



init

innovation
in traffic systems AG



Q2 Report 2006

Halvdan Svartegate

69

1. avg.

12

Lutvann

2. avg.

25

o/ Hellerudtoppen

203B

1. avg.

17

Tonsenhagen

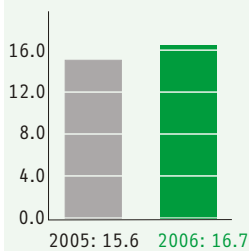
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31

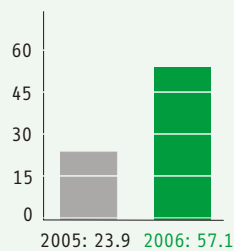
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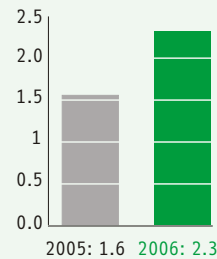
Sales Q1-Q2
in million €



Orders on hand Q1-Q2
in million €



EBIT Q1-Q2
in Mio. €



Earnings per share
Q1-Q2 2005: 0.09 €
Q1-Q2 2006: 0.16 €

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.

Director's Holdings

Management Board	Number of shares
Dr. Gottfried Greschner, CEO	3.571.400
Joachim Becker, COO	330.983
Wolfgang Degen, COO	81.000
Dr. Jürgen Greschner, CSO	97.364
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 2006

Wk. 46/ 2006	Disclosure Q3 2006 Report
Nov. 28, 2006	Deutsches Eigenkapitalforum, Frankfurt Analyst Conference
Wk. 13/ 2007	Disclosure Annual Report 2006

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 Collection 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,

init innovation in traffic systems AG continues to increase global mobility in municipal and regional passenger transportation, making excellent progress here in the first half of 2006. In both sales and result, init was able to record pleasing growth and set what are in many respects new record figures.

The most important developments in brief

- ▶ In the second quarter of 2006, init improved on the already high turnover figure of the previous year (7.9 mill. Euro), showing a renewed increase of 34.1 percent up to 10.6 mill. Euro. This results in a new record figure for revenues for the first half-year at 16.7 mill. Euro (2005: 15.6 mill. Euro).
- ▶ The earnings have grown even more dynamically: based on a gross margin of over 37 percent, the earnings before taxes in the second quarter lay at 1.9 mill. Euro; 87.2 percent up on the previous year (1.0 mill. Euro) and thus significantly above the planned figures. Looking at the first six months overall, the growth for this key figure is 54.3 percent (2.4 mill. Euro in 2006, against 1.6 mill. Euro in the previous year).
- ▶ The net income, reaching 1.3 mill. Euro (2005: 0.6 mill. Euro), could have even been more than doubled in the second quarter.
- ▶ For the first six months, this resulted in a very positive 76.7 percent increase in consolidated net income, up to 1.6 mill. Euro (2005: 0.9 mill. Euro), enabling init to increase the earnings per share up to 0.16 Euro (2005: 0.09 Euro).

Order trend enables growth potential beyond 2007

This dynamic growth is also set to continue for the foreseeable future. Factors speaking for this, the record order levels of 57.1 mill. Euro at the end of June (2005: 23.9 mill. Euro), a number of project tenders awaiting decision and the continued positive trend in incoming orders. In fact, at 18.6 mill. Euro, 21.6 percent more new orders were recorded than in the previous year (15.3 mill. Euro). This enabled the book-to-bill ratio (ratio of incoming orders to outgoing invoicing), which is an important indicator for the future growth of a company, to reach the decent value of 1.11 by the end of June (previous year: 0.98).

This all means that init remains on course to increase sales and earnings. The orders extend beyond 2006 and form the basis for a high growth potential in the years thereafter.

Large follow-up contracts from Europe – new customers in North America

The development of new business in the second quarter of 2006 again takes place against the background of large projects in Europe and extensive follow-up contracts from the Norwegian capital of Oslo, the English city of Leicester and the major US American cities of Houston and Denver. All four cities are expanding their current init systems. The order value of these four projects alone is over 3 mill. Euro. Furthermore, init also acquired a new customer in the USA in the form of the Utah Transit Authority (UTA). This client initially wants to fit out 41 trams in Salt Lake City with an automatic passenger counting system. In addition there was a further new acquisition in the Canadian region of Waterloo (State of Ontario), where init will implement an integrated telematics system for the Grand River Transit Company. The order volume here is a good 2 mill. Euro.

