innovation in traffic systems AG

Annual Report 2007

On the Way.
Annual Report 2007

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 one of the worldwide leaders 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 of init Group

according to IFRS

		2007		2006
Balance Sheet				
Balance sheet total	T€	44,475	T€	36,842
Shareholders' equity	T€	26,688	T€	21,186
Subscribed capital	T€	10,040	T€	10,040
Equity-to-assets ratio	%	60.0	%	57.5
Non-current assets	T€	13,424	T€	10,076
Current assets	T€	31,051	T€	26,766
Income Statement				
Revenues	T€	46,767	T€	36,258
Gross profit	T€	16,542	T€	13,256
EBIT	T€	7,228	T€	5,633
Net profit	T€	5,326	T€	3,371
Net profit per share	€	0.54	€	0.36
Cashflow				
Cashflow from operating activities	T€	-2,617	T€	-1,091
Share				
Issuing price	€	5.10	€	5.10
Peak share price (2007)	€	9.40	€	8.69
Bottom share price (2007)	€	6.83	€	5.90
Number of shares, end of year		10,040,000		10,040,000

Content

Letter to the Shareholders
and Friends of the Company 2

Report of the Supervisory Board 7

The init Share 12

Corporate Governance 16

Financial Statements 2007 22

Consolidated Financial Statements 23

Notes to the
Consolidated Financial Statements 32

Group Status Report 72

Financial Statements of init AG 92

Notes to the Financial Statements of init AG 96

Status Report of init AG 102

The Managing Board: Wolfgang Degen, Joachim Becker, Dr. Jürgen Greschner, Bernhard Smolka, Dr. Gottfried Greschner

Letter to the Shareholders

Ladies and gentlemen,
dear Shareholders,

For the third time in a row, I have the pleasure of presenting you with a record balance sheet. What was in the offing in the previous year due to many new contacts and projects in every part of the world finally came true in 2007: init innovation in traffic systems AG has advanced to become the most sought-after supplier of intelligent systems for the management and control of local public transportation worldwide. From Oslo in Norway to Dubai in the United Arab Emirates, from Vancouver in Canada to Hobart in Tasmania, transportation companies opt for our hardware and software to increase the efficiency, schedule effectiveness, speed, safety and security of their services, thus making them more attractive to passengers.

For our company and for you as our shareholders this means the following:

> In 2007, init innovation in traffic systems AG far exceeded its annual targets set for sales and profitability.

> At 29 per cent, our revenues grew above average to reach a new record of 46.8 million Euro (2006: 36.3 million Euro).

> The earnings before interest and taxes (EBIT) rose by over 28 per cent to 7.2 million Euro (2006: 5.5 million Euro).

> The annual net profit increased by 56 per cent to 5.3 million Euro (2006: 3.4 million Euro, thus marking a new record.

> The earnings per share improved by 50 per cent to 0.54 Euro (2006: 0.36 Euro).

> The Managing Board and the Supervisory Board will propose to the shareholders' meeting an increase in dividends to 0.14 Euro (2006: 0.10 Euro).

As satisfactory as these figures may be, they fail to reflect the true dimension of our business and provide but a rudimentary picture. Never before in our now 25 years of company history have init employees traveled so much, never before has their expertise been so sought-after, never before did we have so many interesting and worthwhile projects on virtually every continent.

Global growth trends

A number of different trends have been a contributing factor in this. On a global basis, it is most certainly subjects such as climate change, carbon dioxide reduction and limited resources which have given more weight to investments in the setup and development of equally efficient and environmentally friendly local public transportation systems. Billions are spent not only by classic industrial nations such as the USA, but also by rapidly developing “tiger economies” such as the United Arab Emirates. No other instrument sees so much progress here without cutbacks in mobility in conurbations and in terms of area. By providing appropriate systems, init innovation in traffic systems AG is making an indispensable contribution here.

But the use of intelligent telematics systems for traffic flow control also has a number of other advantages, which make them ever more valuable for transportation companies and for society on the whole. A brief look at the key contracts which init has won in recent months makes this abundantly clear.

For the past three years, the York region of Canada has made efforts to set up one of the most modern local public transportation systems in Canada from the drawing board. init has been involved in this right from the start and has devised and installed the Intelligent Transportation System (ITS) as the backbone of the express bus service called VIVA. In 2007, init received a follow-up order for the equipment of all vehicles, since the ITS had proved worthwhile in practice and paid for itself in next to no time.

A further special feature of this project is what we call the “interoperability“ which the ITS from init can ensure. In this case, this means that the four independent companies here, which control their operations from four different control centers, are linked in a completely integrated regional system. This makes it possible, among other things, to provide real-time passenger information in a standardized format.

Interoperability increasingly in demand

The aspect interoperability was also one of the deciding argument for DB Stadtverkehr, a subsidiary of Deutsche Bahn AG, to opt for a multiclient-capable control system with integrated fare management from init (Regio-ITCS). Around 3,000 vehicles in a region-wide regional bus transportation network in Bavaria are earmarked for provision with a uniform dispatch system by 2010. Connection to the Bavaria-wide passenger information system DEFAS and the traveler information system of the Deutsche Bahn will mean that passengers will be informed in real time of the arrival and departure times of buses and trains, thus dovetailing the local bus service and long-distance rail transport more efficiently. Other transportation systems can easily be added to the Regio-ITCS. For init this means a contract in the two-digit millions for the equipment of vehicles and control centers, and appropriately high growth potentials.

As this example shows, init is able to integrate even very large vehicles fleets quickly into a single system. In actual fact, the most extensive and efficient local transportation systems worldwide are today controlled using init technology. An aspect which also caught the attention of the leading transportation company in the region around the west coast metropolis of Seattle. After intensive bidding competition, the decision-makers there decided to commission init with the supply of a control systems, the equipment of the entire vehicle fleet with on-board computers, and the integration of passenger information and passenger counting systems. It is not without reason that King County Metro Transit has twice been named the most innovative and best local public transportation company in the USA.

init systems control the world's largest vehicle fleets in local public transportation

Innovation is a yet another important keyword that is connected with init and is increasingly important for transportation companies in competition. This was one of the reasons why the MTA New York City Transit Department had its entire Paratransit bus fleet for the on-demand transportation of mobility-restricted persons controlled by an init telematics system and provided with the COPILOTtouch on-board computer developed by init. The Automatic Vehicle Location and Monitoring (AVLM) system, in particular, proved more reliable than competing systems and also allows the optimization of the Paratransit service during operation.

These advantages taken together and the integration of all performance requirements of a modern transportation company in a single system have led to the solutions from init setting standards on a worldwide scale. This makes us an internationally sought-after partner when it comes to the setup of new local public transportation infrastructures.

We were able to provide proof of this claim in 2007 by winning a tender in Dubai – the largest individual order in our 25 years of company history. Over the next four years, the Arab Emirate of Dubai will invest in excess of 5 billion Euro in the setup of a public transportation system which includes buses, water taxis and a metro. The authority responsible for the planning and implementation of all transportation and traffic investments is the state-owned Roads and Transport Authority (RTA). The RTA had received specific instructions from the government to establish a local public transportation system by 2010 that would not only meet international standards in terms of quality and service but itself set a standard for the world.

Consequently, the individual components for it must meet the most stringent requirements and are subject to a correspondingly critical selection process. Thus, winning this tender was for us a confirmation of the superior technological efficiency of our products. A further confirmation of this came toward the end of 2007 from Australia. Metro Tasmania, the biggest local public transportation company on the island of Tasmania to the south-east of Australia, resolutely opted for an electronic ticketing system from init because – in the words of Metro Tasmania – it combined the best technology with the best price-performance ratio.

init enters new territory –
with innovations and new customers

In the same way as we are able, from a technological point of view, to enter new territory year after year, we now on a yearly basis also gain new customers in countries in which were not represented previously. In the case of the United Arab Emirates and Australia, this opens up enormous potentials for us, to the point that we decided to establish our own subsidiaries there, to allow us to serve the Asian-Pacific region from there.

In so doing, we also comply with the requirements and demands of our customers. In the usual fashion, we will not risk costly adventures in making these investments. Instead, we will finance the setup of our local businesses using projects already acquired.

Ladies and gentlemen, dear shareholders, despite the generally increasing economic risks, which include rising raw material and procurement prices, the weak US dollar, and the easing trend emanating from the financial and real estate crisis in the USA, our company continues to be on the road to success. Thanks to the large-scale orders recently won in Seattle, Dubai and from the Deutsche Bahn, init is able to face 2008 as a year promising further great success. Our current volume of orders of over 100 million Euro already secures around 80 per cent of our sales plan for 2008 and even extends well into 2009.

In addition, there are a number of other tenders for major projects in Europe, North America, Asia and Australia, in which we figure we stand a good chance. Further growth potentials result from our involvement in the automotive sector, in which we were able to convince our first major customer of the superior quality and efficiency of our telematics on-board unit (OBU), and from the takeover of Interplan in January 2008, previously a competing supplier of planning software.

2008 more than a reason to celebrate

Against this background, we aim to increase both our sales and EBIT in 2008 by around 20 per cent and are confident that we will continue to manage over the next few years to achieve a sales and earnings growth above the market average.

In 2008, init innovation in traffic systems AG will commemorate its 25th anniversary with a celebration. For our company and for you, our shareholders, however, we should have even more reason to celebrate. In addition to the increase in dividends to 0.14 Euro, which the Managing Board and the Supervisory Board intend to propose to the shareholders' meeting convened for May 27, 2008, we also hope to increase our corporate value and thus, the share price, with lasting effect.

Our employees will continue to dedicate their best efforts to achieving and, where possible, even exceeding these goals. The foundations for yet another record year have been laid by us. Provided that the general condition of the stock market plays along, this should also be reflected in the share price of init innovation in traffic systems AG.

Karlsruhe, March 7, 2008
for the Managing Board

Dr. Gottfried Greschner
Chairman

Report of the Supervisory Board

Dear Shareholders,

The following report will provide you with details of the activities of the Supervisory Board, specifically its role in monitoring the Managing Board in accordance with the articles of incorporation. It ensures transparency of the deliberations and decisions of the Board in fiscal 2007.

The Managing Board of init innovation in traffic systems AG informed the Supervisory Board regularly, promptly and comprehensively of its activities in order to enable the Supervisory Board to perform its duty of acting in an advisory capacity to the Managing Board and monitoring its affairs in the preceding year. The briefings and discussions in the Supervisory Board meetings included key facts and measures relating to, and affecting, the company and its operations.

Any measures requiring the consent of the Supervisory Board on grounds of legal or statutory provisions were thoroughly deliberated and presented for a resolution. The Chairman of the Supervisory Board kept in close contact with the Managing Board at all times during the preceding fiscal year, while the members of the Supervisory Board were also available in individual matters. Furthermore, all transactions requiring reporting were disclosed on an ad hoc basis. Between the meetings, the Chairman of the Supervisory Board notified the members of its Board both in writing and verbally of any talks with the Managing Board.

Subjects of the Supervisory Board meetings

In its four regular meetings in 2007, convened on March 6, May 15, October 9, and December 5, 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 the development of the group. Based on the reports of the Managing Board, the Supervisory Board in particular discussed the economic situation including economic and liquidity planning, the incoming orders, the orders on hand, any concealed risks and key business transactions, and the medium- and long-term corporate strategy including organisational issues and personnel planning. Other focal subjects in the Supervisory Board meetings included the market developments in Germany, Europe, North America, the Middle East and Australia and decisions on subjects requiring the approval of the Supervisory Board. The latter included the formation of the subsidiaries in Australia and Dubai, and the acquisition of the Interplan division of PTV AG, Karlsruhe, and subsequent change of name to initplan GmbH. The Supervisory Board was also regularly updated by the Managing Board on in-house renovations and gave careful attention to deciding on an auditor by way of a tendering procedure at a special meeting on March 14, 2007. The auditor was subsequently proposed to the shareholders' meeting on May 16, 2007.

Furthermore the issue corruption was discussed by the Supervisory Board and the Managing Board. The Supervisory Board has initiated a catalog of countermeasures for prevention to accomodate the international expansion of the company.

Annual and consolidated financial statements approved without objections

The annual financial statements of init innovation in traffic systems AG, the consolidated financial statements and the status report as of December 31, 2007 were audited by the auditing firm Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Mannheim, commissioned by the shareholders' meeting as auditors of init innovation in traffic systems AG and as group auditors, and were issued with an unqualified audit certificate.

The aforementioned reports were discussed in detail with the Managing Board and the auditor in the meeting of the Supervisory Board on March 11, 2008. The auditors reported on key results of their audit. Questions posed by the members of the Supervisory Board were subsequently answered. The Supervisory Board came to the conclusion that the audit procedure applied by the auditors was appropriate and adequate and that the set of figures contained in the financial statements had been audited in sufficient depth and found to be coherent.

The Managing Board presented its proposal on the appropriation of unappropriated profit to the Supervisory Board. It intends to propose to the shareholders' meeting on May 27, 2008 that the net profit for the year of 3,641,647.42 Euro be utilized as follows: 0.14 Euro per share, corresponding to 1,378,198.92 Euro, will be distributed as dividend. The remainder of 2,263,448.50 Euro will be carried forward to new account. The proposed appropriation of unappropriated profit was endorsed by the Supervisory Board.

Following the completion of its audit, the Supervisory Board did not raise any objections. It approved the consolidated financial statements and the pertinent status report, and adopted the annual financial statements of init innovation in traffic systems AG for the 2007 fiscal year.

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 and
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 effected by the auditors.

Corporate Governance on the Supervisory Board

The Supervisory Board was also actively involved in the implementation and monitoring of compliance with the German Corporate Governance Code. Pursuant to item 3.10 of the German Corporate Governance Code, the report of the Managing Board on Corporate Governance at init innovation in traffic systems AG provided in this annual report also applies to the Supervisory Board. On December 5, 2007, the Managing Board and the Supervisory Board revised its declaration of compliance in accordance with § 161 of the German Stock Corporation Law (AktG), which is permanently available to shareholders on the company website.

init innovation in traffic systems AG complies with the recommendations of the Government Commission on the German Corporate Governance Code with only a few minor exceptions. Thus, for example, the existing D&O insurance does not provide for an excess payable by members of executive bodies (Code item 3.8 para. 2) since it is a group insurance for Managing Board, Supervisory Board and executives both in Germany and abroad. Furthermore, it does not specify an age limit for members of the Managing or Supervisory Board (Code items 5.1.2, para. 2 and 5.4.1 para. 1).

The German Corporate Governance Code further recommends the set-up of committees, which was once again dispensed with in the preceding fiscal year. Since the Supervisory Board of init innovation in traffic systems AG merely comprises three members, the set-up of committees of the Supervisory Board (Code item 5.3.1), specifically an audit committee (Code item 5.3.2) and a nomination committee (Code item 5.3.3), is neither necessary nor practicable in the interest of the company and its shareholders. In view of the conditions at init innovation in traffic systems AG and its size, this would not be very expedient either if the Supervisory Board wants to ensure an efficient performance of its duties.

We would like to thank all our employees and the Managing Board again for their great service and personal dedication in the 2007 fiscal year. In so doing, you have once again contributed to a very successful fiscal year for init. Our thanks also to our shareholders, customers, and business partners for their trust in our company.

Karlsruhe, March 2008
For the Supervisor Board

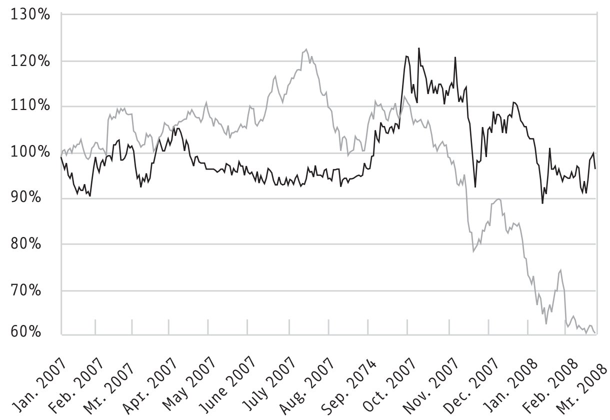
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau
Chairman


Bank of
VISTA MEDIA
"SOARING
AND
JOYFUL
BEST MUSICAL!
TASTE
FOOD & FUN

init in New York

The New York Metropolitan Transportation Authority (MTA) provides a special service for all who, due to disability or other reasons, are not able to use regular public buses or subways. Within the scope of the Paratransit service, minibuses ferry passengers directly from door to door. **Frank Binder** *and several of his colleagues developed and implemented the Automatic Vehicle Location and Monitoring (AVLM) system and the minibus navigation solution specially for this system. Now the operator can monitor and optimize the Paratransit service efficiently in real time and thus improve the service quality for its passengers.*

Performance



init share tests all-time high

In 2007, the share of init innovation in traffic systems AG (ISIN DE0005759807) tested its all-time high. After profit takings, it presented our shareholders with an appreciation over the whole year – not taking into account the dividend payout of 0.10 Euro per share – of 8.3 per cent as of the end of the year.

Initially, the price mainly followed the same trend as the TecDAX. Starting from its high level of 7.80 Euro attained as of the end of 2006, the share successfully maintained its 7-Euro-mark in January. By the time of the balance sheet press and analyst conference at the end of March, it had climed to its first peak of 8.20 Euro. However, its performance, like that of other small caps in the technology sector, was subsequently eclipsed by the DAX high.

It was not until the third quarter that init was able again to continue its upturn in share price with positive announcements and by participating in various investor conferences. In early October, the share then soared to a new all-time high of 9.40 Euro, which was followed by profit takings. Despite the fact that the init share, as many others, suffered from a sell-out in technology securities and second-line stocks at year-end, it was quoted as as high as 8.45 Euro as of the end of December.

The generally bearish tendency in prices on the German stock market, which was affected by the banking and financial crisis emanating from the USA, continued in the first few months of 2008 and led to massive depreciation in the DAX and TecDax. In contrast, the init share held up comparatively well, albeit also faced with a decrease in value.

Investor Relations

Due to its positive business trend and continuing excellent growth prospects, init innovation in traffic systems AG registered increased interest among institutional investors. The roadshows held in Germany and abroad after disclosure of the quarterly figures met with a highly positive response. The company also presented itself at capital market conferences in Munich und Frankfurt and at the “German Equity Forum“.

init provides all investors with an “investor service“. At www.initag.de, interested parties can register to receive company information promptly in a first-hand account.

Both analysts and research firms continue to rate the init share as a clear “buy“, assessing its current upside target (March 2008) as 11 Euro.

Your investor relations contact

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Company calendar 2008

03/26/2008	Balance sheet press conference and Analysts' conference, Karlsruhe
05/14/2008	Disclosure of three-month report
05/27/2008	General Meeting, Karlsruhe
08/14/2008	Disclosure of six-month report
11/10/2008	Disclosure of nine-month report
11/2008	Analysts' conference, Eigenkapitalforum, Frankfurt

Higher dividends

It was not until 2007 that init was able to pay shareholders their first dividend of 0.10 Euro per share. This year, shareholders will again receive a fair share in the company profits. Following its best performance in company history and against the background of the 25th anniversary of init, the Managing Board plans to increase the dividend by 40 per cent to 4 cents per share.

The Managing Board intends to propose to the shareholders' meeting held on May 27, 2008 that a dividend of 0.14 Euro be paid for each dividend-bearing share. A total of 1,378,198.92 Euro from the net profit for 2007 of 3,641,647.42 Euro will be utilized for the dividend distribution. The remainder of 2,263,448.50 Euro will again be carried forward to new account.

init in Dubai

In September 2007, init won a contract from the Roads and Transport Authority (RTA) for the setup of a transport control and information system in Dubai. Using the Intermodal Transport Control System MOBILE-ITCS, dispatchers in the control center of the RTA will in future have all operations well under control. **Jürgen Langer** *heads the production and service team of init. Among other things, he is responsible for the equipment of the around 1,300 buses in Dubai.*

Corporate Governance

Report of the Managing Board and the Supervisory Board

Good and responsible management of the company has been a key part of the corporate culture of init innovation in traffic systems AG since its inception 25 years ago. A particular focal point in the day-to-day work of both staff and management is sustainability of every aspect of business, including our value added.

After our IPO in July 2001, it became even more vital that our corporate policy concentrate increasingly on the interests of our shareholders. Since the introduction of the Corporate Governance Code in 2002, we have complied with its provisions with but a few exceptions. Any deviation from its recommendations is for good reason and in the interest of the company and its shareholders.

Under the present principles, Corporate Governance affects every aspect of the corporate management and monitoring system. The Code aims to increase the trust of national and international investors, customers, employees, and the public in the management and control of German listed corporations. In the following, we aim to provide a transparent and comprehensible picture of the rules and regulations applicable in Germany and demonstrate how these are lived out by init.

Cooperation of Managing Board and Supervisory Board

In compliance with the German Stock Corporation Act and the articles of incorporation, the Managing Board of init innovation in traffic systems AG manages the company and conducts its affairs. It is committed to the interests of the company and its shareholders and aims to increase the corporate value with lasting effect. Its responsibilities include the development of a strategic orientation, determination of the corporate policy, planning and monitoring of the budget, managing the opportunities and risks related to our business development, and reporting on these to the Supervisory Board and the general public.

The Managing Board of init innovation in traffic systems AG currently consists of five members. In contrast to other companies, these are very much involved in the day-to-day operations of the various business segments which they manage according to their competences. In agreement with a responsible management approach, they are therefore very close to the key reference groups of the company; its customers, suppliers, employees, and its shareholders, and thus can react immediately to new situations.

