innovation in traffic systems AG

Kick-off for a mobile future

Annual Report 2005

init at a Glance

Municipal and regional passenger transportation should be comfortable, fast, and attractive. The systems supplied by init innovation in traffic systems AG ensure that buses and trams are able to meet these requirements today, while at the same time increasing the efficiency of transportation companies. init is the leader in innovative telematics and fare management systems that offers a suite of integrated solutions for all type of needs related to public transportation. init products are operational in over 300 transportation companies worldwide.

Key Figures 2005 of init Group

according to IFRS

Balance Sheet		
Balance sheet total	T€	34,115
Shareholders' equity	T€	18,309
Subscribed capital	T€	10,040
Equity-to-assets ratio	%	53.7
Non-current assets	T€	9,747
Current assets	T€	24,368
Income Statement		
Revenues	T€	33,406
Gross profit	T€	10,817
EBIT	T€	4,219
Net profit	T€	2,565
Net profit per share	€	0.26
Cash Flow		
Cash Flow from operating activities	T€	10,150
Share		
Share price	€	5.10
Peak share price (2005)	€	6.42
Bottom share price (2005)	€	2.65
Number of shares, end of year		10,040,000

Content

The Managing Board: Wolfgang Degen, Joachim Becker, Dr. Jürgen Greschner, Bernhard Smolka, Dr. Gottfried Greschner

Letter to the Shareholders and Friends of the Company

Ladies and gentlemen:

This year, the world will be calling in on friends for the Football World Cup in Germany. Yet it is not merely football fans who look forward with anticipation to a superlative festival. The local public transportation in the World Cup cities is also expected to see superlative results as far as the number of passengers carried is concerned. In addition to the 26 million German citizens using the buses and railways in Germany on a daily basis, there will also be hundreds of thousands of visitors from all over the world during the World Cup.

This requires top performances also from the transportation companies. Many have reacted by investing in the appropriate equipment to ensure a maximum level of schedule effectiveness, service, and security. One example illustrating this is the transportation operator in Munich, where one of the latest and most efficient telematics systems in Germany will be implemented and ready for operation by the opening game – installed, of course, by init (see report on page 7).

init in World Cup form even in 2005

In the same manner as Munich, other local public transportation companies in Germany also increasingly focused on investments in 2005. This is one of several reasons why our company is able to present a number of superlatives itself in this report.

For our business trend, however, the successes which init innovation in traffic systems AG was able to achieve with its international business partners were far more crucial. Contracts worth millions from Leicester, Oslo, Stockholm and Copenhagen competed in importance with successful tenders with two-figure values in the millions from New York and Vancouver. Never before in our over 23 years of company history has init met with such a response throughout the world as in 2005. The results in figures:

> At 33.4 million Euro (2004: 32.5 mill. Euro), init attained the highest annual sales in company history.
> At 64.3 million Euro, we recorded the highest level of incoming orders since our founding and an increase of around 160 per cent on the previous year (24.8 mill. Euro). Thus, our volume of orders on hand consequently rose to 54.4 mill. Euro (2004: 22.7 mill. Euro) to report a new record.
> As of the end of 2005, init had the highest cash flow with a total of over 10.1 mill. Euro and at 10.9 mill. Euro (2004: 3.4 mill. Euro), its best liquidity situation ever in a fiscal year.
> In Vancouver, Canada, our US subsidiary INIT Inc. won the biggest individual contract to date in company history, with a volume of around 35 million Canadian dollars.
> And finally, at 2.6 mill. Euro (2004: -0.7 mill. Euro), init was able to book the highest annual net profit to date, together with the best earnings before interest and taxes (EBIT) yet, of 4.2 mill. Euro (2004: -1.1 mill. Euro).

Our internationalization strategy, which has proven successful for many years now, and the increase in demand for our telematics systems in our domestic market of Germany due to the imminent 2006 World Cup were two major reasons for the fact that init was able to present itself in “World Cup form” even long before the actual championship, as early as in 2005.

Top fit for further growth

In football, hard training and focused preparation are the secret to presenting yourself in superb form at the crucial moment. At init, part of our success is also due to the fitness program implemented as early as in 2004. The tough adjustment measures taken in the previous year have contributed to the fact that init managed in only a short space of time to turn around its earnings situation and today, is a highly profitable company. Thus, the EBIT margin of 12.6 per cent achieved in 2005 put all prior-year results in the shadow. A further point of particular satisfaction was the fact that our earnings proved positive throughout all four quarters – a result that, to date, is unique in the history of init.

However, despite these successes we have not forgotten to work on our fitness for 2006 and the following years. Consequently, we are confident that we can present ourselves in top form in the World Cup year and already have the required fitness that will enable our further growth, as a look at our bulging order books will quickly confirm.

A point in our favor here is the international trend toward increased efficiency, quality and service in local public transportation. In large-scale infrastructure projects aiming to ensure mobility in conurbations, cutting-edge technological solutions for local public transportation increasingly gain in importance worldwide. This can only be achieved by state-of-the-art telematics systems as implemented by init as a complete supplier of hardware and software solutions in now over 300 projects both in Germany and abroad. The demand for these is increasing worldwide, as is clearly indicated by the growing number of project awards in 2005 and the continuing upward trend.

init positioned itself on the international market early on and now boasts a wealth of reference projects. Only recently, init systems were installed in European capitals including London, Stockholm and Oslo, and in the North American metropolis Houston. Furthermore, New York commissioned us with the supply of the largest requirement-based bus system worldwide (Paratransit). This has enabled us to consolidate our market positions in both Europe and North America with lasting effect – and each new customer will further improve our chances in future tenders.

Worldwide regard for init projects

Projects such as the installation of a telematics system for requirement-based buses under complicated conditions as found in New York City attract worldwide interest for init. Currently, we are equipping in excess of 1,300 Access-a-Ride vehicles in New York with intelligent technology. These vehicles are available as transportation to anyone who has to rely on a door-to-door service. The vehicles are fitted with our new on-board computer generation COPILOTtouch on Windows XP embedded basis to optimize the use of vehicles through satellite-based location, coupled navigation and data radio transmissions.

A further international sensation also caused the contract placed by the local public transportation operator TransLink in Vancouver, Canada, at the end of the year. Here, init will provide around 1,300 vehicles with its on-board computer COPILOTpc over the next two years, and in addition, supply a computer-aided dispatch (ITCS – Intermodal Transport Control System) and vehicle location system with GPS vehicle location and set up a digital radio communication system.

These reference projects will prove to be a significant multiplier in terms of follow-up orders and open up to us new growth potential in the regions and countries in which we previously were not represented. Therefore, international sales were further expanded, while we also created additional sales and project management capacities initially for the markets in Great Britain, Scandinavia, and Spain. However, we also have a number of doors opening up to us in the Middle East, where we were able to establish very promising contacts at the leading transportation trade fair in the region.

Additional opportunities in the World Cup year
Since funds for investments in local public transportation are further increased in key markets such as the USA, the 2006 World Cup year yet again promises to be a very successful year for init. However, due to our order level with a considerable range, we anticipate the most significant burst of growth to be effectuated in 2007. If the German market now also further stabilizes despite discussions about further reductions in subsidies for the local public transportation sector, which have recently flared up again, the prospects for init in terms of above-average growth are very encouraging.

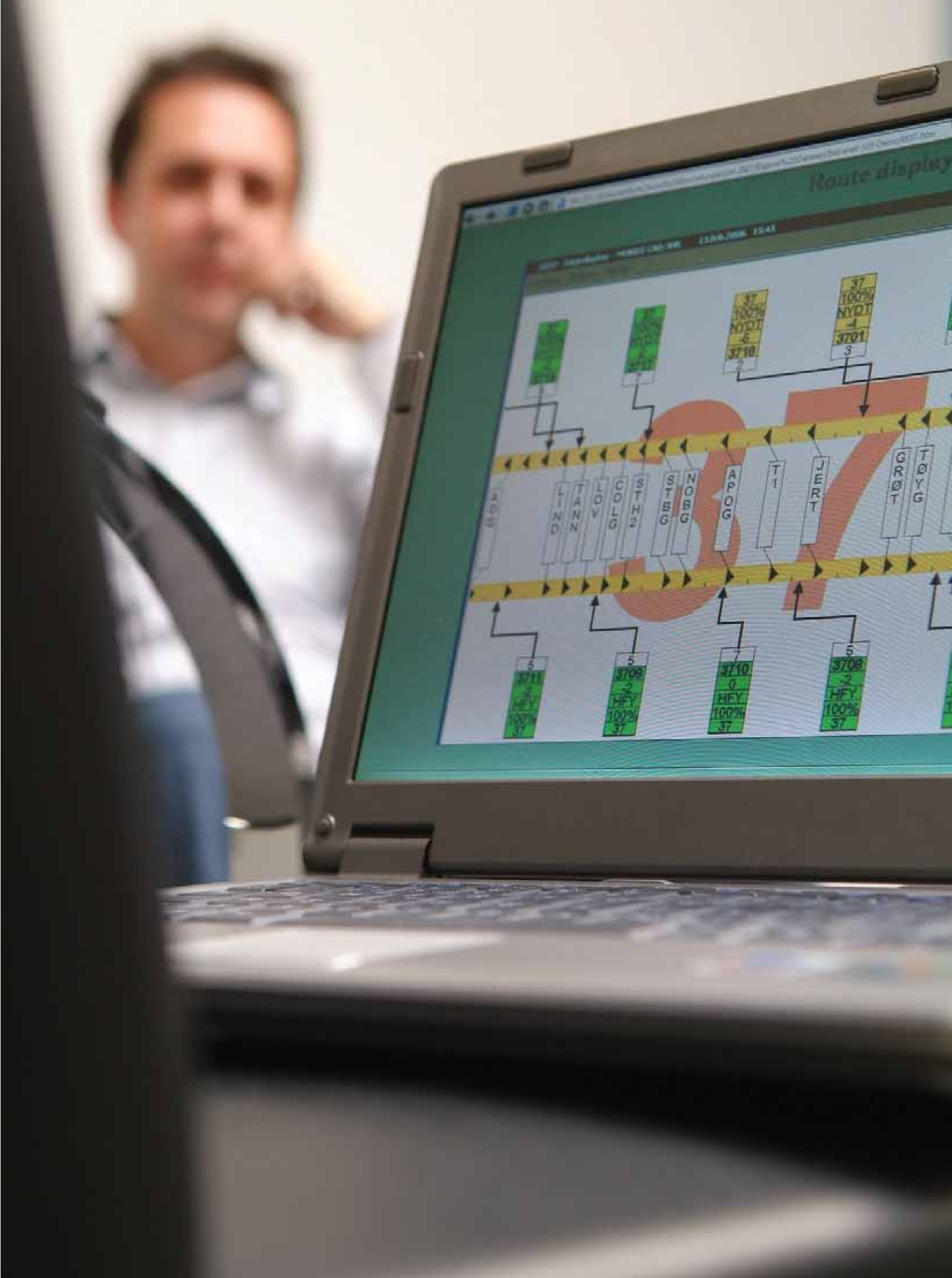
An opportunity for further growth results from our subsidiary, CarMedialab, in the Automotive sector. Here, we have developed an on-board telematics unit for the management of automobile fleets, which is currently in use in various pilot projects. Since we have only begun to open up this market here, we have not yet taken into account any significant sales and earnings effects of this in our init group projections for 2006. However – to stay with the language of football – it means we still have a supersub on the bench.

The stock market deals in the future. In 2005, this was evident in a brilliant upturn in the price of the init share peaking at over 8 Euro, which almost matched its previous all-time high. Thus, there is cause for great satisfaction not only for our company and our employees, who directly benefitted from our success in the form of a bonus. As our shareholders, you too have every reason to rejoice.

We as the Managing Board of init innovation in traffic systems AG, and all our employees are working hard to ensure that scores of goals hopefully netted by the German team in the 2006 World Cup will not be your only cause for joy. We trust that we too can contribute to this by further successes achieved by our company.

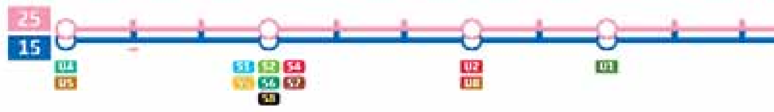
Karlsruhe, Febuary 28, 2006
for the Managing Board

Dr. Gottfried Greschner
Chairman



MOBILEmodi: Product for mobile use

"The product MOBILEmodi readily puts data from the computer-aided dispatch and vehicle location system (MOBILE-ITCS) on mobile devices such as notebooks or PDAs. Communication made easy."
> ***Michael Kadisch,***
Information and Dispatch
Telematics Software and Services



init at work for 2006 World Cup

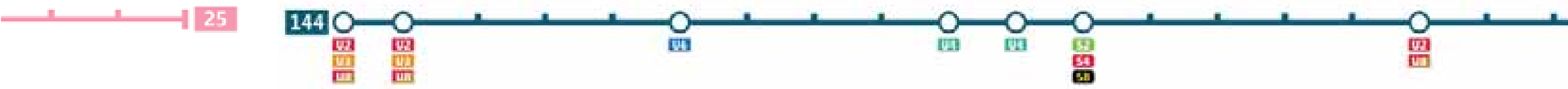
Karlsruhe, May 2005, at the headquarters of init innovation in traffic systems AG
The call from Munich comes in just after 6 p.m. During the brief dialog, Joachim Becker's features visibly brighten. There and then, the departmental head of Telematics Software and Services and member of the Managing Board at init AG knows that all the hard work over the past few weeks was worth it. The supplier of telematics and electronic fare collection systems for buses and trains has just received a large contract from Münchner Verkehrsgesellschaft (MVG). After the telephone call, Becker rounds up his troups – there is reason to celebrate.

init has just been commissioned by the transportation company to equip its control center, the stops and stations and its buses and streetcars with init's own MOBILE telematics system in time for the 2006 World Cup. Along with the computer-aided Transport Control System MOBILE-ITCS, the package solution also includes efficient software for real-time passenger information, the equipment of stops and stations with new display control computers, the onboard computer COPILOTpc, and an intelligent communication concept. The order volume for init totals around four million Euro for the first project phase by April 2006. This also comprises the system maintenance over the next few years. In addition, all new vehicles will be fitted with the COPILOTpc.

init was awarded the contract for the project in Munich because the Karlsruhe-based company clearly stood out in meeting the requirements of Münchner Verkehrsgesellschaft. In addition to an innovative, open software architecture with various interfaces for third-party systems, user-friendly system operation, and the option of integrating existing hardware and software, the Munich transportation operator was also swayed by the price.

This is why the champagne is now flowing at init: Joachim Becker and his team, who has been involved in the preparation of the tender documents for the project, have raised their glasses and drink to this significant success. From tomorrow, they will throw themselves whole-heartedly into phase one – after all, the system needs to be implemented, tested and accepted by the sound of the first whistle at the Football World Cup.

Munich, June 9, 2006, bus and streetcar control center, Emmy-Noether-Strasse 2
4 p.m., change of shifts at the bus and streetcar control center of Münchner Verkehrsgesellschaft (MVG). Klaus Spitzauer has just clocked on. Spitzauer is the managing clerk of the control center and consequently responsible for the service and logistics of the buses and streetcars in the Munich transportation network. Making announcements, organizing



substitute services, checking connections, monitoring systems – all this is part and parcel of the tasks that keep him busy. Klaus Spitzauer has worked for MVG for many years now, and there is not much any more that would ruffle his feathers. But today, he is a little more tense than usual.

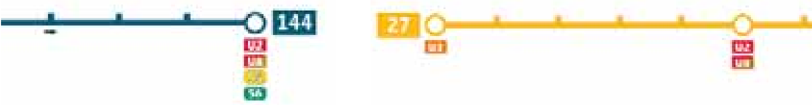
For just as the entire city, the control center is a whirr of activity. It is Friday, June 9, 2006, the day of the opening game of the Football World Cup. In only two hours – as soon as the national anthems of Costa Rica and Germany have faded away – the ball will start rolling for the first time. 60,000 spectators are currently making their way to the football arena in the Munich district of Fröttmaning, north of the city center.

Together with Spitzauer, a total of 5 men and women are on duty today, working the late shift until midnight, thus 2 more than on normal days. Today, they are responsible in particular for making sure that the transportation to the stadium runs as smoothly as it possibly can to get the fans from all four corners of the world to their assigned seats in time for the game – and in the same manner after the match, taken them back home again.

