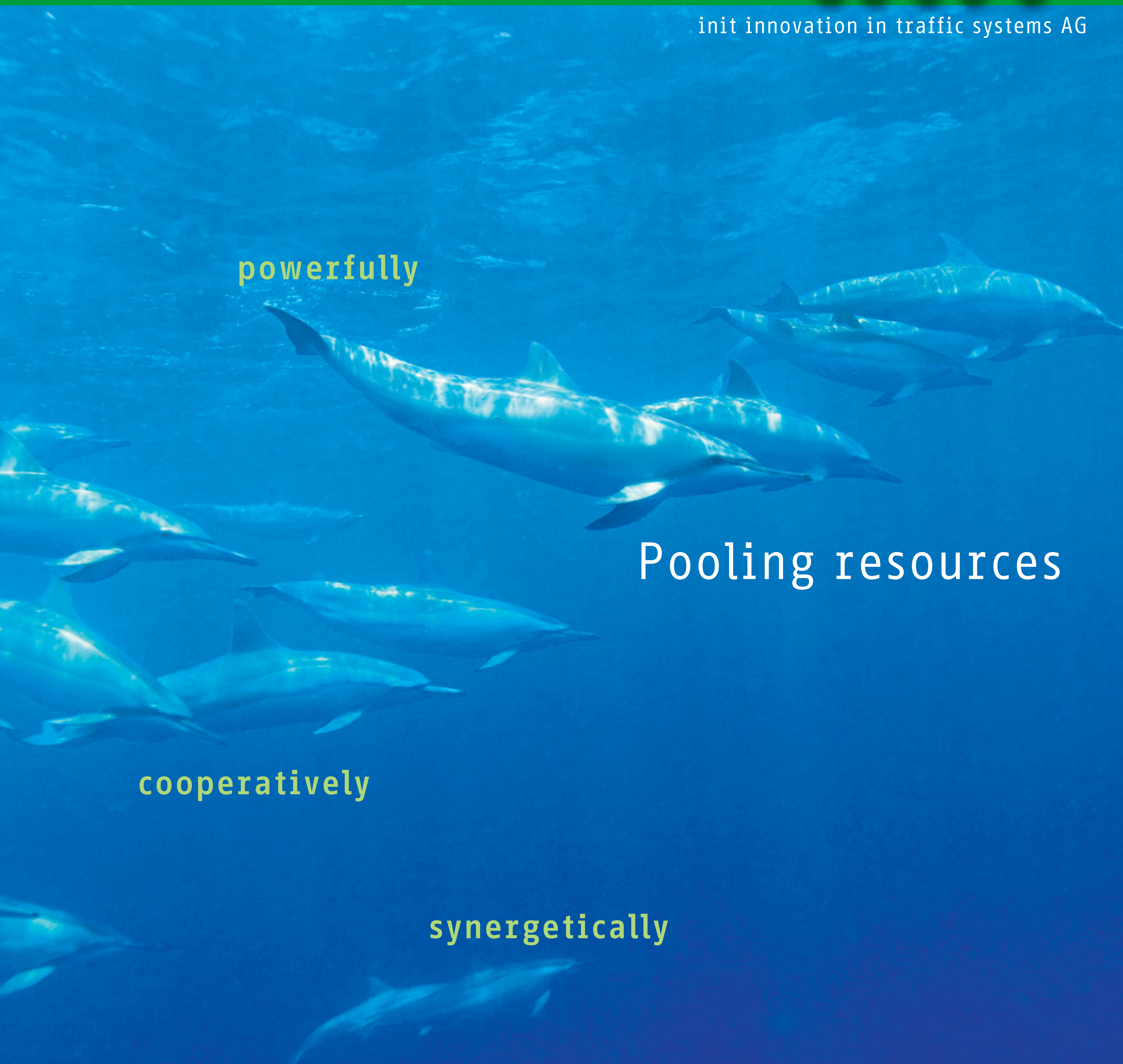
Interim Report 2/2011

init innovation in traffic systems AG



powerfully

Pooling resources

cooperatively

synergetically

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, while at the same time increasing the efficiency of transportation companies.

init is the leader in innovative telematics and fare management systems that offer 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 of init group according to IFRS

		30/06/2011		30/06/2010	% Change
Balance sheet					
Balance sheet total	EUR	84,830k	EUR	80,661k	5.2
Shareholders' equity	EUR	45,216k	EUR	40,356k	12.0
Subscribed capital	EUR	10,040k	EUR	10,040k	
Equity ratio	%	53.3	%	50.0	6.5
Return on equity	%	10.9	%	9.2	19.4
Non-current assets	EUR	13,309k	EUR	14,006k	-5.0
Current assets	EUR	71,521k	EUR	66,655k	7.3
Income statement					
Revenues	EUR	31,555k	EUR	32,579k	-3.1
Gross profit	EUR	13,441k	EUR	10,723k	25.4
EBIT	EUR	6,282k	EUR	6,275k	0.1
EBITDA	EUR	7,454k	EUR	7,600k	-1.9
Net profit	EUR	4,941k	EUR	3,694k	33.8
Earnings per share	EUR	0.50	EUR	0.38	30.5
Dividend	EUR	0.60	EUR	0.30	100.0
Cash flow					
Cash flow from operating activities	EUR	9,335k	EUR	5,924k	57.6
Share					
Issue price	EUR	5.10	EUR	5.10	
Peak share price	EUR	19.00	EUR	15.30	24.2
Bottom share price	EUR	14.00	EUR	9.15	53.0

Statutory bodies of the Company

Supervisory Board

- Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau (Chairman)
  Consulting engineer specialising in local transportation (Chairman), member of the Advisory Board of PTM, master's degree at the University of Duisburg/Essen.
- Bernd Koch (Vice-Chairman)
  (until 24/05/2011)
  Self-employed business consultant, member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Centre in Karlsruhe.
- Hans-Joachim Rühlig, B.A.M (Vice-Chairman)
  (since 24/05/2011)
  Financial Managing Director, Ed. Züblin AG.
- Fariborz Khavand
  Self-employed business consultant,
  Managing Director Elco Motores GmbH, Hagen.

