in economic performance in the current year as well. A return to growth in the order of 1.0 per cent is not expected until 2014.

Thanks to high tax revenues, public budgets in Germany are now almost in balance, providing scope for infrastructure investments. In exports, too, German companies continue to be very successful, so Germany should achieve a turnaround again in the first half of 2013 and should grow over the course of the year, slowly to begin with and more vigorously from 2014 onwards, at a rate of around 2.0 per cent.

The US economy recovered in 2012 at a moderate rate of a good 2.0 per cent. According to the World Bank's findings, this situation will not change much in 2013. A slight acceleration in growth is not expected until 2014.

The pace of growth has also slowed in the BRIC countries. It is evident that they cannot escape from the sovereign debt crises of the western industrialised nations. Nevertheless, economic growth of 5.8 per cent is still anticipated in the BRIC countries.

In the USA, as in most European countries and Japan, further measures to consolidate government budgets are needed in order to maintain the confidence of consumers and producers in the stability of the currency. This could adversely affect public funding of transport projects. On the other hand, a considerable need for infrastructure modernisation is apparent worldwide, particularly in the transport sector. Against the backdrop of rising energy costs and the high mobility requirements of economic powerhouses and conurbations, this will produce a rising trend in the demand for intelligent transport infrastructure solutions such as those offered by init.

Sector development

The extent to which the individual countries' debt consolidation measures will affect our business cannot be predicted. At present, we are only feeling the impact of the financial crisis in Europe and America in isolated instances. These are, however, balanced by the positive investment tendency in other countries and regions. We therefore assume that the financial crisis will not have a permanent negative impact on the init group's growth opportunities.

We expect invitations to tender in Europe and Asia in particular in the coming year. However, we are also currently receiving enquiries about our products from the Middle East as well. In view of the desire to double the number of passengers by 2025, there is a high demand for the development or modernisation of local public transport systems. With our products and our international references, we are well equipped to hold our ground in our market and profit from its sustained growth.

Expected business development and outlook for the init group

Measured by its sales and incoming orders, the init group was able to continue its growth trajectory in the fiscal year just ended. However, earnings lagged behind our expectations. This is an expression of the general tendency towards lower return margins in the current world economic climate.

We are looking mainly to Asia for sustainable future growth potential. However, we will also see large tenders in Europe and the Middle East in the near future.

With an already high order backlog of around EUR 177m, we have already secured a major share of our revenues for 2013 and 2014. We therefore expect an increase in revenues for 2013 to more than EUR 105m, with earnings before interest and taxes (EBIT) of around EUR 18m. Of the budgeted revenues, around EUR 99.3m will be earned by the "Telematics and Electronic Fare Collection Systems" segment and EUR 5.7m by the "Other" segment. EUR 17.1m of the budgeted EBIT is allocated to the "Telematics and Electronic Fare Collection Systems" segment and EUR 0.9m to the "Other" segment. Provided we are successful in winning further large contracts, we should continue this growth trajectory in 2014. We have budgeted total incoming orders for 2013 of EUR 105.0m. Of this sum, around EUR 99.0m will be generated by the "Telematics and Electronic Fare Collection Systems" segment and EUR 6.0m by the "Other"segment.

With integrated solutions for telematics, planning and fare collection systems and the experience gained in a wide range of international projects, init is a sought-after partner for transportation companies on four continents aiming to 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.

Capacity extensions at our Karlsruhe headquarters will be needed for us to handle this growth. Now that the planning application for a new building has been approved, we will be investing around EUR 10.0m in this in the next few months and creating space for new jobs.

Karlsruhe, 8 March 2013

The Managing Board

IMPORTANT NOTE:

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

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

Consolidated Financial Statements

init innovation in traffic systems AG, Karlsruhe (IFRS)

69 Consolidated Income Statement

69 Consolidated Statement of Comprehensive Income

70 Consolidated Balance Sheet

72 Consolidated Statement of Changes in Equity

74 Consolidated Cash Flow Statement

75 Notes

- 76 General Disclosure
- 89 Notes on the Consolidated Income Statement
- 93 Notes on the Consolidated Balance Sheet
- 115 Other Disclosures

124 Audit Opinion

125 Responsibility Statement by the legal Representatives

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Consolidated Income Statement

for 2012 (IFRS)

EUR '000	Notes No.	**1/1 to 31/12/12**	1/1 to 31/12/11
Revenues	5, 37	97,297	88,736
Cost of revenues	6	–63,291	–52,442
Gross profit		**34,006**	**36,294**
Sales and marketing expenses		–10,298	–10,221
General administrative expenses		–5,828	–5,332
Research and development expenses	7, 23	–3,838	–2,716
Other operating income	8	896	1,695
Other operating expenses		–51	–203
Foreign currency gains and losses	9	2,022	–780
Operating profit		**16,909**	**18,737**
Income from associated companies	24	261	293
Other income and expenses	10	148	–92
Appreciation of initperdis GmbH	2	0	1,492
Earnings before interest and taxes (EBIT)		**17,318**	**20,430**
Interest income		313	338
Interest expenses		–478	–265
Earnings before taxes (EBT)		**17,153**	**20,503**
Income taxes	11, 25	–6,281	–5,446
Net profit		**10,872**	**15,057**
thereof attributable to equity holders of parent company		11,104	15,015
thereof minority interests		–232	42
Net profit and diluted net profit per share in EUR	13	1.11	1.51

Consolidated Statement of Comprehensive Income

for 2012 (IFRS)

EUR '000	**1/1 to 31/12/12**	1/1 to 31/12/11
Net profit	10,872	15,057
Net gains (+)/net losses (-) on currency translation	–1,647	1,533
Unrealised gains/losses	–1,647	1,533
Reclassifications to the income statement	0	0
Actuarial losses on defined benefit obligations for pensions, recognised in the shareholders' equity	–1,433	–83
Net gain (+)/net losses (-) in available-for-sale financial assets	0	–38
Unrealised gains/losses	0	0
Reclassifications to the income statement	0	–38
Other comprehensive income	–3,080	1,412
Total comprehensive income	**7,792**	**16,469**
thereof attributable to equity holders of the parent company	8,024	16,427
thereof minority interests	–232	42

Consolidated Balance sheet

as of 31 December 2012 (IFRS)

Assets EUR '000	Notes No.	**31/12/12**	31/12/11
Current assets			
Cash and cash equivalents	16, 33	20,329	23,524
Marketable securities and bonds	17, 33	157	154
Trade accounts receivable	18, 33	18,068	29,015
Future receivables from production orders (Percentage-of-Completion method)	18, 33	25,893	20,590
Accounts receivable from related parties	36	0	2
Inventories	19	15,021	14,850
Income tax receivable		23	105
Other current assets	20	3,358	1,710
Current assets, total		**82,849**	89,950
Non-current assets			
Tangible fixed assets	21	7,156	5,925
Investment property	22	6,340	0
Goodwill	23	4,388	4,388
Other intangible assets	23	3,574	4,259
Interest in associated companies	24	1,879	1,618
Accounts receivable from related parties	36	0	68
Deferred tax assets	25	2,122	1,345
Other assets	26	2,144	2,203
Non-current assets, total		**27,603**	19,806
Assets, total		**110,452**	**109,756**

Liabilities and shareholders' equity EUR '000	Notes No.	31/12/12	31/12/11
Current liabilities			
Bank loans	27, 33	240	71
Trade accounts payable	27, 33	5,183	7,582
Accounts payable of "Percentage-of-Completion method"	18, 27	5,999	8,939
Accounts payable due to related parties	27, 36	102	280
Advance payments received	27	1,545	664
Income tax payable	27	3,964	6,723
Provisions	29	9,920	9,535
Other current liabilities	28	10,915	9,212
Current liabilities, total		37,868	43,006
Non-current liabilities			
Long-term debt less current portion	27, 33	3,768	988
Deferred tax liabilities	25	4,087	3,699
Pensions accrued and similar obligations	30	5,884	3,754
Other non-current liabilities	28	1,088	1,371
Non-current liabilities, total		14,827	9,812
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	31	10,040	10,040
Additional paid-in capital	31	5,579	5,122
Treasury stock	31	–650	–1,196
Surplus reserves and consolidated unappropriated profit		44,718	41,590
Other reserves	31	–2,009	1,071
		57,678	56,627
Minority interests		79	311
Shareholders' equity, total		57,757	56,938
Liabilities and shareholders' equity, total		**110,452**	**109,756**

Consolidated Statement of Changes in Equity

as of 31 December 2012 (IFRS)

