The Future of Mobility

Annual Report 2013

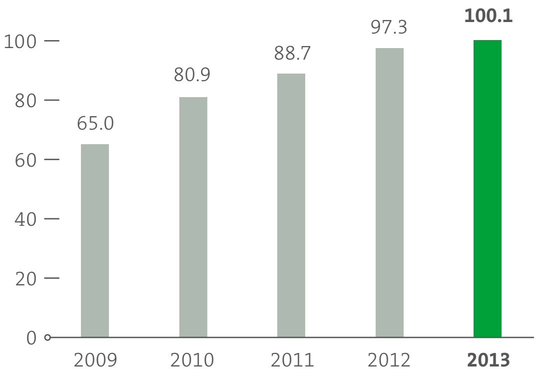
Points of contact
Discover technology

Group key figures

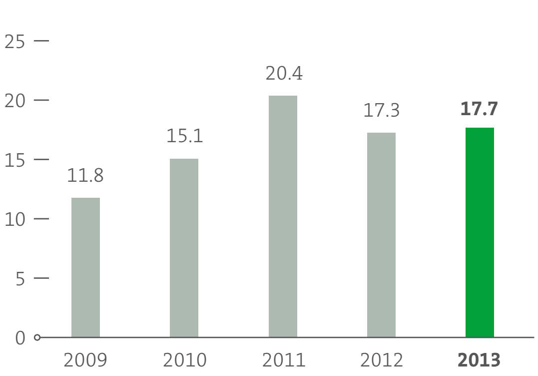
IFRS

EUR '000	2013	2012	Change in %
Balance Sheet (31/12)			
Balance sheet total	118,313	110,452	7.1
Shareholders' equity	62,092	57,757	7.5
Subscribed capital	10,040	10,040	0.0
Equity ration (in %)	52.5	52.3	
Return on equity (in %)	19.4	18.8	
Non-current assets	28,198	27,603	2.2
Current assets	90,115	82,849	8.8
Income Statement (01/01–31/12)			
Revenues	100,120	97,297	2.9
Gross profit	37,456	34,006	10.1
EBIT	17,725	17,318	2.4
EBITDA	20,501	19,895	3.0
Consolidated net profit	12,068	10,872	11.0
Earnings per share (in EUR)	1.21	1.11	8.3
Dividend (in EUR)	0.80	0.80	0.0
Cash Flow			
Cash flow from operating activities	11,435	11,332	0.9
Share			
Issue price (in EUR)	5.10	5.10	0.0
Peak share price (in EUR)	26.89	25.70	4.6
Bottom share price (in EUR)	21.15	13.60	55.5

Revenue development (in million EUR)



EBIT development (in million EUR)



Creating points of contact

To experience modern technologies and discover how they make life easier is possible at all points of contact where people get in touch with technology. init's intelligent solutions ensure that these points of contact are optimally designed: Passengers benefit from easy ticketing and real-time information on different media. State-of-the-art on-board computers facilitate the work of drivers while operators can optimally manage buses and trains and deploy capacity precisely. This is why init's integrated systems stand for what public transport companies around the world today strive to achieve: service and efficiency.

Imagery: init ensures that its customers' processes run both smoothly and effectively. To a great extent, the innovative, complex hardware and software solutions that underlie these processes remain invisible. In the Annual Report 2013 we use (graphic) elements to symbolically represent the printed circuit boards and programming codes used in these solutions.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Content

Discover technology

Dear Ladies and Gentlemen, Dear Shareholders,

In 2013, init innovation in traffic systems AG reached a significant milestone: For the first time we generated revenues of more than EUR 100 million at group level. Some 30 years after its foundation, therefore, a small company set up by graduates of the University of Karlsruhe has become the world's leading provider of telematics, planning and electronic fare collection systems for buses and trains.

This would never have been possible had init not taken the bold decision in 2001 to go public despite an unfavourable environment. This move generated the funding that enabled us to achieve a breakthrough in the USA and subsequently in other key markets.

Almost 13 years later we can state that our initial shareholders made a worthwhile investment. Last year init's share price recorded a historic high on several occasions, and reached a new all-time high of EUR 26.89. Thus, since its IPO init has also beaten the performance of the German DAX stock index.

Today we have no need for a public offering and additional capital to fund the continued growth of our company. Over the years, init has attained a degree of financial stability that not only allows it to regularly pay relatively high dividends for a high-growth technology company, but also to fund its own future growth.

We can now look back on a period of ten years in which init has achieved new revenue highs each year. Naturally the question that arises after this amount of time is, how long can this growth continue? And where are the markets and potentials that allow init to enjoy above-average growth of around 10 per cent each year?

We already answered these questions in 2013 and in previous years: Our company benefits from global mega-trends that significantly shape and sustain the development of social, political and economic structures. Besides population growth, especially important in this respect is urbanisation. More and more "megacities", cities with more than 10 million inhabitants, are forming and evolving into growth and prosperity engines for their countries.

This requires targeted investments in infrastructure, especially in transport systems that ensure mobility, and thus in IT solutions such as the ones init has now successfully installed for more than 400 customers worldwide. The signs of the times have been recognised on all continents, and billions in funding made available to build these transport systems or upgrade existing ones. It is also apparent that cities and countries that previously placed little value on public transport are now investing more and more in this area.

While individual projects may be postponed because of budget difficulties – we too experienced this in 2013 – many transport companies and public institutions are taking advantage of historically low interest rates to finance their investments.

The recent international IT-TRANS trade fair in Karlsruhe once again showed how much pent-up demand there is for new technologies in public transport. The main requirement is for the linking of different transport systems, i.e. the provision of data and service information on a uniform technological basis, as already implemented by init in a number of pioneering projects.

F. l. t. r.: Bernhard Smolka, Joachim Becker, Dr. Gottfried Greschner, Dr. Jürgen Greschner and Wolfgang Degen

Specialist software of the type developed by init is becoming increasingly important. We now also offer automatic feedback of current data into the planning process. This enables integrated planning and operational optimisation of transport operations and, ultimately, optimal tariffs and information for passengers.

init lives not only from major projects, but also from long-term relationship with customers of all sizes and from follow-up, maintenance and service contracts. In 2013, we were able to generate a quarter of revenues from such.

Public transport is always in a state of flux and, thanks to new technologies, is getting smarter and smarter. Our task at init is to support transport companies with our hardware and software and to be our customers' first choice when it comes to the use of new technologies.

If in the future we continue to do this as successfully as we have up until now, then buying shares in init innovation in traffic systems AG will continue to be a smart investment. We, our employees and our management team, are striving towards this on all four continents, and thus around the clock.

Thank you for the trust you have placed in us.

Karlsruhe, March 2014

For the Managing Board

Dr. Gottfried Greschner, CEO
init innovation in traffic systems AG

Managing Board Members

Dr.-Ing. Gottfried Greschner

Chairman of the Managing Board (CEO)

CV: Studies in electrical engineering at the University of Stuttgart. Research work in the field of fleet management systems as an academic assistant at the University of Karlsruhe. 1983 Doctorate at the University of Karlsruhe to gain qualification of Dr.-Ing. (Doctor of Engineering). 1983 founder and managing partner of INIT GmbH, Karlsruhe. Appointed as Chairman of the Managing Board of init AG on 25 April 2001.

Dipl.-Inform. Joachim Becker

Member of the Managing Board, Telematics Software and Services (COO)

CV: Studies in information technology at the Institute of Technology in Karlsruhe. Joined INIT GmbH in 1983. Head of the technical operating division since 1989. 1996 Management member and Departmental Head Monitoring Systems. Joachim Becker was appointed a member of the Managing Board of init AG on 25 April 2001.

Dipl.-Ing. (FH) Wolfgang Degen

Member of the Managing Board, Mobile Telematics and Fare Collection Systems (COO)

CV: Studies in communications engineering at Karlsruhe University of Applied Sciences. Development and quality control engineer in several mid-sized companies. Joined INIT GmbH in 1990. Management member and Departmental Head Fare Collection Systems since 1996. Wolfgang Degen was appointed a member of the Managing Board of init AG on 25 April 2001.

Dipl.-Kfm. Dr. Jürgen Greschner

Member of the Managing Board, Sales (CSO)

CV: Studies in technically oriented business management at the University of Stuttgart. Project manager in a special research area at the Deutsche Forschungsgemeinschaft (DFG – German Research Foundation). 1996 Doctorate to gain qualification of Dr. rer. pol. (Doctor of Political Science) at the University of Stuttgart. 1996 joined INIT GmbH Karlsruhe as commercial manager. 1999 founding and independent management of INIT Innovations in Transportation Inc., Chesapeake, Virginia, USA. Since January 2004 CSO at init AG and Managing Director of INIT GmbH.

Dipl.-Kfm. Bernhard Smolka

Member of the Managing Board, Finance (CFO)

CV: Studies in business management at the University of Mannheim. Investment controlling at Gebrüder Kömmerling Kunststoffwerke GmbH, Pirmasens. Head of the department responsible for group accounting, controlling and finance. Member of the extended management team. 2000 project manager at M & A Consultants AG, Mannheim. Appointed as CFO of init AG in June 2001.

Interview with the CEO Dr. Gottfried Greschner

"... when it comes to new technologies, we are generally always the first contact for potential customers."

Dr. Gottfried Greschner, founder and Chairman of the Managing Board (CEO) of init AG

1 ___ Dr. Greschner, this year init has for the first time generated revenues of more than EUR 100 million. What do you think were the main contributing factors?

Greschner: The main contributing factors were our large-scale projects. With Luxembourg, Montreal and Rheinbahn in Germany, we currently have three very large projects underway at very different stages. For Rheinbahn and Montreal not much revenue could be generated so far, as the engineering work essentially still needs to be carried out. In Luxembourg we are further on, and already in the roll-out stage for the vehicle equipment. Thanks to the latter, we just about managed to generate revenues of over EUR 100 million, although we had planned to achieve an even higher figure. And we would have too had it not been for the strong exchange rate fluctuations, which hampered our revenues a bit. The changes in the dollar-area exchange rates alone have cost us around EUR 3–4 million in revenues.

2 ___ You mentioned the project in Luxembourg. What's so special about it?

Greschner: The challenge here is that we have to realise at least two different standards – for e-ticketing and contactless payment. This means passengers have a card onto which they can load funds and which they can also use as an ID card. They pay on boarding by showing the card. This takes place very quickly and shortens the processing and stopping times of buses and trains. In Luxembourg there are two major standards for this – the French Calypso standard and the German VDV-KA. This made it a technological challenge because you have to meet two different standards with the same system.