Managing Board

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

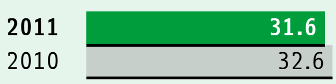
Directors' Holdings

Managing Board	Number of shares
Dr. Gottfried Greschner, CEO	3,480,000*
Joachim Becker, COO	330,983
Wolfgang Degen, COO	99,500
Dr. Jürgen Greschner, CSO	97,864
Bernhard Smolka, CFO	27,000

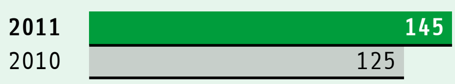
* thereof 3,450,000 shares held by Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG

Supervisory Board	Number of shares
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	-
Hans-Joachim Rühlig, B.A.M.	-
Fariborz Khavand	-

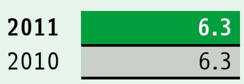
Revenues Q2 in million EUR



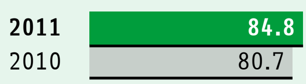
Order backlog Q2 in million EUR



EBIT Q2 in million EUR



Balance sheet total Q2 in million EUR



Letter to the Shareholders

Ladies and gentlemen, dear Shareholders,

“Ten years, and not a bit tired,” one of the leading financial and business magazines in Germany recently carried as a headline for an article analysing our company. The well-informed piece had taken the 10-year anniversary of our IPO on 24 July 2011 as an occasion to take a look at the development and further prospects of init innovation in traffic systems AG. The author’s résumé: “The Karlsruhe-based telematics specialist delivered a convincing performance with profitable growth and entry into new markets.”

This independent opinion by a long-term journalistic observer precisely reflects how we ourselves would describe the current situation and prospects of our company. And we are delighted to say that this also finds expression in our business trend over the first six months of 2011.

Entry into new markets

A particular point of success for init was our entry into new markets. New orders booked in the first six months totalled EUR 49.1m (previous year: EUR 18.6m). This puts the order backlog at the end of June at EUR 145m to exceed even the already impressive figures achieved a year earlier (EUR 125m) by around 16 per cent. Worth a mention are major contracts from Sacramento (USA) and Brisbane (Australia). Both projects are strategically significant, as they open up new markets for e-ticketing solutions (USA) and for control and passenger information systems (Australia).

Seemingly overnight, e-ticketing in the USA has opened up new market potential for us which is just as big as our current core business in the States. And: Australia is significant for us not only because of the size of this market. We have high hopes that our new project will also have a signalling effect in the Asia-Pacific region.

In the second quarter, we were further able for the first time to win our first contract in what until then had been the very much closed, yet highly attractive Swiss market. And: We have now also received specific enquiries about our technology from our neighbouring country, France – a market which is traditionally dominated by domestic companies.

Currently, init participates in numerous other tenders both in Germany and abroad. Many of these tenders are pending a decision in the next few months, so that in terms of amount, we anticipate a high volume of incoming business before the end of 2011.

Success story with enormous long-term potential

Based on these successes, we can, at the close of the first half of our financial year, confirm the moderate growth forecast for our company in 2011 and the positive prospects for 2012 and 2013 despite the no doubt growing risk potential in the global economy.

At EUR 31.6m, revenues in the init group over the first six months remained marginally below the prior-year result (previous year: EUR 32.6m), but they stayed within the target range. It must be noted here that the major projects currently under way will not reach the equipment stage until later in the year, at which point they will then lead to an improvement in our revenues figures. We therefore continue to expect a moderate increase in revenues to EUR 82m.

Furthermore, this growth will remain highly profitable, as the figures at the end of June have confirmed. In the first half year, consolidated earnings after taxes of EUR 4.9m notably exceeded both the prior-year figure (EUR 3.7m) and our projections. This corresponds to earnings per share of EUR 0.50 (previous year: EUR 0.38) and a gain of over 30 per cent. Instrumental in this above-average increase in earnings was the incoming payments on account of positive developments in Dubai, which resulted in a significant reduction in the discounted accounts receivable.

But not only the interim results for our company are highly positive, this holds also true in the long run: In the 10 years since our IPO, init has, for instance, doubled its workforce, almost tripled revenues, and quadrupled its profit.

This not only makes init “one of the few success stories remaining in the Neuer Markt,” as the aforementioned magazine described it: It is also, and we quote, a “true growth stock” and has “enormous long-term potential”. The Managing Board wholeheartedly concurs.

We would like to thank you all, and especially those of our shareholders who have been with us from day one, for your many years of trust and confidence. We look forward to shaping a second successful decade on the stock market with you.

For the Managing Board
of init innovation in traffic systems AG

Dr. Gottfried Greschner
Chief Executive Officer

Number of Employees (annual average)
(incl. temporary workers and students)

	30/06/2011	30/06/2010
Germany	281	252
North America	60	55
Other Countries	12	12
Total	**353**	**319**

Share and Investor Relations

init share at all-time high in Q2

In the period under review, the global stock markets were increasingly affected by the debt crisis in the euro region and the USA. This at times resulted in a flurry of price fluctuations for individual indices and shares, as negative consequences were expected for the real economy after introducing measures to save several of the euro countries and consolidate the budgets.

In this rather nervous market environment, init's share (ISIN DE0005759807) stood firm in the second quarter, repeatedly even marking an all-time high. Whereas the German stock index DAX and the technology index TecDAX saw a good portion of their annual gains shed again in the second quarter, init's share actually continued to rise in value. Over the half-year period to the end of June, init gained some 23 per cent, in contrast to around 5 per cent for the TecDAX and 6.7 per cent for the DAX.

The positive performance of init's share subsequently persisted to the point that its price in July rose in fact to above the EUR 20 mark. In the 10 years since the share's opening price on 24 July 2001, its shareholder value thus almost quadrupled.

Analysts continue to rate init's share a "buy" with long-term growth potential.

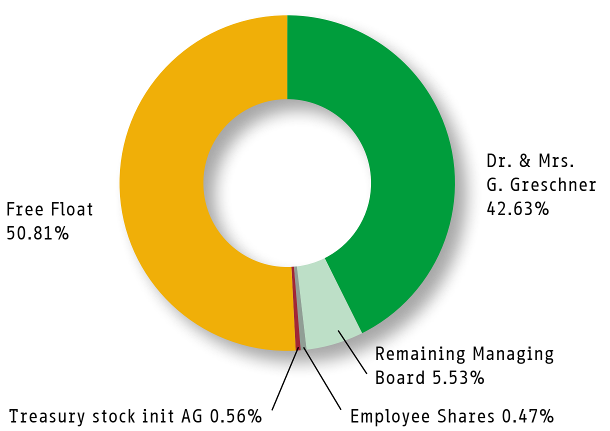
Basic share information

Exchange	Frankfurt Stock Exchange
Index/Segment	Prime Standard, Regulated Market, GEX (German Entrepreneurial Index)
Class	No-par bearer shares (at EUR 1 each)
ISIN	DE0005759807
WKN	575 980
Code	IXX
Designated sponsors	Commerzbank AG Close Brothers Seydler Bank AG
Capital stock today	10,040,000 no-par bearer shares
Market capitalisation (as of June 30, 2011)	EUR 185.7m