The Managing Board and the Supervisory Board of init innovation in traffic systems AG work closely together for the good of the company and its shareholders. The Managing Board informs the Supervisory Board promptly and comprehensively of all relevant issues relating to the management and development of the company and its risk situation and management.

The Supervisory Board, in turn, acts in an advisory capacity to the Managing Board and monitors its affairs. Furthermore, the Supervisory Board is responsible for the appointment of members of the Managing Board and for determining their number. At init innovation in traffic systems AG, the Supervisory Board is made up of three persons whose many years of experience as entrepreneurs and in management functions contribute to the competence of the company management. Members of the Supervisory Board are appointed until the end of the shareholders' meeting, which decides on formal discharge for the fourth fiscal year after commencement of the term of office. The fiscal year in which the term commences is not taken into account. Re-election is possible.

Remuneration system for the Managing Board

A key aspect of Corporate Governance is the remuneration system for the management and controlling bodies of a German stock corporation. The remuneration is to be determined by factors such as the result of economic activity of the company to provide incentives for effectively improving the company performance in the interest of the shareholders.

The remuneration for members of the Managing Board is settled by the Supervisory Board. At init, the remuneration is determined by the size of the company, its economic and financial situation, and the amount and structure of comparable companies. The remuneration system for the Managing Board includes as follows:

1. A fixed salary component payable on a pro-rata basis in 13 monthly installments.

2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee shares and applicable as a percentage from an operating result of 0.4 million Euro. The management bonus is limited to 25 % of the total compensation package without the restricted stocks under item 3.

3. A further bonus in the form of stocks, from consolidated earnings exceeding 2 million Euro before taxes and after deduction of all management bonuses and employee shares. Where this amount is exceeded, each member of the Board receives one share for each 300 Euro of exceeding profit. The number of "restricted stocks" is limited to 5,000 shares per Board member. The shares are subject to a qualifying period of five years. The taxes relating to the share transfer are borne by the company.

   No legal claim may be made to payment of this bonus, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board.

4. Direct pension commitments exist for three of the five members of the Managing Board.

5. A defined contribution plan instead of a direct pension commitment exists for two members of the Managing Board.

6. An additional defined contribution plan exists for four members of the Managing Board.

Based on the resolution passed by the shareholders' meeting on July 13, 2006, an individualized disclosure of the Board members' salaries can be withheld for a period of five years, in compliance with § 285 clause 1 no. 9a sentences 5 to 9 HGB and § 314 para. 1 no. 6a sentences 5 to 9 HGB.

Benefits payable on leaving the Managing Board have not been agreed. However, a termination bonus may be specified in individual termination agreements.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board of init was decided in the shareholders' meeting on July 13, 2006, based on a proposal submitted by the Managing Board and the Supervisory Board. The articles of incorporation of init have been amended accordingly.

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals 9,000 Euro p.a. for the members and 18,000 Euro p.a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable remuneration is limited to 300 % of the fixed remuneration and is calculated using the following formula:

V= ((0.5*price/5.1 + 0.5 * profit/2 million) -1) * fixed component

Where V (variable component) is less than zero, the variable component does not apply and only the fixed component of the remuneration is payable.

Breakdown of the remuneration of the Supervisory Board in 2007:

Name	Fixed component in Euro	Variable component in Euro
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18,000	27,403
Bernd Koch	9,000	13,702
Fariborz Khavand	9,000	13,702

Shareholdings of the Managing Board and the Supervisory Board

On the whole, the Managing Board directly or indirectly holds 4,113,347 shares in the company. This corresponds to 40.97 % of the shares. The Supervisory Board of init AG does not hold any shares.

An individual disclosure of the shares held by the Managing Board is included in the Appendix to the Consolidated Financial Statements.

Pursuant to Section 6.6 of the Corporate Governance Code, all shareholdings held by individual Managing Board and Supervisory Board members and any persons closely related to these must be reported immediately. This disclosure requirement includes any acquisition or sale exceeding 5,000 Euro per calendar year. init AG publishes all such transactions promptly. A list of the notified Directors´ Dealings in fiscal 2007 is available in the "annual document" on our homepage.

Declaration of compliance with the German Corporate Governance Code – 2007

In compliance with § 161 of the German Stock Corporation Act (AktG), the Managing Board and the Supervisory Board of a listed corporation are required each year to declare compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Official Gazette, and to disclose any deviation from these recommendations. The declaration of compliance with the Code must be made available on the website of the company for a period of five years.

The German Corporate Governance Code contains recommendations and suggestions. A company can deviate from the recommendations of the Code but is required to disclose any such deviation in its annual declaration of compliance. Deviations from the suggestions of the Code do not require disclosure.

Thus, the Managing Board and the Supervisory Board of init innovation in traffic systems AG unanimously declare compliance with the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 14, 2007 with the following exceptions and make the following declaration of compliance in accordance with § 161 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.

Shareholders and shareholders' meeting

The shareholders' meeting was convened by post instead of electronically, inviting all national and international financial service providers, shareholders and associations of shareholders. It was also advertised in the Electronic Federal Gazette. The necessary data for the shareholders' meeting were made available to shareholders on the website of init AG (Code item 2.3.2).

Joint aspect for Managing Board and Supervisory Board

> The D&O insurance does not provide for an excess payable by members of executive bodies (Code item 3.8 para. 2) since it is a group insurance for Managing Board, Supervisory Board and executives both in Germany and abroad.

Managing Board

> Based on the resolution passed by the shareholders' meeting on July 13, 2006, the company refrains from an individualized disclosure of the Board members' salaries in its annual report (Code item 4.2.4).
> Furthermore, it does not specify an age limit for members of the Managing Board (Code item 5.1.2 para. 2).

Supervisory Board

> The company does not specify an age limit for members of the Supervisory Board (Code item 5.4.1 para. 1).
> The Supervisory Board has not set up any committees (Code item 5.3.1), an audit committee (Code item 5.3.2) or a nomination committee (Code item 5.3.3), since the specific conditions do not exist and a set-up is considered impractical due to the size of both the company and the Supervisory Board (3 members).

Karlsruhe, December 5, 2007

For the Managing Board of init innovation in traffic systems AG

Dr.-Ing. Gottfried Greschner
Chairman/Chief Executive Officer

Bernhard Smolka
Member of the Board/Chief Financial Officer

For the Supervisory Board of init innovation in traffic systems AG

Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau
Chairman

init in Nuremberg

As here in Nuremberg, init is setting up a region-wide operations and fleet management system for bus transportation in Bavaria for a total of four regional transportation companies of DB Stadtverkehr GmbH Around 3,000 vehicles will then be managed using a uniform system, irrespective of whether they are traveling in Franconia, in East Bavaria, in the Allgäu, or in Upper Bavaria. **Andrea Mohr-Braun** *is the marketing team manager. She keeps contact with the customers and arranges regular meetings with those responsible at init for an exchange of experiences and ideas – in 2007 also in Nuremberg.*

Financial Statement 2007

Consolidated Financial Statements

Consolidated Income Statement	23
Consolidated Balance Sheet	24
Cash Flow Statement for the Consolidated Financial Statements	26
Consolidated Statement of Recognized Income and Expenses	27
Consolidated Statements of Changes in Equity	28
Notes to the Consolidated Financial Statements	32
Group Status Report	72
Independent Auditors' Report	88
Responsibility Statement by the legal representatives	89

Financial Statements of init AG

Balance Sheet	92
Income Statement	94
Statements of Changes in fixed Assets	94
Notes	96
Status Report	102
Independent Auditors' Report	107
Responsibility Statement by the legal representatives	108

This is a translation from the German language. The audit opinion issued in German language refers to the consolidated financial statements, group management report, financial statements and management report originally prepared in German language and not to the English translation of the consolidated financial statements, group management report, financial statements and management report.

Consolidated Income Statement for 2007

(IFRS)

	Notes No.	01/01/2007-12/31/2007 T€	01/01/2006-12/31/2006 T€
Revenues	5, 37	46,767	36,258
Cost of revenues	6	-30,225	-23,002
Gross profit		**16,542**	**13,256**
Sales and marketing expenses		-5,345	-5,281
General administrative expenses		-2,443	-2,095
Research and development expenses	7, 23	-1,844	-1,716
Other operating income	8	769	584
Other operating expenses		-11	-2
Foreign currency gains/losses	9	-1,004	358
Operating profit/loss		**6,664**	**5,104**
Income from associated companies	10, 24	436	202
Other income and expenses	11	128	327
Profit before interest and income tax (EBIT)		**7,228**	**5,633**
Interest income		202	332
Interest expenses		-353	-174
Profit before income tax (EBT)		**7,077**	**5,791**
Income tax	12, 25	-1,751	-2,420
Net profit		**5,326**	**3,371**
thereof attributable to equity holders of the parent company		5,223	3,486
Minority interests		103	-115
Net profit and diluted net profit per share in €	14	0.54	0.36

Consolidated Balance Sheet of December 31, 2007
(IFRS)

Assets	Notes No.	12/31/2007 T€	12/31/2006 T€
Current assets			
Cash and cash equivalents	17, 33	3,748	6,728
Marketable securities	18, 33	35	766
Trade accounts receivable	19, 33	19,956	13,851
Accounts receivable from related parties	36	9	8
Inventories	20	5,824	4,342
Income tax receivable		60	74
Other current assets	21	1,419	997
Current assets, total		**31,051**	**26,766**
Non-current assets			
Tangible fixed assets	22	3,864	1,334
Goodwill	23	2,081	2,081
Other intangible assets	23	3,639	3,729
Interest in associated companies	24	1,887	1,451
Accounts receivable from related parties	36	168	68
Deferred tax assets	25	549	435
Other assets	26	1,236	978
Non-current assets, total		**13,424**	**10,076**
Assets, total		**44,475**	**36,842**

Liabilities and shareholders' equity	Notes No.	12/31/2007 T€	12/31/2006 T€
Current liabilities			
Bank loans	27	1,400	0
Trade accounts payable	27	3,441	4,683
Accounts payable of percentage-of-completion-method	19, 27	817	1,404
Accounts payable due to related parties	27, 36	64	100
Advance payments received	27	937	739
Income tax payable		359	437
Provisions	29	2,103	1,385
Other current liabilities	28	3,855	2,801
Current liabilities, total		**12,976**	**11,549**
Non-current liabilities			
Long-term debt less current portion	27	1,154	0
Deferred tax liabilities	25	1,647	1,775
Pensions accrued and similar obligations	30	2,010	2,234
Other non-current liabilities	28	0	98
Non-current liabilities, total		**4,811**	**4,107**
Shareholders' equity			
Attributable to the equity holders of the parent company			
Subscribed capital	31	10,040	10,040
Additional paid-in capital	31	3,973	3,413
Treasury stock	31	-977	-1,665
Consolidated unappropriated profit		14,347	10,091
Other reserves	31	-889	-784
		26,494	**21,095**
Minority interests		194	91
Shareholders' equity, total		**26,688**	**21,186**
Liabilities and shareholders' equity, total		**44,475**	**36,842**

Cash Flow Statement for the Consolidated Financial Statements for 2007

(IFRS)

	01/01/2007-12/31/2007 T€	01/01/2006-12/31/2006 T€
Cash flow from operating activities:		
Net income	5,326	3,371
Depreciation and amortization	1,315	1,518
Profit (-)/Losses (+) on the disposal of fixed assets	-1	-25
Profit (-)/Losses (+) from the sale of marketable securities	-263	-12
Change of provisions and accruals	494	-328
Change of inventories	-1,482	-1,495
Change in trade accounts receivable	-6,105	-3,676
Change in other assets, not provided by/used in investing or financing activities	-667	-642
Change in trade accounts payable	-1,242	-236
Change in advanced payments received	-389	1,062
Change in other liabilities, not provided by/used in investing or financing activities	841	-1,072
Amount of other non-cash income and expense	-444	444
Net cash from operating activities	**-2,617**	**-1,091**
Cash flow from investing activities:		
Proceeds from sales of tangible fixed assets	8	29
Investments in tangible fixed assets and other intangible assets	-3,428	-1,093
Investments in software development	-415	-636
Investments in associated companies	-100	0
Cash flow from the acquisition of subsidary shares and from minority interest	0	-10
Inflows from associated companies and loans receivable	0	97
Inflows from the sale of marketable securities as part of short-term cash management	969	633
Investments in securities as part of short-term cash management	-2	-511
Net cash flows used in investing activities	**-2,968**	**-1,491**
Cash flow from financing activities:		
Dividend paid out	-968	0
Cash payments for the purchase of treasury stock	-97	-766
Proceeds from sale of company's own shares	1,075	0
Proceeds (+)/Redemption (-) of bank loans	2,554	-57
Net cash flows used in financing activities	**2,564**	**-823**
Net effect of currency translation and consolidation changes in cash and cash equivalents	41	94
Increase/Decrease in cash and cash equivalents	**-2,980**	**-3,311**
Cash and cash equivalents as of the beginning of the period	6,728	10,039
Cash and cash equivalents as of the end of the period	**3,748**	**6,728**

Consolidated Statement of recognized Income and Expenses in the Group for 2007

(IFRS)

	01/01/2007- 12/31/2007 T€	01/01/2006- 12/31/2006 T€
Currency conversion	-419	-320
Actuarial gains on defined benefit obligations for pensions, recognized in the shareholder's equity	426	131
Changes in current market values of available-for-sale securities, recognized in the shareholders' equity	-3	-52
Gains on available-for-sale securities, recognized in the consolidated income statement	52	3
Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity	-161	-54
Valuation adjustments recognized directly in the shareholders' equity	**-105**	**-292**
Consolidated net profit	**5,326**	**3,371**
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements	**5,221**	**3,079**
thereof attributable to equity holders of the parent company	5,118	3,194
thereof minority interests	103	-115

Consolidated Statements of Changes in Equity

(IFRS)

	Attributable to equity holders			
	Subscribed capital	Additional paid-in capital	Consolidated unappro-priated profit	Treasury stock
	T€	T€	T€	T€
Status at January 1, 2006	10,040	3,159	6,605	-1,003
1. Currency conversion				
2. Actuarial gains on defined benefit obligations for pensions				
3. Changes in current market values of available-for-sale securities, recognized in the shareholders' equity				
4. Gains (losses) on available-for-sale securities, recognized in the consolidated statement of operations				
5. Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity				
Valuation adjustments recognized directly in the shareholders' equity				
6. Consolidated net profit 2006			3,486	
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements			3,486	
7. Remuneration based upon shares		254		89
8. Purchase of own shares				-751
9. Business combinations				
10. Purchase of minority interests				
Status at December 31, 2006	10,040	3,413	10,091	-1,665
1. Currency conversion				
2. Actuarial gains on defined benefit obligations for pensions				
3. Changes in current market values of available-for-sale securities, recognized in the shareholders' equity				
4. Gains (losses) on available-for-sale securities, recognized in the consolidated statement of operations				
5. Deferred taxes on valuation adjustments, recognized directly in the shareholders' equity				
Valuation adjustments recognized directly in the shareholders' equity				
6. Consolidated net profit 2007			5,223	
Total income and expenses and value adjustments not affecting the operating result, recognized in the financial statements			5,223	
7. Remuneration based upon shares		560		292
8. Purchase of own shares in 2007				-97
9. Disposal of own shares				493
10. Dividend paid out			-967	
Status at December 31, 2007	10,040	3,973	14,347	-977

of the parent company				Minority interest	Total Shareholders' Equity
Other Reserves					
Difference from pension valuation	Difference from currency translation	Stock market valuation of securities	Total		
T€	T€	T€	T€	T€	T€
-256	-244	8	18,309	0	18,309
	-320		-320		-320
131			131		131
		-52	-52		-52
		3	3		3
-51		-3	-54		-54
80	-320	-52	-292		-292
			3,486	-115	3,371
80	-320	-52	3,194	-115	3,079
			343		343
			-751		-751
				215	215
				-9	-9
-176	-564	-44	21,095	91	21,186
	-419		-419		-419
426			426		426
		-3	-3		-3
		52	52		52
-152		-9	-161		-161
274	-419	40	-105		-105
			5,223	103	5,326
274	-419	40	5,118	103	5,221
			852		852
			-97		-97
			493		493
			-967		-967
98	-983	-4	26,494	194	26,688


TD

init in Vancouver

In 2010, Vancouver will host the Olympic Winter Games. Therefore, init is equipping around 1,400 vehicles of the Coast Mountain Bus Company with the COPILOTpc on-board computer and a Bus Communication System. At the same time, init is also setting up a digital mobile-radio system and an Intermodal Transport Control System (ITCS) with GPS vehicle tracking and location. ***Joachim Ecke*** *is a project manager at init and responsible for the Vancouver project. Thanks to technology from init, the buses will in future reach their destination faster and promise greater schedule reliability, while passengers will be better informed.*

Notes to the Consolidated Financial Statements for 2007 (IFRS)

General disclosure

init innovation in traffic systems Aktiengesellschaft, Karlsruhe ("init AG"), was established on August 18, 2000 as the holding company of the init group. It is entered in the Commercial Register of the Mannheim District Court (Germany) under HRB 109120. Since the beginning of the 1980s, its operating business has been conducted by INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH, Karlsruhe ("INIT GmbH"). Following a resolution in December 2000, implemented in the first quarter of 2001, over 75% of the shares in INIT GmbH were transferred to init AG in exchange for the provision of ordinary shares. From a commercial point of view, the business formerly run by INIT GmbH has carried on unchanged in the init group.

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 Euro. This sum exceeded the historic book values by 5,211 TEuro. Thus, the net book value of the transfer totaled 808 TEuro.

The 2007 consolidated financial statements and the comparative prior-year figures were prepared in compliance with the International Financial Reporting Standards (IFRS). The consolidated financial statements of init AG and its subsidiaries are consistent with the IFRS applicable in the EU.

All legally binding standards that came into force by the cutoff date were taken into account.

In principle, the accounting practices and valuation methods applied are consistent with the methods applied in the previous year.

In the period under review, the group applied the following new and revised IFRS standards and interpretations:

Amendments to IAS 1	"Capital Disclosures"
IFRS 7	"Financial instruments: Disclosures"
IFRIC 7	"Applying the Restatement Approach under IAS 29"
IFRIC 8	"Scope of IFRS 2"
IFRIC 9	"Reassessment of Embedded Derivatives"
IFRIC 10	"Interim Financial Reporting and Impairment"

The main effects of these changes are as follows:

Amendments to IAS 1 "Capital Disclosures": This amendment results in new disclosure requirements that provide users of the financial statements with better information on the objectives, policies and processes of the group for managing capital to allow informed judgments about risk and return. The additional disclosure requirements resulting from the amendment of this standard were taken into account in the financial statements and did not significantly affect the presentation of the consolidated financial statements.

IFRS 7 "Financial instruments: Disclosures": This standard requires entities to provide disclosures that enable users to evaluate the significance of financial instruments for the group's financial position and performance, and the nature and extent of risks arising from these financial instruments. These new, mandatory disclosures are included in the financial statements. Their application did not have any effect on the group's assets, liabilities, financial position, or results of operation. The relevant comparative information was determined and disclosed on the basis of the same specifications.

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies": The first-time application of this standard did not have any effect on the group's assets, liabilities, financial position, or results of operation.

IFRIC 8 "Scope of IFRS 2": This interpretation requires the application of IFRS 2 for all transactions in which the entity cannot specifically identify some or all of the goods or services received. This applies specifically when the identifiable consideration received by the entity appears to be less than the current market value of the equity instruments granted or the liability incurred. The application of this interpretation became mandatory for the first time for fiscal years commencing on or after May 1, 2006. Since the group issues equity instruments to employees only within the scope of the employee share option plan, the application of this interpretation did not have any effect on the group's assets, liabilities, financial position, or results of operation.

IFRIC 9 "Reassessment of Embedded Derivatives": Under IFRIC 9, the entity is required, when it first becomes a party to a contract on hybrid (combined) instruments, to assess whether any embedded derivatives are contained. Subsequent reassessment is prohibited unless there is a considerable change in the terms of the contract that significantly modifies the cash flows. The application of this interpretation became mandatory for the first time for fiscal years commencing on or after June 1, 2006 and did not have any effect on the consolidated financial statements.

IFRIC 10 "Interim Financial Reporting and Impairment": IFRIC interpretation 10 was applied by the group for the first time as of January 1, 2007. It requires that where an entity has recognized an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent financial statements. Since the group had not recognized any such impairments in the past, this interpretation did not have any effect on the group's assets, liabilities, financial position, or results of operation.

The prior-year figures had been determined according to the same standards.

The group did not opt for an early application of the following standards and IFRIC interpretations which have already been issued but have not yet become effective. The following differentiation was made:

IFRS and IFRIC interpretations adopted by the EU under the comitology procedure which have not yet become effective:

IFRS 8 "Operating Segments": IFRS 8 was published in November 2006 and applies for the first time to fiscal years commencing on or after January 1, 2009. IFRS 8 requires disclosure of information on the operating segments of an entity and replaces the requirement of adopting primary (business segments) and secondary (geographical segments) segment reporting formats for an entity. IFRS 8 introduces what is known as the management approach, which means that segment reporting is based solely on financial information used by the internal decision-makers for the management and control of the entity. Decisive elements include the internal reporting and organizational structure and financial benchmarks used for the purpose of deciding on the allocation of resources and the assessment of performance. The group opted against an early application of this standard. The new standard will affect the method of reporting financial information on the business segments of the group but not on the recognition and measurement of assets and liabilities in the consolidated financial statements.