3 ___ Turning to innovations in the market: With the trend towards increased networking of mobility systems, many new players have entered the market, including large communication companies and car manufacturers. What impact is this having on your business?

Greschner: As yet we're not entirely sure. We are responding to the situation by, for example, integrating apps into our products. We have written special apps for our customers in Karlsruhe and other cities that allow easy online access to real-time bus and tram information. We also link it with Google information to the extent desired by our customers. I believe that in the future we will also supply other providers with our real-time data, who in turn will use it for their own online applications. This has already been the case for years in Oslo, for instance. Just in time for the IT-TRANS trade fair we also created a pilot project incorporating so-called augmented reality. This means that I as a passenger see on my smartphone an image of the area in which the next stops are virtually located. At the press of a button the real-time departure times and the nearest stops are then displayed. This represents the first step. The second step would be to show the user how to get there. At the IT-TRANS in Karlsruhe we showed how this can be done, and are now looking forward to seeing how this develops.

4 ___ Did you notice the presence of new competitors in the market in 2013?

Greschner: Not in the true sense of new competitors, no. But there are now more competitors who venture out of their traditional markets and are globally active. This means our competitors too are beginning to globalise. This is a new challenge for us, but we are happy to take it on. I believe that with our wide range of products and our vast experience we are very well positioned. Things our competitors are having to work on for the first time for new projects are generally things we worked out years ago. And when it comes to new technologies, we are generally always the first contact for potential customers.

5 ___ In 2013, what were the key developments for init with respect to orders?

Greschner: The most important development was the first order from Finland. In Turku a ground-breaking ticketing project with a control system, i.e. an integrated solution, is being implemented, with new technologies and standards being tried out. For example, an ID-based ticketing system checks online whether someone is entitled to use a ticket. This is very exciting because it will pave the way for other customers and other projects. The second key project we have won is Avignon. Avignon is very interesting because it is our first project in France and a big one at that. I think it will open up the French market for us. The project is progressing well and is a great showcase project with respect to the whole of France.

6 ___ Dr. Greschner, last year you were very optimistic about the Asian market. Were your expectations met in 2013?

Greschner: We haven't managed to get hold of any large orders yet, but we continue to see many opportunities in the Asian region. Our experience shows that if you are patient, repeatedly offer your products, highlight their advantages, are well represented locally with an excellent sales office and motivated employees – and all this is true in our case – then ultimately you will be successful. I think our entry into Asia could well be quicker than our entry into the US market. The question is: Will it take place within the next few weeks or months, or will it take a little longer?

7 ___ In the medium term do you see any new trends or upheavals in the market that are already becoming visible today?

Greschner: We don't see any imminent upheavals, but naturally new technologies are constantly emerging. What has become especially apparent is that cities and countries that so far have placed little emphasis on public transport are increasingly investing in this area. As soon as new buses, new trams or new metros are to be purchased, new technologies are also deployed, such as our telematics system with integrated e-ticketing for buses and trains, or individual components thereof.

8 ___ Which markets and regions are leading the way in this respect?

Greschner: In America, the trend towards investing more in public transport and in new technologies is continuing. Now many Arab states are doing the same. In Abu Dhabi and Dubai a lot has already taken place, with other regions set to follow. And of course the big challenge is Asia. We are already working on tenders there. These require the latest technology to be used, and in this respect we are very well placed.

9 ___ Dr. Greschner, you have been at the helm at init for over 30 years. When you look back, what were the formative experiences and events during that time?

Greschner: The most important was undoubtedly the IPO in 2001, which enabled us to break into the North American market. We had tried to enter the US market as far back as 1997, but only in 2002 did we succeed in really establishing ourselves. And we did it by ourselves using the capital raised

"Cities and countries that so far have placed little emphasis on public transport are increasingly investing in this area."

Dr. Gottfried Greschner

from the IPO. I'm also especially pleased with the long-term performance of the init share price. In July 2001 we started out at a price of EUR 5.10 and today init shares are listed at close to EUR 25. Thus, our small company has outperformed even the mighty DAX.

10 ___ During your time as CEO, init's revenues have increased from EUR 350,000 to EUR 100 million. What has been your recipe for success, and do you believe init can continue to grow as quickly?

Greschner: Yes, I believe so, even though we're unlikely to grow as quickly as the dotcom companies. The important thing over such a long period is to keep your feet on the ground, to maintain contact with employees and to repeatedly make it clear to everyone that we live from one source only – our customers. You have to communicate this repeatedly in a company.

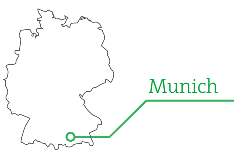
11 ___ Can init make another similar leap forward?

Greschner: Yes, I think there are two trends that will enable this. The first is that Asian markets are opening up to our technologies. Of course we'll also meet new competitors there, but our large international projects mean that we have a head start over them and they won't be able to catch us up easily. The second is that higher demands are being placed on the technology, which in turn will result in new opportunities. Today, for example, you can integrate high-resolution screens into buses and trains. Until recently you couldn't do this because they were too expensive. The focus will also shift very strongly towards software technology. We can already collect a lot of data, but something then needs to be done with it. We have developed statistical tools that quickly show us which lines are worth pursuing and which are not. We now also offer automatic feedback of current data into the planning process. This enables integrated planning and operational optimisation of transport operations and, ultimately, optimal tariffs and information for passengers.

Thank you very much for talking to us, Dr. Greschner!

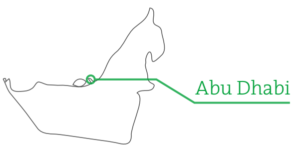
Discover Technology

Germany



Munich offers its passengers intermodal connection protection and real-time passenger information for buses, trams and subways.

United Arab Emirates



After Dubai, DOT in Abu Dhabi has become the second public transport operator in the UAE to use init's innovative fleet management and real-time passenger information systems.

USA

In the coastal region of San Francisco, Golden Gate Transit manages nearly 200 vehicles and five ferries using init's ITCS system.

Avignon – init won its first project in France

Ease of operation, better information – modern integrated fleet management systems offer more service and convenience in public transport. In France, passengers and drivers in Avignon are the first to benefit from init's innovative technologies.

ITCS and TETRA radio system

For the municipalities in the Greater Avignon region and their inhabitants, it means better service when using public transport. For init, it represents an important strategic success in terms of tapping new markets and another challenge that the company has successfully overcome: The public transport system's regional operator, Transport en Commun de la Région d'Avignon (TCRA), a subsidiary of the TRANSDEV group, is replacing its current control system with init's integrated Intermodal Transport Control System (MOBILE-ITCS) and a TETRA radio system. As a result, MOBILE-ITCS will not only display key vehicle information to dispatchers but also vehicles' current locations, thus enabling them to take appropriate measures swiftly in the event of disruptions. But also passengers and drivers will benefit from the integrated system. MOBILE-STOPinfo, the dynamic passenger information system, deploys various channels to provide passengers with real-time information on departure times for their buses allowing them to plan their trip better and make sensible use of any wait times the trip might entail. At the same time, the COPILOTpc2 on-board computer together with the TOUCHmon touch screen driver interface simplifies bus drivers' work by offering convenient navigation support and providing them with any information they might need. Finally, the tools MOBILEstatistics, MOBILEforms and MOBILEreports pool and transmit all operating data collected with the aim of optimising vehicle dispatching and saving resources.

References facilitate market entry

When making the decision to choose init's ITCS, Communauté d'Agglomeration du Grand Avignon was undoubtedly influenced by the positive experience many transport companies around the world have enjoyed with init over the years. In fact, the technical requirements of Münchner Verkehrsgesellschaft, for instance, which also uses init's ITCS for its 450 buses and 96 trams, are quite similar to those in Avignon. In terms of the special needs presented by the French-speaking market, init was as well able to score points for its successful work for transport companies in Montreal/Canada, Neuchatel/Switzerland and Luxembourg.

Up-to-date information on the bus and at stops – that makes public transport fun!

init also impressed the French authority with its excellent customer service. And language is one important aspect. After all, key factors of success in French-speaking markets include taking account of the specific requirements as well as offering technical documentation and training in French language. Through employees who are native speakers of French, init has been able to offer its customers precisely that for years now and also expanded its capacities even further in advance of this new project. init's foresight and courage to face these challenges are now being rewarded with the market entry into France – and good prospects for follow-up orders.

Expertise on a tight schedule

By mid-2015, init will deliver and install the new control system (ITCS) and a TETRA radio system in Avignon, initially for 140 public transport buses. The company's first major contract in France is worth more than EUR 5 million.

Points of contact – where complex technology is easy to use

For drivers, passengers and transport providers alike, innovative technologies create points of contact where effective mobility solutions can be experienced by everybody involved. init supplies the right solutions for all requirements.

Cutting-edge technologies render the bus or train journey comfortable for both passengers and the driver. Optimally designed points of contact make it easy to gain necessary information and to interact intuitively with all devices. Thus, using public transport with init technology is not only efficient but also fun.

Already today, vast numbers of people worldwide use buses and trains to get to work or to school, as well as for leisure purposes. And the numbers are set to increase even further in an effort to relieve city centres of private transport and protect the environment. For public transport companies, however, this means that they must offer their passengers broad services – along with attractive travel times and excellent service. In order to plan their service that sensibly, public transport providers need comprehensive information. With its innovative technologies, init provides transport companies with the right solutions to overcome these challenges.

MOBILE-APC

Reliable planning with precise passenger numbers
The number of passengers determines the vehicles and staff required on individual routes. Transport companies obtain precise data for planning purposes through init's MOBILE-APC automatic passenger counting system.

COPILOTapp comfortably supports on-demand transport

On-demand transport is an important component of public transport services and one that appeals to many people. It represents the only way of providing residents of rural or outskirt areas with a commercially viable service. But urban passengers benefit from it too – for example through extended service in off-peak times. As these services are often provided by deploying taxis or mini-buses, their drivers mostly don't experience the same ease of operation like the drivers of regular public transport vehicles equipped with an on-board computer. init now offers a solution for them as well: the COPILOTapp – an app for smartphones that use the Android operating system. Using the app, drivers can log into the system and get all the necessary information for the journey. They can call the dispatcher, send text messages and exchange data with the control centre. Additionally, they receive information regarding expected embarking and disembarking passengers, and also can note down if passengers fail to appear. COPILOTapp with its range of possibilities therefore provides the basis for increased reliability in on-demand transport – something greatly appreciated by passengers.