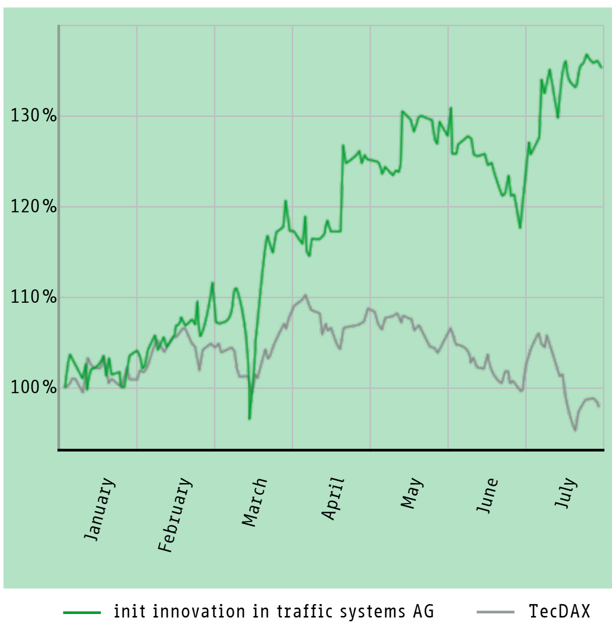
Shareholder structure as of June 30, 2011

The shareholder structure of init innovation in traffic systems AG remained steady in the reporting period.

The shares are held as follows:



Performance January – July 2011



Group Status Report

General business trend

Growth in the global economy slowed in the second quarter of 2011. The economic development was dampened by the national debt crisis in many parts of Europe, the unrest in North Africa and Arabia, and the domestic disputes over the necessary consolidation of the US American budget deficit. Recent indicators suggest a revision of the 4.4 per cent growth rate previously predicted for 2011. This will have a knock-on effect on next year, which is currently still predicted to see world output rise by 4.1 per cent. Growth continues to be driven primarily by the emerging markets.

The USA, in contrast, is recovering rather slowly. Since March, US economic data have largely been disappointing. Analysts expect growth here to drop down to a mere 2.3 per cent. This is aggravated by an explosive budget situation, which forces the country to start reorganising its national budget. We do not, however, currently expect that public transport subsidies will fall victim to budget cuts because of the considerable backlog in the USA in terms of infrastructure investments in public transport which are necessary to ensure mobility in urban areas and regions for positive economic development.

The economies in the euro zone are developing rather differently. Whereas the trend of economic activity in countries such as Greece, Ireland, Italy, Portugal and Spain is progressively slackening, Germany – along with the USA the main market for init products – still manages to maintain its status as prime mover in the euro region. While the recovery of the economy here is also likely to lose momentum over the next few months, Germany's Central Bank still predicts a rise in the gross domestic product of 3.1 per cent in real terms for 2011.

The massive upswing experienced in Germany and some neighbouring countries, however, is not enough to push the overall economy in Europe towards stronger growth. The consolidation of out-of-control national budgets will also have an effect on the capital investment requirement for the modernisation of infrastructures. Add to this the financial aid given to a number of euro countries to avoid their looming bankruptcy.

As a result, the risk factors for economic development have, on the whole, become more serious. Against this background, business at init innovation in traffic systems AG continued to develop satisfactorily in the second quarter of 2011 confirming sustainable dynamic growth.

At EUR 17.6m, the revenues still hover at the lower end of our target range, similar to the previous year, but our earnings notably improved even more than expected. Our order situation, meanwhile, continues to indicate a positive trend even beyond 2011. It must be borne in mind here that the distribution of revenues over the course of the financial year is traditionally uneven for the init group, with the first quarter normally having the lowest revenues figures and the fourth quarter delivering the strongest revenues.

Order situation

The debt crisis in many industrialised nations and especially in the USA did not as yet have any adverse impact on our order situation and specifically incoming business at init in the reporting period. Furthermore, init has now successfully completed over 400 telematics projects with more than 300 customers worldwide: This has an increasingly positive effect in that it tends to establish long-term customer relations leading to maintenance and follow-up contracts. This element of our business model is steadily growing.

As in the previous year, follow-up contracts took up a sizeable portion in the first half of 2011. This was complemented by new contracts added to our books, each worth several millions of euros. As always, init continues to be involved in major tenders which should come to a decision over the next few months.

Overall, init generated new business in the amount of EUR 49.1m in the first six months (previous year: EUR 18.6m), with Germany adding EUR 4.7m, the rest of Europe contributing EUR 7.0m, North America providing EUR 32.5m, and Australia totalling EUR 4.9m.

Order bookings therefore remain considerably above realised revenues. This is a clear indicator of sustainable growth at init.

At around EUR 145m (previous year: EUR 125m), our current order backlog exceeds the already excellent level achieved in the previous year by some 16 per cent.

Worth a mention are contracts from Sacramento/USA and Brisbane/Australia in the second quarter. Both projects are strategically significant. Sacramento is the first ticketing contract for init in the USA, while

Brisbane is our first intermodal transport control system (ITCS) project there. We expect both projects to lead to further contracts in these fields, as init will now be able to produce appropriate references.

The Sacramento transport operator (SACOG) has commissioned init with the implementation of a network-wide smartcard-based ticketing solution for more than 500 vehicles and 80 stops. It will help the customer increase the efficiency and punctuality of its vehicles because bus drivers will no longer sell tickets; this will significantly reduce the boarding times. The contract includes the installation of our passenger terminal PROXmobil, an on-board computer with GPS location, our EVENDpc sales terminal, and our ticketing and fare management system MOBILEvario. The contract is worth several million euros.

In Brisbane, init will handle the installation of a control and real-time passenger information system and the equipment initially of more than 130 vehicles with hardware and software. The pilot phase alone is worth around AUD 5m. Following the successful completion of the test and pilot phase, the contract includes the option of equipping the vehicles of all 19 bus operators in the network. The total value of the contract would, as a result, increase by several million euros.

In Germany, incoming business primarily consisted of maintenance and follow-up contracts.

In Europe, init was able to book several extension and follow-up contracts alongside maintenance contracts. In addition, init was able to win its first contract in Switzerland, where we will fit the fleet of the Neuchâtel transport service provider with a passenger counting system.

Earnings position

A major factor in the development of revenues at init throughout the reporting period was the systematic progress in completing our ongoing large-scale projects. Revenues thus generated in the second quarter of 2011 totalled EUR 17.6m (previous year: EUR 17.6m), which brings the figure for the first six months to EUR 31.6m (previous year: EUR 32.6m). While this remains some 3.1 per cent below the prior-year result, it still makes it into the lower end of our target range.