IFRIC 11 “Group and Treasury Share Transactions”: IFRIC interpretation 11 was published in November 2006 and applies for the first time to fiscal years commencing on or after March 1, 2007. In compliance with this interpretation, arrangements in which an entity grants to its employees rights to equity instruments of the entity must always be accounted for as equity-settled share-based payment transactions, even if the entity buys those instruments from another party or the shareholders provide the equity instruments needed. Since this view held by the IFRIC is consistent with the accounting practises applied in the group, the first-time application of this interpretation did not have any effect on the group’s assets, liabilities, financial position, or results of operation.

IFRS and IFRIC interpretations that have not yet become effective nor been adopted by the EU under the comitology procedure:

The following standards and interpretations have not yet been endorsed by the EU and are not applied by the group.

Amendment to IFRS 2 “Share-based Payment”: The amendment to IFRS 2 was published in January 2008 and applies for the first time to fiscal years commencing on or after January 1, 2009. The amendment clarifies the definition of vesting conditions to specify that these are limited to service conditions and performance conditions. On the other hand, it extends the regulations on accounting for early cancelation of share-based payment plans to include cancelations by employees. The transitional provisions stipulate a retrospective application of these revised regulations. Since this view held by the IFRIC is consistent with the accounting practises applied in the group, the first-time application of this interpretation did not have any effect on the group’s assets, liabilities, financial position, or results of operation.

IFRS 3 “Business Combinations”: The amended standard IFRS 3 was published in January 2008 and applies for the first time to fiscal years commencing on or after July 1, 2009. This standard was fully revised within the scope of a convergence project launched by IASB and FASB. The key changes relate specifically to the introduction of an accounting policy choice to measure non-controlling interests either at their proportionate share of identifiable net assets (also called purchased goodwill method) or using the full goodwill method, which recognizes the full goodwill, including the share attributable to a non-controlling interest, of the acquired entity. Further aspects include the income statement-related revaluation of already existing shares on first gaining control (step acquisition), the mandatory inclusion of a consideration linked to future events at the time of acquisition, and the treatment of transaction costs as part of profit or loss. The transitional provisions stipulate a prospective application of the new regulations. Assets and liabilities resulting from business combinations prior to the first-time application of the new standard are not affected by these changes. Since the group is likely to continue to use the purchased goodwill method for future business combinations, these new regulations are unlikely to affect current business practises. The revaluation within the scope of step acquisitions of businesses and the mandatory inclusion of a contingent consideration at the time of acquisition will likely result in higher goodwill.

IAS 1 “Presentation of Financial Statements”: The revised standard IAS 1 was published in September 2007 and applies for the first time to fiscal years commencing on or after January 1, 2009. The main changes relate to the presentation and disclosure of financial information in financial statements. Specifically, new aspects include the introduction of a statement of comprehensive income which includes net earnings generated in a period plus profit and loss not yet realized and previously reported in the equity, and which replaces the previous format of the consolidated statement of operations. Entities are now also required, in addition to the balance sheet as of the cutoff date and the balance sheet as of the previous cutoff date, to present a balance sheet as of the beginning of the earliest comparative period if the entity applies an accounting and valuation policy retrospectively, corrects an error, or reclassifies a balance sheet item. The new standard will affect the method of disclosing financial information of the group, but not the recognition and measurement of assets and liabilities in the consolidated financial statements.

IAS 23 “Borrowing Costs”: The revised standard IAS 23 was published in March 2007 and applies for the first time to fiscal years commencing on or after January 1, 2009. The standard requires a capitalization of borrowing costs that relate to qualifying assets. Qualifying assets are defined as assets that take a substantial period of time to get ready for use or sale. The standard stipulates a prospective application of the revised regulation. In compliance with the transitional provisions of the standard, the group intends to apply it prospectively. From January 1, 2009, the standard requires borrowing costs to be recognized as qualifying assets. This will not affect borrowing costs previously accrued, which were promptly recognized as expenditure. Due to the estimated insignificant amount of borrowing in the fiscal year of initial application, the initial application of this revised regulation did not significantly affect the group’s assets, liabilities, financial position, or results of operation.

IAS 27 “Consolidated and Separate Financial Statements”: The amended standard IAS 27 was published in January 2008. The changes apply for the first time to fiscal years commencing on or after July 1, 2009 and result from the joint project of IASB and FASB for the revision of accounting principles applying to business combinations. The changes primarily relate to the reporting of non-controlling shares (minority interests), which will in future be fully included in the loss of the group, and of transactions resulting in a loss of control over a subsidiary, the effects of which are to be recognized as profit or loss. In contrast, effects of share disposals not resulting in a loss of control must be included in the equity without affecting the operating result. The transitional provisions, which always require a retrospective application of changes made, stipulate a prospective application of the above. Consequently, this will not affect assets and liabilities resulting from transactions prior to the first-time application of the new standard. Since the group does not expect any such transactions in the fiscal year of first-time application nor a negative amount in regard to the non-controlling interests, the application of this standard will not have any effect on the group’s assets, liabilities, financial position, or results of operation.

Amendments to IAS 32 “Financial instruments: Presentation” and IAS 1 “Presentation of Financial Statements”: The amendments to IAS 32 and IAS 1 were published in February 2008 and apply for the first time to fiscal years commencing on or after January 1, 2009. The changes relate to the classification of puttable shares as equity or liability. Under the previous regulations, entities were sometimes required to report the corporate capital as financial liabilities due to termination rights of the shareholders established by law. In future, these shares will normally need to be classified as equity where compensation is agreed at the current market value and the shares are the most subordinate in terms of entitlement to a pro rata share of the entity’s net assets. The application of the revised standard is not expected to have a significant effect on the consolidated financial statements. Due to the legal form of the parent company and the pertinent legal stipulations and provisions of company law, the revision will not in future affect the classification, valuation and disclosure of shareholder contributions in the consolidated financial statements.

IFRIC 12 “Service Concession Arrangements”: IFRIC interpretation 12 was published in November 2006 and applies for the first time to fiscal years commencing on or after January 1, 2008. The interpretation addresses how service concession operators should account for the obligations they undertake and the rights they receive in service concession arrangements. The companies included in the consolidated financial statements are not holders of a concession within the meaning of IFRIC 12. Consequently, this interpretation will not affect the group.

IFRIC 13 “Customer Loyalty Programmes”: IFRIC interpretation 13 was published in June 2007 and applies for the first time to fiscal years commencing on or after July 1, 2008. According to this interpretation, entities that grant loyalty award credits to customers are required to account for these as revenue as a separate component of the sale transaction within the scope of which they were granted. Consequently, they are required to allocate a part of the current market value of the proceeds to the award credits as a liability. The entity must recognize the deferred portion of the proceeds in the period in which the award credits granted are used or forfeited. Since the group does not currently operate any customer loyalty programs, this interpretation is not expected to affect the group.

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”: IFRIC interpretation 14 was published in July 2007 and applies for the first time to fiscal years commencing on or after January 1, 2008. This interpretation provides guidelines on determining the limit on the amount of the surplus under a defined benefit plan that can be recognized as an asset under IAS 19 Employee Benefits. Since the group does not currently have assets used specifically for the purpose of financing and securing pension payments (within the meaning of the definition of Plan Assets under IAS 19), this interpretation is not expected to affect the consolidated financial statements.

The consolidated financial statements are always prepared using the purchase cost concept, except for derivative financial instruments and financial investments available for sale, which are valued at their current market price. The consolidated financial statements were prepared in Euro. Unless indicated otherwise, all figures were rounded to a full thousand (TEuro).

1. 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. The “Telematics Software and Services” division comprises the software and hardware for control centers, while “Mobile Telematics and Fare Collection Systems” includes the software and hardware in vehicles.

init AG is a listed company, ISIN-Nr. DE0005759807, and has been in the segment of the regulated market with further post-admission requirements (Prime Standard) since January 1, 2003.

2. Mergers and acquisition of minority shares

Consolidated group

Fully consolidated companies: The group of consolidated companies of init AG comprises the subsidiaries INIT GmbH, Karlsruhe, INIT Innovations in Transportation Inc., Chesapeake/Virginia, USA (“INIT Inc.”), INIT Innovations in Transportation (Eastern Canada) Inc./INIT Innovations en Transport (Canada Est) Inc., Montréal, Canada (“Eastern Canada Inc.”), INIT Innovations in Transportation (Western Canada) Inc., Vancouver, Canada (“Western Canada Inc.”), INIT PTY LTD, Queensland, Australia (“INIT PTY”), Init Innovation in Traffic Systems FZE, Dubai (“Init FZE”), and initplan GmbH, Karlsruhe (“initplan”), all of which are fully owned by init AG. Further fully consolidated companies are CarMedialab GmbH, Bruchsal ("CarMedialab"), in which init AG holds 58.1% of the shares, and TQA Total Quality Assembly LLC, Chesapeake/Virginia, USA ("TQA"), in which INIT Inc. holds 60% of the shares.

Associated companies: init AG holds 44% of the shares in id systeme GmbH, Hamburg ("id systeme"), and INIT GmbH holds 43% of the shares in iris GmbH infrared & intelligent sensors, Berlin ("iris"). The associated companies are included at equity in the consolidated financial statement.

The fiscal year of the companies included ends on December 31.

Company formations in 2007
INIT PTY was formed on May 18, 2007, and Init FZE on November 12, 2007. Both companies handle the sales and project activities of the init group in the Asian-Pacific market and the Middle East. init AG holds 100% of the voting rights in each company. The total cost of these company acquisitions amounts to 249 TEuro and is attributable to the capital contributions relating to these companies (Init FZE 190 TEuro, INIT PTY 59 TEuro).

Company formations in 2006
Eastern Canada Inc. was founded on July 14, 2006 and Western Canada Inc. on July 13, 2006. Both companies handle the sales activities of the init group on the Canadian market. Eastern Canada Inc. covers the Franco-Canadian part of the country, while Western Canada Inc. deals with the English-speaking part. init AG holds 100% of the voting shares in both companies. In addition, TQA was founded on June 28, 2006. The company produces cables for the init group. INIT Inc. holds 60% of the shares in the company. The total cost of these company acquisitions amounted to 236 TEuro and is attributable to the capital contributions relating to these companies.

Mergers in 2007
There were no company mergers within the meaning of IFRS 3 in 2007.

Mergers in 2006
Acquisition of CarMedialab: CarMedialab is involved in the development, implementation and production of software and hardware components in the area telematics, teleservice and mobile applications.

Initially, init AG held 45% of the shares in the company which was included at equity in the consolidated financial statement. On January 20, 2006, init AG purchased a further 10% of the shares in CarMedialab by means of a capital increase, resulting in a total book value of investment in the company of 55%, and the company was fully consolidated. The purchase cost of these additional shares totaled 150 TEuro and was fully attributable to the capital increase.

The fair values of the identifiable assets and liabilities of CarMedialab as of the date of acquisition and the corresponding book values were as follows:

	Reported on acquisition	Book value
	T€	T€
Cash and cash equivalents	163	163
Receivables	143	143
Tangible fixed assets	8	8
Licenses	339	339
	653	653
Liabilities	300	300
Provisions	30	30
	330	330
Fair value of net assets	323	
Minority shares at fair value of the net assets	-145	
Adjustment of the book value of investments in subsidiaries and associated companies using the equity method until the date of acquisition	132	
Goodwill from company acquisition	190	
Total purchase cost of the gradual company acquisition	**500**	

Cash outflow due to company acquisition (additional 10%):

	T€
Cash acquired with the subsidiary	163
Cash outflow	-150
Actual cash inflow	**13**

Aside from the goodwill of 190 TEuro acquired within the scope of the merger, no other intangible assets were identified which would have to be valued separately under IAS 38 “Intangible assets”.

A further 3.1% of the shares of the minority shareholders were acquired on December 1, 2006, increasing the voting share to 58.1%. The purchase price amounted to 23 TEuro. The difference between the purchase price and the fair value of the net assets amounted to 14 TEuro and is shown as goodwill.

Since the time of acquisition, CarMedialab recorded a loss of -146 TEuro in the group income in the period under review.

3. Formal statement

For the sake of clarity of the statement, individual items in the balance sheet and the consolidated statement of operations have been combined; these are shown and explained separately in the Appendix. The consolidated statement of operations was prepared on the basis of the cost-of-sales format.

4. Principles of accounting and valuation

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 IFRS as of the same cutoff date as the financial statements of the parent company. Where required, any financial statements prepared in accordance with national accounting regulations are adjusted accordingly.

The capital is consolidated by offsetting the purchase cost against the group share in the revalued shareholders' capital of the consolidated subsidiaries as of the time of acquisition of the shares or the initial consolidation. The recognizable assets, liabilities and contingent claims and liabilities of the subsidiaries are valued at their full market value irrespective of the amount of the minority share. Intangible assets are reported separately from the goodwill if they are separable from the company or result from a contractual or other right. All positive differences (goodwill) arising from the initial consolidation are capitalized and subjected to an impairment test in line with IFRS 3 "Business Combinations"/IAS 36 "Impairment of Assets" (revised in 2004). Negative differences are recognized in the profit and loss immediately after the acquisition. In case of deconsolidations, the remaining book values of the positive differences are taken into account in the calculation of the disposal result. The valuation using the equity method is based on the same principles, with goodwill being reported in the investments.

Both the receivables and payables, and the expenses and income between consolidated companies are offset against each other. Assets from intragroup services are adjusted by intermediate results. Deferred taxes are valued such as to reflect temporary valuation differences from consolidation processes.

Conversion of foreign currency

The financial statements of the subsidiaries of the company are prepared in their functional currency according to IAS 21 "The Effects of Changes in Foreign Exchange Rates" (revised in 2004). The functional currency of INIT Inc., TQA, Eastern Canada Inc., Western Canada Inc., INIT PTY and Init FZE corresponds to their national currency. When converting financial statements in a foreign currency to the currency of the init group (Euro), the assets, the shareholder's equity, and the liabilities are converted using the current rate on the cutoff date. Items of the consolidated statement of operations are converted taking as the basis the average currency exchange rate of the year. The resulting conversion differences are shown cumulatively in a separate item in the shareholders' equity (Other provisions).

	Annual averages		Rate on cutoff date	
	2007	2006	2007	2006
1 Euro corresponds to US Dollar	1.3707	1.2546	1.4729	1.3190
1 Euro corresponds to CAN Dollar	1.4692	1.4228	1.4464	1.5375
1 Euro corresponds to AUS Dollar	1.6230	1.6680	1.6818	1.6747
1 Euro corresponds to Dirham	5.3701	4.6151	5.4115	4.8505

Use of estimates

To a certain degree, the preparation of the consolidated financial statements requires estimates and assumptions to be made by the Managing Board that affect the amount of the assets and liabilities reported in the balance sheet, the specification of contingent liabilities as of the cutoff date, and the statement of income and expenditure during the period under review. The actual amounts may deviate from these estimates.

Realization of income

Income is realized if it is probable that the economic benefit will flow to the corporation and the amount of income can be measured with reliability. In addition, the following recognition criteria must be met to allow income to be realized: Income from system contracts are recorded using the percentage-of-completion method. The percentage of completion of orders in progress and such not yet invoiced as of the cutoff date is determined by the ratio of costs accrued to the total costs ("cost-to-cost" method).

Income from product sales is realized upon transfer of the key risks and opportunities. 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.

Interest income is realized where interest has accrued.

Income from dividends is reported once the group has a legitimate claim for payment.

Research and development costs
Research and always also development costs are entered as expenses as incurred. In certain cases, development costs are capitalized (please refer to the explanations on other intangible assets).

Advertising costs
Advertising costs are entered as expenses incurred.

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.

Financial investments and other financial assets
Financial assets as defined by IAS 39 "Financial instruments: Recognition and Measurement" are classified as financial assets reported at their current market value affecting the current-period result, as loans and receivables, as held-to-maturity investments, or as available for sale financial assets. On initial recognition of the financial assets, these are reported at their current market value. Financial investments other than those reported at their current market value affecting the current-period result are also taken into account with transaction costs attributable directly to the acquisition of the asset. The group specifies the classification of its financial assets on initial recognition and is required to review the allocation at the end of each fiscal year, where permissible and appropriate. The purchase and sale of financial assets as customary in the market is reported as of the trading day, i.e. the day on which the company has made a firm commitment to purchase the asset. Purchases and sales as customary in the market are purchases and sales of financial assets which prescribe the provision of the assets within a period specified by market regulations or conventions.

The current market value of financial investments traded in organized markets is determined using the current price (buying rate) quoted as of the cutoff date. The current market value of financial investments without an active market is determined using valuation methods. These valuation methods include the use of recent business transactions between competent and independent business partners willing to enter into a contract, the comparison with the current market value of another, basically identical, financial instrument, the analysis of discounted cash flows, and the use of other valuation models.

Securities
Until their final maturity, securities are classified as available for sale. Following their initial recognition, financial assets available for sale are reported at their current market value (exchange or market price), with gains or losses recognized as a separate item in the shareholders' equity. Once the financial investment is derecognized or its value found to be impaired, the cumulated gain or loss previously recognized in the equity capital is reported through profit and loss affecting the current-period result.

Loans and trade accounts receivable

Loans and trade accounts receivable are non-derivative financial assets with fixed or estimable payments not listed in an active market. After initial inclusion, the loans and receivables are reported at net book value less impairment. Profits and losses are entered in the operating result related to the accounting period if the loans and receivables are charged off or impaired, and within the scope of amortization. The receivables from the percentage-of-completion-method correspond to the balance of costs incurred plus the profits of projects not invoiced and advance payment invoices issued, and are reported together with the trade accounts receivable.

Derivative financial instruments and hedge accounting

The group uses derivative financial instruments such as forward exchange contracts, currency options and swap transactions to hedge against currency risks. These derivative financial instruments are reported at their current market value at the time of conclusion of the contract and in the following periods, are measured at their current market value. Derivative financial instruments are reported as assets if their current market value is positive, and as liabilities if their current market value is negative.

Profits or losses from changes in the current prices of derivative financial instruments not meeting the hedge accounting criteria are taken into account in the net earnings. In contrast, the adjustment of order values to the current prices on the cutoff dates for projects invoiced in a foreign currency always has a countereffect on the net income realization.

The current price of forward exchange contracts is determined with reference to the current forward exchange rates for contracts with similar maturity structures.

The group currently dispenses with the presentation of hedge accounting and takes changes in market values relating to forward exchange transactions into account in the net earnings.

Inventories

Inventories are valued at their acquisition and production costs or the lower net sales price realizable as of the cutoff date at the time of their addition. If the net sales price of inventories previously written down has increased, their value is increased appropriately. The production costs comprise both direct costs and the manufacturing and material overheads incurred in production, any depreciation and other production-related expenses. Cost of debt are reported as expense in the period in which they have accrued. Impairment losses are recognized where necessary.

Tangible fixed assets

Tangible fixed assets are valued at purchase cost less scheduled depreciation. The depreciation of the historical purchase cost follow the straight-line method over the asset depreciation period. Low-value fixed assets are depreciated over four years. The depreciation of fixed assets are included in the consolidated statement of operations under "Cost of revenues", "Sales and marketing expenses" and "Administrative expenses".

The asset depreciation periods are as follows:

Buildings	50 years
Buildings on third-party property	9-10 years
Technical installations and machines	3-5 years
Other installations, factory and office equipment	3-10 years

Goodwill

Goodwill from mergers is valued at purchase cost on initial recognition, measured as acquisition excess above the share of the group in the current market value of the acquired, identifiable assets, liabilities and contingent claims and liabilities. After initial recognition, the goodwill is reported at purchase cost less cumulated impairment losses. Goodwill is examined for impairment loss at least once a year or when facts or changes in circumstances indicate that its book value may have reduced.

Other intangible assets

Purchased intangible assets are valued at purchase cost and depreciated on a straight-line method over the asset amortization period of three to ten years. The purchase costs for the new “Microsoft Axapta” ERP system are amortized over five years. The amortization of purchased intangible assets are included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

In accordance with IAS 38 “Intangible Assets”, the company capitalizes software development costs that accrue once it has been proven that the software is intended for own use or for sale and generates future economic benefit, that the resources required for completion of the asset are available, that the costs attributable to the development can be determined reliably, and 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 this, 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.

Init does not exercise the option under IAS 23 “Borrowing costs” (revised in 1993) to capitalize borrowed costs accrued during the software development.

After initial recognition of the development costs, the cost method is used according to which the asset is reported at purchase cost less cumulated amortization and cumulated impairment losses. Software development costs are amortized per product using straight-line depreciation over a maximum period of five years. The depreciation and amortization commence at the time of sale to the customer and are included under “Cost of revenues”. Furthermore, capitalized software development costs are checked for impairment of value if events or changes have occurred which suggest that the net book value of an asset could have reduced. Irrespective of this, these costs are subjected to an impairment test at least once a year until the time of sale to the customers.

Shares in associated companies

The shares in associated companies comprise investments in companies included at equity. These are valued taking into account the proportionate result of the company, the profit distributions effected and any impairment losses of goodwill.

Public subsidies

Public subsidies (government grants for a research project) are recorded if it has been established with reasonable certainty that the subsidies will be granted and the company meets the relevant requirements. The expense-related subsidies are recorded as income as planned over the period required to offset them against the appropriate expenses which they are to compensate.

Impairment of value of 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, their lower of cost or market value is depreciated accordingly.