COPILOTapp

Support for on-demand transport
The COPILOTapp sends drivers all the key information on the driving task, route and timetable status. Using GPS technology, it determines the location as a basis for navigation via Google Maps.

Ticketing – easy, secure and correct

Another point of contact transport companies can use to win over users is easy ticketing. In the past, buying the right ticket has often seemed to be a science in itself, and has discouraged people from switching to public transport. But this doesn't have to be the case. With init's electronic fare management system, passengers can obtain their ticket quickly and easily, whether drivers print out the ticket themselves using a handy ticket printer, passengers buy the ticket at a ticket machine, or a check-in/check-out system with automatic fare calculation is used. Other advantages for public transport users include skipping the long queues at ticket vending machines and hopping on board the bus or train hassle-free. And if the transport company uses an ID-based ticketing system, passengers also benefit from increased security, because even if they lose their card, their credit will be safely stored in the back-office system and the card can simply be blocked.
init's electronic fare management also makes ticketing more efficient for transport companies and enables them to exploit synergies. This is because the system, developed in Karlsruhe, can be integrated into the operations control processes in a unique way.

Ticketing

The cheapest possible ticket – always
With a check-in/check-out system, which includes automatic fare calculation, passengers always get the best price. The system also detects when a passenger uses a bus or train several times a day. As soon as a day-ticket becomes cheaper than the combined single tickets, the difference is refunded to the passenger's card or account.

Optimisation through precise passenger numbers

Greater efficiency also means increased commercial viability. Contributing factors include shorter dwell times through easy ticketing as well as optimised routes with fewer hold-ups or vehicle sizes and timetables that are tailored to the actual demand. This in turn calls for optimised planning based on reliable data. init's integrated technologies offer the solution: The MOBILE-APC passenger counting system determines precise passenger numbers. MOBILEstatistics supplies transport companies with the operating information they require, while simultaneously offering them a wide range of features and analysis options. These are important points of contact for all those who are entrusted with planning and management decisions, and who can now gain immediate access to the relevant information.

Sophisticated passenger information ensures a smooth travel experience

Passenger information at any time, at any place, in real time and via contemporary media – these are points of contact that will prompt passengers to switch to public transport. init's innovative technologies help transport companies keep their customers well-informed.

Passenger information means service quality

A key factor when it comes to getting people to switch to public transport is service. And this includes not least reliable passenger information. Ultimately, passengers want to know when and how they will reach their destination. Transport companies meet these requirements by providing real-time information, display screens at bus stops, and integrating new media. init's integrated systems help them do all of this.
MOBILE-STOPinfo, for example, enables passengers to view precisely predicted departure times. Integrated into the MOBILE-ITCS fleet management system, the module considers the current traffic situation as well as how disruptions will affect journey timetables. Standard interfaces also allow data to be exchanged with other transport companies. Thus, public transportation users not only get an overview, they also benefit from assured connections. Information is displayed in buses and trains or at stops on easy-to-read LED or TFT displays from init.

Halle/Saale

Exploring information

Together with init, HAVAG participated in the German federal research project "Mosaique" with the "PaRIS" (Park-and-Ride Information Security system) project. It showed that motorists will switch to public transport if provided early with comprehensive information.

In Halle/Saale, the local public transportation company, Hallesche Verkehrs AG (HAVAG), has been providing information to passengers at an even earlier stage. Originally realised as part of a research project, motorists receive comprehensive information already at the park-and-ride car park. An electronic traffic information sign informs them about the number of free parking spaces, whether there are any traffic jams, and the estimated journey time to the city centre. Also provided is information on the departure and journey times of the next trams. The real-time information required for this service is provided by init's ITCS system.

Interfaces – for new information channels

When searching for information on departure times and routes, passengers no longer wait until they are at the bus stop or train station to find out the required information. Instead, they carry out their research in advance: at home, at work or during their leisure activities. The Internet, mobile devices such as smartphones and tablets, and platforms such as Facebook and Twitter make this possible. Here, init is assisting transport companies once more by offering suitable solutions. One of them is ONLINEinfo, which provides information optimised for the requesting device.

Passenger information apps

Today everything is about "sharing knowledge", and transport companies can open up new lines of communication by involving the community. An interface therefore also allows private developers to access relevant data.

Interfaces to these new platforms become more and more crucial because of their increasing importance for travellers. In North America, for example, public transport providers already use the Google Live interface, thus making use of a tool that passengers are already familiar with and utilise intuitively. The interest in distributing the latest traffic information via fast channels like Twitter is also considerable. Another trend is apps. These tools are developed by the community or specialist companies with the necessary data provided via an API interface. Regardless of the media type transport companies use – with init's innovative systems they can create the desired points of contact.

Users of public transport require reliable information – whether about departure times, expected delays or service disruptions. Large displays provide passengers with key information in real-time at stops throughout the world.

Turku and Halle – innovative technology for sustainable mobility concepts

Public transport companies aiming to move public transport forward focus on service, efficiency and brandnew concepts. This is why they decide to go with innovative solutions from init helping them to achieve their ambitious goals.

Sustainable mobility through innovative systems

Intermodal and interoperable – these are the requirements for the new fleet management and ticketing system to be installed for the transport authority, City of Turku – Regional Public Transport. In other words, it has to be possible to use standard interfaces to link the authority's own buses – and maybe even trams in the future – to the information systems of other providers or to integrate other providers into a multi-client system. Turku is currently in the process of setting up Finland's most state-of-the-art public transport system on the basis of a sustainable overall mobility plan that carries them into 2030. According to Finland's Ministry of Transport, this includes a mobility management concept that integrates their different transport systems. init's innovative technologies offer the right solution to meet this challenge. The first step will be a project worth more than three million euros in which init will set up a fleet management and ticketing system for Turku. But Finland's demanding mobility objectives will open up other opportunities for init in the future, as well.

Turku

Establishing initial ties

Initially, some 200 vehicles in Turku will be equipped with init's combined on-board computer and ticket printer EVENDpc and the passenger terminal PROXmobil2, thus linking them into the system. The interoperable solution from Karlsruhe lays the foundation for connections to other transport companies or means of transport in the future.

With the new system, passengers will soon benefit from more service. Real-time information about departure times will be provided via multiple channels, thus making it easier for them to plan their bus trips. Moreover, an ultra-modern ticketing system will let them purchase tickets both quickly and easily shortening the time needed for boarding. But, the transport company will benefit, too. Real-time traffic and vehicle positioning information will permit prompt, flexible intervention, thus boosting both the company's effectiveness and its economic efficiency.

At the cutting edge – through continual expansion

Hallesche Verkehrs AG (HAVAG) from Halle/Saale has been extremely satisfied with init's innovative solutions for many years now. In order to offer their customers an improved service while optimising their efficiency, they have gradually added features and adapted their system to the new possibilities opened up by technical advances over the past 15 years. To eliminate the company's dependency on the public radio network and increase the security and reliability of their data and voice communications, they recently retrofitted their fleet with a TETRA radio system. At the same time, they modernised the Intermodal Transport Control System (MOBILE-ITCS) and equipped the vehicles with COPILOTpc on-board computers and TOUCHit driver terminals. Together with other modules from the MOBILE product range, these components form an intelligent, integrated overall solution.
For HAVAG, the upgrade to init's latest technology means they can work with greater autonomy and more integrated. The transport company has new ways of controlling their operations. And HAVAG's passengers also benefit from the new functions: Whenever needed, drivers can now provide them with information on connections they can make and their actual departure times. A particularly convenient functionality of the new system means that if one vehicle is slightly delayed, drivers can ensure that the connection waits for the late passengers. That even holds true for spontaneous, unplanned connections. All this is made possible by the TRANSFERinfo module which shows the drivers the actual available connections at the queried next stop on their driver terminal. This represents another point of contact where passengers

Transport companies that value customer satisfaction offer their passengers the best possible service. In more concrete terms, this means that any point of contact between people and technology needs to be designed as user-friendly as possible. init helps i.e. Munich, Houston and Karlsruhe to do just that.

can experience the benefits of modern technology: They enjoy better service with shorter wait times and optimised connections. Passengers switching from cars to trains also benefit from Halle's service-oriented approach. For more information, turn to page 16.

Halle / Saale

Points of contact between systems

As a result of the gradual changeover approach used in Halle, init's MOBILE-ITCS simultaneously managed vehicles using three different radio systems during the migration phase: vehicles with the new TETRA radio system, vehicles with old analogue equipment, as well as vehicles with UMTS/GSM technology for long-distance vehicles and as a fallback solution.

Dear Ladies and Gentlemen,

In this report, my colleagues and I would like to inform you about our activities, particularly about the supervision of the Managing Board for which the Supervisory Board is responsible pursuant to the articles of incorporation and the German Stock Corporation Act, and to make the deliberations and decisions of the Supervisory Board in the 2013 financial year transparent for you.

Last year, the Supervisory Board of init innovation in traffic systems AG obtained regular, timely and comprehensive information from the Managing Board in order to fulfil its duty to advise the Managing Board and monitor its management. The briefings and discussions at the Supervisory Board meetings involved all the important issues and measures pertaining to the company and business operations. The Supervisory Board did not form any committees due to the size of the company and the size of the Supervisory Board (three members). It has undergone an efficiency review as part of a self-evaluation.

Where statutory provisions or the articles of incorporation required the approval of the Supervisory Board for measures to be taken, these were deliberated in detail and presented for a resolution. The Chairman of the Supervisory Board and, for individual issues, the other members of the Supervisory Board, kept in constant close contact with the Managing Board throughout the financial year. In addition, transactions relevant to reporting were disclosed on an ad-hoc basis. Between meetings, the Chairman of the Supervisory Board informed the members of the Supervisory Board in a timely manner, orally and in writing, of any discussions with the Managing Board. All members of the Supervisory Board were present at all four meetings. The duration of each meeting was four to six hours.

Focal points of the Supervisory Board meetings

The Supervisory Board monitored the group's development at its four ordinary meetings in 2013. The Managing Board provided detailed information on the company's situation and its business performance. Based on the reports by the Managing Board, the following areas in particular were discussed: the financial situation including business and liquidity planning; new orders; order backlog; potential risks; compliance issues; key business processes; projects of particular importance; and medium- and long-term corporate strategy, including organisational issues and human resources planning. Furthermore, all quarterly financial statements were discussed with the Managing Board.

