

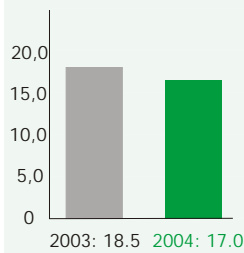
# init

innovation in traffic systems AG

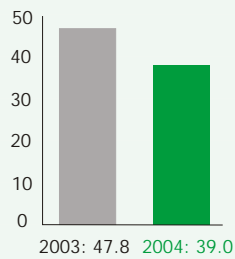


Q3 2004 Report

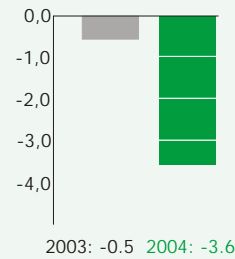
Sales Q1-Q3  
in million  $\text{€}$



Orders on hand Q1-Q3  
in million  $\text{€}$



EBIT Q1-Q3  
in million  $\text{€}$



Earnings per share  
Q1-Q3 2003: -0.03  $\text{€}$   
Q1-Q3 2004: -0.23  $\text{€}$

## init at a Glance

Municipal and regional passenger transportation should be comfortable, fast, and attractive. The systems supplied by init innovation in traffic systems AG ensure that buses and trams are able to meet these requirements today, while at the same time increasing the efficiency of transportation companies. init is the leader in innovative telematics and fare management systems that offers a suite of integrated solutions for all type of needs related to public transportation. init products are operational in over 200 transportation companies worldwide.

### Directors Holdings

Management Board	Number of shares
Dr. Gottfried Greschner, CEO	3,850,000
Joachim Becker, COO	420,983
Wolfgang Degen, COO	139,964
Dr. Jürgen Greschner, CSO	107,364
Bernhard Smolka, CFO	9,600

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

### Company calendar 2005

Wk. 14/2005	Disclosure Annual Report 2004
May 11, 2005	General Meeting in Karlsruhe
Wk. 20/2005	Disclosure Q1 2005 Report
Wk. 33/2005	Disclosure Q2 2005 Report

## Statutory bodies of the Company

### Supervisory Board

- > Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau (Chairman)

Honorary member and former Managing Director of the Association of German Transport Enterprises (VDV), Honorary Vice President of the International Association for Public Transport (UITP).

- > Bernd Koch (Vice-chairman)

Self-employed business consultant for strategy and organisation, Member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Centre in Karlsruhe.

- > Fariborz Khavand

Self-employed business consultant, Managing Director, Member of the supervisory board of Rhön Residence GmbH & Co. Management KG.

### Management Board

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



## Report of the Managing Board

*Ladies and Gentlemen,*

In the third quarter of 2004, init innovation in traffic systems AG managed a trend reversal, resulting in a substantial gain in both its sales and operating result. As anticipated, the business development in this period was characterized by the sharp rise in hardware and software deliveries relating to major European and American projects and initial results of the cost saving measures announced by the Managing Board at the beginning of the year.

### *Third quarter closed with positive result*

Thus, the sales revenue of the company between July and September once again saw a substantial rise from 5.3 in the previous year to 8.1 million Euro. Compared with the previous year, it increased by an excess of 30 % (Q3 2003: 6.2 million Euro), with the accumulated deliveries for the long-term telematics projects in Houston, Stockholm, and Oslo having a particularly noticeable impact. Furthermore, the operating result (EBIT) showed initial effects as a result of the reorganisation of our internal structures and the closure of branch offices in both Berlin and Essen. Also in purchasing, the company managed to obtain price reductions. Thus, the third quarter closed with a positive result before interest and taxes of 0.9 million Euro, after the negative result of 0.4 million Euro in the previous year. The quarterly net profit totaled 0.7 million Euro (prior-year deficit: -0.3 million Euro), with net earnings per share amounting to 0.07 Euro (2003: -0.03 Euro).

As a basic principle, our project business is characterized by the fact that the majority of sales and earnings are not posted to our books until the end of the financial year. Thus, traditionally, the revenue in the first nine months of the financial year only totals around 50 % of annual sales. The cumulative revenue of 17.0 million Euro in the first three quarters of 2004 therefore meets our expectations. Compared with the previous year (18.5 million Euro), however, this is a decline of 9.2 %.