	Notes No.	Attributable to equity holders			
		31	31		31
EUR '000		Subscribed capital	Additional paid-in capital	Surplus reserves and consolidated unappropriated profit	Treasury stock
Status as of 31/12/2010		**10,040**	**4,793**	**32,565**	**–660**
Net profit		–	–	15,015	–
Other comprehensive income		–	–	–	–
Total comprehensive income		–	–	15,015	–
Dividend paid out		–	–	–5,990	–
Share-based payments		–	329	–	437
Acquisition of treasury stock				–	–973
Rounding difference					
Status as of 31/12/2011		**10,040**	**5,122**	**41,590**	**–1,196**
Status as of 31/12/2011		10,040	5,122	41,590	-1,196
Net profit		–	–	11,104	–
Other comprehensive income		–	–	–	–
Total comprehensive income		–	–	11,104	–
Dividend paid out		–	–	–7,976	–
Share-based payments		–	457	–	578
Acquisition of treasury stock				–	–32
Status as of 31/12/2012		**10,040**	**5,579**	**44,718**	**–650**

of the parent company				Minority interest	Shareholders' equity total
30					
Other reserves					
Difference from pension valuation	Difference from currency translation	Stock market valuation of securities	Total		
–146	**–233**	**38**	**46,397**	**270**	**46,667**
–	–	–	15,015	42	15,057
–83	1,533	–38	1,412	–	1,412
–83	**1,533**	**–38**	**16,427**	**42**	**16,469**
–	–	–	–5,990	–	–5,990
–	–	–	766	–	766
			–973	–	–973
				–1	–1
–229	**1,300**	**0**	**56,627**	**311**	**56,938**
–229	1,300	0	56,627	311	56,938
–	–	–	11,104	–232	10,872
–1,433	–1,647	–	–3,080	–	–3,080
–1,433	**–1,647**	**0**	**8,024**	**–232**	**7,792**
–	–	–	–7,976	–	–7,976
–	–	–	1,035	–	1,035
			–32	–	–32
–1,662	**–347**	**0**	**57,678**	**79**	**57,757**

Consolidated Cash Flow Statement
for 2012 (IFRS)

EUR '000	1/1 to 31/12/2012	1/1 to 31/12/2011
Cash flow from operating activities		
Net income	10,872	15,057
Appreciation of initperdis GmbH	0	–1,492
Depreciation/amortisation	2,577	2,461
Losses on the disposal of fixed assets	25	15
Change of provisions and accruals	2,515	4,793
Change of inventories	–171	594
Change in trade accounts receivable and future receivables from production orders	5,644	–14,863
Change in other assets, not provided by/used in investing or financing activities	–1,505	–104
Change in trade accounts payable	–2,399	4,642
Change in advanced payments received and liabilities from PoC method	–2,059	–1,407
Change in other liabilities, not provided by/used in investing or financing activities	–1,517	7,298
Change in investment book value (not affecting cash flow)	–261	–293
Amount of other non-cash income and expenses	–2,389	732
Net cash from operating activities	**11,332**	**17,433**
Cash flow from investing activities		
Payments received on disposal of tangible fixed assets	15	0
Investments in tangible fixed assets and other intangible assets	–3,138	–2,415
Investment property	–6,369	0
Payments to acquire remaining shares of initperdis GmbH	0	–1,915
Inflows from associated companies and loans receivable	68	425
Investments in precious metals	0	–937
Investments in marketable securities as part of short-term cash management	0	–82
Net cash flows used in investing activities	**–9,424**	**–4,924**
Cash flow from financing activities		
Dividend paid out	–7,976	–5,990
Cash payments for the purchase of treasury stock	–32	–973
Payments received from bank loans incurred	3,010	0
Redemption of bank loans	–61	–471
Net cash flows used in financing activities	**–5,059**	**–7,434**
Net effects of currency translation and consolidation changes in cash and cash equivalents	–44	69
Increase/reduction in cash and cash equivalents	**–3,195**	**5,144**
Cash and cash equivalents at the beginning of the period	23,524	18,380
Cash and cash equivalents at the end of the period	**20,329**	23,524

Additional information regarding the cash flow statement can be found in Note 35.

Notes 2012

init innovation in traffic systems AG, Karlsruhe (IFRS)

76 General Disclosure
79 Divisions and basic structure of the Company
79 Business combinations
82 Formal statement
82 Principles of accounting and valuation

89 Notes on the Consolidated Income Statement
89 Revenues
89 Cost of revenues
90 Research and development costs
90 Other operating income
90 Foreign currency gains and losses
90 Other income and expenses
90 Income tax
91 Net earnings and losses from financial instruments
92 Net profit per share
92 Paid and proposed dividends
92 Personnel expenses

93 Notes on the Consolidated Balance Sheet
93 Cash and cash equivalents
93 Securities and bond issues
93 Trade accounts receivable
95 Inventories
95 Other current assets
96 Tangible fixed assets
97 Investment property
98 Intangible assets
100 Interests in associated companies
101 Deferred taxes
102 Other non-current assets
102 Liabilities
103 Other liabilities (long-term and short-term)
104 Provisions
104 Pensions accrued and similar obligations
106 Shareholders' equity
108 Objectives and methods of financial risk management
111 Explanatory notes on the financial instruments
113 Contingencies and other liabilities

115 Other Disclosures
115 Additional notes on the Cash Flow Statement
115 Related party transactions
116 Segment reporting
119 Share-based remuneration
120 Events after the balance-sheet date
120 Employees, Managing Board and Supervisory Board
121 Particulars of board member salaries
122 Auditing firm
122 Declaration of compliance with the German Corporate Governance Code
122 Notifications under Section 26 (1) of the German Securities Trading Act (WpHG)
122 Approval of consolidated financial statements

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General Disclosure

init innovation in traffic systems Aktiengesellschaft, Kaeppelestraße 4–6, Karlsruhe, Germany ("init AG") was established on 18 August 2000 as the holding company of the init group. It is entered in the Commercial Register of the Mannheim District Court (Germany) under HRB 109120. Since the beginning of the 1980s, its operating business has been conducted by "INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH", Karlsruhe ("INIT GmbH").

The consolidated financial statements are always prepared using the acquisition cost concept, except for derivative financial instruments and financial investments available for sale, which are valued at their current market price. The consolidated financial statements were prepared in Euro. Unless otherwise indicated, all figures are rounded to a full thousand (EUR k).

The 2012 consolidated financial statements and the comparative prior-year figures were prepared in compliance with the International Financial Reporting Standards (IFRS). The consolidated financial statements of init AG and its subsidiaries are consistent with the IFRS applicable in the EU.

In principle, the accounting practices and valuation methods applied are consistent with the methods applied in the previous year with the following exceptions. IFRS applied and/or revised as on 1 January 2012 which are relevant to init:

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

The amendment determines extensive new qualitative and quantitative disclosures on transferred financial assets that were not eliminated and on the commitment that continues to exist for transferred financial assets on the reporting date. The standard applies for the first time to financial years commencing after 1 July 2011.

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 2012 financial year. The group did not opt for an early application of these standards and interpretations.

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

The amendments to IAS 32 and IFRS 7 were published in December 2011 and apply for the first time to financial years commencing on or after 1 January 2014 and 1 January 2013, respectively. The amendments address inconsistencies in the application of the offsetting requirements by adding application guidance. The existing basic requirements related to offsetting financial instruments, however, are retained. The amendment also clarifies supplemental information. No significant effects on the init group are expected from this standard.

IFRS 10 Consolidated Financial Statements

IFRS 10 was published in May 2011 and applies for the first time to financial years commencing on or after 1 January 2014. The new standard replaces the previous accounting regulations of IAS 27 Consolidated and Separate Financial Statements and the interpretation SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a uniform control concept which applies to all companies including special purpose entities. In June 2012 the revised transitional guidelines for IFRS 10 through 12 were also published to simplify the first-time application of the new standards. No significant effects on the init group are expected from this standard.

IFRS 11 Joint Arrangements

IFRS 11 was published in May 2011 and applies for the first time to financial years commencing on or after 1 January 2014. The standard replaces IAS 31 Interests in Joint Ventures and the interpretation SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 rescinds the option to apply proportionate consolidation for joint ventures. In future, these companies will be included solely at equity in the consolidated financial statements. No significant effects on the init group are expected from this standard.

IFRS 12 Disclosure of Interest in Other Entities

IFRS 12 was published in May 2011 and applies for the first time to financial years commencing on or after 1 January 2014. The standard sets out uniform disclosure requirements for the relevant section of the consolidated financial statements and consolidates the disclosures for subsidiaries previously set out in IAS 27, the disclosures for joint arrangements and associates previously set out in IAS 31 and IAS 28, respectively, and those for structured entities. No significant effects on the group's assets, liabilities, financial position and earnings situation are expected from this standard.

IFRS 13 Fair Value Measurement

IFRS 13 was published in May 2011 and applies for the first time to financial years commencing on or after 1 January 2013. The standard stipulates the guidelines for fair value measurements and defines comprehensive quantitative and qualitative disclosures for evaluating the fair value. It does not specify the point at which assets and liabilities must or can be measured at fair value. IFRS 13 defines the fair value as the price a party would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants on the valuation date. No significant effects on the init group are expected from this standard.

Amendment to IAS 1 – Presentation of Components of Other Comprehensive Income

The amendment to IAS 1 was published in June 2011 and applies for the first time to financial years commencing on or after 1 July 2012. The amendment to IAS 1 relates to the presentation of components of other comprehensive income. Components that are expected to be reclassified to profit or loss in future ("recycling") are listed separately from those which will remain in equity. No significant effects on the group's assets, liabilities, financial position and earnings situation are expected.

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

The amendment to IAS 12 was published in December 2010 and applies for the first time to financial years commencing on or after 1 January 2013. The amendment to IAS 12 aims to simplify the accounting. It (refutably) assumes that the book value realised in full by its sale is always decisive for the measurement of deferred tax relating to investment property reported at the fair value. There should always be the presumption of sale with regard to non-depreciable property, plant and equipment measured using the revaluation model. No significant effects on the init group are expected from this standard.

IAS 19 Employee Benefits (revised 2011)

The revised IAS 19 was published in June 2011 and applies for the first time to financial years commencing on or after 1 January 2013. The revisions made range from basic amendments, such as those concerning the determination of the expected return on plan assets and the removal of the corridor approach, which served to spread or smooth the volatility resulting from pension commitments over time, all the way to mere clarifications and rephrased sections. No significant effects on the init group are expected from this standard.

