init

innovation in traffic systems AG

Our Products: On the Move Worldwide.

Annual Report 2004

init at a Glance

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

Key Figures 2004 of init Group

according to US-GAAP

Balance Sheet		
Balance sheet total	T€	32,212
Shareholders' equity	T€	15,979
Subscribed capital	T€	10,040
Equity-to-assets ratio	%	49.6
Fixed assets	T€	9,868
Current assets	T€	22,344
Income Statement		
Revenues	T€	32,511
Gross profit	T€	6,052
EBIT	T€	-1,227
Net loss	T€	-714
Net loss per share	€	-0.07
Cash Flow		
Cash Flow from operating activities	T€	2,046
Share		
Share price	€	5.10
Peak share price (2004)	€	5.24
Bottom share price (2004)	€	2.09
Number of shares, end of year		10,040,000

Content

COPILOTpc: PC technology with Windows XP embedded® in the vehicle

"The COPILOT is the mobile brain of our telematics systems. It makes buses and trains mobile, in Halle as much as in Houston, in London as in Leicester."

> ***Faiza Zaidi,***
Business and Development Manager
Sales UK & Québec

Letter to the Shareholders and Friends of the Company

Ladies and gentlemen:

Both politically and economically, 2004 was a year filled with great hopes. Ground-breaking reforms were to be implemented, trendsetting initiatives commenced. Above all, there was the aim of overcoming the stagnation and stimulating economic growth. In the end, however, the year ended in disillusionment: The reforms were confined essentially to reductions and emergency savings measures. Initiative and the promotion of innovations had been replaced by prevention and uncertainty. This applied specifically to the economic sector in which init innovation in traffic systems AG operates, – local public transportation.

Over the decades, Germany has acquired a reputation here for being a pioneer with regard to efficiency and innovation. With all the positive consequences for the global competitiveness in this area: A functioning transportation system and smooth mobility are two crucial factors in economic growth.

The measures set in motion in 2004 stood in sharp contrast to this objective significance of the transportation sector. Instead of the several billion Euro in additional funds estimated by experts simply to secure the status quo, there were cuts and reductions in state aid on the scale of several hundreds of millions. The result: The transportation companies in Germany limited their investments to the bare minimum, the number of project tenders fell to a multi-year low.

The consequence: Modern transportation infrastructure – such as the innovative telematics and electronic fare management systems from init – is no longer in demand primarily in the former model country, Germany. Rather, the demand has shifted predominantly to large European and North American conurbations. Cities such as Houston, London, Stockholm, and Oslo with their init supplied transportation systems now set the standard, while bus and railway companies in Germany are at risk of being left behind in terms of technology.

In 2004, these developments were directly reflected in the annual balance sheet of init: Our initially justified expectations of a recovery of business in Germany, which had been flagging for two years, were dashed. Instead, the increasing cuts in public funds over the year resulted in a further drop in revenues in this market. On the other hand, init managed to translate its technological lead into the award of tenders and in increases in sales in the new core markets of Europe and North America.

The efforts in regard to our internationalization and the related increase in selling expenses have paid off here, as a multi-year comparison shows: In the past four years, we were able to more than double our sales in Europe (excluding Germany) to currently 10.4 million Euro, while in North America in the same period they even more than sextupled to 18.9 million US dollar. Thus, on the whole, we managed to more than compensate for the slump in sales in Germany (from 19.3 million Euro in 2000 to 7.0 million Euro in 2004).

These two opposing trends in the 2004 fiscal year were also evident in two entirely different six-month periods. While we were forced to revise downwards our sales and operating result at the end of the first six months on account of the sluggish German business and project delays in the USA, init managed an impressive trend reversal in the third and fourth quarters with revenues and earnings exceeding our expectations.

One of the particularly satisfactory aspects here was the trend in the year-end quarter: At 15.5 million Euro, we were able to turn over around 35 per cent more than in the previous year (Q4 2003: 11.5 million Euro). Thus, revenues over the whole of 2004 added up to 32.5 million Euro, so that we managed after all to clearly exceed both our annual sales target revised to 30 million Euro in August and our prior-year result (30.0 million Euro).

On the earnings side, the strong final quarter also meant a significantly better figure for earnings before interest and taxes (EBIT) to the amount of -1.2 million Euro for the whole year than the loss of 2.0 million Euro forecast in summer. An even better and altogether satisfactory result was prevented by the sluggish business in Germany and the continued substantial decline in the US dollar.

In addition to the strong sales trend, particularly in international business, the now completed rationalization of our internal structures also had a positive effect on the operating result as at the end of the year. While in the first six months the closure of our branch offices in Berlin and Essen and the reductions in human resources required additional expenditure, the final quarter showed the desired long-term cost savings. Because of this alone, we anticipate a contribution affecting net income of around 2 million Euro in 2005.

However, we intend to further improve our earnings situation in the current fiscal year not merely on the basis of these structural measures and our strict cost management. Rather, we have set the course for profitable growth in 2005 by way of continuing to accelerate our sales efforts in both Europe and North America and through a number of product innovations. This is enhanced by the fact that there are now signs of a slight recovery in Germany. The number of tenders is increasing, as is the interest in init systems.

Additional sales potential for our telematics solutions is seen in private transportation. Therefore, we advanced our entry into the automotive market with single-minded determination in 2004, to enable us to market our telematics know-how also in this, business segment, which is new for us, and to develop appropriate solutions for the automobile industry. In so doing,

Dr. Gottfried Greschner, Bernhard Smolka,
Wolfgang Degen, Dr. Jürgen Greschner, Joachim Becker

we have worked with CarMedialab GmbH – in which init acquired a 45 per cent share in May 2004 – within the scope of a development, sales, and marketing cooperation. Together, we will be able to offer cost-effective car telematics units and car integrated services for the automobile industry and the management of fleets as early as this year.

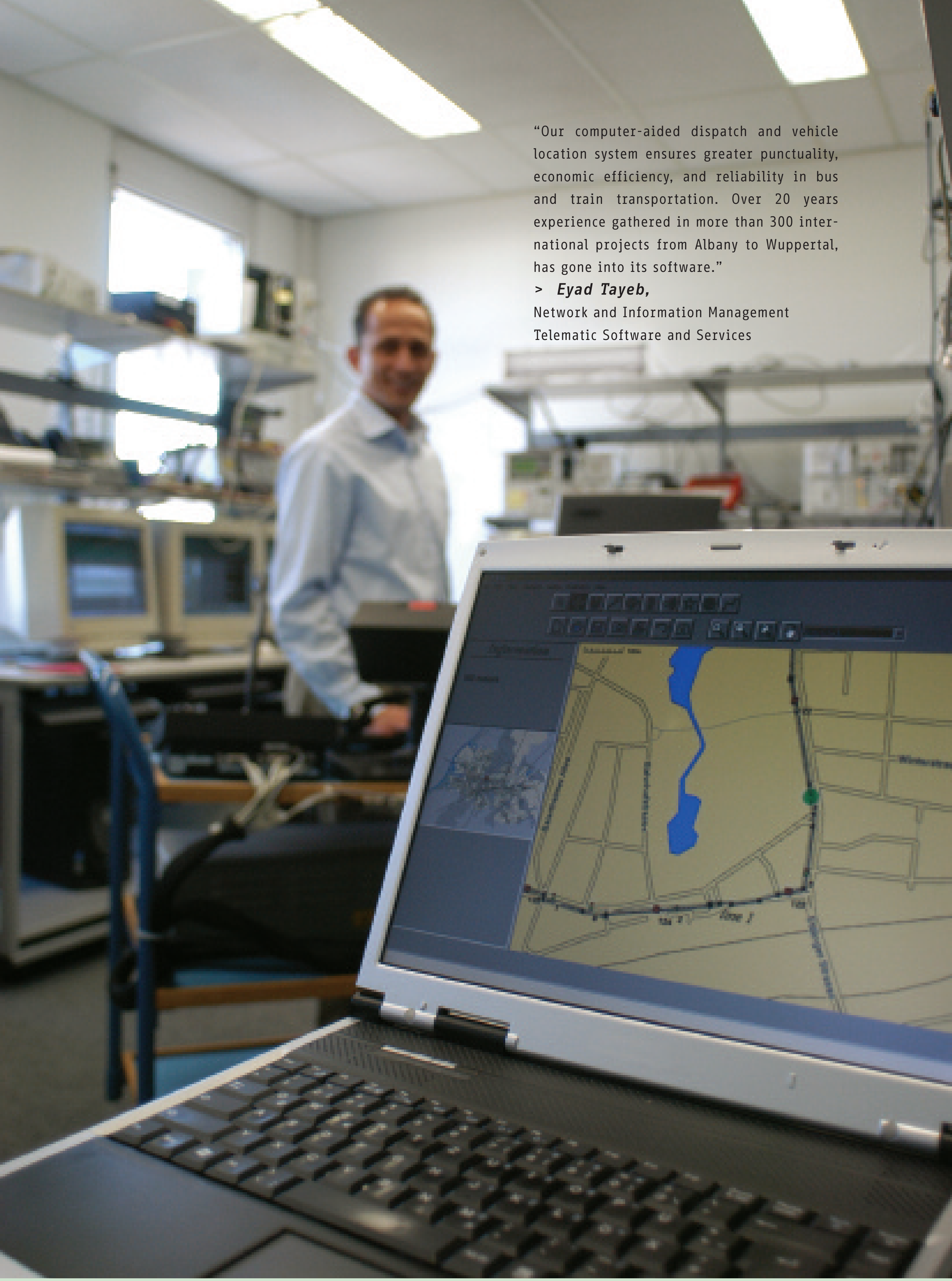
On the whole, we currently await decisions on an order volume of approximately 100 million Euro, including, for the first time, from Asia. Naturally, we are far from believing that we will benefit from all of these. However, if nothing else, this figure shows quite clearly that as a supplier of complete telematics and fare collection systems, init now attracts worldwide attention. And another thing is certain: Even if we win but a fraction of these tenders, this will secure our growth prospects for 2005 and beyond.

This much is also clear: Making mobility and intelligent solutions more efficient, more convenient, safer, and more reliable is crucial not only for transportation companies in Germany and abroad, but also for the economies on the whole. Here, the local public transportation and the quality of the bus and rail transportation services play an ever more important role. Irrespective of brief savings pressures and investment brakes, this steady trend will continue over the next few years. With its product portfolio of integrated telematics, information, and fare collection systems, init is contributing to the ability of the transportation companies to play their part more effectively.

We continue to see ourselves in a good position in this growth market and therefore are confident that you, our shareholders, will be able to share in this growth by way of increasing earnings.

Karlsruhe, March 15, 2005
for the Managing Board

Dr. Gottfried Greschner
Chairman



"Our computer-aided dispatch and vehicle location system ensures greater punctuality, economic efficiency, and reliability in bus and train transportation. Over 20 years experience gathered in more than 300 international projects from Albany to Wuppertal, has gone into its software."

> ***Eyad Tayeb,***
> Network and Information Management
> Telematic Software and Services

MOBILE-CAD/AVL: The computer-aided dispatch and vehicle location system

init International – The Story of a Project:

"Hello Oslo, we have the solution!"