The following specific issues were discussed with the Managing Board in the total of four Supervisory Board meetings:

At the meeting on 13 March 2013, we looked at the financial statements of init AG and the consolidated financial statements dated 31 December 2012 and had the results of the audits explained to us in detail by the auditor. The auditor was questioned by the Supervisory Board about the audit and additional topics, including key accounting and valuation principles, early risk detection, specific audit procedures in the subsidiaries, prevention of irregularities in particular with respect to anti-corruption-related measures and individual matters in the Management Letter. Other topics at this meeting included the proposal to pay a dividend, the agenda for the Annual General Meeting taking place on 16 May 2013, the status report of the Board on the proposed expansion projects at the Karlsruhe location, the revised business plan for 2013 and possible personnel changes in the Supervisory Board and Managing Board.

At the meeting on 15 May 2013, in addition to the ongoing issues such as business development and personnel development within the company, liquidity planning, market development and the order situation, also discussed was the procedure at the Annual General Meeting to be held the following day. In addition, the performance of the subsidiaries and major projects were discussed

The Supervisory Board of init innovation in traffic systems AG (f. l. t. r.):
Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau, Hans-Joachim Rühlig, Drs. Hans Rat

and evaluated in detail, the current status of the planned expansion projects at the Karlsruhe location was presented and discussed, and preliminary observations made regarding the restructuring of the init management levels beneath the Managing Board.
At the meeting on 1 October 2013, the Managing Board reported on business performance in the first half of 2013 and in the third quarter of 2013 and discussed the issues involved with the Supervisory Board. Other topics included the development of initperdis GmbH and initplan GmbH. The Managing Director of CarMedialab GmbH attended the meeting as a guest to talk about the development of the company and discuss future prospects and strategies. Also, the current status of the high-rise building construction project was reported upon, and matters relating to the possible new Supervisory Board chairman discussed. The restructuring of the init management was presented and discussed in depth.

At the last meeting of the financial year, held on 12 December 2013, once again possible changes in the Supervisory Board and possibly the Managing Board were discussed, as well as the restructuring of the init management. For this, init second management level employees were present at the meeting as guests to introduce themselves to the Supervisory Board and to answer questions about future development in their respective areas. Furthermore, the Managing Board reported on the status of the high-rise building construction project at the Karlsruhe location. Other main topics included business development, cash planning within the group, the financial plan for 2014, the market trends and order situation in various markets, personnel development, potential risks, and the latest developments in the subsidiaries and with regard to the large-scale projects. Furthermore, the Supervisory Board approved the draft resolution on the Managing Board share bonus and signed the Declaration on the German

Corporate Governance Code pursuant to the version of 13 May 2013.

Audit of annual and consolidated financial statements

The annual financial statements and the status report of init innovation in traffic systems AG as of 31 December 2013 were prepared on the basis of the principles of the German Commercial Code (HGB). The consolidated financial statements and the group management report dated 31 December 2013 are set up according to International Financial Reporting Standards (IFRS) principles.

All these documents have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, appointed by the Annual General Meeting as auditors of init innovation in traffic systems AG and group auditors. They all received an unqualified audit opinion. The annual financial statements and status report, consolidated financial statements and group status report as well as the auditor's audit reports were provided to all members of the Supervisory Board.

The annual financial statements and status report, consolidated financial statements and group status report as well as the auditor's audit reports were discussed in detail with the Managing Board and the auditors at the Supervisory Board meeting of 19 March 2014. The auditors reported on the key results of their audit, in particular on the internal control and risk management system in relation to the reporting process. The auditors also provided information on the services rendered in addition to the audit and on their independence as defined in commercial law. Detailed answers were given to questions raised by the members of the Supervisory Board. Based on this evidence and its own audit, the Supervisory Board came to the conclusion that the applied auditing procedures were reasonable and appropriate and that the figures and computations contained in the financial statements had been adequately tested and are consistent.

The Managing Board has presented its proposal to the Supervisory Board on the appropriation of profits. Under the proposal, the following appropriation of retained earnings in the amount of EUR 19,374,145.81 will be recommended at the Annual General Meeting on 15 May 2014: distribution of a sum total of 80 cents per dividend-bearing share. The remaining profit is to be carried forward. The Supervisory Board endorsed this proposal.

We conclusively examined the annual financial statements, the status report and the proposal for the appropriation of profit, the consolidated financial statements and the group status report on 19 March 2014. No objections were raised. We therefore agree with the results of the audit. The financial statements of init innovation in traffic systems AG as prepared by the Managing Board have been adopted and the consolidated financial statements approved.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, also audited the report on the relationships with affiliated companies ("dependent company report") prepared by the Managing Board under Section 312 of the German Stock Corporation Act (AktG). The auditor issued the following audit opinion concerning the result:

"Based on the audit and assessment performed in accordance with our professional duties, we hereby confirm that

- the factual statements contained in the report are correct,
- payments of the company for the legal transactions referred to in the report were not inappropriately high and
- in connection with the measures listed in the report there was nothing to imply an assessment substantially different from that of the Managing Board."

The Supervisory Board also reviewed the dependent company report. It did not raise any objections to the final statement of the Managing Board or the results of the audit by the auditors.

The Supervisory Board also adopted the Supervisory Board's report at its meeting on 19 March 2014.

Corporate Governance Code

The Supervisory Board actively implemented and monitored compliance with the German Corporate Governance Code. In this context, the amendments to the German Corporate Governance Code of 13 May 2013 were taken into consideration. On 12 December 2013, the Managing Board and the

Supervisory Board jointly issued an updated Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company's website.
Pursuant to Section 3.10 of the German Corporate Governance Code, the Managing Board also reports on behalf of the Supervisory Board on corporate governance at init innovation in traffic systems AG in this annual report.
Should any changes be made to this Compliance Statement during the financial year, we, together with the Managing Board, will immediately update this information and make it available to all shareholders on the homepage of init innovation in traffic systems AG.

The Supervisory Board thanks all employees and the Managing Board for their dedication and hard work in 2013. Our thanks also go to our shareholders, customers and business partners for their trust.

Karlsruhe, March 2014

On behalf of the Supervisory Board

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

Personal words by the Chairman of the Supervisory Board

"Ladies and Gentlemen,
Please allow me to say a few personal words at this point, as I will be leaving the Supervisory Board in the middle of this year:
2013 is simultaneously the final financial year for which I have the honour of compiling a report for you as Chairman of init innovation in traffic systems AG. After the Annual General Meeting on 15 May 2014, once the election of my successor is effective, I will retire on 30 June 2014 after 13 years in this office. I am personally delighted that the company has developed enormously during this time and succeeded in achieving extremely encouraging results for its shareholders in recent years in particular. A medium-sized company that ventured an IPO in 2001 under adverse circumstances has become a global player today, shaping its market and driving it forward. I'm proud that, along with my Supervisory Board colleagues and with the fulfillment of our tasks in line with legal requirements and the company's articles of incorporation, I played a part in this development.
I thank the Managing Board, the management team and above all the employees for their extraordinarily successful work during this time and I wish them, the new Supervisory Board and the shareholders a future that is equally as successful."

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

Corporate Governance Report

Under the present principles of the relevant code in Germany (GCGC – German Corporate Governance Code), corporate governance spans the entire corporate management and monitoring system. The Code aims to enhance the trust of national and international investors, customers, employees and the public in the management and control of German listed corporations. Efficient cooperation between the Managing Board and the Supervisory Board, respecting the interests of shareholders, openness and transparency in company communication are thus key aspects of good corporate governance.
In the following, we aim to provide a transparent and clear picture of the rules and regulations applicable in Germany and describe how they are internalised at init.

Declaration of Compliance with the German Corporate Governance Code – 2013

In compliance with the Section 161 of the German Stock Corporation Act (AktG), the Managing Board and the Supervisory Board of a listed corporation are required 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 Federal Official Gazette each year, and to disclose any deviation from these recommendations. The Declaration of Compliance with the Code must be accessible on the company's website for a period of five years.
The German Corporate Governance Code contains recommendations and suggestions. A company may deviate from the recommendations of the Code but is required to disclose any such deviations in its annual Declaration of Compliance. Deviations from the suggestions of the Code do not require disclosure. The Managing Board and Supervisory Board thus made the following declaration on 12 December 2013:
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 dated 13 May 2013 with the following exceptions and make the following Declaration of Compliance in accordance with Section 161 of the 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:

Interaction between the Managing Board and the Supervisory Board

- The D & O insurance does not provide for an excess payable by members of the Supervisory Board (item 3.8 para. 2 of the Code).
- init innovation in traffic systems AG does not believe that agreeing to an excess would encourage the performance and motivation of the members of the Supervisory Board and the willingness to hold this office.

Managing Board

- A quantitative limit on the variable compensation elements is defined as follows (item 4.2.3 para. 2 of the Code): The variable compensation in cash is limited to 33.3 per cent of the base salary. In addition, there is a stock bonus, which is limited to a maximum number of shares.
- An age limit is not specified for members of the Managing Board (item 5.1.2 para. 2 of the Code). Age limits for members of the Managing Board are not considered by init innovation in traffic systems AG to be in the company's interests in a market that requires flexibility and special expertise.

Supervisory Board

- The Supervisory Board has not formed any committees (item 5.3.1 of the Code), an audit committee (item 5.3.2 of the Code) or a nomination committee (item 5.3.3 of the Code) since the specific conditions do not exist and init considers this impractical due to the size of both the company and the Supervisory Board (three members).
- No age limit has been specified for members of the Supervisory Board. The Supervisory Board has not given any specific goals for its composition (item 5.4.1 para. 2 of the Code). In proposing

future candidates at the Annual General Meeting, the Supervisory Board will take account of the legal requirements and focus exclusively on the professional and personal qualifications of the person – regardless of gender.

Details of Corporate Governance practices and of the Managing Board's and Supervisory Board's working principles

Shareholders and the Annual General Meeting

At the Annual General Meeting, the shareholders exercise their rights, including their right to vote. The meeting decides on all matters assigned to it by law, such as the election of members of the Supervisory Board, the discharge of the Managing Board, the appropriation of profits and amendments to the articles of incorporation. At the Annual General Meeting, shareholders have the opportunity to address the meeting on any items on the agenda, to raise relevant questions and to file motions. Shareholders can exercise their voting rights at the Annual General Meeting either in person, through a duly authorised representative or by a proxy of init innovation in traffic systems AG subject to instructions. Each share carries one vote.

The Annual General Meeting of init innovation in traffic systems AG is held within the first eight months of the financial year. The Annual General Meeting is chaired by the Chairman of the Supervisory Board. It decides on all matters assigned to it by law, such as the election of members of the Supervisory Board, the discharge of the Managing Board, the appropriation of profits and amendments to the articles of incorporation.