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

The revised IAS 28 was published in May 2011 and applies for the first time to financial years commencing on or after 1 January 2014. The adoption of IFRS 11 and IFRS 12 extended the scope of IAS 28 from associates to investments in joint ventures as well in terms of the application of the equity method. No significant effects on the group's assets, liabilities, financial position and earnings situation are expected.

EU endorsement outstanding:

The IASB has published the following list of standards and interpretations whose application was not yet mandatory during the 2012 financial year. These standards and interpretations have not yet been recognised by the EU and were not applied by the group.

Standard	Title	Publication by IASB
IFRS 9	Financial instruments: classification and measurement	2009 and 2010
Amendments to IFRS 7 and IFRS 9	Disclosures: mandatory effective date and transitional provisions	December 2011
Amendment to IFRS 10, IFRS 11 and IFRS 12	Transitional provisions	June 2012
Amendment to IFRS 10, IFRS 12 and IAS 27	Investment companies	October 2012
Improvements to IFRS (2009–2011)		May 2012

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

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.

1. Divisions and basic structure of the Company

The init group is an internationally operating system supplier of transportation telematics (telecommunications and information technology, globally also called Intelligent Transportation Systems – ITS). The business operations are subdivided into the divisions "Telematics and Electronic Fare Collection Systems" and "Other".

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

2. Business combinations

Consolidated Group

Name	Registered seat	**Share 2012**	Share 2011
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH ("INIT GmbH")	Karlsruhe	100%	100%
INIT Innovations in Transportation Inc. ("INIT Inc.")	Chesapeake/Virginia, USA	100%	100%
INIT Innovations in Transportation (Eastern Canada) Inc./INIT Innovations en Transport (Canada Est) Inc. ("Eastern Canada Inc.")	Montreal, Canada	100%	100%
INIT Innovations in Transportation (Western Canada) Inc. ("Western Canada Inc.")	Vancouver, Canada	100%	100%
INIT PTY LTD ("INIT PTY")	Brisbane/Queensland, Australia	100%	100%
Init Innovation in Traffic Systems FZE ("Init FZE")	Dubai, United Arab Emirates	100%	100%
initplan GmbH ("initplan")	Karlsruhe	100%	100%
INIT Innovations in Transportation Oy ("INIT Oy")	Helsinki, Finland	100%	100%
INIT Innovations in Transportation Limited ("INIT Ltd")	Nottingham, Great Britain	100%	100%
INIT Swiss AG ("INIT Swiss")	Neuhausen, Switzerland	100%	100%
initperdis GmbH ("initperdis")	Hamburg	100%	100%
INIT Asia-Pacific Pte. Ltd. ("INIT Pte.")	Singapore	100%	-
CarMedialab GmbH ("CML")	Bruchsal	58.1%	58.1%
CarMedialab Corp. ("CML Corp.")	Marina del Rey, California, USA	58.1% through CML	58.1% through CML
TQA Total Quality Assembly LLC ("TQA")	Chesapeake/Virginia, USA	60% through INIT Inc.	60% through INIT Inc.
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake/Virginia, USA	85.7% through INIT Inc.	85.7% through INIT Inc.

Associated companies

Up until 29 December 2011, init AG held 44 per cent of the shares of initperdis (formerly id systeme GmbH). Under a purchase contract dated 29 December 2011, the share was increased to 100 per cent. In 2011, the balance sheet of this company was fully consolidated and the result included at equity.

INIT GmbH holds 43 per cent of the shares in iris-GmbH infrared & intelligent sensors ("iris"), Berlin. The associated company is included at equity in the consolidated financial statement.

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

Company formations in 2012

INIT Asia-Pacific Pte. Ltd. in Singapore was established on 29 September 2012 to handle the sales and project activities of the init group in the Asia-Pacific region. The acquisition costs amounted to EUR 126k (SGD 200k). init AG holds 100 per cent of the shares.

Company formations in 2011

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

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

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

Business combinations in 2012

There were no business combinations within the meaning of IFRS 3 in 2012.

Business combinations in 2011

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

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

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

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

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

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

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

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

The book amount (at equity) of the previous 44 per cent share at the time of acquisition amounted to EUR 463k (including prorated result in 2011). In connection with the acquisition of the additional shares, the fair value of the previous share was redetermined. The revalued 44 per cent share amounted to EUR 1,955k. The profit of EUR 1,492k resulting from the revaluation was recognised as income under "Appreciation of initperdis GmbH" in the consolidated income statement.

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

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

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

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

3. Formal statement

For the sake of clarity of the statement, individual items in the balance sheet and the consolidated income statement have been combined; these are shown and explained separately in the notes. The consolidated income statement was prepared on the basis of the cost-of-sales format.

4. Principles of accounting and valuation

Consolidation principles

The annual financial statements of the fully consolidated companies are prepared according to the standard accounting and valuation principles of the group in line with the IFRS on the same 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 minority interests. Intangible assets are reported separately from the goodwill if they are separable from the company or result from a contractual or other right. All positive differences (goodwill) arising from the initial consolidation are capitalised and subjected to an impairment test in line with IFRS 3 "Business Combinations"/IAS 36 "Impairment of Assets". Negative differences are recognised in the profit and loss immediately after the acquisition. In case of de-consolidations, the remaining book values of the positive differences are taken into account proportionally when calculating the disposal result. The valuation using the equity method is based on the same principles, with goodwill being reported in the investments.

Both the receivables and payables, and the expenses and income between consolidated companies are offset against each other. Assets from intragroup services are adjusted by intermediate results. Deferred taxes are valued such as to reflect temporary valuation differences from consolidation processes.

Conversion of foreign currency

The financial statements of the subsidiaries of the company are prepared in their functional currency according to IAS 21 "The Effects of Changes in Foreign Exchange Rates". The functional currency of INIT Inc., TQA, Eastern Canada Inc., Western Canada Inc., INIT PTY, Init FZE, INIT Ltd, SQM, INIT Swiss, CML Corp. and INIT Pte. 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 23 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 30 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.

According to IAS 38, software generated internally must be capitalised in certain cases. This was not the situation in 2012. The residual value of capitalised software amounting to EUR 175k was amortised according to schedule in 2012.

This brought the book value of the capitalised development costs to EUR 0k on 31 December 2012 (2011: EUR 175k).

The amortisation period is three years.

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

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

Realisation of income

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

Income from system contracts 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.

Advertising costs

Advertising costs are entered as expenses incurred.

Cash and cash equivalents

The cash and cash equivalents comprise short-term, highly liquid funds with original maturities of less than three months from the date of acquisition.

Financial investments and other financial assets

Financial assets as defined by IAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial assets reported at their 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

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.

Loans and trade accounts receivable

Loans and trade accounts receivable are non-derivative financial assets with fixed or estimable payments not listed in an active market. After initial inclusion, the loans and receivables are reported at the net book value less impairment. Profits and losses are entered in the operating result related to the accounting period if the loans and receivables are charged off or impaired, and within the scope of amortisations. The receivables from the percentage-of-completion method correspond to the balance of costs incurred plus the profits of projects not invoiced and advance payment invoices issued.

Derivative financial instruments and hedge accounting

The group uses derivative financial instruments such as forward exchange contracts, currency options and swap transactions to hedge against currency risks. These derivative financial instruments are reported at their 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. Low-value assets are written off immediately or depreciated over a period of between three and five years. The depreciation of fixed assets is included in the consolidated income statement under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

The average useful lives are as follows:

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

Investment property

In addition, the purchase of real estate at Kaeppelestraße 8/8a and 10, effective on 19 September 2012, triggered the application of the provisions of IAS 40 for the first time. 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 normally 50 years, and is reported under “Other operating expenses”.

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

In accordance with IAS 38 “Intangible Assets”, the company capitalises software development costs that accrue once it has been proven that the software is intended for own use or for sale and generates future economic benefit, that the resources required for completion of the asset are available, that the costs attributable to the development can be determined reliably, and the software has become technically feasible. Based on the product development process, software is deemed technically feasible upon completion of the detailed program and product design. Prior to this, the corresponding costs are recorded as periodic expenses. Once technical feasibility has been achieved, the corresponding costs are capitalised until the software is marketed and offered for sale. No software was capitalised in 2012 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 and is included under "Cost of revenues". Furthermore, capitalised software development costs are checked for impairment of value if events or changes have occurred which suggest that the net book value of an asset could have 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.

Public subsidies and European Union subsidies

Public subsidies and subsidies from the European Union (grants received for two research projects) are recorded if it has been established with reasonable certainty that the subsidies will be granted and the company meets the relevant requirements. The expense-related subsidies are recorded as income as planned over the period required to offset them against the appropriate expenses which they are to compensate.

Impairment of assets

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

Deferred tax assets and deferred tax liabilities

The company determines its deferred income taxes using the balance sheet-oriented approach. Accordingly, deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 "Income Taxes" to account for the tax consequences of differences between the balance sheet valuations of the assets and liabilities and the corresponding tax assessment bases, and tax losses carried forward. The deferred tax assets and deferred tax liabilities are calculated on the basis of the prevailing tax rates for the taxable profit in the year in which the differences are expected to be 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.

