

**init**

innovation in traffic systems AG



**Internationally successful.**  
Annual Report 2003

> **Alexandra Weiß**, Secretary General Management

“I greatly enjoy working with people. Especially when you know that everyone is pulling together to bring about great changes. As we do.”



## *Imprint*

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innovation in traffic systems AG

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### *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 200 transportation companies worldwide.

### *Key figures 2003 of init AG* *according to US-GAAP*

#### **Balance sheet**

Balance sheet total	T€	32,783
Shareholders' equity	T€	17,201
Subscribed capital	T€	10,040
Equity-to-assets ratio	%	52.5
Fixed assets	T€	10,484
Current assets	T€	22,299

#### **Result**

Revenues	T€	30,012
Gross profit	T€	7,659
EBIT	T€	770
Net income	T€	404
Net income per share	€	0.04

#### **Cash Flow**

Cash Flow from operating activities	T€	1,217
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#### **Share**

Share price		
at stock market floatation	€	5.10
Peak share price	€	6.55
Bottom share price	€	2.86

Number of shares, end of year 10,040,000

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## Letter to the Shareholders and Friends of the Company

*Ladies and gentlemen:*

Movement is our business. Intelligent telematics solutions from init ensure a more efficient, faster and more cost-effective local public transportation in buses and trains. We provide improved mobility for millions of people – daily, in communities, cities, and regions, in Europe as much as in North America. A standstill as the natural opposite of any movement and thus, of our business, is what we intend to avoid.

To do so, however, we have to rely on the investment strength and inclination of the transportation companies as the main drive of our business. In the past, Germany was the driving force of development in the local public transportation sector, and therefore also the core market for init. As early as in 2002 and even more so in 2003, Germany came to a standstill in this area. In the more than 20 years of its existence, init has never seen the number of tenders for telematics and fare payment systems be so low as in the past year. Necessary investments got stuck in the reform bottleneck or failed to materialize in the first place due to a lack of liquid funds.

In 2003, init therefore took the appropriate steps and further intensified the internationalization of its business with single-minded determination and great success. init solutions beat their competitors in two of the largest international tenders for telematics solutions in Europe and the USA, in London and in Houston, respectively. Large-scale projects such as these, and the projects that already commenced in Albany, Graz, and Stockholm in 2002, have the advantage that a large number of vehicles can be fitted with the same hardware and software.



The drawback of this is that, on the one hand, it initially requires advance payments and system adjustments. Even the slightest delays here already have an effect on sales (since projects will progress more slowly and sales will therefore move from one accounting period to the next) and the result. The lull in investments in the German local public transportation sector and the delays of individual projects in the USA and in Europe have added up to quite an unfavorable situation for init in the preceding fiscal year. Furthermore, the decline in the dollar price also forced down sales generated by an otherwise highly satisfactory business with North America. Due to this alone, init lost around two or three million Euro in sales in 2003.

On the whole, despite the expenses for the commencing large-scale projects, init just about managed to achieve a positive result. We did, however, miss the growth targets set for 2003. The key figures for the preceding fiscal year at a glance:

- > With 30.0 million Euro (2002: 31.5 million Euro), the revenues remained below our target.
- > The operating result (EBIT) turned out to be positive, totaling 0.8 million Euro, yet still being below the prior-year figure (2.0 million Euro).
- > The expenses for commencing large-scale projects and the increased human resources expenses in connection with the extension of our international business burdened the result in 2003. Consequently, the group profit for the year fell to 0.4 million Euro (2002: 1.4 million Euro), thus also reducing the earnings per share to 0.04 Euro (2002: 0.14 Euro).
- > With 35.9 million Euro as at the end of December (previous year: 32.4 million Euro), our orders on

hand not only beat the prior-year record, but also clearly exceeded the annual sales generated in 2003.

init has learned its lessons from this atypical and, in the end, unsatisfactory development in the 2003 fiscal year. As a consequence, we intend to push international sales even more strongly. To do so, we have created a new position in our management and have restructured our development and project teams and added native speakers to our sales department for projects in the corresponding European countries. This has already proven worthwhile in the Stockholm project, which started in 2002, and gained us a contract in the Norwegian city of Oslo.

In the USA, we developed the value-added chain of our subsidiary, INIT Inc., in 2003 and will continue to do so in 2004. With the increasing number of projects, we also plan to open a sales office at the West Coast, to provide us with a better chance of winning tenders in this part of the country.

Our efforts in international tenders will be more intensified than before. In Europe alone, the current volume amounts to around 50 million Euro. In North America, init is awaiting decisions on tenders of an even more substantial volume, totaling around 100 million US dollars. Even if init is successful in only some of these tenders, they will more than compensate for the lack of project decisions in Germany. Thus, the init business model continues to grow in stability.

In general, however, the company intends to reduce its dependence on individual large-scale projects. In 2003, we continued to advance the concentration of our product range and its compatibility with other system environments.

A milestone here will be our new on-board computer generation, COPILOTpc, based on Microsoft's Windows XP embedded® operating system. It integrates a whole host of functions and multimedia applications, and can be equipped with inexpensive standard tools. This makes it an interesting option for the initial equipment of buses and trains. If we are successful in entering the market as a supplier for the automobile industry, this product alone would greatly multiply the sales potential of init.

Standardization, however, will also be on the agenda for other products, such as the TOUCHit computer operating element developed by init, featuring a color graphics touch screen. In the software sector, our planning tool, MOBILE-PLAN, is yet another solution that can potentially be used in many applications and is therefore multipliable at any rate.

It must be added that the fundamentally effective growth trends in our market did not slacken, despite the unexpected setback in 2003: the dynamic progress in the internationalization of the offer of mobility services, the privatization and liberalization of previously segregated regional markets, and the pressure on transportation companies to provide a more attractive and more efficient service. init is still the only company here to offer integrated solutions under one roof for any type of local public transportation problem. Even today, init is already one of the leading suppliers of innovative telematics and fare collection systems on an international scale.

On the basis of our excellent market position, a backlog of orders, and the expectation of successful tenders, we therefore anticipate resuming our path toward growth in 2004. For you, our shareholders and business partners, init will be a reliable partner providing you with the prospect of above-average earnings.

Karlsruhe, March 13, 2004  
for the Managing Board



Dr. Gottfried Greschner  
*Chairman*





> **Klaus Scherrer,**

Network and Information Management

“Controlling traffic in city centers is getting increasingly complex. Each day, our technology helps many transport companies solve this task. You can’t help but feel proud.”





## *init – Internationally successful*

### *Houston had a problem, init the solution*

Last year at the beginning of May, init reached yet another milestone in company history in North America. METRO Metropolitan Transit Authority of Harris County, the transportation company serving the Houston, Texas metropolitan area, awarded init with a contract for the delivery and installation of an Integrated Vehicle Operations Management Systems (IVOMS). This contract was awarded to the fully owned subsidiary, INIT Innovations in Transportation, Inc., Virginia, and is to be completed by mid-2005. init won this tender worth 20 million US dollars prevailing against well-known international competitors.

init will provide both the control center and the fleet of 1,350 buses of the transportation company with innovative technology. In the future, the control center will be operating with a JAVA-based computer-aided dispatch and automatic vehicle location system (MOBILE-CAD/AVL). The buses will be equipped with

#### **System features**

JAVA-based computer-aided dispatch and automatic vehicle location system (MOBILE-CAD/AVL)

Planning and data management (MOBILE-PLAN)

Vehicle location via GPS

On-board computer with Windows XP Embedded® (COPILOTpc)

Automatic next stop announcement via MP3 files

Automatic passenger counter MOBILE-APC

Data communication with the control center via WLAN

Integration of an optical traffic signal priority system

the latest development from init, the COPILOTpc based on Microsoft's Windows XP Embedded® operating system. This unit opens up a whole host of new possibilities for intelligent telematics solutions in buses and trains. Furthermore, all 1,350 vehicles will be equipped with passenger information and counting systems as well as data radio devices. In addition, 1,072 buses will be provided with a traffic signal priority system to be utilized at 1,250 intersections. The traffic lights will be triggered by light signals sent on a certain wavelength. The system will be automatically controlled by the COPILOTpc on the basis of vehicle location data. Numerous supplementary components for statistical data evaluation, reporting, and online data transfer between the vehicle and the control center will be added.

The vehicles will be located by means of a GPS. The Wide Area Augmentation System (WAAS) available on the entire North American continent sends patches via geostationary satellites, enabling an even greater accuracy. The WAAS-compatible GPS receivers installed in the vehicles receive both the GPS coordinates and the patch, and use them to facilitate a highly precise location of any vehicle of the transportation company.

For init, this contract from Houston, the fourth largest city in the USA, is an important milestone in terms of its business development in North America. METRO is one of twelve transportation companies in North America that have decided in favor of INIT because of its technology edge and competitive pricing.



Dr. Jürgen Greschner, B.A.M.  
Chief Sales Officer

*Dr. Jürgen Greschner:*  
**“State-of-the-art technology”**

In many sectors, the American market is considered pioneering. Only very few manage to establish themselves successfully as a foreign company. If they do, it involves significant costs in sales and marketing. For init, the keys to success were its technologically advanced products and specific knowledge of the requirements of the transportation companies. We asked Dr. Jürgen Greschner, Chief Sales Officer of init AG and, until December 31, 2003, CEO of the US subsidiary, INIT Inc., to share his opinion:

**Dr. Greschner, METRO opted for the solution from INIT Inc. In your opinion, what was the deciding factor for them?**

- > The introduction of a real-time information system is by no means an easy task and a veritable challenge for a supplier of transportation services. The deciding factors for METRO were that we had the appropriate experience, that the system solution we offered was convincing, and of course, that they appreciated the time and cost savings involved.

**How important are references in the American market?**

- > Very important. INIT had already proven in other projects in the United States that we know the problems and are able to solve them. We are locally present through our subsidiary. In addition, we have a wealth of experience gained in European projects.

**In terms of technology, what are you, personally, most impressed with?**

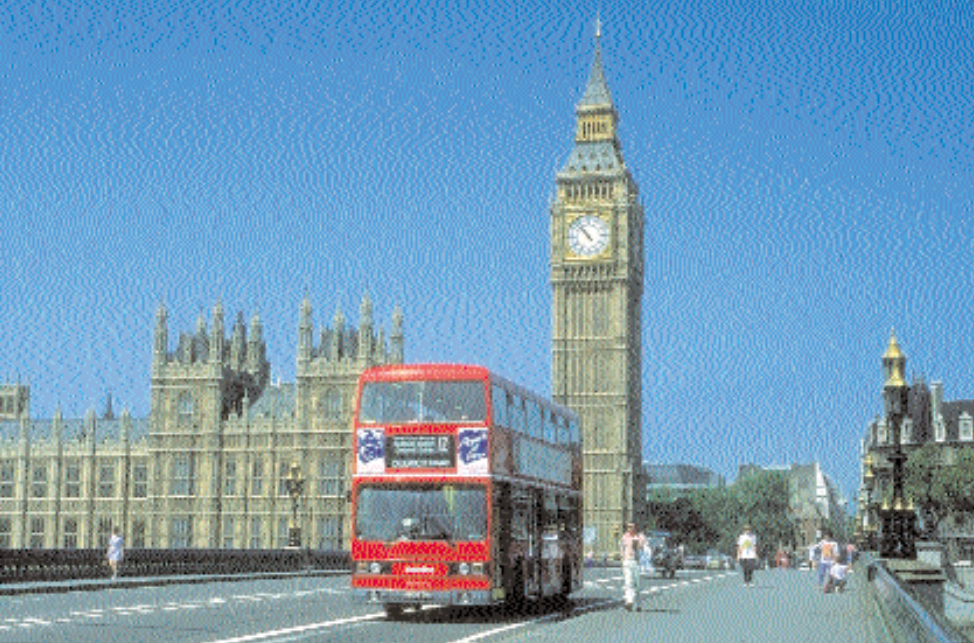
- > No doubt, the COPILOTpc. The use of an on-board computer based on Windows XP Embedded® opens up entirely new possibilities for intelligent telematics solutions in buses and trains. I am convinced that the future belongs to this product.

**Do you see significant differences between the European and the North American local public transportation system?**

- > The law alone is different. In the USA, for example, it provides that key stops must be announced in the vehicle. Prior to reaching the next stop, our on-board computer COPILOTpc triggers the playback of data provided in an MP3 file. These automatic announcements are a huge relief for the bus drivers since they no longer have to announce the stops themselves.

*Thank you very much for this interview.*





## Largest contract in Great Britain

### Double-deckers feature init technology

In September, init took yet another important step in European business. With an order volume totaling in excess of 4.2 million Pound Sterling init will provide Metroline Plc. with a Service Quality Control System (SQCS) to manage its bus fleet in the city of London. By the end of 2005, in excess of 1,000 vehicles and 10 depots will be equipped with the hardware and software developed by init. Metroline is one of the largest private bus operators in Great Britain and therefore, strategically, a highly important new customer.