Oslo, an idyll set between a blue fiord and rolling green hills, once a former Viking colony, now the oldest capital in Scandinavia, a tranquil city with a fine tradition. This is the side of the Norwegian metropolis that tourists know only too well. Oslo, the pulsating business metropolis with one of the highest standards of living worldwide, a modern capital of innovation. This is its other, less well-known side. Its characteristic features include one of the most advanced local transportation networks in the world. One that has set international standards. Since 2004, therefore, Oslo has been a city of init innovation. The new telematics system from init was put into operation in Oslo on October 15 – just over seven months after the contract from the far north had been celebrated in Karlsruhe. A success story in several chapters.

The preliminary events

The final push for OATS to set the wheels in motion ultimately came when AB StorStockholms Lokaltrafik, the transportation company in the Swedish capital Stockholm, eventually also followed suit in summer 2002 and opted for an init telematics system. It was the first time that its vehicles were to be equipped with devices such as the COPILOTpc, a Windows-based on-board computer enabling multimedia applications. Thus, early in 2003, the experts from Oslo visited their Swedish colleagues to get an idea of the efficiency of the init system and gather information on the individual components of what was then the most advanced telematics system for buses and trains in Europe.

Along with advancing bus and train transportation to make it more efficient, faster, and safer, OATS sought to increase its appeal to passengers. Aside from introducing a computer-aided dispatch and vehicle location system (CAD/AVL) and the appropriate efficient planning and management software, OATS hoped to improve the communication between the vehicles and the control center by way of the GPRS mobile radio standard, and to display passenger information on arrivals and departures in real time in its buses and at each stop. A further focal point was to be the procurement of reliable traffic signal priority system that would give OATS buses and trains right of way at the many junctions in Oslo, to ensure the punctuality of its regular transportation service.

Chapter 1: Mid-Air handoff in the selection process

Thirty companies from all over Europe submitted a tender. After an elaborate prequalification process at OATS, 11 of these are on the short list. Asked to submit a detailed offer, these 11 are then assessed on the basis of both technical and commercial criteria. At this stage, two contenders pull out, three others are eliminated by OATS. At the end of 2003, six applicants are left in the running.

By early December 2003, Sales Manager Roland Staib has ensured that init is still in with a chance. But

then his next career move beckons: He is appointed Managing Director of the US subsidiary, INIT Inc. Literally in a mid-air handoff, the project is now taken on by Dr. Jürgen Greschner. In mid-December, Dr. Greschner takes off from a Spring-like Chesapeake in Virginia and, with but a brief stop in Karlsruhe, travels on to Oslo where, together with Roland Staib, he handles the technical presentation of the init equip-ment that will lead to a preliminary decision. The "cold shock" facing the init team on arrival notwith-standing, the meeting soon gets them fired up.

In several rounds of talks, experts from every functional area of OATS together with the transportation managers of the Oslo region are busy clarifying the qualities of the init systems and their possible uses in Oslo. "We really got down to the nitty-gritty in the question times, but they were always fair and focused on customer benefits," remembers Dr. Jürgen Greschner. At the ensuing dinner in a "typical" Oslo restaurant – known for its Arabic cuisine and its original Oriental ambience – the init team in the end is quite hopeful.

Chapter 2: Ice chaos – but no cold feet for init customers

The initial impression proves correct: init passes the technical evaluation, scoring the highest points of all the contenders. This, however, does not mean that a decision has been made. OATS talks again to the three top scorers. The next round involves site visits, at which the selection committee of OATS intends to see the competing systems work in real time at transportation companies for further assessment. The pace is now stepped up, as the new Oslo telematics system is scheduled for initial operation in fall 2004.

And so, Dr. Jürgen Greschner and the init project team cancel their 2004 Epiphany holiday and instead travel to customers, where the potential Norwegian buyer will be given first hand accounts of their experiences with the init systems. Initially, these site visits seem to be ill-fated: Just when the delegation from Oslo is due to arrive Germany falls into ice chaos. The flight from Frankfurt to Halle/Leipzig, where representatives of Hallesche Verkehrs AG (HAVAG) are waiting, turns into a veritable adventure. Due to icy runways, the plane cannot initially land and has to circle – until it almost runs out of fuel. Virtually at the last minute the plane finally manages to land – being considerably behind schedule. But now their onward journey is in doubt, for the plane that should have collected the delegation had an accident.

All in all, not a very good prelude to a customer meeting that is to pave the way. Yet the visitors from the far north show great understanding: "We almost feel at home here," a member of the delegation comments on the ice chaos. Even later, the Norwegians literally do not get cold feet – their clothing seems more appropriate for the weather conditions than that of their hosts.

In the following however, init scores nothing but points in its favor: Project Manager Peter Kolbert from HAVAG vividly and enthusiastically describes his experiences with the init technology. Within the scope of its "2005 mobility project", HAVAG focuses

on aspects such as speeding up the local public transportation at the traffic lights in Halle. The required control technology and software was supplied by init, who also fitted the HAVAG vehicles with the COPILOT on-board computer to ensure an accurate activation of the traffic lights via radio data transmission. For the first time in Germany, the guarded grade crossings in Halle are now also controlled in this manner – an aspect that is met with particular interest by the Norwegian delegation. Close-by at Dessauer Verkehrs GmbH (DVG), OATS Project Manager Magne Bentzen and his colleagues then satisfy themselves as to the smooth operation of the CAD/AVL from init.

The following day sees the team travel to London, where init developed and installed a Service Quality Control System (SQCS) for METROLINE Plc. A solution that meanwhile has received the much coveted "National Transport Award for Technology". As one of its key aspects it ensures that the METROLINE buses now arrive at the stops at regular intervals, instead of traveling in a throng in the dense London traffic. Having drastically reduced the waiting time for passengers, this has brought about a significant increase in customer satisfaction. This, too, is noted with much appreciation by the Oslo transportation managers.

Chapter 3: Popping corks and a shock

Yet these site visits still have not won the battle in favor of init. While a further rival is sifted out by OATS, a Scandinavian competitor still remains in the running. OATS now requests a further clarification and qualification of the init offer. In mid-January 2004, Dr. Jürgen Greschner and other init specialists once again head for Oslo to account to the selection committee for the points at issue. When the dialog continues throughout February, doubts start to arise. Slowly, time is running out if the project is to be realized by the end of 2004. At long last, the much hoped-for confirmation from Oslo comes at the end of February: init has won the major contract from OATS. The corks are finally popping in Karlsruhe.

The very next day, however, the team is back to work: They must not lose any more time in the already tight schedule for Oslo. The system must be up and running by the end of September 2004, the official opening in the presence of the Norwegian Transportation Minister and the media being scheduled for October 15. The ink on the contract is barely dry, when init sets up a project team and starts working on the system specifications. Together with OATS it draws up comprehensive specifications for every item in the order, describing each system component in great detail and specifying what will work how, what will be delivered when and installed where. In the end, the specifications make up four hefty folders.

Crucial for the success of the project and for meeting the deadline is the smooth cooperation between the OATS team of Magne Bentzen and the init crew around Wolfgang Degen. Consequently, only a few days after the contract has been signed, both teams meet in Karlsruhe to get to know each other and jointly decide on the next steps. What had been apparent in the run-up is now confirmed: "We

speak the same language, we focus on results, and together, we want to get things moving," says Wolfgang Degen describing the working atmosphere in the team.

Parallel to the still ongoing system specification, the team in Karlsruhe set off the development phase as early as in March. Though already successfully used in Stockholm, the COPILOTpc on-board computer needs to be adapted to the OATS vehicles. It forms the central component of the whole system and controls all the telematics functions in the vehicle, organizes the data radio communication with the control center, and calculates the location information and the timetable situation using GPS technology.

Having been tried and tested hundreds of times, the operating control technology from init still needs to be adjusted to the requirements of OATS. It will facilitate the work of the dispatchers in the control center while also monitoring and optimizing the operations. The focal point here is an early notification of any disruptions in the operations and appropriate responses to these to ensure that schedules are kept and connections are made. It will be supported by the planning and data management software, MOBILE-PLAN, which automatically adjusts timetables and duty rosters to the traffic situation. On arrival and departure at the depot the vehicle and operating data are exchanged between the vehicle and the central network via a WLAN infrastructure, and thus are immediately available. The time for modifications and reconfigurations is pressing: the first "Factory Acceptance Test" (FAT) is scheduled for as early as May 19. Then the autonomous vehicle operation will be simulated under the watchful eyes of the customer and the components must all prove their functionality in the system, while hardware and software must demonstrate a smooth interaction. FAT A in Karlsruhe is attended by OATS project supervisors, and apart from the incorrect formatting of a date, the test initially runs smoothly. But then a "shocker" for software specialist Bernd Blank: the COPILOTpc blocks – the system crashes. After a feverish search, the cause is found and removed on the same day – a "dead" path in the software. Once the all-clear is given the project continues without further disruptions.

Chapter 4: The radio data cloud over Norway

Once FAT A is passed productions of the COPILOTpc and other hardware components start. In Oslo itself the central infrastructure (wireless LAN, server, etc.) is put in place. On the whole a total of 55 vehicles and three control centers must be fitted by the end of September, when the pilot system is scheduled for initial operation. The traffic at 20 junctions will then be managed by "LISA", the TSP (Traffic Signal Priority) system developed by init that had made quite an impression on the OATS delegation in Halle.

And a new problem needs to be solved: the reliable routing of the data radio transmission between the vehicle and the control center. To save costs, OATS has specified that the entire communication must be possible via the public mobile radio standard, GPRS (General Packet Radio Service). Consequently, the interfaces to the Norwegian mobile radio provider Telenor and the VPN tunnel set up specifically for

this purpose need to work properly. FAT B is scheduled for mid-July 2004, when the GPS location technology and the TSP will be tested along with the data radio communication. The latter still causes somewhat of a headache. Initial tests show that during routing from the vehicle test site in Karlsruhe to Norway and back some of the data seem to get lost in a huge Telenor “radio cloud“ over Norway. “Trouble-shooter“ Günther Weisz is called in. On July 12 – two days prior to FAT B – he finally sends the message everyone is waiting for: “Hello Oslo, we successfully routed your data to Telenor and back.“ FAT B can take place.

The second Factory Acceptance Test then runs without a hitch, and the CAFD/AVL the GPS location technology, and the TSP are accepted by the OATS team, led by Magne Bentzen and Torbjörn Barslett, without complaints. Next on the agenda is the installation of the passenger information system at six stops, which is required for the pilot run in September. To ensure that the system can start on time the init team on location works around the clock.

The last test then comes in Oslo at the end of September. The final, missing hardware and software components are integrated into the pilot system – finishing with the acceptance and installation of the passenger information system with the newly developed PIDstation display. In the days leading up to the official presentation, the team carries out several trial runs. The daily error lists are getting shorter and shorter, until finally they state “Nothing to report“.

Epilog: A satisfied Minister and new orders

The big day finally arrives on October 15, 2004: The Norwegian Transportation Minister, Torild Skogsholm, has been invited by OATS to attend the event and is shown the new telematics system. Project Manager Magne Bentzen beams when everything goes smoothly and the Minister seems impressed by the high technological standard of OATS. OATS benefits not only from the efficiency and service profit realized with the new telematics system, but also from part finansing made available by the government and local authorities.