Other provisions

The other provisions are taken into account where a past event has led to a current liability, their utilisation is more likely than unlikely, and the amount of the liability can be estimated reliably. Provisions are valued at their settlement amount and not balanced with positive profit contributions. Provisions are only set up for legal or factual liabilities vis-à-vis third parties. Long-term provisions are discounted.

Notes on the Consolidated Income Statement

5. Revenues

The revenues are composed of the following amounts:

EUR '000	**2012**	2011
Revenues resulting from the application of the Percentage-of-Completion-method	78,046	74,420
Revenues from maintenance contracts	10,440	8,545
Revenues from additional and replacement deliveries	8,811	5,771
Total	**97,297**	**88,736**

6. Cost of revenues

The costs of revenues are composed as follows:

EUR '000	**2012**	2011
Cost of materials and purchased services	35,645	30,552
Personnel expenses	16,924	15,533
Depreciation	1,844	1,912
Valuation adjustments on inventories	173	–222
Other	8,705	4,667
Total	**63,291**	**52,442**

The increase in other costs is mainly the result of a rise in travel costs and office rental costs. In addition, the reversal of the provision for risks related to Dubai in the previous year had a counter-effect.

7. Research and development costs

EUR '000	2012	2011
Software development	3,001	1,961
Hardware development and research expenses	837	755
Total	**3,838**	**2,716**

8. Other operating income

The other operating income primarily includes EUR 578k (2011: EUR 766k) from allocated benefits in kind, compensatory payments made by insurance companies, and rent. Also included are EUR 68k (2011: EUR 715k) from the reversal of provisions, along with EUR 104k (2011: EUR 157k) from public subsidies and subsidies from the European Union. The income from operating leases for the investment properties at Käppelestraße 8/8a and 10 amounted to EUR 74k in 2012 (2011: EUR 0k).

9. Foreign currency gains and losses

EUR '000	2012	2011
Balance of unrealised currency gains and losses	1,281	–1,041
Balance of realised currency gains and losses	159	–41
Currency gains/losses from consolidation transactions	582	302
Total	**2,022**	**–780**

10. Other income and expenses

The other income and expenses consist of writedowns of marketable securities and bond issues totalling EUR 8k (2011: EUR 214k) due to the assumption of a permanent impairment.

11. Income tax

EUR '000	2012	2011
Current income tax	6,136	7,498
Deferred income tax	145	–2,052
Total	**6,281**	**5,446**

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

EUR '000	2012	2011
Profit before income tax	17,153	20,503
Theoretical income tax expenditure at 30.0%	5,146	6,151
Tax rate differences for foreign subsidiaries	204	–276
Tax effect of non-deductible/taxed expenses/income	64	110
Tax effects of tax-free increases in net worth	0	6
Taxes unrelated to accounting period	705	–222
Tax effects from results of associated companies	–78	–536
Other	240	213
Effective income tax expenditure	**6,281**	**5,446**
Effective tax expenditure in %	36.6	26.6

Due to the taxes unrelated to the accounting period reported based on a company audit, the overall tax ratio was notably higher than the prior year figure. In the previous year, due to the tax-neutral appreciation for initperdis GmbH and the reduction in the provision for risks relating to Dubai, the overall tax ratio of around 26.6 per cent was notably lower.

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	2012	2011
Changes to deferred tax assets	–777	–683
Changes to deferred tax liabilities	388	–368
Settled and recognised in equity	491	–1,001
Currency adjustments	43	0
Deferred tax expense/income	**145**	**–2,052**

The effects recognised in equity in 2012 refer to the reported actuarial losses from defined benefit pension commitments. In the prior year, this item referred to the first-time consolidation of initperdis GmbH.

12. Net earnings and losses from financial instruments

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

EUR '000	2012	2011
Loans and receivables	993	316
Financial assets available for sale	–8	–214
Financial liabilities recognised at cost	12	12
Financial assets and liabilities reported at fair value through profit or loss	434	–1,423
Total	**1,431**	**–1,309**

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.

13. Net profit per share

The net profit per share is calculated by dividing the consolidated annual net profit due to the shareholders of the parent company by the weighted number of shares issued (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.

	2012	2011
Net profit (shareholders of the parent company) in EUR '000	11,104	15,015
Weighted average number of shares issued	9,964,773	9,964,095
Undiluted net profit per share in EUR	1.11	1.51

14. Paid and proposed dividends

EUR '000	2012	2011
Ordinary dividends declared and paid during the financial year	7,976	5,990
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2012: 80 cents per share (2011: 80 cents per share)	7,988	7,951

15. Personnel expenses

The personnel expenses totalled EUR 30,414k (2011: EUR 26,773k).

Notes on the Consolidated Balance Sheet

16. Cash and cash equivalents

EUR '000	Fair values 2012	Fair values 2011
Deposits with credit institutions (current accounts)	14,703	14,917
Short-term deposits (fixed-term deposits/call money)	5,626	8,607
Total	**20,329**	**23,524**

17. Securities and bond issues

This item refers to shares and bond issues with a total fair value of EUR 157k (2011: EUR 154k). Due to the assumption of a permanent impairment, the fair value (market value on the reporting date) of the shares and bond issues was reduced by EUR 8k (2011: EUR 214k), and this impairment was recognised as an expense. The fair value of the Greek bonds amounted to EUR 27k at the reporting date (2011: EUR 25k). There was no sale of securities in the year under review and in the previous year.

18. Trade accounts receivable

EUR '000	2012	2011
Trade accounts receivable, gross	18,829	29,193
Less cumulative value adjustments	–761	–176
Subtotal	18,068	29,017
Future receivables from production orders	25,893	20,590
Total	**43,961**	**49,607**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2012	2011
As of 1 January	176	76
Transfer to expenditure	755	126
Drawdown	–66	0
Release	–103	–27
Currency effects	–1	1
As of 31 December	**761**	**176**

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

EUR '000	2012	2011
Book value	43,961	49,607
Adjusted accounts receivable (gross amount)	2,165	413
Neither delinquent nor impaired	37,664	43,201
Delinquent but not value-impaired		
< 30 days	694	2,978
30 – 60 days	829	643
60 – 90 days	1,125	304
90 – 180 days	962	228
> 180 days	1,283	2,016

The delinquent accounts receivable amount to EUR 7.1m (2011: EUR 6.2m), whereby the projects in Dubai account for EUR 5.3m of this (2011: EUR 3.8m). The EUR 5.3m include around EUR 3m from the previous year. Of the delinquent accounts receivable in Dubai, around EUR 0.6m was written down. The general contractor for the first Dubai project did not pass payments from the end customer worth EUR 2m on to us. init will go to court to recover the receivables. The risk of non-recovery has been calculated in.

To take into consideration payment delays that have either already occurred or are expected, a deduction of EUR 0.2m (2011: EUR 0.5m) was set as risk precaution for the measurement.

With the accounts receivable that result from the use of the Percentage-of-Completion-method (shown together with the trade accounts receivable), value-impairing factors are continuously being considered in the context of the concurrently running project calculations. In addition, 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	2012	2011
Costs accrued plus profits from projects not yet invoiced	96,425	65,552
Less payments received	–76,531	–53,901
Balance	**19,894**	**11,651**
Of which: future receivables from production orders	25,893	20,590
Of which: liabilities from percentage of completion (see Liabilities)	5,999	8,939

19. Inventories

EUR '000	2012	2011
Raw materials and supplies	1,266	616
Goods (reported at net sales price)	10,362	10,653
Work in process (reported at production cost)	927	930
Advance payments received	–344	–869
Deposits paid	2,810	3,520
Total	**15,021**	**14,850**

A total of EUR 173k for inventory depreciation was recorded (2011: appreciation of EUR 222k). This amount is included in the “Cost of revenues”.

20. Other current assets

EUR '000	2012	2011
Derivative financial instruments	810	69
Accruals	1,071	440
Tax refund claims	943	626
Due from personnel	84	122
Other	450	453
Total	**3,358**	**1,710**

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

21. Tangible fixed assets

EUR '000	Land and buildings	Plant and machinery	Factory and office equipment	Facilities under construction
Acquisition and production costs				
As of 1 January 2012	4,093	437	8,472	0
Additions in current financial year	613	371	1,395	361
Disposals in current financial year	124	22	1,707	0
Currency differences	–16	–9	–15	0
As of 31 December 2012	4,566	777	8,145	361
Depreciation				
As of 1 January 2012	687	258	6,132	0
Additions in current financial year	188	61	1,224	0
Disposals in current financial year	124	21	1,691	0
Currency differences	–4	–5	–12	0
As of 31 December 2012	747	293	5,653	0
Book value as of 31/12/2012	**3,819**	**484**	**2,492**	**361**

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

The tangible fixed assets essentially concern the administration building at Käppelestr. 4, two residential buildings, office equipment and technical installations. The depreciation follows the straight-line method over the average useful life of the asset. The scheduled depreciation in 2012 totalled EUR 1,473k (2011: EUR 1,231k) 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 361k for a new building planned. No depreciation on the facilities under construction was reported in 2012. There are not currently any restrictions on the right of disposal, nor has any tangible fixed asset been pledged as collateral for liabilities. As of the end of the year, the contractual commitments for the building plans totalled EUR 173k.

22. Investment property

EUR '000	2012	2011
As of 1 January	0	0
Additions	6,369	0
Depreciation	29	0
As of 31 December	**6,340**	**0**

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

EUR '000	2012	2011
Rental income from investment property	74	0
Operating expenditure*, used to generate rental income	29	0
Operating expenditure*, not used to generate rental income	0	0

*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 newly acquired adjacent plots of land at Käppelestr. 8, 8a and 10. The investment property is valued at depreciated cost plus incidental costs and recognised on the balance sheet at a book value of EUR 6.3m.