As a result, Canada has become init's largest growth market in the past two years. Consequently, our presence there will be strengthened in future with two of our own subsidiaries. The two branch offices (Western Canada in Vancouver and Eastern Canada in Montreal) come as a response to the increased interest for init products and services on the Canadian market and should spearhead future projects and new tenders locally.


init is also expecting further substantial orders to come in during the next few months.

European business: sales motor in a very strong second quarter

Whereas the sales development of the init group in the first quarter of 2006 was still largely borne by German business – due to investment in local public transport infrastructure in the run-up to the Football World Cup – in the second quarter it was European business that was driving the growth. init's extensive customer base is increasingly having a positive effect here. The successful realisation of projects often leads to repeat orders and additions to init systems. This has enabled init to turnover 5.2 mill. Euro in European business from April to June 2006, which is about 50 percent more than for the same period in the previous year (3.5 mill. Euro).

But also on the domestic German market, the positive trend from the first quarter has continued. Here in Germany, init's revenues in the second quarter were even more than twice the previous year's figure with 3.1 mill. Euro (2005: 1.4 mill. Euro). The successful conclusion of projects in the context of the Football World Cup is again reflected here.

At 2.2 mill. Euro, the sales revenues in North America remained behind the previous year in the second



quarter (previous year: 3.0 mill. Euro). However, it must be appreciated that over in North America large projects were finalised in the same period in 2005, a factor that will not take effect in the current financial year until the third and fourth quarters.

Taking the first six months overall, it can be seen that Europe made the largest contribution to sales turnover with 6.6 mill. Euro (2005: 6.1 mill. Euro), followed by Germany with 6.3 mill. Euro (2005: 2.6 mill. Euro) and North America with 3.9 mill. Euro (2005: 6.9 mill. Euro).

The turnover distribution of init throughout the financial year is traditionally disproportionate with the fourth quarter generally being the strongest.

Positive cash flow and investments

A further satisfactory trend in the first half of 2006 was also registered in the cash flow from operating activities. Despite the operations and outlays usually required for the implementation of projects in the further course of the year and specifically for the preparation of extensive hardware deliveries, init still recorded a good figure of 1.5 mill. Euro for the first six months of 2006 (previous year: 5.2 mill. Euro). In the previous year, the company had recorded an unusually high figure due to the completion of large projects.

In the period under review, init has earmarked a total of 1.4 mill. Euro of funds for investment (2005: 0.1 mill. Euro). The most significant investment here was the increase of the holding in the CarMedialab GmbH from 45 to 55 percent. This development and marketing company was founded for the purpose of entering the car market and init has now taken over its operational management in order to push ahead with this aim. In addition, a prestigious private residence has been purchased in the USA and replacement investments have also been undertaken. The expenditure for research and development amounted to a volume of 0.9 mill. Euro (previous year: 0.6 mill. Euro). This essentially concerned hardware developments and the further development of the MOBILE-PLAN software.

Outlook

Following the good start to the year, init innovation in traffic systems AG has continued and accelerated the positive trend in sales and result in the second quarter of 2006. In particular, the increasing progress of the large projects acquired in the previous period continues to spur on revenue and earnings. Furthermore, the gross margin of over 37 percent and the net earnings as a percentage of sales of around 10 percent both underline the now regained high profitability of our company.

For 2006 as a whole, INIT expects to be able to increase sales and result by over ten percent as

planned. One risk factor is currently the weakness of the US Dollar against the Euro. Although a large proportion of the existing contracts are secured by options and forward exchange dealing, nevertheless, lower margins are to be expected with future projects in the USA because the unfavourable exchange rate of the Euro can only be passed on to a certain extent via higher prices.

However, a large buffer of orders of almost 60 mill. Euro, plus tenders that we expect to gain and a number of tenders currently in the pipeline will enable init to achieve over-proportional growth in the mid-term.

init share performs better than the DAX and TecDax

The init innovation in traffic systems AG share (ISIN DE0005759807) performed notably better than the TecDax in the period under review and gained over 20 percent in value in the course of the year up until the end of June. Having recorded the year's highest figure of over 8.70 Euro in April, however, the init share was unable to escape the general downward pull of the international stock markets. Nevertheless, its trend was still notably more stable than the figures for the technology sector and the DAX.

