

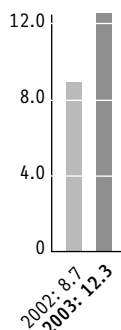


Q2 2003 Report

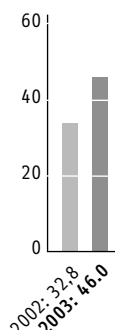
init

innovation in traffic systems AG

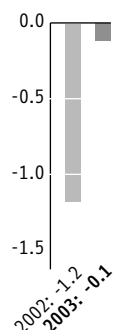
Sales Q1-Q2
in million €



Orders on hand Q1-Q2
in million €



EBIT Q1-Q2
in million €



Earnings per share
Q1-Q2 2002 -0.07 €
Q1-Q2 2003 0.00 €

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.

Directors Holdings

Management Board	Number of shares
Dr. Gottfried Greschner, CEO	3,852,600
Joachim Becker, COO	466,983
Wolfgang Degen, COO	138,364
Bernhard Smolka, CFO	9,600

Supervisory Board	Number of shares
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	-
Bernd Koch	-
Fariborz Khavand	-

Company calendar 2003/2004

August 19, 2003	DVFA Analysts' Conference in Frankfurt
Wk. 46/2003	Disclosure Q3 2003 Report
Wk. 14/2004	Disclosure Annual Report 2003
May 2004	General Meeting in Karlsruhe

Statutory bodies of the Company

Supervisory Board

- > Prof. Dr. Dr. h.d. Günter Girnau (Chairman), Honorary member and former Managing Director of the Association of German Transport Enterprises (VDV). Honorary Vice President of the International Association for Public Transport (UITP).
- > Bernd Koch (Vice-chairman), Self-employed business consultant for strategy and organisation. Member of the advisory council of the Center of Education of the Chamber of Commerce Karlsruhe
- > Fariborz Khavand
Member of the Supervisory Board of Rhön Residence GmbH & Management KG. Member of the advisory group to the Board of Management of Berliner Elektro Holding (BEH).

Management Board

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

Report of the Managing Board

Ladies and Gentlemen,

In the first six months of the 2003 financial year, init innovation in traffic systems AG continued to accelerate its growth rate, managing to exceed both its sales and its profit targets. This can be attributed not only to the shift of sales to the current financial year, which had been foreseeable in 2002. The success of the company in international business and the gradual revitalization of the domestic market for telematics also spurred on sales, particularly in the second quarter.

Sales in North America multiplied

Compared with the previous year, the sales revenue rose by 41.7% to 12.3 million Euro (first half of 2002: 8.7 million Euro) while the growth rate for the period from April to June 2003 reached 46.3%, corresponding to sales of 6.8 million Euro (2002: 4.7 million Euro) for init in the second quarter of 2003. This increase, which exceeded our expectations, is predominantly the result of the booming business in North America. In the second quarter alone, init nearly quintupled its revenue generated overseas, recording 2.2 million Euro. Seen in the light of the first six months of the year, sales in North America increased by 194% against the same period of the previous year, realizing 3.5 million Euro (2002: 1.2 million Euro). By the end of June, North America had contributed to sales with a share of 28.6%, thus having become the second most important market for init after Germany, its domestic market.

At home, init generated revenue of 6.3 million Euro in the first six months of the year, recording an increase of 9.6% compared to the previous year (5.7 million Euro). In addition to the continuing effect from the shift of sales originally anticipated for 2002 to the current financial year due to the longer project periods of the contracts won back then, this was also evidence of a slow pickup in the demand for telematics and fare management systems.

In regard to business with transport companies in the rest of Europe, init increasingly benefits from the benchmark projects secured in Sweden, Great Britain, and Austria. Thus, sales generated in the rest of Europe rose to 2.5 million Euro in the first six months,

this being an increase over the previous year of 43.1% (2002: 1.7 million Euro).

Gross operating result more than doubled

Better still than sales was the improvement of the profitability of init in the first six months of 2003. We need to emphasize though that, traditionally, the first two quarters of a year are the weakest for init, only contributing around 20% of annual sales. At the same time, the first-half result is burdened with 50% of the accruing annual fixed costs. Therefore, as a rule, the operating result of the company at the end of June has always been negative.

However, with -28,000 Euro in the first six months of 2003, the consolidated earnings were more or less balanced (2002: -681,000 Euro). In the second quarter, init even managed to multiply its profit for that period to 514,000 Euro (2002: 55,000 Euro). Therefore, by the end of June 2003, the net earnings per share for the first time reached their breakeven point (2002: -0.07 Euro).