According to Metroline Plc., the company will use the new SQCS supplied by init to improve its service quality and the efficiency of its scheduled services, thus making them more attractive and more reliable for passengers. At the same time, the system will ensure a "best practice solution" for Metroline bus drivers and the "best management" in the depot. As all other London bus operators, Metroline is measured by the frequency of its buses and the time a passenger

#### System features

- JAVA-based computer-aided dispatch and automatic vehicle location system (MOBILE-CAD/AVL)
- On-board computer COPILOTpower
- Vehicle location via GPS
- Communication between depot and vehicle via GPRS (General Packet Radio Service)
- Exchange of mass data between vehicle and depot via WLAN infrastructure
- Further processing with MOBILEstatistics

has to wait for a bus. In order to meet the expectations and further improve its performance, Metroline required a 'real time' service control system.

In addition to the proven MOBILE-CAD/AVL operating control system, the heart of the SQCS is the on-board computer, COPILOTpower. This computer controls all the telematics functions, organizes the radio communication with the depot via GPRS (General Packet Radio Service), and, aided by a GPS, calculates the location and the current schedule situation. The departure times of the individual buses are automatically controlled by the MOBILE-CAD/AVL to maintain a regular distance between the vehicles on the entire route. Therefore, even in dense traffic, pile-ups of buses will be avoided in the future.

The complete communication between the depot and the vehicle is accomplished using the public mobile radio standard, GPRS. Via a WLAN (Wireless Local Area Network), all vehicle data will promptly and in a fully automatic process be passed on to the central evaluation computer for further processing with the init software, MOBILEstatistics.

For init, this contract with Metroline Plc., which also operates buses in Scotland and Ireland, is yet another milestone in its successful internationalization strategy. Metroline Plc. is a subsidiary of ComfortDelgro Corporation Ltd. (Singapore), one of the five largest listed passenger transportation companies in the world.



Wolfgang Degen, M.Sc.  
Business Division: Mobile Telematics and Fare Management Systems

*Wolfgang Degen, qualified engineer (FH)*  
**“Cost advantages and quick implementation time”**

London is certainly one of the most impressive metropolises in Europe and indeed the entire world. Even those who have never before set foot in this city on the Thames, will have striking pictures of its sights in their mind's eye. And, if you let your eye wander, from the Tower Bridge to Piccadilly Circus, from Liverpool Street to Paddington, you will also see red double-decker buses drive across your picture.

We have asked Wolfgang Degen, who is on the Managing Board of init AG, responsible for the area of Mobile Telematics and Fare Collection Systems, why Metroline decided on init:

**Mr. Degen, what is the particular challenge of fleet management in London?**

> The rush hour in London is almost as well-known as its teatime. This high volume of traffic leads to delays and alterations in the scheduled traffic. The consequence: the buses gradually keep piling up until a group of them will be moving through the city center in a throng. For the passengers at the bus stops, this means unpleasant and long waiting times.

**And the technology from init can solve this problem?**

> The init system automatically controls the departure times of the individual buses, ensuring a regular distance between the vehicles on the entire route. Therefore, even in dense traffic, pile-ups of buses will be avoided in the future.

**What was the deciding factor in awarding the contract to init?**

> The deciding factors were the cost advantages and the quick implementation time. We were able to complete the agreed pilot phase in only three months. In this phase, we have already equipped a total of 28 buses and a depot with our technology.

**Do you see other advantages in the new system?**

> Compared with the previous voice radio communication system, the communication here, by means of data radio transfer via GPRS, is far more efficient and allows the use of additional control instruments. At the final count, Metroline will benefit from optimized operating processes and a noticeable reduction in its operating costs as well as a considerable improvement in the quality of its service, particularly to its passengers.

*Thank you very much for this interview.*





## Europe's latest system for local public transportation

### High-tech for Stockholm's buses and trains

One of the latest telematics systems for the local public transportation sector in Europe is currently being installed in Stockholm. After having been awarded a contract to equip 24 depots and around 1,700 vehicles by the biggest Swedish public transportation authority, AB StorStockholms Lokaltrafik, in summer 2002, init signed another contract at the end of May last year, agreeing to equip an additional 200 vehicles with its on-board computers. The total volume of this order thus exceeds 12 million Euro.

The heart of the system is the on-board computer, COPILOTpc, which was developed by init and is based on Microsoft's Windows XP Embedded® operating system. This computer controls all the telematics functions, organizes the voice and data radio communication, and calculates the location and the current schedule situation. Together with the automatic next stop

#### System features

JAVA-based computer-aided dispatch and automatic vehicle location system (MOBILE-CAD/AVL)

Planning and data management (MOBILE-PLAN)

Vehicle location via GPS

On-board computer with Windows XP Embedded® (COPILOTpc)

Passenger information system, automatic next stop announcement via MP3 files

Data communication with the control center via WLAN

announcement system, the COPILOTpc thus combines all the functions in a single unit. It also controls peripheral devices in the vehicle and the entire data transfer. The crucial advantage of this init technology: it also facilitates multimedia applications and infotainment offers. The color graphics touch screen, TOUCHit, has been added to the COPILOTpc as a supplementary component, thus significantly increasing the user-friendliness of this system for the drivers.

init is also integrating the entire application software and a communication system for the centralized data transfer between the depots and the buses on the basis of wireless LAN technology. The contract also includes a pilot project for a computer-aided dispatch and automatic vehicle location system (CAD/AVL) for the management of 50 vehicles and the option of extending this to the entire fleet. This new Stockholm project is already the fourth major contract that init is executing in Sweden.

AB StorStockholms Lokaltrafik has been a customer of the Karlsruhe-based supplier of telematics systems since 1990. The leading Swedish public transportation authority intends to use the new on-board computer generation developed by init to set a new standard. Other Scandinavian transportation companies have also shown great interest, as seen by the latest order received from the Oslo-based og Akershus Trafikservice AS (OATS), a subsidiary of the largest public transportation company in Norway.



Joachim Becker, M.Sc. in Information Science  
Telematics Software and Services

*Joachim Becker, qualified computer scientist  
"Are you still waiting or are you  
already going?"*

Sweden likes to take innovative routes. This applies not just to better living, but has also been true for a long time for its local public transportation sector. For 14 years, Sweden's biggest public transportation authority in Stockholm has successfully backed solutions from init in order to convince its passengers with an innovative offering.

We spoke with Joachim Becker, who is on the Managing Board of init AG and is responsible for the Telematics Software and Services section:

**Mr. Becker, the Stockholm transportation companies have been opting for the systems from init AG for many years now. What, in your opinion, are the key advantages of these systems?**

> The important factor for StorStockholms Lokaltrafik right from the outset was receiving a system that could gradually be extended and adapted to the requirements of the company. The solutions from init allow just that. At the same time, however, there is the possibility of adding innovative ideas to the system, such as the COPILOTpc.

**Where do you see the particular challenges of future systems?**

> Due to the increasing volume of traffic and new tasks expected of them, the drivers of buses and trains have to meet ever increasing requirements. Therefore, for their own security and that of the passengers, it is crucial that they can rely on an intelligent information and communication system.

**And the demands of the passengers keep on growing...**

> Exactly. And it is their right. The transportation companies must provide their passengers with an improved service and greater convenience. Both are ensured by the useful solutions of our technology.

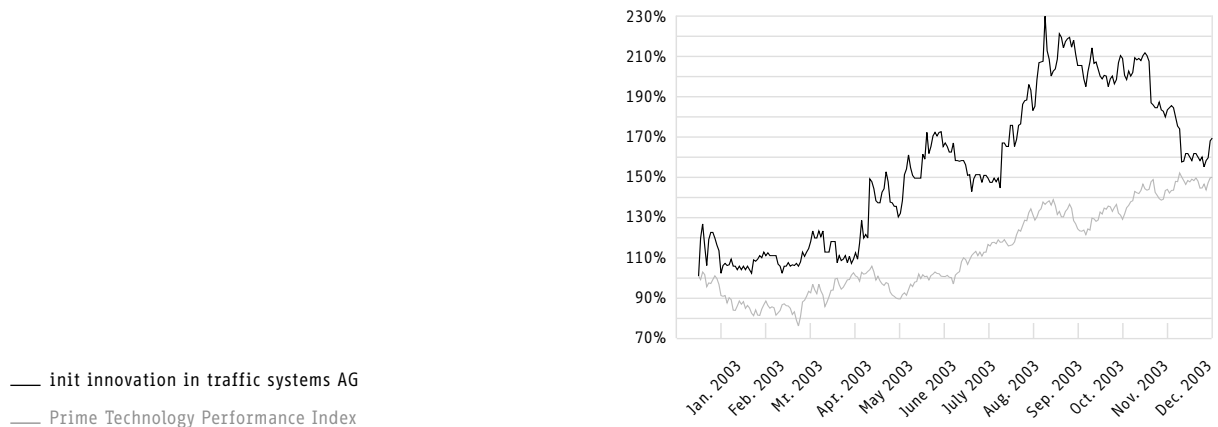
**What other advantages of the new system can you see?**

> We are interested in combining the demands of passengers with the requirements of the transportation companies. This means that quality and security must be improved, and the service provided must be more efficient and thus, more economical. This requires innovative thinking and the right partners.

*Thank you very much for this interview.*



## Performance



## The init Share

### *Share price gains trusting in the future*

As the entire German stock exchange, the share price of init innovation in traffic systems AG was subject to wild fluctuations in 2003. Investors who acquired the init stock at the beginning of the year enjoyed a gain of 68 percent by the end of the year. Despite the general bear market in the first three months of the year, the init stock initially remained steadily above the 3-Euro-mark. Based on excellent company figures and a highly satisfactory orders position, the first two quarters then saw a rally in the init share price. By the end of June, the security with the ISIN number DE0005759807 had managed to pass, and has since remained above, the threshold of 4 Euro.

In the third quarter, the init stock once again saw a substantial gain. This was caused predominantly by the announcement of a new major contract from London and the subsequent recommendations of the stock market analysts. At the beginning of September, init then set a new annual record of 6.55 Euro. This resulted in profit takings that further accelerated after the publication of the nine-month report of the company, which had included a rather cautious outlook. As at the end of the year, the init stock stood at 4.82 Euro.

In view of the 2003 business trend, this is a fair valuation. However, as the intermittently higher prices have shown, the init stock certainly has the potential for further gains, if the company manages to return onto its path for growth in 2004.

Since January 1, 2003, the stock of init innovation in traffic systems AG has been listed in the newly opened Prime Standard segment of the German stock exchange. At the same time, this ended its participation in the Neuer Markt to which init had been belonged since its initial public offering on July 24, 2001. Therefore, we have chosen the Prime Technology Performance index as a benchmark for the price performance of the init share since it seems the best fit in regard to our company orientation.

### *Possibility of acquiring treasury stock utilized*

In 2003, init innovation in traffic systems AG repeatedly made use of the possibility of repurchasing its own stock. This has ensured our flexibility in negotiations about potential acquisitions and in protecting against speculative attacks on the share price. The repurchase of 80,000 shares, decided in February 2003, was finalized on December 23, 2003. However, at the same time, the Managing Board of init innovation in traffic systems AG decided to utilize its authority based on the resolution passed in the shareholders' meeting on May 15, 2003, item 7 on the agenda, to repurchase further stock of up to 60,000 shares (pursuant to Section 71 para. 1 clause 8 of the German Stock Corporation Law). Thus, as at the end of December, init held a total of 143,172 of its own stock.



## Company calendar 2004

March 29, 2004	Balance sheet press conference and Analysts' conference, Frankfurt/Main
CW 14/2004	Disclosure of Annual Report 2003
May 13, 2004	General Meeting, Karlsruhe
CW 20/2004	Disclosure of quarterly report
CW 33/2004	Disclosure of half-yearly report
CW 46/2004	Disclosure of nine-month report

### *Declaration of Conformity with regard to the German Corporate Governance Code*

With a resolution dated December 23, 2003, 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 inside and outside Germany, are covered by a group insurance policy.
- > The compensation of the Management Board (Code Section 4.2.4) will be published in accordance with legal requirements.
- > 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) and an Audit Committee (Code Section 5.3.2) are currently not in place, because of the specifics and the size of the enterprise.

Karlsruhe, December 2003  
init innovation in traffic system AG

The Managing Board  
The Supervisory Board

### Your investor relations contact

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innovation in traffic systems AG

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> **Henning Wentz**, Technical Services

“Each day, millions of people take buses and trains. It’s a great feeling when you know that they will reach their destination much faster, safer, and more conveniently thanks to our products.”



## *Group Status Report*

The init group is an internationally operating system house for telematics and electronic fare management systems for the local public transportation. In accordance with the complete value-added chain offered by a system house, init develops, produces, installs, and maintains software and hardware products for the planning, management, and operation of transportation companies.