The staff at the Munich transportation company is supported in their task by the new, state-of-the-art dispatch and vehicle location system developed by init – which has been successfully installed on schedule, in time for the kickoff of the Football World Cup. This system controls all the buses and streetcars in Munich. The previously used, almost 20-year-old control technology had had its day and has been replaced by the system developed by the Karlsruhe-based company. The old system would not have allowed the required passenger information networking with other transportation companies and further improvements to the operations.

Using the MOBILE-ITCS, the Intermodal Transport Control System (ITCS) , Spitzauer and his colleagues are able 24/7 to monitor and coordinate the operations of ten streetcar and 61 bus lines with in excess of 500 vehicles. Each day, the buses and streetcars of MVG are taken by 750,000 passengers.

Each of the vehicles is linked to the ITCS via an on-board computer, an integrated on-board information system (IBIS). Via data radio communication, this on-board computer continuously sends messages to the control center to enable staff at the center to



keep track of the buses and streetcars in service. In the vehicles, the IBIS also controls the display of destinations, the announcement of stops, the ticket machine and the stamper. Naturally, the IBIS also manages the radio communication including emergency calls.

The new system from init offers staff at the control center a number of advantages: it is easier to operate for dispatchers, it provides a great deal more functions and requires less maintenance and care. Many of the new options also improve the internal processes, such as the preprogrammed diversion and dispatching programs for holdups and disruptions. Furthermore, the new software from init provides the option of networking the ITCS with other systems – one of the key reasons for MVG to replace the old ITCS. It can exchange data with third-party systems and thus allow information on subway and suburban lines to be displayed alongside the bus and streetcar departure times at the stops and stations, to ensure smooth connections between the different types of transport.

The product from init is even prepared for future upgrades. The new technology is designed such that vehicles previously located via beacons distributed throughout the city zone can in future be tracked via the satellite-based GPS system. For this, the on-board computers in the vehicles need to be replaced. For reasons of cost, however, this will be implemented gradually, on acquisition of new vehicles. Init will then equip the new vehicles with its state-of-the-art on-board computer COPILOTpc, which can handle the control of all telematics functions along with digital stop announcements via an integrated MP3 player.

Yet neither Spitzauer nor his colleagues are currently thinking about the future. The traffic in Munich demands their full attention. They have their hands full as it is. The kickoff will be in one hour, the stream of people heading for the stadium is growing by the minute. But Spitzauer and his team have everything under control, everything and everyone stays calm, and the traffic is flowing smoothly.

Munich, June 9, 2006, Karlsplatz (Stachus) stop
Helga Stadlmaier is a true child of Munich. She was born and bred in the Bavarian capital, where she also married. At 66, Helga Stadlmaier knows the city like the back of her hand. She has never had the desire to move – “it’s much too nice here for that,”

she claims. Helga Stadlmaier and her husband have never owned a car and thus have always relied on public transportation in Munich.

Helga Stadlmaier is now standing at the Stachus stop. She is on her way to visit her best friend to watch the opening game of the World Cup on television together. Her friend lives in the district of Giesing. Thus, Stadlmaier needs to take the streetcar from Karlsplatz to Tegernseer Landstrasse.

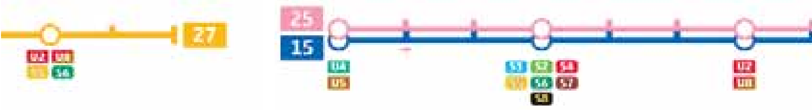
That she gets there quickly and without any complications is also due to the new Intermodal Transport Control System from init. Key information from the system is processed for the direct benefit of passengers like Helga Stadlmaier. The system uses the data sent by each vehicle to the control center to calculate the precise departure times at the roughly 250 stops in the Munich area. Thus Helga Stadlmaier can see from the displays fitted at each stop how many more minutes she will have to wait for her streetcar no. 27 to Ostfriedhof to come.

And there is yet another advantage for Helga Stadlmaier: since the exact departure times of the streetcars are known, the individual bus and streetcar line connections can easily be coordinated. In future, this will also include other modes of transport such as the underground and the suburban railway. And that is very important: after all, the transfer rate of passengers can be as high as 40 per cent. This means that four out of every ten passengers need to change somewhere to reach their destination. Consequently, Helga Stadlmaier can be sure that she will get a good connection at Ostfriedhof, where she needs to change to line 25.

Since Stadlmaier also frequently travels by subway, she is delighted to see that the service here has also improved. 33 monitors installed at 15 subway stations provide passengers with the required subway, bus, streetcar and suburban train data to facilitate their orientation on transfer. “It has become far less complicated and much easier to travel by streetcar. I arrive at my destination much quicker now because the transfer times are clearly shorter,“ Helga Stadlmaier tells her friend after they have settled in her livingroom in time for the kickoff.

Munich, June 9, 2006, Effnerplatz

Ronald and Alexandre from Costa Rica find themselves at the Effnerplatz stop near their hotel at the same time. Both are on their way to the opening game at the World Cup stadium to support their ticos in their match against Germany. They are

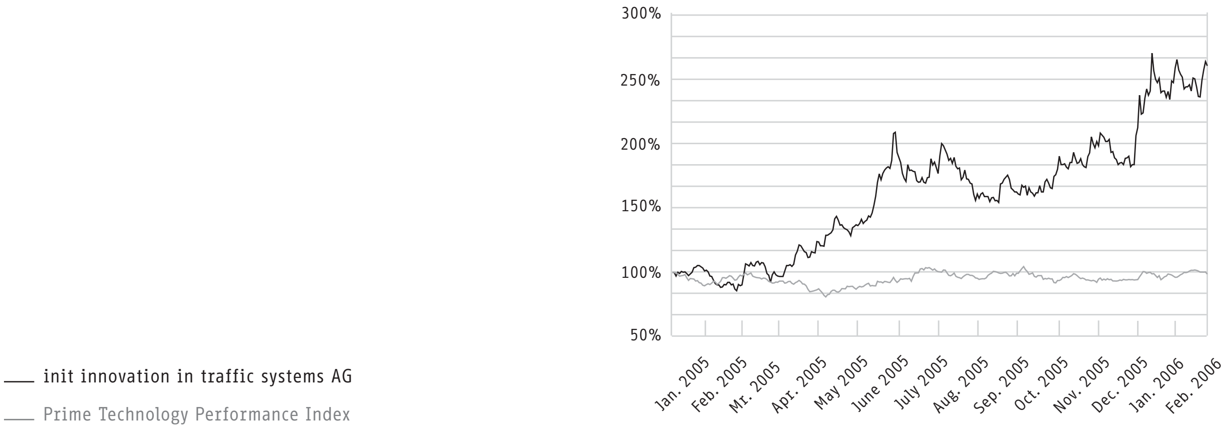


waiting for bus line 144 to take them to the stadium. At Dietlindenstraße they will have to change into the subway to Fröttmaning. Sounds complicated, especially for visitors from abroad who have but a poor command of the German language and can barely communicate in English. But it is easy. Because here too, init has installed its new operations control system. During the World Cup, all information on the displays at the stops and all announcements in the vehicles will also be in English and Spanish. Thanks to additional tapes in the displays, passengers receive further important information that will expedite their trip to the stadium. In case of disruptions, the tapes can also be used for a quick information of the passengers.

Passengers will in future also benefit from a clearly improved schedule enquiry service via cell phone and from electronic schedule information on the Internet. The actual data provided by the new system from init will be even more accurate than before.

Ronald and Alexandre are full of praise for the technology in the Munich buses and streetcars: “Perfecto“, the two football fans from overseas exclaim in unison. Both secretly hope that their team will find their way to the goal just as quickly and directly as they have to the stadium.

Performance



The init Share and Corporate Governance

Satisfactory year for init shareholders – share clearly outperforms reference index

In 2005, the share price of init innovation in traffic systems AG performed exceptionally well. In the course of the year, the init share (ISIN DE0005759807) initially more than doubled its value from 3.08 Euro at the beginning of the year to 6.45 Euro as at the end of June. After profit takings, the share stood at 5.63 Euro at the close of the year and thus, over the whole year, managed a gain of 83 per cent. This result clearly outperformed its reference index.

As early as in the first quarter, the trend of the init share confirmed the turnaround of the company and subsequently recorded a substantial gain on announcement of further positive figures. After its annual peak in June, a number of investors seized this opportunity to take high two-figure profits realized with the init share in the previous months.

When init then raised its earnings forecast for 2005 after a successful third quarter, the share yet again received a fresh boost toward the end of the year. In view of the positive sales trend and the numerous orders received, along with a continued satisfactory trend of business, the init share once again kindled a price firework in the first quarter of 2006 and as early as January topped the 8-Euro mark. In light of our substantial level of orders and an increasing upturn in the domestic market, we are confident that in 2006, init and its share will continue to feature on the winner's side.

Both analysts and research firms have rated the init share currently as a "buy".

Declaration of Conformity with regard to the German Corporate Governance Code

With a resolution dated December, 9 2005, the Managing Board and the Supervisory Board adopted the recommendations of the Government Commission on the German Corporate Governance Code, with the exceptions indicated below, and approved the following Declaration of Conformity in accordance with § 161 of the German Corporation Act (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:

> Our directors and officers liability insurance policy (Code Section 3.8, paragraph 2) includes no deductible for board members. Our board members and other high-level personnel, both in Germany and abroad, are covered by a group insurance policy.
> The compensation of the Management Board (Code Section 4.2.4) and of the Supervisory Board (Code Section 5.4.7) will be published in accordance with the current valid legal requirements. The compensation is paid in a fix and a variable component. The variable compensation component is related to the annual result. Com-

Company calendar 2006

March 29, 2006	Balance sheet press conference and Analysts' conference, Frankfurt/Main
CW 19/2006	Disclosure of quarterly report
May 18, 2006	General Meeting, Karlsruhe
CW 32/2006	Disclosure of six-month report
CW 45/2006	Disclosure of nine-month report

pensation components which have a long-term effect and risk factors (Code Section 4.2.3) are intended as of 2006. At present, there is no stock option program (Code Section 4.2.3, paragraph 3).

> An age limit for Members of the Management Board (Code Section 5.1.2, paragraph 2) and for Members of the Supervisory Board (Code Section 5.4.1, paragraph 1) is not specified.

> Committees (Code Section 5.3.1) of the Supervisory Board as well as an Audit Committee (Code Section 5.3.2) are currently not in place, because of the specifics and the size of the company.

Karlsruhe, December 2005

init innovation in traffic systems AG

The Managing Board
The Supervisory Board

Main features of the compensation system of the Managing Board

The compensation system of the Managing Board provides:

1. a fixed compensation component, which is paid monthly on a pro-rata basis and
2. a variable compensation component, which is paid annually in the form of a management bonus considering the economic situation of the company.

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PIDintegral: Dynamic passenger information module

“Reliable information in local public transportation is essential for passenger satisfaction. The high-performance LEDs of PIDintegral ensure perfectly legible departure times even in the brightest sunlight.“

> ***Uwe Dengel,***
Mechanical Engineering

Financial Statement 2005

Consolidated Financial Statements

Financial Statements of init AG

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

“The PIDstation provides reliable passenger information in real time and thus significantly increases the passenger satisfaction."

> ***Simone Kulke,***

Sales

Consolidated Income Statement for 2005

(IFRS)

	Notes No.	01.01.2005-31.12.2005 T€	01.01.2004-31.12.2004 T€
Revenues	6, 39	33,406	32,511
Cost of revenues	7	-22,589	-26,358
Gross profit		**10,817**	**6,153**
Sales and marketing expenses		-4,888	-4,183
General administrative expenses		-2,011	-1,909
Research and development expenses	8, 22	-1,361	-1,290
Other operating income	9	321	476
Other operating expenses		-34	-167
Foreign currency gains/losses	10	1,148	-574
Operating profit/loss		**3,992**	**-1,494**
Interest income		242	169
Interest expenses		-364	-390
Income from associated companies	11, 23	61	244
Other income and expenses	12	166	165
Profit/loss before income tax		**4,097**	**-1,306**
Income tax	13, 24	-1,532	607
Net profit/net loss		**2,565**	**-699**
thereof attributable to equity holders of the parent		2,565	-699
Minority interests		0	0
Net profit/net loss and diluted net profit/net loss per share in €	14	0.26	-0.07

Consolidated Balance Sheet of December 31, 2005

(IFRS)

Assets	Notes No.	31.12.2005 T€	31.12.2004 T€
Current assets			
Cash and cash equivalents	16, 34	10,039	1,894
Marketable securities	17, 34	812	1,466
Trade accounts receivable	18	10,032	14,519
Accounts receivable from related parties	38	126	81
Inventories	19	2,847	2,931
Income tax receivable		47	390
Other current assets	20	465	459
Current assets, total		**24,368**	**21,740**
Non-current assets			
Tangible fixed assets	21	823	1,039
Goodwill	22	1,877	1,877
Other intangible assets	22	3,816	4,565
Interest in associated companies	23	1,564	1,537
Accounts receivable from related parties	38	188	68
Deferred tax assets	24	702	646
Other assets	25	777	567
Non-current assets, total		**9,747**	**10,299**
Assets, total		**34,115**	**32,039**

Liabilities and shareholders' equity	Notes No.	31.12.2005 T€	31.12.2004 T€
Current liabilities			
Bank loans	26	57	1,299
Dormant partners' capital	28, 34	0	50
Trade accounts payable	26	4,619	4,356
Accounts payable due to related parties	26, 38	136	717
Advance payments received	29	1,081	2,281
Income tax payable		1,367	0
Provisions	30	1,981	1,927
Other current liabilities	27	2,892	2,184
Current liabilities, total		**12,133**	**12,814**
Non-current liabilities			
Deferred tax liabilities	24	1,677	1,957
Dormant partners' capital	28, 34	0	350
Pensions accrued and similar obligations	31	1,966	1,019
Other non-current liabilities	27	30	26
Non-current liabilities, total		**3,673**	**3,352**
Shareholders' equity			
Attributable to the equity holders of the parent			
Subscribed capital	32	10,040	10,040
Additional paid-in capital	32	3,159	3,141
Treasury stock	32	-1,003	-810
Consolidated unappropriated profit		6,605	4,040
Other reserves	32	-492	-538
		18,309	**15,873**
Minority interests		0	0
Shareholders' equity, total		**18,309**	**15,873**
Liabilities and shareholders' equity, total		**34,115**	**32,039**

Cash Flow Statement for the Consolidated Financial Statements for 2005

(IFRS)

	01.01.2005- 31.12.2005 T€	01.01.2004- 31.12.2004 T€
Cash flow from operating activities:		
Net income/losses	2,565	-699
Depreciation and amortization	1,882	2,147
Losses on the disposal of fixed assets	22	36
Losses (+)/Profit (-) from the sale of marketable securities	9	-1
Increase of provisions and accruals	1,001	1,056
Increase of inventories	84	17
Increase (+)/Decrease (-) in trade accounts receivable	4,487	-2,442
Change in other assets, not provided by/used in investing or financing activities	82	1,180
Increase in trade accounts payable	263	807
Decrease (-)/Increase (+) in advanced payments received	-1,200	260
Change in other liabilities, not provided by/used in investing or financing activities	1,498	-207
Amount of other non-cash income and expense	-543	-358
Net cash from operating activities	**10,150**	**1,796**
Cash flow from investing activities:		
Proceeds from sales of tangible fixed assets	8	6
Investments in tangible fixed assets and other intangible assets	-357	-538
Investments in software development	-479	-1,182
Investments in associated companies	-120	-350
Inflows from investments and participation	34	0
Inflows from the sale of marketable securities as part of short-term cash management	1,412	1,000
Investments in marketable securities as part of short-term cash management	-758	-504
Net cash flows used in investing activities	**-260**	**-1,568**
Cash flow from financing activities:		
Cash payments for the purchase of treasury stock	-193	-249
Cash payments for dormant partners' capital	-400	-50
Redemption of bank loans	-1,242	-248
Net cash flows used in financing activities	**-1,835**	**-547**
Net effect of currency translation in cash and cash equivalent	90	-48
Increase/Decrease in cash and cash equivalents	**8,145**	**-367**
Cash and cash equivalents at the beginning of the period	1,894	2,261
Cash and cash equivalents at the end of the period	**10,039**	**1,894**

Consolidated statement of recognized income and expenses in the group for 2005

(IFRS)