The positive business trend and the increasingly effective economies of scale in production are evident in the gross operating result of sales which more than doubled as compared to the previous year, recording 2.8 million Euro (2002: 1.3 million Euro) in the first six months of 2003. With 0.8 million Euro, the operating result (EBIT) in the second quarter was positive, after having reported negative figures in the previous year (-0.1 million Euro). In regard to the overall first half of the year, the EBIT stood at -0.1 million Euro (2002: -1.2 million Euro). Due to the continuing progress of the major projects in Europe and the USA, init anticipates a continued distinct improvement in performance by the end of the year.

Orders on hand at record level

The current order situation confirms the tendency that init will be able again to match the growth rate of the previous record year, 2001. Thus, the incoming orders in the second quarter multiplied to 22.4 million Euro (same quarter of 2002: 6.0 million Euro), gaining 37.8% in the first six months to record 25.9 million Euro (end of June 2002: 18.8 million Euro). This can predominantly be attributed to the largest individual contract in init history so far, which came at the beginning of May and had a volume exceeding 20 million

US dollars. In the next two years, init will install a comprehensive system solution in Houston, Texas, in the USA. In regard to European business, init notched up follow-on orders exceeding 1.8 million Euro. Thus, the largest Swedish transport company, AB Stor-Stockholms Lokaltrafik (SL), placed an order for telematics equipment for another 200 vehicles. Germany as the core market of the company also saw a slight upturn in incoming orders in the fare management systems product sector.

As of the end of June, the existing orders on hand amounting to more than 46.0 million Euro topped the figure for the previous year (32.8 million Euro) by in excess of 40%, thus reaching a new record. Even when seen in the light of the overall year, the trend in regard to incoming orders continues to look positive. The offers already prepared and the tenders processed by init which still have to be decided currently amount to around US\$ 18 million in the USA and to around 60 million Euro in Europe.

Successful investments in technology leadership

The contracts awarded in the first six months and the current large-scale projects necessitate outlays and higher expenditure particularly in the initial stages, the income of which will not, for the most part, flow until the end of each project. Though not unusual, this fact affected the cash flow in the first six months of 2003 and, in particular, led to a changed accounts receivable (trade debtors) item in the balance sheet. In addition, the accounts payable were greatly reduced to receive cash discounts. Thus, the cash flow from operations as of the end of June 2003 amounted to -1.9 million Euro as against the +2.2 million Euro in the previous year. The accounts receivable (trade debtors) in the first six months increased by 29.2%, from 10.2 to 13.1 million Euro, as compared to the end of 2002. The personnel expenses and the selling expenses in the first six months clearly grew at a proportionately slower rate than sales.

In the last few years, init invested large amounts into researching new technologies and developing new system solutions. These investments and the resulting fully developed innovations now increasingly prove to be of benefit to init in competing for international contracts. In the period under review, the spending on research and development amounted to 1.1 million

Euro, 0.4 million Euro of which were capitalized. Mainly, this was attributable to the further development of the MOBILE-PLAN planning system, the COPILOTpc on-board computer, and the new color graphics terminal, TOUCHit.

Incoming US dollar payment largely hedged

init continued to make progress in optimizing its production costs of sales, which rose by a mere 29.3% to 9.5 million Euro (2002: 7.4 million Euro), their increase thus being clearly less than that of sales. Here, the company was once again able to conclude basic agreements on more favorable terms for the acquisition of components. The continuing substantial decline in the price of the US dollar compared to the Euro remains to be a risk factor for the earnings side. init reacted to this in good time by hedging any receipts of foreign currency payments in the 2003 financial year and the majority of the expected receipts of foreign currency payments from existing contracts for 2004 by means of forward exchange dealings. Therefore, the company will almost certainly be able to achieve the anticipated results in the current North American projects.

Positive tendencies for the latter half of the year

The accelerated growth in the second quarter, the boom in demand for telematics systems in North America, forthcoming awards of contracts in Europe, and the progressive upturn in Germany are factors that currently characterize our business. Against this background and in view of initial signals of economic recovery in both Europe and the USA, we will hold to our growth forecast for the 2003 financial year. In regard to the overall year, we expect to see a clear improvement in performance as compared to the previous year.