And for init, the swift, reliable, and punctual realization of the initial project phase also pays off – OATS orders equipment for a further 100 vehicles under the agreed framework agreement.
Oslo – a city of init innovation…

EFADintegral: Electronic ticket printer with on-board computer functions and colour display

“The EFADintegral is the driver’s best friend. It combines all the on-board computer functions with a ticket printer and a cash system in such clear way that the driver can concentrate on his main priority – the traffic.”

> ***Andreas Mörder,***
Ticketing
Mobile Telematic and Fare Collection Systems

Group Status Report

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

init develops, produces, installs, and maintains integrated software and hardware products for the planning, management, and operation of transportation companies. In accordance with this complete value-added chain, init has realized in excess of 300 national and international projects in over 20 years, involving the integration of comprehensive solutions with telematics and fare collection systems for transportation companies in Germany, Europe, and North America.

The init product system is characterized by its modular structure and possibilities for 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 increase their quality in terms of customer orientation, convenience, safety, short travel times, and punctuality. Thus init is making a vital contribution to the continuously growing mobility requirements in business and society.

Business Trend and Situation

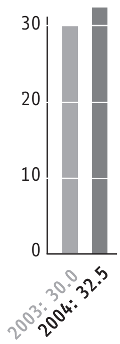
General Business Trend

The recovery of the economic activity hoped for in this specific sector of the local market in Germany again failed to commence in the 2004 fiscal year. This was aggravated by the fact that investments of the public authorities in Germany were cut back even further in view of the persistent financial straits, thus reaching a multi-year low.

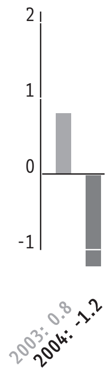
Against our as yet confident expectations for 2004 at the start of the year, this led to a further drop in demand in the German market. A trend reversal did not begin to show until the end of the year. This slight increase in German tenders, however, will not have a positive effect on our business until the middle of 2005 at the earliest.

In view of the persistent weakness of the local market, init reacted by adjusting and rationalizing its internal structures. Thus, our number of staff in Germany, previously built up in anticipation of future growth in 2002/2003, was cut back again to the level of 2001. In addition, we consolidated our sales and development competences in Karlsruhe, resulting in a closure of our branch offices in both Essen and Berlin. As a result of these savings

Revenues
in million €



EBIT
in million €



measures and our strict cost management even at our American subsidiary, INIT Inc., we anticipate a positive effect on our operating result exceeding 2 million Euro in 2005.

Furthermore, we continued to accelerate our sales efforts in both the European and the North American market in order to compensate for the economic slowdown in Germany. In so doing, init was once again successful in major tenders in 2004, leading to a shift in orders now concentrating on international projects.

The further extension of our international business is also reflected in our sales trend. Thus, in 2004, foreign revenues rose to 25.5 million Euro (previous year: 16.4 million Euro), corresponding to 78.6 per cent (previous year: 54.6 per cent) of total sales. In Europe (excluding Germany), sales increased by 26.3 per cent to 10.4 million Euro (previous year: 8.2 million Euro). North American sales improved by 105.4 per cent, from 9.2 million USD to 18.9 million USD.

Thus, over the past four years, our internationalization strategy fared rather well: In Europe, we were able to more than double our sales, while the figure in North America even more than sextupled in the same period.

As mentioned earlier, the slack in investments in the German local public transportation sector had been ongoing for three years and continued throughout 2004, once again leading to a decrease in revenue for init. At 7.0 million Euro (previous year: 13.6 million Euro), sales in this country fell by 48.9 per cent (previous year: decrease of 21.8 per cent) to a new low.

Following the poor first six months, init finally saw a trend reversal in the third quarter and was able to keep up this positive development throughout October to December 2004. Thus, at 15.5 million Euro in the year-end quarter, we were able to turn over around 35 per cent more than in the previous year (Q4 2003: 11.5 million Euro).

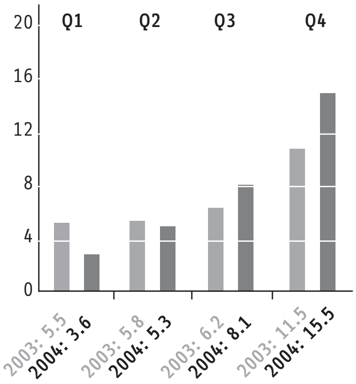
Due to the strong final quarter, init came off better for the year than could have been expected after the poor six-month figures and the subsequent revision of our sales and earnings targets. With a total revenue of 32.5 million Euro, we managed after all to clearly exceed both our annual sales target, which had been revised to 30 million Euro in August, and our prior-year result (30.0 million Euro).

Prolonged run times for the projects previously commenced in Graz (Austria), Upplands (Sweden), Albany (USA), and Champaign-Urbana, Illinios; Rock Island, Illinois; and Lafayette, Indiana (USA) prevented an even more satisfactory trend on the revenue side as did the continued decline in the US dollar price by around 8 per cent in the period under review. While foreign currency positions were largely hedged by forward exchange transactions and options, the exchange rate losses could not be fully passed on to our customers and led to a margin reduction in US business.

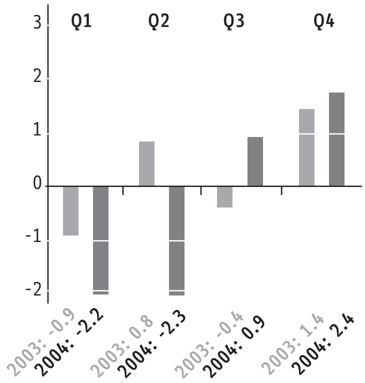
Earnings Position

On the earnings side, the strong final quarter enabled us to substantially curtail the loss of 3.6 million Euro in earnings before interest and taxes (EBIT), which had accrued by September. In addition to the satisfactory sales trend, particularly in international business, the now completed

Revenues Q1-Q4
in million €



EBIT Q1-Q4
in million €



rationalization of our internal structures also had a positive effect on our operating result as at the end of the year. Thus, the upward trend in the EBIT, which had commenced in mid-2004, further advanced in the final quarter and recorded an increase of around 70 per cent as against the comparative prior-year figure (Q4 2003: 1.4 million Euro) to 2.4 million Euro. At -1.2 million Euro, the figure for the whole 2004 fiscal year was better in the end than the loss of 2.0 million Euro forecast in summer.

Valuation-related losses in connection with hedging transactions reduced our operating result by 0.9 million Euro. The result was further burdened by the closure of our branch offices and the reductions in human resources. In addition, the company reports a decline in the margin due to project delays.

The extension of our international business burdened the operating result with an additional 0.4 million Euro in sales cost.

The consolidated net loss for the year totaled 0.7 million Euro (previous year: net profit of 0.4 million Euro). This corresponds to a loss of 0.07 Euro (previous year: earnings of 0.04 Euro) per share.

Order Situation

In 2004, our incoming orders trend was affected on the one hand by new major contracts in both Europe and North America. On the other hand, however, it was marked by a multi-year low in investments due to the restraint of German transportation companies. The 2004 fiscal year had started rather promising though, with incoming orders from Oslo, Vienna, and Schwerin.

Thus, in January 2004, init was commissioned by Wiener Linien with the equipment of 100 vehicles with passenger counting systems, which increased our customer base in Austria. In February, Oslo as yet another European capital decided to introduce an init telematics system. Along with the operations control system, MOBILE-CAD/AVL, and the COPILOTpc on-board computer communicating via GPRS, init is also providing Oslo og Akershus Trafikkservice AS (OATS), a subsidiary of the largest public transportation company in Norway, with passenger information systems and a traffic signal priority system. The current order value amounts to around 3 million Euro, with the option of gradually equipping the entire fleet of around 1,200 vehicles. Around 200 vehicles will be equipped in the first stage, while a follow-up order for the equipment of another 53 vehicles was placed as early as May 2004.

Thereafter, however, the market particularly in Germany was hit by stagnation, with orders repeatedly being postponed or put on hold on account of unsettled financing. This situation did not brighten again until the middle of the year when we received orders from Vancouver (in Washington State, USA) and York (Canada).

In the Canadian district of York init, as a sub-contractor of the Canadian Kiewit-EllisDon-cooperation, installed the entire telematics infra-structure for a new express transportation system. It comprises the computer-aided dispatch and vehicle location system MOBILE-CAD/AVL, the traffic signal priority system LISA, the passenger information system MOBILE-STOPinfo, the automatic passenger counting system MOBILE-APC, and the initial equipment of 77 vehicles with our on-board computer COPILOTpc. The

order volume exceeds 10 million Canadian dollar (approx. 6 million Euro).

In Vancouver, in Washington State, init is currently equipping around 165 vehicles and the control center. This order from the Clark County Transportation Authority (C-TRAN) was placed in mid-2004. Aside from the operations control system MOBILE-CAD/AVL, it includes the passenger counting system MOBILE-APC, the radio interface MOBILE-MRI, and the on-board computer COPILOTsoftkey, while data evaluation will be ensured by our MOBILEstatistics software. This order amounts to around 3.6 million US dollar (approx. 2.6 million Euro).

In Germany, on the other hand, the first medium-sized orders did not come in until the end of the year. Worthy of particular mention here is a follow-up order from the Bremen, Bremerhaven and Oldenburg Verkehrsverbund (Transportation and Tariff Association) with a volume totaling in excess of 1 million Euro. We have been commissioned with extending its accounting system by a “best price system“. Depending on the number of journeys, this means that the passenger is charged the most favorable fare, which is debited to the account at the end of each month. The Bremerhaven system will also be extended by a WLAN connection.

On the whole, the incoming orders in the 2004 fiscal year totaled 24.8 million Euro, thus being significantly below the prior-year level (2003: 36.6 million Euro). It must be borne in mind here though that we had received the biggest order in company history to date (Houston, USA) the previous year and that a number of tender decisions anticipated for 2004 were postponed until 2005.

At 7.9 million Euro (2003: 8.7 million Euro), the inflow of orders in Germany was again disappointing due to the investment restraint in the local public transportation sector, once again falling by 9.2 per cent as compared to the previous year. In the other European countries and in North America, the incoming orders situation also failed to reach the prior year levels, recording 6.0 million Euro (2003: 9.2 million Euro) and 10.9 million Euro (2003: 18.7 million Euro) respectively.

On the whole, init is currently participating in tenders in North America worth more than 68 million US dollars, while the volume in Germany and Western Europe exceeds 46 million Euro.

The orders on hand as at the end of the year totaled 22.7 million Euro, thus being 36.8 per cent below the prior-year level (end of 2003: 35.9 million Euro). The deterioration of the US dollar exchange rate alone reduced our orders on hand by around 1.1 million Euro.

Financial and Earnings Position

As at December 31, 2004, the balance sheet total fell by around 0.6 million Euro as compared to the previous year.

Capital expenditure of 0.4 million Euro (2003: 0.9 million Euro) in the 2004 fiscal year related to replacement investments and rationalization investments.

As at December 31, 2004, the liabilities to credit institutions amounted to 1.3 million Euro (previous year: 1.5 million Euro). The liquid resources including short-term interest-bearing securities totaled 3.4 million Euro (previous year: 4.2 million Euro). On the one hand, this reduction was due to the loss during the fiscal year. On the other hand, outstanding supplier invoices were settled while making use of any discounts available. In addition, the large-scale projects in Houston and Oslo required increased preliminary financing. The available guarantee and credit lines will continue to secure financing for our business activities.