### *Consolidated loss significantly reduced*

On the whole, the nine-monthly report is still burdened by the first six months of the year and the tremendous recession in the domestic market. Thus, for the first nine months of 2004, sales in Germany totaled 3.6 million Euro, this figure being almost 60 % below the prior-year level (8.8 million Euro). Cost-effective factors in the first six months and accounting delays in individual projects along with increased expenditure for technical and personnel adjustments could not yet be offset in the third

quarter. However, on a nine-month basis, the positive quarterly earnings before taxes of 0.9 million Euro clearly reduced the negative figure to -3.6 million Euro (2003: -0.6 million Euro). Accordingly, the consolidated loss as at the end of September decreased to -2.3 million Euro (2003: -0.3 million Euro). The net earnings per share for the nine months stood at -0.23 Euro (2003: -0.03 Euro).

As of September 30, 2004, the equity ratio equaled to 47.9 % (2003: 51.7 %).

At the end of September, the cash flow from operating activity aggregated -0.3 million Euro (2003: +0.7 million Euro), this change essentially being caused by the negative result. Due to the preliminary financing of hardware deliveries, the short-term due to banks increased from 1.3 in the previous year to 1.7 million Euro.

Spending on research and development totaled 1.8 million Euro (2003: 2.1 million Euro), 0.9 million Euro (2003: 0.9 million Euro) of which were capitalized as software. In return, the result was burdened by depreciations of capitalized software adding up to 0.9 million Euro (2003: 0.8 million Euro). Thus, spending in R&D continued at a high level, essentially benefiting the hardware development (COPILOTpc on-board computer, PIDmobil passenger information system) and the MOBILE-PLAN planning software.

### *Internationalization counterbalances weakness of domestic activity*

In the past few years, init repeatedly prevailed in major international bids, making a name for itself as an innovative supplier of integrated telematics, electronic fare collection and passenger counting systems for buses and railways. To date, thanks to its internationalization, even the extremely poor domestic demand in 2004 could be largely counterbalanced.

The substantial increase in hardware deliveries and the equipment of vehicles anticipated for the third quarter in the course of our on-going major projects in Oslo, Stockholm, and Houston ensured a significant growth rate in European and North American business. Thus, the revenue attained in Europe (excluding Germany) and the USA in the nine months to September rose by in excess of 38 % as against the previous year, to around 13.4 million Euro (2003: 9.7 million Euro). North America gained by 29 % to record 6.7 million Euro (2003: 5.2 million Euro), while Europe (excluding Germany) registered an improvement of 49 % to roughly 6.7 million Euro (2003: 4.5 million Euro).

Thus, in the period under review, both North America and Europe for the first time replaced Germany as the main market of init.

### Germany still to recover

On the other hand, due to the financial straits of the public authorities, the business climate and investments in the local public transport sector (ÖPNV) in Germany remained at the same low level as in the previous few years. Because of this, the domestic market continued its declining trend even in the third quarter of 2004, recording a sales volume of 0.9 million Euro (2003: 2.5 million Euro). On a nine-month basis, the revenue here fell by almost 60 % to 3.6 million Euro (2003: 8.8 million Euro).

As already reported, init reacted to this trend by closing its branch offices in both Berlin and Essen, by adjusting its staff level, and by increasingly aligning its structures to international business. Currently, we can see a slight upturn in competitive bidding in Germany, which, however, will not have a lasting effect on our business until 2005 at the earliest.

### Incoming orders show positive tendency

In the third quarter of 2004, the internationalization of init once again bore fruit in the booking of new orders, such as in major bids in North America. At the beginning of July, the Canadian district of York, north of the Toronto metropolitan area opted for hardware and software from init to set up its new express traffic system. The contract initially involves the telematics equipment of 77 vehicles, which is envisaged to be completed by autumn 2005. The order volume amounts to in excess of 10 million Canadian dollars (around 6 million Euro). Furthermore, in September, our US subsidiary INIT Inc., received a follow-up order from St. Louis, for the equipment of vehicles with a passenger counting system worth around 0.4 million Euro.