The init share – on the up again

In the first six months of 2003, the init share continued its price rally and is still on the up. Based on excellent business figures and a highly satisfactory orders position, the init share managed to see a considerable gain in value particularly in the second quarter of the year. By the end of June, it had finally crossed the threshold of 4.20 Euro. Seen in the light of the first six months of the year, the init share thus gained by more than 50%. Compared with the key benchmark index, the Prime Technology Performance Index containing all the technology equities of the new

quality segment of the German Stock Exchange, init came off better by more than 30%. Analysts and market observers currently even put the fair value of the init share at over 5 Euro. However, due to the recent tenders won and the continuing excellent orders position, the share of init innovation in traffic systems AG (ISIN DE0005759807) should have further potential for a price advance in the course of this year.

Explanatory notes to the interim accounts

The financial statements were prepared in accordance with U.S. Generally Accepted Accounting Principles (US GAAP). The accounting and valuation methods remained unchanged. The interim report complies with DRS 6 of the German Accounting Standards Committee.

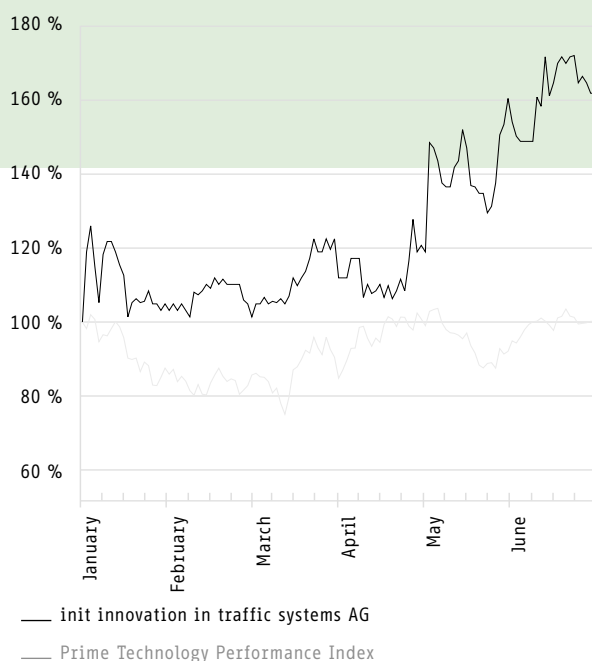
Karlsruhe, August 7, 2003
On behalf of the Managing Board



Dr. Gottfried Greschner
Chairman of the Managing Board

The consolidated group of init AG comprises INIT GmbH and INIT Inc., USA, both with a share of 100% each. INIT GmbH holds 43% of the shares of iris GmbH in Berlin and init AG 44% of the shares of id Systeme GmbH in Hamburg, which are consolidated "at equity". On September 11, 2002, the Managing Board resolved to repurchase up to 40,000 shares that are to be issued to employees and trainees of the company and its subsidiary as asset sharing in the 2003 financial year.

Performance



On February 28, 2003, the Managing Board passed a resolution to that effect, giving employees a share in the 2002 consolidated earnings. Per allottee, the participation consists of 100 shares of init AG at a fixed price of 2.90 Euro per share plus a bonus of 150 Euro. Employees not interested in shares will receive a bonus of 300 Euro. The quarterly report includes the appropriate adjustments. On January 17, 2003, a further 20,000 shares were repurchased, and the repurchase of yet another 80,000 shares decided on February 25, 2003.

The stock held in treasury is valued at cost of acquisition (cost method) at 483,000 Euro and openly separated from equity. Of the present treasury stock of 128,954 shares, 5,474 shares are derived from the capital increase and 123,480 shares from the share repurchase program. The repurchase was effected at an average price of 3.67 Euro per share.

Number of Employees

(permanent, without back staff, temporary staff, trainees and apprentices) at the end of period

	30.06.2003	30.06.2002
Germany	174	167
USA	28	20
Total	202	187

Your contact for Investor Relations

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Consolidated balance sheet at June 30, 2003

(US-GAAP)

Assets	30.06.2003	30.06.2002	31.12.2002
	T€	T€	T€
Current assets			
Cash and cash equivalents	832	3,542	1,898
Marketable securities	3,085	4,545	3,523
Trade accounts receivable, net	13,144	5,023	10,177
Accounts receivable from related parties	49	22	47
Inventories	3,235	4,072	5,058
Deferred tax asset	847	2,020	751
Prepaid expenses and other current assets	1,792	1,059	1,592
Current assets, total	22,984	20,283	23,046
Non-current assets			
Tangible fixed assets, net	1,385	1,613	1,532
Internally generated software and other intangible assets, net	4,974	4,872	5,078
Goodwill, net	1,877	1,877	1,877
Financial investments	903	685	811
Loans	68	117	68
Deferred tax asset	25	29	25
Other assets	337	266	296
Non-current assets, total	9,569	9,459	9,687
 Assets, total	 32,553	 29,742	 32,733