As a consequence of the net loss for the year and the acquisition of our own stock, the shareholders' equity decreased to 16.0 million Euro as at the end of the year (previous year: 17.2 million Euro), thus being 7.1 per cent below the prior-year level. The equity-to-assets ratio stood at 49.6 per cent (previous year: 52.5 per cent).

Acquisitions and Participations

init holds 44 per cent of the shares in id systeme GmbH, Hamburg. The human resources planning software, PERDIS, developed by id systeme is now fully integrated into the init product range, resulting in an increase in the application possibilities of the init software, MOBILE-PLAN. With sales of 1.6 million Euro (previous year: 1.5 million Euro), id systeme GmbH attained an annual net profit of 61,000 Euro (previous year: 17,000 Euro). To improve both sales and earnings, the PERDIS software is also offered to customers in Europe and the USA, where we were able to achieve initial minor successes.

Our other shareholding (43 per cent), iris-GmbH infrared & intelligent sensors, Berlin, was once again able to report a record year. Although its sales figure of 5.0 million Euro did not improve on the previous year (6.0 million Euro), its net earnings from ordinary activities of 0.9 million Euro stood at a clearly higher level than in the previous year (0.5 million Euro).

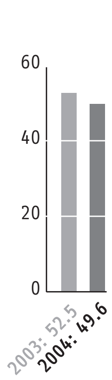
The decisive factor for this continued to be the great demand for passenger counting systems in North America, which have now become a firm component of all init systems installed in America. In Italy and South America, the company pursued the further expansion of its business with single-minded determination. In addition, iris managed to win potential new customers in Latvia, Romania, and Israel. 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.

In October 2004, init AG acquired a 45 per cent share in CarMedialab GmbH, Bruchsal. Within the scope of a development, sales, and marketing cooperation, our joint objective is to develop telematics solutions for the automobile industry. The first prototypes were ready for use as early as 2004 and were tested in pilot vehicles. By mid-2005, we plan to produce a "low-cost telematics unit" that will enable the use of a larger number of telematics solutions in fleet management and in private transportation. Sales of CarMedialab GmbH amounted to 0.1 million Euro, while its net earnings from ordinary activities totaled -43,000 Euro. A balanced result is anticipated as of 2005.

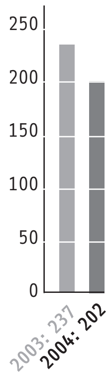
Production

As a turnkey supplier, init develops integrated hardware and software solutions for all key tasks required in transportation companies. Based on the

Equity-to-assets ratio
in %



Employees
total



modular structure of these hardware and software solutions, we were able to satisfy specific customer demands while at the same time taking advantage of the benefits of a platform strategy. One of the crucial prerequisites for this is the development of our own hardware components. Only in this way can we ensure smooth fitting interfaces between the individual components.

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

A systematic modular structure allows the production of a comparably larger quantity of certain types of components. Where possible we always use the same component groups in different end products. This strategy keeps our product manufacturing costs down. We deliberately avoid dependence on individual suppliers. In this way, we are in a position to switch suppliers at relatively short notice should one of its business partners be unavailable. In 2004, the company gained several new suppliers and negotiated new master agreements. A key objective here was and is the build-up of suppliers in the Far East and in the USA to further reduce our production costs and to feed the dollar expenses of contracts based on US dollar with dollar income for the init group, thus reducing the exchange risk relating to the US dollar.

Personnel

Due to the persistent weakness of the German market, init was forced to adjust its workforce to the current market situation. By the end of a year, a total of 31 notices had been given. Not only did this require socially acceptable solutions, we also needed to take into account the technical know-how and qualifications of our staff in process and project management in order to maintain one of the key success factors in handling customer projects. To reduce our staff level, we also took advantage of the natural labor turnover and closed our branch offices in Berlin and Essen.

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

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

As at December 31, 2004, the init group employed a workforce of 202 (previous year: 237) including temporary staff, scientific assistants, and graduate students. Thus, the number of employees decreased by more than 14 per cent. A total of 176 employees held permanent positions (previous year: 209), 13 of whom were employed on a part-time basis. Six 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 companies in the local public transportation sector, init feels particularly committed to protecting the environment. Our products help transportation companies provide a more attractive local public transportation service and to increase their ability to compete against private transportation, thus making a vital contribution to environmental protection by reducing avoidable car journeys. In addition, the init products enable transportation companies to provide a more efficient and thus, more environmentally friendly transportation service.

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

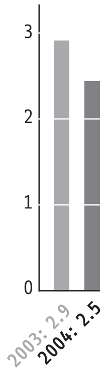
Research and Development

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

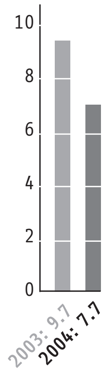
Our software and hardware development teams are currently working on various new products and on the further development of existing ones. Special attention was given to the new development of our dynamic passenger information display, PIDstation, where we used the latest LED technology to ensure a high degree of luminous power while at the same time keeping its power consumption to a minimum. The low level of intrinsic heating increases the life of the light emitting diodes and thus minimizes the maintenance costs. To communicate with the central computer, the PIDstation features numerous interfaces. The modular concept of all our components enables us to adjust the line length and the display height to the requirements of our customers.

Our on-board computer, COPILOTpc, was further developed in 2004 and now provides our customers with the option of two operating elements. In addition to the already successful TOUCHit, init has now developed the cost-effective alternative, PRESSit. Ten numerical keys, which can also be used as soft keys, and four genuine soft keys are available for maximum user-friendliness. A monochrome LC display ensures the clear display of information, while the background lighting of the display automatically adjusts to the surrounding lighting conditions.

Expenditure R&D
in million €



Expenditure R&D
in % of revenues



(not included: recent developments in projects)

The COPILOTsmart is a cost-efficient alternative to our current on-board computer, COPILOTpc. The COPILOTsmart is suitable for projects that do not require Windows XP. The COPILOTsmart integrates the computer unit and the wireless LAN data traffic function, but is extremely compact in size, which makes its much easier and more cost-efficient to install.

The proven and very popular ticket printer with on-board computer functionality, EFADintegral, was radically revised. Its 6.5-inch color display now ensures even greater user-friendliness, while the high resolution of 400 x 234 pixels and the integrated background lighting enable excellent legibility. Information is displayed in a more logical arrangement than before. Init also took into account numerous customer requests and designed the EFADintegral such that the soft key functions are shown on the display in a context-sensitive manner. A maximum of eight keys can now be assigned.

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

Since transportation companies are legally required to offer a Paratransit service, we can see a highly lucrative market for this product here. The demand for integrated solutions that have rarely been offered before is particularly great. Here, too, init managed a breakthrough and now provides customers with a test version on CD-ROM that they can easily install on their computer. The software can be used free for 40 days, giving the customer plenty of time to test the product. If the software is then bought, the system is activated via a code. Any data already entered is preserved.

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“

On the whole, init spent 2.5 million Euro (previous year: 2.9 million Euro) on the development of new products, corresponding to 7.7 per cent (previous year: 9.7 per cent) of sales. In addition, the group effected customer-funded new and further developments within the scope of large-scale projects aggregating at least the same amount again.

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

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

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

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

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

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

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

Additional programming, software updates, and new program versions of the ERP system all involve risks.

Despite training measures and integration tests, we may be faced with operating errors, incorrect system settings and software faults that can lead to a loss of data or to incorrect information.

Contracts concluded in foreign currency involve exchange risks that can affect both sales and purchase prices, and with it, the result. init meets these exchange risks by way of 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.

Prospects

On account of the noticeable economic upturn in Germany, the continuing positive trend in international business, and our cost savings, we are confident that we will be able to achieve an increase in both sales and earnings in the 2005 fiscal year. Due to the recent contracts and the growing influx of orders over the next few months, we should be able to further improve sales.

The successes and references obtained specifically in North America form an ideal foundation for further growth. A continuing weak US dollar price, however, could have a negative impact on our earnings. Nonetheless, we expect perceptibly positive results for 2005.

Karlsruhe, March 7, 2005

The Managing Board

Dr. Gottfried Greschner

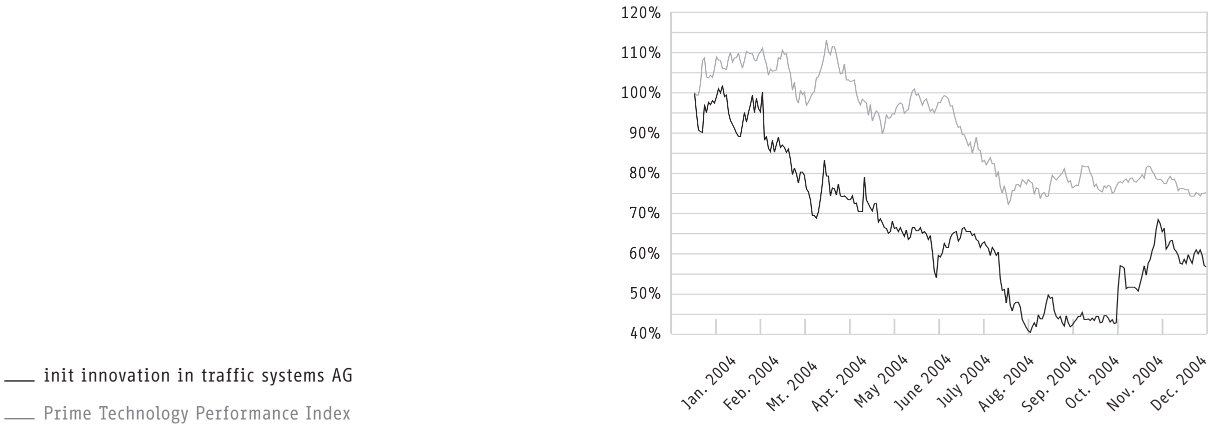
Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

Performance



The init Share

Confidence regained – focus on further price rally

In 2004, the share price of init innovation in traffic systems AG moved in line with the business development. Following an initially positive start, mid-February saw a decline in the price that – interrupted only by brief periods of recovery – continued until the middle of the year.

When the preliminary annual projections then had to be revised at the beginning of August, the init share initially recorded a new all-time low of 2.09 Euro in a generally weak market environment. In the following months, the confidence of our investors could be regained due to positive news and specifically, the turnaround in the earnings trend in the third quarter.

Thereafter, the init share enjoyed an increase in demand and even managed to reach the 3.60 Euro mark at the end of November. This was followed by profit takings of short-term investors until the end of the year. As at the end of December, the init share finally stood at 2.96 Euro. Thus, over the whole year, this translates into a decline in the share price of 38.6 per cent. However, investors who had used the low price level in August to get on board, were also able to generate a profit of over 41 per cent with the init share.

Against the background of the continuing sustained growth trend in the telematics market for transportation companies and the excellent positioning of init in international competition, analysts currently rate the prospects of the init share more favorably again. Recently, the share has been a recommended buy on numerous occasions, while the upside targets were raised substantially above the level achieved as at the end of 2004.