The buildings are depreciated over their useful life of 50 years using straight-line depreciation. The fair value of EUR 6.3m is the same as the book value, as the purchase price was not calculated until the second half of 2012, when it was supported by the opinion of an independent expert in the field. The independent assessment of the property value was made using the income capitalisation method.

Rental income was generated from the properties over the last three months, totalling EUR 74k (2011: EUR 0k).

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 2012 other than scheduled depreciation (2011: EUR 0k).

23. Intangible assets

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As of 1 January 2012	4,388	9,582	6,799
Additions in current financial year	0	0	398
Disposals in current financial year	0	0	1,395
Currency differences	0	–10	–2
As of 31 December 2012	4,388	9,572	5,800
Depreciation			
As of 1 January 2012	0	9,407	2,715
Additions in current financial year	0	175	900
Disposals in current financial year	0	0	1,387
Currency differences	0	–10	–2
As of 31 December 2012	0	9,572	2,226
Book value as of 31/12/2012	**4,388**	**0**	**3,574**

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

Impairment test of goodwill

To check for impairment of value, the goodwill acquired within the scope of mergers was allocated to the following two cash-generating units as segments subject to reporting requirements:

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

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

EUR '000	2012	2011
Telematics and Electronic Fare Collection Systems	1,877	1,877
Other	2,511	2,511
Total	**4,388**	**4,388**

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

The recoverable amount of the above cash-generating units is determined on the basis of the calculation of the economic benefit of use using cash flow projections based on budgetary accounting approved by the Managing Board for a period of four years. Steady cash flows were shown for the following period. The interest rate applied for the discounting is 8.5 per cent before taxes (2011: 9.6 per cent).

The following assumptions taken as a basis for the calculation of the economic benefit of use of the two units "Telematics and Electronic Fare Collection Systems" and "Other" involve forecast uncertainties:

- Revenues
- Gross profit
- Discount rate

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

Gross profit: The gross profit is determined using the average values of the three financial years prior to the planning period. For the "Telematics and Electronic Fare Collection Systems" cash-generating unit, the factor applied was 29.1 per cent (2011: 29.8 per cent) and for "Other" it was 40.8 per cent (2011: 37.5 per cent).

Discount rate: The discount rate reflects the estimate of the company management in regard to the risks relating to the two cash-generating units. A uniform interest rate of 5.95 per cent (2011: 6.7 per cent) after taxes was applied to both cash-generating units. Cash flows arising after the period of four years are determined using a growth discount of 1.0 per cent (2011: 1.0 per cent).

Sensitivity of the assumptions made:

The company management does not believe that any rational change in regard to the basic assumptions made to determine the economic benefit of use of the cash-generating units could lead to a higher book value of the cash-generating units than their recoverable amount.

Other intangible assets

Internally generated software:

The internally generated software was completely amortised in 2012. The scheduled amortisation totalled EUR 175k (2011: EUR 1,046k) in the current financial year and is included in the consolidated income statement under "Cost of revenues".

The main components of the software development costs capitalised in compliance with IAS 38 "Intangible Assets" were the costs included in the balance sheet in the previous year to the amount of EUR 175k for the product MOBILEvario Level II.

Licences:
The other intangible assets further include external software costs such as licences, consulting and programming to the amount of EUR 3,574k (2011: EUR 4,084k). The increase in the previous year mainly resulted from the purchase price allocation of initperdis to the amount of EUR 3,267k. The scheduled amortisation of the capitalised amounts in 2012 totalled EUR 900k (2011: EUR 184k) and is included in the consolidated income statement under "Cost of revenues", "Sales and marketing expenses" and "General administrative expenses".

24. Interests in associated companies

The associated companies are not publicly listed. The remaining shares in initperdis GmbH were acquired under the purchase contract of 29 December 2011 to the effect that from the same date init AG has held 100 per cent of the shares. Since 44 per cent of the revenues of initperdis GmbH are reported at equity, the company is only listed for 2011 in the following table. In the 2012 financial year, initperdis is fully consolidated.

The following table contains summarised financial information on the associated companies:

EUR '000		Balance sheet total 31/12	Equity 31/12	Total liabilities 31/12	Revenues	Profit
iris	**2012**	7,232	4,408	2,824	8,888	608
	2011	6,218	3,800	2,418	7,324	492
initperdis	2011	1,295	284	1,011	2,552	184
Totals	**2012**	7,232	4,408	2,824	8,888	608
	2011	7,513	4,084	3,429	9,876	676

The totals for 2012 only include the financial figures for iris.

There was no writedown of the interests in associated companies.

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

The business of iris is the development, production and sale of sensors, and sensor and information processing systems. In 2012, the pro-rata result from this equity consolidation amounted to EUR 261k (2011: EUR 212k). No distribution was made in the 2012 financial year (2011: EUR 129k).

The business of initperdis is the production, further development and maintenance of EDP programs, the sale of its own and third-party EDP programs, and the provision of accompanying services. The goodwill included in the purchase price amounted to EUR 2,307k. The result (44 per cent) from the equity consolidation in 2011 totalled EUR 82k. A distribution of EUR 297k was made in 2011.

25. Deferred taxes

The deferred tax assets and liabilities are as follows:

EUR '000	Consolidated balance sheet 31/12/2012	31/12/2011
Deferred tax assets		
Inventories	360	124
Other assets	43	21
Other intangible assets	4	12
Provisions	805	966
Other liabilities	48	0
Pensions accrued and similar obligations	710	141*
Loss carried forward	0	49
Other	152	32
Total deferred tax assets	**2,122**	**1,345**
Deferred tax liabilities		
Receivables	2,738	2,375
Other assets	290	11
Tangible fixed assets	167	139
Goodwill	39	4
Other intangible assets	845	1,109*
Other liabilities	8	61
Total deferred tax liabilities	**4,087**	**3,699**

*The previous year's amount included deferred taxes from the takeover of initperdis.

No deferred tax assets were accrued in 2012 for previously unused tax losses carried forward (2011: EUR 49k). On 31 December 2012, the unused corporate tax loss carried forward was EUR 641k (2011: EUR 165k).

On 31 December 2012, there were no deferred tax liabilities on retained earnings of subsidiaries on the grounds that appropriate distributions are not planned for the foreseeable future. If such distributions were made, the tax burden would be insignificant for the group. At the same time, the first-time inclusion of initperdis in the consolidated financial statements in 2011 increased the amounts by EUR 1,492k due to appreciation of the previous shares. The temporary differences in connection with shares in subsidiaries totalled EUR 18.8m (2011: EUR 13.4m).

26. Other non-current assets

EUR '000	2012	2011
Asset value of pension liability insurance	888	952
Security deposits	162	155
Loans	22	25
Gold stock	1,021	973
Other	51	98
Total	**2,144**	**2,203**

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

27. Liabilities

	31/12/2012			31/12/2011		
	Remaining term			Remaining term		
EUR '000	**Total**	< 1 year	> 5 years	**Total**	< 1 year	> 5 years
Bank loans	4,008	240	2,855	1,059	71	704
Trade accounts payable	5,183	5,183	0	7,582	7,582	0
Accounts payable from percentage of completion	5,999	5,999	0	8,939	8,939	0
Accounts payable to related parties	102	102	0	280	280	0
Advance payments received	1,545	1,545	0	664	664	0
Income tax liabilities	3,964	3,964	0	6,723	6,723	0
Other liabilities	12,003	10,915	0	10,583	9,212	0

Terms relating to the above financial liabilities:

The bank loans of EUR 4,008k (2011: EUR 1,059k) relate to long-term loans of EUR 3,768k (2011: EUR 988k) for financing the buildings at Käppelestr. 4, 8/8a and 10, Karlsruhe, which are fully secured by a land charge and the resultant short-term share of EUR 230k (2011: EUR 71k). They also include an overdraft facility amounting to EUR 10k (2011: EUR 0k).

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	**2012**	63,527	2,320	48,000	13,207
Credit insurance companies	**2012**	17,000	0	17,000	0
Bond line for USA and Canada	**2012**	56,738	0	0	0
Banks	2011	63,694	2,594	48,000	13,100
Credit insurance companies	2011	17,000	0	17,000	0
Bond line for USA	2011	57,915	0	0	0

The credit and guarantee lines are sufficient to finance the further growth of the company. On 31 December 2012, the cash line drawdown totalled EUR 0k (2011: EUR 0k), the guarantee lines EUR 39,119k (2011: EUR 33,646k), and the bond line EUR 35,468k (2011: EUR 17,359k). The increased bond line drawdown is the result of the Montréal order.

No interest is charged on the trade accounts payable.

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

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

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

	31/12/2012			31/12/2011		
	Remaining term			Remaining term		
EUR '000	**Total**	< 1 year	> 5 years	**Total**	< 1 year	> 5 years
Tax liabilities	1,296	1,296	0	2,240	2,240	0
Due to personnel	5,242	5,242	0	4,687	4,687	0
Derivative financial instruments	218	218	0	690	690	0
Social security liabilities	132	132	0	75	75	0
Remaining work	2,448	2,448	0	22	22	0
Others	2,667	1,579	0	2,869	1,498	0
Total	**12,003**	**10,915**	**0**	**10,583**	**9,212**	**0**

29. Provisions

EUR '000	As of 1/1/2012	Usage	Release	Transfer	As of 31/12/2012
Provisions for warranties	2,591	3	117	993	3,464
Provisions for insufficient production costs	4,527	2,859	1,193	4,028	4,503
Provisions for anticipated losses related to projects	1,104	1,104	0	310	310
Other provisions	1,313	62	132	524	1,643
Total	**9,535**	**4,028**	**1,442**	**5,855**	**9,920**

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.