61.9 per cent of revenues (previous year: EUR 67.5 per cent) were made in international business. Of this amount, EUR 11.0m were contributed by North America (previous year: EUR 12.4m). In Germany, revenues totalled EUR 12.0m (previous year: EUR 10.6m). In the rest of Europe, revenues amounted to EUR 7.5m (previous year: EUR 5.6m), whereas business in the other countries declined to EUR 1.0m (previous year: EUR 4.0m). This was due primarily to the highly advanced degree of completion of our major projects in Dubai; and to the fact that our new contract from Abu Dhabi is only at the stage of the system design specification. It must be noted here, however, that the distribution of revenues by region usually tends to reflect the progress of individual major projects.

Consolidated revenues of EUR 31.6m split into EUR 29.7m (previous year: EUR 31.8m) from “Telematics and electronic fare collection systems”, which corresponds to 94.0 per cent (previous year: 97.4 per cent).

Our “Planning systems and automotive” segment generated revenues with third parties of EUR 1.9m (previous year: EUR 0.8m), corresponding to 6.0 per cent of consolidated revenues (previous year: 2.6 per cent).

Gross profit on revenues in absolute terms amounted to EUR 13.4m at the end of June and so was up on the previous year (EUR 10.7m). In relative terms, the gross margin related to revenues exceeded the prior-year figure by 29 per cent. This is due to the provision for risks set up for projects in Dubai on grounds of the financial crisis in fiscal 2010, which significantly reduced in the first half of 2011 because of incoming payments. After adjustment, the gross margin related to revenues increased by around 1 per cent. The gross margin will likely improve further over the remainder of the financial year.

With the opening up of new markets, the setup of new group companies close to the customer – as in Switzerland – and the increasing number of complex international tenders, however, sales and administration costs in the first half of 2011 rose to EUR 7.1m (previous year: EUR 5.6m), so that earnings before interest and taxes (EBIT) of EUR 6.3m lagged behind the previous year. Of this amount, EUR 6.2m (previous year: EUR 6.6m) were contributed by our “Telematics and electronic fare collection systems” and EUR 0.1m (previous year: EUR -0.3m) by “Planning systems and automotive”.

This was added by the fact that exchange gains from forward exchange contracts concluded for currency hedging purposes and the exchange effects from the translation of trade accounts receivable virtually halved to EUR 0.8m on the previous year (previous year: EUR 1.6m).

On the whole, however, consolidated earnings after taxes improved far more than expected, to EUR 4.9m (previous year: EUR 3.7m), which corresponds to earnings per share of EUR 0.50 (previous year: EUR 0.38).

Financial and net worth position

Total assets rose by EUR 4.2m in the reporting period to EUR 84.8m compared with the previous year (30 June 2010). On the assets side of the balance sheet, this increase resulted primarily from the rise in cash. On the liabilities side, the increase is for the most part reflected in the rise in deferred tax liabilities, other liabilities, and in equity capital.

Operating cash flow continued to develop positively in the first half of 2011. By the end of the reporting period, it had increased to EUR 9.3m (previous year: EUR 5.9m). The cash flow will continue to improve over the course of the year, as we expect to receive sizeable payments from various major projects.

Equity as of 30 June 2011 rose by around EUR 4.8m in absolute terms, to EUR 45.2m (previous year: EUR 40.4m). The equity ratio increased from 50.0 per cent in the previous year to 53.3 per cent and will continue to rise in the following quarters.

Current liabilities to banks reduced to EUR 0.1m (previous year: EUR 0.5m) and relate to the short-term portion of a long-term loan. The non-current bank liabilities amounting to EUR 1.0m (previous year: EUR 1.1m) concern a loan for the extension of our Karlsruhe site.

Liquid resources including short-term securities and bonds increased notably to EUR 20.1m in the reporting period (previous year: EUR 10.8m). The existing guarantee and credit lines continue to secure the financing of our business activities and their expansion.

In the first six months of 2011, EUR 1.2m (previous year: EUR 0.6m) were used for capital expenditure and intangible assets (not including software development). These were essentially replacement and rationalisation investments.

Production

init has no production facilities of its own, concentrating instead on production management and quality assurance.

We are not dependent on individual suppliers. This allows us to switch suppliers should one of our business partners be unavailable. For 2011, we extended the group of suppliers and negotiated new framework agreements, which among other things resulted in a reduction of our cost of materials.

Personnel

To complete our orders on schedule while at the same time seizing new growth opportunities in the market, it was again necessary for us to moderately adjust the size of the workforce within the init group. This trend will continue in the coming months, as we anticipate further major orders in the short term.

As of 30 June 2011, init employed 353 people (previous year: 319) including temporary staff, scientific assistants, and diploma candidates. There are another 18 employees undertaking an apprenticeship. Over 65 per cent of permanent init employees have an university degree in information technology, electrical engineering, HF technology, physics, mathematics, or industrial engineering.

Against the background of the expected general shortage of skilled personnel in the next few years, one of our key personnel policy objectives is to retain qualified employees within the company in the long term. As a consequence, we have introduced a number of perks and measures which involve our employees directly in the success of our company. In addition to their regular, performance-oriented pay, each employee, for example, received 100 shares for 2010, then worth (including tax) around EUR 3,100, as well as a cash bonus of EUR 5,000. Similar amounts are earmarked for 2011, which are reported as liabilities in the balance sheet.

Environmental protection

In order to prevent an impending climate crisis, it is vital to reduce carbon dioxide emissions. Efficient public transport systems play an ever increasing role here.

As a catalyst of resource-saving technological developments for public transport, init is particularly committed to the protection of the environment. Our products help transport companies provide a faster and more competitive service while saving resources with the aim to subject the environment to fewer exhaust gas and particulate matter. init actively applies these basic ecological principles along its entire value-added chain and in its individual segments – from procurement to production and administration to sales. For example, init purchased two electric cars, which are used for shorter journeys.

Research and development

In the second quarter of 2011, our software and hardware development teams worked on the further development of existing products and various radical innovations.

In the first six months, a total of EUR 1.4m (previous year: EUR 1.1m) were spent within the init group on the development of new products. No software developments were capitalised. The depreciation applied to capitalised software amounted to EUR 0.5m (previous year: EUR 0.7m).

In addition, customer-funded new and further developments were carried out in the course of projects, amounting to at least five times as much again.

Risks and risk management

The risks for the future development of the init group depend essentially on the risks in the group's operating companies. There are currently no risks within the init group that are a threat to our survival.