On the whole, the rate of new orders in the third quarter generally showed a positive tendency. With 8.2 million Euro, it was slightly above the prior-year figure (7.7 million Euro). Thus, the secured level of orders of init as at the end of September stood at 39.0 million Euro (2003: 47.8 million Euro). When compared with the previous year, however, it must be borne in mind that in the second quarter of 2003, init was able to book its largest order in company history to date, recording a volume of around 20 million US dollars. This contract is currently being executed according to plan. The majority of the orders on hand will be reflected in sales in part by the end of the year and mostly in 2005.

Currently, the bids processed and pending decision total a volume of around 130 million Euro. Thus, the medium and long-term growth prospects of init continue to be intact. In addition, the company opened up the automotive market for init telematics

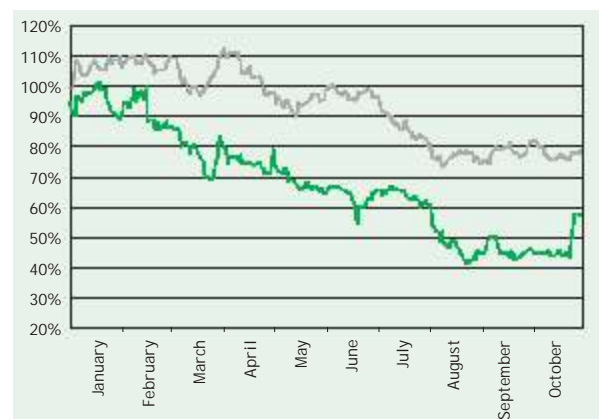
solutions, a measure commenced in the first six months of the year and pushed in the third quarter through the development and sales cooperations with CarMedialab and RA Consulting. As early as at the beginning of 2005, the first prototypes of a basic telematics unit are to be used in fleet management. Initial contracts are anticipated to follow in the further course of the year.

### Prospect

The development of our internationalization strategy continues to be highly satisfactory. Thus, in a quarterly comparison, init managed to more than double its business in Europe in the past two years. In the USA, the company even saw an increase in business by a factor of eight as compared to 2001. Accordingly, init is particularly active and successful in biddings in these markets. This, however, must be seen opposite the persistently disappointing development in Germany, where the situation is expected to recover at a low level only in the medium term. Against this background, we continue to hold to our sales projections of around 30 million Euro, which were revised downwards in August, and earnings before interest and taxes (EBIT) of -2 million Euro.

The Managing Board will continue to pursue the rationalization course commenced and, among other things, gradually return the personnel level in Germany, built up in 2002/2003 in view of future growth, to the level of 2001. Based on the savings alone, init anticipates a positive effect on the operating result in 2005, amounting to in excess of 2 million Euro. However, the company projects lower margins in future projects in the USA, as the unfavorable exchange rate can only partly be passed on by way of increased prices.

### Performance 2004



— init innovation in traffic systems AG  
— Prime Technology Performance Index



### *init share recovers from all-year low*

Following the revision of the annual projection, the init share initially marked a new low in a weak market environment, falling to 2.09 Euro as at the beginning of August. Subsequently, however, the confidence of the market operators could be restored with positive news, leading to a slow recovery in the price. By the end of the period under review, the init share then fluctuated in a narrow price band of between 2.20 and 2.30 Euro. Based on the excellent orders position, the high bidding volume, particularly in North America, and the promising penetration of the automotive market, a number of analysts have once again recommended buying the init share at this level.

Karlsruhe, November 8, 2004

On behalf of the Managing Board

Dr. Gottfried Greschner  
*Chairman of the Managing Board*

### *Your contact for Investor Relations*

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### *Explanatory notes to the interim accounts*

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

The consolidated group of init AG comprises INIT GmbH, init telematik gmbh, and INIT Inc., USA, each with a share of 100 %. INIT GmbH holds 43 % of the shares in iris GmbH in Berlin and init AG 44 % of the shares in id systeme GmbH in Hamburg, which are consolidated "at equity". On June 28, 2004, init telematik gmbh was acquired as a shell company. Based on the resolutions passed at the shareholders' meetings on May 15, 2002 and May 15, 2003, replaced by the resolution on May 13, 2004, the company is authorized to purchase its own shares. On September 11, 2002, the Managing Board resolved to repurchase up to 40,000 shares that were to be issued to employees and trainees of the company and its subsidiaries as asset sharing in spring 2003. On February 28, 2003, the Managing Board passed a resolution to that effect, giving employees a share in the 2002 consolidated earnings. On the whole, the company transferred 11,302 shares with a computed portion in the capital stock of 11,302 Euro (0.1 %). A further 20,000 shares were repurchased on January 17, 2003, 80,000 shares on February 25, 2003, 60,000 shares on December 23, 2003, and 60,000 shares on August 26, 2004.