Deferred tax assets and deferred tax liabilities

The company determines its deferred income taxes using the balance sheet-oriented approach. Accordingly, deferred tax assets and deferred tax liabilities are recognized in accordance with IAS 12 “Income Taxes” (revised in 2000) 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 leveled. 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 30.0%. Deferred tax assets for unused tax loss carryforwards of a subsidiary are recorded to the extent that taxable income is likely to be available for these, so that the loss carryforwards can actually be used.

Liabilities

Liabilities are carried at net book value.

Pension accruals

The pension accruals are calculated using the projected unit credit method for defined benefit plans, taking into account any future remuneration and pension adjustments. Actuarial gains and losses are reported in the equity capital without affecting the operating result. The service cost and the past service cost are recorded immediately affecting net income.

Other provisions

The other provisions are taken into account where a past event has led to a current liability, their utilization is more likely than unlikely, and the amount of the liability can be estimated reliably. Provisions are valued at their settlement amount and not balanced with positive profit contributions. Provisions are only set up for legal or factual liabilities vis-à-vis third parties.

Notes to the consolidated statement of operations

5. Revenues

The revenues include both deliveries and services already invoiced and such resulting from the percentage-of-completion-method. The revenues from the application of the percentage-of-completion-method totaled 13,671 TEuro (previous year: 3,737 TEuro).

6. Cost of revenues

The cost of revenues are composed as follows:

	2007 T€	2006 T€
Cost of materials and purchased services	18,963	12,523
Personnel expenses	8,224	6,950
Depreciation	1,160	1,399
Other	1,878	2,130
Total	**30,225**	**23,002**

7. Research and development expenses

	2007	2006
	T€	T€
Software development	1,506	1,362
less capitalized software development expenses acc. to IAS 38	-415	-636
Hardware development and research expenses	753	990
Total	**1,844**	**1,716**

8. Other operating income

This item includes 0 TEuro (previous year: 14 TEuro) from public subsidies for a research project.

9. Foreign currency gains and losses

	2007	2006
	T€	T€
Unrealized currency gains/losses from derivative financial instruments, receivables and liabilities	-200	-71
Balance of realized currency gains and losses	-812	416
Currency gains/losses from consolidation transactions	8	13
Total	**-1,004**	**358**

10. Income from associated companies

	2007	2006
	T€	T€
Income from the at equity method	**436**	**202**

11. Other income and expenses

The other income and expenses consist mainly of income from the asset value adjustment of life assurances serving as pension liability insurances. The increase in asset values in the fiscal year totaled 172 TEuro (previous year: 165 TEuro). For 2006 this item includes a tax refund of 159 TEuro from sales tax of the IPO.

12. Income taxes

	2007	2006
	T€	T€
Current income taxes	2,134	2,110
Deferred income taxes	-383	310
Total	**1,751**	**2,420**

The tax expenditure resulting from the application of the tax rate of init AG changes to income tax expenditure as follows:

	2007 T€	2006 T€
Profit before income tax	7,077	5,791
Theoretical income tax expenditure at 38.9% (2006: 38.9%)	2,753	2,253
Used tax loss carryforwards	-35	0
Tax rate differences – foreign subsidiaries	-44	26
Tax effect of the non-deductible/taxed expenses and income	31	90
Tax effects of tax-free increases in net worth	-97	0
Taxes unrelated to accounting period	-300	-16
Effect of tax rate adjustments	-378	0
Tax effects from results of associated companies	-170	-79
Other	-9	146
Effective income tax expenditure at 24.7% (2006: 41.8%)	**1,751**	**2,420**

13. Net earnings and losses from other financial assets and liabilities

The net earnings from the other financial assets and liabilities comprise as follows:

	2007 T€	2006 T€
Loans and receivables	-456	267
Financial assets available for sale	263	13
Financial liabilities recognized at cost	-552	-11
Financial assets and liabilities reported at their current market value affecting the current-period result	137	218
Total	**-608**	**487**

In addition to successful disposals, impairments and reinstatements of original values, the net earnings from the loans and receivables also include foreign currency effects.

The net profit and loss of the financial assets and liabilities reported at their current market value affecting the current-period result primarily include the results from changes in the market value.

14. 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 of the cutoff dates, the diluted earnings per share could not be calculated.

	2007	2006
Consolidated earnings in TEuro	5,223	3,486
Consolidated earnings adjusted by special influences in TEuro	5,223	3,486
Weighted average number of issued shares	9,725,453	9,737,650
Undiluted earnings per share in Euro	0.54	0.36
Undiluted earnings per share adjusted by special influences in Euro	0.54	0.36

15. Paid and proposed dividends

	2007	2006
	T€	T€
Ordinary dividends declared and paid during the fiscal year	967	0
Ordinary dividends proposed at the shareholders' meeting for approval (as of December 31, not reported as liability)		
Dividend for 2007: 14 Cents per share (2006: 10 Cents per share)	1,378	967

16. Personnel expenses

The personnel expenses totaled 15,402 TEuro (previous year: 13,494 TEuro).

Notes to the consolidated balance sheet

17. Cash and cash equivalents

	2007	2006
	T€	T€
Deposits with credit institutions (current accounts)	1,514	3,986
Short-term deposits (fixed-term deposits/call money)	2,234	2,742
Total	**3,748**	**6,728**

Deposits with credit institutions bear interest at variable rates for demand deposits. Short-term deposits are for different periods which, depending on the respective cash requirement of the group, can range from one day to three months. These bear interest at the rate applicable to short-term deposits at that time. The fair value of the cash and cash equivalents is 3,748 TEuro (previous year: 6,728 TEuro).

18. Securities

This item refers to shares with a total current market value of 35 TEuro (previous year: 766 TEuro). The loss of the securities before deferred taxes reported directly in the equity capital in 2007 amounted to 3 TEuro (previous year: 52 TEuro). Through the sale of securities, 52 TEuro of losses (previous year: 3 TEuro) were taken out of the shareholders' equity and transferred to the net result for the period.

19. Trade accounts receivable

	2007	2006
	T€	T€
Trade accounts receivable, gross	5,134	8,354
Less cumulative value adjustments	-49	-181
Subtotal	5,085	8,173
Future receivables from production orders	14,871	5,678
Total	**19,956**	**13,851**

The value adjustments for trade accounts receivable developed as follows:

	2007	2006
	T€	T€
as of January 1	181	297
Transfer to expenditure	17	39
Utilization	-5	0
Release	-150	-152
Currency effects	6	-3
as of December 31	**49**	**181**

As of December 31, the age structure of trade accounts receivable was as follows:

	Book value	Adjusted accounts receivable	Neither delinquent nor value-impaired	Delinquent, but not value-impaired				
				< 30 days	30-60 days	60-90 days	90-180 days	> 180 days
	T€	T€	T€	T€	T€	T€	T€	T€
2007	19,956	67	18,389	958	121	177	208	85
2006	13,851	216	12,198	449	630	192	302	45

As of the cutoff date, there were no indications to suggest that the debtors of the receivables not subject to value impairment would not meet their financial obligations.

General portfolio allowances were not set up on account of the lack of history.

The other accounts receivable were neither delinquent nor value-impaired.

Production orders

The production orders valued as of the cutoff date using the percentage-of-completion-method but not yet invoiced are as follows:

	12/31/2007	12/31/2006
	T€	T€
Costs accrued plus profits from projects not yet invoiced	21,179	9,072
less progress payment invoices	-7,125	-4,798
Balance	**14,054**	**4,274**
thereof: future receivables from production orders	14,871	5,678
thereof: liabilities from percentage of completion (see Liabilities)	817	1,404

20. Inventories

	2007	2006
	T€	T€
Raw materials and supplies	257	81
Goods (reported at net sales price)	5,066	4,034
Work in progress (reported at production cost)	832	267
Deposits received	-832	-267
Deposits paid	501	227
Total	**5,824**	**4,342**

A total of 3 TEuro (previous year: 303 TEuro) for inventory depreciation were recorded as expenses. The expenses are included in the cost of revenues.

21. Other current assets

	2007	2006
	T€	T€
Derivative financial instruments	378	399
Accruals	215	181
Tax refund claims	565	109
Loans	0	95
Due from personnel	60	32
Cash in transit	0	18
Prepayments	110	0
Other	91	163
Total	**1,419**	**997**

As of the cutoff date, there were no indications to suggest that the value of the other assets was impaired.

22. Tangible fixed assets

2007	Property and plant	Technical installation and machines	Factory and office equipment	Total
	T€	T€	T€	T€
Book value January 1, 2007	547	108	679	1,334
Additions	2,171	100	841	3,112
Disposals at book value	0	-1	-27	-28
Impairment losses	0	0	0	0
Depreciation	-59	-42	-395	-496
Net currency differences	-55	-8	5	-58
Book value December 31, 2007	**2,604**	**157**	**1,103**	**3,864**
Gross book value December 31, 2007	2,813	319	5,015	8,147
Accumulated depreciation and impairment losses	-211	-173	-3,964	-4,348
Currency differences	2	11	52	65
Book value December 31, 2007	**2,604**	**157**	**1,103**	**3,864**

2006	Property and plant	Technical installation and machines	Factory and office equipment	Total
	T€	T€	T€	T€
Book value January 1, 2006	26	79	718	823
Additions	533	68	403	1,004
Disposals at book value	0	0	-12	-12
Impairment losses	0	0	0	0
Depreciation	-12	-31	-394	-437
Net currency differences	0	-8	-36	-44
Book value December 31, 2006	**547**	**108**	**679**	**1,334**
Gross book value December 31, 2006	699	239	4,316	5,254
Accumulated depreciation and impairment losses	-154	-147	-3,658	-3,959
Currency differences	2	16	21	39
Book value December 31, 2006	**547**	**108**	**679**	**1,334**

This item predominantly includes the administration building at Kaeppelestr. 4, a residential building, office equipment and technical installations. The depreciation follow the straight-line method over the asset depreciation period. Depreciation in 2007 totaled 496 TEuro (previous year: 437 TEuro) and is included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “General administrative expenses”.

23. Intangible assets

2007		Other intangible assets		
	Goodwill	Internally created software	Licenses	Total other intangible assets
	T€	T€	T€	T€
Book value January 1, 2007	2,081	3,111	618	3,729
Additions	0	415	316	731
Disposals at book value	0	0	-4	-4
Impairment losses	0	0	0	0
Amortization	0	-557	-262	-819
Net currency differences	0	0	2	2
Book value December 31, 2007	**2,081**	**2,969**	**670**	**3,639**
Gross book value December 31, 2007	2,081	8,422	2,252	10,674
Accumulated amortization and impairment losses	0	-5,503	-1,596	-7,099
Currency differences	0	50	14	64
Book value December 31, 2007	**2,081**	**2,969**	**670**	**3,639**

2006		Other intangible assets		
	Goodwill	Internally created software	Licenses	Total other intangible assets
	T€	T€	T€	T€
Book value January 1, 2006	1,877	3,286	530	3,816
Additions	204	636	375	1,011
Disposals at book value	0	0	-1	-1
Impairment losses	0	0	0	0
Amortization	0	-796	-285	-1,081
Net currency differences	0	-15	-1	-16
Book value December 31, 2006	**2,081**	**3,111**	**618**	**3,729**
Gross book value December 31, 2006	2,081	8,056	1,951	10,007
Accumulated amortization and impairment losses	0	-4,946	-1,337	-6,283
Currency differences	0	1	4	5
Book value December 31, 2006	**2,081**	**3,111**	**618**	**3,729**

Impairment of value of goodwill

To check for impairment of value, the goodwill acquired within the scope of mergers was allocated to the following two cash generating units as segments subject to reporting requirements:

> Cash-generating unit of “Mobile Telematics and Fare Collection Systems” and
> Cash-generating unit of “Telematics Software and Services”.

Book value of the goodwill allocated to the respective cash generating units:

	2007	2006
	T€	T€
Mobile Telematics and Fare Collection Systems	1,404	1,404
Telematics Software and Services	677	677
Total	**2,081**	**2,081**

The recoverable amount of the above cash-generating units is determined on the basis of the calculation of a use value using cash flow projections based on budgetary accounting approved by the Managing Board for a period of three years. Steady cash flows were shown for the following period. The interest rate applied for the discounting is 15.7% before taxes.

The following assumptions taken as a basis for the calculation of the use value of the two "Mobile Telematics and Fare Collection Systems" and "Telematics Software and Services" units involve forecast uncertainties:

- Revenues
- Gross operating result on sales
- Discount rate

Revenues: Revenues are estimated on the basis of the order volume, the open and announced tenders, submitted offers, and past experiences.
Gross operating result on sales: The gross operating result on sales is determined using the average values of the three fiscal years prior to the planning period. For the cash-generating "Mobile Telematics and Fare Collection Systems" unit, the factor applied was 33.6% and for "Telematics Software and Services", 37.2%.

Discount rate: The discount rate reflects the estimate of the company management in regard to the risks relating to the two cash-generating units. A uniform interest rate of 11.0% after taxes was applied to both cash-generating units, which consists of a basic interest rate of 5.0%, a risk premium of 5.0%, and a growth premium of 1.0%.

Sensitivity of the assumptions made: The company management does not believe that any rational change in regard to the basic assumptions made to determine the use value of the cash-generating units could lead to a higher book value of the cash-generating units than their recoverable amount.

Other intangible assets
Internally created software: The main components here are the software development costs capitalized in compliance with IAS 38 "Intangible Assets" to the amount of 2,969 TEuro (previous year: 3,111 TEuro) for the products JANET Level IV, COPILOTpower, APC, MOBILEvario, COPILOTpc/touch, PIDmobil, PIDstation, and NAVIGATION.

In 2007, the amortization of the capitalized amounts totaled 557 TEuro (previous year: 796 TEuro). Impairment losses were not recorded. The amortization of internally generated software is included in the consolidated statement of operations under "Cost of revenues".

The capitalized software developments of JANET Levels I and II, MOBILE-PLAN Levels I and II, TOUCHmobil Levels I and II, and MOBILE-PARAnet have now been fully amortized.

Licenses: The other intangible assets further include external software costs such as licenses, consulting and programming and the internal costs for the programming, implementation and installation of third-party software to the amount of 670 TEuro (previous year: 618 TEuro). The amortization of the capitalized amounts in 2007 totaled 262 TEuro (previous year: 285 TEuro) and is included in the consolidated statement of operations under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

24. Shares in associated companies

The associated companies are not publicly listed. The following table contains summarized financial information on these associated companies:

		Balance sheet total 12/31	Shareholders' equity 12/31	Total liabilities 12/31	Revenues	Profit
		T€	T€	T€	T€	T€
iris	2007	5,103	2,961	2,142	7,058	544
	2006	4,045	2,417	1,628	5,085	286
id systeme	2007	1,493	593	900	2,810	459
	2006	955	241	714	2,227	180
Total	2007	6,596	3,554	3,042	9,868	1,003
	2006	5,000	2,658	2,342	7,312	466

Writedowns of the shares in associated companies were not required.

The fiscal year of all associated companies ends on December 31.

The object of iris GmbH is the development, production and sale of sensors, and sensor- and information-processing systems. In 2007, the prorated result from this equity consolidation amounted to 234 TEuro (previous year: 123 TEuro).

The object of id systeme 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 267 TEuro. The prorated result from the equity consolidation in 2007 totaled 202 TEuro (previous year: 79 TEuro). No distribution was made in the fiscal year (previous year: 97 TEuro).

25. Deferred taxes

The deferred tax assets and liabilities divide as follows:

	Consolidated balance sheet		Consolidated statement of operations	
	12/31/2007	12/31/2006	2007	2006
	T€	T€	T€	T€
Deferred tax assets				
Pension accruals	120	264	-42	19
Provisions	77	36	41	-204
Differences acc. to the tax law of the foreign group companies and IFRS	94	94	0	-65
Consolidation transactions	5	7	-2	0
Foreign currency assets and liabilities	88	34	54	34
Loss carried forward	165	0	165	0
Total deferred tax assets	**549**	**435**		
Deferred tax liabilities				
Capitalized software	891	1,210	319	11
Application of POC method	536	384	-152	-106
Loss-free valuation	0	1	1	34
Foreign currency assets and liabilities	0	0	0	33
Low-value fixed assets	27	27	0	3
Differences acc. to the tax law of the foreign group companies and IFRS	7	7	0	21
Derivatives	113	113	0	-85
Goodwill	21	23	2	-5
Securities	0	10	0	0
Other current assets	12	0	-12	0
Consolidation transactions	0	0	0	0
Pension accruals	40	0	9	0
Total deferred tax liabilities	1,647	1,775		
Deferred tax expenditure/income			**383**	**-310**

Deferred tax assets in the amount of 165 TEuro were accrued for previously unused tax loss carryforwards at a subsidiary. As of December 31, 2007, the unused corporation tax loss carryforward amounted to 623 TEuro.

As of December 31, 2007, there were no deferred tax liabilities on retained earnings of subsidiaries on the grounds that appropriate distributions are not planned for the foreseeable future. If such distributions were made, the tax burden would be insignificant for the group. The temporary differences in connection with shares in subsidiaries amounted to a total of 4 million Euro (previous year: 1 million Euro).

26. Other non-current assets

	2007	2006
	T€	T€
Asset value of pension liability insurance	1,001	823
Security deposits	92	88
Loans	138	55
Other	5	12
Total	**1,236**	**978**

As of the cutoff date, there were no indications to suggest that the value of the other assets was impaired.

27. Liabilities

	12/31/2007			12/31/2006		
	Total	Residual term		Total	Residual term	
		< 1 year	> 5 years		< 1 year	> 5 years
	T€	T€	T€	T€	T€	T€
Bank liabilities	2,554	1,400	942	0	0	0
Trade accounts payable	3,441	3,441	0	4,683	4,683	0
Accounts payable from percentage of completion	817	817	0	1,404	1,404	0
Accounts payable to related parties	64	64	0	100	100	0
Advance payments received	937	937	0	739	739	0
Income tax liabilities	359	359	0	437	437	0
Other liabilities	3,855	3,855	0	2,899	2,801	0

Terms relating to the above financial liabilities: The bank liabilities of 2,554 TEuro (previous year: 0 TEuro) relate to a long-term loan in the amount of 1,154 TEuro for financing of the building at Kaeppelestr. 4, Karlsruhe, which is fully secured by a land charge, and to three short-term Euro credits totaling 1,400 TEuro. As of the beginning of February 2008, 1,000 TEuro had been repaid.

The following credit and guarantee lines apply:

		Overall line	thereof cash line	thereof guarantee	Cash or guarantee line
		T€	T€	T€	T€
Banks	2007	29,359	1,859	21,500	6,000
Credit insurance companies	2007	17,000	0	17,000	0
Banks	2006	14,758	758	8,000	6,000
Credit insurance companies	2006	17,000	0	17,000	0

The credit and guarantee lines are sufficient to finance the further growth of the company. As of December 31, 2007, the cash line utilization totaled 1,400 TEuro (previous year: 0 TEuro), the guarantee lines, 20,253 TEuro (previous year: 9,528 TEuro). The trade accounts payable do not bear interest.

For the terms relating to the accounts payable to related parties, please refer to item 36 of the Appendix.

For the terms relating to the liabilities from derivative financial instruments included in the other liabilities, please refer to item 32 of the Appendix.

28. Other liabilities (long-term and short-term)

	12/31/2007			12/31/2007		
	Total	Residual term		Total	Residual term	
		< 1 year	> 5 years		< 1 year	> 5 years
	T€	T€	T€	T€	T€	T€
Tax liabilities	686	686	0	397	397	0
Due to personnel	2,437	2,437	0	1,715	1,715	0
Derivative financial instruments	134	134	0	101	101	0
Social security liabilities	40	40	0	5	5	0
Remaining work	153	153	0	493	395	0
Other	405	405	0	188	188	0
Total	**3,855**	**3,855**	**0**	**2,899**	**2,801**	**0**

29. Accrued liabilities

	As of 01/01/2007	Usage	Release	Transfer	As of 12/31/2007
	T€	T€	T€	T€	T€
Accrued liabilities for warranties	1,171	981	0	787	977
Accrued liabilities for insufficient production costs	160	120	40	1,065	1,065
Other accrued liabilities	54	0	0	7	61
	1,385	**1,101**	**40**	**1,859**	**2,103**

	As of 01/01/2006	Usage	Release	Transfer	As of 12/31/2006
	T€	T€	T€	T€	T€
Accrued liabilities for warranties	1,190	67	0	48	1,171
Accrued liabilities for insufficient production costs	667	510	157	160	160
Other accrued liabilities	124	70	0	0	54
	1,981	**647**	**157**	**208**	**1,385**

The expected maturities of the accrued liabilities are all within one year.

The accrued liabilities for warranties were calculated as a lump sum using a rate of average sales in the past two years determined from experience figures in the past two years.

The accrued liabilities for deficient production costs were established for services still outstanding in invoiced orders or for services received in the period under review which hat not yet been invoiced.

30. Pension accruals

In compliance with IAS 19, 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: calculatory interest 5.5% (previous year: 4.5%), retirement age of 63 years (Dr. Gottfried Greschner: 65 years), salary increases are irrelevant to pension commitments; pension adjustments of 4% (2% for Dr. Gottfried Greschner), fluctuation deduction of 5%; biometric bases: see Klaus Heubeck's "Richttafeln G" (Actuarial Tables) of 2005.