Supervisory Board

The Supervisory Board acts in an advisory capacity to the Managing Board and monitors its affairs. It is also responsible for appointing members of the Managing Board and defining their number. The Supervisory Board of init innovation in traffic systems AG comprises three members who bring additional expertise to the management of the company thanks to their many years of experience in executive roles. Members of the Supervisory Board are appointed by the end of the Annual General Meeting which votes on the discharge for the fourth financial year after commencement of the term of office. The financial year in which the term of office begins is not counted. Members of the Supervisory Board can be re-elected.

Managing Board

The Managing Board is the management body of the stock corporation. It manages the affairs of the company and is bound by the German Stock Corporation Act to uphold the interests and business policies of the company. The Managing Board provides the Supervisory Board with regular, timely and comprehensive information about any key issues relating to the company's business development, risks and corporate strategy.

The Managing Board of init innovation in traffic systems AG currently comprises five members. Unlike with other companies, each member is very actively involved in the day-to-day operations of their respective company units, which they also manage. In keeping with the practices of responsible business management, they are therefore very close to the key reference groups of a company, its customers, suppliers, employees and shareholders. This makes it possible for them to react quickly to new situations.

Our ethical guidelines play a key role in our decisions on how to implement our corporate vision and mission. They serve as a basis for everything we do, creating trust, credibility and transparency. They are a key factor in the success of our company. Our ethical guidelines are published on our website under “Company/Philosophy”.

Transparency

Consistent, comprehensive and timely information are a fundamental principle at init innovation in traffic systems AG. The results and business situation of the company are reported in the financial statements, at press and telephone conferences and in the quarterly reports.
Information is also published in press and ad-hoc releases. All disclosures and publications are made available on our website under "Investor Relations".
In accordance with Section 15b of the German Securities Trading Act (WpHG), init innovation in traffic systems AG has created an insider list. The relevant individuals have been notified of their legal duties and sanctions.

Accounting and auditing

The consolidated financial statements are prepared in compliance with the principles of the IFRS. Following their preparation by the Managing Board, the consolidated financial statements are audited by the auditor and approved by the Supervisory Board. They are disclosed within 90 days after the end of the financial year. Within the scope of the audit, the auditor immediately advises the Chairman of the Supervisory Board of all key issues and events which may arise during the audit.

Working principles of the Managing Board and Supervisory Board

The Managing Board and Supervisory Board of init innovation in traffic systems AG work in close cooperation for the good of the company and its shareholders. The Managing Board provides the Supervisory Board with timely and comprehensive information about all relevant issues of corporate governance and business development, the risk situation and risk management. In addition, the Chairman of the Managing Board is required both verbally and – if necessary – in writing to advise the Chairman of the Supervisory Board regularly about business development and the situation of the company including its affiliated companies. All members of the Managing Board must support their Chairman in the performance of this duty. The Chairman of the Supervisory Board informs the other members of the Supervisory Board.
Motions for resolutions and detailed written documents are provided to the Supervisory Board in writing one week prior to its meeting.
The areas of responsibility of members of the Managing Board are based on the organisational chart. Irrespective of their allocation of duties, however, each member of the Managing Board is responsible for the overall management of the company. Measures and transactions affecting one or more business areas must be agreed with the appropriate board members involved. Extraordinary business or transactions involving a high economic risk require the approval of the entire Managing Board. Certain transactions, such as the acquisition of companies or participating interests, require the consent of the Supervisory Board.
The Managing Board convenes in regular meetings and, unless otherwise stipulated, passes decisions based on a simple majority of the votes cast.

Shareholdings of the Managing Board and the Supervisory Board

In total, the Boards directly or indirectly hold 3,950,262 shares in the company as of 31 December 2013, which corresponds to 39.3 per cent of the shares. The Supervisory Board of init innovation in traffic systems AG does not hold any shares.
An individual disclosure of the shares held by the Managing Board is included in the Notes on the Consolidated Financial Statements.
Securities transactions of Managing Board and Supervisory Board members or people closely connected to them must be published immediately. The disclosure requirement includes any acquisition or sale exceeding EUR 5,000 per calendar year. init innovation in traffic systems AG publishes these transactions immediately. A list of the reported Directors' Dealings in the 2013 financial year is available at www.unternehmensregister.de.

Investor Relations

Stable in a buoyant market – long-term comparison shows init share outperforming DAX

Last year, stock markets remained in buoyant mood after the record-breaking year of 2012. Factors such as the promise of long-term low interest rates by the U.S. Federal Reserve and the rate cut by the European Central Bank improved global economic indicators. In addition, steady inflows into equity funds supported the general rise in share prices.

Initially, the shares of init innovation in traffic systems AG (ISIN DE0005759807) also benefited directly and seamlessly from this upswing, following on from a 2012 which had been the most successful year for init shareholders since the company's IPO in July 2001. As a result, as early as January 2013 the shares reached an all time high of EUR 26.89. Profit-taking then started in a turbulent market. Based on the company's long-term growth prospects, the price then rose again almost continuously until mid-May and closed on 16 May 2013, the date of the Annual General Meeting, at EUR 26.20.

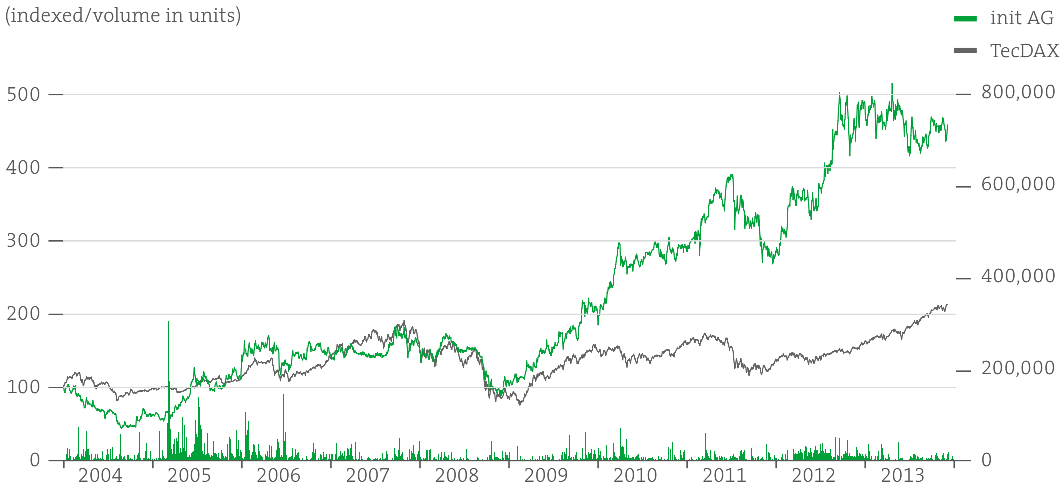
When market sentiment turned downwards at the end of May, init shares once again suffered from profit-taking, with the share price reaching its annual low in late July at EUR 21.15. Investors, however, exploited this temporary weakness to successively top up their holdings. Following the news that init had successfully entered new markets such as Finland and France and had acquired new contracts, the init share price gained new momentum from mid-October onwards and regained the ground it had lost in the third quarter by the end of the year.

Over the entire year, the share continued to be quoted at a historically high level and ended the year at EUR 23.30, almost unchanged from the previous year-end at EUR 23.11 (+0.8 per cent). Although the German stock index (DAX) and the index of leading technology stocks TecDAX performed better, with gains of 25.5 per cent and 40.9 per cent respectively, even after the current bull run they were still behind the init share with respect to long-term performance.

Over 10 years, the init share has increased its value almost fivefold, while the DAX and the TecDAX rose by around 130 and almost 100 percent respectively in the same period. This performance means that the init innovation in traffic systems AG share is one of the long-term high-growth technology stocks on the German stock exchange.

In 2013, init's investor relations team nurtured contacts with institutional investors and sought their involvement at road shows in Frankfurt, London, Zurich, Brussels, Amsterdam and Luxembourg. In addition, init took part in several national and international capital market conferences, as well as in Deutsche Börse's Equity Forum in Frankfurt. Increasing the share's liquidity remains one of the

Performance of the init share (January 2004 to December 2013)
(indexed/volume in units)



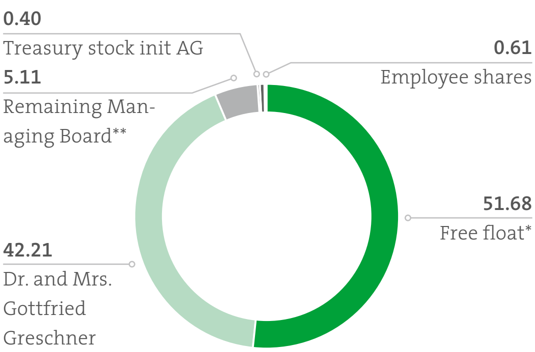
Source: Bloomberg

main objectives of init's investor relations activities. In 2013, to allow livelier trading and improve the liquidity of the share, the main shareholder and company founder Dr. Gottfried Greschner 2013 surrendered 50,000 shares off-market.
Capital market analysts consider the init share at its current level to be a "hold" or "buy" position. The target prices range from EUR 24 to EUR 30.
The Board wishes to continue with its current dividend policy and allow shareholders to participate appropriately in the year's performance. In 2013, no significant increase in profit was achieved. Therefore, the Board of Directors and the Supervisory Board of init innovation in traffic systems AG will propose to the 2014 Annual General Meeting that the distribution of EUR 0.80 per dividend-bearing share be maintained.

Share buybacks and shareholder structure

In 2013, the Board of init innovation in traffic systems AG also took advantage of the possibility of share buybacks in order to have continued flexibility for employee motivation programmes and possible acquisitions. On 11 November 2013, for example, it passed a resolution to acquire up to 40,000 of its own shares (pursuant to § 71 Section 1 No. 8 AktG), thereby taking advantage of the authorisation granted to it by the Annual Shareholders' Meeting on 12 May 2010 under agenda item 6. The purchase price of the shares was not to exceed EUR 23.80 (excluding incidental costs) per share.
Between 11 November and 20 December 2013, it acquired a total of 35,992 init innovation in traffic systems AG shares at an average price of EUR 23.14 (excluding incidental costs). The shares were purchased on the stock exchange (XETRA trading) on its behalf by the authorised bank, Commerzbank AG. The number of repurchased shares represented 0.36 per cent of the share capital.
The shareholder structure of init innovation in traffic systems AG remained very stable in 2013 notwithstanding these purchases. init continues to have an anchor investor who stands for sustainable corporate development in the form of the founder, Dr. Gottfried Greschner, and his family. No significant changes in the shareholdings were reported in the period under review.
The latest information on the init share and on our investor relations services can be found online at: www.initag.com.