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

30. Pensions accrued and similar obligations

In compliance with IAS 19, pension liabilities are calculated using the projected unit credit method. These pension commitments grant employees an old-age pension after attaining the age that entitles them to a pension under the statutory annuity insurance, the earliest legal age for retirement being 63.

The following parameters were taken into consideration:

	init AG, INIT GmbH, initplan	initperdis
Actuarial interest rate in per cent (2011)	3.00 (5.14)	3.00 (5.14)
Retirement age (2011)	63 years; Dr. Gottfried Greschner 65 years (63 years; Dr. Gottfried Greschner 65 years)	65 years (65 years)
Pension adjustments in per cent (2011)	4; 3 Dr. Gottfried Greschner (4; 3 Dr. Gottfried Greschner)	1.5 (1.5)
Salary increases in per cent	not relevant	not relevant
Fluctuation in per cent (2011)	2 (2)	0 (0)
Biometric bases	Klaus Heubeck's "Richttafeln G" (Actuarial Tables) of 2005	

The values of the commitments were calculated as on the individual 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	2012	2011
Pensions accrued at the beginning of the year under review (Defined Benefit Obligation – DBO)	4,315	2,914
Addition (DBO) from the acquisition of initperdis	0	470
Past service cost	0	569
Service cost	52	116
Interest cost	219	173
Actuarial gains (-)/losses (+)	1,924	83
Pension payments	–11	–10
Pensions accrued (DBO) at the end of the year under review	**6,499**	**4,315**
Plan assets	–615	–561
Pensions accrued	**5,884**	**3,754**

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

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

EUR '000	2012	2011
Service cost	52	116
Interest cost	219	173
Past service cost	0	569
Expenses for pension payments	**271**	**858**

In the consolidated income statement, the service cost is included in the cost of revenues (EUR 8k), the sales and marketing expenses (EUR 23k) and the administrative expenses (EUR 21k), and the interest paid is reported in the item of the same name.

EUR '000	31/12/2012	31/12/2011
Cumulated amount of the actuarial gains (-) and losses (+) included in the shareholders' equity, after deducting deferred taxes	1,662	229

EUR '000	2012	2011
Defined benefit obligation (DBO) 31/12	6,499	4,315
Adjustments to the liability based on experience	–17	–77

The pension accruals attributable to members of the Managing Board totalled EUR 3,269k (2011: EUR 2,324k).

EUR '000	2008	2009	2010	2011	2012
DBO	2,082	2,606	2,914	4,315	6,499

A 0.5 per cent change in the assumed actuarial interest rate would have the following implications:

EUR '000	Increase	Decrease
Implications for the defined benefit obligation (DBO)	(537)	610

Defined contribution plans

In the 2002 financial year, init changed its pension plan regulations for new commitments. Accordingly, the company will no longer make any new, direct commitments. Old-age pensions became “contribution-based”. The amount recorded as expenses for this purpose totalled EUR 311k (2011: EUR 228k), of which EUR 94k (2011: EUR 64k) are allocated to the members of the Managing Board.

31. Shareholders' equity

Subscribed capital

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

Floating shares:

	2012	2011
As of 1/1	9,938,463	9,945,814
Acquisition of treasury stock	–2,200	–60,000
Issue of stock to Managing Board, managing directors and key personnel	33,592	37,337
Issue of stock to employees	15,246	15,312
As of 31/12	**9,985,101**	**9,938,463**

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*	3,484,000	Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	0
Joachim Becker, COO	334,983	Hans-Joachim Rühlig	0
Wolfgang Degen, COO	59,870	Drs. Hans Rat (from 01/03/2012)	0
Dr. Jürgen Greschner, CSO	91,734	Fariborz Khavand (until 29/02/2012)	0
Bernhard Smolka, CFO	24,000		

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

Authorised capital

At the annual shareholders' meeting on 24 May 2011, a resolution 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 will be obliged to offer them to shareholders for subscription. However, with the approval of the Supervisory Board, the Managing Board is authorised to withdraw the preemptive right,

- so that up to 1,004,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price,
- to balance out peak amounts,
- to open up additional capital markets,
- to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind, and
- to turn up to 250,000 new shares into employee stocks.

Additional paid-in capital

The additional paid-in capital on 31 December 2012 amounted to EUR 5,579k, EUR 3,141k of which resulted from the premium of the shares sold at the time of the initial public offering. EUR 1,467k was transferred from 2005 to 2010 as part of the recognised expenses from the share-based remuneration (see item 38) and EUR 457k in 2012. Due to the sale of treasury stock in 2007, the additional paid-in capital increased by EUR 514k.

Treasury stock

The treasury stock as on 1 January 2012 totalled 101,537 shares. The resolution passed at the annual shareholders' meeting on 12 May 2010 authorised the company to purchase treasury stock. On 1 February 2012, a decision was made to repurchase up to 20,000 shares of treasury stock; between 2 February and 31 March 2012, 2,200 shares of treasury stock were repurchased at an average price of EUR 14.52. In 2011, the company acquired 60,000 shares at an average price of EUR 16.22. As part of an employee stock ownership plan, 15,246 shares were transferred to employees in the 2012 financial year. These shares are subject to a lock up period of two years. Within the scope of the incentive plan for members of the Managing Board, managing directors and key personnel in the first quarter of 2012, a total of 32,592 shares were transferred with a lock up period of five years. A further 1,000 shares were transferred to employees within the scope of a bonus agreement without a lock up period. On 31 December 2012, there were consequently 54,899 shares of treasury stock.

The company's treasury stock was valued at acquisition cost at EUR 650k (2011: EUR 1,196k) and openly deducted from the equity capital. The total of 54,899 shares as of 31 December 2012 corresponds to an imputed share of EUR 54,899 (0.55 per cent) of the capital stock. The shares were repurchased at an average price of EUR 11.84 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.

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.

32. Objectives and methods of financial risk management

The main financial instruments used by the company – with the exception of derivative financial instruments – include cash, securities and loans. The purpose of the securities 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 reported by init on 31 December 2012 had appreciated by 10 per cent, the operating result would have been EUR 482k higher. The resulting appreciation of forward exchange transactions would have totalled EUR 3,131k. As a counter-effect, it would also have resulted in expenses of EUR 2,649k owing to cash in banks, accounts receivable and liabilities. If, however, the value of the euro relative to all foreign currencies reported by init on 31 December 2012 had depreciated by 10 per cent, the operating result would have been EUR 1,228k less. This breaks down as follows: EUR 3,877k to forward exchange transactions, partially compensated for by appreciation of cash in banks, accounts receivable and liabilities at EUR 2,649k.

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

Risk of default

The group concludes transactions exclusively with recognised, creditworthy third parties. All customers requesting transactions with the group based on credit are subjected to a credit investigation. Furthermore, the receivables are monitored continuously, with the finding that the group is not exposed to any material risk of default. All recognisable risks of default are taken into account by way of value adjustments.

The other financial assets of the group, which comprise cash, financial assets available for sale and specific derivative financial instruments, involve a maximum risk of default to the amount of the book value of the respective instruments in case of default of the contracting party.

Since the group concludes transactions only with recognised, creditworthy third parties, it does not require collateral.

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 Käppelestr. 8/8a and 10 and to 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 2012, the financial liabilities of the group had the following maturities. The particulars are based on contractual, non-discounted payments plus agreed or anticipated interest expenses (cash flows).

EUR '000	Book value	2013	2014	2015 – 2017	> 2017
Non-derivative financial liabilities					
Other financial liabilities	11,873	7,458	436	1,375	3,168
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	218	218	0	0	0
Derivative financial assets	–810	–810	0	0	0
Total		**6,866**	**436**	**1,375**	**3,168**

The derivative financial liabilities resulted in payments made totalling EUR 8,397k and payments received totalling EUR 8,179k.

As of 31 December 2011, the future cash flows from the financial liabilities were as follows:

EUR '000	Book value	2012	2013	2014 – 2016	> 2016
Non-derivative financial liabilities					
Other financial liabilities	10,241	9,289	107	306	849
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	690	690	0	0	0
Derivative financial assets	–69	–69	0	0	0
Total		**9,910**	**107**	**306**	**849**

33. Explanatory notes on the financial instruments

Classification and fair values

The following table states the book values and fair values of the financial instruments of the group reported in the balance sheet on 31 December 2012 compared to 31 December 2011 and shows their classification in appropriate measurement categories according to IAS 39.

EUR '000	**2012**	2011
Assets		
Loans and receivables	**64,913**	74,722
Cash and cash equivalents	20,329	23,524
Trade accounts receivable	18,068	29,015
Future receivables from production orders	25,893	20,590
Accounts receivable from related parties	0	70
Other assets (current)	430	361
Other assets (non-current)	193	1,162
Financial assets available for sale	**157**	154
Marketable securities and bonds	157	154
Financial assets reported at fair value through profit or loss	**810**	69
Derivative financial assets without a hedging relationship	810	69
Liabilities		
Financial liabilities recognised at cost	**11,873**	10,241
Bank loans (current and non-current)	4,008	1,059
Trade accounts payable	5,183	7,582
Accounts payable due to related parties	102	280
Other liabilities (current)	1,868	960
Other liabilities (non-current)	712	360
Financial liabilities reported at fair value through profit or loss	**218**	690
Derivative financial liabilities without a hedging relationship	218	690

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

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

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

Level 2: Techniques in which all input parameters with a material impact on the calculated fair value are directly or indirectly observable.