Liabilities and shareholder`s equity	30.06.2003	30.06.2002	31.12.2002
	T€	T€	T€
Current liabilities			
Short-term debt and current portion of long-term debt	2,158	1,409	691
Trade accounts payable	2,079	895	3,807
Accounts payable due to related parties and persons	8	33	13
Advance payments received	3,489	4,050	3,307
Accrued expenses	1,405	1,163	1,424
Deferred tax liabilities	1,235	1,293	1,397
Prepaid expenses and other current liabilities	2,248	2,737	2,143
Current liabilities, total	12,622	11,580	12,782
Non-current liabilities			
Long-term debt after deduction of current portion	0	27	2
Deferred tax liabilities	1,515	1,534	1,345
Dormant partners capital	450	511	511
Pension accrued and similar obligations	808	717	752
Non-current liabilities, total	2,773	2,789	2,610
Shareholders` equity			
Subscribed capital (shares without nominal value)			
Allowed: 14,000,000 shares			
Issued and floating: 10,040,000 shares			
(previous year 10,000,000 shares)	10,040	10,000	10,040
Additional paid-in capital	3,141	2,941	3,141
Treasury stock	-483	0	-219
Consolidated unappropriated profit	4,520	2,514	4,548
Other comprehensive income	-60	-82	-169
Shareholders` equity, total	17,158	15,373	17,341
Liabilities and shareholder`s equity, total	32,553	29,742	32,733

Consolidated statement of operations

(US-GAAP)

	Q2 2003 01.04.2003- 30.06.2003 T€	Q2 2002 01.04.2002- 30.06.2002 T€	Q1-Q2 2003 01.01.2003 30.06.2003 T€	Q1-Q2 2002 01.01.2002 30.06.2002 T€
Revenues	6,812	4,655	12,285	8,667
Cost of revenues	4,643	3,853	9,508	7,355
Gross profit	2,169	802	2,777	1,312
Sales and marketing expenses	945	1,007	1,780	1,597
General administrative expenses	602	527	1,109	1,142
Research and development expenses	194	215	671	875
Other operating income and expenses	156	249	177	395
Foreign currency exchange gains/losses	146	490	360	500
Operating income	730	-208	-246	-1,407
Interest income and expenses	7	30	19	27
Income from investments accounted for by the equity method	38	147	93	162
Other income/expenses	25	7	40	7
Income before income tax	800	-24	-94	-1,211
Income tax	286	-79	-66	-530
Net income	514	55	-28	-681
Earnings per share (undiluted) in €	0.05	0.01	0.00	-0.07
Earnings per share (diluted) in €	0.05	0.01	0.00	-0.07
Average number of floating shares (undiluted)	9,914,432	10,000,000	9,944,969	10,000,000
Average number of floating shares (diluted)	9,914,432	10,000,000	9,944,969	10,000,000

Cash flow statement for the consolidated financial statements

(US-GAAP)

	Q1-Q2 2003 01.01.2003- 30.06.2003 T€	Q1-Q2 2002 01.01.2002- 30.06.2002 T€
Cash flow from operating activities		
1. Net income	-28	-681
2. Depreciation and amortization	992	814
3. Gains (-) / Losses (+) on the disposal of fixed assets	4	-3
4. Increase in provisions and accruals	40	36
5. Change in inventories, trade accounts receivable and other assets, not provided by/used in investing or financing activities	-1,390	1,565
6. Change in trade accounts payable and other liabilities, not provided by/used in investing or financing activities	-1,449	1,120
7. Other non-cash income	-93	-162
8. Change in deferred taxes	-89	-526
Net cash used in/provided by operating activities	-2,013	2,163
Cash flow from investment activities		
1. Proceeds from sales of tangible fixed assets	5	0
2. Investments in tangible fixed assets and other intangible assets	-254	-401
3. Investments in software development	-490	-967
4. Investments in financial assets	0	-311
5. Inflows from the sale of fixed interest-bearing securities as part of short-term cash management	500	1,003
6. Investments in fixed interest-bearing securities as part of short-term cash management	-63	-2,988
Net cash used in investment activities	-302	-3,664
Cash flow from financing activities		
1. Cash payments for the purchase of treasury stock	-264	0
2. Cash repayments of dormant partners' capital	-61	0
3. Proceeds from taking up loans	1,465	1,258
4. Other adjustments made directly to shareholders' equity	135	-53
Net cash provided by financing activities	1,275	1,205
Net effect of currency translation in cash and cash equivalents	-26	-50
Decrease in cash and cash equivalents	-1,066	-346
Cash and cash equivalents at the beginning of period	1,898	3,888
Cash and cash equivalents at the end of period	832	3,542