The stock held in treasury is valued at cost of acquisition (cost method) at 711,000 Euro (2003: 442,000 Euro) and openly separated from equity. Of the present treasury stock of 198,800 shares with a computed portion in the capital stock of 198,800 Euro (1.98 %), 4,474 shares are derived from the capital increase and 194,326 from the share repurchase program. The repurchase was effected at an average price of 3.53 Euro per share.

### *Number of Employees*

*thereof 75% with an academical degree (Dipl.-Ing., Dipl.-Math., Dipl.-Inform., ...) without technical assistants, trainees, temporary workers and students at the end of period*

	30.09.2004	30.09.2003
Germany	152	175
USA	32	31
Total	184	206

*Consolidated balance sheet at September 30, 2004*  
(US-GAAP)

Assets	30.09.2004 T¤	30.09.2003 T¤	31.12.2003 T¤
Current assets			
1. Cash and cash equivalents	1,061	2,603	2,261
2. Marketable securities	1,471	1,995	1,980
3. Trade accounts receivable, net	10,633	10,716	12,111
4. Accounts receivable from related parties	20	52	47
5. Inventories	4,082	3,752	2,948
6. Deferred tax asset	1,699	1,495	689
7. Prepaid expenses and other current assets	1,595	1,605	2,263
Current assets, total	20,561	22,218	22,299
Non-current assets			
1. Tangible fixed assets, net	1,159	1,585	1,466
2. Internally generated software and other intangible assets, net	5,649	5,396	5,736
3. Goodwill, net	1,877	1,877	1,877
4. Financial investments	1,027	965	943
5. Loans	68	68	68
6. Deferred tax asset	61	25	61
7. Other assets	407	357	333
Non-current assets, total	10,248	10,273	10,484
Assets, total	30,809	32,491	32,783



Liabilities and shareholders' equity	30.09.2004 Tα	30.09.2003 Tα	31.12.2003 Tα
<b>Current liabilities</b>			
1. Short-term debt and current portion of long-term debt	1,684	1,337	1,547
2. Dormant partners' capital	50	0	50
3. Trade accounts payable	2,843	1,301	4,264
4. Accounts payable due to related parties and persons	399	34	2
5. Advance payments received	3,558	4,849	2,021
6. Accrued expenses	1,288	1,305	945
7. Deferred tax liabilities	1,283	1,290	1,419
8. Prepaid expenses and other current liabilities	2,155	2,475	2,418
<b>Current liabilities, total</b>	<b>13,260</b>	<b>12,591</b>	<b>12,666</b>
<b>Non-current liabilities</b>			
1, Deferred tax liabilities	1,420	1,804	1,571
2. Dormant partners' capital	350	450	400
3. Pension accrued and similar obligations	1,029	836	945
<b>Non-current liabilities, total</b>	<b>2,799</b>	<b>3,090</b>	<b>2,916</b>
<b>Shareholders' equity</b>			
1. Subscribed capital (shares without nominal value) Allowed: 3.960.000 shares Issued and floating: 10,040,000 shares (previous year 10,040,000 shares)	10,040	10,040	10,040
2. Additional paid-in capital	3,141	3,141	3,141
3. Treasury stock	-711	-499	-561
4. Consolidated unappropriated profit	2,632	4,234	4,952
5. Other comprehensive income	-352	-106	-371
<b>Shareholders' equity, total</b>	<b>14,750</b>	<b>16,810</b>	<b>17,201</b>
<b>Liabilities and shareholders' equity, total</b>	<b>30,809</b>	<b>32,491</b>	<b>32,783</b>

Consolidated statement of operations at January 1, 2004 to September 30, 2004  
(US-GAAP)