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

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

	2007 T€	2006 T€
Pension accruals at the beginning of the year (Defined Benefit Obligation - DBO)	2,234	1,966
Past service cost	0	222
Current service cost	101	94
Interest cost	101	83
Actuarial losses (+) /gains (-)	-426	-131
Pension payments	0	0
Pension accruals (DBO) at the end of the year	**2,010**	**2,234**

In regard to the defined benefit plans, the expenses for pension payments are composed as follows:

	2007 T€	2006 T€
Service cost	101	94
Interest Cost	101	83
Past Service Cost	0	222
Expenses for pension payments	202	399

In the consolidated statement of operations, the service cost and the past service cost are included in the cost of revenues (16 TEuro), the sales and marketing expenses (44 TEuro) and the administrative expenses (41 TEuro) and the interest paid in this item.

	12/31/2007	12/31/2006
	T€	T€
Cumulated amount of the actuarial gains and losses included in the shareholders' equity	-141	285

	2007	2006
	T€	T€
Performance-oriented liability (DBO) as of 12/31	2,010	2,234
Adjustments of the liability based on experience	-6	9

The pension accruals (DBO) attributable to members of the Managing Board totaled 1,120 TEuro (previous year: 1,209 TEuro).

Defined contribution plans

In the 2002 fiscal year, init changed its pension scheme regulations for new commitments. Accordingly, the company will no longer make any new, direct commitments. Old-age pensions will be paid under a "defined contribution plan" through a relief fund. The appropriate amount recorded as expenses totaled 185 TEuro (previous year: 83 TEuro), 41 TEuro (previous year: 10 TEuro) of which were attributable to the members of the Managing Board.

31. Shareholders' equity

Subscribed capital

The capital stock is divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of 1.00 Euro. The shares have been issued and fully paid up.

Floating shares:

	2007	2006
As of 01/01	9,673,585	9,753,000
Acquisition of treasury stock	-13,585	-103,690
Sale of treasury stock to new investors	135,000	0
Issue of stock to Managing Board and managing directors	30,000	0
Issue of stock to employees	19,278	24,275
As of 12/31	**9,844,278**	**9,673,585**

Shares of init AG held by members of the Managing Board and the Supervisory Board:

Managing Board member	Number of shares	Supervisory Board member	Number of shares
Dr. Gottfried Greschner, CEO	3,576,400	Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	0
Joachim Becker, COO	335,983	Bernd Koch	0
Wolfgang Degen, COO	89,000	Fariborz Khavand	0
Dr. Jürgen Greschner, CSO	97,364		
Bernhard Smolka, CFO	14,600		

Authorized capital

At the annual shareholders' meeting on July 13, 2006, a resolution was passed to create capital to the amount of 5,020,000 Euro. With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 5,020,000 Euro by July 13, 2011 through a single or repeated issuing of up to 5,020,000 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 preemptive right, so that up to 1,004,000 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.

Capital reserves

The capital reserves of 3,141 TEuro result from the premium of the shares sold at the time of the initial public offering. 272 TEuro were transferred to 2005 and 2006 as part of the recording of expenses from the share-based remuneration (see item 38) and 46 TEuro to 2007. Due to the sale of treasury stock, the capital reserves increased by 514 TEuro.

Treasury stock

The treasury stock as of January 1, 2007 totaled 366.415 shares. Based on the resolution passed at the annual shareholders' meeting on July 13, 2006, replaced by the resolution of May 16, 2007, the company is authorized to purchase treasury stock. On July 14, 2006, the company decided to repurchase treasury stock of up to 210,000 shares. In 2007, the company acquired 13,585 (previous year: 103,690) shares at an average price of 7.11 Euro (previous year: 7.39 Euro). Within the scope of the motivation scheme for members of the Managing Board and managing directors in fiscal 2007, a total of 30,000 shares were transferred with a qualifying period of five years. A further 1,500 shares were transferred to employees within the scope of a bonus agreement without qualifying period, along with 17,778 shares with a qualifying period of two years within the scope of an employee profit sharing scheme. 135,000 shares were sold off-market to new investors. As of December 31, 2007, the number of treasury stock thus reduced to 195,722 shares.

The company's treasury stock was valued at purchase cost at 977 TEuro (previous year: 1,665 TEuro) and openly deducted from the equity capital. Of the treasury stock as of December 31, 2007 of 195,722 shares with an imputed share of 195,722 Euro (1.95%) in the capital stock, 1,139 resulted from the capital increase in 2002 and 194,583 from the company's stock repurchasing program. The shares were repurchased at an average price of 4.99 Euro 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 or to issue them to employees and members of the Managing Board.

Other provisions

Difference from pension valuation: The actuarial gains and losses are recorded in this item without affecting the operating result.

Difference from currency translation: This reserve is used to record differences due to the translation of the financial statements from foreign currencies into the reporting currency.

Stock market valuation of securities: This reserve includes changes in the current market value of financial investments available for sale.

32. Objectives and methods of financial risk management

The main financial instruments used by the company – with the exception of derivative financial instruments – include cash, securities, and loans. The purpose of the securities is the investment of funds of the group. The loan is used for the associated company, iris GmbH, to increase its liquidity. The group has a number of other financial assets and liabilities, including trade accounts receivable and payable, which accrue directly within the scope of its business activities.

Furthermore, the group also enters into derivative transactions. These predominantly include forward exchange transactions and currency options. The purpose of these derivative financial instruments is the management of currency risks resulting from the business activities of the group.

The group has always pursued the policy of refraining from dealings in financial instruments. However, since init also tries to keep its options open in regard to the exchange rate development, it may incur losses.

The main risks of the group in regard to financial instruments include foreign currency risks and risks of default. The Management regularly reviews and monitors each of these risks, which are described in the following.

Foreign currency risk

Due to foreign revenues, specifically in the USA, Canada, Great Britain, Sweden, Denmark and Dubai, a change in the US dollar/Euro, Canadian dollar/Euro, British Pound Sterling/Euro, Swedish Krona/Euro, Danish Krone/Euro, and Dirham/Euro exchange rates constitutes a substantial risk. To eliminate this rate change risk, the group uses forward exchange transactions and options for all major business transactions if payment follows much later than the firm purchase or sale commitment. The hedges must be in the currency as the underlying secured transaction. The group enters into hedging transactions only once a firm commitment has been made.

IFRS 7 provides that disclosures of market risks require sensitivity analyses that show the effects of hypothetical changes in risk variables on the operating result and the equity. init is primarily exposed to an exchange risk. The effects are determined by relating the hypothetical changes in the risk variable to the amount of financial assets and liabilities at the reporting date.

If the value ot the Euro to the foreign currency reported by init had been up by 10% as of December 31, 2007, the operating result would have decreased by 228 TEuro. The operating result debit would have been attributed to cash in banks, accounts receivable an liabilities by 1,023 TEuro. Thereof, a part of it would have been compensated by appreciation in forward exchange transactions by 374 TEuro and currency options by 421 TEuro. If, however, the value ot the Euro to the foreign currency reported by init had been down by 10% as of December 31, 2007, the operating result would have decreased by 544 TEuro. The operating result debit would have been attributed to forward exchange transactions by 496 TEuro and currency options by 1,071 TEuro. Thereof, a part of it would have been compensated by appreciation in cash in banks, accounts receivable an liabilities by 1,023 TEuro.

Risk of default

The group concludes transactions exclusively with recognized, creditworthy third parties. All customers requesting transactions with the group based on credit are subjected to a credit investigation. Furthermore, the receivables are continuously monitored to ensure that the group is not exposed to any material risk of default. All recognizable risks of default are taken into account by way of value adjustments.

The other financial assets of the group, which comprise cash, financial assets available for sale and specific derivative financial instruments, involve a maximum risk of default to the amount of the book value of the respective instruments in case of default of the contracting party.

Since the group concludes transactions only with recognized, creditworthy third parties, it does not require securities.

Interest change risk

The interest change risk to which the group is exposed mainly relates to the loans to associated companies in the form of a change in their current market value. Due to their insignificant nominal amounts, this risk is quite low.

Liquidity risk

As of December 31, 2007, the financial liabilities of the group had the following maturities. The particulars are based on contractual, non-discounted payments plus agreed or anticipated interest payments (cash flows).

	Book value	2008	2009	2010-2012	>2012
Non-derivative financial liabilities					
Other financial liabilities	8,473	7,169	48	371	1,208
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	134	134	0	0	0
Derivative financial assets	-378	-378	0	0	0
Total		**6,925**	**48**	**371**	**1,208**

As of December 31, 2007, the future cash flows from the financial liabilities were as follows:

	Book value	2007	2008	2009-2011	>2011
Non-derivative financial liabilities					
Other financial liabilities	6,380	6,352	2	35	0
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	101	24	77	0	0
Derivative financial assets	-399	-302	-97	0	0
Total		**6,074**	**-18**	**35**	**0**

33. Explanatory notes to the financial instruments

Classification and current market values

The following table compares the book values and the current market values of the financial instruments of the group reported in the balance sheet and shows their classification in appropriate measurement categories according to IAS 39:

	Book value	Valuation acc. to IAS 39				Current market value
		Loans and receivables	Financial assets available for sale	Financial liabilities recognized at cost	Financial assets and liabilities reported at their current market value affecting the current-period result	
	T€	T€	T€	T€	T€	T€
Cash and cash equivalents	3,748	3,748				3,748
Loans and receivables	5,667	5,667				5,667
Receivables from the percentage of completion method	14,871	14,871				14,871
Securities	35		35			35
Derivative financial assets without a hedging relationship	378				378	378
Derivative financial liabilities without a hedging relationship	-134				-134	-134
Financial liabilities	-8,472			-8,472		-8,472

As of December 31, 2006, the classes and book values were as follows:

	Book value	Valuation acc. to IAS 39				Current market value
		Loans and receivables	Financial assets available for sale	Financial liabilities recognized at cost	Financial assets and liabilities reported at their current market value affecting the current-period result	
	T€	T€	T€	T€	T€	T€
Cash and cash equivalents	6,728	6,728				6,728
Loans and receivables	8,685	8,685				8,685
Receivables from the percentage of completion method	5,678	5,678				5,678
Securities	766		766			766
Derivative financial assets without a hedging relationship	399				399	399
Derivative financial liabilities without a hedging relationship	-101				-101	-101
Financial liabilities	-6,412			-6,412		-6,412

The current market value of the listed securities (Available for sale) was determined using their respective fair value. The current market value of the derivative financial instruments and the loans was calculated by way of discounting the expected future cash flow using the prevailing market interest rates. The current market value of the other financial assets was calculated using the market rates.

Risk of default

The group does not have any material risk of default concentrations. This is due, on the one hand, to the fact that over 90% of the orders are from public authorities. On the other, the orders are usually paid on account or billed on the basis of predefined performance progress. Furthermore, the bills receivable are checked and/or dunned every fortnight for receipt of payment. The losses of receivables outstanding for fiscal 2007 totaled 5 TEuro.

Hedging transactions

The derivative financial instruments used to hedge future cash flows relate exclusively to foreign exchange risks in regard to the expected monies received predominantly in Canadian dollars from firm commitments. The following derivative financial instruments were concluded:

	Nominal value		Market values	
	12/31/2007	12/31/2006	12/31/2007	12/31/2006
	T€	T€	T€	T€
Forward exchange transactions	11,360	5,922	137	15
Currency options	28,352	6,417	0	283
	39,712	12,339	137	298

The exercise or maturity dates extend to December 2008.

34. Contingencies and other liabilities

Operating leasing agreements

The group has entered into leasing agreements for vehicles and other business and operating equipment. These leasing agreements have an average term of between three and four years and do not include extension options. The annual commitments of the init group totaled 432 TEuro, 367 TEuro of which are attributable to the renting of the office building in Karlsruhe (the lease running until 2026). No obligations were imposed on the lessee upon conclusion of these leasing agreements. The future minimum payments under these agreements extend to the year 2026 and amount to:

	12/31/2007	12/31/2006
	T€	T€
< 1 year	809	820
1 – 5 years	2,964	3,180
> 5 years	7,112	7,756
Total	**10,885**	**11,756**

Contingent liabilities

As in the previous year, there were no contingent liabilities as of December 31, 2007.

Legal disputes

Within the scope of its business activities, the company is involved in one pending lawsuit as of the cutoff day. The company 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.

Other disclosures

35. Additional notes to the cash flow statement

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

	2007 T€	2006 T€
Interest payments	-235	-95
Interest receipts	193	316
Receipts from dividend distributions	0	97
Income tax payments	-1,729	-3,101
Income tax receipts	41	0

All cash flows of investments in tangible fixed assets relate to the maintenance of capacities and expansion investments.

36. Related Party Transactions

The companies included in the consolidated financial statements and the associated companies are listed in the section detailing the group of consolidated companies.

		Income from sales to related parties and persons T€	Payments from related parties and persons T€	Due from related parties and persons as of 12/31 T€	Due to related parties and persons as of 12/31 T€
Associated companies	2007	0	1,146	178	64
	2006	0	1,277	76	100
Other related party transactions	2007	0	367	61	0
	2006	0	367	61	0

Associated companies

The amounts due from related parties and persons include loans to the amount of 168 TEuro (previous year: 68 TEuro) and relate to iris. These amounts are shown in the balance sheet under non-current assets.

The other amounts of 10 TEuro (previous year: 8 TEuro) relate to iris. These are trade accounts receivable with a remaining maturity of less than one year. These amounts are shown in the balance sheet under current assets.

Amounts due to related parties and persons relate to trade accounts payable and have a remaining maturity of less than one year. These amounts are attributable to iris at 64 TEuro (previous year: 100 TEuro). These amounts are shown in the balance sheet under current liabilities.

Other 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 30 TEuro (367 TEuro annually). The rental price is fixed by contract until June 30, 2011 and will increase to 475 TEuro per year from July 1, 2011 until June 30, 2026. Furthermore, a rent deposit for the office building in Karlsruhe was made to the amount of 61 TEuro.

Terms of the business transactions with related parties and persons

Sales to and purchases from related parties and persons are effected on generally accepted market terms. There are no guarantees for accounts receivable or payable in regard to related parties and persons. The group did not accrue any cumulative value adjustments for accounts receivable from related parties and persons for the fiscal year as of December 31, 2007 (previous year: 0 TEuro).

Compensation of persons in key management positions

Persons in key management positions include the Managing Board of init AG and the managing directors of INIT GmbH. For details on the compensation, please refer to item 41 of the Appendix.

37. Segment reporting

Primary format

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

	2007 T€	2006 T€
Revenues		
Mobile Telematics and Fare Collection Systems	30,062	23,720
Telematics Software and Services	16,705	12,538
Group total	**46,767**	**36,258**
Operating profit/loss		
Mobile Telematics and Fare Collection Systems	3,892	3,155
Telematics Software and Services	2,772	1,949
Group total	**6,664**	**5,104**
Amortization		
Mobile Telematics and Fare Collection Systems	781	725
Telematics Software and Services	534	793
Group total	**1,315**	**1,518**
Segment assets 12/31		
Mobile Telematics and Fare Collection Systems	22,704	18,571
Telematics Software and Services	21,771	18,271
Group total	**44,475**	**36,842**
Segment liabilities 12/31		
Mobile Telematics and Fare Collection Systems	9,080	7,892
Telematics Software and Services	8,707	7,764
Group total	**17,787**	**15,656**
Investments in tangible fixed assets and intangible assets		
Mobile Telematics and Fare Collection Systems	1,991	1,070
Telematics Software and Services	1,852	945
Group total	**3,843**	**2,015**
Impairment losses included in the net earnings for the period		
Mobile Telematics and Fare Collection Systems	3	291
Telematics Software and Services	0	12
Group total	**3**	**303**

Secondary format

In the annual financial statements, the following amounts can be allocated to the regions specified. In addition to Germany, the regions in which revenues were generated include the rest of Europe (predominantly Sweden, Great Britain, Norway) and North America (USA and Canada).

	2007 T€	2006 T€
Revenues		
Germany	7,237	12,749
Rest of Europe	10,569	11,382
North America	28,145	12,127
Other countries (Australia, UAE)	816	0
Group total	**46,767**	**36,258**
Segment assets 12/31		
Germany	37,211	32,010
North America	6,812	4,832
Other countries (Australia, UAE)	452	0
Group total	**44,475**	**36,842**
Investments in tangile fixed assets and intangile assets		
Germany	3,392	1,361
North America	423	654
Other countries (Australia, UAE)	28	0
Group total	**3,843**	**2,015**

38. Share-based remuneration

Employees shares

Based on the resolution of the Managing Board of February 16, 2007, published on April 23, 2007 (previous year: July 12, 2006), all employees of init AG and its subsidiaries were offered shares of the company as a form of profit sharing. In December 2007, eligible employees (excluding the Managing Board, the managing directors of the subsidiaries, temporary staff, trainees and such) each received 100 shares (December 2006: 100 shares) which where valued at 7.50 Euro (December 2006: 6.51 Euro) per share at the time of the resolution. The profit sharing scheme was granted on a pro-rata basis to part-time employees and employees having joined the company during the year. To qualify, employees needed to be in permanent employment as of December 31, 2007 (previous year: December 31, 2006). The shares are subject to a qualifying period of two years from the time of transfer.

In December 2007, a total of 17,778 shares of treasury stock (December 2006: 15,732) were transferred under the 2007 profit-sharing scheme. As of the time of the resolutions of the Managing Board, the fair value based on the market price of the equity instruments issued amounted to 133 TEuro (previous year: 101 TEuro), which was recorded as expenses of 65 TEuro in 2007 68 TEuro in 2006.

Management bonus in the form of stocks

A further management bonus in the form of stocks was granted to the five members of the Management Board and the managing director of INIT Inc., from consolidated earnings exceeding 2 million Euro before taxes and after deduction of all management bonuses and employee shares. Where this amount is exceeded, each member of the Board receives one share for each 300 Euro of exceeding profit. The number of “restricted stocks“ is limited to 5,000 shares per Board member. The shares are subject to a qualifying period of five years. The taxes relating to the share transfer are borne by the company. No legal claim may be made to payment of this bonus, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board.

As of December 31, 2007, the valuation was based on 30,000 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to 212 TEuro (7.08 Euro per share), which was recorded as expense in 2007.

39. Circumstances of significance after the cutoff date

In a contract of purchase of December 20, 2007, the company purchased the “Interplan” division of PTV AG in Karlsruhe, with economic transfer as of January 1, 2008, which was subsequently integrated into initplan GmbH (formerly init telematik gmbh).

40. Employees, Managing Board and Supervisory Board

Employees

The annual average of employees was as follows:

	2007	2006
Employees in Germany	186	167
Employees in North America	45	33
Total	**231**	**200**

The Managing Board

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

Dr. Gottfried Greschner, Karlsruhe	Master's degree in engineering (Chairman) (CEO)
Joachim Becker, Karlsruhe	Master's degree in computer science (COO)
Wolfgang Degen, Karlsruhe	Master's degree in engineering (FH) (COO)
Dr. Jürgen Greschner, Pfinztal	Master's degree in economics (CSO)
Bernhard Smolka, Stutensee	Master's degree in economics (CFO)

Supervisory Board

The members of the Supervisory Board of init AG are:

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

41. 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 284 TEuro (previous year: 277 TEuro), and in their capacity as Managing Directors or departmental heads of INIT GmbH included in the consolidated financial statements, to the amount of 1,405 TEuro (previous year: 1,322 TEuro), thus totaling 1,689 TEuro (previous year: 1,599 TEuro) in the 2007 fiscal year. This total includes fixed salaries of 981 TEuro (previous year: 950 TEuro), variable remuneration in the form of management bonuses of 328 TEuro (previous year: 309 TEuro), and 380 TEuro (previous year: 340 TEuro) in the form of stocks, including the income tax payable for them.

Based on the resolution passed by the shareholders' meeting on July 13, 2006, an individualized disclosure of the Board members' salaries can be withheld for a period of five years, in compliance with § 315a para. 1 HGB (German Commercial Code) in conjunction with § 314 para. 1 no. 6a sentences 5 to 9 HGB (§ 314 para. 2 sentence 2 in conjunction with § 286 para. 5 HGB).

The total remuneration of the Supervisory Board members for the period from January 1, 2007 to December 31, 2007 amounted to 91 TEuro (previous year: 77 TEuro), which includes a variable share of 55 TEuro (previous year: 41 TEuro) and is distributed as follows:

	fixed T€	variable T€
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18	27
Bernd Koch	9	14
Fariborz Khavand	9	14

In the 2007 fiscal year, the members of the Supervisory Board of the init group received 0 TEuro (previous year: 0 TEuro).

42. Auditing firm

The auditing firm Ernst & Young AG Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft, Mannheim, received compensation to the amount of 75 TEuro (previous year: 62 TEuro), including expenses for individual financial statements, which was recorded as expenses. Expenditure for tax consulting services amounted to 0 TEuro (previous year: 0 TEuro). Certification and appraisal services incurred costs of 0 TEuro (previous year: 25 TEuro), and other service, of 10 TEuro (previous year: 0 TEuro).

43. 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 5, 2007, and was made available to the shareholders.

Karlsruhe, March 7, 2008
The Managing Board

Dr. Gottfried Greschner　　Joachim Becker　　Wolfgang Degen

Dr. Jürgen Greschner　　Bernhard Smolka

Group Status Report

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

init develops, produces, installs, integrates, and maintains software and hardware products for the planning, management, and operation of transportation companies along a complete value added chain. init is a worldwide provider with a product portfolio that covers the entire 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 (ITCS – Intermodal Transport Control System), passenger information and counting systems to electronic ticketing and payments, init customers are provided with intelligent solutions from a single source.