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

EUR '000	**Fair value as of 31/12/2012**	Level 1	Level 2	Level 3
Financial assets reported at fair value through profit or loss				
Derivative financial assets without a hedging relationship	810		810	
Financial assets available for sale				
Marketable securities and bonds	157	157		
Financial liabilities reported at fair value through profit or loss				
Derivative financial liabilities without a hedging relationship	–218		–218	

EUR '000	**Fair value as of 31/12/2011**	Level 1	Level 2	Level 3
Financial assets reported at fair value through profit or loss				
Derivative financial assets without a hedging relationship	69		69	
Financial assets available for sale				
Marketable securities and bonds	154	154		
Financial liabilities reported at fair value through profit or loss				
Derivative financial liabilities without a hedging relationship	–690		–690	

In the reporting period ending 31 December 2012 and the reporting period ending 31 December 2011, there were no reclassifications between the fair value categories of Level 1 and Level 2 nor any reclassifications into or out of the fair value category of Level 3.

Risk of default

The group does not have any material risk of default concentrations with the exception of the receivables from Dubai, for which an appropriate provision for risks was set up. This is due, on the one hand, to the fact that over 90 per cent of the orders are publicly subsidised and, on the other, 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. The losses of receivables outstanding for the 2012 financial year totalled EUR 66k (2011: EUR 0k).

Hedging transactions

The derivative financial instruments used to hedge future cash flows relate exclusively to foreign exchange risks in regard to the expected monies received predominantly in Arabian dirham, US dollars and Canadian dollars from firm commitments. The following derivative financial instruments were concluded:

	Nominal value		Market values	
EUR '000	**31/12/2012**	31/12/2011	**31/12/2012**	31/12/2011
Forward exchange transactions	35,343	27,464	592	–621

34. 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 term to maturity on these non-terminable leases is five years at the end of 2012.

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

EUR '000	**2012**	2011
Up to one year	320	0
Longer than one year and up to five years	1,280	0
Total	**1,600**	**0**

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 1,584k, of which EUR 475k is attributable to the renting of the office building in Karlsruhe (the lease running until 2026). No obligations were imposed on the lessee upon conclusion of these leasing agreements. The future minimum payments under these agreements extend to the year 2026 and amount to:

EUR '000	31/12/2012	31/12/2011
< 1 year	1,791	1,836
1–5 years	3,432	4,217
> 5 years	4,508	4,601
Total	**9,731**	**10,654**

Contingent liabilities

As in the previous year, there were no contingent liabilities on 31 December 2012.

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

35. Additional notes on the Cash Flow Statement

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

EUR '000	2012	2011
Interest expenses	–291	–259
Interest income	272	305
Income tax payments	–5,856	–3,272
Income tax receipts	0	203

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

Inflows from dividend distributions amounted to EUR 0k (2011: EUR 425k). Outflows for dividends totalled EUR 7,976k (2011: EUR 5,990k).

36. Related party transactions

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

	Associated companies		Other related parties and persons	
EUR '000	2012	2011	2012	2011
Trade accounts receivable and other income	12	0	0	0
Trade accounts payable and other expenses	2,243	1,655	559	515
Receivables on 31 December	0	70	61	61
Payables on 31 December	108	280	0	0

Associated companies

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

The previous year's figure also included EUR 2k for the sale of goods and services to iris. These amounts are shown in the balance sheet under current assets.

The amounts due to related parties and persons relate to trade accounts payable and have a remaining maturity of less than one year. The amounts are attributable to iris at EUR 108k (2011: EUR 280k). These amounts are shown in the balance sheet under current liabilities.

Other related party transactions

INIT GmbH rents its office building in Karlsruhe from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG. The rounded monthly rent payments from 1 July 2011 amount to EUR 40k (EUR 475k annually). In the first six months of 2011, the rounded monthly rent payments amounted to EUR 30k (EUR 366k annually). The current rental price is contractually fixed until 30 June 2026. Furthermore, a rent deposit of EUR 61k was paid for the office building in Karlsruhe. Payments to the amount of EUR 84.4k (2011: EUR 93,9k) made to relatives of a member of the Managing Board were reported as personnel expenses.

Terms and conditions of business transactions with related parties and persons

Sales to, and purchases from, related parties and persons are made 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 2012 (2011: EUR 0k).

Remuneration of persons in key management positions

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

37. Segment reporting

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

1. The "Telematics and Electronic Fare Collection Systems" segment covers integrated systems for controlling local transport, fare collection systems, passenger information systems and passenger counting systems.
2. The category entitled "Other" encompasses planning systems (planning and data management systems), driver dispatch systems and automotive (analysis systems for the car industry). The personnel allocation systems unit was only included in the balance sheet items in 2011.

Based on the products and services offered by the segments and for the purpose of managing the corporation, the corporate group is subdivided into the following four divisions: "Telematics and Electronic Fare Collection Systems", "Planning Systems", "Driver Dispatch Systems" and "Automotive". The "Planning Systems", "Driver Dispatch Systems" and "Automotive" divisions have been subsumed under the segment entitled "Other".

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

1 January to 31 December 2012

EUR '000	Telematics and Electronic Fare Collection Systems	Other	Eliminations and adjustments	Consolidated
Revenues				
With third parties	92,586	4,711	0	97,297
With other segments	754	3,130	–3,884	0
Total revenues	**93,340**	**7,841**	**–3,884**	**97,297**
EBIT	**17,265**	**49**	**4**	**17,318**
Segment assets	103,023	10,788	–3,359	110,452
Segment liabilities	51,496	4,538	–3,339	52,695
Interest income	322	6	–15	313
Interest expenses	462	31	–15	478
Scheduled depreciation	1,735	842	0	2,577
Cost of revenues	62,478	4,736	–3,923	63,291
Research and development costs	2,667	1,171	0	3,838
Foreign currency gains (+) and losses (-)	2,060	–5	–33	2,022
Share in profit of associated companies	261	0	0	261
Income tax	6,280	1	0	6,281
Value impairment	456	0	0	456
Interest in associated companies	1,879	0	0	1,879
Investments in tangible and intangible assets, and investment property*	9,285	222	0	9,507

* The investment property has been held since Q3/2012 to safeguard the location.

In the Telematics and Electronic Fare Collection Systems segment, around 13.8 per cent of the entire revenue was generated with one customer.

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

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 most of the revenues were generated include the rest of Europe (predominantly Austria, Sweden, Great Britain and Norway) and North America (USA and Canada).

Sales revenues 1/1 to 31/12 EUR '000	**2012**	**%**	2011	%
Germany	21,789	22.4	27,849	31.4
Rest of Europe	14,022	14.4	19,308	21.8
North America	46,698	48.0	35,175	39.6
Other countries (Australia, UAE)	14,788	15.2	6,404	7.2
Group total	**97,297**	**100.0**	**88,736**	**100.0**

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

Non-current assets 31/12 EUR '000	2012	%	2011	%
Germany	17,132	90.4	10,406	88.2
Rest of Europe	215	1.1	196	1.6
North America	1,356	7.2	1,084	9.2
Other countries (Australia, UAE)	246	1.3	116	1.0
Group total	**18,949**	**100.0**	**11,802**	**100.0**

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

38. Share-based remuneration

Employee shares

Based on the resolution of the Managing Board of 2 May 2012, published on 7 May 2012 (2011: 2 May 2011), the employees of the init group were offered shares in init AG as a form of profit sharing. In December 2012, the employees entitled to subscribe (excluding the Managing Board, temporary staff, trainees and such) each received 50 shares (December 2011: 50 shares) at a price of EUR 22.08 (December 2011: EUR 18.15) per share at the time of the publication of the resolution. The profit-sharing plan was granted on a pro-rata basis to some 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 2012. The shares are subject to a lock-up period of two years from the time of transfer. A total of 15,246 shares were transferred (2011: 14,312).

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 274k (2011: EUR 260k), which was recorded as expenses of EUR 181k in 2012 (2011: EUR 169k).

Management bonuses in the form of stock

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

Where this amount is reached, each 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, 32,592 shares with a lock-up period of five years were granted to the managing directors and to key personnel. An additional 1,000 shares with no lock-up period were transferred within the scope of a bonus agreement. The taxes relating to the share transfer are borne by the company.

On 31 December 2012, the valuation was based on 36,194 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 525k (EUR 23.01 per share) for the Managing Board and managing directors and to EUR 236k (EUR 17.64 per share) for key personnel; these amounts were recorded as expenses in 2012.

39. Events after the balance-sheet date

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

40. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

	31/12/2012	31/12/2011
Employees in Germany	325	284
Employees in rest of Europe	5	3
Employees in North America	67	63
Employees in other countries	14	11
Total	**411**	**361**

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

Dr. Gottfried Greschner is also on the board of directors of Karlsruher Sport Club (KSC) and a member of the advisory board of Stadtmarketing Karlsruhe GmbH.