The init product system is characterized by its modular structure and ease of integration. It allows both an individual combination of single modules and the integration of and into other systems via standardized interfaces. As a result, init stands out from its competitors due to a more comprehensive, efficient, and flexible product offering that meets the individual requirements of each transportation company.

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 and fleet management, passenger information and counting systems to electronic ticketing and payments, init customers are provided with intelligent solutions from a single source. By using this technology, public transportation companies are able to meet the continuously growing mobility requirements successfully and maintain their positions in an increasingly competitive environment due to liberalization and rationalization. Customer orientation, convenience,

safety, short travel times, and greater efficiency are the cornerstones of a market-oriented and attractive public transportation offering.

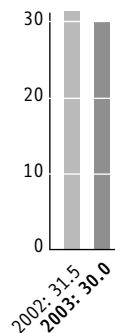
init has serviced this market for over 20 years and has realized in excess of 300 national and international projects involving the integration of comprehensive solutions with telematics and fare management systems for transportation companies in Germany, Europe and North America.

### *Business trend and situation*

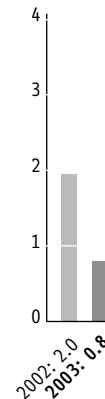
#### *General business trend*

The economic downturn experienced by the German market did not pick up in 2003. In view of the persistent financial weakness of the government budget, particularly in the transportation sector, investments were cut back even more. This led to a further decline in demand, specifically in the area of fare management systems. init countered this tendency by stepping up its international business so that the decline in demand in Germany could be compensated by new large-scale orders from the USA and Europe. This resulted in a further shift in the order focus from fare management systems in the domestic market to computer-aided operations control systems within the scope of international projects. In contrast to fare management systems, operations control systems are less product-specific and require considerably more human resources. In connection with the development of international business, this is also reflected in the rise in number of staff.

**Revenues**  
in million €



**EBIT**  
in million €



Computer-aided operations control systems have significantly longer project run times so that the majority of the foreign orders received in 2003 cannot be entered as sales until the following years. Due to the decline in sales in the area of fare management systems in Germany, a number of short-term orders with a potential effect on sales in 2003 also failed to materialize. In addition, the prolonged run times of several large-scale projects prevented a more satisfactory trend on the revenue side. Together with the substantial decline in the US dollar price exceeding 16% in the period under review, init generated annual sales totaling 30 million Euro (previous year: 31.5 million Euro).

On the other hand, however, init reported a clear gain in international business. Thus, as much as 16.4 million Euro of sales in 2003 were generated in other countries (previous year: 14.1 million Euro). This corresponds to 54.6% (previous year: 44.8%) of the group's total sales. In European business (excluding Germany), sales could be increased by 57.8% to 8.2 million Euro (previous year: 5.2 million Euro), while in North America, the rate of growth amounted to 10.1% from USD 8.4 million to USD 9.2 million. The dramatic currency erosion of the US dollar, however, meant that North American sales in Euro fell by around 8% to 8.2 million Euro (previous year: 8.9 million Euro).

Foreign currency positions were largely hedged by forward exchange transactions, so that the decline in the dollar affected the result only indirectly.

#### *Earnings position*

With an EBIT of 0.8 million Euro (previous year: 2.0 million Euro), we were unable to realize the result originally anticipated due to lower sales. Increased human resources expenses based on longer computer-aided operations control system projects that require considerably more human resources primarily had a negative impact on the operating result. In addition, the company reports a clear decline in the margin because of project delays and an unexpectedly high burden as a result of the setup of subcontractors in the USA. The consolidated net profit amounted to 0.4 million Euro (previous year: 1.4 million Euro), which corresponds to earnings per share of 0.04 Euro (previous year: 0.14 Euro). On the basis of the company tax audit completed in 2003, the annual net profit was burdened with tax back-payments to the amount of 0.1 million Euro for the years from 1998 through 2001.

#### *Order situation*

Marked by the record contract from Houston, the incoming orders for the 2003 fiscal year totaled 36.6 million Euro (previous year: 40.6 million Euro). Of this amount, 18.7 million Euro (previous year: 10.6 million Euro) originated in North America and 9.2 million Euro (previous year: 17.5 million Euro) in Europe. With 8.7 million Euro (previous year: 12.5 million Euro), the incoming orders in Germany turned out to be disappointing due to the investment restraint in the local public transportation sector, and once again fell drastically against the limited intake

of orders in the 2002 fiscal year. This can be attributed, in particular, to tenders in the area of fare management systems failing to materialize. The rate of new orders in other European countries and in North America developed significantly above target, but failed to compensate for the decline in demand in the German market. With 35.9 million Euro (previous year: 32.4 million Euro), the orders on hand exceeded the 2003 annual sales, even though they decreased owing to a deterioration of the exchange rate by around 3.1 million Euro.

Overall, init is currently still participating in tenders worth more than USD 100 million in North America and more than 50 million Euro in Germany and Western Europe.

The largest order in company history to date came in at the beginning of May 2003. Placed by METRO, Metropolitan Transit Authority of Harris County, USA, a transportation company that services the Houston metropolitan area, the order value exceeds USD 20 million. By mid-2005, init will equip the METRO control center with a JAVA-based operations control system and install the latest on-board computer technology, COPILOTpc, based on Windows XP embedded®, in the 1,350 vehicles of this company. This will open up entirely new possibilities for intelligent telematics solutions – and not just in buses and trains. Furthermore, the entire fleet will be fitted with passenger information and counting systems as well as data radio equipment. In addition,

1,072 buses will be provided with a traffic light priority system for 1,250 intersections in Houston.

init was able to set yet another milestone in international business by securing an order from the London-based transportation company, Metroline Plc. To enable Metroline to manage its bus fleet in the city of London, init will install a Service Quality Control System (SQCS). By the end of 2005, in excess of 1,000 vehicles and the ten depots of the company will be equipped with hardware and software developed by init. The entire communication between the depot and the vehicle will be handled using the public mobile radio standard, GPRS (General Packet Radio Service). This will make the communication much more efficient, and lead to cost savings for Metroline. Via a WLAN infrastructure, all vehicle data from the ten depots will promptly and in a fully automatic process be passed on to the central evaluation computer for further processing using the init software, MOBILEstatistics. This order volume amounts to around 6 million Euro. Metroline Plc is one of the largest private bus operators in Great Britain and is part of the ComfortDelgro Corporation Ltd. group in Singapore, one of the five largest listed passenger transportation companies in the world.

The largest order in the domestic market in Germany, worth in excess of 1 million Euro, came in the form of a subcontract for the delivery of an electronic fare management system for MVG Märkische Verkehrsgesellschaft GmbH in Lüdenscheid. Here,

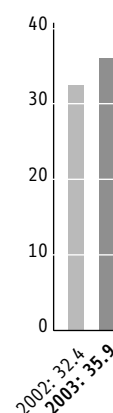
### Incoming orders

in million €



### Orders on hand

in million €



init will equip the MVG depot and its 335 vehicles with the necessary hardware and software. The heart of the hardware will be the EFADintegral, which will facilitate the management of sales processes and an automatic transfer of data to the MVG control center.

#### Financial and earnings position

In the 2003 fiscal year, the balance sheet total remained largely unchanged as compared to the previous year. Capital expenditure in the 2003 fiscal year related to replacement investments, rationalization investments, and investments in new products as well as the equipment of new workplaces.

To rationalize internal processes, init introduced a new ERP software system comprising the modules Purchase, Inventory Management, Accounting, and Project Controlling. In connection with this, the company invested a total of 0.8 million Euro in software, consulting services, and goods and services for own account. In the 2004 fiscal year, init plans to integrate further modules for sales, production and service.

init holds 44% of the shares of id systeme GmbH (id systeme), 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. As with init, id systeme had to contend with the weakness of economic activity in the German market. With sales of 1.5 million Euro, it nonetheless managed to achieve a

balanced result (previous year: 0.2 million Euro). To improve both its sales and earnings, in the future init will also offer its PERDIS software to customers in Europe and the USA.

For the second consecutive year, our other shareholding (43%), iris-GmbH infrared & intelligent sensors (iris-GmbH), Berlin, was able to report a record year. Sales (6 million Euro) could be improved by more than 70% as against the previous year (3.5 million Euro). The decisive factor for this continued to be the great demand for passenger counting systems in North America, which have now become a firm component of all init systems installed in the USA. As in the previous year, the net earnings from the ordinary activities of iris-GmbH amounted to 0.5 million Euro. In Italy and South America, the company pursued the further expansion of business with single-minded determination. In the coming years, iris-GmbH will invest in excess of 1 million Euro in the development of a new sensor that will ensure a higher resolution and thus secure a technological lead.

As of December 31, 2003, the liabilities to credit institutions amounted to 1.5 million Euro (previous year: 0.7 million Euro). On the one hand, this increase was due to the balance sheet date and served to settle outstanding supplier invoices while making use of any discounts available. On the other hand, the large-scale projects won in 2002 and 2003 required preliminary financing. The liquid resources including short-term interest-bearing securities

totaled 4.2 million Euro (previous year: 5.4 million Euro). In addition, the available guarantee and credit lines will secure financing for the business activities.

With 17.2 million Euro, the shareholders' equity was only slightly below the figure for the previous year, the equity-to-assets ratio being 52.5% (previous year: 53.0%).

#### *Production*

init has no production facilities of its own. Instead, it focuses on production management, quality assurance, and final inspection. To support the cost-effective and flexible structure of the company, the production of individual hardware components according to detailed specifications is outsourced to carefully selected producers. The systematic modular construction allows the production of a comparably larger quantity of certain types of components, which are incorporated into different end products. This keeps the product manufacturing costs down.

Based on the modular construction of both the hardware and software solutions, the company was able to meet specific customer demands while at the same time taking advantage of the benefits of a platform strategy. Since there is no dependence on individual suppliers or producers, the company is in a position to switch suppliers at relatively short notice should one of its business partners be unavailable. In 2003, the company gained several new suppliers and negotiated new master agreements, which have

already led to considerable cost savings in the period under review. We anticipate this trend to continue in the new fiscal year.

#### *Personnel*

One of the key success factors in handling customer projects is the technical know-how and qualification of staff in process and project management. Therefore, the demand-oriented further training and qualification of our employees both on a technical and a personal level play an important role in the company. Thus, in excess of 50% of the init staff took part in further training measures in the 2003 fiscal year.

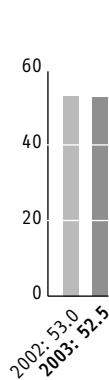
70% of the init employees have a university degree. To cover the company's need for qualified employees, init maintains close contact with the University of Karlsruhe and the technical colleges in the Karlsruhe region.

To ensure that even the employees of INIT, Inc. meet the stringent requirements of our technology, they are sent on training visits to the group headquarters in Germany for several months. In addition, we ensure that about 25 per cent of the jobs in the United States are filled with specialists from Germany.

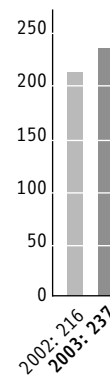
As of December 31, 2003, the init group employed a workforce of 237 (previous year: 216) including temporary staff, scientific assistants, and graduate students. Thus, the number of employees increased



**Equity-to-assets ratio**  
in %



**Employees**  
total



by 10%, which is due, predominantly, to the operations control system projects that require a higher number of staff, and the increasing complexity of the large-scale projects. A total of 209 employees held permanent positions, 16 of whom were employed on a part-time basis. Eight 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.

#### *Environmental protection*

As a system supplier for environmentally friendly local public transportation, init feels particularly committed to protecting the environment. Our products help shift traffic to buses and trains, thus making a vital contribution to environmental protection. In addition, the init products enable transportation companies to provide a more efficient and thus, environmentally friendlier transportation service.

At init, environmental protection begins with the construction and production planning. Where possible, we ensure that our products are made from recyclable materials. These products are then shipped in special, reusable packaging.

Obsolete equipment can be returned to init, where it is disposed of in an expert manner. This also applies

to batteries and packaging material. Even in other areas, such as exhibition stand construction, init ensures that reusable components are utilized to reduce waste material to a minimum. All init businesses pay strict attention to waste separation.

#### *Research and development*

One of the main strengths of init is the outstanding technological market position of its products in competition. To further extend this lead, research and development play a key role at init. On the one hand, we have to place technical innovations on the market at just the right time. On the other, we need to keep a close eye on the progress and new developments in the market, to allow us to turn them into matured products.

Our development teams are currently working on various new products and on the further development of existing ones. Special mention must be made here of the new development of our on-board computer, COPILOTpc, which is based on the operating system Windows XP embedded®. In future, this will allow customers to use even cost-effective standard tools. The COPILOTpc handles all the classic functions of an on-board computer. It organizes the voice and data radio communication and determines the current position and schedule situation. In addition, it provides all the peripherals in the vehicles, such as passenger counting system, ticketing machine, and on-board displays, with the necessary data. Additionally, it can also meet future requirements

including the integration of multimedia applications, without a problem. Furthermore, the COPILOTpc is also able to take on the function of previously required components, such as announcement systems.