	01.01.2005- 31.12.2005 T€	01.01.2004- 31.12.2004 T€
Currency conversion	318	-275
Actuarial gains/losses on defined benefit obligations for pensions, recognized in the shareholder's equity	-459	138
Changes in current market values of available-for-sale securities, recognized in the shareholders' equity	14	-19
Gains (losses) on available-for-sale securities, recognized in the consolidated income statement	1	0
Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity	172	-11
Valuation adjustments recognized directly in the shareholders' equity	**46**	**-167**
Consolidated net profit/loss	**2,565**	**-699**
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements	**2,611**	**-866**
thereof attributable to equity holders of the parent	2,611	-866
thereof minority interests	0	0

Consolidated Statements of Changes in Equity

(IFRS)

	Attributable to equity holders			
	Subscribed capital	Additional paid-in capital	Consolidated unappro-priated profit	Treasury stock
	T€	T€	T€	T€
Status at January 1, 2004	**10,040**	**3,141**	**4,739**	**-561**
1. Currency conversion				
2. Actuarial gains/losses on defined benefit obligations for pensions				
3. Changes in current market values of available-for-sale securities, recognized in the shareholders' equity				
4. Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity				
Valuation adjustments recognized directly in the shareholders' equity				
5. Consolidated net loss 2004			-699	
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements			-699	
6. Purchase of own shares in 2004				-249
Status at December 31, 2004	**10,040**	**3,141**	**4,040**	**-810**
1. Currency conversion				
2. Actuarial gains/losses on defined benefit obligations for pensions				
3. Changes in current market values of available-for-sale securities, recognized in the shareholders' equity				
4. Gains (losses) on available-for-sale securities, recognized in the consolidated statement of operations				
5. Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity				
Valuation adjustments recognized directly in the shareholders' equity				
6. Consolidated net profit 2005			2,565	
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements			2,565	
7. Employee stock		18		
8. Purchase of own shares in 2005				-193
Status at December 31, 2005	**10,040**	**3,159**	**6,605**	**-1,003**

of the parent				Minority interest	Total Shareholders' Equity
Other Reserves					
Difference from pension valuation	Difference from currency translation	Stock market valuation of securities	Total		
T€	T€	T€	T€	T€	T€
-95	-287	11	16,988	0	16,988
	-275		-275		-275
138			138		138
		-19	-19		-19
-18		7	-11		-11
120	-275	-12	-167		-167
			-699	0	-699
120	-275	-12	-866	0	-866
			-249		-249
25	-562	-1	15,873	0	15,873
	318		318		318
-459			-459		-459
		14	14		14
		1	1		1
178		-6	172		172
-281	318	9	46		46
			2,565	0	2,565
-281	318	9	2,611	0	2,611
			18		18
			-193		-193
-256	-244	8	18,309	0	18,309

Notes to the Consolidated Financial Statements for 2005 (IFRS)

General disclosure

init innovation in traffic systems Aktiengesellschaft, Karlsruhe ("init AG"), was established on August 18, 2000 as the holding company of the init group. It is entered in the Commercial Register of the Karlsruhe District Court (Germany) under HRB 9120. Since the beginning of the 1980s, its operating business has been conducted by INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH, Karlsruhe ("INIT GmbH"). Following a resolution in December 2000, implemented in the first quarter of 2001, over 75% of the shares in INIT GmbH were transferred to init AG in exchange for the provision of ordinary shares. From a commercial point of view, the business formerly run by INIT GmbH has carried on unchanged in the init group.

The shares in INIT GmbH were transferred at historic book value. For the transfer of 75% of the shares in INIT GmbH, init AG granted 6,019,048 shares at an accounting par value of 1.00 Euro. This sum exceeded the historic book values by 5,211 TEuro. Thus, the net book value of the transfer totaled 808 TEuro.

The 2005 consolidated financial statements and the comparative prior-year figures were prepared for the first time in compliance with the International Financial Reporting Standards (IFRS). The consolidated financial statements of init AG and its subsidiaries are consistent with the IFRS.

All legally binding standards that came into force by the cutoff date were taken into account. After the change to IAS 19 "Employee benefits", init exercised the option of reporting actuarial gains and losses in the calculation of pension accruals in the shareholders' equity without affecting the operating result for 2004 and 2005. Accordingly, the details in the Notes are based on the change to IAS 19 "Employee benefits", and the consolidated financial statements were extended in accordance with the amendment to IAS 1 "Presentation of Financial Statements" by a "Breakdown of the recorded income and expenses in the group for 2005".

The consolidated financial statements are always prepared using the purchase 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 indicated otherwise, all figures were rounded to a full thousand (TEuro).

1. Effects of the transition from US-GAAP to IFRS

Compared to previous financial statements in compliance with US-GAAP, the changes in accounting and valuation are only minimal. Interest on software developments was not capitalized under the option of IAS 23. Exercising this option with retrospective effect from the date of transition as of January 1, 2004 under IFRS 1, the interest of 195 TEuro capitalized under US-GAAP for non-current assets (balance sheet item "Other intangible assets") were eliminiated in the financial statements prepared under IFRS. The deferred tax liabilities of TEuro 74 attributable to it were released. The balance of these adjustments of 121 TEuro reduced the consolidated unappropriated profit as of January 1, 2004 without affecting the operating result.

	T€
Shareholders' equity 01.01.2004 US-GAAP	17,201
Adjustment IFRS	-121
Shareholders' equity 01.01.2004 IFRS	**17,080**

The same principles were applied mutatis mutandis to the transition in the financial statements as of December 31, 2004. As a consequence here, the elimination of interest capitalizations after the date of transition as of January 1, 2004 (expenses of 71 TEuro) and the reduction in depreciations (income of 94 TEuro) were reported in the consolidated statement of operations to affect the current-period result (income balance of 15 TEuro), taking into account any deferred taxes (expenses of 8 TEuro).

	T€
Consolidated earnings 2004 US-GAAP	-714
Additional earnings IFRS	15
Consolidated earnings 2004 IFRS	**-699**

The shareholders' equity as of December 31, 2004 changed as follows:

	T€
Shareholders' equity 31.12.2004 US-GAAP	15,979
Adjustment IFRS as of 01.01.2004	-121
Additional earnings IFRS 2004	15
Shareholders' equity 31.12.2004 IFRS	**15,873**

These activities are reflected in the 2004 cash flow statement as a reduction of the cash flow from operating activities under IFRS compared to US-GAAP of 71 TEuro.

2. 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 Software and Services", and "Mobile Telematics and Fare Collection Systems". One of the crucial links between these two divisions is mobile radio data transmission. The "Telematics Software and Services" division comprises the software and hardware for control centers, while "Mobile Telematics and Fare Collection Systems" includes the software and hardware in vehicles.

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

3. Consolidated group

Fully consolidated companies:

The group of consolidated companies of init AG comprises its subsidiaries INIT GmbH, Karlsruhe, init telematik gmbh, Karlsruhe, and INIT Innovations in Transportation Inc., Chesapeake/Virginia, USA ("INIT Inc."), all of which are fully owned by init AG.

Associated companies:
init AG holds 44% of the shares in id systeme GmbH, Hamburg, ("id systeme") and 45% in CarMedialab GmbH, Bruchsal, ("CarMedialab"). INIT GmbH holds 43% of the shares in iris GmbH infrared & intelligent sensors, Berlin ("iris"). The shareholdings are included "at equity" in the consolidated financial statements.

The fiscal year of the companies included ends on December 31.

4. Formal statement

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

5. 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 as at the same cutoff date as the financial statements of the parent company. Where required, any financial statements prepared in accordance with national accounting regulations are adjusted accordingly.

The capital is consolidated by offsetting the purchase cost against the group share in the revalued shareholders' capital of the consolidated subsidiaries as at the time of acquisition of the shares or the initial consolidation. The recognizable assets, liabilities and contingent liabilities of the subsidiaries are valued at their full market value irrespective of the amount of the minority share. 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 capitalized and subjected to an impairment test in line with IFRS 3 "Business Combinations"/ IAS 36 "Impairment of Assets" (revised in 2004). Negative differences are recognized in the profit and loss immediately after the acquisition. In case of deconsolidations, the remaining book values of the positive differences are taken into account in the calculation of 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 intra-group 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" (revised in 2004). The functional currency of INIT Inc. corresponds to its national currency. When converting financial statements in a foreign currency to the currency of the init group (Euro), the assets, the shareholders' equity, and the liabilities are converted using the current rate on the cutoff date. Items of the consolidated statement of operations 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 provisions).

	Annual averages		Rate on cutoff date	
	2005	2004	2005	2004
1 Euro corresponds to US dollar	1.2430	1.2421	1.1843	1.3641

Use of estimates

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 in the balance sheet, the specification of contingent liabilities as of the cutoff date, and the statement of income and expenditure during the period under review. The actual amounts may deviate from these estimates.

Realization of income

Income is realized 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 realized:

Income from system contracts are recorded using the “Percentage of Completion“ method. The percentage of completion of orders in progress and such not yet invoiced as of the cutoff date is determined by the ratio of costs accrued to the total costs (“cost-to-cost” method).

Income from product sales is realized upon transfer of the key risks and opportunities. Where the installation at the customer’s place of business is an important prerequisite for the commissioning, the revenues are not realized until the installation has been completed.

Interest income is realized where interest has accrued.

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

Research and development costs

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

Advertising costs

Advertising costs are entered as expenses as incurred.

Cash and cash equivalents

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

Financial investments and other financial assets

Financial assets as defined by IAS 39 “Financial instruments: Recognition and Measurement” are classified as financial assets reported at their current market value affecting the current-period result, as loans and receivables, as held-to-maturity investments, or as available-for-sale financial assets. On initial recognition of the financial assets, these are reported at their current market value. The group specifies the classification of its financial assets on initial recognition and is required to review the allocation at the end of each fiscal year, where permissible and appropriate.

The purchase and sale of financial assets as customary in the market is reported as at 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.

Securities

Until their final maturity, securities are classified as "available for sale". Following their initial recognition, financial assets available for sale are reported at their current market value (exchange or market price), with gains or losses recognized as a separate item in the shareholder' equity. Once the financial investment is derecognized or its value found to be impaired, the accumulated gain or loss previously recognized in the equity capital is reported through profit and loss affecting the current-period result.

Trade accounts receivable and loans

Trade accounts receivable and loans are reported at net book value. Potential risks are taken into account in the form of value adjustments. 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, and are reported together with the trade accounts receivable.

Accounting for derivative financial instruments

The accounting for derivative financial instruments (forward exchange transactions, currency options and swap transactions) follows IAS 39 "Financial instruments: Recognition and Measurement", according to which derivative financial instruments are reported as assets or liabilities and measured at their current market values (fair values), irrespective of their purpose or intended use. The change in market values is taken into account in the net earnings. In contrast, the adjustment of order values to the current prices on the cutoff dates for projects invoiced in a foreign currency has a countereffect on the net income realization.

Inventories

Inventories are valued at their acquisition and production costs or the lower net sales price realizable as of the cutoff date at the time of their addition. If the net sales price of inventories previously written down has increased, their value is increased appropriately. The production costs comprise both direct costs and the manufacturing and material overheads incurred in production, any depreciations and other production-related expenses. Cost of debt are reported as expense in the period in which they have accrued. Impairment losses are recognized where necessary.

Tangible fixed assets

Tangible fixed assets are valued at purchase cost less scheduled depreciation. The depreciation of the historical purchase cost follows the straight-line method over the asset depreciation period. Low-value fixed assets are depreciated over four years. The depreciations of fixed assets are included in the consolidated statement of operations under "Cost of revenues", "Sales and marketing expenses" and "Administrative expenses".

The asset depreciation periods are as follows:

Buildings on third-party property	10 years
Technical installations and machines	3-5 years
Other installations, factory and office equipment	3-10 years

Goodwill

Goodwill from mergers is valued at purchase cost on initial recognition, measured as acquisition excess above the share of the group in the current market value of the acquired, indentifiable assets, liabilities and contingent liabilities. After initial recognition, the goodwill is reported at purchase cost less accumulated impairment losses. Goodwill is examined for impairment loss at least once a year or when facts or changes in circumstances indicate that its book value may have reduced.

Other intangible assets

Purchased intangible assets are valued at purchase cost and depreciated in a straight-line method over the asset amortization period of three to ten years. The purchase costs for the "Axapta" ERP system are amortized straight-line over 5 years. The amortizations of purchased intangible assets are included in the consolidated statement of operations under "Cost of revenues", "Sales and marketing expenses" and "General administrative expenses".

In accordance with IAS 38 "Intangible Assets", the company capitalizes 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 capitalized until the software is marketed and offered for sale.

init did not exercise the option under IAS 23 "Borrowing costs" (revised in 1993) to capitalize borrowed costs accrued during the software development.

After initial recognition of the development costs, the cost method is used according to which the asset is reported at purchase cost less accumulated amortizations and accumulated impairment losses. Software development costs are amortized per product at the higher amount resulting either from (a) the ratio of the current gross revenues of a product to the total of the entire current revenues and the estimated future gross revenues for this product; or (b) from the straight-line depreciation over a maximum period of five years. The depreciation and amortization of the assets commence at the time of sale to the customer and are included under "Cost of revenues".

Interest in associated companies

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

Public subsidies

Public subsidies (government grants for a research project) 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 value 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 assets can no longer be realized ("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 recognized in accordance with IAS 12 "Income Taxes" (revised in 2000) to account for the tax consequences of differences between the balance sheet valuations of the assets and liabilities and the corresponding tax assessment bases, and tax losses carried forward. The deferred tax assets and deferred tax liabilities are calculated on the basis of the prevailing tax rates for the taxable profit in the year in which the differences are expected to be leveled. The effect of changes in the tax rates on deferred tax assets and deferred tax liabilities is accounted for in the period in which the amendment of the law takes effect. The income tax rate taken as the basis was 38.9%.

Liabilities
Liabilities are carried at net book value.

Pension accruals
The pension accruals are calculated using the projected unit credit method for defined benefit plans, taking into account any future remuneration and pension adjustments. Actuarial gains and losses are reported in the equity capital without affecting the operating result. The service cost and the post service cost are recorded immediately affecting net income.

Other provisions
The other provisions are taken into account where a past event has led to a current liability, their utilization 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.

Notes to the consolidated income statement

6. Revenues

The revenues include both deliveries and services already invoiced and such resulting from the percentage of completion method. The revenues from the application of the percentage of completion method totaled 5,251 TEuro (previous year: 13,523 TEuro).

7. Cost of revenues

The cost of revenues are composed as follows:

	2005 T€	2004 T€
Cost of materials	14,052	16,093
Personnel expenses	4,647	5,346
Depreciation	1,662	2,854
Other	2,228	2,065
Total	**22,589**	**26,358**

8. Research and development expenses

	2005 T€	2004 T€
Software development	1,192	1,875
less capitalized software development expenses acc. to IAS 38	-479	-1,182
Hardware development and research expenses	648	597
Total	**1,361**	**1,290**

9. Other operating income

This item includes 86 TEuro (previous year: 79 TEuro) from public subsidies for a research project.

10. Foreign currency gains and losses

	2005 T€	2004 T€
Unrealized currency gains/losses from derivative financial instruments, receivables and liabilities	-335	-897
Balance of realized currency gains and losses	1,221	641
Currency gains/losses from consolidation transactions	262	-318
Total	**1,148**	**-574**

11. Income from associated companies

	2005 T€	2004 T€
Income from the "at equity" method	174	263
Expenses from the "at equity" method	-113	-19
Total	**61**	**244**

12. Other income and expenses

The other income and expenses consist mainly of income from the asset value adjustment of life assurances serving as pension liability insurances. The increase in asset values in the fiscal year totaled 169 TEuro (previous year: 156 TEuro).

13. Income taxes

	2005 T€	2004 T€
Actual income taxes	1,696	110
Deferred income taxes	-164	-717
Total	**1,532**	**-607**

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

	2005	2004
	T€	T€
Profit/loss before income tax	4,097	-1,306
Theoretical income tax expenditure/yield at 38.9% (previous year: 38.9%)	1,594	-508
Used tax loss carryforwards	-354	-266
Tax rate differences USA	-37	5
Tax effect of the non-deductible expenses and income	306	96
Taxes unrelated to accounting period	0	20
Tax effects from results of associated companies	-23	-94
Other	46	140
Effective income tax expenditure/income tax yield at 37.4% (previous year: 46.5%)	**1,532**	**-607**

14. Earnings per share

The net earnings per share are calculated by dividing the consolidated annual net profit by the weighted number of shares outstanding. Since init AG did not issue any stock options as of the cutoff dates, the diluted earnings per share could not be calculated.