In that context, a risk management system is 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 meetings of the Managing Board, and their prospects and risks are weighed against each other. There are regular reports on imminent risks in the meetings of the Managing Board and the Supervisory Board. Alternative measures are discussed with the Supervisory Board.

The crucial success factor for the init group is project management. The successful handling of projects depends on their completion as scheduled, the scope of each individual project, the enforceability of contractual terms, the readiness of the customer to be involved in the project implementation through productive contributions, and the specific national laws and regulations. Apart from unforeseeable technical and customer-specific difficulties, the punctual completion of projects also depends to a degree on the availability of sufficiently qualified personnel.

The global financial crisis has increased the risk of losses of receivables outstanding. Over 95 per cent of init's customers are state-subsidised. But since the financial crisis has also seen various states slide into financial difficulties (e.g. Greece, Dubai, Iceland), there is a real likelihood that we may face losses of receivables in the future. The risk on receivables in Dubai was taken into account by way of appropriate impairments for loss on interest. As init received payments of around EUR 4.6m from Dubai in the first half of 2011, the risk has significantly reduced. The days sales outstanding in receivables has clearly increased so that we face risks in terms of planning reliability of cash flows as well as liquidity risks.

The substantial national debt of some countries and the discussed bailout packages and austerity measures may result in notably less investments also affecting public transport; this could have a detrimental effect on our business.

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

The investments of init include stocks, bonds, fixed-interest securities and fixed-term deposits. Market value, exchange and interest change risks can therefore result in losses.

Opportunities

init is currently involved in several tenders both in Germany and worldwide. Many of these are pending a decision over the next few months. As a result, we expect to see the number of new orders increase before the end of 2011.

In December 2009, the American Senate authorised around USD 10.7bn for the development of public transport. As a result, we again expect a number of new tenders to materialise in the USA in 2011.

The ticketing project won in the USA and the contract for an integrated control and passenger information system in Brisbane/Australia are of great strategic significance for init, as to date we have only implemented management and control systems in the USA and only ticketing contracts in Australia. It means init has gained two important references, which suggest further contracts to materialise in these sectors in the future.

A further major benefit for us is the growing interest among transport companies in integrated systems. With our electronic ticket printer with on-board computer functionality, EVENDpc, init is well prepared here to combine ticketing and ITCS. It stands us in good stead that we have excellent references which act as a signal for potential new customers all over the world and should better our chances for additional infrastructure investments.

Events after the reporting date

No events of special note occurred after the cutoff date.

Related party transactions

Transactions with related companies and persons are detailed in the notes under “Other disclosures”.

Prospects

init innovation in traffic systems AG continues on its way to sustainable, dynamic growth. Based on high volumes of incoming business, strategic successes in opening up new markets, and numerous calls for tenders in public transport sectors worldwide, the Managing Board can confirm its forecast for 2011 along with its positive outlook for 2012/13 halfway through the current financial year, despite the growing risk potential in the global economy.

We continue to expect a moderate increase in revenues to EUR 82m, with earnings before interest and taxes of over EUR 15m. While it cannot be ruled out that the debt crisis in a number of countries will lead to investment cuts in public transport and that actual results will differ from the projections and developments, this must be seen opposite many new programmes launched to develop transport infrastructures. The highly satisfactory order backlog of EUR 145m in the first half of the year and the considerable amount of tenders pending a decision currently suggest highly dynamic growth for init in 2012 and 2013.

The drastic devaluation of the US dollar and the Arab dirham, however, is a cause for concern. In the medium term, this will lead to significantly lower margins, as currency influences can only be passed on to a degree through higher prices.

Karlsruhe, 11 August 2011

The Managing Board

Dr. Gottfried Greschner
Chief Executive Officer

Dr. Jürgen Greschner
Chief Sales Officer

Wolfgang Degen
Chief Operating Officer

Bernhard Smolka
Chief Financial Officer

Joachim Becker
Chief Operating Officer

Consolidated Income Statement

from January 1, 2011 to June 30, 2011 (IFRS) (unaudited)

EUR '000	01/04–30/06/2011	01/04–30/06/2010	01/01–30/06/2011	01/01–30/06/2010
Revenues	17,592	17,630	31,555	32,579
Cost of revenues	-9,655	-11,403	-18,114	-21,856
Gross profit	**7,937**	**6,227**	**13,441**	**10,723**
Sales and marketing expenses	-2,583	-1,964	-4,731	-3,458
General administrative expenses	-1,404	-1,224	-2,366	-2,174
Research and development expenses	-693	-603	-1,400	-1,089
Other operating income	50	394	482	531
Other operating expenses	-94	152	-126	-1
Foreign currency gains and losses	358	738	762	1,573
Operating profit	**3,571**	**3,720**	**6,062**	**6,105**
Income from associated companies	46	33	124	65
Other income and expenses	44	51	96	105
Earnings before interest and taxes (EBIT)	**3,661**	**3,804**	**6,282**	**6,275**
Interest income	89	23	101	30
Interest expenses	-64	-35	-135	-87
Earnings before taxes (EBT)	**3,686**	**3,791**	**6,248**	**6,217**
Income taxes	-248	-1,425	-1,307	-2,523
Net profit	**3,438**	**2,366**	**4,941**	**3,694**
thereof attributable to equity holders of parent company	3,433	2,401	4,943	3,745
thereof minority interests	5	-35	-2	-51
Net profit and diluted net profit per share in EUR	0.34	0.24	0.50	0.38
Average number of floating shares (undiluted) in EUR	9,984,151	9,946,031	9,969,325	9,943,531
Average number of floating shares (diluted) in EUR	9,984,151	9,946,031	9,969,325	9,943,531

Interim Consolidated Statement of Comprehensive Income

from January 1, 2011 to June 30, 2011 (IFRS) (unaudited)

EUR '000	01/01 – 30/06/2011	01/01 – 30/06/2010
Net profit	**4,941**	**3,694**
Unrealized gains and losses on currency translation	**-661**	**882**
Net gain (+)/net loss (-) in available-for-sale financial assets	**-80**	**1**
Unrealized gains/ losses	-42	1
Reclassifications to the income statement	-38	0
Other comprehensive income	**-741**	**883**
Total comprehensive income	**4,200**	**4,577**
thereof attributable to equity holders of the parent company	4,202	4,628
thereof minority interests	-2	-51

Consolidated Balance Sheet as of June 30, 2011 (IFRS)

(unaudited)