A further new development is the on-board computer operating element, TOUCHit, that ensures a maximum of user-friendliness for the drivers of buses and trains. The bright, high-resolution display automatically adjusts to the surrounding lighting conditions. Thanks to a color graphics touch screen, there is no need for a specific assignment of function keys. This makes the system extremely flexible for future upgrades.

PIDmobil is the new passenger information display from init. Using extension modules, the length of the display is variable and can be adjusted to the requirements of the transportation company. We have used the latest LED dot matrix technology to ensure a high degree of luminous power and legibility. In addition, the brightness is automatically adjusted to the ambient light. Due to the intelligent structure of the interfaces, the PIDmobil is also available to the North American market. Furthermore, any maintenance work can be carried out wirelessly via an infrared interface. This facilitates the service enormously, since there is no need to open up or dismantle the display.

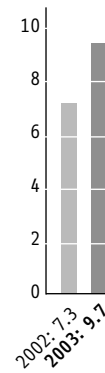
Together with cluetec GmbH, init has also developed new passenger information applications (prototype) for JAVA-compatible cell phones and hand-held devices. They allow users to check the predicted departure times, the route and the direction at a train station or bus stop. Providing real-time information works such that a request for a certain station/stop is sent to the computer-aided operations control system (MOBILE-CAD/AVL) of the transportation company using a GPRS connection. Based on the latest positioning information of the MOBILE-CAD/AVL, the prognosis algorithm then calculates the actual departure times and, via the CAD/AVL, sends the response to the mobile terminals.

In the USA, we predominantly work on the further development of our software module, PARAnet. It optimizes the on-demand bus transportation 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. There is a particularly great demand here for integrated solutions that have rarely been offered before.

*Expenditure R&D*  
in million €



*Expenditure R&D*  
in % of revenues



On the whole, init spent 2.9 million Euro (previous year: 2.3 million Euro) on the development of new products, corresponding to 9.7% (previous year 7.3%) 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.

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”.

Together with YellowMap AG, LLE Mark IV Industries and Vodafone Information Systems GmbH, init is also participating in the Europe-wide research project E-LBA (European Location Based Advertising). The aim of this project is to develop an application that enables a location-based activation of advertising and information.

#### ***Risks and risk management***

The risk management system of the init group forms an integral part of our business and decision-making processes. Potential risks, such as a backlog of projects, financial or human resources risks, are discussed in regular meetings of the Managing Board, and appropriate measures initiated and their success monitored. The Managing Board and

the Management are kept up to date about the incoming order situation, any supply backlogs, and the liquidity of the group by way of weekly reports. Prior to making a decision on important measures, these are discussed in detail and their prospects and risks weighed against each other. Contracts are worked on and examined by our in-house lawyers, if necessary with the support of external expert lawyers. Proposals on risk minimization are regularly submitted to the Managing Board for a decision, and both the Managing Board and the Supervisory Board are kept informed of imminent risks by receiving regular reports in their meetings.

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. Despite government-approved funds and the political will for an improvement of local public transportation, the poor overall economic situation could adversely affect the market growth due to delays and the postponement or cancellation of publicly funded investment projects. A declining volume of tenders involves the risk of reduced margins due to excess capacities.

The technology in the telematics field is subject to rapid change. Therefore, technical changes and the requirements of the market must be monitored to keep up with the technological advances. On the other hand, new products must be launched at the right time. Past and future investments in new products can incur considerable costs without necessar-

ily 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 the successful handling of projects. The risks involved here consist of completing projects on schedule, the form of contracts, the scope of each individual project, and the specific national laws and regulations. Apart from unforeseeable 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. For each major project, init has therefore implemented 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.

With the introduction of a new ERP system, init intends to increase the efficiency of its business processes. However, the changeover and data migration to the new system 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 forward exchange dealings and currency options. Since init also tries to keep its options open here, it may incur losses.

Any major risks are regularly reported to, and further measures discussed with, the Supervisory Board. Currently there is no evidence of any risks jeopardizing the continued existence of the init group.

*Events of significance following the end of the fiscal year*

With effect from January 1, 2004, Dr. Jürgen Greschner was appointed Chief Sales Officer of init AG. With this new position at management level, init AG takes into account the significant growth dynamism of its international business. Until December 31, 2003 Dr. Greschner was sole Managing Director of the subsidiary US-company INIT Inc..

### *Prospects*

Owing to the high volume of orders on hand, the starting point for init in 2004 is better than in previous years. Therefore, we are confident that we will be able to resume our path to growth in the 2004 fiscal year and achieve noticeable increases in both sales and earnings. In the USA, in particular, the structures created are excellent preconditions for further growth.

We are, however, still concerned about the weak demand in the German market and the continuing substantial decline in the US dollar price. We are confronting these issues by intensifying our sales activities in other European countries. In our opinion, the situation in Germany will continue at least until the end of 2004.

Karlsruhe, March 5, 2004

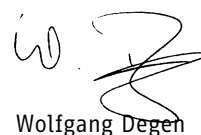
The Managing Board



Dr. Gottfried Greschner



Joachim Becker



Wolfgang Degen



Dr. Jürgen Greschner



Bernhard Smolka



> **Tanja Eberhard,**

Balance Sheet Accounting

“You would think that the local public transport is a local issue. However, working quite closely with our American colleagues, we are aware each day of how important bus and rail traffic are all over the world.”



## Consolidated Balance Sheet at December 31, 2003

(US-GAAP)

<b>Assets</b>	Appendix No.	31.12.2003 T€	31.12.2002 T€
<b>Current assets</b>			
Cash and cash equivalents	3, 4	2,261	1,898
Marketable securities	3, 4	1,980	3,523
Trade accounts receivable, net	3, 4	12,111	10,177
Accounts receivable from related parties		47	47
Inventories	3, 4	2,948	5,058
Deferred tax assets	3, 7	689	751
Prepaid expenses and other current assets	4	2,263	1,592
<b>Current assets, total</b>		<b>22,299</b>	<b>23,046</b>
<b>Non-current assets</b>			
Tangible fixed assets, net	3, 4	1,466	1,532
Internally generated software and other intangible assets, net	3, 4	5,736	5,078
Goodwill, net	3, 4	1,877	1,877
Financial investments	4	943	811
Loans		68	68
Deferred tax assets	3, 7	61	25
Other assets		333	296
<b>Non-current assets, total</b>		<b>10,484</b>	<b>9,687</b>
 <b>Assets, total</b>		 <b>32,783</b>	 <b>32,733</b>

The added annotations are an integral part of the consolidated financial statements.



<b>Liabilities and shareholders' equity</b>	Appendix No.	31.12.2003 T€	31.12.2002 T€
<b>Current liabilities</b>			
Short-term debt and current portion of long-term debt		1,547	691
Dormant partners' capital	4	50	0
Trade accounts payable		4,264	3,807
Accounts payable due to related parties and persons	10	2	13
Advance payments received		2,021	3,307
Accrued expenses	4	945	1,424
Deferred tax liabilities	3, 7	1,419	1,397
Prepaid expenses and other current liabilities	4	2,418	2,143
<b>Current liabilities, total</b>		<b>12,666</b>	<b>12,782</b>
<b>Non-current liabilities</b>			
Long-term debt after deduction of current portion		0	2
Deferred tax liabilities	3, 7	1,571	1,345
Dormant partners' capital	4	400	511
Pensions accrued and similar obligations	4	945	752
<b>Non-current liabilities, total</b>		<b>2,916</b>	<b>2,610</b>
<b>Shareholders' equity</b>			
Subscribed capital (shares without nominal value)			
Allowed: 3.960.000 shares	1, 6	10,040	10,040
Issued and floating: 10,040,000: 10.040.000 (previous year 10.040.000) shares			
Additional paid-in capital	1	3,141	3,141
Treasury stock	6	-561	-219
Consolidated unappropriated profit		4,952	4,548
Other comprehensive income		-371	-169
<b>Shareholders' equity, total</b>		<b>17,201</b>	<b>17,341</b>
<b>Liabilities and shareholders' equity, total</b>		<b>32,783</b>	<b>32,733</b>

The added annotations are an integral part of the consolidated financial statements.

*Consolidated Statement of Operations from January 1, 2003 to December 31, 2003*  
(US-GAAP)

	Appendix No.	01.01.2003- 31.12.2003 T€	01.01.2002- 31.12.2002 T€
Revenues	3, 11	30,012	31,533
Cost of revenues		-22,353	-23,633
<b>Gross profit/loss</b>		<b>7,659</b>	<b>7,900</b>
Sales and marketing expenses		-3,833	-3,316
General administrative expenses		-2,408	-2,305
Research and development expenses	3, 5	-1,521	-979
Other operating income and expenses		217	69
Foreign currency gains/losses		346	384
<b>Operating profit/loss</b>		<b>460</b>	<b>1,753</b>
Interest income and expenses		1	76
Income from investments accounted for by the equity method	4	208	217
Other income/expenses		102	43
<b>Profit/loss before income tax</b>		<b>771</b>	<b>2,089</b>
Income tax	3, 7	-240	-736
Other taxes		-127	0
<b>Net income</b>		<b>404</b>	<b>1,353</b>
<b>Net income and diluted income per share in €</b>		<b>0.04</b>	<b>0.14</b>

The added annotations are an integral part of the consolidated financial statements.

*Cash Flow Statement for the Consolidated Financial Statements at December 31, 2003*  
(US-GAAP)

	01.01.2003- 31.12.2003	01.01.2002- 31.12.2002
	T€	T€
<b>Cash flow from operating activities:</b>		
Net income	404	1,353
<b>Adjustments to reconcile net income to cash provided by operations:</b>		
Depreciation and amortization	2,078	1,748
Depreciation and amortization of fixed-interest securities	43	0
Losses on the disposal of fixed assets	7	8
Profit from the sale of securities	-74	-9
Decrease (-)/Increase (+) of accruals	-286	332
Change in inventories, trade accounts receivable and other assets, not provided by/used in investing or financing activities	-532	-5,163
Change in trade accounts payable and other liabilities, not provided by/used in investing or financing activities	-565	2,675
Other non-cash income	-132	-217
Change in deferred taxes	274	662
<b>Net cash provided by operating activities</b>	<b>1,217</b>	<b>1,389</b>
<b>Cash flow from investment activities:</b>		
Proceeds from sales of tangible fixed assets	74	161
Investments in tangible fixed assets and other intangible assets	-1,381	-1,262
Investments in software development	-1,442	-1,337
Investments in financial assets	0	-382
Inflows from loans to affiliated companies	0	49
Inflows from the sale of fixed interest-bearing securities as part of short-term cash management	1,574	3,547
Investments in fixed interest-bearing securities as part of short-term cash management	0	-4,501
<b>Net cash used in investment activities</b>	<b>-1,175</b>	<b>-3,725</b>
<b>Cash flow from financing activities:</b>		
Inflows from injections of capital	0	240
Cash payments for the purchase of treasury stock	-342	-219
Cash payments for dormant partners' capital	-61	0
Proceeds from borrowing	854	515
Other adjustments made directly to shareholders' equity	43	-118
<b>Net cash provided by financing activities</b>	<b>494</b>	<b>418</b>
Net effect of currency translation in liquid assets	-173	-72
<b>Decrease/Increase in cash and cash equivalents</b>	<b>363</b>	<b>-1,990</b>
Cash and cash equivalents at the beginning of the period	1,898	3,888
<b>Cash and cash equivalents at the end of the period</b>	<b>2,261</b>	<b>1,898</b>

The added annotations are an integral part of the consolidated financial statements.

**Consolidated Statements of Changes in Shareholders' Equity**  
(US-GAAP)

	Ordinary shares Number	Subscribed capital T€	Additional paid-in capital T€	Consolidated unappropriated profit T€
<b>Status at January 1, 2002</b>	<b>10,000,000</b>	<b>10,000</b>	<b>2,941</b>	<b>3,195</b>
1. Issue of ordinary shares for cash contribution in 2002	40,000	40	200	
2. Purchase of treasury stock in 2002				
3. Consolidated unappropriated profit 2002				1,353
4. Adjustment item for currency translation after deduction of T€ 0 in tax				
5. Difference from pension valuation after deduction of T€ 4 in tax				
6. Change in value of the marketable securities (available for sale) after deduction of T€ 16 in tax				
<b>Status at December 31, 2002</b>	<b>10,040,000</b>	<b>10,040</b>	<b>3,141</b>	<b>4,548</b>
1. Purchase of treasury stock in 2003				
2. Consolidated unappropriated profit 2003				404
3. Adjustment item for currency translation after deduction of T€ 0 in tax				
4. Difference from pension valuation after deduction of T€ 36 in tax				
5. Change in value of the marketable securities (available for sale) after deduction of T€ 17 in tax				
<b>Status at December 31, 2003</b>	<b>10,040,000</b>	<b>10,040</b>	<b>3,141</b>	<b>4,952</b>

The added annotations are an integral part of the consolidated financial statements.