Shareholder structure as of 31/12/2013 (in %)



* By definition of the German Stock Exchange the free float of init AG is: 55.89%
** thereof 4.21% are included in the Free float

Basic share information	
Exchange	Frankfurt Stock Exchange
Index/Segment	Prime Standard, Regulated Market
Class	No-par bearer shares (at EUR 1 each)
ISIN	DE 0005759807
WKN	575 980
Code	IXX
Designated sponsors	Commerzbank AG/Close Brother Seydlers Bank AG
Capital stock today	10,040,000 no-par bearer shares
Market capitalisation (as of 30 December 2013)	EUR 233.9m

Group Status Report

init innovation in traffic systems AG, Karlsruhe

10100001001 011000001 010100011101 1011001100 100101100

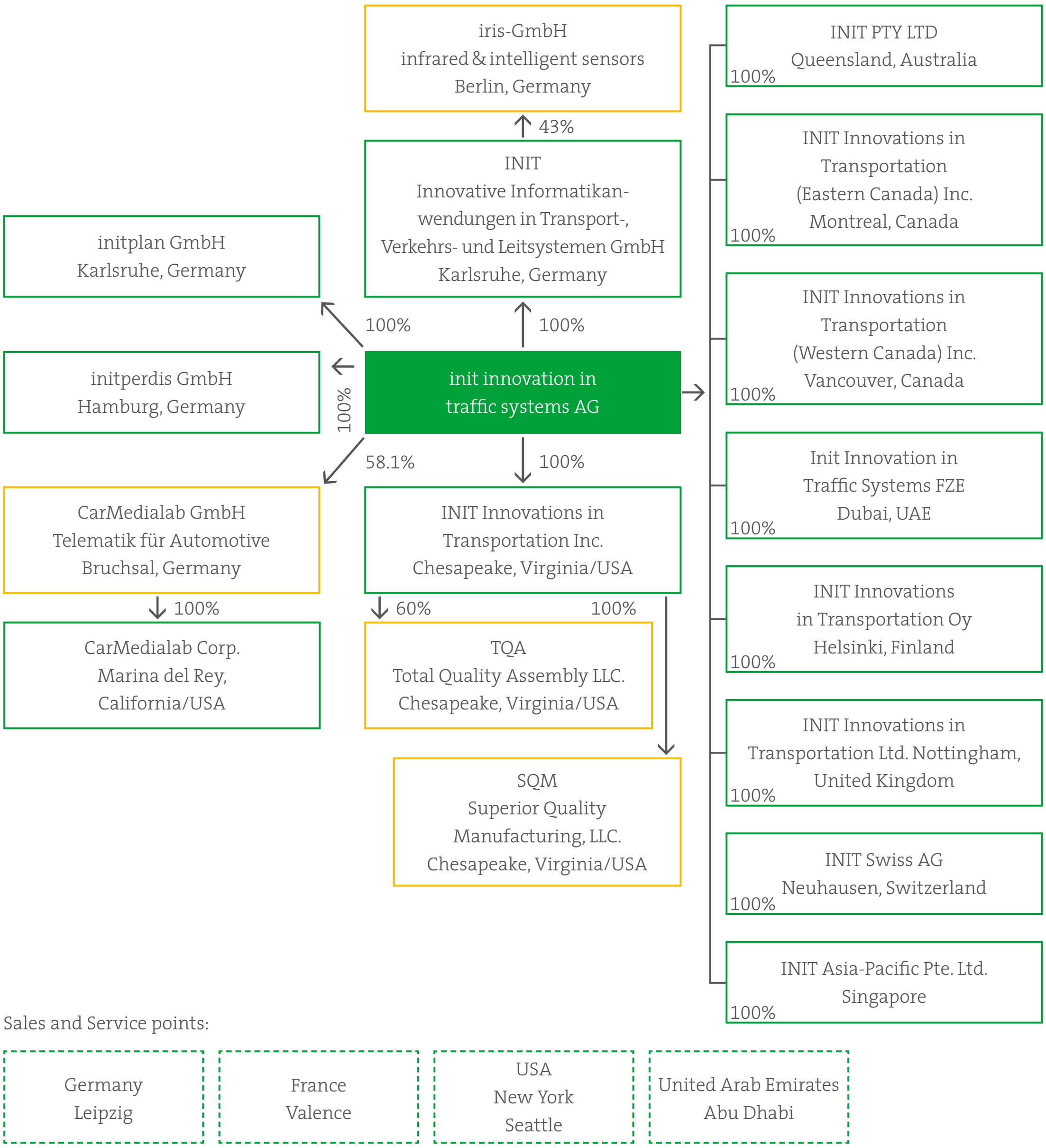
Group principles

Group Business Model

Organisational structure of the group

The init group is an international system house for telematics, planning and electronic fare collection systems for public transport. With our integrated solutions for telematics, planning and fare collection systems, we work together with leading transport companies around the world.

In a complete value-added chain, init develops, produces, integrates, installs and maintains software and hardware products for the planning, management and optimisation of transport companies to help them meet their daily requirements.



By providing these products and services, init contributes towards improving the quality of transport services offered in terms of customer orientation, punctuality, convenience, service, safety and shorter travel times. init also enables transport companies to reduce their costs and/or boost their economic efficiency. Moreover, these measures reduce carbon dioxide emissions that are harmful to the climate, lessen environmental damage and conserve resources. init's system solutions can put transport companies in a better position to meet society's growing mobility requirements and assert themselves in a competitive environment characterised by rationalisation and liberalisation.
Based on the products and services offered by the segments and for the purpose of managing the corporation, the corporate group is subdivided into four divisions (Telematics and Electronic Fare Collection Systems, Planning Systems, Driver Dispatch Systems and Automotive). The Planning Systems, Driver Dispatch Systems and Automotive divisions have been summarised under the reportable segment "Other".

The group has the following reportable segments:
1. The "Telematics and Electronic Fare Collection Systems" segment encompasses integrated systems for managing public transport, fare collection systems, passenger information and passenger counting systems.
2. The category entitled "Other" encompasses planning systems (planning and data management systems), driver dispatch systems and automotive (analysis systems for the car industry).

Business processes

The value-added chain in the init group essentially includes the development, production management, quality assurance, implementation, servicing and maintenance of integrated hardware and software solutions for all key tasks within transportation companies. Hardware manufacturing is outsourced to qualified producers who work closely as subcontractors with our init engineers. The quality we require is assured by having our own staff assist in each stage of the production process, from prototyping to the test series all the way to serial production.
In order to meet the "Buy America" requirements in the US business, init runs two production operations in the US. Superior Quality Manufacturing, LLC. (SQM) assembles various devices from the init product family. Init Inc. acquired the residual 14.3 per cent of shares in SQM in financial year 2013. The purchase price was USD 100k.
With Total Quality Assembly LLC. (TQA) init has built up a cable production operation in partnership with a supplier.
It is one of our top management priorities to optimise production processes while maintaining quality demands at a consistently high level, with the goal of reducing costs. In order to keep production costs as advantageous as possible, init concentrates on core development competences.
There are no dependencies on individual manufacturers or service providers. This allows us to switch suppliers quickly should one of our business partners be unavailable.

Key markets and competitive position

init has successfully realised numerous projects for more than 400 international customers during a corporate history that spans more than 30 years. Our integrated solutions for telematics, planning and fare collection systems make us a partner to transport companies on four continents.
In addition to Europe and North America, the core sales markets are increasingly the Asia Pacific region and the Arab world. At the same time, the regional distribution of sales volume is heavily contingent on large-scale projects and varies accordingly.

Its international operations provide init with a global network of subsidiaries that deliver local support for projects and look after customers. The most significant operative units with approximately 286 employees are located at the Karlsruhe site. Not only are software and hardware developed here and new technologies implemented, but this is also where the group's strategy is defined. The biggest group companies outside Germany are in North America, with 67 employees, and in Dubai, UAE, with 13 employees.

In the Automotive division ("Other" segment), init AG holds a 58.1 per cent stake in CarMedialab GmbH. CarMedialab GmbH develops on-board units (intelligent radio and telematics units) for vehicles, plus the associated software, and operates back-end systems as a telematics service provider. Key services include telediagnosis and smart charging of electric vehicles.
INIT GmbH holds a 43 per cent stake in iris-GmbH infrared & intelligent sensors, Berlin ("iris"). iris is a developer and manufacturer of sensor components and products for automatic passenger counting. iris develops, produces and supplies optoelectronic sensors for integration into various systems.

A modular product concept allows both an individual combination of single modules and integration with other systems via standardised interfaces. As a result, init stands out from its competitors due to a more comprehensive, efficient and flexible product offering. This range covers all operative tasks within transport companies: from planning and dispatching, through operations management and passenger information and electronic fare management, to the analysis and optimisation of operations.
init has thus assumed a leading position in the telematics, planning and electronic fare collection systems market in public transport. Fleets comprising several thousand vehicles are managed around the world by init systems today.

External factors

User-friendly ticketing systems, reliable customer information and fast transport links help transport companies to enhance the attractiveness of their passenger services, and therefore ensure rising passenger numbers. In the end, increased acceptance and use of transport systems also results in a reduction of carbon dioxide and particulate matter emissions. This way, the init group is also making a direct contribution to environmental conservation.
Population growth, increasing urbanisation, impending traffic gridlock and higher petrol costs are leading to a rising demand for public transport offerings. In order to cope with the rapidly growing demand for mobility and simultaneously avoid pollution, investments of billions in intelligent traffic systems are required. Willingness to expand public transport, in particular, is therefore growing in many countries and regions. Another current trend is hardware substitution and software modernisation of aging telematics systems. Over 90 per cent of our customers are public or state-subsidised transport companies. For this reason, tenders for new projects are often only held when the corresponding state funding is available. Funding cuts and public budget consolidation measures thus indirectly have a great influence on the init group's business development.

Corporate objectives

Financial objectives

The init group is managed via annual planning for revenues, earnings before interest and taxes (EBIT) and incoming orders, which are reviewed on a rolling basis using plan/actual analyses. The insights revealed by these analyses are then used to prepare forecasts and develop an action plan if necessary.
The init group is pursuing the strategic objective of increasing its revenues over the next five years by an annual average of between five and ten per cent, with EBIT of 15 per cent to 20 per cent of revenues. The majority of this growth is to be organic. The foundation for further growth has been laid with a substantial order backlog at the end of 2013.