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

init has realized in excess of 400 national and international projects in over 25 years, involving the integration of comprehensive solutions with telematics and fare collection systems for transportation companies in Germany, Europe, and North America.

By using init technology, public transportation companies are able to increase their quality in terms of customer orientation, convenience and ease of use, safety, shorter travel times, and punctuality, and thus maintain their position in an increasingly competitive environment through liberalization and rationalization. At the same time, it will help companies make bus and railway services more attractive for passengers and successfully master the continuously growing mobility requirements. Hence, init makes a vital contribution to the reduction of particulate matter and carbon dioxide and thus to the preservation of our environment.

Business trend and situation

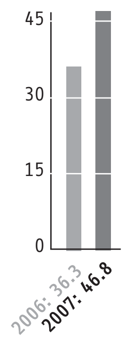
General business trend

In the 2007 fiscal year, init was once again able to continue its successful run in the previous years to achieve satisfactory increases. On the whole, init generated a total of 46.8 million Euro (previous year: 36.3 million Euro) to write the highest sales in company history and well exceeded its growth target.

Looking at the quarters individually, init managed a steady increase in sales in the first three quarters. For the first time in its company history, the fourth quarter did not report the strongest sales. At 12.3 million Euro, however, revenues in this period still rose above the prior-year figure (Q4 2006: 11.7 million Euro).

Sales, earnings and the volume of orders in 2007 were once again negatively affected by the trend of the US dollar. Where fiscal 2006 had seen a substantial decline in prices by 10 per cent, the US dollar fell against the Euro roughly by another 10 per cent in 2007, which subsequently led to a further decrease in our margins relating to US business. In contrast, the Canadian dollar appreciated by about 6 per cent, so that part of the negative effect could be compensated.

Revenues
in million €



On the whole, init generated foreign revenues of 39.5 million Euro (previous year: 23.5 million Euro), corresponding to 84.4 per cent (previous year: 66.5 per cent) of total sales. In Europe (excluding Germany), sales decreased by 7.0 per cent to 10.6 million Euro (previous year: 11,4 million Euro). North American sales, on the other hand, increased by around 23.3 million USD to 38.5 million USD (previous year: 15.2 million USD) on account of the large-scale projects in Vancouver and New York City.

In Germany, sales fell by 43.2 per cent to 7.2 million Euro (previous year: 12.7 million Euro). However, we succeeded in recording a clear gain in new orders, so that fiscal 2008 is expected to see a rise again.

At regional level, the individual markets developed differently, subject to their respective underlying conditions. Thus, while the economy in Germany continued to recover and the volume of tenders, which will not affect sales until 2008, increased significantly, the financial crisis of real estate market in the USA pointed rather to a downturn. Despite the stagnation in the European region, however, init was able to benefit from the existing European tenders.

New markets such as Australia and the United Arab Emirates could be added to our list and will lead to further growth in the 2008 fiscal year. To ensure a further development of these markets, init set up the subsidiaries INIT PTY LTD in Australia and Init Innovation in Traffic Systems FZE in Dubai.

To accomplish our future growth without loss of efficiency, init innovation in traffic systems AG, Karlsruhe bought the adjacent building at Kaeppelestr. 4 on January 1, 2007. This has provided us with additional facilities to ensure a further optimization of operations and an increase in personnel. INIT Innovations in Transportation Inc., Chesapeake, Virginia, USA, was also able to move to bigger properties in spring 2007 to meet the need of additional office and storage space.

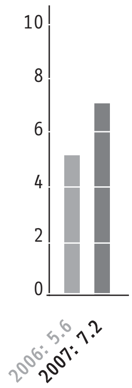
Earnings position

The profitability of init innovation in traffic systems AG continued to improve in 2007. After the highly successful 2006 fiscal year, the operating result (EBIT) saw a further increase. This is due to the significant rise in business volume but also comes as a result of our growth, which necessitated an improvement of our structures and, in turn, led to so-called step costs. These show themselves in an increase in production cost of sales from 63.4 per cent to 64.6 per cent. At the same time, init experienced an absolute rise in sales and administration cost.

The gross profit on sales thus rose to 16.5 million Euro (previous year: 13.3 million Euro), corresponding to an increase of 24.8 per cent, but lagged behind the sales increase of 29.0 per cent. The net interest income (balance of interest earned and interest paid) totaled -151 TEuro (previous year: +158 TEuro) and primarily resulted from the preliminary project financing and the increased guaranteed credit required for major projects.

At 7.2 million Euro in earnings before interest and taxes (EBIT), init managed, on the whole, to exceed the figure for the previously most successful fiscal year in 2006 (5.6 million Euro). The same is true for the consolidated net profit for the year of 5.3 mil-

EBIT
in million €



lion Euro (previous year: 3.4 million Euro). This corresponds to a profit of 0.54 Euro (previous year: 0.36 Euro) per share. Due to the tax reform in 2008, the third quarter required a revaluation of the deferred taxes, which increased the net profit for the year by around 358,000 Euro. Were it not for the weak dollar trend, this figure would have been even higher.

Order situation

The incoming order trend in 2007 proved to be the best in our company history. init managed to clinch major tenders in Asia, Australia, Europe and America. In addition, a number of long-standing init customers placed a number of follow-up orders. Specifically, these include the transportation companies in Bremen, Hof, Solingen, Oslo, Leicester, Stockholm, York, Houston and Montréal. Subsequent deliveries and add-on orders alone resulted in incoming orders of over 20 million Euro.

On the whole, the total intake of new orders of 44.4 million Euro in the previous year rose considerably to around 95.9 million Euro, due primarily to the tenders awarded in Seattle, Dubai and from the Deutsche Bahn for local city transportation in Bavaria, each of which with a volume in the double-digit millions. Since the order intake far exceeded the sales revenue realized, we have already laid the foundation for further growth in the following years.

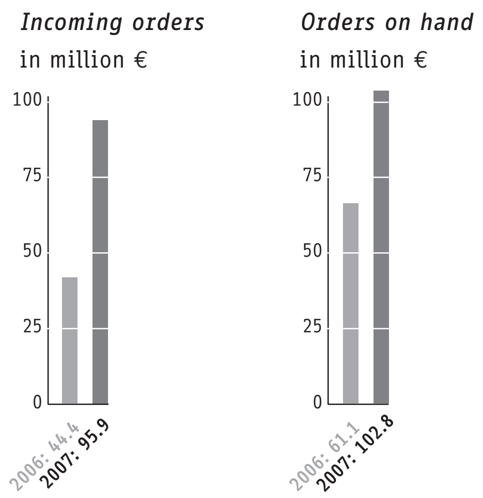
This was also evident in the volume of orders, which at the end of 2007 once again rose to new record levels. At around 102.8 million Euro, the backlog of existing orders of init as of the beginning of the current fiscal year is up by 68.2 per cent on the previous year (end of 2006: 61.1 million Euro).

In the European environment, new business amounted to 10.5 million Euro (previous year: 13.7 million Euro). Since a number of tenders had not yet been decided by the end of the year, we expect to see a significantly higher order intake again in 2008.

In September 2007, the Dutch company Syntus B.V. opted for an operations and fleet management system (ITCS – Intermodal Transport Control System) from init for more than 130 vehicles. The contract includes the delivery of COPILOTpc on-board computers with TOUCHit operating units. In addition, init will also supply the planning and data management system MOBILE-PLAN, the analysis program MOBILE-statistics, and the MOBILEreports reporting system. The contract value totals over 1.5 million Euro. Syntus B.V. is a subsidiary of NS Rail (Dutch State Railway) and thus offers good prospects for the future.

In January 2007, the transportation company Trafikanten in Oslo placed a follow-up order for the extension of the passenger information system for its entire metro network, which extends over 84 km and includes more than 100 stations. Six lines with around 200 vehicles transport some 200,000 passengers each day. In this project, Trafikanten uses the established software modules in the init product range. In addition to the operations and fleet management system MOBILE-ITCS, other components include the planning and data management system MOBILE-PLAN and the real-time passenger information system MOBILE-STOPinfo.

The rate of new orders in North America proved rather satisfactory in 2007, amounting to 22.7 million Euro (previous year: 23.0 million Euro). In March 2007, init gained a new customer here – King County



Metro Transit in Seattle. By 2011, its entire vehicle fleet of around 1,450 vehicles is to be equipped with hardware and software from init. In addition to the COPILOTpc on-board computer and GPS location, the equipment also includes passenger information displays, software for vehicle and traffic data processing, and an automatic passenger counting system. King County Metro Transit is considered one of the most innovative transportation companies in the USA, transporting some 100 million passengers each year in the Seattle conurbation.

Business in Germany could once again be increased in 2007. At a total 34.1 million Euro (previous year: 7.6 million Euro), the order intake well exceeded our projections. In July, BSAG in Bremen placed a follow-up order for the delivery of 83 TOUCHbill ticket vending machines. In Bremen, these machines handle a good part of the ticket sale. In addition to the cash card, the machines also accept coins and notes.

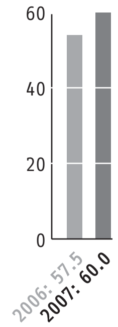
The regional transportation association of Central Saxony in Chemnitz will in the future count its passengers using the automatic passenger counting system MOBILE-APC from init. The core system of this vehicle installation is the passenger counting sensor IRMA, supplied by the init-Beteiligungsgesellschaft iris GmbH, Berlin. In conjunction with the init software for passenger counting, the system can calculate the passenger loads of vehicles in passenger kilometers, counting the number of boarding and de-boarding passengers at each stop. The passenger kilometers driven are a key distribution code for the income from ticket sales where passenger transportation is provided by different transportation companies.

Not just one but several orders came in from the Deutsche Bahn. Thus, for example, the older generation of init on-board computers at RAB in Ulm will be replaced with the more efficient COPILOTpc. Furthermore, init was awarded a contract by DB Stadtverkehr GmbH. Four regional transportation companies (Omnibusverkehr Franken OVF, Regionalbus Ostbayern RBO, Regionalverkehr Oberbayern RVO and Regionalverkehr Allgäu RVA) are to be provided with a region-wide operations and fleet management system for bus transportation. Around 3,000 vehicles will be equipped with our on-board computers, incl. sales function, radio modules for GSM, GPRS and EDGE, and GPS receivers for vehicle location. The connection to the Bavaria-wide passenger information system DEFAS based on real-time data and to the traveler information system RIS from DB AG is hoped to ensure a better dovetailing of bus and rail transportation. The contract concluded with DB Stadtverkehr includes options for the extension of the system. It is one of the largest contracts in the company history of init.

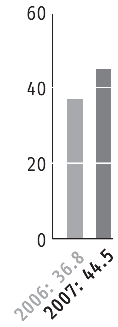
After the successful trial in Brisbane in September, init won the first major project in Australia in December. Thus, init is now implementing a smart-card ticketing system for Metro Tasmania, the largest provider of local public transportation on the island of Tasmania. On the whole, our company will provide equipment for 220 buses, 3 operation control centers and 30 advance booking offices. The contract has a volume of some 2 million Euro.

In September, init and its cooperation partner Fahad A. Alnafisi & Sons Group together won the largest order to date in company history – from RTA (Roads & Transport Authority) in Dubai. On the

Equity-to-asset ratio
in %



Balance sheet total
in million €



whole, a total of over 1,300 vehicles will be equipped with on-board computers and a transport control and information system. In addition, init will provide hardware and software for passenger information in real-time. In total, the Dubai Emirate will invest around 5 billion Euro for the setup of a local public transportation system which includes buses, water taxis and a metro over the next four years. RTA had received specific instructions from the government to establish a local public transportation system by 2010 that would set worldwide standards in terms of quality.

Financial and earnings position

The financial and earnings position of the init group in the 2007 fiscal year once again continued to pick up. On account of the annual net profit realized, init was able to further improve its equity capitalization. However, due to substantial tax prepayments and the advance financing of large-scale projects, the group recorded a negative operating cash flow of -2.6 million Euro (previous year: -1.1 million Euro). This situation, however, is expected to improve drastically in fiscal 2008 since the large-scale projects promise considerable payment receipts.

The shareholders' equity increased to 26.7 million Euro as of the end of the year (previous year: 21.2 million Euro), thus being 25.9 per cent above the prior-year level. The equity-to-assets ratio stood at 60.0 per cent (previous year: 57.5 per cent).

The liabilities to credit institutions as of December 31, 2007 aggregated 2.6 million Euro (previous year: 0 Euro). As of January 1, 2007, init acquired the building next door to its Karlsruhe location in Kaeppelestrasse. The property is financed through a bank loan of 1.2 million Euro.

As of the end of December 2007, the liquid resources including short-term securities totaled 3.8 million Euro (previous year: 7.5 million Euro). This decrease in liquid resources was due to investments in fixed assets and the necessary build-up of inventory for the major projects, the dividend payment and the high tax payments and prepayments. The available guarantee and credit lines will continue to secure the financing of our business activities.

As of December 31, 2007, the balance sheet total had risen by around 7.6 million Euro on the previous year and now aggregates 44.5 million Euro.

The capital expenditure of 3.1 million Euro in the 2007 fiscal year (previous year: 1.0 million Euro) related to the acquisition of the adjacent building, the renovation of the company facilities, replacement investments and rationalization investments.

Participations

init holds 44 per cent of the shares in id systeme GmbH, Hamburg. The personnel planning software PERDIS, developed by id systeme, is integrated into the init product range and thus increases the application possibilities of the init software, MOBILE-PLAN. With sales of 2.8 million Euro (previous year: 2.2 million Euro) in the past fiscal year, id systeme GmbH attained an annual net profit of 459,000 Euro (previous year: 180,000 Euro). To improve both sales and earnings, the PERDIS software is now also offered to init customers in Europe and the USA, with further successes in Europe. Worth particular mention are the new orders from Leipzig, Rotterdam, Breda and London. The BidDispatch module specially developed for the USA facilitates the preparation of usually flexible, long-term duty rotas on the basis of driver requests.

Our other shareholding (43 per cent), iris GmbH infrared & intelligent sensors, Berlin, made a further positive sales and earnings contribution in 2007. Sales of 7.1 million Euro improved by 39.2 per cent on the previous year (5.1 million Euro), while the net earnings from ordinary activities of 0.9 million Euro also rose above the prior-year level (0.6 million Euro). We expect to see a further improvement in sales in 2008. The earnings result, however, will be affected by the planned research and development expenditure.

In North America, passenger counting systems have now become a regular in almost all init systems installed in the USA. In 2008, the same system will now also be installed in Dubai, so that we can expect further orders from here. In South America, the further expansion of business for iris GmbH was pursued with single-minded determination, while additional customers could be won. In the coming years, iris GmbH will continue to invest in the development of a new 3D sensor for a higher resolution, which will secure its technological lead. Furthermore, the new sensor technology will open up further areas of application, including in biometry, passenger counting and property surveying.

Production

As a turnkey supplier, init develops integrated hardware and software solutions for all key tasks in transportation companies. Based on the modular structure of these hardware and software solutions, init was able to satisfy specific customer demands while at the same time taking advantage of the benefits of a platform strategy.

To keep its production as cost-effective as possible, init concentrates on its key competences in development. To this end, the production of hardware is outsourced to qualified producers as subcontractors working closely with our init engineers. To assure 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.

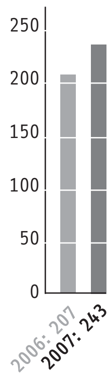
We deliberately avoid dependence on individual suppliers. In this way, we are in a position to switch suppliers should one of our business partners be unavailable. To further reduce our production costs, new suppliers were added in the Far East and the USA. The delivery contracts were increasingly based on US dollars, so that a part of the exchange risk relating to our dollar income could be reduced by dollar expenditure. The further optimization of our production processes with the aim to reduce costs while maintaining first-rate quality in production is part of the priority management objectives.

Personnel

In order to ensure that ongoing projects are handled without delay while at the same time dealing with new tenders, init adjusted its workforce in Germany and the USA in fiscal 2007. Due to the high volume of orders and the continued satisfactory order situation, this trend will likely continue in fiscal 2008.

Well-educated and entrepreneurial staff are one of the keys to the success of init. Consequently, the

Employees as of 31.12.07
total



qualification, the further education and the involvement of the individual in the success of the company are given high priority. Over 65 per cent of permanent init employees have a university degree in information technology, e-technology, HF technology, physics, mathematics, or industrial engineering. To follow the new technological developments, init maintains close contact with the University of Karlsruhe and the technical colleges in the Karlsruhe region.

Training visits to the group headquarters in Germany help ensure that new employees in North America meet the stringent requirements relating to our technology. In addition, we make sure that a certain percentage of the jobs in North America is filled with specialists from Germany.

As of December 31, 2007, the init group employed a workforce of 243 (previous year: 207), including temporary staff, scientific assistants, and graduate students. A total of 214 employees held permanent positions (previous year: 194), 25 of whom were employed on a part-time basis. 12 employees were in apprenticeships, training to be IT specialists, IT system electronics technicians, administration of inventory specialists, industrial clerks and management assistants. Furthermore, init offers training opportunities in electrical engineering, information technology, industrial engineering technology and business administration within the scope of courses at the University of Cooperative Education.

On April 23, 2007, the employees got informed about the Managing Board's decision to give employees a share in the company profits based on the operating result. Every permanent employee was to receive a profit share of 3,500 Euro (staff in the USA, of 4,550 USD). The appropriate amounts were included in the financial statements as other liabilities. In the context of non-profit-linked asset sharing, each employee was also to receive 100 shares in the company. The shares are subject to a qualifying period of two years.

Environmental protection

Rising energy prices and the global requirement to reduce carbon dioxide emissions make efficient public transportation systems more essential than ever. init's contribution to this is of ever growing importance. Our products help transportation companies provide fast, competitive and resource-saving mobility to relieve the strain on the environment cause by particulate matter and exhaust gas.

Out of this sense of responsibility, init also pays particular attention to environmental protection 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 development of our products. Our products are consistently made from recyclable, environmentally friendly and lead-free materials and sold in reusable packaging. Disused equipment can be returned to init, where it is disposed of in an ecologically friendly manner. This also applies to batteries and packaging material. In other areas, including exhibition stand construction, init ensures usage of reusable components.

Research and development report

Research and development play a key role at init. One of the main strengths of init is the outstanding technological lead of its products in competition.

The high standard of qualification of our research and development sector enables us to react quickly to new technological developments and changing requirements of the market and to be flexible in catering to the changing needs of our customers. 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, innovative products in good time.

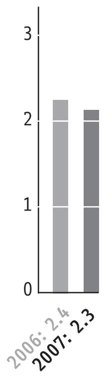
In 2007, our software and hardware development teams worked on the further development of existing and various new products and innovations. The latter include the COPILOTtouch, a compact on-board computer which combines established PC technology with comfortable touch operation. With a 8.4-inch color TFT display and a resolution of 680 x 480 pixels as well as automatic brightness adjustment, this device is ideal for use in vehicles. Its 512 MB main memory allows the operation even of sophisticated applications in vehicles. State-of-the-art WLAN technology, an integrated WLAN antenna and an integrated modem (GPRS/CDMA) for radio data transmission round off this device.

PIDmatrix, the full matrix display in SMD technology, now also allows graphics and text to be displayed in different character sizes and fonts. Its high resolution of 5 x 5 mm and a laminated glass screen for LEDs ensure optimal readability. The PIDmatrix is available as a modular system, so that the size of the display can be varied. The housing allows the LED boards to be installed either vertically or at an angle. The display is available as a single- or double-sided version. For servicing purposes, the LED boards can be flipped up to facilitate access to the control computer.

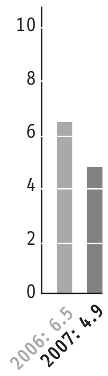
PROXmobil is a new customer terminal for check-in/check-out systems and supports all instances of e-ticketing, its most simple form being tickets saved on a chip card. These can then be stamped using PROXmobil in lieu of a conventional ticket validator. Furthermore, the customer terminal also supports automatic fare calculation by using a check-in/check-out process, thus allowing best price calculations in real time. The device is designed for chip cards according to ISO 14443 A/B, but also supports the widespread MIFARE standard. The PROXmobil is provided with a color graphics display, which can be used for optical signals and text messages. For visually-impaired people, the device is also fitted with an additional acoustic signal transmitter. The device can be optimally linked with other components such as ticket printer, on-board computer and WLAN via an Ethernet interface.

The new terminal management system MOBILE-TMS also sets new standards. It enables passengers at large bus terminals to receive up-to-the-minute information. Terminal managers are provided with specific dispatching measures and accounts in support of their work. This system is particularly helpful if, for example, a bus is late and consequently cannot approach its original gate. A new gate is then allocated in a fully automatic process using the rule-based algorithms of the TMS. MOBILE-TMS checks the overall capacity utilization of the terminal and notifies the bus drivers via displays or on-board computer of the gate to be approached. Passengers are also informed of the change of gate. In addition, the device can integrate monitoring functions, security and evacuation modes, statistical evaluations, and automatic passenger counting systems.

Expenditure R&D
in million €



Expenditure R&D
in % of revenues



(not included: customer-financed developments)

The TOUCHmon data terminal is the "big brother" of the established TOUCHit. It is provided with an improved touch screen with a scratch-proof glass surface. Its 8.4-inch screen with brightness sensors ensures optimal readability of the display. The TOUCHmon can be fed with data of up to 1.3 GBits. It features a new interface, APIX, which had originally been devised for the automobile sector. The TOUCHmon can be connected to a rear view camera to further improve the security in bus transportation.