	2005	2004
	T€	T€
Consolidated earnings	2,565	-699
Consolidated earnings adjusted by special influences	2,565	-699
Weighted average number of issued shares	9,774,862	9,870,706
Undiluted earnings per share in Euro	0.26	-0.07
Undiluted earnings per share adjusted by special influences in Euro	0.26	-0.07

15. Personnel expenses

The personnel expenses totaled 11,939 TEuro (previous year: 11,824 TEuro).

Notes to the consolidated balance sheet

16. Cash and cash equivalents

	2005	2004
	T€	T€
Deposits with credit institutions (current accounts)	4,790	1,506
Short-term deposits (fixed-term deposits/call money)	5,249	388
Total	**10,039**	**1,894**

Deposits with credit institutions bear interest at variable rates for demand deposits. Short-term deposits are for different periods which, depending on the respective cash requirement of the group, can range from one day to three months. These bear interest at the rate applicable to short-term deposits at that time. The fair value of the cash and cash equivalents is 10,039 TEuro (previous year 1,894 TEuro).

17. Marketable securities

This item refers to fixed-interest bearing securities and shares with a total current market value of 812 TEuro (previous year: 1,466 TEuro). The profit of the securities before deferred taxes reported directly in the equity capital in 2005 amounted to 14 TEuro (previous year: unrealized loss of 19 TEuro). Through the sale of securities, 1 TEuro of losses (previous year: 0 TEuro) were taken out of the shareholders' equity and transferred to the net result for the period.

18. Trade accounts receivable

	2005 T€	2004 T€
Trade accounts receivable, gross	8,343	6,780
less value adjustments	-297	-241
Subtotal	**8,046**	**6,539**
Future receivables from production orders	1,986	7,980
Total	**10,032**	**14,519**

Production orders

The production orders valued as of the cutoff date using the percentage of completion method but not yet invoiced are as follows:

	31.12.2005 T€	31.12.2004 T€
Costs accrued plus profits from projects not yet invoiced	5,251	13,523
less progress payment invoices	-3,922	-7,779
Balance	**1,329**	**5,744**
thereof: future receivables from production orders	1,986	7,980
thereof: liabilities from percentage of completion (see Advance payments received)	657	2,236

19. Inventories

	2005 T€	2004 T€
Goods (reported at net sales price)	2,319	2,892
Work in progress (reported at production cost)	1,017	392
Advance payments received	-774	-392
Prepayments	285	39
Total	**2,847**	**2,931**

A total of 473 TEuro (previous year 91 TEuro) for inventory depreciation were recorded as expenses. The expenses are included in the cost of revenues.

20. Other current assets

	2005	2004
	T€	T€
Prepaid expenses	136	150
Derivative financial instruments	72	156
Tax refund claims from sales tax	64	0
Due from personnel	41	37
Cash in transit	20	0
Interest receivables on securities	0	27
Other	132	89
Total	**465**	**459**

21. Tangible fixed assets

2005	Property and plant	Technical installations and machines	Factory and office equipment	Total
	T€	T€	T€	T€
Book value January 1, 2005	37	63	939	1,039
Additions	2	26	272	300
Disposals at book value	0	0	-30	-30
Impairment losses	0	0	0	0
Depreciations	-13	-28	-516	-557
Net currency differences	0	18	53	71
Book value December 31, 2005	**26**	**79**	**718**	**823**
Gross book value December 31, 2005	168	188	4,311	4,667
Cumulated depreciations and impairment losses	-142	-116	-3,607	-3,865
Currency differences	0	7	14	21
Book value December 31, 2005	**26**	**79**	**718**	**823**

2004	Property and plant	Technical installations and machines	Factory and office equipment	Total
	T€	T€	T€	T€
Book value January 1, 2004	60	95	1,311	1,466
Additions	0	1	430	431
Disposals at book value	0	0	0	0
Repostings	0	0	-103	-103
Impairment losses	0	0	0	0
Depreciations	-23	-26	-685	-734
Net currency differences	0	-7	-14	-21
Book value December 31, 2004	**37**	**63**	**939**	**1,039**
Gross book value December 31, 2004	163	144	4,395	4,702
Accumulated depreciations and impairment losses	-130	-88	-3,474	-3,692
Currency differences	4	7	18	29
Book value December 31, 2004	**37**	**63**	**939**	**1,039**

This item predominantly includes office equipment and technical installations. The depreciations follow the straight-line method over the asset depreciaton period. The depreciations in 2005 totaled 557 TEuro (previous year: 734 TEuro) and are included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “General administrative expenses”.

22. Intangible assets

2005		Other intangible assets		
	Goodwill	Internally generated software	Licences	Total other intangible assets
	T€	T€	T€	T€
Book value January 1, 2005	1,877	3,831	734	4,565
Additions	0	479	57	536
Disposals at book value	0	0	0	0
Impairment losses	0	0	0	0
Amortizations	0	-1,055	-270	-1,325
Net currency differences	0	31	9	40
Book value December 31, 2005	**1,877**	**3,286**	**530**	**3,816**
Gross book value December 31, 2005	1,877	7,474	1,598	9,072
Accumulated amortizations and impairment losses	0	-4,150	-1,062	-5,212
Currency differences	0	-38	-6	-44
Book value December 31, 2005	**1,877**	**3,286**	**530**	**3,816**

2004		Other intangible assets		
	Goodwill	Internally generated software	Licences	Total other intangible assets
	T€	T€	T€	T€
Book value January 1, 2004	1,877	4,890	846	5,736
Additions	0	1,182	107	1,289
Disposals at book value	0	-186	-17	-203
Repostings	0	0	103	103
Impairment losses	0	-921	0	-921
Amortizations	0	-1,119	-294	-1,413
Net currency differences	0	-15	-11	-26
Book value December 31, 2004	**1,877**	**3,831**	**734**	**4,565**
Gross book value December 31, 2004	1,877	6,898	1,529	8,427
Accumulated amortizations and impairment losses	0	-3,104	-804	-3,908
Currency differences	0	37	9	46
Book value December 31, 2004	**1,877**	**3,831**	**734**	**4,565**

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

> Cash-generating unit of “Mobile Telematics and Fare Collection Systems” and

> Cash-generating unit of “Telematics Software and Services”.

The recoverable amount of the above cash-generating units is determined by their fair value less cost of disposal. This is based on the market price of the init share as of December 31 of a year.

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

	2005	2004
	T€	T€
Mobile Telematics and Fare Collection Systems	1,200	1,335
Telematics Software and Services	677	542
Total	**1,877**	**1,877**

No amortization costs needed to be reported.

Other intangible assets
Internally generated software:
The main components here are the software development costs capitalized in compliance with IAS 38 “Intangible Assets” to the amount of 3,286 TEuro (previous year: 3,831 TEuro) for the products MOBILE-PLAN Basis, JANET Level II, COPILOTpower, APC, MOBILEvario, PARAnet, COPILOTpc, PIDmobil, PIDstation, AUTOMOTIVE and NAVIGATION.

In 2005, the amortizations of the capitalized amounts totaled 1,055 TEuro (previous year: 1,119 TEuro). Impairment losses were not recorded (previous year: 921 TEuro). The amortization of internally generated software is included in the consolidated statement of operations under “Cost of revenues”.

The capitalized software developments of JANET Levels I and II, MOBILE-PLAN Levels I and II, TOUCHmobil Levels I and II have now been fully amortized.

Licences:
The other intangible assets further include external software costs such as licences, consulting and programming and the internal costs for the programming, implementation and installation of third-party software to the amount of 530 TEuro (previous year: 734 TEuro). The amortizations of the capitalized amounts in 2005 totaled 270 TEuro (previous year: 294 TEuro) and are included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “General administrative expenses”.

23. Interest in associated companies

The associated companies are not publicly listed. The following table contains summarized financial information on these associated companies:

		Balance sheet total 31.12.	Shareholders’ equity 31.12.	Total liabilities 31.12.	Revenues	Profit
		T€	T€	T€	T€	T€
iris	2005	3,803	2,131	1,672	4,655	299
	2004	3,669	1,832	1,837	5,025	548
id systeme	2005	847	281	566	1,882	104
	2004	661	255	406	1,624	61
CarMedialab	2005	504	174	330	241	-250
	2004	461	424	37	116	-43
Total	**2005**	**5,154**	**2,586**	**2,568**	**6,778**	**153**
	2004	**4,791**	**2,511**	**2,280**	**6,765**	**566**

Amortization of the shares in associated companies were not required.

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

The object of iris GmbH is the development, production and sale of sensors, and sensor- and information-processing systems. In 2005, the prorated result from this equity consolidation amounted to 128 TEuro (previous year: 237 TEuro).

The object of id systeme is the production, further development and maintenance of EDP programs, the sale of its own and third-party EDP programs, and the provision of accompanying services. The goodwill included in the purchase price amounted to 267 TEuro. The prorated result from the equity consolidation in 2005 totaled 46 TEuro (previous year: 27 TEuro). The distribution in the fiscal year amounted to 34 TEuro (previous year: 0 TEuro).

The object of CarMedialab is the development, implementation, and production of software and hardware components in the telematics, teleservice, and mobile applications fields. The goodwill included in the share purchase price totaled 143 TEuro. The prorated result from the equity consolidation in 2005 totaled -113 TEuro (previous year: -20 TEuro).

On January 20, 2006, init AG purchased an additional 10% of the shares in CarMedialab by means of a capital increase, resulting in a total investment currently of 55%. The purchase cost of these additional shares totaled 150 TEuro and was fully attributable to the capital increase.

The fair value of the identifiable assets and liabilities of CarMedialab as at the date of acquisition were as follows:

	Reported at acquisition	Book value
	T€	T€
Cash	163	163
Receivables	143	143
Tangible fixed assets	8	8
Licences	339	339
	653	**653**
Liabilities	300	300
Provisions	30	30
	330	**330**
Fair value of net assets	323	
Minority interests at fair value of the net assets	-121	
Adjustment of the investment book value using the equity method until the date of acquisition	132	
Goodwill from company acquisition	166	
Total purchase cost of the gradual company acquisition	**500**	

Cash outflow due to company acquisition (additional 10%):

	T€
Cash acquired with the subsidiary	163
Cash outflow	-150
Actual cash inflow	**13**

From the date of acquisition to the release of the financial statements for publication, CarMedialab contributed -34 TEuro (55% of the company result) to the consolidated earnings in 2006.

The above goodwill of 166 TEuro does not include intangible assets, which would have to be valued separately under IAS 38 “Intangible assets”.

24. Deferred taxes

The deferred tax assets and liabilities divide as follows:

	Consolidated balance sheet		Consolidated income statement	
	31.12.2005	31.12.2004	2005	2004
	T€	T€	T€	T€
Deferred tax assets				
Pension accruals	296	42	76	-53
Accrued liabilities	240	110	130	57
Differences acc. to US tax law at INIT Inc.	159	131	28	87
Consolidation transactions	7	9	-2	-16
Loss carried forward	0	354	-354	-266
Total deferred tax assets	**702**	**646**		
Deferred tax liabilities				
Capitalized software	1,221	1,410	189	353
Application of POC method	278	234	-44	348
Loss-free valuation	35	65	30	-65
Foreign currency receivables and liabilities	33	0	-33	0
Low-value fixed assets	30	36	6	12
Differences acc. to US tax law at INIT Inc.	28	69	41	-32
Derivates	28	20	-8	346
Goodwill	18	14	-4	-4
Securities	6	0	0	0
Treasury stock	0	40	40	-40
Consolidation transactions	0	11	11	-10
Pension accruals	0	58	58	0
Total deferred tax liabilities	**1,677**	**1,957**		
Deferred tax income			**164**	**717**

25. Other non-current assets

	2005	2004
	T€	T€
Asset value of pension liability insurance	658	490
Security deposits	65	62
Other	54	15
Total	**777**	**567**

26. Liabilities

	31.12.2005			31.12.2004		
	Total	Residual term		Total	Residual term	
		< 1 year	> 5 years		< 1 year	> 5 years
	T€	T€	T€	T€	T€	T€
Bank loans	57	57	0	1,299	1,299	0
Dormant partners' capital	0	0	0	400	50	0
Trade accounts payable	4,619	4,619	0	4,356	4,356	0
Accounts payable to related parties	136	136	0	717	717	0
Advance payments received	1,081	1,081	0	2,281	2,281	0
Income tax payable	1,367	1,367	0	0	0	0
Other liabilities	2,922	2,892	0	2,210	2,184	0

Terms relating to the above financial liabilities:

The bank liabilities relate to a variable interest-bearing account current with the following credit and guarantee lines:

	Overall line	thereof cash line	thereof guarantee line	Cash or guarantee line
	T€	T€	T€	T€
Banks	14,850	850	8,000	6,000
Credit insurance companies	17,000	0	17,000	0

The credit and guarantee lines are sufficient to finance the further growth of the company. As of December 31, 2005, the cash line utilization totaled 57 TEuro, the guarantee lines, 13,993 TEuro.

The capital of dormant partners' is explained in detail under item 28 of the Notes.

The trade accounts receivable do not bear interest.

For the terms relating to the accounts payable to related parties, please refer to item 38 of the Notes.

For the terms relating to the liabilities from derivative financial instruments included in the other liabilities, please refer to item 34 of the Notes.

27. Other liabilities (current and non-current)

	31.12.2005 Total	Residual term < 1 year	> 5 years	31.12.2004 Total	Residual term < 1 year	> 5 years
	T€	T€	T€	T€	T€	T€
Tax liabilities	612	612	0	908	908	0
Due to personnel	1,055	1,055	0	481	481	0
Derivative financial instruments	565	565	0	244	244	0
Social security liabilities	188	188	0	207	207	0
Remaining work	279	279	0	85	85	0
Other	223	193	0	285	259	0
Total	**2,922**	**2,892**	**0**	**2,210**	**2,184**	**0**

28. Capital of dormant partners

This item relates to the dormant investment of Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart (MBG), in INIT GmbH. MBG receives a fixed annual remuneration of 8% and a profit-linked remuneration of 50% p.a. of the profits of INIT GmbH, up to a maximum of 1.75% of the investment. This investment was terminated prematurely on December 31, 2005 by INIT GmbH and the capital has been repaid.

29. Advance payments received

	31.12.2005	31.12.2004
	T€	T€
Advance payments received	1,081	2,281
thereof liabilities from the “Percentage of Completion“ method (see Trade accounts payable)	657	2,236

30. Provisions

	Status at 01.01.05	Usage	Release	Transfer	Status at 31.12.05
	T€	T€	T€	T€	T€
Provisions for warranties	1,104	1,104	0	1,190	1,190
Provisions for deficient production costs	722	722	0	667	667
Other provisions	101	52	19	94	124
	1,927	**1,878**	**19**	**1,951**	**1,981**

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

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

The provisions for deficient production costs were established for services still outstanding in invoiced orders or for services received in the period under review which hat not yet been invoiced.

31. Pension accruals

In compliance with IAS 19, pension liabilities are calculated using the projected unit credit method. These pension commitments grant employees an old-age pension after attaining the age that entitles them to a pension under the statutory annuity insurance, the earliest legal age for retirement being 63. The following parameters were taken into consideration: calculatory interest of 4.25% (previous year: 5.25%), retirement age of 63 years (Dr. Gottfried Greschner: 65 years), salary increases are irrelevant to pension commitments; pension adjustments of 4% (2% for Dr. Gottfried Greschner), fluctuation deduction of 5%; biometric bases: see Klaus Heubeck's "Richttafeln G" (Actuarial Tables) of 2005.

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

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

	2005 T€	2004 T€
Pension accruals at the beginning of the year under review (Defined Benefit Obligation - DBO)	1,019	945
Past service cost	378	0
Current service cost	56	65
Interest cost	54	52
Actuarial losses (+)/gains (-)	459	-43
Pension payments	0	0
Pension accruals (DBO) at the end of the year	**1,966**	**1,019**

In regard to the defined benefit plans, the expenses for pension payments are composed as follows:

	2005 T€	2004 T€
Service cost	56	65
Interest cost	54	52
Past service cost	378	0
Expenses for pension payments	**488**	**117**

In the consolidated statement of operations, the service cost and the past service cost are included in the cost of revenues (9 TEuro), the sales and marketing expenses (213 TEuro) and the general administrative expenses (212 TEuro) and the interest paid in this item.