This is also true in the long-term view. On the reporting date of the 5th anniversary of stock trading on July 24, the init had left both the DAX and the TecDax clearly behind, with init shareholders able to enjoy a 30 to 80 percent better stock performance by comparison.

Karlsruhe, August 3, 2006

On behalf of the Managing Board



Dr. Gottfried Greschner
Chairman of the Managing Board

Your investor relations contact

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Notes to the Interim Financial Statement

The quarterly report on June 30, 2006 and the benchmark figures were prepared in compliance with the International Financial Reporting Standards (IFRS) and are consistent with IAS 34. The accounting and valuation methods of calculation applied to the consolidated financial statements dated December 31, 2005 were retained.

init refrained from making use of its option under IAS 23 of capitalizing cost of debt. In conformity with IFRS 3, the report does not include scheduled amortizations of goodwill. Impairment tests are carried out once a year in accordance with IAS 36.

The group of consolidated companies of init AG comprises INIT GmbH, Karlsruhe, init telematik gmbh, Karlsruhe, INIT Inc., Chesapeake, USA, each with 100 %, and CarMedialab GmbH, Bruchsal, with 55 %. The minority shares applicable to CarMedialab are separately listed on the balance sheet and on the income statement.

INIT GmbH holds 43 % of the shares in iris GmbH, Berlin, and init AG holds 44 % of the shares in id systeme GmbH, Hamburg, which are included at equity in the consolidated financial statements.

The init group did not have any contingent liabilities as of December 31, 2005. The replacement investment in tangible fixed assets totalled 189 TEuro. The sale of certain tangible fixed assets generated 6 TEuro.

The legal dispute pending as at the end of 2005 was taken into account by way of a provision of 6 TEuro. 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.

A total of 216 TEuro for inventory impairment losses were recorded as expenses. The accounts receivable from related parties amounted to 11 TEuro and relate to trade accounts receivable from iris GmbH, Berlin.

The amounts due to associated companies totalled 258 TEuro and relate to trade accounts payable to iris GmbH, Berlin.

Based on the resolution passed at the annual shareholder's meeting on May 15, 2003, replaced by the resolutions of May 13, 2004, May 11, 2005, July 13, 2006, 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. Further stock repurchases of up to 60,000, 50,000 and 210,000 shares were decided on August 26, 2004, March 21, 2005, and July 14, 2006 respectively.

Within the scope of the employee profit sharing, a total of 6,043 shares were transferred to employees

in January and February 2006. The shares are subject to a qualifying period of two years. Based on a bonus agreement without qualifying period, a further 2,500 shares were transferred to employees in April 2006.

The company's treasury stock was valued at cost at 1,075 TEuro (December 31, 2005 1,003 TEuro) and openly deducted from the equity capital. Of the current treasury stock of 293,000 shares with an imputed share of 293 TEuro (2.9 %) in the capital stock, 1,139 shares result from the capital increase in 2002 and 291,861 shares from the company's stock repurchasing programme. The shares were repurchased at an average price of 3.67 Euro per share.

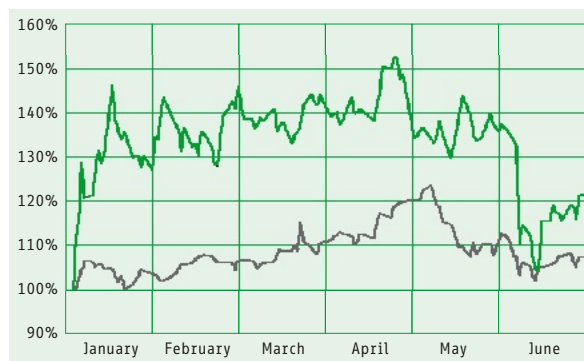
The treasury stock was repurchased for use as consideration in the context of mergers or the context of buying other companies, parts thereof or interests therein, or, where required, for tapping into additional capital markets or for issue to employees and the managing board.