Other adjustments made directly to shareholders' equity				
Difference from pension valuation T€	Difference from currency translation T€	Stock market valuation of securities T€	Treasury stock at purchase cost T€	Total T€
-45	52	14	0	16,157
				240
			-219	-219
				1,353
	-221			-221
7				7
		24		24
-38	-169	38	-219	17,341
			-342	-342
				404
	-118			-118
-57				-57
		-27		-27
-95	-287	11	-561	17,201

*Statement of Consolidated non-current Assets at December 31, 2003*  
(US-GAAP)

	Historical and manufacturing costs				31.12.2003 T€
	01.01.2003 T€	Additions T€	Disposals T€	Currency differences T€	
<b>I. Tangible fixed assets</b>					
1. Property and plant	159	11	0	-3	167
2. Technical installations and machines	150	23	0	-16	157
3. Other installations, factory and office equipment	5,473	836	74	-24	6,211
	<b>5,782</b>	<b>870</b>	<b>74</b>	<b>-43</b>	<b>6,535</b>
<b>II. Intangible assets</b>					
1. Licenses	855	511	7	-2	1,357
2. Internally generated software	5,915	1,442	0	-27	7,330
	<b>6,770</b>	<b>1,953</b>	<b>7</b>	<b>-29</b>	<b>8,687</b>
<b>III. Goodwill</b>	<b>1,913</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,913</b>
<b>IV. Investments</b>					
1. Investments accounted for by the equity method	811	132	0	0	943
<b>V. Notes receivable/loans</b>					
1. Loans to investments accounted for by the equity method	68	0	0	0	68
2. Other loans	0	0	0	0	0
	<b>68</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>68</b>
<b>Total</b>	<b>15,344</b>	<b>2,955</b>	<b>81</b>	<b>-72</b>	<b>18,146</b>

The added annotations are an integral part of the consolidated financial statements.

Accumulated amortizations/depreciations 31.12.2003 T€	Book values		Amortizations/ depreciations 2003 T€
	31.12.2003 T€	31.12.2002 T€	
107	60	81	29
62	95	112	24
4.900	1,311	1,339	766
5,069	1,466	1,532	819
511	846	459	115
2,440	4,890	4,619	1,144
2,951	5,736	5,078	1,259
36	1,877	1,877	0
0	943	811	0
0	68	68	0
0	0	0	0
0	68	68	0
<b>8,056</b>	<b>10,090</b>	<b>9,366</b>	<b>2,078</b>

## *Appendix to the Consolidated Financial Statements (US-GAAP)*

### *1. Reporting basis*

init innovation in traffic systems Aktiengesellschaft, Karlsruhe ("init AG") was established on August 18, 2000, as the holding company of the init group. 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.

Consequently, 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. This sum exceeded the historic book values by T€ 5,211. Thus, the net book value of the transfer totaled T€ 808.

### *2. Divisions and basic structure of the company*

The init Group operates internationally as a supplier of transportation telematics systems (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 Management Systems. One of the crucial links between these two divisions is mobile radio data transmission.

init AG is a listed company (WKN 575980) and has been in the segment of the regulated market with further post-admission requirements (Prime Standard) since January 1, 2003.

### *3. Summary of the main consolidation, accounting and valuation principles*

#### **Consolidated group**

Fully consolidated companies:

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

#### **Associated companies:**

init AG holds 44% of the shares in id Informations- und Dispositionssysteme GmbH, Hamburg, while INIT GmbH holds 43% of the shares in iris infrared & intelligent sensors GmbH, Berlin. Both holdings are included at equity in the consolidated financial statements.

#### **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 accordance with US-GAAP. Where required, any financial statements prepared in accordance with national accounting regulations are adjusted accordingly.

Any material intercompany clearing accounts and business transactions were eliminated upon consolidation. The fiscal year of the companies included ended on December 31.

#### **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.

#### **Recognition of revenues**

Revenues 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 incurred to date to the total costs ("cost-to-cost" method).

Upon transfer of the risk and property to the customer, revenues from product sales are recognized if the consideration has been stipulated by contract or is determinable, and payment of the resulting debt is probable. Where the installation at the customer's place of business is an important prerequisite for the commissioning, the revenues are not recognized until the installation has been completed.

#### **Research and development expenses**

Research and development expenses are recorded as expenses when incurred. In 2003, these amounted to T€ 1,521, compared with T€ 979 in the previous year.

#### **Advertising costs**

Advertising costs are recorded as expenses when incurred. The total advertising costs in 2003 amounted to T€ 555, compared with T€ 406 in the previous year.

#### **Software development**

In accordance with SFAS 86, the company capitalizes software development costs that accrue once 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 that, 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. Software development costs are amortized per product at the higher amount resulting 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 commences at the time of sale to the customer. The software expenses capitalized during the fiscal year amounted to T€ 1,442 in 2003, as against T€ 1,337 in 2002. The corresponding depreciation and amortization totaled T€ 1,144 in 2003 and T€ 891 in 2002.

#### **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.

#### **Securities**

Securities are classified as "available for sale" and are thus valued at their exchange or market price. Following the deduction of deferred taxes, unrealized gains or losses are entered in the "Other adjustments made directly to shareholders' equity ". These are exclusively fixed-interest securities.

### **Concentration of credit risks**

The accounts receivable of the company are unsecured, which means that the company bears the risk of non-payment of these amounts. In the past, the company has not incurred any material losses that were caused by individual customers or customer groups.

In the 2003 fiscal year, 23.9% of the consolidated revenue was attributable to three customers.

### **Accounting for derivative financial instruments**

The accounting for derivative financial instruments follows SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", 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. Depending on the qualification as either fair value hedge or cash flow hedge, the changes in current market values are accounted for affecting net income or in the shareholders' equity (Other adjustments made directly to the shareholders' equity). In the year under review, the company recorded T€ 236 (2002: T€ 717) from market value changes in forward exchange transactions affecting net income prior to the allowance for deferred taxes. In comparison, in the recognition of revenues the adjustment of the order values to the current prices on the cut-off dates of projects invoiced in a foreign currency had a negative effect on the net income.

### **Current market value of financial instruments**

Due to the short-term maturity of these instruments, the net book values of cash and cash equivalents, receivables, liabilities, loans and accrued liabilities are approximately equivalent to their current market values.

The net book value of the non-current liabilities is approximately equivalent to the current market value of similar forms of financing. The same applies to the other non-current assets.

### **Inventories**

Inventories are valued at their acquisition and production costs at the time of their addition. The production costs comprise both direct costs and the manufacturing and material overhead incurred in production, any depreciation and other production-related expenses. Depreciation is effected where necessary.

### **Tangible fixed assets**

Tangible fixed assets are valued at purchase cost less recorded depreciation. The depreciation follows the straight-line method over the asset depreciation period, which ranges from three to eight years. Low-value fixed assets are depreciated over four years.

### **Intangible assets**

Purchased intangible assets are valued at purchase cost and depreciated on a straight-line method over the asset depreciation period of three to ten years. The purchase cost for the new "Axapta" ERP system is depreciated over 5 years.

### **Impairment of value of durable and intangible assets**

Durable and intangible assets including goodwill are reviewed for an impairment of value if events or changes have occurred which suggest that the net book value of an asset 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, they are adjusted to the lower of cost or market value.

In accordance with SFAS 142, goodwill is also examined each year for its value and, if necessary, adjusted to the lower of cost or market value. According to SFAS 142, a recorded depreciation is not effected.

### **Conversion of foreign currency**

The financial statements of the subsidiaries of the company are prepared in their functional currency, which corresponds to their local currency. 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 shareholder's 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 within the shareholders' equity (Other adjustments made directly to shareholders' equity).

### **Income taxes**

The company determines its income taxes using the balance sheet-oriented approach. Accordingly, deferred tax assets and deferred tax liabilities are recognized in order 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 income in the year in which the differences are expected to reverse. 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%.

### **Earnings and diluted earnings per share**

The net earnings per share is 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.

### **Updated accounting standards**

In June 2001, the Financial Accounting Standard Board (FASB) issued SFAS 143, "Accounting for Asset Retirement Obligations". This new standard addresses the financial accounting and reporting for obligations associated with the retirement of tangible assets and the associated asset retirement costs. SFAS 143 must be applied from the fiscal years beginning on January 1, 2003. The new standard had no effect on the company's assets, liabilities, financial position, or results of operation.

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized to affect the current-period result only when the liability is incurred, not at the date when the Management commits to an exit plan. Those costs include, but are not limited to, termination benefits provided to current employees that are involuntarily terminated, costs to terminate a contract before the end of its term, and costs to consolidate facilities or relocate employees. Furthermore, SFAS 146 stipulates that the liabilities be measured initially at fair value and adjusted to cash flow changes. The provisions of SFAS 146 are effective for exit or disposal activities initiated after December 31, 2002, with early application encouraged. The adoption of SFAS 146 had no effect on the consolidated financial statements.

In November 2002, the FASB published the FASB Interpretation (FIN 45) "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtness of Others". FIN 45 addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. FIN 45 also requires the recognition of a liability by a guarantor at the fair value of its obligation assumed at the inception of a guarantee, irrespective of whether the guarantee is enforced (non-contingent component). FIN 45 applies to all guarantees entered into or modified after December 31, 2002. The adoption of FIN 45 had no effect on the consolidated financial statements.

Also in November 2002, the Emerging Issues Task Force adopted EITF Issue 00-21, "Revenue Arrangements with Multiple Deliverables". It specifies when individual components should be treated as separate units of accounting and how the revenue in regard to the package deal should be allocated to the separate units of accounting. This rule is effective for contracts entered into fiscal periods beginning after June 15, 2003. The application of this rule did not have any major effect on the consolidated financial statements.

In January 2003, the FASB issued FIN 46 "Consolidation of Variable Interest Entities" which explains how to apply the controlling financial interest criterion in Accounting Research Bulletin (ARB) 51, "Consolidated Financial Statements" to certain equity interests (variable interest entities). Accordingly, equity interests must be consolidated regardless of their voting interests if a dominating influence can be exercised on the basis of a contract or legal circumstances. FIN 46 is applicable with immediate effect to any variable interest entities established after January 31, 2003. For variable interest entities established prior to February 1, 2003, FIN 46 must be applied from December 31, 2003. FIN 46 had no effect on the consolidated financial statements.

#### 4. Additional notes to the consolidated balance sheet

##### Cash and cash equivalents

This item to the amount of T€ 2,261 (previous year: T€ 1,898) predominantly includes deposits with banking institutions.

##### Securities

This item refers to fixed-interest bearing securities with a total current market value of T€ 1,980 (previous year: T€ 3,523). The unrealized gain from securities as of December 31, 2003 amounted to T€ 19 (previous year: T€ 63) and was reported under "Other adjustments made directly to shareholders' equity" following the deduction of deferred taxes. The sale of fixed-interest bearing securities in the amount of T€ 1,500 (previous year: T€ 3,547) resulted in gains worth T€ 74 (previous year: T€ 9). These are included in "Other income" in the consolidated statement of operations.

##### Trade accounts receivable

	December 31, 2003	December 31, 2002
	T€	T€
Trade accounts receivable, gross	7,768	5,617
less cumulative value adjustments	-104	-166
	<b>7,664</b>	<b>5,451</b>

##### Debts from long-term contracts not yet invoiced

(T€ 10,216, previous year: T€ 10,350) less advances received

(T€ 5,769, previous year: T€ 5,624)

	4,447	4,726
	<b>12,111</b>	<b>10,177</b>

The receivables from long-term contracts not yet invoiced resulted from the application of the percentage-of-completion method.

## Inventories

	December 31, 2003	December 31, 2002
	T€	T€
Finished goods and goods for resale	2,749	2,683
Work in progress	0	1,121
Deposits received	0	-69
Deposits paid	199	1,323
	<b>2,948</b>	<b>5,058</b>

## Prepaid expenses and other current assets

	December 31, 2003	December 31, 2002
	T€	T€
Derivative financial instruments	941	729
Cash in transit	400	300
Tax refund claims	387	2
Prepaid expenses	187	176
Distributions from investments accounted for by the equity method	77	0
Interest receivable on securities	72	129
Other	199	256
	<b>2,263</b>	<b>1,592</b>

## Tangible fixed assets

For the composition of the tangible fixed assets and changes to this item, we refer to the enclosed breakdown of consolidated non-current assets.

## Internally generated software and other intangible assets

The main component of this item is the expense capitalized in accordance with SFAS 86 for the development of computer software worth T€ 4,890 (previous year: T€ 4,619) for the products MOBILE-PLAN, JANET, COPILOTpower, APC, MOBILEvario, PARAnet, COPILOTpc, TOUCHmobil, and NAVIGATION in the network. The interest capitalized in 2003 amounted to T€ 47 (previous year: T€ 41) while the amortization of the amounts capitalized totaled T€ 1,144 (previous year: T€ 891).