Possibility of acquiring treasury stock utilized

Based on the resolution passed at the shareholders' meeting on May 13, 2004, the authorization to repurchase treasury stock pursuant to Section 71 para. 1 clause 8 of the German Stock Corporation Law was renewed. Accordingly, the company can repurchase a maximum of 1,004,000 init shares or 10 per cent of the capital stock by October 31, 2005. Any stock already held by the company will be charged to the quota. Pursuant to the resolution, these shares may be used to acquire participation in business enterprises.

The Managing Board repeatedly made use of the possibility of repurchasing its own stock to ensure the flexibility of the company in the acquisition of enterprises or division or of participations or, where necessary, in opening up further sectors of the capital market. Taking advantage of the price fluctuations in 2004, init purchased a total of 94,828 shares at an average price of 2.74 Euro. Thus, as at the end of December 2004, init held a total of 237,000 of its own stock.

“As a passenger, who hasn’t been annoyed with the complicated way of buying tickets on buses and trains. With the TOUCHmobil, this is a thing of the past. Convenient, quick, and uncomplicated, this ticketing solution allows you to purchase your ticket with cash or by smart card. In Bremen, it’s even electronically and automatically at the best price.”

> ***Mario Baumgärtner,***
Background
Mobile Telematic and Fare Collection Systems

TOUCHmobil: Mobile fare system with touch screen

Company calendar 2005

March 30, 2005	Balance sheet press conference and Analysts' conference, Frankfurt/Main
March 30, 2005	Disclosure of Annual Report 2004
May 11, 2005	General Meeting, Karlsruhe
CW 19/2005	Disclosure of quartely report
CW 33/2005	Disclosure of half-yearly report
CW 44/2005	Disclosure of nine-month report

Declaration of Conformity with regard to the German Corporate Governance Code

With a resolution dated December 21, 2004, 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) and the Supervisory Board (Code Section 5.4.5) 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 2004
init innovation in traffic system AG

The Managing Board
The Supervisory Board

Your investor relations contact

init
innovation in traffic systems AG
Alexandra Weiß Tel. +49.721.6100.102
Käppelestraße 6 Fax +49.721.6100.399
D-76131 Karlsruhe ir@initag.de

rw konzept GmbH
Agentur für Unternehmenskommunikation
Sebastian Brunner Tel. +49.89.139.596.33
Ysenburgstraße 7 Fax +49.89.139.596.34
D-80634 Munich brunner@rw-konzept.de

Consolidated Balance Sheet at December 31, 2004

(US-GAAP)

Assets	Appendix No.	31.12.2004 T€	31.12.2003 T€
Current assets			
Cash and cash equivalents	3. 4	1,894	2,261
Marketable securities	3. 4	1,466	1,980
Trade accounts receivable, net	3. 4	14,519	12,111
Accounts receivable from related parties		81	47
Inventories	3. 4	2,931	2,948
Deferred tax assets	3. 7	604	689
Prepaid expenses and other current assets	4	849	2,263
Current assets, total		**22,344**	**22,299**
Non-current assets			
Tangible fixed assets, net	3. 4	1,039	1,466
Internally generated software and other intangible assets, net	3. 4	4,738	5,736
Goodwill, net	3. 4	1,877	1,877
Financial investments	4	1,537	943
Loans		68	68
Deferred tax assets	3. 7	42	61
Other assets		567	333
Non-current assets, total		**9,868**	**10,484**
Assets, total		**32,212**	**32,783**

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

Liabilities and shareholders' equity	Appendix No.	31.12.2004 T€	31.12.2003 T€
Current liabilities			
Short-term debt and current portion of long-term debt		1,299	1,547
Dormant partners' capital	4	50	50
Trade accounts payable		4,356	4,264
Accounts payable due to related parties and persons	10	717	2
Advance payments received		2,281	2,021
Accrued expenses	4	1,927	945
Deferred tax liabilities	3. 7	860	1,419
Other current liabilities	4	2,184	2,418
Current liabilities, total		**13,674**	**12,666**
Non-current liabilities			
Deferred tax liabilities	3. 7	1,164	1,571
Dormant partners' capital	4	350	400
Pensions accrued and similar obligations	4	1,019	945
Long-term debt after deduction of current portion		26	0
Non-current liabilities, total		**2,559**	**2,916**
Shareholders' equity			
Subscribed capital (shares without nominal value) Allowed: 3,960,000 shares	1. 6	10,040	10,040
Issued and floating: 10,040,000 (previous year 10,040,000) shares			
Additional paid-in capital	1	3,141	3,141
Treasury stock	6	-810	-561
Consolidated unappropriated profit		4,238	4,952
Other comprehensive income		-630	-371
Shareholders' equity, total		**15,979**	**17,201**
Liabilities and shareholders' equity, total		**32,212**	**32,783**

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

Consolidated Statement of Operations from January 1, 2004 to December 31, 2004

(US-GAAP)

	Appendix No.	01.01.2004-31.12.2004 T€	01.01.2003-31.12.2003 T€
Revenues	3, 11	32,511	30,012
Cost of revenues		-26,459	-22,353
Gross profit/loss		**6,052**	**7,659**
Sales and marketing expenses		-4,205	-3,833
General administrative expenses		-1,934	-2,408
Research and development expenses	3, 5	-1,290	-1,521
Other operating income and expenses		315	217
Foreign currency gains/losses	5	-574	346
Operating loss/profit		**-1,636**	**460**
Interest income and expenses		-96	1
Income from investments accounted for by the equity method	4	244	208
Other income/expenses		165	102
Profit/loss before income tax		**-1,323**	**771**
Income tax	3, 7	615	-240
Other taxes	7	-6	-127
Net loss/net profit		**-714**	**404**
Net loss/net profit and diluted net loss/net profit per share in €	12	-0,07	0,04

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

Cash Flow Statement for the Consolidated Financial Statements at December 31, 2004
(US-GAAP)

	01.01.2004- 31.12.2004 T€	01.01.2003- 31.12.2003 T€
Cash flow from operating activities:		
Net income	-714	404
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	3,161	2,078
Depreciation and amortization of fixed-interest securities	0	43
Losses on the disposal of fixed assets	36	7
Profit from the sale of securities	-1	-74
Decrease (-)/Increase (+) of accruals	1,056	-286
Change in inventories, trade accounts receivable and other assets, not provided by/used in investing or financing activities	-1,245	-532
Change in trade accounts payable and other liabilities, not provided by/used in investing or financing activities	859	-565
Other non-cash income	-244	-132
Change in deferred taxes	-862	274
Net cash provided by operating activities	**2,046**	**1,217**
Cash flow from investment activities:		
Proceeds from sales of tangible fixed assets	6	74
Investments in tangible fixed assets and other intangible assets	-538	-1,381
Investments in software development	-1,255	-1,442
Investments in financial assets	-350	0
Inflows from the sale of fixed interest-bearing securities as part of short-term cash management	1,000	1,574
Investments in fixed interest-bearing securities as part of short-term cash management	-504	0
Net cash used in investment activities	**-1,641**	**-1,175**
Cash flow from financing activities:		
Cash payments for the purchase of treasury stock	-249	-342
Cash payments for dormant partners' capital	-50	-61
Proceeds from borrowing (+) / redemption of loans (-)	-248	854
Other adjustments made directly to shareholders' equity	-177	43
Net cash provided by financing activities	**-724**	**494**
Net effect of currency translation in liquid assets	-48	-173
Decrease/Increase in cash and cash equivalents	**-367**	**363**
Cash and cash equivalents at the beginning of the period	2,261	1,898
Cash and cash equivalents at the end of the period	**1,894**	**2,261**

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

Consolidated Statements of Changes in Shareholders' Equity

(US-GAAP)

	Ordinary shares	Subscribed capital	Additional paid-in capital	Consolidated unapprop-riated profit
	Number	T€	T€	T€
Status at January 1, 2003	**10,040,000**	**10,040**	**3,141**	**4,548**
1. Purchase of treasury stock in 2003				
2. Consolidated unappropriated profit 2003				404
3. Adjustment item for currency translation after release of T€ 0 in tax				
4. Difference from pension valuation after release of T€ 36 in tax				
5. Change in value of the marketable securities (available for sale) after release of T€ 17 in tax				
Status at December 31, 2003	**10,040,000**	**10,040**	**3,141**	**4,952**
1. Purchase of treasury stock in 2004				
2. Consolidated net loss 2004				-714
3. Adjustment item for currency translation after deduction of T€ 0 in tax				
4. Difference from pension valuation after deduction of T€ 18 in tax				
5. Change in value of the marketable securities (available for sale) after release of T€ 7 in tax				
Status at December 31, 2004	**10,040,000**	**10,040**	**3,141**	**4,238**

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

Other adjustments made directly to shareholders' equity				
Difference from pension valuation	Difference from currency translation	Stock market valuation of securities	Treasury stock at purchase cost	Total
T€	T€	T€	T€	T€
-38	**-169**	**38**	**-219**	**17,341**
			-342	-342
				404
	-118			-118
-57				-57
		-27		-27
-95	**-287**	**11**	**-561**	**17,201**
			-249	-249
				-714
	-275			-275
28				28
		-12		-12
-67	**-562**	**-1**	**-810**	**15,979**

Statement of Consolidated non-current Assets at December 31, 2004

(US-GAAP)

	Historical and manufacturing costs					
	01.01.2004	Repostings	Additions	Disposals	Currency differences	31.12.2004
	T€	T€	T€	T€	T€	T€
I. Tangible fixed assets						
1. Property and plant	167	0	0	0	-4	163
2. Technical installations and machines	157	0	1	0	-14	144
3. Other installations, factory and office equipment	6,211	-103	430	2,111	-32	4,395
	6,535	**-103**	**431**	**2,111**	**-50**	**4,702**
II. Intangible assets						
1. Licenses	1,357	103	107	10	-20	1,537
2. Internally generated software	7,330	0	1,255	1,287	-52	7,246
	8,687	**103**	**1,362**	**1,297**	**-72**	**8,783**
III. Goodwill	**1,913**		**0**	**0**	**0**	**1,913**
IV. Investments						
1. Investments accounted for by the equity method	**943**	**0**	**594**	**0**	**0**	**1,537**
V. Notes receivable/loans						
1. Loans to investments accounted for by the equity method	**68**	**0**	**0**	**0**	**0**	**68**
Total	**18,146**	**0**	**2,387**	**3,408**	**-122**	**17,003**

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

Accumulated amortizations/depreciations 31.12.2004	Book values			Amortizations/ depreciations 2004
	Currency differences	31.12.2004	31.12.2003	
T€	T€	T€	T€	T€
130	4	37	60	23
88	7	63	95	26
3,474	18	939	1,311	685
3,692	**29**	**1,039**	**1,466**	**734**
806	9	740	846	295
3,285	37	3,998	4,890	2,132
4,091	**46**	**4,738**	**5,736**	**2,427**
36	**0**	**1,877**	**1,877**	**0**
0	**0**	**1,537**	**943**	**0**
0	**0**	**68**	**68**	**0**
7,819	**75**	**9,259**	**10,090**	**3,161**

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 1980’s, 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 is an internationally operating system supplier of transportation telematics (telecommunications and information technology, globally also called Intelligent Transportation Systems – ITS). The business operations are subdivided into the divisions Telematics Software and Services, and Mobile Telematics and Fare Collection Systems. One of the crucial links between these two divisions is mobile radio data transmission.