Assets

EUR '000	30/06/2011	31/12/2010
Current assets		
Cash and cash equivalents	19,779	18,380
Marketable securities and bonds	313	324
Trade accounts receivable	11,536	15,243
Future receivables from production orders (percentage of completion method)	20,230	19,295
Accounts receivable from related parties	7	9
Inventories	15,633	15,444
Income tax receivable	35	0
Other current assets	3,988	2,242
Current assets, total	**71,521**	**70,937**
Non-current assets		
Tangible fixed assets	5,483	5,182
Goodwill	2,081	2,081
Other intangible assets	1,361	1,687
Interest in associated companies	2,346	2,221
Accounts receivable from related parties	68	68
Deferred tax assets	756	661
Other assets	1,214	1,584
Non-current assets, total	**13,309**	**13,484**
Asset, total	**84,830**	**84,421**

Liabilities and shareholders' equity

EUR '000	30/06/2011	31/12/2010
Current liabilities		
Bank loans	74	471
Trade accounts payable	2,542	2,908
Accounts payable of percentage of completion method	6,746	6,345
Accounts payable due to related parties	29	94
Advance payments received	7,113	4,665
Income tax payable	1,973	2,514
Provisions	5,757	5,617
Other current liabilities	7,048	7,320
Current liabilities, total	**31,282**	**29,934**
Non-current liabilities		
Long-term debt less current portion	1,024	1,059
Deferred tax liabilities	4,515	4,067
Pensions accrued and similar obligations	2,793	2,652
Other non-current liabilities	0	42
Non-current liabilities, total	**8,332**	**7,820**
Shareholders' equity		
Attributable to equity holders of the parent company		
Subscribed capital	10,040	10,040
Additional paid-in capital	4,864	4,793
Treasury stock	-392	-660
Surplus reserves and consolidated unappropriated profit	31,518	32,565
Other reserves	-1,082	-341
	44,948	**46,397**
Minority interests	268	270
Shareholders' equity, total	**45,216**	**46,667**
Liabilities and shareholders' equity, total	**84,830**	**84,421**

Consolidated Cash Flow Statement (IFRS)

from January 1, 2011 to June 30, 2011 (unaudited)

EUR '000	01/01–30/06/2011	01/01–30/06/2010
Cash flow from operating activities:		
Net income	4,941	3,694
Depreciation	1,172	1,325
Losses on the disposal of fixed assets	11	6
Change of provisions and accruals	281	1,019
Change of inventories	-189	-3,897
Change in trade accounts receivable and future receivables from production orders (POC)	2,772	-3,206
Change in other assets, not provided by/used in investing or financing activities	-1,409	-1,043
Change in trade accounts payable	-366	540
Change in advanced payments received and liabilities from POC method	2,849	5,684
Change in other liabilities, not provided by/used in investing or financing activities	-920	55
Change in investment book value (not affecting cash flow)	-124	-64
Amount of other non-cash income and expenses	317	1,811
Net cash from operating activities	**9,335**	**5,924**
Cash flow from investing activities:		
Inflows from sales of tangible fixed assets	7	0
Investments in tangible fixed assets and other intangible assets	-1,248	-628
Investments in marketable securities as part of short-term cash management	-82	-95
Net cash flows used in investing activities	**-1,323**	**-723**
Cash flow from financing activities:		
Dividend paid out	-5,990	-2,986
Cash payments for the purchase of treasury stock	0	-547
Redemption of bank loans	-432	-724
Net cash flows used in financing activities	**-6,422**	**-4,257**
Net effects of currency translation and consolidation changes in cash and cash equivalents	-191	285
Increase in cash and cash equivalents	**1,399**	**1,229**
Cash and cash equivalents at the beginning of the period	18,380	9,327
Cash and cash equivalents at the end of the period	**19,779**	**10,556**

Selected Explanatory Notes for Q1–Q2 2011 (IFRS)

General Disclosure

The init group is an internationally operating system supplier of transportation telematics (telecommunications and informatics, also known internationally as "Intelligent Transportation Systems" or ITS). The business activities are subdivided into the following segments: Telematics and Electronic Fare Collection Systems, Planning Systems and Automotive.

The quarterly report as of June 30, 2011, and the comparative prior-year figures were prepared in compliance with the International Financial Reporting Standards (IFRS) and are consistent with IAS 34. The accounting and valuation methods applied to the consolidated financial statements dated December 31, 2010 were retained.

The consolidated interim financial statement has been prepared in Euro. Unless otherwise stated, all figures were rounded to full thousand (EUR k).

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

The consolidated interim report and the consolidated financial statement as of June 30, 2011, were not subject to a review.

The interim report of the second quarter was communicated to the supervisory board on August 5, 2011.

Accounting Principles and Valuation Methods

In principle, the accounting practices and valuation methods applied in this interim financial statement are consistent with the methods applied in the financial statements 2010. Amendments to the accounting principles and valuation methods and also amendments concerning the presentation and explanation of the financial statements have been caused by applying the following new or revised standards:

IAS 24 "Related Party Disclosures"
The revised standard IAS 24 was published in November 2009 and applies for the first time to financial years commencing on or after 1 January 2011. On the one hand, this revises the definition of related parties in order to make it easier to identify the relationship to a related party. On the other hand, it partly exempts the party related to a public sector entity from disclosure requirements that pertain to transactions with said public sector entity and other business entities related to that public sector entity. The standard specifies retrospective application. This expansion of the definition will foreseeably lead to further details arising in future about who is included in the parties related to the group. The adoption of the amendment did not have any impact on the assets, liabilities, financial position and earnings situation of the consolidated financial statements.

Amendment to IAS 32 "Classification of Right Issues"
The amendment to IAS 32 was published in October 2009 and applies for the first time to financial years commencing on or after 1 February 2010. It alters the definition of a financial liability such that rights issues and certain options may be classified as equity instruments. This applies specifically if a company offers the rights pro rata to all of the existing owners of the same class of its own non-derivative equity instruments in order to acquire a fixed number of the company's own equity instruments for a fixed amount in any currency. The standard specifies retrospective application. The adoption of the amendment did not have any impact on the assets, liabilities, financial position and earnings situation of the consolidated financial statements.

Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement"
The amendment to IFRIC 14 was published in November 2009 and applies for the first time to financial years commencing on or after January 1, 2011. The application of IFRIC 14, published in July 2007 for the purpose of limiting a defined benefit asset to its achievable amount, had some unintended consequences for companies in certain countries. The amendment is aimed to permit companies to recognise as an asset voluntary prepayments of minimum funding contributions. The amendment specifies retrospective application. The initial application did not lead to any reporting of an asset resulting from the excess of the plan asset above the values of the defined benefit obligation.

"Improvements to International Financial Reporting Standards 2010"
This general standard, published in May 2010, contains a series of amendments to various IFRS standards. The times of application and the transitional rulings are specified for each standard. The adoption of the amendments did not have any impact on the financial position or performance of the group.