In addition, according to SOP 98-1, this includes external software costs such as licenses, consulting and programming, and the internal costs for programming, implementation and installation of third-party software to the amount of T€ 779 (previous year: T€ 233). The interest capitalized in 2003 amounted to T€ 8 (previous year: 0) while the amortization of the amounts capitalized amounted to T€ 0 (previous year: T€ 0).

## Financial investments

The financial investments comprise the investment in iris-GmbH infrared & intelligent sensors, Berlin, included at equity. init AG holds a share of 43% in this company whose equity amounted to T€ 1,284 (previous year: T€ 1,034). The object of iris-GmbH is the development, production and sale of sensors and sensor- and information-processing systems. In 2003, the proportionate yield from this equity consolidation amounted to T€ 167 (previous year: T€ 167). Also consolidated at equity was the 44% share acquired in id Informations- und Dispositionssysteme GmbH, Hamburg in the 2003 fiscal year. This company's equity as of December 31, 2003 amounted to T€ 215 (previous year: T€ 428). The objectives of the company are 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 amortized costs of these investments within the

scope of the equity consolidation in 2003 were updated to the amount of T€ -35 (previous year: T€ 50). T€ 77 were distributed to init AG.

#### Goodwill

	December 31, 2003	December 31, 2002
	T€	T€
INIT GmbH	1,683	1,683
Krupp GfT	144	144
INIT Inc.	50	50
	<b>1,877</b>	<b>1,877</b>

#### Short-term accrued liabilities

	December 31, 2003	December 31, 2002
	T€	T€
Warranties	723	716
Deficient production costs	155	603
Other	67	6
Income tax	0	99
	<b>945</b>	<b>1,424</b>

#### Prepaid expenses and other current liabilities

	December 31, 2003	December 31, 2002
	T€	T€
Tax liabilities	632	337
Due to personnel	826	836
Social security liabilities	240	205
Derivative financial instruments	232	66
Other	488	699
	<b>2,418</b>	<b>2,143</b>

#### Capital of dormant partners

This item relates to the undisclosed investments of MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart 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 will end on June 30, 2012. The annual rate of repayment is T€ 50.

#### Pension accruals and similar obligations

In compliance with SFAS 87, pension liabilities are calculated using the projected unit credit method. These pension commitments grant employees a 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: calculated interest of 5.5%; retirement age of 63 years; salary increases are irrelevant to pension commitments; pension adjustments of 4%; fluctuation deduction of 5%. For biometric bases: see Klaus Heubeck's "Richttafeln" (Actuarial Tables) of 1998.

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

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

	December 31, 2003	December 31, 2002
	T€	T€
Pension accruals at the beginning of the year under review (Projected Benefit Obligation - PBO)	752	669
Service cost: present value of the rights acquired during the year	56	53
Interest cost on projected pension liabilities	45	40
Actuarial gains	0	1
Adjustment of additional minimum liability	92	-11
Pension payments	0	0
<b>Pension accruals (PBO)</b>	<b>945</b>	<b>752</b>

The present value of the expectancy, taking into account any future salary increases (projected benefit obligation – PBO), corresponds to the present value of the expectancy without consideration of future salary increases (accumulated benefit obligation – ABO).

On December 31, 2003, the additional minimum liability amounted to T€ 155 (previous year: T€ 63). After taking into account the deferred taxes, this amount was entered in the Other adjustments made directly to shareholders' equity.

#### *5. Additional notes to the consolidated statement of operations*

##### Research and development expenses

	2003	2002
	T€	T€
Software development	2,448	1,927
less capitalized software development expenses acc. to FAS 86	-1,395	-1,337
Hardware development	456	384
Research expenses	114	55
less state grants and allowances received	-102	-50
	<b>1,521</b>	<b>979</b>

##### Currency gains and losses

	2003	2002
	T€	T€
Unrealized currency gains/losses from derivative financial instruments	45	717
Balance of realized currency gains and losses	538	83
Currency losses/gains from consolidation transactions	-237	-416
	<b>346</b>	<b>384</b>

## 6. Equity

For the development of the company's equity, please see page 32f "Consolidated Statement of changes in shareholders' equity (US GAAP)".

### Subscribed capital

The capital stock is divided into 10,040,000 bearer shares with an imputed share in the capital stock of € 1.00.

### Authorized capital stock

At the annual shareholders' meeting on May 18, 2001 a resolution was passed to create capital in the amount of € 4,000,000. 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 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 aims are 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.

This amendment to the statutes was recorded in the Commercial Register on June 12, 2001.

### Treasury stock

Based on the resolution passed at the annual shareholders' meeting on May 15, 2002, replaced by the resolution of May 15, 2003, the company is authorized to purchase treasury stock. On September 11, 2002, the Managing Board of init AG decided on a stock repurchase of up to 40,000 shares that will be issued to the employees and trainees of the company and its subsidiaries as employee stocks in spring 2003, as part of an employee capital sharing plan. On February 28, 2003, the Managing Board passed a resolution to that effect which included the employees in the 2002 consolidated result. The participation consisted of 100 shares of init AG per allottee, plus a bonus of € 150. Employees that did not wish to participate in this plan received a bonus of € 300. On the whole, 11,302 shares with an imputed share of € 11,302 (0.1%) in the capital stock were transferred to employees. Further stock repurchases were decided on January 17, 2003 in the amount of 20,000 shares, on February 25, 2003 in the amount of 80,000 shares, and on December 23, 2003 in the amount of 60,000. In 2003, the company acquired 111,000 shares at an average price of € 3.48. The company's treasury stock was valued at cost at T€ 561 (previous year: T€ 219) and openly deducted from the equity capital. Of the current treasury stock of 143,172 shares with an imputed share of € 143,172 (1.4%) in the capital stock, 4,474 shares resulted from the capital increase and 138,698 shares from the company's stock repurchasing program. The repurchase was effected at an average price of € 3.86 per share.

### Stock of init AG held by members of the Managing Board and the Supervisory Board

Managing Board	Number of shares	Supervisory Board	Number of shares
Dr. Gottfried Greschner, CEO	3.850.000	Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	0
Joachim Becker, COO	420,983	Bernd Koch	0
Wolfgang Degen, COO	138,364	Fariborz Khavand	0
Dr. Jürgen Greschner, CSO	107,364		
Bernhard Smolka, CFO	9,600		



## 7. Taxes

### Other taxes

The other taxes resulted primarily from a subsequent payment of sales tax as a consequence of a company audit for the years from 1998 through 2001.

### Income taxes

In accordance with SFAS 109, "Accounting for Income Taxes," deferred tax assets and deferred tax liabilities are included for temporary differences in the accounting of asset and liability items based on commercial and tax law.

The reconciliation between the actual tax expenditure and the amount calculated in compliance with the German corporation and business income tax rates on profits before income taxes is shown as follows:

	2003	2002
	T€	T€
Expected corporation and business income tax at a rate of 38.9%	251	813
Difference due to foreign taxes and differences resulting from the at-equity valuation	-11	-77
<b>Income tax expenditure</b>	<b>240</b>	<b>736</b>

The tax effects of the cumulative temporary differences as of the individual cutoff dates resulted in the following amounts of deferred tax assets and deferred tax liabilities as of the individual cutoff dates:

	December 31, 2003	December 31, 2002
	T€	T€
<b>Deferred tax asset, short-term:</b>		
Loss carried forward	620	714
Timing differences acc. to US tax law	44	0
Valuation of derivatives	17	26
Consolidation transactions	8	11
	<b>689</b>	<b>751</b>
<b>Deferred tax asset, long-term:</b>		
Revaluation of pension accruals	61	25
	<b>61</b>	<b>25</b>
<b>Deferred tax liabilities, short-term:</b>		
Application of POC method	582	489
Capitalized software	414	537
Valuation of derivatives	366	284
Revaluation of the treasury stock	0	34
Low-value fixed assets	12	28
Revaluation of securities	8	25
Timing differences acc. to US tax law	37	0
	<b>1,419</b>	<b>1,397</b>

**Deferred tax liabilities, long-term:**

Capitalized software	1,416	1,198
Revaluation of pension accruals	109	106
Low-value fixed assets	36	36
Revaluation of goodwill	10	5
	<b>1,571</b>	<b>1,345</b>

According to German tax regulations, the existing tax loss carryforwards of init AG can be carried forward without limit. From 2004, profits of up to € 1 million can be offset fully, any amount above that at 60%. Due to the net profit for the 2003 fiscal year, part of the existing losses carried forward were appropriated. The company anticipates appropriating the remaining loss carryforwards of init AG (corporation income tax of T€ 1,405 and business tax of T€ 1,607) in 2004 and the following fiscal year. For this reason, there was no downward valuation adjustment of the corresponding deferred tax assets.

**8. Contingent liabilities and other liabilities**

The other liabilities were reported at nominal value.

Due to leasing agreements for vehicles and other business and operating equipment, the group had liabilities in the amount of T€ 352 (previous year: T€ 510). The future minimum payments under these agreements extend to the year 2006 and amount to T€ 206 (2004), T€ 115 (2005), and T€ 31 (2006).

The annual rental commitments of the init group totaled T€ 704, T€ 367 of which was attributable to the renting of the office building in Karlsruhe (the lease running until 2011). There were no contingent liabilities.

**Legal disputes**

Within the scope of its business activities, the company is presently involved in three pending lawsuits. init AG 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.

**9. Additional notes to the cash flow statement**

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

	2003	2002
	T€	T€
Interest payments	219	240
Income tax payments	108	100
Income tax receipts	-23	0
	<b>304</b>	<b>340</b>

**10. 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 T€ 30 (T€ 367 annually). The rental price is fixed by contract until June 30, 2011.

## 11. Divisions and foreign business operations

The group has two segments: Mobile Telematics and Fare Management Systems and Telematics Software and Services.

	2003 T€	2002 T€
<b>Revenues</b>		
Mobile Telematics and Fare Management Systems	20,033	20,647
Telematics Software and Services	9,979	10,886
<b>Group total</b>	<b>30,012</b>	<b>31,533</b>
<b>Operating profit/loss</b>		
Mobile Telematics and Fare Management Systems	1,435	905
Telematics Software and Services	-975	848
<b>Group total</b>	<b>460</b>	<b>1,753</b>
<b>Amortization</b>		
Mobile Telematics and Fare Management Systems	623	581
Telematics Software and Services	1,455	1,167
<b>Group total</b>	<b>2,078</b>	<b>1,748</b>
<b>Long-lived tangible fixed assets</b>		
Mobile Telematics and Fare Management Systems	784	825
Telematics Software and Services	682	707
<b>Group total</b>	<b>1,466</b>	<b>1,532</b>
<b>Investments in tangible fixed assets</b>		
Mobile Telematics and Fare Management Systems	483	411
Telematics Software and Services	387	348
<b>Group total</b>	<b>870</b>	<b>759</b>

### Geographical information

In the annual financial statements, the following amounts can be allocated to the regions specified:

	2003 T€	2002 T€
<b>Revenues</b>		
Germany	13,633	17,433
Rest of Europe	8,194	5,194
North America	8,185	8,906
<b>Company total</b>	<b>30,012</b>	<b>31,533</b>
<b>Long-lived tangible fixed assets</b>		
Germany	1,078	1,271
USA	388	261
<b>Company total</b>	<b>1,466</b>	<b>1,532</b>

## 12. Earnings per share

The following table shows the calculation of the ordinary net earnings and the diluted net earnings per share:

	Fiscal year 2003	Fiscal year 2002
<b>Numerator</b>		
Annual net profit in T€	404	1,353
<b>Denominator</b>		
Weighted average of ordinary shares outstanding	9,927,026	10,007,783
Net earnings and diluted net earnings per share in €	0.04	0.14

## 13. Explanation of the main differences between US-GAAP and the German accounting principles

### Internally generated software

The German accounting principles prohibit the capitalization of internally generated intangible fixed assets. According to US-GAAP, expenditure for the development of software intended for marketing must be capitalized and depreciated on schedule from the time of technical feasibility.

### Investments and securities

According to the German provisions, securities can be reported at purchase cost or the lower of cost or market. According to US-GAAP, securities that are neither held for trading purposes nor kept to final maturity (available for sale) are reported at market value. Unrealized gains and losses are always directly transferred to the equity capital. If unrealized losses are other than temporary, they are amortized. This cannot subsequently be reversed even when reinstated in the income statement.

### Long-term production on order

According to the German accounting rules, revenues and profits from long-term contracts are always recognized upon complete performance of the services. US-GAAP, on the other hand, stipulates that revenues and profits are recognized gradually, in line with the progress, i.e. at an earlier time than under German law.