Non-financial objectives

Customer satisfaction

Our actions are measured by our customers' satisfaction. We achieve this through trust-based collaboration with our business partners and strict compliance with our quality principles: the technological advantage, cost-effectiveness and reliability of our products. We also set great store by delivery reliability and a commitment to service. We have set down the principles of our business dealings in our ethical guidelines. These provide us with a framework for our day-to-day activities. An annual customer survey is carried out to check that these objectives are being met. During the reporting year our customers gave us an average rating of "good" (previous year: "good").

Employee qualification and know-how

Well trained and entrepreneurial employees are the key to business success. For this reason, it is part of init's corporate philosophy to ensure that every individual receives training, continuing professional development and a share in the company's success. In total, more than 240 employees took part in internal and external continuing training measures in 2013.

Around 65 per cent of our permanent employees have a university degree, particularly in the fields of information technology, e-technology, HF technology, physics, mathematics and industrial engineering. init maintains very close contact with the University of Karlsruhe and the universities of applied sciences in the Karlsruhe area in order to keep track of the latest technological developments and be able to identify technical changes early on. In this connection, we provide students with practical work in part-time positions and supervise dissertations and master's level and bachelor theses.

Management and control system

init AG has a dual management system, consisting of a Managing Board and a Supervisory Board. The Managing Board of init AG consists of five members, who simultaneously perform and manage key operational roles (Marketing, Distribution, Product Development, Finance). As the company leading the group, init AG defines the corporate strategy and assumes the roles of top-level management, resource allocation, financing and communication with the important target groups in the corporate environment, in particular with the capital market and the shareholders.

There were no personnel changes on the Managing Board in the 2013 financial year.

The init group is managed via annual planning for revenues, earnings before interest and taxes (EBIT) and incoming orders, which are reviewed on a rolling basis using plan/actual analyses. The insights revealed by these analyses are then used to prepare forecasts and develop an action plan if necessary.

Competitive strategy

As a full-service provider, init develops, produces, installs and maintains integrated hardware and software solutions for all important tasks within transport companies. In doing so we aim at innovative mobility concepts that secure an advantage for forward-looking transport companies, in order to make their services more attractive, more efficient and faster.

Significant factors here are:

- Innovativeness: Using the know-how that we have gathered over many years and with our great dedication to development, we convert new technologies into practical applications.
- Systematic thinking: Deployed autonomously or built into systems – our modular overall solutions offer a maximum degree of flexibility during planning and operation.
- Investment certainty: When it comes to technologies, interfaces and software, we are guided by international standards that will continue to hold true tomorrow. In many cases, init has itself set standards through customised, tailored solutions.
- Customer proximity: init is where its customers are. This applies to our sites just as much as to our thinking. Customers thus become partners whom we join to get things moving, and with whom we create new offerings in long-standing partnerships.
- Internationality: init has been in the market for more than 30 years, about 20 of these internationally. Our active participation in pioneering projects on four continents today ensures contact with ultra-modern development standards and a focus on international solutions. This is technology transfer that takes our customers forward and thus secures init a unique competitive position.

Research and Development

The Research and Development department plays a key role at init. On the one hand, technical innovations and developments on the market have to be observed in order to turn these into innovative products at an early stage. On the other, the challenge lies in bringing technical innovations onto the market at the right time. Our employees' high standard of qualification in research and development, combined with collaboration with universities and research institutes, ensures that we react quickly to new technological developments and changing market requirements and that we are flexible in catering to our customers' constantly changing needs.

In 2013, approximately 200 hardware and software developers at init (of whom approx. 35 are in the "Other" segment) worked at the Karlsruhe, Bruchsal and Hamburg locations on both new products and the continuing development of existing ones. In addition, numerous new customised software developments and interfaces were realised.

In total, in 2013 EUR 3.6m (previous year: EUR 3.8m) was spent within the init group on the basic development of new products independently of customers. Of this, EUR 2.7m was accounted for by the "Telematics and Electronic Fare Collection Systems" segment and around EUR 0.9m by the "Other" segment. This is 3.6 per cent (previous year: 3.9 per cent) of sales. In addition, the group accomplished customer-funded, project-based new and further developments adding up to around four times that amount again. As in the previous year, no development costs were capitalised.

For example, the PROXmobil2 passenger terminal for check-in/check-out systems represents a technical innovation in the hardware sector that will soon be deployed in several projects. This terminal makes electronic ticketing easier, reduces stop times and saves transport companies money when completing fare collection processes.

For passenger information at bus stops init is working on the PIDmatrix display. Numerous devices also underwent further development. In the software sector, the software for COPILOTpc2 in particular is being upgraded and numerous functions are being added to the MOBILEvario billing system. Another new development is the Voice over Cellular function, and numerous apps have been developed for the use of smartphones. In the planning area, the system has been expanded by fully integrated circulation service optimisation. At our subsidiary initperdis GmbH ("Other" segment), numerous new functions were integrated for the depot management system and the driver dispatch system was enhanced.

init is currently taking part in the research projects EBSF (European Bus System of the Future), IP-based communication in local public transport in Germany, and in the joint project InReakt (integrated assistance and reaction chains for increasing safety at bus stops and in local public transport vehicles). We see particular potential in the EBSF research project. The aim of this project is to operate control systems with vehicle equipment from different manufacturers. This is important where bus routes are allocated to different transport companies in one city or where several bus companies in a regional network serve the same area. The project specifically requires the setup of IP-based communication structures with open interfaces.

Economic report

General economic and sector-specific conditions

In 2013 the global economy passed the bottom of its trough and returned to stronger growth overall, particularly in the second half of the year. Nevertheless, the trend was highly uneven and outlooks for the coming years also vary widely.

According to the latest update of the "World Economic Outlook" by the International Monetary Fund (IMF), global growth accelerated again in the second half, meaning that total production of goods and services increased by 3 per cent over the year (previous year: 3.1 per cent). A positive influence was exercised at the same time by successes in combating the financial crisis in Europe and the US, along with more vigorous export activities in the developing countries.

IMF experts are interpreting the latest economic indicators to the effect that the Euro zone, despite all the continuing risks, has now left the recession behind overall and is back on course for growth. However, in this crucial economic area for the init group, economic activities shrank by 0.4 per cent over the full year. The culprits continued to be the problems of the southern European states, while both Germany and France managed to stabilise with increases of 0.5 and 0.2 per cent respectively.

The trend in Great Britain, also a significant market for init, was unusual, with the economy growing faster than expected in 2013 by 1.7 percent. Even higher growth rates (2.4 and 2.2 per cent respectively) are being forecast for 2014 and 2015.
A similar picture emerges for North America, while in this context growth in 2013, at 1.9 per cent (USA) and 1.7 per cent (Canada), turned out to be considerably more modest than in the previous year and than forecast at first. For 2014 a rise of 2.8 and 2.2 per cent respectively is anticipated. 2015 is expected to see a further boost of 3.0 per cent (USA) and 2.4 per cent (Canada). Overall, IMF experts expect an increase of 3.7 per cent for the global economy in 2014 and even by 3.9 percent in 2015.
Despite these basically positive outlooks, the IMF foresees continuing high risks. It reports that the recovery is still very fragile in both industrialised and emerging countries and that it depends on progress in further structural reforms and on economic assistance measures by the central banks. However, this conflicts with the necessity to consolidate public budgets in many countries. Accordingly, there is an increased likelihood of a deflationary trend, particularly in the Euro zone.
In addition, cuts in public spending, along with increases in income and consumption taxes, are a strain on companies and private households in many developed countries.
These macroeconomic trends form the context for sector-specific development. Expenditure and investments in public transport, hence for init's main market, continue to depend in large part on state funding. In this context, an increased and rapidly rising demand is opposed by the constraint to contain budget deficits in virtually all leading industrialised countries. Uncertainties concerning the risks of economic development are also influencing the inclination to spend and invest in a variety of ways. Under this scenario, transport companies postponed follow-up orders and new acquisitions and deferred projects in the year just ended. The init group is also affected by the increasing difficulty of transparency and planning. Added to this is intensified price competition; the strength of the Euro compared with other currencies is having a negative impact on init. Groups from outside the sector have also been trying to tap into the public transport market for their products.
These temporarily difficult business conditions do not affect the long-term growth mega-trends in the market for telematics, planning and electronic fare collection systems for buses and trains. Globally, transport infrastructure is experiencing an increased demand for expansion and modernisation. More than one half of the world's population now lives in metropolitan areas that are of crucial importance to their countries' economy. The necessary mobility can only be guaranteed there by upgrading public transport systems. This demands massive investments in intelligent transport infrastructure solutions, as offered by init.
The international industry association UITP anticipates a doubling of public transport passenger numbers by 2025. The avoidance of traffic gridlocks, reduction of particulate matter and carbon dioxide emissions, and the necessity to conserve energy and other natural resources are further drivers of growth.
Added to these are new technological and societal trends. Via smartphones and ever-closer networking, many ordinary people are obtaining easy access to combined mobility services without owning vehicles themselves. They want to quickly identify and use the best link from one place to another, and technology enables them to do so. This places new demands on public transport operators, who are obliged to create new offerings and tie in with other transport systems. Large groups and competitors from outside the industry will attempt to advance into this area. Mastery of these interfaces will be a crucial competitive factor for transport operators in future, just as it is for infrastructure providers like init.
Through the experience gained in the realisation of hundreds of international projects and as a major technology partner during the first reference projects for combined mobility, init holds an advantage in this field. This results in major opportunities for init to capture a share in the growth of this new market segment.

Business trend

The distribution of revenues within the init group is traditionally uneven over the course of the financial year: the first quarter is usually the weakest and the fourth the strongest. This was once more confirmed in the financial year just ended.

Thus the first quarter, with revenues of just under EUR 17m (previous year: EUR 19.6m), went quite moderately. EBIT was EUR 1.1m and was therefore EUR 1.8m below the previous year's figure. Incoming orders in the first quarter were around EUR 16m. In the second quarter, too, with revenues of EUR 20.1m, the group was around EUR 2.3m below the previous year's total, with EBIT, at EUR 3.1m, likewise failing to reach the previous year's level of EUR 4.7m. Compared with the first quarter a rise in incoming orders by around EUR 5m to EUR 21m was achieved in the second quarter. The situation did not turn around until the third quarter, when revenues saw a year on year increase of EUR 1.6m to EUR 24m, with EBIT at EUR 3.3m, only slightly above the previous year's (EUR 3.2m). The reason for the delayed improvement in revenues lay in absent hardware deliveries, as the major projects such as Rheinbahn, Luxembourg and Montreal were still at the functional specifications stage in the first half of the year. At EUR 10m, incoming orders in the third quarter were considerably below our expectations.
In the fourth quarter of 2013 alone, with revenue of EUR 39m (previous year: EUR 32.8m), the init group generated earnings before interest and taxes (EBIT) of EUR 10.2m (previous year: EUR 6.6m). However, at around EUR 18m, incoming orders lagged considerably behind our estimate.