IFRIC 19 regulates the treatment of extinguishing of financial liabilities by issuing equity instruments. The interpretation is to be applied retrospectively and does not have any impact on the assets, liabilities, financial position and earnings situation of the consolidated financial statements.

Consolidated Group

Fully Consolidated Companies

The group of consolidated companies of init AG comprises the subsidiaries INIT GmbH, Karlsruhe, Germany ("INIT GmbH"), INIT Innovations in Transportation Inc., Chesapeake/Virginia, USA ("INIT Inc."), INIT Innovations in Transportation (Eastern Canada) Inc./INIT Innovations en Transport (Canada Est) Inc., Montréal, Canada ("Eastern Canada Inc."), INIT Innovations in Transportation (Western Canada) Inc., Vancouver, Canada ("Western Canada Inc."), INIT PTY LTD, Queensland, Australia ("INIT PTY"), Init Innovation in Traffic Systems FZE, Dubai ("Init FZE"), initplan GmbH, Karlsruhe ("initplan"), INIT Innovations in Transportation Oy, Finland ("INIT Oy") and INIT Innovations in Transportation Limited, Nottingham, UK ("INIT Ltd"). In each of the above, init AG holds a 100% shareholding. In addition, the following are also fully consolidated: CarMedialab GmbH, Bruchsal, Germany ("CarMedialab"), in which init AG holds a 58.1% of the shares, and the TQA Total Quality Assembly LLC, Chesapeake/Virginia, USA ("TQA"), in which INIT Inc. holds 60% of the shares.

Associated Companies

init AG holds 44% of the shares in id systeme GmbH, Hamburg ("id systeme") and INIT GmbH holds 43% of the shares in iris-GmbH infrared & intelligent sensors, Berlin ("iris"). The associated companies are included at equity in the consolidated financial statement.

Inventories

A total of EUR 167k (previous year decreases in values: EUR 393k) for impairment appreciation was recorded. The income or expense is included in the consolidated income statement under "Cost of revenues".

Securities and Bonds

A total of EUR 36k (previous year: EUR 26k) was depreciated because of a permanent depreciation in securities and bonds.

Trade Accounts Receivable

A total of EUR 126k (previous year: EUR 308k) for decrease in value for accounts receivable was recorded as expenses. This expenditure is included in the income statement under "Other operating expenses".

Tangible Fixed Assets

The tangible (fixed) assets essentially concern the administration building at Kaeppelestr. 4, two residential houses, office furnishings and technical equipment. Replacement investments totalling EUR 713k were made (previous year: EUR 560k). The sale of certain tangible (fixed) assets generated EUR 7k (previous year: EUR 0k).

Liabilities

Debts are carried on the liabilities side of the balance sheet at their net book value. The liabilities due to affiliated companies totalled EUR 29k (previous year: EUR 281k) and relate to trade accounts payable to iris (previous year: iris and id systeme).

Shareholders' Equity

Subscribed Capital

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

Authorised Capital

At the annual shareholders' meeting on May 24, 2011, a resolution was passed to create capital to the amount of EUR 5,020,000. With the approval of the Supervisory Board, the Managing Board is authorised to increase the company's capital stock by up to EUR 5,020,000 by May 23, 2016 through a single or repeated issuing of up to 5,020,000 ordinary shares against contributions in cash or in kind. The new shares are to be taken up by credit institutions that will be obliged to offer them to investors for sale. However, with the approval of the Supervisory Board, the Managing Board is authorised to withdraw the pre-emptive right, so that up to 1,004,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price. The aim is to balance peak amounts, to open up additional capital markets, to acquire or merge with other companies or parts of companies by way of contribution as investment in kind, and to convert up to 250,000 new shares into employee stocks.

Capital Reserves

On June 30, 2011 the capital reserves totalled EUR 4,864k, with EUR 3,141k result from the premium of the shares sold at the time of the initial public offering and the increase of capital stock in 2002. EUR 1,138k were transferred from 2005 to 2010 as part of the recognised expenses from the share-based remuneration and EUR 275k in 2011. The transfer of shares in the context of the share bonus agreement for the Managing Board and employees released the capital reserves for EUR 204k in 2011. Due to the sale of treasury stock in 2007, the capital reserves increased by EUR 514k.

Treasury Stock

The treasury stock on January 1, 2011 totalled 94,186 shares. Within the scope of the incentive scheme for members of the Managing Board, managing directors and high performer in the first quarter of 2011, a total of 37,337 shares were transferred with a qualifying period of five years. A further 1,000 shares were transferred to employees within the scope of a bonus agreement without qualifying period. On June 30, 2011 the number of treasury stock totalled 55,849.

The company's treasury stock was valued at acquisition cost at EUR 392k (previous year: EUR 836k) and openly deducted from the equity capital. Of the treasury stock as of June 30, 2011 of 55,849 shares with an imputed share of EUR 55,849 (0.56 %) in the capital stock, 1,139 shares resulted from the capital increase in 2002 and 54,710 shares from the company's stock repurchasing programme. The shares were repurchased at an average price of EUR 7.01 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 opening up of additional capital markets or to issue them to employees and members of the Managing Board.

Paid Dividends

EUR '000	
Dividend for 2009: EUR 0.30 per share, paid out on May 14, 2010	2,986
Dividend for 2010: 0.45 per share plus an one-off bonus dividend of EUR 0.15 per share, paid out on May, 25, 2011	5,990

Contingent Liabilities/Claims

Just as of December 31, 2010, the init group had no contingent liabilities and claims.

Legal Disputes

Currently no lawsuits being pursued through the courts.

Segment Reporting

The segment reporting can be found on page 22 of the consolidated interim report.

Other Disclosures

Related Party Transactions

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

	Associated companies		Other related party transactions	
EUR '000	**2011**	2010	**2011**	2010
Income from sales to related parties and persons on 30/6	0	0	0	0
Goods and services from related parties and persons on 30/6	761	1,250	183	183
Due from related parties and persons on 30/6	75	69	61	61
Due to related parties and persons on 30/6	29	281	0	0

Associated Companies

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

The other amounts of EUR 7k relate to iris EUR 2k (previous year: EUR 1k) and id systeme EUR 5k (previous year: EUR 0k). 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.

The amounts due to related parties and persons relate to trade accounts payable and have a remaining maturity of less than one year. The amounts are attributable to iris at EUR 29k (previous year: EUR 270k) and id systeme EUR 0k (previous year: EUR 11k). The amounts are shown in the balance sheet under current liabilities.