	31.12.2005 T€	31.12.2004 T€
Cumulated amount of the actuarial gains and losses included in the shareholders' equity	416	-43

The pension accruals (DBO) attributable to members of the Managing Board totaled 833 TEuro (previous year: 341 TEuro).

Defined contribution plans

In the 2002 fiscal year, init changed its pension scheme regulations for new commitments. Accordingly, the company will no longer make any new, direct commitments. Old-age pensions will be paid under a “defined contribution plan” through a relief fund. The appropriate amount recorded as expenses totaled 80 TEuro (previous year: 40 TEuro), 42 TEuro (previous year: 4 TEuro) of which were attributable to members of the Managing Board.

32. Shareholders’ equity

Subscribed capital

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

Floating shares:

	2005	2004
Status at 01.01.2005	9,803,000	9,896,828
Acquisition of treasury stock	50,000	93,828
Issued treasury stock	0	0
Status at 31.12.2005	**9,753,000**	**9,803,000**

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

Managing Board	No. of shares	Supervisory Board	No. of shares
Dr. Gottfried Greschner, CEO	3,801,400	Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	0
Joachim Becker, COO	420,983	Bernd Koch	0
Wolfgang Degen, COO	124,000	Fariborz Khavand	0
Dr. Jürgen Greschner, CSO	107,364		
Bernhard Smolka, CFO	9,600		

Authorized capital

At the annual shareholders’ meeting on May 18, 2001, a resolution was passed to create capital to the amount of 4,000,000 Euro. With the approval of the Supervisory Board, the Managing Board is authorized to increase the company’s capital stock by up to 4,000,000 Euro by May 18, 2006, through a single or repeated issuing of up to 4,000,000 ordinary shares against contributions in cash or in kind. The new shares are to be taken over by credit institutions that will be obliged to offer them to investors for sale. However, with the approval of the Supervisory Board, the Managing Board is authorized to withdraw the pre-emptive right, so that up to 800,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price. The aim is to balance peak amounts, to open up additional capital markets, to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind, and to turn up to 250,000 new shares into employee stocks.

On July 8, 2002, the Managing Board availed itself of this authorization and decided on an increase in the capital stock through the issue of 40,000 shares. The authorized capital now totals 3,960 TEuro (3,960,000 individual share certificates).

Additional paid-in capital
The capital reserves of 3,141 TEuro result from the premium of the shares sold at the time of the initial public offering. 18 TEuro were transferred to 2005 as part of the recording of expenses from the share-based remuneration (see item 40).

Treasury stock
Based on the resolution passed at the annual shareholders' meeting on May 15, 2003, replaced by the resolutions of May 13, 2004 and May 11, 2005, the company is authorized to purchase treasury stock. On December 23, 2003, the Managing Board decided on a stock repurchase of up to 60,000 shares. Further stock repurchases were decided on August 26, 2004, to the amount of 60,000 shares, and on March 21, 2005, to the amount of 50,000 shares. In 2005, the company acquired 50,000 (previous year: 94,828) shares at an average price of 3.84 Euro (previous year: 2.74 Euro). The company's treasury stock was valued at cost at 1,003 TEuro (previous year: 810 TEuro) and openly deducted from the equity capital. Of the current treasury stock of 287,000 shares with an imputed share of 287,000 Euro (2.86%) in the capital stock, 3,474 resulted from the capital increase and 283,526 from the company's stock repurchasing program. The shares were repurchased at an average price of 3.48 per share. The treasury stock was repurchased for use as consideration within the scope of mergers and to acquire other companies or parts of companies or participations, or, where required, for the opening up of additional capital markets or to issue them to employees.

Other reserves
Difference from pension valuation:

The actuarial gains and losses are recorded in this item without affecting the operating result.

Difference from currency translation:

This reserve is used to record differences due to the currency translation in the financial statements of INIT Inc.

Stock market valuation of securities:

This reserve includes changes in the current market value of financial investments available for sale.

33. Objectives and methods of financial risk management

The main financial instruments used by the company – with the exception of derivative financial instruments – include cash, securities, and loans. The purpose of the securities is the investment of funds of the group. The loans are used for the shareholdings iris GmbH and CarMedialab GmbH to increase their liquidity. The group has a number of other financial assets and liabilities, including trade accounts receivable and payable, which accrue directly within the scope of its business activities.

Furthermore, the group also enters into derivative transactions. These predominantly include forward exchange transactions and currency options. The purpose of these derivative financial instruments is the management of currency risks resulting from the business activities of the group.

The group has always pursued the policy of refraining from dealings in financial instruments. However, since init also tries to keep its options open in regard to the exchange rate development, it may incur losses.

The main risks of the group in regard to financial instruments include foreign currency risks and risks of default. The Management regularly reviews and monitors each of these risks, which are described in the following. The accounting and valuation principles of the group for derivative financial instruments are detailed in item 5 of the Notes.

Foreign currency risk

Due to foreign revenues, specifically in the USA and Canada, a change in the US Dollar/Euro and Canadian Dollar/Euro exchange rate constitutes a substantial risk. To eliminate this rate change risk, the group uses forward exchange transactions and options for all major business transactions if payment follows much later than the firm purchase or sale commitment. The hedges must be in the currency as the underlying secured transaction. The group enters into hedging transactions only once a firm commitment has been made.

Risk of default

The group concludes transactions exclusively with recognized, creditworthy third parties. All customers requesting transactions with the group based on credit are subjected to a credit investigation. Furthermore, the receivables are continuously monitored to ensure that the group is not exposed to any material risk of default. All recognizable 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 recognized, creditworthy third parties, it does not require securities.

Interest change risk

The interest change risk to which the group is exposed mainly relates to the loans to associated companies and to fixed-interest securities in the form of a change in their current market value. Due to their insignificant nominal amounts, this risk is quite low.

34. Explanatory notes to the financial instruments

Current market values

The following table compares the book values and the current market values of the financial instruments of the group reported in the balance sheet, with the exception of financial instruments such as short-term trade accounts receivable and payable, where the book value constitutes an appropriate approximate value for their current market value.

		31.12.2005		31.12.2004
	Book value	Current market value	Book value	Current market value
	T€	T€	T€	T€
Financial assets:				
Cash and cash equivalents	10,039	10,039	1,894	1,894
Marketable securities	812	812	1,466	1,466
Derivative financial instruments	72	72	156	156
Loans	188	207	68	92
Other (non-current)	965	965	635	635
Financial liabilities:				
Variable interest-bearing bank loans	57	57	1,299	1,299
Dormant partners' capital	0	0	400	464
Derivative financial instruments	565	565	244	244

The current market value of the listed securities ("available for sale") was determined using their respective fair value. The current market value of the derivative financial instruments, the loans and the capital of the dormant partners was calculated by way of discounting the expected future cash flow using the prevailing market interest rates. The current market value of the other financial assets was calculated using the market rates.

Interest change risk

Financial instruments exposed to an interest exchange risk as of December 31, 2005:

Fixed interest

	T€	Maturity	Interest rate
Loans	120	< 1 year	6.0%
	68	> 30.09.2010	10.0%
Marketable securities	501	15.11.2006	3.125%

Variable interest rate

	T€	Maturity
Cash and cash equivalents	10,039	< 1 year
Bank loans	-57	< 1 year

Financial instruments exposed to an interest exchange risk as of December 31, 2004:

Fixed interest

	T€	Maturity	Interest rate
Loans	68	> 30.09.2010	10.0%
Marketable securities	504	15.11.2006	3.125%
	249	18.02.2005	4.25%
	713	03.08.2005	5.50%
Dormant partners' capital	-200	1-4 years	9.75%
	-150	> 5 years	9.75%
	-50	< 1 year	9.75%

Variable interest rate

	T€	Maturity
Cash and cash equivalents	1,894	< 1 year
Bank loans	-1,299	< 1 year

The interest rate of variable interest-bearing financial instruments is adjusted at intervals of less than one year. The interest rate of fixed-interest financial instruments is fixed until the maturity of the respective financial instrument. The other financial instruments of the group not included in the above tables do not bear interest and consequently are not exposed to an interest change risk.

Risk of default

The group does not have any material risk of default concentrations.

Hedging transactions

The derivative financial instruments used to hedge future cash flows relate exclusively to foreign exchange risks in regard to the expected cash receipt received predominantly in Canadian Dollars from firm commitments. The following derivative financial instruments were concluded:

	Nominal value		Market values	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	T€	T€	T€	T€
Forward exchange transactions	5,086	11,169	-181	-244
Currency options	10,281	5,718	-312	156
	15,367	**16,887**	**-493**	**-88**

The exercise or maturity dates range from January 2006 to December 2008.

35. Hedged liabilities

The group did not have any hedged liabilities.

36. Contingencies and other liabilities

Operating leasing agreements

The group has concluded leasing agreements for vehicles and other business and operating equipment. These leasing agreements have an average term of between 3 and 4 years and do not include extension options. The annual commitments of the init group totaled 512 TEuro, 367 TEuro of which are attributable to the renting of the office building in Karlsruhe (the lease running until 2011). No obligations were imposed on the lessee upon conclusion of these leasing agreements. The future minimum payments under these agreements extend to the year 2011 and amount to:

	31.12.2005	31.12.2004
	T€	T€
< 1 year	605	571
1 – 5 years	1,763	2,014
> 5 years	0	183
Total	**2,368**	**2,768**

Contingent liabilities

As in the previous year, there were no contingent liabilities as of December 31, 2005.

Legal disputes

Within the scope of its business activities, the company is presently involved in one pending lawsuit. The company is not aware of any events that might have a serious adverse effect on the company's assets, liabilities, financial position, or results of operation.

Other disclosures

37. Additional notes to the cash flow statement

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

	2005	2004
	T€	T€
Interest payments	-236	-263
Income tax payments	-277	-20
Income tax receipts	8	147

All cash flows of investments in tangible fixed assets relate to the maintenance of capacities. Expansion investments were not effected.

38. Related party transactions

The companies included in the consolidated financial statements and the associated companies are listed in the section detailing the group of consolidated companies.

		Income from sales to related parties and persons T€	Purchases from related parties and persons T€	Due from related parties and persons as at 31.12. T€	Due to related parties and persons as at 31.12. T€
Associated companies	2005	331	1,090	314	136
	2004	19	1,952	149	717
Other related party transactions	2005	0	367	0	0
	2004	0	367	0	0

Associated companies

The amounts due from related parties and persons include loans to the amount of 188 TEuro (previous year: 68 TEuro) and relate to CarMedialab (120 TEuro; previous year: 0 TEuro) and iris (68 TEuro; previous year: 68 TEuro). These amounts are shown in the balance sheet under non-current assets.

The other amounts of 126 TEuro (previous year: 81 TEuro) relate to iris at 15 TEuro (previous year: 56 TEuro) and CarMedialab at 111 TEuro (previous year: 26 TEuro). These are trade accounts receivable with a remaining maturity of less than one year. These amounts are shown in the balance sheet under current assets.

Amounts due to related parties and persons relate to trade accounts payable and have a remaining maturity of less than one year. These amounts are attributable to id systeme at 5 TEuro (previous year: CarMedialab at 260 TEuro from the obligation to make an inpayment in the capital reserve) and to iris at 131 TEuro (previous year: 457 TEuro). 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 amount to TEuro 30 (TEuro 367 annually). The rental price is fixed by contract until June 30, 2011.

Terms of the business transactions with related parties and persons

Sales to, and purchases from, related parties and persons are effected on generally accepted market terms. There are no guarantees 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 fiscal year as of December 31, 2005 (previous year: 0 TEuro).

Compensation of persons in key management positions

Persons in key management positions include the Managing Board of init AG and the Managing Directors of INIT GmbH. For details on the compensation, please refer to item 42 of the Notes.

39. Segment reporting

Primary format

The group has two divisions: Mobile Telematics and Fare Collection Systems, and Telematics Software and Services.

	2005 T€	2004 T€
Revenues		
Mobile Telematics and Fare Collection Systems	21,359	20,761
Telematics Software and Services	12,047	11,750
Group total	**33,406**	**32,511**
Operating profit/loss		
Mobile Telematics and Fare Collection Systems	2,340	-292
Telematics Software and Services	1,652	-1,202
Group total	**3,992**	**-1,494**
Amortization and Depreciation		
Mobile Telematics and Fare Collection Systems	720	803
Telematics Software and Services	1,162	1,344
Group total	**1,882**	**2,147**
Segment assets 31.12.		
Mobile Telematics and Fare Collection Systems	18,124	18,364
Telematics Software and Services	15,991	13,675
Group total	**34,115**	**32,039**
Segment liabilities 31.12.		
Mobile Telematics and Fare Collection Systems	8,397	9,266
Telematics Software and Services	7,409	6,900
Group total	**15,806**	**16,166**
Investments in tangible fixed assets and intangible assets		
Mobile Telematics and Fare Collection Systems	462	569
Telematics Software and Services	374	1,151
Group total	**836**	**1,720**
Impairment losses included in the net earnings for the period		
Mobile Telematics and Fare Collection Systems	454	229
Telematics Software and Services	19	783
Group total	**473**	**1,012**

Secondary format

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

	2005 T€	2004 T€
Revenues		
Germany	10,471	6,973
Rest of Europe	12,430	10,351
North America	10,505	15,187
Group total	**33,406**	**32,511**
Segment assets 31.12.		
Germany	29,812	27,934
North America (USA)	4,303	4,105
Group total	**34,115**	**32,039**
Investments in tangible fixed assets and intangible assets		
Germany	754	1,549
North America (USA	82	171
Group total	**836**	**1,720**

40. Share-based remuneration

Based on the resolution of the Managing Board of April 29, 2005, all employees of init AG and its subsidiaries were offered shares of the company as a form of profit sharing. In January 2006, the employees entitled to subscribe (excluding the Managing Board, the Managing Directors of the subsidiaries and temporary staff, trainees and suchlike) received 44 shares at a stock value of 3.49 Euro per share at the time of the resolution. The profit sharing scheme was granted on a pro-rata basis to part-time employees and employees having joined the company during the year. To qualify, employees needed to be in permanent employment as of December 31, 2005. The shares are subject to a qualifying period of two years from the time of transfer.

In January 2006, a total of 5,138 treasury stock was transferred to employees. As at the time of the resolution of the Managing Board, the fair value based on the market price of the equity instruments issued amounted to 18 TEuro, which was recorded as expense in 2005.

41. Circumstances of significance after the cutoff date

On January 20, 2006, init AG purchased an additional 10% of the shares in CarMedialab. Consequently, the participating interest of init now totals 55%. The purchase cost of these additional shares amounted to 150 TEuro.

42. Employees, Managing Board and Supervisory Board

Employees

The annual average of employees was as follows:

	2005	2004
Employees in Germany	155	182
Employees in the USA	28	27
Total	**183**	**209**

The Managing Board

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

Dr. Gottfried Greschner, Karlsruhe	Master's degree in engineering (Chairman) (CEO)
Joachim Becker, Karlsruhe	Master's degree in computer science (COO)
Wolfgang Degen, Karlsruhe	Master's degree (FH) in engineering (COO)
Dr. Jürgen Greschner, Karlsruhe	Master's degree in economics (CSO)
Bernhard Smolka, Stutensee	Master's degree in economics (CFO)

Supervisory Board

The members of the Supervisory Board of init AG:

Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau, Meerbusch, Chairman	Consulting engineer specializing in local public transportation, member of the Supervisory Board of Berliner Verkehrsbetriebe, member of the Supervisory Board of BT Berlin Transport GmbH, Berlin, member of the Advisory Board of PTM, master's degree at the University of Duisburg/Essen
Bernd Koch, Lahr, Vice Chairman	Self-employed business consultant, member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Centre in Karlsruhe
Fariborz Khavand, Wuppertal	Self-employed business consultant and Managing Director, member of the Supervisory Board of Rhön Residence GmbH & Management KG

Particulars of board member salaries

In their capacity as executives, the members of the Managing Board of init AG received compensation to the amount 198 TEuro (previous year: 144 TEuro), and in their capacity as Managing Directors or departmental heads of INIT GmbH included in the consolidated financial statements, to the amount of 1,093 TEuro (previous year: 771 TEuro), thus totaling 1,291 TEuro (previous year: 915 TEuro) in the 2005 fiscal year. This total includes fixed salaries of 997 TEuro (previous year: 915 TEuro) and variable remuneration in the form of management bonuses of 294 TEuro (previous year: 0 TEuro).