Number of employees on yearly average

Thereof 70 % with an academical degree (Dipl.-Ing., Dipl.-Math., Dipl.-Inform., ...) with technical assistants and temporary workers

	30.06.2006	30.06.2005
Germany	161	151
USA	30	26
Total	191	177

Performance Q1-Q2 2006



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

Consolidated Income Statement according to IFRS at January 1, 2006 to June 30, 2006

	01.04.2006- 30.06.2006	01.04.2005- 30.06.2005	01.01.2006- 30.06.2006	01.01.2005- 30.06.2005
	T€	T€	T€	T€
Revenues	10,574	7,885	16,745	15,597
Cost of revenues	-6,635	-5,374	-10,425	-11,405
Gross Profit	3,939	2,511	6,320	4,192
Sales and marketing expenses	-1,364	-1,113	-2,625	-2,133
General administrative expenses	-651	-551	-1,133	-900
Research and development expenses	-411	-355	-853	-569
Other operating income	43	136	256	296
Other operating expenses	0	-211	-1	-230
Foreign currency gains	192	630	131	995
Operating profit	1,748	1,047	2,095	1,651
Interest income	103	17	182	49
Interest expenses	-22	-43	-57	-122
Income from associated companies	49	6	98	12
Other income and expenses	45	0	86	-32
Profit before income tax	1,923	1,027	2,404	1,558
Income tax	-779	-435	-982	-655
Other taxes	174	0	174	0
Net profit	1,318	592	1,596	903
thereof attributable to equity holders of the parent	1,360	592	1,679	903
Minority interests	-42	0	-83	0
Net profit and diluted net profit per share in Euro	0.14	0.06	0.16	0.09
Average number of floating shares (undiluted)	9,750,202	9,776,337	9,749,194	9,786,015
Average number of floating shares (diluted)	9,750,202	9,776,337	9,749,194	9,786,015



Consolidated Balance Sheet according to IFRS at June 30, 2006

Assets	30.06.2006 T€	31.12.2005 T€
Current assets		
Cash and cash equivalents	9,949	10,039
Marketable securities	945	812
Trade accounts receivable	11,407	10,032
Accounts receivable from related parties	11	126
Inventories	3,329	2,847
Income tax receivable	177	47
Other current assets	820	465
Current assets, total	26,638	24,368
Non-current assets		
Tangible fixed assets	1,291	823
Goodwill	2,042	1,877
Other intangible assets	3,850	3,816
Interest in associated companies	1,444	1,564
Accounts receivable from related parties	68	188
Deferred tax assets	683	702
Other assets	860	777
Non-current assets, total	10,238	9,747
Assets, total	36,876	34,115



Liabilities and shareholders' equity	30.06.2006 T€	31.12.2005 T€
Current liabilities		
Bank loans	5	57
Trade accounts payable	4,916	4,619
Accounts payable due to related parties	258	136
Advance payments received	852	1,081
Income tax payable	2,031	1,367
Provisions	2,217	1,981
Other current liabilities	2,428	2,892
Current liabilities, total	12,707	12,133
Non-current liabilities		
Deferred tax liabilities	1,968	1,677
Pensions accrued and similar obligations	2,252	1,966
Other non-current liabilities	269	30
Non-current liabilities, total	4,489	3,673
Shareholders' equity		
Attributable to the equity holders of the parent:		
Subscribed capital	10,040	10,040
Additional paid-in capital	3,141	3,159
Treasury stock	-1,075	-1,003
Consolidated unappropriated profit	8,284	6,605
Other reserves	-748	-492
	19,642	18,309
Minority interests	38	0
Shareholders' equity, total	19,680	18,309
Liabilities and shareholders' equity, total	36,876	34,115



Consolidated Cash Flow Statement at January 1, 2006 to June 30, 2006 (IFRS)

	01.01.2006- 30.06.2006	01.01.2005- 30.06.2005
	T€	T€
Cash flow from operating activities:		
Net income	1,596	903
Depreciation and amortization	818	975
Profit from the disposal of fixed assets	-6	-7
Profit from the sale of marketable securities	0	-5
Change in provisions and accruals	522	287
Change in inventories	-482	47
Change in trade accounts receivable	1,232	3,020
Change in other assets, not provided by/ used in investing or financing activities	-453	54
Change in trade accounts payable	-3	-1,600
Change in advanced payments received	-229	687
Change in other liabilities, not provided by/ used in investing or financing activities	478	-142
Amount of other non-cash income and expense	463	955
Net cash from operating activities	1,472	5,174
Cash flow from investing activities:		
Proceeds from sales of tangible fixed assets	6	7
Investments in tangible fixed assets and other intangible assets	-909	-118
Investments in software development	-266	-253
Investments in financial assets	13	0
Inflows from the sale of marketable securities as part of short-term cash management	0	955
Investments in marketable securities as part of short-term cash management	-244	-450
Net cash used in investing activities	-1,400	141
Cash flow from financing activities:		
Cash payments for the purchase of treasury stock	-105	-98
Issuance of employee stock	33	0
Redemption of bank loans	-52	-682
Net cash flows used in financing activities	-124	-780
Net effect of currency translation in cash and cash equivalents	-38	73
Increase/ Decrease in cash and cash equivalents	-90	4,608
Cash and cash equivalents at the beginning of the period	10,039	1,894
Cash and cash equivalents at the end of the period	9,949	6,502