Other Related Party Transactions

INIT GmbH rents its office building in Karlsruhe from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG. The rounded monthly rent payments amount to EUR 30k (EUR 366k annually). The rental price is contractually fixed until June 30, 2011 and will then increase to EUR 475k per year, from July 1, 2011 until June 30, 2026. Furthermore, a rent deposit of EUR 61k was paid for the office building in Karlsruhe.

Terms and Conditions of Business Transactions with Related Parties and Persons

Sales to, and purchases from, related parties and persons are made to generally accepted market terms. There are no guarantees at all for accounts receivable or payable in regard to related parties and persons. The group did not accrue any cumulative value adjustments for accounts receivable from related parties and persons for the financial year as of June 30, 2011.

Karlsruhe, August 11, 2011

Responsibility Statement

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

The Managing Board

Dr. Gottfried Greschner
Chief Executive Officer

Dr. Jürgen Greschner
Chief Sales Officer

Wolfgang Degen
Chief Operating Officer

Bernhard Smolka
Chief Financial Officer

Joachim Becker
Chief Operating Officer

Segment Reporting

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

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

Based on the products and services offered by the segments and for the purpose of managing the corporation, the corporate group is subdivided into the following three divisions: “Telematics and Electronic Fare Collection Systems“,

01/01/2011–30/06/2011

EUR ‘000	Telematics and Electronic Fare Collection Systems	Other	Eliminations and adjustments	Consolidated
Revenues				
With third parties	29,664	1,891	0	31,555
With other segments	825	696	-1,521	0
Total revenues	**30,489**	**2,587**	**-1,521**	**31,555**
EBIT	**6,298**	**139**	**-155**	**6,282**
Segment assets	83,891	3,551	-2,612	84,830
Segment liabilities	39,104	2,044	-1,534	39,614
Interest income	104	1	-4	101
Interest expenses	120	11	4	135
Scheduled depreciation	1,099	73	0	1,172
Cost of revenues	17,890	1,518	-1,294	18,114
R&D costs	903	497	0	1,400
Foreign currency gains (+) and losses (-)	781	-19	0	762
Share in profit of associated companies	124	0	0	124
Income taxes	1,299	8	0	1,307
Value impairments	165	0	0	165
Share in associated companies	2,346	0	0	2,346
Investments in tangible and intangible assets	1,112	136	0	1,248
31/12/2010				
Segment assets	83,355	3,586	-2,520	84,421
Segment liabilities	37,224	2,006	-1,476	37,754
Share in associated companies	2,221	0	0	2,221

“Planning Systems“ and “Automotive“. The “Planning Systems“ and “Automotive“ divisions have been subsumed under the segment entitled “Other“.

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

01/01/2010–30/06/2010

EUR ‘000	Telematics and Electronic Fare Collection Systems	Other	Eliminations and adjustments	Consolidated
Revenues				
With third parties	31,745	834	0	32,579
With other segments	374	668	-1,042	0
Total revenues	**32,119**	**1,502**	**-1,042**	**32,579**
EBIT	**6,674**	**-342**	**-57**	**6,275**
Segment assets	80,084	2,439	-1,862	80,661
Segment liabilities	39,537	1,588	-820	40,305
Interest income	37	0	-7	30
Interest expenses	81	13	-7	87
Scheduled depreciation	1,199	126	0	1,325
Cost of revenues	21,577	1,208	-929	21,856
R&D costs	707	382	0	1,089
Foreign currency gains (+) and losses (-)	1,559	14	0	1,573
Share in profit of associated companies	65	0	0	65
Income taxes	2,513	10	0	2,523
Value impairments	2,508	0	-19	2,489
Share in associated companies	2,123	0	0	2,123
Investments in tangible and intangible assets	595	33	0	628
31/12/2009				
Segment assets	70,952	2,733	-2,075	71,610
Segment liabilities	31,987	1,705	-1,059	32,633
Share in associated companies	2,059	0	0	2,059

Consolidated Statement of Changes in Equity as of June 30, 2011 (IFRS) (unaudited)

			Attributable to equity holders	
EUR '000	Subscribed capital	Additional paid-in capital	Surplus reserves, consolidated unappropriated profit	Treasury stock
Status as of December 31, 2009	**10,040**	**4,377**	**25,626**	**-477**
Net profit			3,745	
Other comprehensive income				
Total comprehensive income			**3,745**	
Dividend paid out			-2,986	
Share-based payments		146		188
Acquisition of treasury stock				-547
Rounding difference				
Status as of June 30, 2010	**10,040**	**4,523**	**26,385**	**-836**
Status as of December 31, 2010	**10,040**	**4,793**	**32,565**	**-660**
Net profit			4,943	
Other comprehensive income				
Total comprehensive income			**4,943**	
Dividend paid out			-5,990	
Share-based payments		71		268
Status as of June 30, 2011	**10,040**	**4,864**	**31,518**	**-392**

of the parent company				Minority interest	Shareholders' equity, total
Other reserves					
Difference from pension valua-tion	Difference from currency translation	Stock market valuation of securities	Total		
-81	**-741**	**51**	**38,795**	**182**	**38,977**
			3,745	-51	3,694
	882	1	883		883
	882	**1**	**4,628**	**-51**	**4,577**
			-2,986		-2,986
			334		334
			-547		-547
			1		1
-81	**141**	**52**	**40,225**	**131**	**40,356**
-146	**-233**	**38**	**46,397**	**270**	**46,667**
			4,943	-2	4,941
	-661	-80	-741		-741
	-661	**-80**	**4,202**	**-2**	**4,200**
			-5,990		-5,990
			339		339
-146	**-894**	**-42**	**44,948**	**268**	**45,216**

Geographical Information

Revenues with external clients	01/01/2011–30/06/2011 EUR '000	%	01/01/2010–30/06/2010 EUR '000	%
Germany	12,030	38.1	10,599	32.5
Rest of Europe	7,531	23.9	5,572	17.1
North America	11,036	35.0	12,409	38.1
Other Countries (Australia, UAE)	958	3.0	3,999	12.3
Group total	**31,555**	100.0	**32,579**	100.0

The above information about the sales revenue is based on the customer's location.

Non-current assets	30/06/2011 EUR '000	%	31/12/2010 EUR '000	%
Germany	8,092	88.1	7,863	86.5
Rest of Europe	170	1.8	177	2.0
North America	795	8.7	892	9.8
Other Countries (Australia, UAE)	133	1.4	158	1.7
Group total	**9,190**	100.0	**9,090**	100.0

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

Company Calendar 2011

Date	Event
Aug 31, 2011	Sector Conference Commerzbank, Frankfurt
Nov 10, 2011	Publication of Q3 2011 Report
Nov 21, 2011	German Equity Forum, Frankfurt - Analyst Conference

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