The total remuneration of the Supervisory Board members for the period from January 1, 2005 to December 31, 2005 amounted to 37 TEuro (previous year: 24 TEuro), which includes a variable share of 13 TEuro. In the 2005 fiscal year, the members of the Supervisory Board of the init group received 0 TEuro (previous year: 5 TEuro) for consulting services.

43. Auditing firm

The auditing firm Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Mannheim, received compensation to the amount of 54 TEuro (previous year: 66 TEuro) for its audit of the consolidated financial statements and the individual accounts of init AG, and the individual accounts of INIT GmbH. 39 TEuro (previous year: 31 TEuro) were paid for tax consulting services. Other services rendered (3 quarterly reviews and reviews at INIT Inc.) totaled 61 TEuro (previous year: 64 TEuro). Other certification and appraisal services were not provided.

44. 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 December 21, 2005, and was made available to the shareholders.

Karlsruhe, February 28, 2006

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

TOUCHbill: The vending machine increases the flexibility and efficiency of the ticket sale

"The TOUCHbill vending machine simplifies the ticket purchase. The user interface is clear and comprehensible and makes it convenient for passengers to buy their own tickets – with coins, notes, or even charge card. This puts the fun back into bus and rail transport."

> ***Bernd Blank,***

Ticketing

Mobile Telematic and Fare Collection Systems

Group Status Report

The init group is an internationally operating system house for telematics and electronic fare collection systems for local public transportation.

init develops, produces, installs, and maintains integrated software and hardware products for the planning, management, and operation of transportation companies. init thus makes a vital contribution to continuously growing mobility requirements while making bus and railway services more attractive.

init is the only provider worldwide with a product portfolio that covers the entire current range of needs of the public transportation sector and integrates them into a single system. From routing and human resource planning, computer-aided operations control (ITCS) and fleet management, passenger information and counting systems to electronic ticketing and payments, init customers are provided with intelligent solutions from a single source.

The init product system is characterized by its modular structure and high integrability. As a result, init stands out from its competitors due to a more comprehensive, efficient, and flexible product offering. It allows both an individual combination of single modules and the ability to integrate into other systems via standardized interfaces.

By using this technology, public transportation companies are able to increase their quality in terms of customer orientation, convenience, safety, short travel times, and punctuality. These systems can maintain their position in an increasingly competitive environment through liberalization and rationalization.

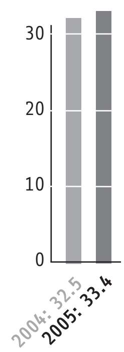
In accordance with this complete value-added chain, init has an excess of 300 national and international projects in almost 23 years of business. These projects involve the integration of comprehensive solutions with telematics and fare collection systems for transportation companies in Germany, Europe, and North America.

Business Trend and Situation

General business trend

In large-scale infrastructure projects aiming to ensure mobility in conurbations, cutting-edge technological solutions for local public transportation increasingly gain importance worldwide. In recent years, init has been able to make a name for itself in this sector through reference projects in European capitals including London, Stockholm and Oslo, and in North American metropolises such as Houston and Vancouver (USA). This has manifested itself in an increase in the demand of major foreign local transportation companies for telematics systems from init.

Never before in its entire company history was init represented at so many trade fairs and events as in 2005. Accordingly, our operating activities and indeed our incoming business focused on the international market. In so doing, init was once again successful in major tenders in 2005, leading to a further shift in orders increasingly toward international projects.



Yet even in Germany, the pick-up in tenders, which had already commenced by the end of 2004, continued in the 2005 fiscal year, with positive results for our business.

Despite the continuing financial straits of the public authorities in Germany, the economic activity significantly recovered not least due to the imminent Football World Cup.

At the same time, the restructuring and savings measures initiated in the 2004 fiscal year took effect, making init more efficient and, above all, profitable again in 2005.

Yet we did not stop there and continued to pursue our objectives – profitable growth and consolidation of our market position in both Europe and North America – with dedicated determination. Consequently, international sales were further expanded, while we also created additional sales and project management capacities for the markets in Great Britain, Scandinavia, and Spain. Furthermore, we were able to establish promising contacts in the Middle East. These measures have already shown preliminary dividends so that we remain well-prepared in the coming fiscal years to continue on our course for growth.

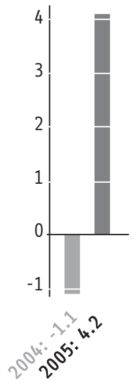
The extension of our international business is also reflected in our sales trend. Thus, the high level reached in 2004 could be maintained in 2005. On the whole, init generated foreign revenues of 22.9 million Euro (previous year: 25.5 million Euro), corresponding to 68.7% (previous year: 78.6%) of total sales. In Europe (excluding Germany), sales increased by 19.2% to 12.4 million Euro (previous year: 10.4 million Euro). North American sales, on the other hand, took a brief breather on completion of the large-scale project in Houston as scheduled. With sales of 13.1 million USD (previous year: 18.9 million USD), the results came in at around 30.7% below the prior-year record level. However, we managed to win further major contracts in the USA and in Canada in 2005, the lion's share of which, however, will not affect sales until fiscal 2007.

In Germany, we are still a long way from matching our record results in 2001 and 2002, yet managed a clear gain compared to the previous year, from 7.0 million Euro to 10.5 million Euro, which corresponds to an increase of 50%.

With a total revenue of 33.4 million Euro (previous year: 32.5 million Euro), init managed, on the whole, not only to exceed projections but also to attain the highest sales of any fiscal year in company history. Looking at the quarters individually, we also observed a satisfactory trend: for the first time in company history, init recorded an even distribution of high-level sales in the first three quarters. At 10.5 million Euro (Q4 previous year: 15.5 million Euro), the closing quarter, however, still remains the period reporting the strongest sales.

A positive contribution to sales and earnings in 2005 was the US Dollar trend. Where in fiscal 2004, init was still faced with a substantial decline in price of 8%, 2005 saw an increase by 14.5%, which subsequently led to a signifiant improvement in our margins in US business.

EBIT
in million €



Earnings position

On the earnings side, init was able to record a clear gain again after the losses incurred in 2004. Thus, due to the substantial upturn in business, our earnings projections for 2005 could be revised upward on two occasions. For the first time in company history, init managed to achieve a positive result in every quarter of the 2005 fiscal year. This can be attributed not only to our cost savings, increase in efficiency, our restructuring measures and the positve trend of the US Dollar, but also to the recovery of the domestic market and the expansion of our sales activities.

With an EBIT of 4.2 million Euro (previous year: -1.1 million Euro), we managed to follow the most successful fiscal year of init to date, which was 2001, the year of our initial public offering.

The consolidated net profit for the year totaled 2.6 million Euro (previous year: net loss of 0.7 million Euro). This corresponds to a profit of 0.26 Euro (previous year: loss of 0.07 Euro) per share.

Order situation

In 2005, our order situation was characterized by new, major contracts in Germany, Europe, and North America.

The intake of new orders improved on the previous year from 24.8 million Euro to 64.3 million Euro, which corresponds to an increase of 159%.

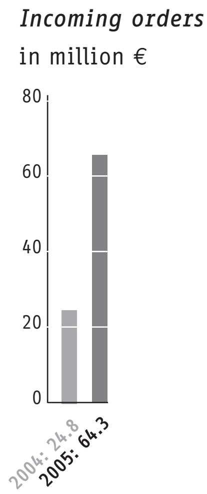
Thus in March 2005, init was successful in a tender for fare collection systems for the public transport company Dortmunder Stadtwerke. In total, init will supply the company with 230 EFADintegral ticket printers with color display and 55 EFADportable ticket printers. The contract also includes the accounting software MOBILEartist. The order volume totals in excess of one million Euro.

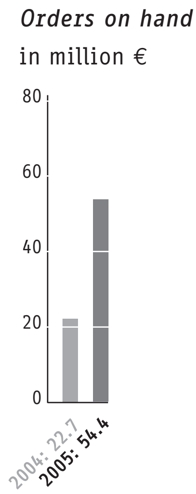
In May, init scored its biggest success in Germany to date, with a contract from Munich. Münchner Verkehrsbetriebe (MVG), the second largest municipal transportation service in Germany, contracted us for the equipment of its control center with a new computer-aided dispatch and vehicle location system, MOBILE-ITCS. In addition, all new buses and streetcars of MVG will gradually be provided with the on-board computer COPILOTpc. Software components such as the dynamic passenger information system.

MOBILE-STOPinfo complete our scope of supply. The system is planned for initial operation before the Football World Cup. The order volume of this phase amounts to around 4 million Euro. Further orders for the equipment of another 650 vehicles can be expected in the future; as of the end of the year, the contract merely covered equipment for 18 vehicles.

Only a few weeks later, init was able to bag a contract from Bremer Straßenbahn AG (BSAG) for the delivery and installation of a new generation of ticket machines. In addition to ec charge cards, the new TOUCHbill sales terminals also allow coins and notes for payment.

In December, init was successful in securing a contract from Stadtwerke Osnabrück for the delivery of 32 matrix displays for passenger information. The contract is expected to be executed by mid-2006.





In Europe, init received numerous follow-up orders from already existing customers. Specifically, these included customers in Leicester, Oslo, and Stockholm. On the whole, the company recorded new business to the amount of around 7.5 million Euro through follow-up deliveries and extended orders in Europe (excluding Germany).

The first order from Denmark came in July. DSB S-tog, a subsidiary of the Danish state-owned railway company, the largest transportation service in Denmark, commissioned init with the delivery of an integrated on-board information system and other hardware and software components by mid-2007. This equipment will initially be fitted in around 135 track vehicles for local public transportation in the Greater Copenhagen Area. The order value tops one million Euro.

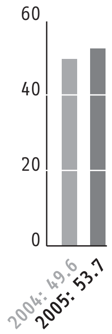
The most substantial intake of new orders for init, however, was registered in North America. In New York City, init won a contract advertised by the Metropolitan Transportation Authority for the equipment of over 1,300 Access-a-Ride vehicles with intelligent technology. These vehicles are available as transportation to people who cannot ride accessible buses or subways, and provide a door-to-door service. On workdays alone, this service is used by an average 14,700 passengers. Initially, init will equip these vehicles with its new on-board computer generation COPILOTtouch Windows XP embedded. Satellite-based location and data radio transmission technology will help ensure a more efficient control and optimization of these vehicles. In addition, init will also realize an easy-to-use communication and scheduling system for a control center, which will be connected with over 100 workstations. The order volume including maintenance contracts exceeds 16 million USD.

The largest individual order in company history, bringing in over 35 million CAN $, came from Vancouver (Canada). Placed by the local public transportation provider, TransLink, init will provide around 1,300 vehicles of the Coast Mountain Bus Company with the on-board computer COPILOTpc and a bus communication system over the next two years. In addition to the on-board computers, init will also supply a computer-aided dispatch and vehicle location system with GPS vehicle location and set up a digital radio communication system. The Vancouver conurbation covers an area of around 1,800 square kilometers, and with over 2 million inhabitants, is one of the fastest growing regions in Canada.

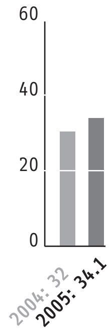
Bookings from Germany aggregating 15.1 million Euro (previous year: 7.9 million Euro) were satisfactory and indicated a recovery of the Germany market. This result was up on the previous year by 91.1%. In the other European countries, the order intake of 8.6 million Euro also exceeded the prior-year result of 6.0 million Euro. This corresponds to an increase of 43.3%. Even more successful, however, was our business with North America. Here, init was able to improve its rate of new orders from 10.9 million Euro to 40.6 million Euro, recording an increase of 272%.

On the whole, the American market continued to revive and further major contracts have been announced or are pending decision.

Equity-to-asset ratio
in %



Balance sheet total
in million €



The volume of orders as at the end of the year thus reached a record level of 54.4 million Euro and tops the previous year by 140% (end of 2004: 22.7 million Euro).

Financial position

In the 2005 fiscal year, the financial position of the init group drastically improved. Due to the annual net profit attained and a positive cash flow, both the equity capitalization and the liquidity of the company substantially improved.

The shareholders' equity increased to 18.3 million Euro as of the end of the year (previous year: 15.9 million Euro), thus being 15.1% above the prior-year level. The equity-to-assets ratio stood at 53.7% (previous year: 49.6%).

As of December 31, 2005, the liabilities to banks could be fully repaid by the cutoff date, with the exception of a short-term credit in current account of 57,000 Euro of INIT Inc. (previous year: 1.3 million Euro). The dormant partners´ capital of Mittelständische Beteiligungsgesellschaft Baden-Württemberg was repaid prematurely.

As of the end of December 2005, the liquid resources including short-term securities totaled 10.9 million Euro (previous year: 3.4 million Euro). This increase in liquid resources was due to the successful completion of large-scale projects, to less preliminary financing, and to the positive operating result. The available guarantee and credit lines will continue to secure financing for our business activities.

As of December 31, 2005, the balance sheet total rose by around 2.1 million Euro as compared to the previous year and now aggregates 34.1 million Euro.

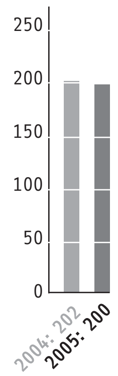
The investments in fixed assets of 0.3 million Euro (previous year: 0.4 million Euro) in the 2004 fiscal year related to replacement investments and rationalizaton investments.

Participations

init holds 44 per cent of the shares in id systeme GmbH, Hamburg. The human resources planning software, PERDIS, developed by id systeme is now fully integrated into the init product range, resulting in an increase in the application possibilities of the init software, MOBILE-PLAN. With sales of 1.9 million Euro (previous year: 1.6 million Euro), id systeme GmbH attained an annual net profit of 104,000 Euro (previous year: 61,000 Euro). To improve both sales and earnings, the PERDIS software is also offered to customers in Europe and the USA, where we were able to achieve further successes. The BidDispatch module specially developed for the USA facilitates the preparation of usually flexible, long-term duty rotas on the basis of driver requests. Contrary to the increasingly popular FlexPlan in Europe, the filing and fulfillment of requests here predominantly takes into consideration the length of service and the status of the employees.

Our other shareholding (43%), iris GmbH infrared & intelligent sensors, Berlin, was able to report a satisfactory fiscal year. The sales figure of 4.7 million Euro did not improve on the previous year (5.0 million Euro) on account of the sluggish demand on the domestic market, while its net earnings from ordinary activities of 0.5 million Euro remained

Employees as of 31.12.05
total



below the prior-year level (0.9 million Euro). For 2006, however, we anticipate the figures for both sales and earnings to improve again.

The decisive factor here still was the great demand for passenger counting systems in North America, which have now become a regular in all init systems installed in the USA. In addition, init sells numerous pure passenger counting projects. In Italy and South America, the further expansion of business for iris GmbH was pursued with focused determination, while additional customers could be won in Russia. In the coming years, iris GmbH will continue to invest in the development of a new sensor that will ensure a higher resolution and thus secure a technological lead.

init innovation in traffic systems AG also holds a share of 45% in CarMedialab GmbH, Bruchsal. Within the scope of a development, sales, and marketing cooperation, our joint objective is to develop telematics solutions for the automobile industry. The first major contract for the delivery of 200 telematics units for CarMedialab was awarded in 2005. Sales of CarMedialab GmbH amounted to 0.2 million Euro (previous year: 0.1 million Euro), while its net earnings from ordinary activities totaled -250,000 Euro (previous year: -43,000 Euro). For 2006, init anticipates a balanced result. At the beginning of 2006, init increased its share in CarMedialab to 55%.

Production

As a turnkey supplier, init develops integrated hardware and software solutions for all key tasks required in transportation companies. Based on the modular structure of these hardware and software solutions, we were able to satisfy specific customer demands while at the same time taking advantage of the benefits of a platform strategy. One of the crucial prerequisites for this is the development of our own hardware components. Only in this way can we ensure smooth fitting interfaces between the individual components.

To keep its production as cost-effective and flexible as possible, init concentrates on its key competences in development. To this end, the production of hardware is outsourced to qualified producers as subcontractors working closely with our init engineers. To ensure the quality required by us, each stage of the production process, from prototyping to test series to the serial production, is accompanied by init staff.