Geographical Arrangement

	01.04.2006- 30.06.2006		01.04.2005- 30.06.2005		01.01.2006- 30.06.2006		01.01.2005- 30.06.2005	
	T€	%	T€	%	T€	%	T€	%
Revenues								
Germany	3,146	29.8	1,422	18.0	6,254	37.3	2,589	16.6
Rest of Europe	5,231	49.4	3,472	44.1	6,578	39.3	6,132	39.3
North America	2,197	20.8	2,991	37.9	3,913	23.4	6,876	44.1
Group total	10,574	100.0	7,885	100.0	16,745	100.0	15,597	100.0
Investments in tangible fixed assets and intangible assets								
Germany	224	28.1	141	92.2	578	49.2	354	95.4
North America	572	71.9	12	7.8	597	50.8	17	4.6
Group total	796	100.0	153	100.0	1,175	100.0	371	100.0

	30.06.2006		30.06.2005		31.12.2005	
	T€	%	T€	%	T€	%
Segment assets						
Germany	31,938	86.6	26,081	81.4	29,812	87.4
North America	4,938	13.4	5,978	18.6	4,303	12.6
Group total	36,876	100.0	32,059	100.0	34,115	100.0

Consolidated statement of recognized income and expenses in the group at January 1, 2006 to June 30, 2006 (IFRS)

	01.01.2006- 30.06.2006	01.01.2005- 30.06.2005
	T€	T€
Currency conversion	-149	736
Changes in current market values of available-for-sale securities, recognized in the shareholders' equity	-111	2
Gains (losses) on available-for-sale securities, recognized in the consolidated income statement	0	4
Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity	4	-2
Valuation adjustments recognized directly in the shareholders' equity	-256	740
Consolidated net profit	1,596	903
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements	1,340	1,643
thereof attributable to equity holders of the parent	1,423	1,643
thereof minority interests	-83	0

*Consolidated Statements of Changes in Equity
at June 30, 2006 (IFRS)*

	Subscribed capital	Additional paid-in capital	Consolidated unappropriated profit
	T€	T€	T€
Status at December 31, 2004	10,040	3,141	4,040
1. Currency conversion			
2. Changes in current market values of available-for-sale securities, recognized in shareholders' equity			
3. Gains/ losses on available-for-sale securities, recognized in the consolidated statement of operations			
4. Deferred taxes on valuation adjustments, recognized directly in shareholders' equity			
Valuation adjustments recognized directly in the shareholders' equity			
5. Consolidated net profit at 30.06.05			903
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements			903
6. Purchase of own shares in 2005			
Status at June 30, 2005	10,040	3,141	4,943
Status at December 31, 2005	10,040	3,159	6,605
1. Currency conversion			
2. Changes in current market values of available-for-sale securities, recognized in shareholders' equity			
3. Deferred taxes on valuation adjustments, recognized directly in shareholders' equity			
Valuation adjustments recognized directly in the shareholders' equity			
4. Consolidated net profit at 30.06.06			1,679
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements			1,679
5. Employee stock		-18	
6. Purchase of own shares in 2006			
7. Changes in consolidated group			
Status at June 30, 2006	10,040	3,141	8,284



Attributable to equity holders of the parent					Minority interest	Total Shareholders' equity
Other reserves						
Treasury stock	Difference from pension valuation	Difference from currency translation	Stock market valuation of securities	Total		
T€	T€	T€				
-810	25	-562	-1	15,873	0	15,873
		736		736		736
			2	2		2
			4	4		4
	0		-2	-2		-2
	0	736	4	740		740
				903	0	903
	0	736	4	1,643	0	1,643
-98				-98		-98
-908	25	174	3	17,418	0	17,418
-1,003	-256	-244	8	18,309	0	18,309
		-149		-149		-149
			-111	-111		-111
	0		4	4		4
	0	-149	-107	-256		-256
				1,679	-83	1,596
	0	-149	-107	1,423	-83	1,340
33				15		15
-105				-105		-105
					121	121
-1,075	-256	-393	-99	19,642	38	19,680

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