Supervisory Board

The members of the Supervisory Board of init AG are:

Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau, Meerbusch, Chairman	Consulting engineer specialising in local public transportation
Dipl.-Kfm. Hans-Joachim Rühlig, Ostfildern, Vice-Chairman	Financial Managing Director of Ed. Züblin AG, Stuttgart
Drs. Hans Rat, Schoonhoven (from 01/03/2012)	Managing Director of Beaux Jardins B. V., Schoonhoven
Fariborz Khavand, Wuppertal (until 29/02/2012)	Self-employed business consultant, Managing Director of Elco Motores GmbH, Hagen

41. Particulars of board member salaries

In their capacity as executives, the members of the Managing Board of init AG received remuneration of EUR 416k (2011: EUR 366k), and in their capacity as Managing Directors or departmental heads of INIT GmbH, included in the consolidated financial statements, they received remuneration of EUR 2,163k (2011: EUR 1,879k), thus totalling EUR 2,579k in the 2012 financial year (2011: EUR 2,245k). This total includes fixed salaries of EUR 1,574k (2011: EUR 1,428k), variable remuneration in the form of management bonuses of EUR 256k (2011: EUR 300k), and EUR 749k (2011: EUR 517k) in the form of shares, including the income tax payable for them.

In compliance with Section 315a (1) HGB (German Commercial Code) in conjunction with Section 314 (1) no. 6a sentences 5 to 9 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 2012 amounted to EUR 131k (2011: EUR 134k). This includes a variable share of EUR 59k (2011: EUR 62k) and is distributed as follows:

EUR '000	**Fixed**	Variable
Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	36	30
Hans-Joachim Rühlig	18	15
Drs. Hans Rat (from 01/03/2012)	15	12
Fariborz Khavand (until 29/02/2012)	3	2

In the 2012 financial year, the members of the Supervisory Board received EUR 0k (2011: EUR 0k) for consulting activities.

42. Auditing firm

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, received compensation for audits to the amount of EUR 135k (2011: EUR 133k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 33k (2011: EUR 0k). Certification and appraisal services incurred costs of EUR 0k (2011: EUR 0k), and other services, of EUR 10k (2011: EUR 50k).

43. Declaration of compliance with the German Corporate Governance Code

The declaration of compliance for init AG was made by the Managing Board and the Supervisory Board on 15 May 2012, and was made available to the shareholders on our website at www.initag.com

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

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

On 8 August 2012, Swisscanto Holding AG, Berne, Switzerland, notified us under Section 21 (1) WpHG that on 31 July 2012 its voting interest in our company fell below the threshold of 3 per cent and on this day amounted to 0.00 per cent (0 votes).

On 8 August 2012, Swisscanto Holding AG, Berne, Switzerland, notified us under Section 21 (1) WpHG that on 1 July 2011 its voting interest in our company fell below the threshold of 3 per cent and on this day amounted to 4.80 per cent (481,966 votes).

On 8 November 2012, Swisscanto Holding AG, Berne, Switzerland, notified us under Section 21 (1) WpHG that it retracts its two voting right notifications dated 8 August 2012 because the notifications were unjustified.

45. Approval of consolidated financial statements

In the board meeting on 8 March 2013, the consolidated financial statements and the group status report of init AG drawn up by the Managing Board on 31 December 2012 were approved for forwarding to the Supervisory Board.

Karlsruhe, 8 March 2013

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

Audit Opinion*

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

"We have audited the consolidated financial statements prepared by the the init innovation in traffic systems Aktiengesellschaft, Karlsruhe, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2012. 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, 8 March 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Ketterle	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 consolidated financial statements and group management report originally prepared in German language and not to the English translation of the consolidated financial statements and group management report.

Responsibility Statement by the legal Representatives

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

Karlsruhe, 8 March 2013

The Managing Board

Dr. Gottfried Greschner   Joachim Becker   Wolfgang Degen

Dr. Jürgen Greschner   Bernhard Smolka

Annual Financial Statement of init AG

init innovation in traffic systems AG, Karlsruhe

127 Income Statement
128 Balance Sheet

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

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Income Statement
for 2012 (HGB)

EUR '000	Notes	1/1 to 31/1/2012	1/1 to 31/12/2011
1. Revenues	IV. 1	5,207	4,343
2. Other operating income thereof from currency translations EUR 11k (2011: EUR 12k)	IV. 2	295	248
		5,502	**4,591**
3. Personnel expenses			
a. Salaries		1,908	1,691
b. Social security and expenditures for pensions and other benefits thereof for retirement benefits EUR 56k (2011: EUR 46k)		336	302
4. Depreciation on intangible assets of non-current assets and property, plant and equipment		59	28
5. Other operating expenses thereof expenses for currency conversion EUR 20k (2011: EUR 19k)		2,056	1,716
		4,359	**3,737**
6. Income from investments		0	297
7. Income from profit and loss transfer agreements		7,818	16,432
8. Other interest and similar income thereof from affiliated companies EUR 16k (2011: EUR 7k)		73	119
9. Depreciation on marketable securities and bonds		8	237
10. Interest and similar expenses		92	46
		7,791	**16,565**
11. Profit from ordinary activities		8,934	17,419
12. Income taxes	IV. 3	3,530	5,766
13. Other taxes		5	0
		3,535	**5,766**
14. Annual net profit		**5,399**	**11,653**
15. Profit carried forward		11,218	7,541
16. Balance sheet profit		**16,617**	**19,194**

Balance Sheet

as at 31 December 2012 (HGB)

Assets EUR '000	Notes Nr.	31/12/2012	31/12/2011
A. Non-current assets			
I. Tangible fixed assets	III. 3, 4		
1. Land, land rights and buldings including buildings on third-party land		8,672	2,035
2. Deposits paid and facilities under construction		397	0
		9,069	**2,035**
II. Financial assets	III. 5		
1. Interests in affiliated companies		26,274	26,108
2. Loans to affiliated companies		1,175	450
		27,449	**26,558**
		36,518	**28,593**
B. Current assets			
I. Receivables and other assets	III. 6		
1. Receivables from affiliated companies		8,227	18,344
2. Other assets		292	22
		8,519	**18,366**
II. Securities			
Other securities		157	154
		157	**154**
III. Cash and cash equivalents, central bank balances, bank balances and cheques		2,252	3,426
		10,928	**21,946**
C. Prepaid expenses	**III. 7**	**11**	**13**
		47,457	**50,552**

Liabilities EUR '000	Notes Nr.	31/12/2012	31/12/2011
A. Shareholders' equity	**III. 8**		
I. Subscribed capital		10,040	10,040
./. Treasury shares		–55	–102
		9,985	**9,938**
II. Additional paid-in capital		10,489	10,246
III. Surplus reserve			
IV. Balance sheet profit		772	273
VI. Balance sheet profit		16,617	19,194
		37,863	**39,651**
B. Provisions	**III. 9**		
1. Provisions for pensions and similar obligations		125	117
2. Tax provisions		2,960	5,868
3. Other provisions		1,150	896
		4,235	**6,881**
C. Liabilities	**III. 10**		
1. Bank loans		3,998	1,059
2. Trade accounts payable		128	54
3. Liabilities to affiliated companies		530	1,617
4. Other liabilities		703	1,290
thereof taxes EUR 277k (2011: EUR 1,290k)			
thereof for social security EUR 0k (2011: EUR 0k)			
		5,359	4,020
		47,457	**50,552**

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.

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

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

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

COPILOTpc 2
An on-board computer based on the Windows® XP Embedded operating system. As a standard IT platform in the vehicle, it handles classic on-board computer functions. The interfaces also allow large data volumes to be sent quickly and securely from and to third-party systems. This innovative concept was developed by init specifically for use in the vehicle. It primarily provides transport companies with flexibility and a secure investment, while its modular concept means the system can be extended at any time.

D&O Directors and officers liability insurance
D&O Directors and officers liability insurance is a type of insurance taken to protect a company's directors and officers against lawsuits.

EBIT
The EBIT indicates the Earnings Before Interest and Taxes.

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

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

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

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

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

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

ITCS – Intermodal Transport Control System (also known as CAD/AVL)
The ITCS is a computer-aided, modular information and control instrument. It is the control centre of the transport company. The dispatcher monitors all operations at a glance at his workstation to allow prompt intervention in case of disruptions.

Migration
Gradual replacement of a (complex) IT-system during ongoing operations. Interaction of new components and still old components has to be ensured.

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

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

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

Multi-client system
Economically independent operators are able to benefit from synergy effects by using one standardised system. Thereby the secrecy of their company's data is ensured all time.

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 2
The passenger terminal allows reading and accepting of electronic tickets. Passengers handle it comfortably via its touch screen.

Smart card
Chip card serving as carrier medium for electronic tickets and ride permissions.

TETRA
(Terrestrial trunked radio) is a standard for digital trunked radio. It allows for a high-performance, fail-safe speech- and radio communication.

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

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

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

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

Financial calendar and Imprint

Date	Event
28 March 2013	Publication of 2012 Annual Report and Press/Analyst Conference
10 May 2013	Publication of Q1 Report 2013
16 May 2013	Annual General Meeting 2013, Kongresszentrum/Konzerthaus, Karlsruhe
8 August 2013	Publication of Q2 Report 2013
8 November 2013	Publication of Q3 Report 2013
11 – 13 November 2013	Analyst conference, German Equity Forum, Frankfurt

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Avenue Images, Istockphoto, Corbis, Shutterstock, Wikipedia

Produced by:
E & B engelhardt und bauer
Druck- & Verlag GmbH,
Karlsruhe

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

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

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