	Q3 2004	Q3 2003	Q1-Q3 2004	Q1-Q3 2003
	01.07.2004- 30.09.2004	01.07.2003- 30.09.2003	01.01.2004- 30.09.2004	01.01.2003- 30.09.2003
	T€	T€	T€	T€
1. Revenues	8,060	6,188	16,979	18,473
2. Cost of revenues	-5,655	-4,456	-15,427	-13,964
Gross profit	2,405	1,732	1,552	4,509
3. Sales and marketing expenses	-810	-875	-3,031	-2,655
4. General administrative expenses	-428	-488	-1,531	-1,597
5. Research and development expenses	-272	-579	-892	-1,250
6. Other operating income and expenses	-137	46	252	223
7. Foreign currency exchange gains/losses	121	-482	-52	-122
Operating income/loss	879	-646	-3,702	-892
8. Interest income and expenses	-24	-84	-52	-65
9. Income from investments accounted for by the equity method	28	61	84	154
10. Other income/expenses	12	162	30	202
Profit/loss before income tax	895	-507	-3,640	-601
11. Income tax	244	-221	-1,320	-287
Net income/loss	651	-286	-2,320	-314
Earnings per share (undiluted) in Euro	0.07	-0.03	-0.23	-0.03
Earnings per share (diluted) in Euro	0.07	-0.03	-0.23	-0.03
Average number of floating shares (undiluted)	9,851,986	9,917,629	9,884,218	9,931,683
Average number of floating shares (diluted)	9,851,986	9,917,629	9,884,218	9,931,683





*Cash flow statement for the consolidated financial statement  
from January 1, 2004 to September 30, 2004  
(US-GAAP)*

	Q1-Q3 2004 01.01.2004- 30.09.2004 Tα	Q1-Q3 2003 01.01.2003- 30.09.2003 Tα
Cash flow from operating activities:		
1. Net loss	-2,320	-314
2. Depreciation and amortization	1,735	1,505
3. Profit (-)/Loss (+) on the disposal of fixed assets	28	-10
4. Change in provisions and accruals	427	-21
5. Change in inventories, trade accounts receivable and other assets, not provided by/used in investing or financing activities	965	679
6. Change in trade accounts payable and other liabilities, not provided by/used in investing or financing activities	250	-625
7. Other non-cash income	-84	-154
8. Change in deferred taxes	-1,297	-392
Net cash used in operating activities	-296	668
Cash flow from investment activities:		
1. Proceeds from sales of tangible fixed assets	1	10
2. Investments in tangible fixed assets and other intangible assets	-410	-937
3. Investments in software development	-921	-929
4. Inflows from the sale of fixed interest-bearing securities as part of short-term cash management	999	1,572
5. Investments in fixed interest-bearing securities as part of short-term cash management	-504	-44
Net cash used in investment activities	-835	-328
Cash flow from financing activities:		
1. Cash payments for the purchase of treasury stock	-150	-280
2. Cash repayments of dormant partners' capital	-50	-61
3. Proceeds from taking up loans	137	644
4. Other adjustments made directly to shareholders' equity	-6	142
Cash flow from financing activities	-69	445
Net effect of currency translation in cash and cash equivalents	0	-80
Change in cash and cash equivalents	-1,200	705
Cash and cash equivalents at the beginning of period	2,261	1,898
Cash and cash equivalents at the end of period	1,061	2,603

*Consolidated statements of changes in shareholders' equity*  
(US-GAAP)

	Ordinary shares	Subscribed capital	Additional paid-in capital	Ordinary unappropriated profit
	Amount	T $\text{€}$	T $\text{€}$	T $\text{€}$
Status at December 31, 2002	10,040,000	10,040	3,141	4,548
1. Purchase of treasury stock Q1-Q3 2003				
2. Net loss Q1-Q3 2003				-314
3. Adjustment item for currency translation after deduction of T $\text{€}$ 0 tax				
4. Change in value of the marketable securities Q1-Q3 2003 (available for sale) after deduction of T $\text{€}$ 11 tax				
Status at September 30, 2003	10,040,000	10,040	3,141	4,234
Status at December 31, 2003	10,040,000	10,040	3,141	4,952
1. Net loss Q1-Q3 2004				-2,320
2. Purchase of treasury stock Q2 and Q3 2004				
3. Adjustment item for currency translation Q1-Q3 2004 after deduction of T $\text{€}$ 0 tax				
4. Change in value of the marketable securities Q1-Q3 2004 (available for sale) after deduction of T $\text{€}$ 6 tax				
Status at September 30, 2004	10,040,000	10,040	3,141	2,632