Consolidated statements of changes in shareholders' equity

(US-GAAP)

	Ordinary shares Amount	Subs- cribed capital T€	Additional paid-in capital T€	Ordinary unappropri- ated profit T€
Status by December 31, 2001	10,000,000	10,000	2,941	3,195
1. Net income Q1-Q2 2002				-681
2. Adjustment item for currency translation after deduction of TEuro 0 tax				
3. Change in value of the marketable securities (available for sale) after deduction of TEuro 12 tax				
Status by June 30, 2002	10,000,000	10,000	2,941	2,514
Status by December 31, 2002	10,040,000	10,040	3,141	4,548
1. Purchase of treasury stock Q1-Q2 2003				
2. Net income Q1-Q2 2003				-28
3. Adjustment item for currency translation Q1-Q2 2003 after deduction of TEuro 0 tax				
4. Change in value of the marketable securities Q1-Q2 2003 (available for sale) after deduction of TEuro 24 tax				
Status by June 30, 2003	10,040,000	10,040	3,141	4,520

Division reporting

(US-GAAP)

	Q2 2003 01.04.2003- 30.06.2003 T€ %		Q2 2002 01.04.2002- 30.06.2002 T€ %		Q1-Q2 2003 01.01.2003- 30.06.2003 T€ %		Q1-Q2 2002 01.01.2002- 30.06.2002 T€ %		
Revenues									
Mobile Telematics and Fare Management Systems	5,058	74.3	1,705	36.6	8,228	67.0	3,631	41.9	
Telematics Software and services	1,754	25.7	2,950	63.4	4,057	33.0	5,036	58.1	
Total	6,812	100.0	4,655	100.0	12,285	100.0	8,667	100.0	
Operating profit/loss									
Mobile Telematics and Fare Management Systems	772	105.8	-616	296.2	265	-107.7	-2,009	142.8	
Telematics Software and services	-42	-5.8	408	-196.2	-511	207.7	602	-42.8	
Total	730	100.0	-208	100.0	-246	100.0	-1,407	100.0	
Amortization									
Mobile Telematics and Fare Management Systems	133	26.4	146	36.0	281	28.3	277	34.0	
Telematics Software and services	370	73.6	260	64.0	711	71.7	537	66.0	
Total	503	100.0	406	100.0	992	100.0	814	100.0	
Tangible fixed assets									
Mobile Telematics and Fare Management Systems	749	54.1	875	54.2	749	54.1	875	54.2	
Telematics Software and services	636	45.9	738	45.8	636	45.9	738	45.8	
Total	1,385	100.0	1,613	100.0	1,385	100.0	1,613	100.0	
Investments in tangible fixed assets and intangible assets exclusive software development									
Mobile Telematics and Fare Management Systems	70	54.7	121	57.3	139	54.7	218	54.4	
Telematics Software and services	58	45.3	90	42.7	115	45.3	183	45.6	
Total	128	100.0	211	100.0	254	100.0	401	100.0	

Other changes in Shareholders' Equity without effects on profit					
Difference from pension evaluation	Difference from currency translation	Stock market valuation of securities	Treasury stock at cost	Total	
T€	T€	T€	T€	T€	
-45	52	14	0	16,157	
				-681	
	-121			-121	
		18		18	
-45	-69	32	0	15,373	
-38	-169	38	-219	17,341	
			-264	-264	
				-28	
	70			70	
		39		39	
-38	-99	77	-483	17,158	

Geographical arrangement

	Q2 2003		Q2 2002		Q1-Q2 2003		Q1-Q2 2002	
	01.04.2003-		01.04.2002-		01.01.2003-		01.01.2002-	
	30.06.2003		30.06.2002		30.06.2003		30.06.2002	
	T€	%	T€	%	T€	%	T€	%
Revenues								
Germany	3,563	52.3	3,552	76.3	6,291	51.2	5,738	66.2
Europe	1,021	15.0	710	15.3	2,481	20.2	1,734	20.0
Northamerica	2,228	32.7	393	8.4	3,513	28.6	1,195	13.8
Total	6,812	100.0	4,655	100.0	12,285	100.0	8,667	100.0
Tangible fixed assets								
Germany	1,158	83.6	1,357	84.1	1,158	83.6	1,357	84.1
Northamerica	227	16.4	256	15.9	227	16.4	256	15.9
Total	1,385	100.0	1,613	100.0	1,385	100.0	1,613	100.0

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