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.”), and init telematik gmbh, Karlsruhe, all of which are fully owned by init AG. init telematik gmbh is a shell company and is not currently involved in operations.

Associated companies:
init AG holds 44% of the shares in id systeme GmbH, Hamburg, and 45% in CarMedialab GmbH, Bruchsal. INIT GmbH holds 43% of the shares in iris - GmbH infrared & intelligent sensors, Berlin. The shareholdings 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 line with the US-GAAP. Where required, any financial statements prepared in accordance with national accounting regulations are adjusted accordingly.

Any material inter-company clearing accounts and business transactions were eliminated upon consolidation. The fiscal year of the companies included ends 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 cut-off date, and the statement of income and expenditure during the period under review. The actual amounts may deviate from these estimates.

Realization 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 cut-off date is determined by the ratio of costs accrued to the total costs ("cost-to-cost" method).

Upon transfer of the risk and property to the customer, revenues from product sales are realized 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 realized until the installation has been completed.

Research and development expenses

Research and development expenses are entered as expenses as incurred. In 2004, these amounted to T€ 1,290 , compared with T€ 1,521 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 either from (a) the ratio of the current gross revenues of a product to the total of the entire current revenues and the estimated future gross revenues for this product; or (b) from the straight-line depreciation over a maximum period of five years. The depreciation and amortization of the assets commences at the time of sale to the customer. The software expenses capitalized during the fiscal year amounted to T€ 1,255 in 2004, as compared to T€ 1,442 in 2003. The corresponding depreciation and amortization totalled T€ 2,132 in 2004 and T€ 1,144 in 2003.

Advertising costs

Advertising costs are entered as expenses as incurred. The total advertising costs in 2004 amounted to T€ 479, compared with T€ 555 in the previous year.

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-settlement of these amounts. In the past, the company did not have to accept any material losses that were caused by individual customers or customer groups.

In the 2004 fiscal year, 54.9% of the consolidated revenue was attained by way of 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 their 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€ -851 (2003: T€ 236) from market value changes in forward exchange transactions affecting net income prior to the allowance for deferred taxes. In comparison, in the realization 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 positive 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 recorded where necessary.

Tangible fixed assets

Tangible fixed assets are valued at purchase cost less scheduled depreciation. The depreciations follow 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 in a straight-line method over the asset depreciation period of three to ten years. The purchase costs for the new “Axapta” ERP system are depreciated over 5 years.

Impairment of value of durable and intangible assets

Durable and intangible assets including goodwill are checked for impairment of value if events or changes have occurred which suggest that the net book value of an assets can no longer be realized (impairment test). Where the facts and circumstances indicate that an impairment of value has occurred, the net book values of the assets are compared with their prospective future income. If necessary, they are depreciated 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, depreciated to the lower of cost or market value. According to SFAS 142, a scheduled 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 cut-off 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 profit in the year in which the differences are expected to be settled. 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 are calculated by dividing the consolidated annual net profit by the weighted number of shares outstanding. Since init AG did not issue any stock options as at the cut-off dates, the diluted earnings per share could not be calculated.

Updated accounting standards

In compliance with Section 4 of Directive (EC) No. 1606/2002 of the European Parliament and the Council of July 19, 2002 concerning the application of international accounting standards, init AG is obliged from the 2005 fiscal year to prepare consolidated financial statements according to the International Financial Reporting Standards (IFRS).

Init does not foresee the application of these standards in place of the US-GAAP to have any major effect on the consolidated financial statements.

4. Additional notes to the consolidated balance sheet

Cash and cash equivalents

This item in the amount of T€ 1,894 (previous year: T€ 2,261) predominantly includes deposits with credit institutions.

Securities

This item refers to fixed-interest bearing securities with a total current market value of T€ 1,466 (previous year: T€ 1,980). The unrealized loss from securities as of December 31, 2004 amounted to T€ 2 (previous year: unrealized profit of T€ 19) and was reported under “Other adjustments made directly to shareholders' equity”, following the deduction of deferred taxes. The sale of fixed-interest bearing securities to the amount of T€ 1,000 (previous year: T€ 1,500) resulted in profits worth T€ 1 (previous year: T€ 74), which are included in “Other income and expenditure” in the consolidated statement of operations.

Trade accounts receivable

	December 31, 2004	December 31, 2003
	T€	T€
Trade accounts receivable, gross	6,780	7,768
less cumulative value adjustments	-241	-104
	6,539	**7,664**
Debts from long-term contracts not yet invoiced (T€ 13,523, previous year: T€ 10,216) less advances received (T€ 5,543, previous year: T€ 5,769)	7,980	4,447
	14,519	**12,111**

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

Inventories

	December 31, 2004	December 31, 2003
	T€	T€
Goods	2,892	2,749
Work in progress	392	0
Deposits received	-392	0
Deposits paid	39	199
	2,931	**2,948**

Prepaid expenses and other current assets

	December 31, 2004	December 31, 2003
	T€	T€
Tax refund claims	390	387
Derivative financial instruments	156	941
Prepaid expenses	150	187
Due from personnel	37	30
Cash in transit	0	400
Distributions from investments reported using the equity method	0	77
Interest receivables on securities	27	72
Other	89	169
	849	**2,263**

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 are the expenses capitalized in accordance with SFAS 86 for the development of computer software worth T€ 3,998 (previous year: T€ 4,890) for the products MOBILE-PLAN, JANET, COPILOTpower, APC, MOBILEvario, PARAnet, COPILOTpc, PIDmobil, PIDstation, AUTOMOTIVE, and NAVIGATION. The interest capitalized in 2004 amounted to T€ 73 (previous year: T€ 47), while the amortization of the amounts capitalized totaled T€ 2,132 (previous year: T€ 1,144). The capitalized software costs for two products required an unscheduled amortization as at December 31, 2004. The unscheduled amortizations totaling T€ 921 (of which

T€ 772 in the Telematics Software und Services division and T€ 149 in the Mobile Telematics and Fare Collection Systeme division) are included in the consolidated statement of operations under “Cost of revenues”.

According to SOP 98-1, this also includes external software costs such as licences, consulting and programming, and the internal costs for the programming, implementation and installation of third-party software to the amount of T€ 640 (previous year: T€ 779). The interest capitalized in 2004 amounted to T€ 0 (previous year: T€ 8), while the amortization of the amounts capitalized totalled T€ 172 (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€ 1,834 (previous year: T€ 1,284). The object of iris GmbH is the development, production and sale of sensors, and sensor- and information-processing systems. In 2004, the proportionate result from this equity consolidation amounted to T€ 237 (previous year: T€ 167).

Also consolidated at equity was the 44% share acquired in id systeme GmbH, Hamburg, in the 2002 fiscal year. This company’s equity as of December 31, 2004 amounted to T€ 270 (previous year: T€ 215). The object of this company is the production, further development and maintenance of EDP programs, the sale of its own and third-party EDP programs, and the provision of accompanying services. The goodwill included in the purchase price amounted to T€ 267. The result from the equity consolidation in 2004 totalled T€ 27 (previous year: T€ -35).

In October 2004, init AG bought an interest of 45% in CarMedialab. The object of this company is the development, implementation, and production of software and hardware components in the telematics, teleservice, and mobile applications fields. The shareholders’ equity of the company as of December 31, 2004 amounted to T€ 418. The goodwill included in the share purchase price totaled T€ 143. The company was included in the consolidated financial statements at equity, its proportionate result for 2004 amounting to T€ -20.

Goodwill

	December 31, 2004 T€	December 31, 2003 T€
INIT GmbH	1,683	1,683
Krupp GfT	144	144
INIT Inc.	50	50
	1,877	**1,877**

Short-term accrued liabilities

	December 31, 2004 T€	December 31, 2003 T€
Warranties	1,104	723
Deficient production costs	722	155
Other	101	67
	1,927	**945**

Other current liabilities

	December 31, 2004 T€	December 31, 2003 T€
Tax liabilities	908	632
Due to personnel	481	826
Derivative financial instruments	244	232
Social security liabilities	207	240
Remaining work	85	58
Other	259	430
	2,184	**2,418**

Capital of dormant partners

This item relates to the undisclosed investment of Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart (MBG), in INIT GmbH. MBG receives a fixed annual remuneration of 8% and a profit-linked remuneration of 50% p.a. of the profits of INIT GmbH, up to a maximum of 1.75% of the investment. This investment 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 an old-age pension after attaining the age that entitles them to a pension under the statutory annuity insurance, the earliest legal age for retirement being 63. The following parameters were taken into consideration: interest rate of calculation of 5.25% (previous year: 5.5%), retirement age of 63 years; salary increases are irrelevant to pension commitments; pension adjustments of 4%; fluctuation deduction of 5%; biometric bases: see Klaus Heubeck's "Richttafeln" (Actuarial Tables) of 1998.

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

The company’s pension accruals as at the cut-off dates developed as follows:

	December 31, 2004	December 31, 2003
	T€	T€
Pension accruals at the beginning of the year under review (Projected Benefit Obligation - PBO)	945	752
Service cost: present value of the rights acquired during the year	65	56
Interest cost on projected pension liabilities	52	45
Actuarial losses	3	0
Adjustment of additional minimum liability	-46	92
Pension payments	0	0
Pension accruals (PBO)	**1,019**	**945**

At init, 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, 2004, the additional minimum liability amounted to T€ 109 (previous year: T€ 155). After taking into account the deferred taxes, this amount was entered in the Other adjustments made directly to shareholders’ equity.

The net periodic pension costs (NPPC) comprise as follows:

	2004	2003
	T€	T€
Service cost: present value of the rights acquired during the year	65	56
Interest cost on projected pension liabilities	52	45
Actuarial losses	3	0
Net periodic pension costs (NPPC)	**120**	**101**

The pension payments between 2005 and 2009 are expected to amount to T€ 0, from 2010 to 2014, to T€ 125 in total.

5. Additional notes to the consolidated statement of operations

Research and development expenses

	2004	2003
	T€	T€
Software development	1,875	2,448
less capitalized software development expenses acc. to FAS 86	-1,182	-1,395
Hardware development	598	456
Research expenses	78	114
less state grants and allowances received	-79	-102
	1,290	**1,521**

Foreign currency gains and losses

	2004	2003
	T€	T€
Unrealized currency gains/losses from derivative financial instruments	-897	45
Balance of realized currency gains and losses	641	538
Currency losses from consolidation transactions	-318	-237
	-574	**346**

6. Equity

For the development of the company's equity, please see the Appendix "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 to 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 aim is to balance peak amounts, to open up additional capital markets, to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind, and to turn up to 250,000 new shares into employee stocks.

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

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

Treasury stock

Based on the resolution passed at the annual shareholders' meeting on May 15, 2003, replaced by the resolution of May 13, 2004, the company is authorized to purchase treasury stock. On December 23, 2003, the Managing Board decided on a stock repurchase of up to 60,000 shares. A further stock repurchase was decided on August 26, 2004, to the amount of 60,000 shares. In 2004, the company acquired 94,828 (previous year: 111,000) shares at an average price of € 2.74 per share (previous year: € 3.48). The company's treasury stock was valued at cost at T€ 810 (previous year: T€ 561) and openly deducted from the equity capital. Of the current treasury stock of 237,000 shares with an imputed share of € 237,000 (2.4%) in the capital stock, 3,474 resulted from the capital increase and 233,526 from the company's stock repurchasing program. The shares were repurchased at an average price of € 3.41 per share. The treasury stock was repurchased for use as consideration within the scope of mergers and to acquire other companies or parts of companies or participations, or, where required, for the opening up of additional capital markets.