We deliberately avoid dependence on individual suppliers. In this way, we are in a position to switch suppliers should one of our business partners be unavailable. In the 2005 fiscal year, the company gained several new suppliers and negotiated new master agreements. A key objective here was the build-up of a supplier base in the Far East in order to further reduce our production costs. For 2006, the init group also researched the possibility to cooperate with producers in the USA. On the one hand, in order to meet the more stringent requirements relating to “Buy America“ and, on the other, to feed the dollar expenses of contracts based on US dollars with dollar income for the init group, thus reducing the exchange risk relating to the US dollar.

Personnel

Where in 2004 init was still forced to adjust its workforce to the persistent weakness of the German market, the company was able, in 2005, to keep its staffing level largely constant despite the rise in the order volume. In 2006, we will slightly raise the level again to cope with our substantial backlog of orders.

Around 70% of the init employees have a university degree. To follow the new technological developments, init maintains close contact with the University of Karlsruhe and the technical colleges in the Karlsruhe region.

In order to ensure that the employees of INIT, Inc. also meet the stringent requirements of our technology, new employees are sent on training visits to the group headquarters in Germany. In addition, we make sure that a certain percentage of the jobs in the United States are filled with specialists from Germany.

As of December 31, 2005, the init group employed a workforce of 200 (previous year: 202) including temporary staff, scientific assistants, and graduate students. Thus, the number of employees remained largely the same. A total of 171 employees held permanent positions (previous year: 176), 17 of whom were employed on a part-time basis. 6 employees were in apprenticeships, training to be IT specialists, electronic communication technicians, and industrial clerks. Furthermore, init offers the possibility of training in electrical engineering, mechatronics, information technology, and commercial information technology within the scope of courses at the University of Cooperative Education.

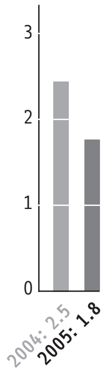
On April 29, 2005, the Managing Board decided on giving its employees a share in the company profits based on the operating result. Every permanent employee was to receive a profit share of 3,000 Euro (staff in the USA, of 3,000 USD). One thousand Euro per employee were paid with the November salary. The remainder will be discharged on approval of the annual financial statements. The appropriate amounts were taken into account in the financial statements. In the context of asset sharing, each employee will also receive 44 shares in the company. The shares are subject to a qualifying period of 2 years.

Environmental Protection

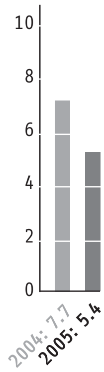
As a system supplier for companies in the local public transportation sector, init feels particularly committed to protecting the environment. Our products help transportation companies provide a more attractive local public transportation service and to increase their ability to compete against private transportation, thus making a vital contribution to environmental protection by reducing exhaust gas and particulate matter. In addtion, the init products enable transportation companies to provide a more efficient and thus, more environmentally friendly transportation service.

Environmental protection, however, starts in our own company. It begins with the init employees, who are urged to reduce waste material to a minimum and ensure waste separation, and continues in the construction and production of our products. Our products are consistently made from recyclable and environmentally friendly materials and sold in reusable packaging. Used equipment can, of course, be returned to init, where it is disposed of in an ecologically friendly manner. This also applies to batteries and packaging material.

Expenditure R&D
in million €



Expenditure R&D
in % of revenues



(not included: developments within projects)

Research and Development

One of the main strengths of init is the outstanding technological market position of its products in competition. Consequently, research and development play a key role at init. Not only do we need to place technical innovations on the market at just the right time. We also have to keep a close eye on the progress and new developments in the market to allow us to turn them into matured products. Having our own development teams also enables us to react quickly to modern technologies and changing market trends and to cater to the specific requirements of our customers.

As in previous years, our software and hardware development teams worked on various new products and on the further development of existing ones. Special attention was given to the new development of TOUCHbill, the latest generation of ticket sales terminals, which, along with ec charge cards, also allow coins and notes for payment. Depending on the type of payment, the ticket can either be stored on the charge card or printed as a paper ticket. The terminal is integrated online via radio LAN into the infrastructure of the vehicle and into the operating control system of the customer, so that the costs for handling and maintenance of the entire ticketing logistics can be minimized.

In the area of dynamic passenger information displays, init extended its range by adding PIDintegral, a price-conscious solution for stops and stations serviced by only a few lines. The display consists of two-digit 7-segment notices informing passengers of the waiting time until departure of the next bus or train. Information on line and route are permanently printed on the stop or station sign. The brightness of the light emitting diodes is adjusted to the surrounding lighting conditions.

Our new product MOBILEmodi now also makes dispatch and vehicle location data available mobile on a PDA (Personal Digital Assistant). This has the advantage that the traffic managers of the transportation services responsbile for the local traffic situation, for example during major events or after accidents, can quickly get an idea of the current traffic situation. This enables them to react to the current situation as best as possible in the interest of the passengers. Along with vehicle lists, route and line displays, it can also show map sections and presumed departure times. In addition, it allows the transmission of coded instructions and entry of additional, vehicle-specific information.

In PAmobil, init has produced its own audio amplifier with two output stages for buses and trains. It was developed since many common solutions proved unsuitable or too complicated. On account of its 19 inch design, this device can easily be integrated into the system environment and meets the requirements of the local public transportation sector for a modern on-board amplifier perfectly. Depending on radio integration, it helps control automatic announcements as well as central vehicle communication. The PAmobil automatically adjusts its volume to the surrounding noise level and, as a further crucial advantage, is easily configured.

MRI III is our new radio interface that enables the COPILOTpc to use analog radio equipment to transmit digital data. The used signal processor warrants a secure communication by digital filters. The device fits ideally into the system architecture and due to its compact design, requires little space in the vehicle. Compared with its predecessor, the efficiency of this device was considerably improved at lower cost.

A computer-aided dispatch and vehicle location system, a passenger information system, or an automatic passenger counting system can only operate properly if the exact GPS coordinates of the stops and stations and their distances are input. Previously, this data was collected during time-consuming test drives. With its MOBILEsurvey tool, init provides a data recording and computer-aided data analysis system that ensures precise data management. Vehicles fitted with the appropriate equipment can collect and record these data during their normal service runs. The data can be downloaded using a WLAN system, a USB stick, or a standard laptop, and can automatically be compared with database information and exported. The transportation company thus always has the latest data and no longer requires expensive test drives.

In the USA, we predominantly work on the further development of our software module, MOBILE-PARAnet. It optimizes the on-demand bus transportation service for handicapped and elderly people (Paratransit) and, in connection with other software and hardware modules of our integrated telematics system, MOBILE, facilitates the online management of the vehicles.

We can see a highly lucrative market for this product here, because transportation companies are legally required to offer a Paratransit service. The demand for integrated solutions that have rarely been offered before is particularly great. Here, too, init managed a breakthrough with its contract from New York City – which will in future be an excellent reference.

init is also involved in publicly funded research projects such as RUDY. This project aims at improving the regional public transportation system. The German acronym, RUDY, stands for "Regional Cross-Company Dynamization of Scheduling Information, Booking and Operations in Local Public Transportation". RUDY was completed in 2005 by a demonstrator and proved to be of practical relevance, which has led to the fact that init has already integrated a number of its own components of the research project in its products and delivered them in projects. In addition, init supports a promotion in the car agent field. Our aim is to establish new areas of application in the "intelligent vehicle" field.

On the whole, init spent 1.8 million Euro (previous year: 2.5 million Euro) on the development of new products, corresponding to 5.4% (previous year: 7.7%) of sales. In addition, the group effected customer-funded new and further developments within the scope of large-scale projects amounting to at least the same amount again.

Risks and Risk Management

In essence, the risks involved in the future development of the init group depend on the risks associated with the operating companies within the group. Currently there is no evidence of any risks jeopardizing the continued existence of the init group.

The detailed risk management system of the init group forms an integral part of our business and decision-making processes. Prior to making a decision on important measures, these are discussed in detail at regular Board meetings and their prospects and risks weighed against each other. Potential risks, such as a backlog of projects or human resource risks, are regularly monitored by way of weekly reports. Financial risks, the incoming order situation, supply backlogs, and the liquidity are analyzed daily to ensure that the appropriate measures, where necessary, can be initiated immediately.

Market, development and strategic risks are monitored on a quarterly basis. Contracts are worked on and examined by our in-house lawyers, if necessary with the support of external expert lawyers, while both the Managing Board and the Supervisory Board are kept informed of imminent risks in their meetings.

The init group is greatly dependent on the government-approved funds of its customers and the political will for an improvement of local public transportation. Delays and the postponement or cancellation of publicly funded investment projects and promotion funds due to the poor budgetary position can adversely affect the market growth of the init group. A declining volume of tenders leads to excess capacities on the market and involves the risk of reduced margins, as tenders can often be won only through aggressively priced offers.

Rapid changes and technical innovations in the telematics field create a risk for technical developments. On the one hand, we must keep up with the technological advances. On the other, new products must be launched at the right time. Therefore, the requirements and changes of the market must be constantly monitored. The development of new products can incur considerable costs without necessarily resulting in the desired success.

New competitors continuously try to break into the market with cut-throat prices, bringing with them the risk of reduced margins. However, in most cases these new competitors only remain in the market for a short period of time, as they are unable to meet the technological and customer-specific demands due to a lack of experience.

The crucial success factor for the init group is successful project management. The successful handling of projects depends on the completion of the projects on schedule, the form of contracts, the scope of each individual project, the readiness of the customer to be involved in its implementation through productive contributions, and the specific national laws and regulations. Apart from unforseeable technical and customer-specific difficulties, the punctual completion of projects also partly depends on the availability of sufficiently qualified personnel.

Including suppliers and subcontractors in the process creates additional risks in regard to schedule effectiveness, price, and quality. Vehicles can be equipped successfully only if the hardware is made available at the right time and is of the required quality. Poor quality or hidden faults may otherwise require cost-intensive rectification that will affect the margin. For each major project, init therefore implements a project plan with constant progress monitoring. This controlling system enables the company to identify any deviations from the specified time and costs, and, in case of deviations from the target, initiate the appropriate countermeasures in good time. Calculations, the order situation, and the project progress are constantly monitored for the purpose of a target-performance analysis.

Additional programming, software updates, and new program versions of the ERP system all involve risks. Despite training measures and integration tests, we may be faced with operating errors, incorrect system settings and software faults that can lead to a loss of data or to incorrect information.

Contracts concluded in foreign currency involve exchange risks that can affect both sales and purchase prices, and with it, the result. init meets these exchange risks with active exchange rate management, making use of switch deposits, forward exchange dealings and currency options. Since init also tries to keep its options open here, it may consequently incur losses.

The investments of init in securites involve fixed-interest securities and shares. This may lead to losses due to changes in the market value.

Any major risks are regularly reported to, and further measures discussed with, the Supervisory Board.

Opportunities

Thanks to the new contracts from Munich, Copenhagen, New York City, and Vancouver (Canada), init will be able to produce further excellent references in future tenders. These projects act as a signal and show that init is able to handle large-scale projects on a worldwide basis. Further excellent references are the large-scale projects in Houston with an order value exceeding 20 million USD, which was completed in a record period of only 18 months, Stockholm with an order value of over 15 million Euro, and Oslo. We have already seen initial positive effects resulting from these projects at the “Gulf Traffic” trade fair in Dubai. Never before have we drawn a crowd as large as there and recorded such a vast number of enquiries.

In the USA, the Federal promotion funds for the transportation sector amount to around 8.5 billion USD in fiscal 2006. This corresponds to an increase of 10.9% on 2005.

Due to the substantial level of orders, INIT has secured a basic level of work for the next 2 years. Provided that the domestic market stabilizes soon, or improves, INIT has goods prospects of above-average growth.

Our prospects for additional growth also include CarMedialab GmbH in the Automotive sector. Since we have only just begun to open up the market here, the target figures for CarMedialab GmbH have not been included in the init group projections for the time being.

Prospects

In 2005, init resumed its course toward growth. In view of the current opportunities, the recent contract awards, and other major orders which we expect to receive over the next few months, we should be able to further improve our sales and earnings figures in 2006, provided that the recovery of the domestic market continues.

The successes and references achieved specifically in North America lay an ideal foundation for further growth. However, a continuing weak US dollar price could have a negative effect on our earnings. In the Middle East region, however, we can see additional sales and earnings potentials in the medium term.

Karlsruhe, February 28, 2006

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

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

Independent Auditors' Report

We have audited the consolidated financial statements prepared by the init innovation in traffic systems Aktiengesellschaft, Karlsruhe, comprising the income statement, the balance sheet, cash flow statement, statement of recognized income and expenses, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2005 to December 31, 2005. 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 and the supplementary provisions of the 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. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

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 the supplementary provisions of the articles of incorporation and bylaws and full IFRS 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, February 28, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Matner	Reiter
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Balance sheet of December 31, 2005

Assets	Notes Item No.	€	31.12.2005 €	31.12.2004 T€
A. Fixed assets				
I. Financial assets	III. 1			
1. Shares in affiliated companies		15,524,827.58		15,525
2. Investments in associates		731,468.10		731
3. Loans granted to investments and participations		120,000.00	16,376,295.68	0
B. Current assets				
I. Accounts receivable and other assets	III. 2			
1. Accounts receivable from affiliated companies		3,440,448.32		107
2. Accounts receivable from investments and participations		2,380.00		1
3. Other current assets		78,011.17	3,520,839.49	453
II. Marketable securities				
1. Treasury Stock		992,654.10		698
2. Other marketable securities		794,801.95	1,787,456.05	1,464
III. Bank assets			1,078,571.00	343
C. Prepaid expenses			21,864.78	46
			22,785,027.00	**19,368**

Liabilities	Notes Item No.	€	31.12.2005 €	31.12.2004 T€
A. Shareholders' equity	III. 3			
I. Subscribed capital		10,040,000.00		10,040
II. Additional paid-in capital		9,621,874.98		9,622
III. Unappropriated income				
Provisions for treasury stock		992,654.10		698
IV. Balance sheet profit/loss		120,084.32	20,774,613.40	-1,883
B. Provisions	III. 4			
1. Provisions for pensions				
and similar obligations		59,940.00		52
2. Tax accruals		1,330,091.00		0
3. Other provisions		245,256.32	1,635,287.32	170
C. Liabilities	III. 5			
1. Accounts payable to banks		0.00		1
2. Trade accounts payable		56,942.23		73
3. Accounts payable to affiliated companies		59,850.07		283
4. Accounts payable to investments				
and participations		0.00		260
5. Other liabilities		258,333.98	375,126.28	52
thereof taxes € 238,467.72 (previous year: T€ 21)				
thereof social security contributions				
€ 13,254.69 (previous year: T€ 16)				
			22,785,027.00	**19,368**
Contingent liabilities	III. 6		14,018,000.00	19,677

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Income statement for the period from January 1, 2005, to December 31, 2005

			01.01.2005- 31.12.2005	01.01.2004- 31.12.2004
		€	€	T€
1.	Revenues		2,022,540.00	2,018
2.	Other operating income		133,230.72	30
3.	Personnel expenses			
	a) Wages and salaries	731,134.63		682
	b) Social security and other pension costs, thereof in respect of old-age pensions incl. € 17,922.94 (previous year: T€ 11)	124,611.48	855,746.11	125
4.	Other operating expenses		884,025.70	929
5.	Income from a profit and loss transfer agreement		3,179,742.33	43
6.	Income from investments		34,210.00	0
7.	Other interest and similar income thereof € 904.05 (previous year: T€ 0) from affiliated companies		56,684.30	74
8.	Depreciation on marketable securities		3,250.00	105
9.	Interest and similar expenses		5,918.46	0
10.	**Result from ordinary activities**		**3,677,467.08**	**324**
11.	Income taxes		1,379,867.77	0
12.	Other taxes		-1.93	0
13.	**Annual net profit**		**2,297,601.24**	**324**
14.	Loss carried forward from previous financial year		1,882,812.82	2,050
15.	Transfer to earnings reserve for own shares		294,704.10	157
16.	**Balance sheet profit/loss**		**120,084.32**	**-1,883**

Statements of changes in fixed assets of December 31, 2005

	Historical and manufacturing costs			
	01.01.2005	Additions	Disposals	31.12.2005
	€	€	€	€
Financial assets				
1. Shares in affiliated companies	15,524,827.58	0.00	0.00	15,524,827.58
2. Investments in associates	731,468.10	0.00	0.00	731,468.10
3. Loans granted to investments and participations	0.00	120,000.00	0.00	120,000.00
	16,256,295.68	**120,000.00**	**0.00**	**16,376,295.68**

Accumulated amortizations/depreciations				Book values	
01.01.2005	Additions	Disposals	31.12.2005	31.12.2005	31.12.2004
€	€	€	€	€	€
0.00	0.00	0.00	0.00	15,524,827.58	15,524,827.58
0.00	0.00	0.00	0.00	731,468.10	731,468.10
0.00	0.00	0.00	0.00	120,000.00	0.00
0.00	**0.00**	**0.00**	**0.00**	**16,376,295.68**	**16,256,295.68**

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Notes to the 2005 fiscal year

I. General disclosure

The financial statements of init innovation in traffic systems Aktiengesellschaft, Karlsruhe (init AG), as of December 31, 2005 were prepared in compliance with the statutory provisions of the German Commercial Code (HGB) and the supplementary regulations of the German Stock Corporation Act. The regulations for large stock corporations within the meaning of § 267 para. 3 clause 2 of the German Commercial Code (HGB) apply. The consolidated statement of operations was prepared on the basis of the total expenditure format.

init AG has concluded a control and profit and loss transfer agreement with INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH (INIT GmbH), Karlsruhe.