### Cost of raising capital

According to the German law, the cost of raising capital must be treated as expenses and cannot be offset against the inflow of cash from capital increases. US-GAAP provides that the cost of raising equity capital, e.g. the cost of issue within the scope of an initial public offering, less the effect of their tax deductibility, be deducted from the borrowed gross amount, thus reducing the capital reserves.

### Treasury stock

According to German law, treasury stock must be recorded in the current assets and valued by applying the principle of lower of cost or market, while a reserve must be formed for the value of the stock. Under US-GAAP, treasury stock must be valued at purchase cost and openly deducted from the equity capital.

### Goodwill

The German accounting principles prescribe that goodwill must be amortized over the course of its expected life. If necessary, a non-scheduled amortization must be effected. US-GAAP merely requires an annual review of the value and a non-scheduled – not a scheduled – adjustment in case of an impairment of value.

### Currency conversion

For the purposes of German accounting, short-term receivables or liabilities in foreign currency must be valued at the exchange rates on the date of their creation. Unrealized currency gains on the cutoff date must not be recorded. According to US-GAAP, the conversion is always performed at the exchange rate in effect on the cutoff date, and unrealized currency gains are recorded as income.

### Derivative financial instruments

In compliance with SFAS 133, all derivative financial instruments are entered at market value. Changes in the market value are always recorded on an accrual basis in the result or the equity capital (cash flow hedges). The derivative financial instruments chiefly used are forward exchange transactions and currency options.

### Deferred tax

US-GAAP requires deferred taxes to be recognized not only for liabilities but also for deferred tax assets resulting from temporary differences between the tax bases and carrying amounts in the financial statements. In addition, US GAAP defines the basis for measuring deferred taxes much more broadly. Correspondingly, deferred taxes are also recognized for tax loss carryforwards, reflecting the future economic benefit of reduced tax payments. The future tax benefit is capitalized in full and written down if the benefit is less likely than not to be realized. According to German regulations, deferred tax assets from tax losses carried forward must not be reported.

## 14. Employees, Managing Board, and Supervisory Board

### Employees

The number of employees (not including student workers, interns, temporary employees, and trainees) was as follows:

	December 31, 2003	December 31, 2002
Employees in Germany	177	167
Employees in the USA	32	22
	<b>209</b>	<b>189</b>

### Managing Board

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

Dr. Gottfried Greschner, Karlsruhe	Master's degree in engineering (Chairman)
Joachim Becker, Karlsruhe	Master's degree in computer science
Wolfgang Degen, Karlsruhe	Master's degree in engineering (FH)
Dr. Jürgen Greschner, Grötzingen	Master's degree in economics (from January 1, 2004)
Bernhard Smolka, Stutensee	Master's degree in economics

## Supervisory Board

The members of the Supervisory Board:

Prof. Dr.-Ing. Dr.-Ing. E.h.  
Günter Girnau, Meerbusch

Consulting engineer specializing in local public transportation (Chairman), 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

Self-employed business consultant (Vice Chairman), 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 of T€ 182 (2002: T€ 191) and in their capacity as Managing Directors or departmental heads of INIT GmbH included in the consolidated financial statements, to the amount of T€ 746 (2002: 740), thus totaling T€ 928 (2002: 931) in the 2003 fiscal year. This total includes fixed salaries of T€ 747 (2002: 703) and variable remuneration in the form of management bonuses of T€ 181 (2002: T€ 228).

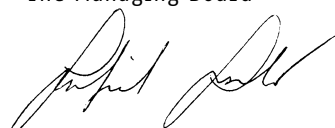
The total remuneration of the Supervisory Board members for the period from January 1, 2003 to December 31, 2003 amounted to T€ 24 (2002: T€ 32), not including a variable share.

### 15. 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 23, 2003 and was made available to the shareholders.

Karlsruhe, March 5, 2004

The Managing Board



Dr. Gottfried Greschner



Joachim Becker



Wolfgang Degen



Dr. Jürgen Greschner



Bernhard Smolka



## *Independent Auditors' Report*

We have audited the accompanying consolidated balance sheet of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, (Germany) as of December 31, 2003 and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements, prepared in accordance with United States generally accepted accounting principles, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Germany, as promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW: Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, (Germany) as of December 31, 2003 and the consolidated results of its operations and its

cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit, which also extended to the group management report prepared by the Company's management, has not led to any reservations. In our opinion, taken as a whole, the group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Company's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 2003 to December 31, 2003 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

Mannheim, March 5, 2004

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft

Matner  
(German Public Auditor)

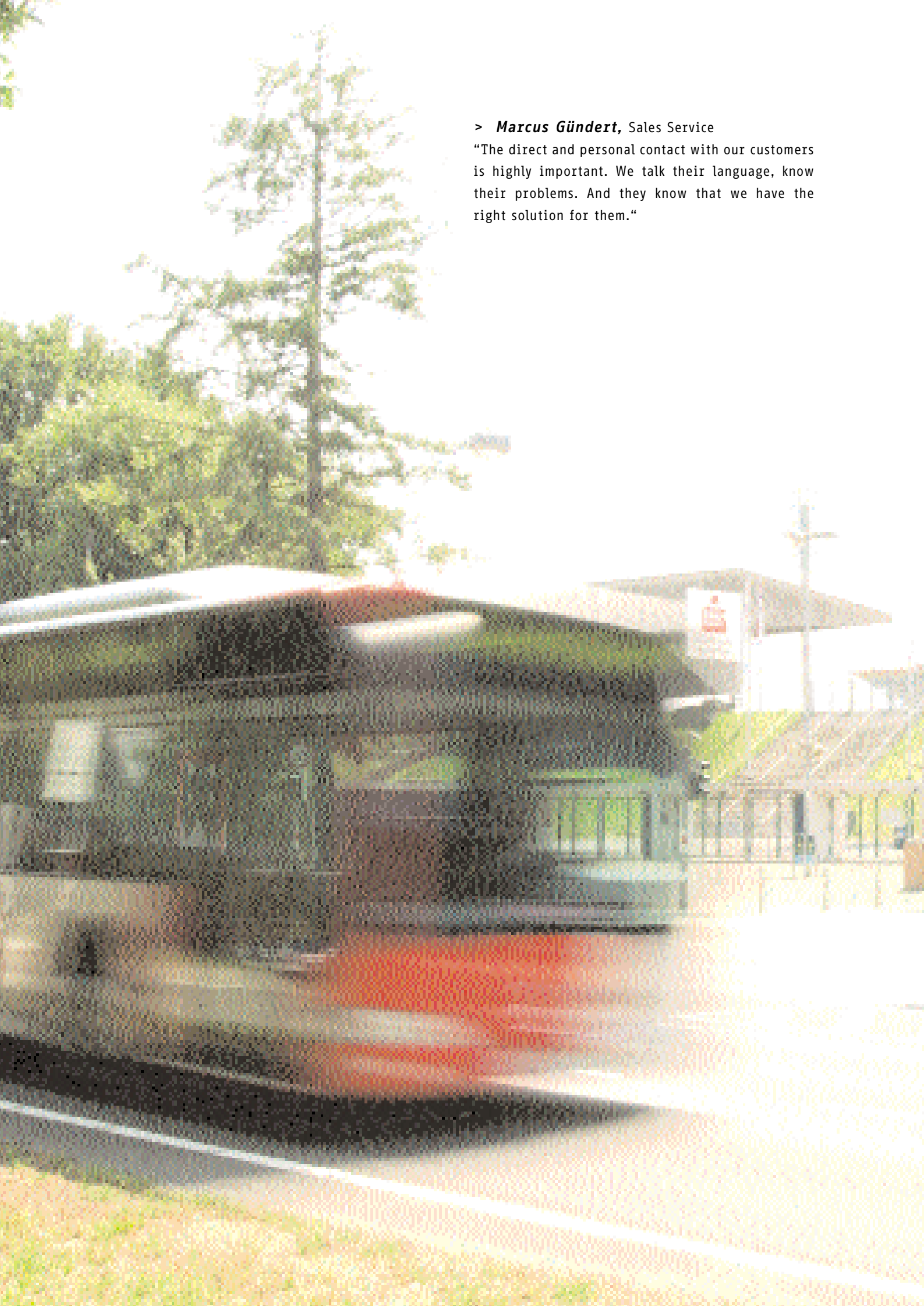
Reiter  
(German Public Auditor)





> **Marcus Gündert**, Sales Service

“The direct and personal contact with our customers is highly important. We talk their language, know their problems. And they know that we have the right solution for them.”





## *Status report of init AG as at December 31, 2003*

### *Abstract*

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, human resources, and investor relations 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 in the amount of T€ 1,776 (previous year: T€ 1,551), predominantly through its services for INIT GmbH. The annual net profit of T€ 326 (previous year: T€ 522) includes the loss transfer of INIT GmbH (T€ 78) under the control and profit and loss transfer agreement concluded with it.

The liquid funds including securities (without treasury stock) of init AG totaled T€ 2,219 (previous year: T€ 4,139) securing the further growth of the init group. The decrease in liquid funds as compared to the previous fiscal year was due to a capital increase and other allocations to the capital stock of INIT GmbH and INIT Innovations in Transportation, Inc., Chesapeake, Virginia/USA (INIT Inc.). The share capital of INIT GmbH amounting to T€ 1,800 was raised to T€ 2,000 and a capital reserve of T€ 4,000 formed. This was accomplished by way of shareholders' loans (T€ 2,500) and cash deposits (T€ 1,700). At INIT Inc., TUSD 500 (T€ 452) were allocated to the capital

reserves. Thus the amount reported for the shares in affiliated companies increased from T€ 10,328 to T€ 14,980.

In the 2003 fiscal year, the company decided on a stock repurchase of up to 160,000 shares. By December 31, 2003, init AG had repurchased 111,000 shares, so that, after issuing 11,302 shares within the scope of an employee sharing plan, the treasury stock now amounts to 140,172 shares. The value of the stock as at December 31, 2003 totaled T€ 541 (previous year: T€ 109).

### *Important transactions after the close of the fiscal year*

With effective date of January 1, 2004, Dr. Jürgen Greschner was appointed Chief Sales Officer of init AG. With this new position at management level, init AG takes into account the significant growth dynamism of its international business.

### *Prospect 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 be able to compensate for its expenses even in the 2004 fiscal year. Consequently, without taking into account the profit and loss transfer of INIT GmbH, the company can again anticipate a balanced result for 2004.

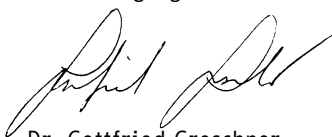
The result of the operating subsidiary, INIT GmbH, for the 2004 fiscal year is expected to be significantly above the figure for 2003.

The risks for init AG are mainly connected with the risks of its operating subsidiaries. We are especially concerned about the decline in orders in the German market, though we anticipate an improvement by the end of 2004. Irrespective of this, we presume that the incoming orders in the other European countries and in North America will make up for the decline in the German market. The market growth could be impaired by the delay or cancellation of investment projects in the public sector.

Technology in the area of telematics is subject to rapid change. Because of this, new products must be launched at the right time and the technological progress of the market must be monitored to remain current with the latest developments.

Karlsruhe, March 5, 2004

The Managing Board



Dr. Gottfried Greschner



Joachim Becker



Wolfgang Degen



Dr. Jürgen Greschner



Bernhard Smolka

#### *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 associated 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.”