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	140,000	Fariborz Khavand	0
Dr. Jürgen Greschner, CSO	107,364		
Bernhard Smolka, CFO	9,600		

7. Taxes

Other taxes

The other taxes resulted from a subsequent payment of sales tax for the fiscal years 1999 and 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:

	2004	2003
	T€	T€
Expected income / expenditure from corporation and business income tax at a rate of 38.9%	512	-251
Difference due to foreign taxes, differences resulting from the at-equity valuation and differences resulting from German tax and accounting principles	103	11
Tax income (+) / expenditure (-)	**615**	**-240**

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

	December 31, 2004	December 31, 2003
	T€	T€
Deferred tax assets, short-term:		
Loss carried forward	345	620
Timing differences acc. to US tax law at Init Inc.	131	44
Accrued liabilities	110	0
Consolidation transactions	7	8
Valuation of derivatives	2	17
	604	**689**
Deferred tax assets, long-term:		
Revaluation of pension accruals	42	61
Deferred tax liabilities, short-term:		
Capitalized software	402	414
Application of POC method	234	582
Timing differences acc. to US tax law at Init Inc.	69	37
Loss-free valuation	65	0
Revaluation of the treasury stock	40	0
Valuation of derivatives	20	366
Low-value fixed assets	19	12
Consolidation transactions	10	0
Revaluation of securities	1	8
	860	**1,419**
Deferred tax liabilities, long-term:		
Capitalized software	1,075	1,416
Revaluation of pension accruals	58	109
Low-value fixed assets	17	36
Revaluation of goodwill	14	10
	1,164	**1,571**

According to German tax regulations, the existing tax loss carry-forwards of init AG can be carried forward without limit. Profits of up to € 1 million can be offset fully, any amount above that, at 60%. Due to the net profit for the 2004 fiscal year, part of the existing losses carried forward were appropriated. The company anticipates appropriating the remaining loss carry-forwards of init AG (corporation income tax of T€ 830 and business tax of T€ 1,011) in 2005. 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 to the amount of T€ 129 (previous year: T€ 352). The future minimum payments under these agreements extend to the year 2007 and amount to T€ 93 (2005), T€ 34 (2006), and T€ 2 (2007).

The annual rental commitments of the init group totalled T€ 637, T€ 367 of which was attributable to the renting of the office building in Karlsruhe (the lease running until 2011).

As in the previous year, there were no contingent liabilities as at December 31, 2004.

Legal disputes

Within the scope of its business activities, the company is presently involved in five 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 are included in the operating cash flow:

	2004 T€	2003 T€
Interest payments	263	219
Income tax payments	20	108
Income tax receipts	-147	-23
	136	**304**

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. The accounts payable to affiliated companies to the amount of T€ 717 include trade accounts payable to iris-GmbH of T€ 457 and T€ 260 from the obligation to make an inpayment to the capital reserves of CarMedialab GmbH.

11. Divisions and foreign business operations

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

	2004 T€	2003 T€
Revenues		
Mobile Telematics and Fare Collection Systems	20,761	20,033
Telematics Software and Services	11,750	9,979
Group total	**32,511**	**30,012**
Operating profit/loss		
Mobile Telematics and Fare Collection Systems	-354	1,435
Telematics Software and Services	-1,282	-975
Group total	**-1,636**	**460**
Amortization		
Mobile Telematics and Fare Collection Systems	986	623
Telematics Software and Services	2,175	1,455
Group total	**3,161**	**2,078**
Long-lived tangible fixed assets		
Mobile Telematics and Fare Collection Systems	599	784
Telematics Software and Services	440	682
Group total	**1,039**	**1,466**
Investments in tangible fixed assets		
Mobile Telematics and Fare Collection Systems	247	483
Telematics Software and Services	184	387
Group total	**431**	**870**

Geographical information

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

	2004 T€	2003 T€
Revenues		
Germany	6,973	13,633
Rest of Europe	10,351	8,194
North America	15,187	8,185
Group total	**32,511**	**30,012**
Long-lived tangible fixed assets		
Germany	797	1,078
USA	242	388
Group total	**1,039**	**1,466**

12. Earnings / loss per share

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

	2004	2003
Numerator		
Annual net loss (-) / net profit (+) in T€	-714	404
Denominator		
Weighted average of ordinary shares outstanding	9,870,706	9,927,026
Net loss / earnings and diluted net earnings per share in €	-0.07	0.04

13. Explanations 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 its 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 realized upon complete performance of the services. The US-GAAP, on the other hand, stipulates that revenues and profits are realized 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. The US-GAAP provide 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. The US-GAAP merely require an annual review of the value and a non-scheduled – not a scheduled – depreciation 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 cut-off date must not be recorded. According to US-GAAP, the conversion is always performed at the exchange rate in effect on the cut-off 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

The US-GAAP require deferred taxes to be determined on valuation variances between the amount of assets reported and the liabilities in the tax balance sheet and the consolidated financial statements, based on the statutory tax rate anticipated at the end of the period under review and the anticipated tax rate at the time of conversion. The US-GAAP stipulates that deferred taxes are also recognized for tax loss carry-forwards, where the company has such loss carry-forwards. If the expected future earnings of a company make it more likely than not that the future tax benefits will not be realized, adequate valuation allowances are established. The decisive factor here is the assessment of the probability that these items are actually realizable in the future.

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, 2004	December 31, 2003
Employees in Germany	149	177
Employees in the USA	27	32
	176	**209**

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, Karlsruhe	Master’s degree in economics
Bernhard Smolka, Stutensee	Master’s degree in economics

Supervisory Board
The members of the Supervisory Board of init AG:

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

Particulars of board member salaries
In their capacity as executives, the members of the Managing Board of init AG received compensation to the amount of T€ 144 (2003: T€ 182), and in their capacity as Managing Directors or departmental heads of INIT GmbH included in the consolidated financial statements, to the amount of T€ 771 (2003: T€ 746), thus totalling T€ 915 (2003: T€ 928) in the 2004 fiscal year. This total includes fixed salaries of T€ 915 (2003: T€ 747) and variable remuneration in the form of management bonuses of T€ 0 (2003: T€ 181).

The total remuneration of the Supervisory Board members for the period from January 1, 2004 to December 31, 2004 amounted to T€ 24 (2003: T€ 24), not including a variable share. In the 2004 fiscal year, the members of the Supervisory Board of the init group received T€ 5 (2003: T€ 0) for consulting services.

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 21, 2004, and was made available to the shareholders.

Karlsruhe, March 7, 2005

The Managing Board

Dr. Gottfried Greschner   Joachim Becker   Wolfgang Degen

Dr. Jürgen Greschner   Bernhard Smolka

COPILOTsmart: On-board computer based with high functionality and low price

"The COPILOTsmart is our latest on-board computer model for the cool, calculating person. Smart here is not only its capacity and efficiency, but predominantly also its price."
> ***Bernd Gorenflo,***
Controlling

Independent Auditors' Report

We have audited the accompanying consolidated balance sheet of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, (Germany) as of December 31, 2004 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, 2004 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, 2004 to December 31, 2004 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 9, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Matner	Reiter
(German Public Auditor)	(German Public Auditor)

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Status report as at December 31, 2004

Abstract

init innovation in traffic systems Aktiengesellschaft, Karlsruhe (init AG) is the umbrella company of the init group and as such is not engaged in any operating activities. init AG is responsible for the administration of the operating companies in the group, for strategic planning and for risk management. The areas of accounting, controlling, 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 to the amount of T€ 2,018 (previous year: T€ 1,775), predominantly through its services for INIT GmbH. It realized an annual net profit of T€ 324 (previous year: T€ 326).

The liquid funds including securities (without treasury stock) of init AG totaled T€ 1,808 (previous year: T€ 2.219). The decrease in liquid funds as against the previous fiscal year was due to an allocation to the capital stock of INIT Innovations in Transportation, Inc., Chesapeake, Virginia/USA (INIT Inc.), and the acquisition of init telematik gmbh, Karlsruhe.

The amount reported for the shares in affiliated companies increased from T€ 14,980 to T€ 15,525. Due to the 45% participation in CarMedialab GmbH, Bruchsal, the investments in associates rose from T€ 381 to T€ 731.

In the 2004 fiscal year, the company decided on a stock repurchase of up to 60,000 shares. Thus, with the excess of 50,000 shares for purchase from the previous year, init AG had repurchased 94,828 shares as at December 31, 2004, so that the treasury stock now amounts to 235,000 shares. The value of the stock as at December 31, 2004 totaled T€ 698 (previous year: T€ 541).

Prospects 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 through the 2005 fiscal year. Consequently, without taking into account the profit and loss transfer of INIT GmbH, the company can again anticipate a positive result for 2005.

Due to the planned savings measures for the 2005 fiscal year and the economic upturn in the German market, the result of the operating subsidiary, INIT GmbH, for the 2005 fiscal year is expected to be positive.

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 middle of 2005. Irrespective of this, we presume that the incoming orders in the other European countries and in North America will continue at their current high level. The market growth could be impaired by the delay or cancellation of investment projects in the public sector. Contracts in foreign currency involve exchange risks. Init meets these exchange risks by hedging its receipts of payment with forward exchange transactions and options. Since init also tries to keep its options open here, it may incur losses.