II. Accounting and valuation principles

As in the previous year, the following accounting and valuation principles were applied to the preparation of the financial statements:

Fixed assets
Financial assets are reported in the balance sheet at purchase costs.

Current assets
Trade accounts receivable, accounts receivable from affiliated companies and from investments and participations, and other assets are reported at their nominal value. Accounts receivable in foreign currencies are shown at the exchange rates current on the date of their origin or the higher selling rate as of the cutoff date. Securities are valued at their cost of purchase, less the necessary depreciations pursuant to Section 253 para. 3 of the German Commercial Code (HGB).

Provisions and liabilities
Pension accruals were calculated on the basis of actuarial principles in line with § 6a of the German Income Tax Law (EStG). The underlying assumed rate of interest is 6%. The calculations are based on Klaus Heubeck's Actuarial Tables of 2005 G (previous year Actuarial Tables of 1998).

The accrued provisions take into account any foreseeable risks and contingent liabilities and are shown at the amount required based on sound business judgment.

Liabilities are shown at their amounts repayable.

III. Explanations on individual balance sheet items

1. Financial investments
The development of the individual items of the fixed assets is shown in the asset statement.

The loans granted to investments and participations relate to a loan granted to CarMedialab GmbH.

We refer to Notes 3/6 for a listing of the company's shareholdings.

2. Accounts receivable and other assets

The accounts receivable from affiliated companies of 3,440 TEuro (previous year: 107 TEuro) include 3,181 TEuro (previous year: 43 TEuro) receivables from the transfer of profits from INIT GmbH, 5 TEuro (previous year: 64 TEuro) trade accounts receivable, and tax receivables of 254 TEuro (previous year: 0 TEuro). The receivables from investments and participations result from sales and services to the amount of 2 TEuro (previous year: 1 TEuro).

The other assets of 79 TEuro (previous year: 453 TEuro) mainly consist of tax refund claims (48 TEuro), the asset value of a pension liability insurance (25 TEuro), and interest receivables from securities (3 TEuro).

All accounts receivable and other assets have a residual term of up to one year.

3. Shareholders' equity

As of December 31, 2005, the subscribed capital of init AG was still 10,040 TEuro. The capital has been fully paid in and divided into 10,040,000 shares with an imputed share in the equity capital of 1.00 Euro each. This stock exclusively consists of ordinary shares.

The shareholders' equity of init AG developed as follows:

	Capital stock T€	Capital reserves T€	Retained earnings T€	Balance sheet loss T€	Total T€
Shareholders' equity as of December 31, 2004	10,040	9,622	698	-1,883	18,477
Acquisition/transfer of treasury stock			295	-295	0
Net income for 2005				2,298	2,298
Shareholders' equity as of December 31, 2005	10,040	9,622	993	120	20,775

With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 4,000,000 Euro by May 18, 2006, through a single or repeated issuing of up to 4,000,000 ordinary shares against contributions in cash or in kind. The new shares are to be taken over by credit institutions that will be obliged to offer them to investors for sale. However, with the approval of the Supervisory Board, the Managing Board is authorized to withdraw the pre-emptive right,

> so that up to 800,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price,
> to balance peak amounts,
> to open up additional capital markets,
> to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind,
> to turn up to 250,000 new shares into employee stocks (authorized capital).

On July 8, 2002, the Managing Board made use of this authorization and decided on an increase in the share capital by 40,000 shares. The authorized capital now amounts to 3,960 TEuro. Section 4 of the statutes was amended accordingly.

Based on the resolution passed at the annual shareholders' meeting on May 15, 2003, replaced by the resolutions of May 13, 2004 and May 11, 2005, the company is authorized to purchase treasury stock. On December 23, 2003, the Managing Board decided on a stock repurchase of up to 60,000 shares. A further stock repurchase was decided on August 26, 2004 to the amount of 60,000 shares and of up to 50,000 shares on

March 21, 2005. In 2005, the company acquired 50,000 shares at an average price of 3.84 Euro per share. The company's treasury stock was valued at purchase cost. The necessary reserves for treasury stock were formed at the expense of the balance sheet loss. The current treasury stock amounts to 285,000 shares with an imputed share of 285 TEuro (2.8%) in the equity capital.

The repurchase was effected for use as consideration within the scope of mergers and to acquire other companies or parts of companies or participations, or, where required, for opening up additional capital markets, or for issue to employees.

4. Provisions

The other provisions were established predominantly for Supervisory Board compensation to the amount of 32 TEuro (previous year: 24 TEuro), outstanding suppliers' invoices of 53 TEuro (previous year: 51 TEuro), management bonuses of 47 TEuro (previous year: 0 TEuro), profit sharing of 31 TEuro (previous year: 0 TEuro), and accounting and auditing costs of 43 TEuro (previous year: 56 TEuro).

5. Liabilities

All liabilities have residual terms of up to one year.

The accounts payable to affiliated companies to the amount of 60 TEuro (previous year: 284 TEuro) include trade accounts payable of 13 TEuro (previous year: 6 TEuro), and tax liabilities of 47 TEuro (previous year: 278 TEuro).

The other liabilities mainly comprise tax liabilities to the amount of 238 TEuro (previous year: 21 TEuro) and social security liabilities of 13 TEuro (previous year: 16 TEuro).

6. Contingent liabilities

As of the cutoff date, the company had contingent liabilities from the joint and several co-obligation of 0 TEuro (previous year: 1,000 TEuro), for bank liabilities, and of 13,993 TEuro (previous year: 18,677 TEuro) for bank guarantees in favor of INIT GmbH.

The company also had a maintenance guarantee of 25 TEuro (previous year 0 TEuro) in favor of INIT Inc.

IV. Other information

1. Management

Managing Board:

Dr. Gottfried Greschner, Karlsruhe	CEO
Mr. Joachim Becker, Karlsruhe	COO
Mr. Wolfgang Degen, Karlsruhe	COO
Dr. Jürgen Greschner, Karlsruhe	CSO
Mr. Bernhard Smolka, Stutensee	CFO

Supervisory Board:

Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau, Meerbusch, Chairman	Consulting engineer specializing in local public transportation, member of the Supervisory Board of Berliner Verkehrsbetriebe, member of the Supervisory Board of BT Berlin Transport GmbH, Berlin, member of the Advisory Board of PTM, master's degree at the University of Duisburg/Essen.

Mr. Bernd Koch, Lahr, Vice Chairman	Self-employed business consultant, member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Centre in Karlsruhe
Mr. Fariborz Khavand, Wuppertal	Self-employed business consultant and Managing Director, member of the Supervisory Board of Rhön Residence GmbH & Management KG

Particulars of Board member salaries:
In their capacity as executives of the subsidiaries, the members of the Managing Board also received compensation totaling 1,291 TEuro (previous year: 915 TEuro) in 2005. This total includes fixed salaries of 997 TEuro (previous year: 915 TEuro) and variable remuneration in the form of management bonuses of 294 TEuro (previous year: 0 TEuro).

The total remuneration of the Supervisory Board members in 2005 amounted to 37 TEuro (previous year: 24 TEuro), including a variable share 13 TEuro.

2. Employees

init AG employed an annual average of 15 (previous year: 18) people.

3. Interest in other companies

Company	Registered offices	Equity capital	Share in %	2005 result
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH	Karlsruhe (D)	TEuro 6,183	100	TEuro 0*)
INIT Innovations in Transportation, Inc.	Chesapeake, VA (USA)	TUSD 3,029	100	TUSD 613
id systeme GmbH	Hamburg (D)	TEuro 204	44	TEuro 104
CarMedialab GmbH	Bruchsal (D)	TEuro 174	45	TEuro -250
init telematik gmbh	Karlsruhe (D)	TEuro 53	100	TEuro 0

*) 3,180 TEuro before profit transfer

As of the cutoff date, the exchange rate for one Euro was 1.18426 US dollar.

4. Information on the auditor's fee

The auditor's fee included 43 TEuro for the audit of the financial statements, 26 TEuro for other certification and appraisal services, and 17 TEuro for tax consulting services.

5. 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 December 9, 2005, and was made available to the shareholders.

Karlsruhe, February 28, 2006
The Managing Board

Dr. Gottfried Greschner   Joachim Becker   Wolfgang Degen

Dr. Jürgen Greschner   Bernhard Smolka

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Status report as of December 31, 2005

Abstract

init innovation in traffic systems Aktiengesellschaft, Karlsruhe (init AG) is the umbrella company of the init group and as such is not engaged in any operating activities. init AG is responsible for the administration of the operating companies in the group, for strategic planning and for risk management. The areas of accounting, controlling and human resources of INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH (INIT GmbH) are covered by init AG.

Business trend and situation

init AG generated sales to the amount of 2,023 TEuro (previous year: 2,018 TEuro), predominantly through its services for INIT GmbH. It realized an annual net profit of 2,298 TEuro (previous year: 324 TEuro).

As of the annual cutoff date, the liquid funds including securities (without treasury stock) of init AG totaled 1,873 TEuro (previous year: 1,806 TEuro). The balance sheet total amounted to 22,785 TEuro, the equity ratio stood at 91%.

In the 2005 fiscal year, the company decided on a stock repurchase of up to 50,000 shares, which was executed in purchases of 34,828 shares. The excess of 15,172 shares for purchase from the previous year was used up in 2005. Thus, init AG repurchased a total of 50,000 own shares in 2005, so that the treasury stock now amounts to 285,000 shares. The book value of the stock as of December 31, 2005 totaled 993 TEuro (previous year: 698 TEuro).

On April 29, 2005, the Managing Board decided on giving its employees a share in the company profits based on the operating result. Every permanent employee was to receive a profit share of 3 TEuro. One thousand Euro per employee were paid with the November salary. The remainder will be discharged on approval of the annual financial statements. The appropriate amounts were taken into account in the financial statements. In the context of asset sharing, each employee will also receive 44 shares in the company. The shares are subject to a qualifying period of 2 years.

Circumstances of specific significance after the cutoff date

Under the notarized agreement of January 20, 2006, the share in CarMedialab GmbH was increased from 45% to 55%. Consequently, the share in CarMedialab GmbH now totals 500 TEuro.

Opportunities and risks of the future development

As a result of the yield from services for its operating subsidiaries and the income from investments and interest, init AG will again be able to compensate for its expenses in the 2006 fiscal year. Consequently, without taking into account the profit and loss transfer of INIT GmbH, the company can once more anticipate a positive result for 2006.

On account of recent contract awards, our operating subsidiary INIT GmbH is expected to report a distinctly positive result in 2006. Its high volume of orders has secured a basic level of work for INIT for the next 2 years. Provided that the domestic market stabilizes soon, or improves, init has goods prospects of above-average growth.

The risks for init AG are mainly connected with the risks of its operating subsidiaries. Contracts in foreign currency involve exchange risks. init meets these exchange risks by hedging its receipts of payment with forward exchange transactions and options. Since init also tries to keep its options open here, it may incur losses.

The technology in the area of telematics is subject to rapid change. Therefore, new products must be launched at the right time and the technological progress of the market monitored to keep up with the latest developments.

Concluding statement concerning the dependent company report

Pursuant to Section 312 of the German Stock Corporation Act (AktG), the Managing Board generated a report on the relationship with affiliated companies for the period under review, which was audited by our auditors. The dependent company report of the Managing Board concludes with the following declaration:

"Our company received adequate compensation for the legal transactions and measures specified in this report and was not adversely affected by whether or not these measures were implemented. This assessment is based on the circumstances known to the Managing Board at the time of the transactions to be disclosed."

Karlsruhe, February 28, 2006

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

"Our basic telematics unit not only allows vehicle location. In case of theft, it can also be decommissioned by remote control and diagnostics. A very worthwhile feature for both vehicle manufacturers and insurance companies."

> ***Heiko Bauer,***
Managing Director of CarMedialab GmbH

The Flea: Basic telematics unit for automobiles

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

init innovation in traffic systems Aktiengesellschaft, Karlsruhe Independent Auditors' Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the annual financial statements – together with the bookkeeping system, and the management report of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, for the fiscal year from January 1, 2005 to December 31, 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary provisions of the articles of incorporation and bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] 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, whether due to error or fraud, materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis as part of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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, on the basis of the knowledge we have gained during the audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides an appropriate view of the Company's position and appropriately presents the opportunities and risks of future development.

Mannheim, February 28, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Matner	Reiter
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

Dear Shareholders,

During the 2005 fiscal year, the Supervisory Board of init innovation in traffic sytsems AG acted in an advisory capacity to the Managing Board while monitoring its conduct of affairs. Any measures requiring the consent of the Supervisory Board on grounds of legal or statutory provisions were deliberated in depth and presented for a resolution. The Chairman of the Supervisory Board kept in close contact with the Managing Board at all times during the preceding fiscal year, while the members of the Supervisory Board were also available in individual matters.

In its four meetings, the Managing Board informed the Supervisory Board in detail about the status of the company and the course of its business, while the Supervisory Board monitored and controlled the development of the group through specific directions issued to the Managing Board. Based on the reports of the Managing Board, the Supervisory Board in particular discussed the economic situation, the incoming orders, any concealed risks and key business transactions, and the medium- and long-term corporate strategy. Other focal subjects in the Supervisory Board meetings included the price performance of the share, the market developments in Germany, Europe, and the USA, the controlling, the participation in other companies, any personnel matters concerning the Managing Board, and the new elections of the Supervisory Board at the 2006 shareholders' meeting. Furthermore, the Supervisory Board was actively involved in the implementation and monitoring of compliance with the German Corporate Governance Code.

The auditing firm, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Mannheim, was commissioned by the Supervisory Board to audit the annual financial statements of init AG, the status report, the consolidated financial statements, the status report for the init group, and any Notes as of December 31, 2005. All the reports were issued with an unqualified audit certificate.

The aforementioned reports were discussed in detail with the Managing Board and the auditor in the meeting of the Supervisory Board on March 8, 2006. The Supervisory Board concurred with the result of the auditor and did not raise any objections. The Supervisory Board also agreed to the proposal of the Managing Board on the appropriation of the unappropriated profit. The net profit for the year of 120,084.32 Euro will be carried forward to new account. The annual financial statements are thereby approved.

Ernst & Young Wirtschaftsprüfungsgesellschaft, Mannheim, also audited the report prepared by the Managing Board under Section 312 of the German Stock Corporation Act on the relationships with associated companies (dependent company report). The auditor issued the following audit certificate regarding the result:

"Following our dutifully conducted audit and assessment, we hereby confirm that

1. The current information contained in the report is correct.
2. The payment of the company for the legal transactions specified in the report was not inappropriately high.
3. There are no circumstances indicating a substantially different assessment from that given by the Managing Board in regard to the measures specified in the report."

The Supervisory Board also examined the dependent company report. It raised no objections to the final declaration of the Managing Board in the report and the result of the audit effected by the auditors.

We would like to thank all our employees and the Managing Board for their great service and their personal dedication in the 2005 fiscal year. Our thanks also to our shareholders, customers, and business partners for their trust in our company.

Karlsruhe, March 2006

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

Imprint

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