## Balance sheet at December 31, 2003

Assets	Appendix Item No.	€	31.12.2003 €	31.12.2002 T€
<b>A. Fixed assets</b>				
I. Financial assets <span style="float: right;">III, 1</span>				
1. Shares in affiliated companies		14,979,547.58		10,328
2. Loans to affiliated companies		0.00		2,534
3. Investments in associates		381,468.10	15,361,015.68	381
<b>B. Current assets</b>				
I. Accounts receivable and other assets <span style="float: right;">III, 2</span>				
1. Trade accounts receivable		1,479.00		1
2. Accounts receivable from affiliated companies		507,573.14		810
3. Other current assets		344,640.49	853,692.63	261
II. Marketable securities				
1. Treasury Stock		540,916.25		109
2. Other marketable securities		1,960,255.00	2,501,171.25	3,459
III. Bank assets				
			258,604.79	679
<b>C. Prepaid expenses</b>				
			84,476.68	72
			<b>19,058,961.03</b>	<b>18,634</b>

<b>Liabilities</b>	Appendix Item No.	€	31.12.2003 €	31.12.2002 T€
<b>A. Shareholders' equity</b>	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		540,916.25		109
IV. Balance sheet loss		-2,049,749.08	18,153,042.15	-1,944
<b>B. Provisions</b>	III, 4			
1. Provisions for pensions and similar obligations		47,455.00		43
2. Other provisions		166,596.50	214,051.50	170
<b>C. Liabilities</b>	III, 5			
1. Trade accounts payable		57,086.67		329
2. Accounts payable to affiliated companies		150,011.55		29
3. Other liabilities		484,769.16	691,867.38	236
thereof taxes € 449,511.20 (previous year: T€ 210)				
thereof social security contributions € 19,163.68 (Vj. T€ 17)				
			<b>19,058,961.03</b>	<b>18,634</b>
Contingent liabilities	III, 6		18,000,006.65	16,055

*Income statement for the period from January 1, 2002, to December 31, 2003*

	01.01.2003- 31.12.2003	01.01.2002- 31.12.2002
	€	T€
1. Revenues	1,775,634.99	1,551
2. Other operating income	173,624.10	29
3. Personnel expenses		
a) Wages and salaries	776,271.39	716
b) Social security and other pension costs, thereof in respect of old-age pensions incl. € 6,663.18 (previous year: T€ 0)	131,579.26	907,850.65 126
4. Other operating expenses	910,659.12	809
5. Income from a profit and loss transfer agreement	0,00	301
6. Income from investments thereof from associated companies € 0,00 (previous year T€ 0)	76,560.00	0
7. Other interest and similar income thereof € 152.274,90 (previous year: T€ 166) from affiliated companies	299,613.83	385
8. Amortization of intangible assets and depreciation of tangible assets	1,000.00	93
9. Interest and similar expenses thereof € 0,00 (previous year: T€ 0) to affiliated companies	4,339.32	0
10. Expenses from a profit transfer agreement	-77,790.76	0
11. Result from ordinary activities	423,793.07	522
12. Other taxes	97,723.14	0
13. Annual net profit	326,069.93	522
14. Loss carried forward from previous financial year	-1,944,182.56	-2,357
15. Transfer to earnings reserve for own shares	-431,636.45	-109
<b>16. Balance sheet loss</b>	<b>-2,049,749.08</b>	<b>-1,944</b>

*Statements of changes in fixed assets at December 31, 2003*

	01.01.2003	Historical and manufacturing costs		31.12.2003
		Additions	Disposals	
	€	€	€	€
<b>Financial assets</b>				
1. Shares in affiliated companies	10,327,519.46	4,652,028.12	0,00	14,979,547.58
2. Loans to affiliated companies	2,533,875.64	0.00	-2,533,875.64	0.00
3. Investments in associates	381,468.10	0.00	0.00	381,468.10
	<b>13,242,863.20</b>	<b>4,652,028.12</b>	<b>-2,533,875.64</b>	<b>15,361,015.68</b>



Accumulated amortizations/depreciations				Book values	
01.01.2003	Additions	Disposals	31.12.2003	31.12.2003	31.12.2002
€	€	€	€	€	€
0.00	0.00	0.00	0.00	14,979,547.58	10,327,519.46
0.00	0.00	0.00	0.00	0.00	2,533,875.64
0.00	0.00	0.00	0.00	381,468.10	381,468.10
<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>15,361,015.68</b>	<b>13,242,863.20</b>

## *Appendix for the 2003 fiscal year*

### *I. General information*

The financial statements as of December 31, 2003 were prepared in compliance with the statutory provisions of the German Commercial Code and the supplementary regulations of the German Stock Corporation Act. The regulations for large stock corporations within the meaning of Section 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 cost.

#### **Current assets**

Trade accounts receivable, accounts receivable from affiliated companies, 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 lower mean rate as of the cutoff date. Securities are valued at the cost of purchase, less the necessary depreciation pursuant to Section 253 para. 3 of the German Commercial Code (HGB).

#### **Provisions and liabilities**

The accrued provisions take into account any foreseeable risks and contingent liabilities.

Liabilities are shown at the amount repayable.

### *III. Information on individual balance sheet items*

#### **1. Financial investments**

The increase in the shares in affiliated companies item from T€ 10,328 to T€ 14,980 was a result of the increase in the capital stock of INIT GmbH by T€ 200 and the setup of capital reserves of T€ 4,000 by means of cash deposits (T€ 1,500) and the conversion of loans (T€ 2,500). In addition, INIT Innovations in Transportation, Inc., Chesapeake, VA, USA (INIT Inc.), received an allocation to capital reserves in the amount of T€ 452.

The development of the individual items of the fixed assets is shown in the asset statement on pages 60 and 61.

We refer to page 65 for a listing of the company's shareholdings.

#### **2. Accounts receivable**

The trade accounts receivable have a residual term of up to one year. The other assets in the amount of T€ 333 have residual terms of up to one year and those in the amount of T€ 12 of more than one year.

The accounts receivable from associated companies of T€ 508 (previous year: T€ 810) include T€ 336 (previous year: T€ 204) of tax receivables and T€ 172 (previous year: T€ 305) of trade accounts receivable. They are due within one year.

The other assets of T€ 345 (previous year: T€ 261) mainly consist of tax refund claims (T€ 177), receivables from income from investments and participations (T€ 77), and interest receivables from securities (T€ 72).

### 3. Shareholders' equity

As of December 31, 2003, the subscribed capital of init AG was still T€ 10,040. 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 each. This stock exclusively consists of ordinary shares.

The shareholders' equity of init AG developed as follows:

	Capital stock	Capital reserves	Retained earnings	Balance sheet loss	Total
	T€	T€	T€	T€	T€
Shareholders' equity as at December 31, 2002	10,040	9,622	109	-1,944	17,827
Acquisition/transfer of treasury stock			432	- 432	0
Net income for 2003				326	326
Shareholders' equity as at December 31, 2003	10,040	9,622	541	-2,050	18,153

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 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 € 3,960,000. Section 4 of the statutes was amended accordingly.

Based on the resolution passed at the annual shareholders' meeting on May 15, 2002, replaced by the resolution of May 15, 2003, the company is authorized to purchase treasury stock. On September 11, 2002, the Managing Board of init AG decided on a stock repurchase of up to 40,000 shares. Further stock repurchases were decided on January 17, 2003 in the amount of 20,000 shares, on February 25, 2003 in the amount of 80,000 shares, and on December 23, 2003 in the amount of 60,000. In 2003, the company acquired 111,000 shares at an average price of € 3.48. 11,302 shares with an imputed share of € 11,302 (0.1%) in the capital stock were issued to the employees and trainees of the company and its subsidiaries as employee stocks in spring 2003 (resolution of February 28, 2003) as part of an employee capital sharing plan.

The company's treasury stock was valued at cost. The necessary reserves for treasury stock were formed at the expense of the balance sheet loss. Of the current treasury stock of 143,172 shares (including 3,000 shares held by INIT Inc.) with an imputed share of € 143,172 (1.4%) in the capital stock, 4,474 shares resulted from the capital increase and 138,698 shares from the company's stock repurchasing program. The repurchase was effected at an average price of € 3.86 per share. The repurchases were effected in the period from September 26, 2002 to December 30, 2003.

#### 4. Provisions

The other provisions were predominantly established for profit-sharing bonuses and Supervisory Board compensation to the amount of T€ 62 (previous year: T€ 80), outstanding suppliers' invoices of T€ 53 (previous year: T€ 35), and accounting and auditing costs of T€ 18 (previous year: T€ 18).

#### 5. Liabilities

All liabilities had residual terms of up to one year.

The accounts payable to affiliated companies to the amount of T€ 150 (previous year: T€ 29) include trade accounts payable of T€ 63 (previous year: T€ 18), from transfer of losses (INIT GmbH) totaling T€ 78 (previous year: T€ 0), and taxes of T€ 9 (previous year: T€ 11).

The other liabilities mainly consist of tax liabilities in the amount of T€ 410 (previous year: T€ 210), and social security liabilities of T€ 19 (previous year: T€ 17).

#### 6. Contingent liabilities

As of the cutoff date, the company had contingent liabilities from the joint and several co-obligation of T€ 1,547 (previous year: T€ 693) for bank liabilities and in the amount of T€ 16,453 (previous year: T€ 15,362) for bank guarantees in favor of INIT GmbH.

### IV. Other information

#### 1. Management bodies

Managing Board:

Dr. Gottfried Greschner, Karlsruhe	Master's degree in engineering (Chairman)
Joachim Becker, Karlsruhe	Master's degree in computer science
Wolfgang Degen, Karlsruhe	Master's degree in engineering (FH)
Dr. Jürgen Greschner, Grötzingen	Master's degree in economics (from January 1, 2004)
Bernhard Smolka, Stutensee	Master's degree in economics

#### Supervisory Board:

Prof. Dr.-Ing. Dr.-Ing. E.h.  
Günter Girnau, Meerbusch

Consulting engineer specializing in local public transportation (Chairman), 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

Self-employed business consultant (Vice Chairman), 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 of the subsidiaries, the members of the Managing Board also received compensation totaling T€ 928 (2002: T€ 931) in 2003. This total includes fixed salaries of T€ 747 (2002: 703) and variable remuneration in the form of management bonuses of T€ 181 (2002: T€ 228).

The total remuneration of the Supervisory Board members in 2003 amounted to T€ 24 (2002: T€ 32), not including a variable share.

#### 2. Employees

init AG employed an annual average of 16 (previous year: 15) people, three of whom were part-time.

#### 3. Interest in other companies

Company	Headquarters	Equity capital	Share in %	2003 result
INIT Innovative Informatik- anwendungen in Transport-, Verkehrs- und Leitsystemen GmbH	Karlsruhe (Germany)	T€ 6,183	100	T€ 0*)
INIT Innovations in Trans- portation, Inc.	Chesapeake, VA (USA)	TUSD 1,333	100	TUSD -315
id systeme GmbH	Hamburg (Germany)	T€ 215	44	T€ 17

\*) before the profit and loss transfer of TE -78

As of the cutoff date, the exchange rate for one US dollar was € 0.79669.

#### 4. Interests subject to disclosure

Pursuant to Section 21 para. 1 clause 1 of the German Securities Trading Act (WpHG), Universal-Investment-Gesellschaft mbH announced on June 24, 2002 that it had exceeded the threshold of 5% of the voting rights due to its acquisition of init AG stock on June 17, 2002, and that since then, it had been holding 5.17% of the voting rights. 4.89% of these 5.17% were voting rights pursuant to Section 21 para. 1 of the German Securities Trading Act (public fund) and 0.28% were voting rights pursuant to Section 2 para. 1 clause 1 (6) of the German Securities Act (special fund).

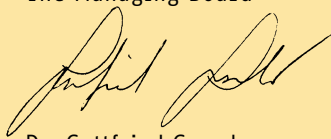
Pursuant to Section 21 para. 1 of the German Securities Trading Act, Mr. Joachim Becker, Karlsruhe, informed us on November 18, 2003 that his voting rights in init innovation in traffic systems AG had fallen below the threshold of 5% on October 24, 2003 but now totaled 4.19% (420,983 shares). Voting rights attributable to him pursuant to Section 22 para. 2 of the German Securities Trading Act no longer exist.

#### 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 23, 2003, and was made available to the shareholders.

Karlsruhe, March 5, 2004

#### The Managing Board



Dr. Gottfried Greschner



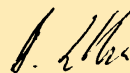
Joachim Becker



Wolfgang Degen



Dr. Jürgen Greschner



Bernhard Smolka

## *Independent Auditors' Report*

We have audited the annual financial statements, together with the bookkeeping system, and the management report of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, (Germany) for the business year from January 1, 2003 to December 31, 2003. 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 supplementary provisions in the articles of incorporation are the responsibility of 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 § 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW: Institute of Public Auditors in Germany). 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 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 evaluations of 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 within the framework 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, the annual financial statements 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. On the whole, the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Mannheim, March 5, 2004

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft

Matner  
German Public Auditor

Reiter  
German Public Auditor

## Report of the Supervisory Board

During the entire 2003 fiscal year, the Supervisory Board acted in an advisory capacity to the Managing Board while monitoring its conduct of affairs. In four meetings, the Managing Board informed the Supervisory Board in detail about the status of the company, the sales and revenue trends, the incoming orders, and any key business transactions and hidden risks. 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. Apart from the regular meetings, the Chairman of the Supervisory Board kept in close contact with the Managing Board at all times, while the members of the Supervisory Board were also available in individual matters.

Based on the reports of the Managing Board, the Supervisory Board in particular discussed the economic situation 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 order situation, the controlling, and any personnel matters concerning the Managing Board. Furthermore, the Supervisory Board dealt with the recommendations of the Government Commission on the German Corporate Governance Code.

In our meeting on September 10, 2003, we appointed Dr. Jürgen Greschner as a full member of the Managing Board from January 1, 2004. Dr. Jürgen Greschner will be responsible for sales.

The auditing firm, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, was commissioned by the Supervisory Board to audit the annual financial statements of init AG, the consolidated financial statements, the status report of init AG, the status report for the init group, and any notes as of December 31, 2003. 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 11, 2004. 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 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 actual 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 conducted by the auditors.

We would like to thank all our employees and the Managing Board for their service and personal dedication in the 2003 fiscal year. Our thanks also go to our shareholders, customers, and business partners for their trust in our company.

Karlsruhe, March 2004



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