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

Concluding statement concerning the dependent company report

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

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

Karlsruhe, March 7, 2005

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Balance sheet at December 31, 2004

Assets	Appendix Item No.	€	31.12.2004 €	31.12.2003 T€
A. Fixed assets				
I. Financial assets	III. 1			
1. Shares in affiliated companies		15,524,827,58		14,980
2. Investments in associates		731,468,10	16,256,295,68	381
B. Current assets				
I. Accounts receivable and other assets	III. 2			
1. Trade accounts receivable		0.00		1
2. Accounts receivable from affiliated companies		107,214.21		508
3. Accounts receivable from investments and participations		580,00		0
4. Other current assets		452,833.61	560,627.82	345
II. Marketable securities				
1. Treasury Stock		697,950.00		541
2. Other marketable securities		1,464,155.00	2,162,105.00	1,960
III. Bank assets			343,431.52	259
C. Prepaid expenses			46,108.00	84
			19,368,568.02	**19,059**

Liabilities	Appendix Item No.	€	31.12.2004 €	31.12.2003 T€
A. Shareholders' equity	III. 3			
I. Subscribed capital		10,040,000.00		10,040
II. Additional paid-in capital		9,621,874.98		9,622
III. Unappropriated income				
Provisions for treasury stock		697,950.00		541
IV. Balance sheet loss		-1,882,812.82	18,477,012.16	-2,050
B. Provisions	III. 4			
1. Provisions for pensions and similar obligations		52,032.00		47
2. Other provisions		170,000.00	222,032.00	167
C. Liabilities	III. 5			
1. Accounts payable to banks		1,148.26		0
2. Trade accounts payable		72,989.83		57
3. Accounts payable to affiliated companies		283,638.11		150
4. Accounts payable to investments and participations		260,000.00		0
5. Other liabilities		51,747.66	669,523.86	485
thereof social security contributions € 16,112,24 (previous year: T€ 19) thereof taxes € 21,385,69 (previous year: T€ 450)				
			19,368,568.02	**19,059**
Contingent liabilities	III. 6		19,677,501.65	18,000

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Income statement for the period from January 1, 2004, to December 31, 2004

			01.01.2004- 31.12.2004	01.01.2003- 31.12.2003
		€	€	T€
1.	Revenues		2,018,040.00	1,775
2.	Other operating income		29,812.29	174
3.	Personnel expenses			
	a) Wages and salaries	681,718.75		776
	b) Social security and other pension costs, thereof in respect of old-age pensions incl. € 11,150,44 (previous year: T€ 7)	125,704.47	807,423.22	132
4.	Other operating expenses		928,667.73	911
5.	Income from a profit and loss transfer agreement		43,394.54	0
6.	Income from investments		0	77
7.	Other interest and similar income thereof € 0 (previous year: T€ 152) from affiliated companies		74,248.68	300
8.	Depreciation on marketable securities		105,360.78	1
9.	Interest and similar expenses		73.77	4
10.	Expenses from a profit and loss transfer agreement		0	78
11.	Result from ordinary activities		323,970.01	424
12.	Other taxes		0	98
13.	Annual net profit		323,970.01	326
14.	Loss carried forward from previous financial year		-2,049,749.08	-1,944
15.	Transfer to earnings reserve for own shares		-157,033.75	-432
16.	**Balance sheet loss**		**-1,882,812.82**	**-2,050**

Statements of changes in fixed assets at December 31, 2004

	Historical and manufacturing costs			
	01.01.2004	Additions	Disposals	31.12.2004
	€	€	€	€
Financial assets				
1. Shares in affiliated companies	14,979,547.58	545,280.00	0.00	15,524,827.58
2. Investments in associates	381,468.10	350,000.00	0.00	731,468.10
	15,361,015.68	**895,280.00**	**0.00**	**16,256,295.68**

Accumulated amortizations/depreciations				Book values	
01.01.2004	Additions	Disposals	31.12.2004	31.12.2004	31.12.2003
€	€	€	€	€	€
0.00	0.00	0.00	0.00	15,524,827.58	14,979,547.58
0.00	0.00	0.00	0.00	731,468.10	381,468.10
0.00	**0.00**	**0.00**	**0.00**	**16,256,295.68**	**15,361,015.68**

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Appendix for the 2004 fiscal year

I. General information

The financial statements as at December 31, 2004 were prepared in compliance with the statutory provisions of the German Commercial Code (HGB) and the supplementary regulations of the German Stock Corporation Act. The regulations for large stock corporations within the meaning of 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 from investments and participations, and other assets are reported at their nominal value. Accounts receivable in foreign currencies are shown at the exchange rates current on the date of their origin or the higher selling rate as at the cutoff date. Securities are valued at their 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 their repayment amount.

III. Explanations on individual balance sheet items

1. Financial investments
The increase in the shares in affiliated companies item from T€ 14,980 to T€ 15,525 was a result of the allocation to the capital stock of INIT Innovations in Transportation Inc., Chesapeake, VA/USA (INIT Inc.) of T€ 491 and the acquisition of init telematik gmbh, Karlsruhe, to the amount of T€ 54.

Due to the 45% participation in CarMedialab GmbH, Bruchsal, the investments in associates increased from T€ 381 to T€ 731.

The development of the individual items of the fixed assets is shown in the asset statement on page 56.

We refer to Appendix IV, 3 for a listing of the company's shareholdings.

2. Accounts receivable

The other assets in the amount of T€ 433 have residual terms of up to one year and those in the amount of T€ 20, of more than one year.

The accounts receivable from affiliated companies of T€ 107 (previous year: T€ 508) include T€ 43 receivables from the transfer of profits from INIT GmbH, T€ 64 (previous year: T€ 172) trade accounts receivable and tax receivables of T€ 0 (previous year: T€ 336). They are due within one year.

The receivables from investments and participations result exclusively from sales and services.

The other assets of T€ 453 (previous year: T€ 345) consist mainly of tax refund claims (T€ 388), the asset value of a pension liability insurance (T€ 20), payments on account (T€ 15), and interest receivables from securities (T€ 27).

3. Shareholders' equity

As at December 31, 2004, 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, 2003	10,040	9,622	541	-2,050	18,153
Acquisition/transfer of treasury stock			157	-157	0
Net income for 2004				324	324
Shareholders' equity as at December 31, 2004	10,040	9,622	698	-1,883	18,477

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 convert 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, 2003, replaced by the resolution of May 13, 2004, the company is authorized to purchase treasury stock. On December 23, 2003, the

Managing Board decided on a stock repurchase of up to 60,000 shares. A further stock repurchase was decided on August 26, 2004 to the amount of 60,000 shares. In 2004, the company acquired 94,828 (0.9%) shares at an average price of € 2.74 per share.

The company's treasury stock was valued at its market price on cutoff date. The necessary reserves for treasury stock were formed at the expense of the balance sheet loss. The current treasury stock amounts to 235,000 shares with an imputed share of € 235,000 (2.3%) in the equity capital.

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

4. Provisions

The other provisions were predominantly established for Supervisory Board compensation in the amount of T€ 24 (previous year: T€ 62), settlements of T€ 10 (previous year: T€ 0), outstanding suppliers' invoices of T€ 51 (previous year: T€ 53), and accounting and auditing costs of T€ 56 (previous year: T€ 18).

5. Liabilities

All liabilities have residual terms of up to one year.

The accounts payable to companies in the amount of T€ 284 (previous year: T€ 150) include trade accounts payable of T€ 6 (previous year: T€ 63), tax liabilities of T€ 278 (previous year: T€ 9), and accounts payable resulting from the transfer of losses of T€ 0 (previous year: T€ 78).

The due to investments and participations totaling T€ 260 relates to the contractual obligation to allocate to the capital reserves of CarMedialab GmbH, Bruchsal. The other liabilities mainly comprise tax liabilities in the amount of T€ 21 (previous year: T€ 450) and social security liabilities of T€ 16 (previous year: T€ 19).

6. Contingent liabilities

As of the cutoff date, the company had contingent liabilities from the joint and several co-obligation of T€ 1,000 (previous year: T€ 1,547) for bank liabilities and of T€ 18,677 (previous year: T€ 16,453) 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, Karlsruhe	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, Chairman	Consulting engineer specializing in local public transportation, member of the Supervisory Board of Berliner Verkehrsbetriebe, member of the Supervisory Board of BT Berlin Transport GmbH, Berlin, member of the Advisory Board of PTM, master's degree at the University of Duisburg/Essen.
Bernd Koch, Lahr, Vice Chairman	Self-employed business consultant, member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Centre in Karlsruhe
Fariborz Khavand, Wuppertal	Self-employed business consultant and Managing Director, member of the Supervisory Board of Rhön Residence GmbH & Management KG

Particulars of Board member salaries:
In their capacity as executives of the subsidiaries, the members of the Managing Board also received compensation totaling T€ 915 (2003: T€ 928) in 2004. This total includes fixed salaries of T€ 915 (2003: T€ 747) and variable remuneration in the form of management bonuses of T€ 0 (2003: T€ 181).

The total remuneration of the Supervisory Board members in 2004 amounted to T€ 24 (2003: T€ 24), not including a variable share.

In the 2004 fiscal year, the members of the Supervisory Board of the init group received T€ 5 for consulting services.

2. Employees

init AG employed an annual average of 18 (previous year: 16) people, 3 of whom were part-time.

3. Interest in other companies

Company	Registered offices	Equity capital	Share in %	2004 result
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH	Karlsruhe (GER)	T€ 6,183	100	T€ 0*)
INIT Innovations in Transportation, Inc.	Chesapeake, VA (USA)	TUSD 2,408	100	TUSD 437
id systeme GmbH	Hamburg (GER)	T€ 270	44	T€ 61
CarMedialab GmbH	Bruchsal (GER)	T€ 424	45	T€ -43
init telematik gmbh	Karlsruhe (GER)	T€ 53	100	T€ - 1

*) T€ 43 before profit and loss transfer

As of the cutoff date, the exchange rate for one EURO was 1.3644 US dollar.

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). In a letter of March 1, 2005, we were informed by Universal-Investment-Gesellschaft mbH as follows: "Pursuant to Section 21 para. 1 of the German Securities Trading Act in conjunction with section 10 para. 1a, clause 2 of the Investment Company Act, we hereby advise you that our voting rights in init innovation in traffic systems AG (WKN 575.980) fell below the threshold of 5% on February 28, 2005 and have since then been 0%."

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 and 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 21, 2004, and was made available to the shareholders.

Karlsruhe, March 7, 2005

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
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, 2004 to December 31, 2004. 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 9, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Matner	Reiter
German Public Auditor	German Public Auditor

Report of the Supervisory Board

Dear Shareholders,

During the 2004 fiscal year, the Supervisory Board of init innovation in traffic systems AG acted in an advisory capacity to the Managing Board while monitoring its conduct of affairs. Any measures requiring the consent of the Supervisory Board on grounds of legal or statutory provisions were deliberated in depth and presented for a resolution. The Chairman of the Supervisory Board kept in close contact with the Managing Board at all times during the rather difficult preceding fiscal year, and particularly in the first six months, while the members of the Supervisory Board were also available in individual matters.

In its four meetings, the Managing Board informed the Supervisory Board in detail about the status of the company and the course of its business, while the Supervisory Board monitored and controlled the development of the group through specific directions issued to the Managing Board. Based on the reports of the Managing Board, the Supervisory Board in particular discussed the economic situation, the incoming orders, any potential risks and key business transactions, and the medium- and long-term corporate strategy. Other focal subjects in the Supervisory Board meetings included the price performance of the share, the market developments in Germany, Europe, and North America, the controlling, the participation in other companies, and any personnel matters concerning the Managing Board. The Supervisory Board also focused in particular on any cost reduction measures, specifically also through a reduction in manpower. Furthermore, the Supervisory Board was actively involved in the implementation and monitoring of compliance with the German Corporate Governance Code.

The auditing firm, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Mannheim, was commissioned by the Supervisory Board to audit the annual financial statements of init AG, the status report, the consolidated financial statements, the status report for the init group, and any Notes as of December 31, 2004. 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 18, 2005. 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 great service and their personal dedication in the 2004 fiscal year. Our thanks also to our shareholders, customers, and business partners for their trust in our company.

Karlsruhe, March 2005

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

Imprint

init
innovation in traffic systems AG

Käppelestraße 6
D-76131 Karlsruhe

P.O. Box 3380
D-76019 Karlsruhe

Tel. +49.721.6100.0
Fax +49.721.6100.399

info@initag.de
www.initag.de

Concept and Design
rw konzept GmbH · Agentur für
Unternehmenskommunikation
Köln · Berlin · München

Photography
Marie-Theres Nissalla
Uwe Sülflohn

Printing
Engelhardt & Bauer
Druck- und Verlagsgesellschaft mbH

info@initag.de
www.initag.de