Other developments of init include a WLANrouter as the central communication platform in the vehicle, allowing a WLAN connection of up to 54 MBit. Its integrated switch components make it possible to connect up to six devices to the backplane and two devices simultaneously to the front. Optionally, it can also be provided with an integrated GSM or UMTS data communication system. The WLANrouter is fitted with a standard LINUX operating system to save cost in serial production.

The MOBILE-ITCS software was enhanced by numerous new functions. A new, improved line report has been programmed, while the online statistics system has been revised. Thus, the dispatcher is able to view details of services, such as the start and the end of bus drivers' working hours, and take appropriate measures, where as necessary. Lines and journeys can be moved back and replacements added. Due to a fail-over concept, all processes can automatically be switched to a substitute server. This is particularly important for maintenance work on the servers to ensure a smooth bus service.

In the USA, the development team of init predominantly works on the further development of our software module, MOBILE-PARAnet, and on the development of an interface to other paratransit systems in the American market. The software module optimizes the on-demand bus transportation service for disabled and elderly people (Paratransit) and, in connection with other software and hardware modules of our integrated telematics system, MOBILE, facilitates the online management of the vehicles. Currently, we are also looking into the further development of our MOBILE-PARAnet for use in on-demand bus services in the German market.

In research, init also supports a promotion at the University of Karlsruhe in the automotive sector of car agents. Our aim is to establish new areas of application in the "intelligent vehicle" field.

On the whole, init spent 2.3 million Euro (previous year: 2.4 million Euro) on the development of new products in 2007, corresponding to 4.9 per cent (previous year: 6.5 per cent) of sales. In addition, the group effected customer-funded new and further developments within the scope of projects adding up to at least double the amount again.

Risk report

In terms of future development, a technology-oriented growth company such as init is faced with a number of economic, technical and operating risks that may affect its financial and earnings position. These are continuously analyzed and evaluated to ensure that appropriate measures, where necessary, can be initiated immediately. 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 at regular Board meetings and their prospects and risks weighed against each other. Both the Managing Board and the Supervisory Board are kept informed of imminent risks by receiving regular reports in their meetings. Alternative measures are discussed with the Supervisory Board.

Potential risks, such as a backlog of projects, quality risks or human resources risks, are regularly monitored by way of monthly reports. Financial risks, the incoming order situation, supply backlogs, and the liquidity are analyzed daily or weekly to ensure that appropriate measures, where necessary, can be initiated immediately. Market, development and strategic risks are monitored on a quarterly basis. Contracts are worked on and examined by our in-house lawyers, if necessary with the support of external expert lawyers.

As an internationally operating company, init is always subject to the cyclical trends of the global economy and the individual countries in which its projects are implemented. Increasing raw material and energy prices and the turbulences on the financial markets caused by the real estate crisis in the USA may lead to a sagging of the economic development in general and consequently also of business activity at init.

The market for transportation services, in which the init customers are primarily involved, is dependent on the political will for an improvement of local public transportation and on the funds made available for it. Delays and the postponement or cancellation of publicly funded investment projects and promotion funds due to a poor budgetary position can adversely affect the market growth of the init group.

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 and technology. Excess capacities on the market, however, involve the risk of reduced margins, as tenders can often be won only through aggressively priced offers.

The crucial success factor for the init group is successful project management. The successful handling of projects depends on the completion of these projects on schedule, the scope of each individual project, the enforceability of contractual terms, the readiness of the customer to be involved in the project implementation through productive contributions, and the specific national laws and regulations. Apart from unforeseeable technical and customer-specific difficulties, the punctual completion of projects also partly depends on the availability of sufficiently qualified personnel. init takes account of these factors by operating a long-term personnel policy and the participation of employees in the success of the company.

Hardware and software in the telematics sector, as developed and marketed by init, are subject to rapid changes and constant innovations. In order to limit the development technology risk, we must, on the one hand, 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 be constantly monitored. The development of new products can incur considerable costs without necessarily resulting in the desired success.

To date, init has never had any claims against it on grounds of product defects or based on warranty which had a considerable impact on the financial and earnings position of the group. Future claims, however, cannot be completely ruled out. All the more since init is also dependent on its suppliers and subcontractors in terms of quality, schedule effectiveness and price.

Vehicles can only be equipped successfully if the hardware is made available at the right time and in the right quantity, and if it is of the required quality. Poor quality or hidden faults may otherwise require cost-intensive rectification or replacements 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, the deliveries and the hours worked and, in case of deviations from the target, initiate the appropriate countermeasures in good time. Calculations, the order situation, and the project progress are continuously monitored for the purpose of a target-performance analysis.

New program versions, software updates, and additional programming in our 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 sales, the purchase prices, the valuation of claims, currency reserves, liabilities, and with it, the result. init meets these exchange risks with active exchange rate management, making use of switch deposits, forward exchange dealings and currency options. Since init also tries to keep its options open here, it may consequently incur losses. Due to our risk policy, however, we consider this risk of loss to be minimal.

The investments of init include stocks, fixed-interest securities and fixed-term deposits. This can lead to losses due to changes in the market price, the exchange rate, or the rate of interest.

On the whole, the Managing Board currently rates the risks to which init as a group is exposed as comparatively minimal due to our solid financial and earnings position and our largely positive business prospects.

Opportunities and prospects report

Business experts and forecasting institutes expect the global economy in 2008 to grow at a more measured pace, though the dynamics due to the economic problems in the USA and the resulting international dampening effects should slow down. In the market for telematics and electronic payment systems for local public transportation, in which init is active, the effects of these factors are currently difficult to estimate.

On a regional basis, we anticipate a steady rise in the number of tenders and follow-up orders for Germany. In our opinion, the rest of Europe is also likely to see a satisfactory trend in 2008.

North America continues to make additional funds in the billions available for the improvement of its local public transportation infrastructure. This is happening against a background of rising fuel prices, which are leading to a rise in prices particularly in the private transportation sector. On the other hand, it comes as a consequence of ambitious projects aimed at reducing the carbon dioxide emissions. All in all, we can also expect to see an increase in tenders here and already have Houston, New York, Seattle and Vancouver to show as outstanding references.

In Asia and Australia, the efforts made to expand and improve the local public transportation systems to ensure mobility in conurbations and rural areas in times of rising fuel prices are similarly great. In some places, such as in the Arab states, billions are invested in state-of-the-art transportation solutions.

With mega-projects such as Stockholm, New York City and, most recently, Dubai, init has shown that the company is well able to generate and handle contracts on a global scale. In Australia, init is currently realizing its first project involving payment systems outside Europe. This e-ticketing project also acts as a signal, as is evident from the avid interest shown by other transportation companies.

Remuneration systems for Managing and Supervisory Board

Remuneration system for the Managing Board

The remuneration for members of the Managing Board is settled by the Supervisory Board. The remuneration is determined by the size of the company, its economic and financial situation, and the amount and structure of comparable companies.

The remuneration system for the Managing Board – also in their capacity as managing directors of our subsidiaries – includes as follows:

1. A fixed salary component payable on a pro-rata basis in 13 monthly installments. The fixed component of the Board members' remuneration totaled 981 TEuro.
2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee shares and applicable as a percentage from an operating result of 0.4 million Euro. The management bonus is limited to 25 per cent of the total compensation package without restricted stocks under item 3. The variable part of the Board members' remuneration totaled 328 TEuro.
3. A further bonus for 2007 in the form of stocks, from consolidated earnings exceeding 2 million Euro before taxes and after deduction of all management bonuses. Where this amount is exceeded, each member of the Board receives one share for each 300 Euro of exceeding profit. The number of "restricted stocks" is limited to 5,000 shares per Board member. The shares are subject to a qualifying period of five years. The

income tax on the non-cash benefit of the share transfer is borne by the company. The present value of this remuneration including income tax payable on it totaled 380 TEuro.

4. Pension commitments existed for three of the five members of the Managing Board. The release of the provisions for pensions (DBO) for these three members totaled 89 TEuro.
5. A defined contribution plan instead of a direct pension commitment existed for two members of the Managing Board. This expenditure in 2007 amounted to 5 TEuro.
6. An additional defined contribution plan exists for four members of the Managing Board. In 2007, the expenditure for this amounted to 36 TEuro.

Based on the resolution passed by the shareholders' meeting on July 13, 2006, an individualized disclosure of the Board members' salaries according to § 315a para. 1 HGB (German Commercial Code) in conjunction with § 314 para. 1 no. 6a sentences 5 to 9 can be withheld for a period of 5 years (§ 314 para. 2 sentence 2 in conjunction with § 286 para. 5 HGB).

Benefits payable on leaving the Managing Board have not been agreed. However, a termination bonus may be specified in individual termination agreements.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board was decided in the shareholders' meeting on July 13, 2006, based on a proposal submitted by the Managing Board and the Supervisory Board. The articles of incorporation of init have been amended accordingly.

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals 9,000 Euro p. a. for the members and 18,000 Euro p. a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable remuneration is limited to 300 per cent of the fixed remuneration and is calculated using the following formula:

V= ((0.5*price/5.1 + 0.5 * profit/2 million) -1) * fixed component

Where V (variable component) is less than zero, the variable component does not apply and only the fixed component of the remuneration is payable.

Breakdown of the remuneration of the Supervisory Board in 2007:

Name	Fixed component in Euro	Variable component in Euro
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18,000	27,403
Bernd Koch	9,000	13,702
Fariborz Khavand	9,000	13,702

Particulars of shareholders' equity

The capital stock of init AG amounting to 10,040,000 Euro is divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of 1 Euro per share. The shares have been issued and fully paid up. For the rights and obligations related to the shares, please refer to § 118 ff. of the German Stock Corporation Act.

The Managing Board is not aware of any restrictions relating to the voting rights or the transfer of shares.

Dr. Gottfried Greschner directly or indirectly holds 3,576,400 shares in init AG. This corresponds to around 35.6 per cent of the capital stock. init AG currently holds a total of 195,722 shares (as of December 31, 2006: 366,415 shares).

There are no holders of shares with special rights.

No voting control for shares held by employees exists.

Statutory requirements and provisions of the articles on the appointment and dismissal of members of the Managing Board and on amendments to the articles of incorporation

For the appointment and dismissal of members of the Managing Board, please refer to §§ 84, 85 AktG (German Stock Corporation Act). Amendments to the articles of incorporation are subject to the legal provisions of §§ 133, 179 AktG.

Authority of the Managing Board to issue and repurchase stock

At the annual shareholders' meeting on July 13, 2006, a resolution was passed to create capital to the amount of 5,020,000 Euro. With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 5,020,000 Euro by July 13, 2011, through a single or repeated issuing of up to 5,020,000 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 1,004,000 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.

The treasury stock as of January 1, 2007 totaled 366,415 shares. Based on the resolution passed at the annual shareholders' meeting on July 13, 2006, replaced by the resolution of May 16, 2007, the company is authorized to purchase treasury stock. On July 14, 2006, the Managing Board decided on a stock repurchase of up to 210,000 shares. In 2007, the company acquired 13,585 (previous year: 103,690) shares at an average price of 7.11 Euro (previous year: 7.39 Euro). Within the scope of an employee profit sharing scheme for the 2007, a total of 17,778 shares were transferred to employees. The shares are subject to a qualifying period of two years. Based on the motivation scheme for members of the Managing Board and managing directors, a total of 30,000 share were transferred with a qualifying period of five years. A further 1,500 shares were transferred to employees within the scope of a bonus agreement without qualifying period. In February 2007, 20,000 shares at 7.50 Euro each were transferred off-market to new investors, in September 2007, 100,000 shares at 8.00 Euro, and in December 2007, 15,000 shares at 8.30 Euro. On the whole, the current treasury stock thus totals 195,722 shares.

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 or to issue them to employees or members of the Managing Board.

Prospects

Globally, the significance of a well functioning local public transportation system with a resource-conscious setup has grown quite significantly. In Europe, North America, Asia, in the Middle East and in Australia, the funds available for the setup and development of the necessary infrastructure run into the billions. Intelligent telematics systems play an indispensable part in this and take up a large portion of the investments required.

Consequently, we can expect to see an increase in demand for products and solutions from init, despite the anticipated general slowdown in economic activity on the world market. This is already evident in the rising volume of international tenders. Therefore, we have reason to assume a high intake of new orders in fiscal 2008 and will continue to consolidate our excellent market position by introducing new products and individual customer solutions.

With recent awards of major contracts from Seattle, Dubai and from the Deutsche Bahn, init has excellent prospects for yet another successful year in 2008. Our current level of orders of over 102 million Euro has already secured some 80 per cent of our sales target for 2008 and will even extend well into fiscal 2009. In addition to the significant improvement of a somewhat more restrained German market over the past few years, our contract from the United Arab Emirates and the promising development in Australia in particular promise continued above-average growth for init.

Against this background, the Managing Board is aiming for an increase in both sales and earnings (EBIT) by around 20 per cent in 2008. Risk factors that may compromise our achievement of these targets, however, are the rising raw material prices, the weak US dollar and the slowdown in economic development emanating from the USA. The resulting higher production costs cannot be fully passed on in the form of higher prices and will reduce our margin. A positive influence on our operating result in 2008, however, will be the effects of the imminent tax reform in Germany, which will result in a lower overall tax ratio and a higher net profit trend.

On the whole, the Managing Board of init innovation in traffic systems AG is confident that init will be able to achieve an increase in both sales and earnings above the market average over the next few years.

Karlsruhe, March 7, 2008

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

This is a translation from the German language. The audit opinion issued in German language refers to the consolidated financial statements and group management report originally prepared in German language and not to the English translation of the consolidated financial statements and group management report.

Independent Auditors' Report

We have audited the consolidated financial statements prepared by the init innovation in traffic systems Aktiengesellschaft, Karlsruhe, comprising the income statement, the balance sheet, cash flow statement, statement of recognized income and expenses, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2007 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and the supplementary provisions of the articles of incorporation and bylaws are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German other relevant standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group 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, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and the supplementary provisions of the articles of incorporation and bylaws and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Mannheim, March 7, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Ketterle	Schäfer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility Statement by the legal representatives

"To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the group status report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group."

Karlsruhe, March 7, 2008

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

init in Hobart

On the island of Tasmania to the south-east of Australia, init is equipping 220 buses, 3 depots and the 30 ticket offices of Metro Tasmania with a smartcard ticketing system. Team Manager **Matthias Kühn** *coordinates the ticketing-related project development in the capital Hobart. For passengers, traveling by bus will now be much easier, while the transportation company will in future be able to provide new services and receive more detailed data on passenger numbers and the punctuality of its vehicles.*


OBART CITY
HOBART CITY CENTRE

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Balance Sheet of December 31, 2007

Assets	Notes Item No.	€	12/31/2007 €	12/31/2006 T€
A. Fixed assets				
I. Intangible assets	III.1	**17,550.00**	**17,550.00**	**0**
II. Contributed assets	III.2			
Land and buildings		1,640,801.27	1,640,801.27	9
III. Financial assets	III.3			
1. Shares in affiliated companies		17,461,487.38		17,066
2. Loans to affiliated companies		120,000.00		120
3. Investments in associates		381,468.10	17,962,955.48	382
B. Current assets				
I. Accounts receivable and other assets	III.4			
1. Accounts receivable from affiliated companies		5,067,292.30		5,091
2. Other current assets		434,035.18	5,501,327.48	62
II. Marketable securities				
1. Treasury stock		976,842.47		1,665
2. Other marketable securities		34,962.88	1,011,805.35	742
III. Bank assets			1,874,651.24	1,563
C. Prepaid expenses	III. 5		92,424.70	25
			28,101,515.52	**26,725**

Liabilities	Notes Item No.	€	12/31/2007 €	12/31/2006 T€
A. Shareholders' equity	III. 6			
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		976,842.47		1,665
IV. Balance sheet profit		3,641,647.42	24,280,364.87	2,780
B. Provisions	III. 7			
1. Provisions for pensions and similar obligations		71,321.00		65
2. Tax accruals		262,493.00		437
3. Other provisions		418,000.00	751,814.00	404
C. Liabilities	III. 8			
1. Bank loans		1,200,000.00		0
2. Trade accounts payable		15,611.28		32
3. Accounts payable to investments to affiliated companies		1,821,877.31		1,453
4. Other liabilities thereof taxes 24,660.29 € (previous year: 198 T€) thereof social security contributions 0,00 € (previous year: 0 T€)		31,848.06	3,069,336.65	227
			28,101,515.52	**26,725**
Contingent liabilities	III. 9		22,693,483.71	12,248

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Income Statement for the Period from January 1, 2007, to December 31, 2007

		Notes Item No.	€	01/01/2007-12/31/2007 €	01/01/2006-12/31/2006 T€
1.	Revenues	IV. 1		2,087,132.61	2,054
2.	Other operating income	IV. 2		1,150,064.50	98
3.	Personnel expenses				
	a) Wages and salaries		1,000,004.38		878
	b) Social security and other pension costs, thereof in respect of old-age pensions incl. 27,426.29 € (previous year: 13 T€)		164,414.80	1,164,419.18	135
4.	Depreciation on intangible assets of non-current asset and property, plant and equipment			22,215.00	0
5.	Other operating expenses			1,059,475.62	967
6.	Income from a profit and loss transfer agreement			0.00	4,790
7.	Income from investments			0.00	97
8.	Other interest and similar income thereof 260,965.42 € (previous year: 57 T€) from affiliated companies			308,186.57	154
9.	Depreciation on marketable securities			2,945.44	58
10.	Interest and similar expenses thereof 77,583.33 € (previous year: 0 T€) from affiliated companies			121,787.44	0
11.	**Result from ordinary activities**			**1,174,541.00**	**5,155**
12.	Income taxes	IV. 3		-33,366.79	-1,981
13.	Other taxes			0.00	159
14.	**Annual net profit**			**1,141,174.21**	**3,333**
15.	Profit carried forward from previous financial year			1,811,963.40	120
16.	Removal/previous year transfer to earnings reserved for own shares			688,509.81	-673
17.	**Balance sheet profit**			**3,641,647.42**	**2,780**

Statements of Changes in Fixed Assets of December 31, 2007

	Historical and manufacturing costs			
	01/01/2007 €	Additions €	Disposals €	Reclassifications €
I. Intangible assets	0.00	19,500.00	0.00	0.00
II. Contributed assets				
1. Land	3,613.65	644,202.19	0.00	0.00
2. Buildings	5,652.12	1,007,598.31	0.00	0.00
Total contributed assets	9,265.77	1,651,800.50	0.00	0.00
III. Financial assets				
1. Shares in affiliated companies	17,066,131.31	395,356.07	0.00	0.00
2. Loans to affiliated companies	120,000.00	0.00	0.00	0.00
3. Investments in associates	381,468.10	0.00	0.00	0.00
Total financial assets	17,567,599.41	395,356.07	0.00	0.00
Total	**17,576,865.18**	**2,066,656.57**	**0.00**	**0.00**

	Accumulated amortization/depreciation				Book values	
12/31/2007	01/01/2007	Additions	Disposals	12/31/2007	12/31/2007	12/31/2006
€	€	€	€	€	€	€
19,500.00	**0.00**	**1,950.00**	**0.00**	**1,950.00**	**17,550.00**	**0.00**
647,815.84	0.00	0.00	0.00	0.00	647,815.84	3,613.65
1,013,250.43	0.00	20,265.00	0.00	20,265.00	992,985.43	5,652.12
1,661,066.27	**0.00**	**20,265.00**	**0.00**	**20,265.00**	**1,640,801.27**	**9,265.77**
17,461,487.38	0.00	0.00	0.00	0.00	17,461,487.38	17,066,131.31
120,000.00	0.00	0.00	0.00	0.00	120,000.00	120,000.00
381,468.10	0.00	0.00	0.00	0.00	381,468.10	381,468.10
17,962,955.48	**0.00**	**0.00**	**0.00**	**0.00**	**17,962,955.48**	**17,567,599.41**
19,643,521.75	**0.00**	**22,215.00**	**0.00**	**22,215.00**	**19,621,306.75**	**17,576,865.18**

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Notes to the 2007 Fiscal Year

I. General disclosure

The financial statements of init innovation in traffic systems Aktiengesellschaft, Karlsruhe ("init AG"), as of December 31, 2007 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 § 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.

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
The intangible fixed assets and the tangible and financial assets are reported in the balance sheet at purchase cost less scheduled straight-line depreciation.

Current assets
Accounts receivable from affiliated companies and other assets are reported at their nominal value. Accounts receivable in foreign currencies are shown at the exchange rates current on the date of their origin or the higher selling rate as of the cutoff date. Securities are valued at their cost of purchase, less the necessary depreciation pursuant to § 253 para. 3 of the German Commercial Code (HGB).

Provisions and liabilities
Pension accruals were calculated on the basis of actuarial principles in line with § 6a of the German Income Tax Law (EstG). The underlying assumed rate of interest is 6%. The calculations are based on Klaus Heubeck's Actuarial Tables of 2005 G.

The accrued provisions take into account any foreseeable risks and contingent liabilities and are shown at the amount required based on sound business judgement.

Liabilities are shown at their amounts repayable.

III. Explanations on individual balance sheet items

The development of individual asset items is shown in the fixed asset movement schedule on the previous page.

1. Intangible assets
The additions relate to the IDL consolidation software. The software is reported at purchase costs and is depreciated on a straight-line method over 5 years.

2. Fixed assets
The additions relate to the purchase of the building next door to the Karlsruhe headquarters. The legal transfer of property took place on January 1, 2007.