*Division reporting*  
(US-GAAP)

	Q3 2004		Q3 2003		Q1-Q3 2004		Q1-Q3 2003	
	01.07.2004-30.09.2004		01.07.2003-30.09.2003		01.01.2004-30.09.2004		01.01.2003-30.09.2003	
	T $\text{€}$	%	T $\text{€}$	%	T $\text{€}$	%	T $\text{€}$	%
Revenues								
Mobile Telematics and Fare Management Systems	5,248	65.1	4,406	71.2	11,043	65.0	12,634	68.4
Telematics Software and Services	2,812	34.9	1,782	28.8	5,936	35.0	5,839	31.6
Total	8,060	100.0	6,188	100.0	16,979	100.0	18,473	100.0
Operating profit/loss								
Mobile Telematics and Fare Management Systems	772	87.8	306	-47.4	-1,442	39.0	571	-64.0
Telematics Software and Services	107	12.2	-952	147.4	-2,260	61.0	-1,463	164.0
Total	879	100.0	-646	100.0	-3,702	100.0	-892	100.0
Amortization								
Mobile Telematics and Fare Management Systems	184	29.8	158	30.8	582	33.5	439	29.2
Telematics Software and Services	434	70.2	355	69.2	1,153	66.5	1,066	70.8
Total	618	100.0	513	100.0	1,735	100.0	1,505	100.0
Long-lived tangible fixed assets								
Mobile Telematics and Fare Management Systems	597	51.5	866	54.6	597	51.5	866	54.6
Telematics Software and Services	562	48.5	719	45.4	562	48.5	719	45.4
Total	1,159	100.0	1,585	100.0	1,159	100.0	1,585	100.0
Investments in tangible fixed assets and intangible assets exclusive software development								
Mobile Telematics and Fare Management Systems	44	44.9	388	56.8	216	52.7	527	56.2
Telematics Software and Services	54	55.1	295	43.2	194	47.3	410	43.8
Total	98	100.0	683	100.0	410	100.0	937	100.0



### Other changes in shareholders' equity without effects on profit

Difference from pension evaluation	Difference from currency translation	Stock market valuation of securities	Treasury stock at cost	Total
T€	T€	T€	T€	T€
-38	-169	38	-219	17,341
			-280	-280
				-314
	80			80
		-17		-17
-38	-89	21	-499	16,810
-95	-287	11	-561	17,201
				-2,320
			-150	-150
	30			30
		-11		-11
-95	-257	0	-711	14,750

### Geographical arrangement

	Q3 2004		Q3 2003		Q1-Q3 2004		Q1-Q3 2003	
	01.07.2004-30.09.2004		01.07.2003-30.09.2003		01.01.2004-30.09.2004		01.01.2003-30.09.2003	
	T€	%	T€	%	T€	%	T€	%
<b>Revenues</b>								
Germany	914	11.3	2,531	40.9	3,616	21.3	8,822	47.8
Europe	3,178	39.4	1,977	31.9	6,663	39.2	4,458	24.1
North America	3,968	49.2	1,680	27.1	6,700	39.5	5,193	28.1
<b>Total</b>	<b>8,060</b>	<b>100.0</b>	<b>6,188</b>	<b>100.0</b>	<b>16,979</b>	<b>100.0</b>	<b>18,473</b>	<b>100.0</b>
<b>Long-lived tangible fixed assets</b>								
Germany	-85	81.0	1,210	76.3	868	74.9	1,210	76.3
North America	-20	19.0	315	23.7	291	25.1	315	23.7
<b>Total</b>	<b>-105</b>	<b>100.0</b>	<b>1,585</b>	<b>100.0</b>	<b>1,159</b>	<b>100.0</b>	<b>1,585</b>	<b>100.0</b>

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