3. Financial investments

INIT PTY LTD, Queensland, Australia, was established on May 18, 2007 and Init Innovation in Traffic Systems FZE, Dubai, UAE, on November 12, 2007. Both companies handle the sales and project activities of the init group in the Oceanic market and the Middle East. The total cost of these company acquisitions was 249 TEuro and was attributable to the payment of equity for the companies. Within the scope of a capital increase, the share in init telematik GmbH (as of December 4, 2007: initplan GmbH) was raised by 146 TEuro.

We refer to page 101 for the list of the share ownership.

4. Accounts receivable and other assets

The accounts receivable from affiliated companies of 5,067 TEuro (previous year: 5,091 TEuro) mainly include 4,740 TEuro (previous year: 4,790 TEuro) of receivables from the transfer of profits from INIT GmbH in the previous year, 133 TEuro (previous year: 112 TEuro) of accounts receivable from the sale of shares within the scope of the employee profit sharing scheme, and receivables from expenses relating to the subsidiaries of 194 TEuro (previous year: 24 TEuro).

The other assets of 434 TEuro (previous year: 62 TEuro) mainly consist of tax refund claims and the asset value of a pension liability insurance.

All accounts receivable and other assets have a residual term of up to one year.

5. Accruals and deferrals

The accruals and deferrals item primarily includes prepayments for designated sponsors, insurances and a disagio.

6. Shareholders' equity

The shareholders' equity of init AG developed as follows:

	Capital stock	Capital reserves	Retained earnings	Balance sheet profit	Total
	T€	T€	T€	T€	T€
Shareholders' equity as of December 31, 2006	10,040	9,622	1,665	2,780	24,107
Reserves for treasury stock			-688	688	0
Dividend distribution				-968	-968
Annual net income for 2007				1,141	1,141
Shareholders' equity as of December 31, 2007	10,040	9,622	977	3,641	24,280

Subscribed capital

As of December 31, 2007, the subscribed capital of init AG was still 10,040,000 Euro. The capital has been fully paid in and is divided into 10,040,000 shares with an imputed share in the equity capital of 1.00 Euro each. This stock exclusively consists of ordinary shares.

Approved capital

With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 5,020,000 Euro by July 13, 2011, through a single or repeated issuing of up to 5,020,000 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 1,004,000 new shares can be issued at a price not substantially lower than the stock market value of the company shares at the time of specifying the issue price,
- to balance peak amounts,
- to open up additional capital markets,
- to acquire investments and to acquire or merge with other companies or parts of companies by way of contribution as investment in kind,
- to turn up to 250,000 new shares into employee stocks.

Treasury stock

The treasury stock as of January 1, 2007 totaled 366,415 shares. Based on the resolution passed at the annual shareholders' meeting on July 13, 2006, replaced by the resolution of May 16, 2007, the company is authorized to purchase treasury stock. In 2007, the company acquired 13,585 (previous year: 103,690) shares at an average price of 7.11 Euro (previous year: 7.39 Euro). Within the scope of an employee profit sharing scheme for fiscal 2007, a total of 1,335 shares were transferred to employees of init AG. A further 16,443 shares were sold to the subsidiaries INIT GmbH, INIT Inc. USA, INIT Eastern Canada, INIT Western Canada, INIT PTY LTD, and Init FZE for their employee profit sharing schemes. The shares are subject to a qualifying period of two years. As a result of the motivation scheme for members of the Managing Board and managing directors, a total of 30,000 shares were transferred with a qualifying period of 5 years. 25,000 of these shares were sold to INIT GmbH and INIT Inc. USA. A further 1,500 shares were transferred to INIT Inc. USA and to their employees within the scope of a bonus agreement without qualifying period. In February 2007, 20,000 shares at 7.50 Euro each were transferred off-market to new investors, in September 2007, 100,000 shares at 8.00 Euro, and in December 2007, 15,000 shares at 8.30 Euro.

The company's treasury stock was valued at purchase cost at 977 TEuro (previous year: 1,665 TEuro). The necessary reserves for treasury stock were formed reducing the balance sheet profit for the year. As of December 31, 2007, the treasury stock amounted to 195,722 shares with an imputed share of 195,722 Euro (2%) in the subscribed capital.

The repurchases have been effected since 2002 for use as consideration within the scope of mergers and to acquire other companies or parts of companies or participations, or, where required, for opening up additional capital markets, or for issue to employees and Board members.

7. Provisions

The other provisions were established predominantly for the Supervisory Board compensation to the amount of 91 TEuro (previous year: 72 TEuro), for profit sharing in the form of shares for the Managing Board of 75 TEuro (previous year: 67 TEuro), for outstanding suppliers' invoices of 50 TEuro (previous year: 63 TEuro), for accounting and auditing costs of 33 TEuro (previous year: 62 TEuro), for management bonuses of 53 TEuro (previous year: 54 TEuro), and for the employee profit sharing scheme of 75 TEuro (previous year: 45 TEuro).

8. Liabilities

	12/31/2007					12/31/2006	
	Remaining term			secured/		Remaining term	
	< 1 year	1-5 years	> 5 years	with	Total	< 1 year	Total
Type of liability	T€	T€	T€	T€	T€	T€	T€
1. Bank loans	0	212	988	1,200	1,200	0	0
2. Trade accounts payable	16	0	0	0	16	32	32
3. Accounts payable to affiliated companies	1,822	0	0	0	1,822	1,453	1,453
4. Other liabilities	32	0	0	0	32	227	227
> there of tax	25	0	0	0	25	198	198
> there of social security	0	0	0	0	0	0	0

The liabilities to banks of 1,200 TEuro relate to a long-term loan raised to finance the building at Kaeppelestr. 4, Karlsruhe. The loan is fully secured by the land charge.

The accounts payable to affiliated companies to the amount of 1,822 TEuro (previous year: 1,453 TEuro) primarily include tax liabilities.

The other liabilities mainly comprise wage and church tax liabilities of 25 TEuro.

9. Contingent liabilities

As of the cutoff date, the company had contingent liabilities from the following guarantee agreements:

- to the amount of 20,253 TEuro (previous year: 9,528 TEuro) from bank guarantees in favor of INIT GmbH
- to the amount of 25 TEuro (previous year: 25 TEuro) from a maintenance guarantee in favor of INIT Inc. USA
- to the amount of 2,415 TEuro (previous year: 2,695 TEuro) from a contract performance guarantee in favor of INIT Inc. USA
- Furthermore, init AG has joint liability for utilization of a bank loan of INIT GmbH and CarMedialab GmbH.

10. Financial obligations

As of the cutoff date, there were no financial obligations.

IV. Notes to the income statement

1. Revenues

The revenues were generated predominantly through services for INIT GmbH.

2. Other operating income

This item primarily includes income from the sale of treasury stock and from the sale of marketable securities classified as current assets.

3. Taxes on income

The tax expenditure for 2007 is composed of corporation income tax and solidarity contribution (totaling 92 TEuro), and trade tax (76 TEuro). This must be set against the inclusion of income from the reversal of provisions for taxation (103 TEuro) and from tax refunds for previous years (32 TEuro).

V. Other information

1. Management bodies

Managing Board

Dr. Gottfried Greschner, Karlsruhe	CEO
Mr. Joachim Becker, Karlsruhe	COO
Mr. Wolfgang Degen, Karlsruhe	COO
Dr. Jürgen Greschner, Pfinztal	CSO
Mr. Bernhard Smolka, Stutensee	CFO

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 the 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
Mr. Bernd Koch, Lahr, Vice Chairman	Self-employed business consultant, member of the Advisory Board of the IHK (German Chamber of Industry and Commerce) Training Center in Karlsruhe
Mr. Fariborz Khavand, Wuppertal	Self-employed business consultant

Particulars of Board member salaries

In their capacity as executives on the Managing Board as well as of the subsidiaries, the members of the Managing Board received compensation totaling 1,689 TEuro (previous year: 1,599 TEuro) in 2007. This total includes a share-based compensation in the form of 25,000 shares of init AG with a current market price of 380 TEuro (previous year: 340 TEuro) at the time of issue, including the applicable income tax, which is borne by init.

Thereof expenses in the amount of 284 TEuro are included in the financial statements of the init AG.

Based on the resolution passed by the shareholders' meeting on July 13, 2006, an individualized disclosure of the Board members' salaries can be withheld for a period of 5 years (§ 286 sub-section 5 HGB).

The total remuneration of the Supervisory Board members in 2007 amounted to 91 TEuro (previous year: 77 TEuro).

2. Employees

init AG employed an annual average of 17 (previous year: 16) people.

3. Interest in other companies

Company	Registered offices	Equity capital	Share in %	2007 result
INIT Innovative Informatik-anwendungen in Transport-, Verkehrs- und Leitsystemen GmbH	Karlsruhe (DE)	TEuro 8,180	100	TEuro 1,997
INIT Innovations in Transportation, Inc.	Chesapeake, VA (USA)	TUSD 5,609	100	TUSD 1,305
id systeme GmbH	Hamburg (DE)	TEuro 593	44	TEuro 459
CarMedialab GmbH	Bruchsal (DE)	TEuro 292	58,1	TEuro 74
initplan GmbH	Karlsruhe (DE)	TEuro 197	100	TEuro -3
INIT Innovations in Transportation (Eastern Canada) Inc./ INIT Innovations en Transport (Canada Est) Inc.	Montréal (CA)	TCAD 85	100	TCAD -3
INIT Innovations in Transportation (Western Canada) Inc.	Vancouver (CA)	TCAD 114	100	TCAD 12
Total Quality Assembly LLC	Chesapeake, VA (USA)	TUSD 224	60	TUSD 37
INIT PTY LTD, Australia	Brisbane (AUS)	TAUD 148	100	TAUD 48
Init FZE, Dubai	Dubai (UAE)	TAED 1,656	100	TAED 656
iris GmbH infrared & intelligent sensors	Berlin (DE)	TEuro 2,961	43	TEuro 544

Exchange rates

	Annual averages		Rate at cutoff date	
	2007	2006	2007	2006
1 Euro equals US Dollars	1.3707	1.2546	1.4729	1.3190
1 Euro equals CAN Dollars	1.4692	1.4228	1.4464	1.5375
1 Euro equals AUS Dollars	1.6230	1.6680	1.6818	1.6747
1 Euro equals Dirham	5.3701	4.6151	5.4115	4.8505

4. Information on the auditor's fee

The auditor's fee for the group auditor Ernst & Young AG Wirtschaftsprüfungsgesellschaft/Steuerberatungs-gesellschaft, Mannheim, including expenses amounted to 60 TEuro (previous year: 62 TEuro) for the audit of the financial statements, 0 TEuro (previous year: 25 TEuro) for other certification and appraisal services, and 10 TEuro (previous year: 0 TEuro) for other services.

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 5, 2007, and was made permanently available to the shareholders on our homepage at www.initag.de.

Karlsruhe, March 7, 2008

The Managing Board

Dr. Gottfried Greschner   Joachim Becker   Wolfgang Degen

Dr. Jürgen Greschner   Bernhard Smolka

init innovation in traffic systems Aktiengesellschaft, Karlsruhe
Status Report as of December 31, 2007

Abstract

init innovation in traffic systems Aktiengesellschaft ("init AG"), Karlsruhe 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, and human resources of INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH, Karlsruhe ("INIT GmbH") are covered by init AG.

Business trend and situation

init AG generated sales to the amount of 2,087 TEuro (previous year: 2,054 TEuro), predominantly through its services for INIT GmbH. It realized an annual net profit of 1,141 TEuro (previous year: 3,333 TEuro).

Key financial performance indicators for init AG include the liquidity and the equity ratio. As of the cutoff date, the liquid funds including securities (without treasury stock) of init AG totaled 1,910 TEuro (previous year: 2,305 TEuro). The balance sheet total amounted to 28,102 TEuro, the equity ratio stood at 86.4 per cent (previous year: 90.2 per cent).

The incoming order volume in 2007 proved to be the best in the history of the init group. New markets such as Australia and the United Arab Emirates could be added to its list. To ensure further development of these markets, init AG set up the subsidiaries INIT PTY LTD in Australia and Init Innovation in Traffic Systems FZE Dubai, UAE.

Based on the resolution of the shareholders' meeting on December 4, 2007, the share in init telematik GmbH was increased by 146 TEuro to 200 TEuro. It was decided to revive the operations of the company, which was subsequently renamed initplan GmbH.

The treasury stock as of January 1, 2007 totaled 366,415 shares. Based on the resolution passed at the annual shareholders' meeting on July 13, 2006, replaced by the resolution of May 16, 2007, the company is authorized to purchase treasury stock. In 2007, the company acquired 13,585 (previous year: 103,690) shares at an average price of 7.11 Euro (previous year: 7.39 Euro). Within the scope of an employee profit sharing scheme for fiscal 2007, a total of 1,335 shares were transferred to employees of init AG. A further 16,443 shares were sold to the subsidiaries INIT GmbH, INIT Inc. USA, INIT Eastern Canada, INIT Western Canada, INIT PTY LTD, and Init FZE for their employee profit sharing schemes. The shares are subject to a qualifying period of two years. As a result of the motivation scheme for members of the Managing Board and managing directors, a total of 30,000 shares were transferred with a qualifying period of 5 years. 25,000 of these shares were sold to INIT GmbH and INIT Inc. USA. A further 1,500 shares were transferred to employees within the scope of a bonus agreement without qualifying period. In February 2007, 20,000 shares at 7.50 Euro each were transferred off-market to new investors, in September 2007, 100,000 shares at 8.00 Euro, and in December 2007, 15,000 shares at 8.30 Euro. Altogether, the treasury stand currently amounts to 195,722 shares.

The book value of the stock as of December 31, 2007 totaled 977 TEuro (previous year: 1,665 TEuro).

Opportunities 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 again be able to compensate for its expenses in the 2008 fiscal year. The profit and loss transfer agreement between init AG and INIT GmbH was terminated on December 31, 2006. However, the Managing Board intends to arrange a new profit and loss transfer agreement as of 2008.

The development of init AG essentially depends on the development of its operating subsidiaries. On account of recent contracts INIT GmbH is expected to report a distinctly positive result in 2008. Its high volume of orders of over 80 million Euro has secured the basic level of work of INIT GmbH for the next two years.

The risks for init AG are mainly connected with the risks of its operating subsidiaries. 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. Due to our risk policy, we expect the risk of loss to be minimal.

The investments of init include stocks, fixed-interest securities and fixed-term deposits. This can lead to losses due to changes in the market price, the exchange rate, or the rate of interest.

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. Due to the competence of our employees and the experience of init in the telematics field, we are confident that we will meet this challenge.

There are currently no risks that might jeopardize the continued existence of init.

Circumstances of specific significance after the cutoff date

With effect from January 1, 2008, our wholly-owned subsidiary initplan GmbH took over the “Interplan“ division of PTV AG and the “MOBILE-PLAN“ division of INIT GmbH, thus taking on a new strategic direction.

Remuneration report

Remuneration system for the Managing Board

The remuneration for members of the Managing Board is settled by the Supervisory Board. The remuneration is determined by the size of the company, its economic and financial situation, and the amount and structure of comparable companies.

The remuneration for one of the five members of the Managing Board is paid directly by the init AG. The other members of the Managing Board are remunerated by the INIT GmbH. Corresponding cost transfers are resolved to the group.

The remuneration system for the Managing Board – also in their capacity as Managing Directors of the subsidiaries – includes as follows:

1. A fixed salary component payable on a pro-rata basis in 13 monthly installments. The fixed component of the Board members’ remuneration in 2007 totaled 981,000 Euro.

Thereof 156,000 Euro are included in the financial statement of the init AG.
2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and applicable as a percentage from an operating result of 0.4 million Euro. The management bonus is limited to 25 per cent of the total compensation package without restricted stocks under item 3. The variable part of the Board members' remuneration in 2007 totaled 328,000 Euro.
   Thereof 53,000 Euro are included in the financial statement of the init AG.
3. A further bonus for 2007 in the form of stocks, from consolidated earnings exceeding 2 million Euro before taxes and after deduction of all management bonuses. Where this amount is exceeded, each member of the Board receives one share for each 300 Euro of exceeding profit. The number of "restricted stocks" is limited to 5,000 shares per Board member. The shares are subject to a qualifying period of 5 years. The income tax relating to the non-cash benefit of the share transfer is borne by the company. The current market value of this bonus, including the income tax payable on it amounted to 380,000 Euro.
   Thereof 75,000 Euro are included in the financial statement of the init AG.
4. Pension commitments existed for three of the five members of the Managing Board. The provisions for pensions (DBO) for these three members totaled 84,000 Euro.
   Thereof 0 Euro are included in the financial statement of the init AG.
5. A defined contribution plan instead of a direct pension commitment existed for two members of the Managing Board. This expenditure amounted to 5,000 Euro in 2007.
   Thereof 2,000 Euro are included in the financial statement of the init AG.
6. An additional defined contribution plan existed for four members of the Managing Board. In 2007, the expenditure for this amounted to 36,000 Euro.
   Thereof 8,000 Euro are included in the financial statement of the init AG.

Based on the resolution passed by the shareholders' meeting on July 13, 2006, an individualized disclosure of the Board members' salaries can be withheld for a period of 5 years (§ 286 para. 5 HGB).

Except for the above pension commitments, no other benefits payable on leaving the Managing Board have been agreed. However, a termination bonus may be specified in individual termination agreements.

Remuneration system for the Supervisory Board

The remuneration of the Supervisory Board was decided in the shareholders' meeting on July 13, 2006, based on a proposal submitted by the Managing Board and the Supervisory Board. The articles of incorporation of init AG have been amended accordingly.

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals 9 TEuro p.a. for the members and 18 TEuro p.a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable remuneration is limited to 300 per cent of the fixed remuneration and is calculated using the following formula:

V= ((0.5*share price/5.1 + 0.5*profit/2 million) -1) * fixed component

Where V (variable component) is less than zero, the variable component does not apply and only the fixed component of the remuneration is payable.

Breakdown of the remuneration of the Supervisory Board in 2007:

Name	Fixed component in Euro	Variable component in Euro
Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	18,000	27,403
Bernd Koch	9,000	13,702
Fariborz Khavand	9,000	13,702

Non-financial performance indicators

The key non-financial performance indicator for the init group is the qualification and motivation of its employees.

On average, init AG employed a workforce of 17 (previous year: 16) staff in 2007.

By Board resolution on February 16, 2007, published on April 23, 2007, the Managing Board decided on giving its employees a share in the company profits based on the operating result. Every permanent employee (part-time staff and new employees on a pro-rata basis) will receive a maximum profit share of 3,500 Euro. This amount will be paid on approval of the annual financial statements. The appropriate amounts were taken into account in the financial statements. In the context of asset sharing, each employee will also receive 100 shares in the company. The shares are subject to a qualifying period of two years and were already distributed to the employees on December 20, 2007.

Particulars of shareholders' equity

The capital stock of init AG amounting to 10,040,000 Euro is divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of 1 Euro per share. The shares have been issued and fully paid up. For the rights and obligations related to the shares, please refer to § 118 ff. of the German Stock Corporation Act.

The Managing Board is not aware of any restrictions relating to the voting rights or the transfer of shares.

Dr. Gottfried Greschner directly or indirectly holds 3,576,400 shares in init AG. This corresponds to around 35.6 per cent of the capital stock. init AG currently holds a total of 195,722 shares.

There are no holders of shares with special rights.

No voting control for shares held by employees exists.

Statutory requirements and provisions of the articles on the appointment and dismissal of members of the Managing Board and on amendments to the articles of incorporation

For the appointment and dismissal of members of the Managing Board, please refer to §§ 84, 85 AktG (German Stock Corporation Act). Amendments to the articles of incorporation are subject to the legal provisions of §§ 133, 179 AktG.

Authority of the Managing Board to issue and repurchase stock

At the annual shareholders' meeting on July 13, 2006, a resolution was passed to create capital to the amount of 5,020,000 Euro. With the approval of the Supervisory Board, the Managing Board is authorized to increase the company's capital stock by up to 5,020,000 Euro by July 13, 2011, through a single or repeated issuing of up to 5,020,000 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 1,004,000 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.

Dividend

The Managing Board proposes a dividend distribution of 14 cents per share.

Concluding statement concerning the dependent company report

Pursuant to § 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, 2008

The Managing Board

Dr. Gottfried Greschner | Joachim Becker | Wolfgang Degen

Dr. Jürgen Greschner | Bernhard Smolka

This is a translation from the German language. The audit opinion issued in German language refers to the financial statements and management report originally prepared in German language and not to the English translation of the financial statements and the management report.

init innovation in traffic systems Aktiengesellschaft, Karlsruhe Independent Auditors' Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the annual financial statements – together with the bookkeeping system, and the management report of init innovation in traffic systems Aktiengesellschaft, Karlsruhe, for the fiscal year from January 1, 2007 to December 31, 2007. 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 the supplementary provisions of the articles of incorporation and bylaws are the responsibility of the 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 Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements, whether due to error or fraud, 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 expectations as to 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 as part 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, on the basis of the knowledge we have gained during the audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and bylaws and 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. The management report is consistent with the annual financial statements and as a whole provides an appropriate view of the Company's position and appropriately presents the opportunities and risks of future development.

Mannheim, March 7, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Ketterle	Schäfer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility Statement by the legal representatives

"To the best of our knowledge and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the company, and the company management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company."

Karlsruhe, March 7, 2008

The Managing Board

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

Imprint

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