Position

Earnings position

For the year as a whole, the init group achieved a new revenue record at EUR 100.1m (previous year: EUR 97.3m) but was nevertheless still below the planned EUR 105m. This is essentially accounted for by the "Telematics and Electronic Fare Collection Systems" segment and in this context by the weaker exchange rates, and by delays in two large-scale foreign projects which were not caused by init. The causes of the delays were eliminated and this will have a positive effect on the revenues and earnings position in financial years 2014 and 2015. The strategic goal of 10 per cent sales growth was therefore not achievable in 2013.

The proportion of revenues generated by the "Telematics and Electronic Fare Collection Systems" division was EUR 94.6m (previous year: EUR 92.6m) and by the "Other" segment EUR 5.5m (previous year: EUR 4.7m). Revenues within the "Other" segment is largely in line with the planned EUR 5.7m.
75.0 per cent of total revenues was generated outside Germany (previous year: 77.6 per cent). The strongest foreign market in the reporting period was North America. Here, revenue fell to EUR 41.7m (previous year: EUR 46.7m), which is accounted for by several almost completed major projects which could not be compensated by revenues of new projects.
In the remaining countries, too (Australia and UAE) a decline in sales was recorded compared with the previous year. Here, revenues fell from EUR 14.8m in 2012 to EUR 8.3m in 2013. The expansion of the order in Brisbane was postponed to the coming years.
In Europe (except Germany) revenues rose considerably and are around EUR 25.1m (previous year: EUR 14.0m). Essentially this is accounted for by the completion of the major projects in the UK and Luxembourg.
Revenues in Germany likewise increased in financial year 2013, at EUR 25.0m (previous year: EUR 21.8m) compared with the previous year. This year's rise in revenues will continue in the coming years as a result of the large-scale Rheinbahn project.
At EUR 17.7m, EBIT was slightly above the previous year's (EUR 17.3m).
EBIT was distributed across the individual segments as follows: "Telematics and Electronic Fare Collection Systems" EUR 17.3m (previous year: EUR 17.2m), "Other" segment EUR 0.4m (previous year: EUR 0.1m). The EBIT margin stood at 17.7 per cent (previous year: 17.8 per cent).
The trend within the "Other" segment shows a clear rise in EBIT compared with the previous year due to the increased revenues and to CarMedialab GmbH breaking even. However, we fell short of the plan by EUR 0.4m. This is essentially accounted for by the impairments of inventories due to allowances for obsolescence amounting to EUR 0.2m.
The return on revenues within the group was 12.1 per cent (previous year: 11.2 per cent).
EBIT is therefore around EUR 0.3m below our planning because of below-plan revenues and the following effects.

Gross profit increased by EUR 3.5m to EUR 37.5m (previous year: EUR 34.0m), which corresponds to a rise of approximately 10 per cent (previous year: reduction by approximately 6 per cent). At the same time, as a result of project-specific cost savings in materials and purchased services, the cost of revenues fell from 65.0 per cent to 62.6 per cent of sales. Due to continued internationalisation, the expansion of sales, administration and subsidiaries, sales, marketing and general administrative expenses increased by 2.3 per cent to EUR 16.5m (previous year: EUR 16.1m).

The **foreign currency losses** of EUR 1.3m (previous year: foreign currency gains of EUR 2.0m) relate to positive effects from the valuation of forward exchange dealings amounting to EUR 0.9m and mainly from non-realised losses from the valuation of accounts receivable and payable in foreign currency on the balance sheet date (especially in US dollars and CAN dollars) amounting to EUR 1.7m. For example, the US dollar fell by around 4 per cent and the CAN dollar by around 11 per cent compared with the previous year. Since init generates more than 40 per cent of its revenues in North America, receivables are correspondingly high, which has led to considerable effects from currency translation.

The **other operating income** of EUR 1.9m (previous year EUR 0.9m) essentially comprises rent income, earnings from the reversal of provisions, allocated benefits in kind, compensatory payments made by insurance companies and income from subsidies. The increase can essentially be accounted for by rent from the buildings Kaeppelestrasse 8/8a, and 10 in Karlsruhe, which are included here for the full year for the first time.

The **net interest income** (balance of interest income and interest expenses) totalled EUR -189k (previous year: EUR -165k) and results principally from the property financing in Karlsruhe, the share of interest on the pension provisions and the overdraft loans taken up over the year.

Consolidated net profit rose from EUR 10.9m in the previous year to EUR 12.1m. The lower consolidated net profit in the previous year was due to payments of tax arrears amounting to EUR 0.7m following a tax audit for the years 2007 to 2009. That led to earnings per share of EUR 1.21 (previous year: EUR 1.11). At 31.2 per cent (previous year 36.6 per cent) the tax rate is considerably below that of the previous year, to which the payment of tax arrears was charged. The equity ratio stood at 19.4 per cent (previous year: 18.8 per cent) and return on total capital at 10.2 per-cent (previous year: 9.8 per cent).

Consolidated comprehensive income rose from EUR 7.8m to EUR 12.1m. In addition to the EUR 1.2m increase in consolidated net profit, the rise is the result of actuarial gains amounting to EUR 0.5m (previous year: EUR -1.4m) due to the increase in the interest rate from 3.0 per cent to 3.67 per cent in calculating the pension accruals. In the previous year the interest rate fell from 5.14 per cent to 3.0 per cent, resulting in considerable actuarial losses. In addition, in 2013 the unrealised losses from currency translation were reduced to EUR 0.5m (previous year: EUR 1.6m). Regarding the development, please refer to to our statement of comprehensive income.

Incoming orders

In financial year 2013 incoming orders were below the record level of 2012 and failed to meet our expectations. This was due to certain tenders not being decided in our favour and also to delays in the tender procedures. All told, incoming orders totalled EUR 64.9m in the year under review (previous year: EUR 152.2m). Of this, EUR 60.6m was accounted for by the "Telematics and Electronic Fare Collection Systems" segment and EUR 4.3m by the "Other" segment. The group management had planned incoming orders of EUR 105m in 2013. Of this, according to plan, around EUR 99m was accounted for by "Telematics and Electronic Fare Collection Systems". Around 40 per cent of orders were generated in the North American market. The other incoming orders are accounted for in equal part by Germany and Europe. Incoming orders in North America were particularly influenced by the order from Durham (Canada). init is going to construct an ITCS system and equip approximately 220 buses with hardware there. Furthermore, init has received a follow-up order for passenger counting in Montreal. The orders in Europe particularly involve strategic market entries in France and Finland. init is also going to supply an ITCS system plus the equipment for numerous buses in these two projects. The two orders combined comprise a volume of more than EUR 8m. Incoming orders from Germany were marked by follow-up orders, system upgrades and system renewals. The biggest orders were supplementary

orders on the Rheinbahn project along with orders from Magdeburg, Oldenburg and Southern Thuringia. The volume of these orders is around EUR 6m. The order backlog at year's end amounted to around EUR 143m (previous year: EUR 177m) and will secure continued success in 2014. EUR 141.8m of the order backlog is accounted for by the "Telematics and Electronic Fare Collection Systems" segment and EUR 1.2m by the "Other" segment. The coverage of the orders is approximately 1.4 years.
Internationally, our market is still characterised by a large number of new public tenders. Our long-term customer relationships with over 400 business partners around the world secure a stable business base for init, as they normally lead to follow-up orders and maintenance contracts. We have booked incoming orders of more than EUR 28m as a result of additional deliveries, maintenance contracts and order extensions alone.
For 2014 we anticipate incoming orders within the group of around EUR 105m, of which EUR 100m will be accounted for by the "Telematics and Electronic Fare Collection Systems" segment and around EUR 5m by the "Other" segment.

Multi-period overview of earnings situation

Financial year EUR m	2009	2010	2011	2012	**2013**
Revenues	65.0	80.9	88.7	97.3	100.1
Gross profit	23.0	27.3	36.3	34.0	37.5
EBIT	11.8	15.1	20.4	17.3	17.7
Consolidated net profit	8.3	10.0	15.1	10.9	12.1

Financial position

The init group's financial position can be described as solid in financial year 2013.

Capital structure

Liabilities to banks as at 31 December 2013 amounted to EUR 11.0m (previous year: EUR 4.0m) and principally concern the long-term component of the financing ("Telematics and Electronic Fare Collection Systems" segment) of the properties at Kaeppelestrasse 4, 8/8a, 10 and of the new building in Karlsruhe amounting to EUR 9.1m (previous year: EUR 3.8m). The increase results from the loan of EUR 6.5m taken up for the new building in December 2013. The Kaeppelestrasse 4 property was financed by a bank loan of EUR 1.2m. The balance outstanding on this loan is EUR 0.9m and the capital repayment on the loan is EUR 71k per annum. The interest rate is 3.7 per cent with a term of 20 years and a fixed interest rate period of ten years. The first repayment was made on 30 June 2010. The properties at Kaeppelestrasse 8/8a and 10 were financed in the amount of EUR 3.0m at a variable rate based on 1-month Euribor. The interest rate as at 31 December 2013 was 1.0 per cent. The capital repayment on the loan is EUR 150k per annum. The new development was financed by a bank loan of EUR 6.5m based on 3-month Euribor. The interest rate including margin as at 31 December 2013 was 0.9 per cent. The capital repayment on the loan is EUR 997k per annum. Loans are expressed in Euros and are fully mortgage-backed.
Current liabilities fell slightly from EUR 37.9m to EUR 36.1m. This change is made up of a reduction in income tax liabilities amounting to EUR 3.6m due to final payments made and adjusted advance payments. The effect was counteracted by a rise of around EUR 3.8m in trade accounts payable. This essentially results, compared with the previous year, from considerably higher billing by our subcontractors for project-specific services during the fourth quarter.
Non-current liabilities rose by EUR 5.3m, due in particular to the property financing and the increase in deferred tax liabilities by EUR 0.9m.
The group's debt-equity ratio (debt capital/equity capital* 100) is 90.5 per cent (previous year: 91.2 per cent), representing a decrease of 0.7 percentage points compared to the previous year.

Investments

The investments totalling EUR 4.5m in 2013 essentially relate to advance payments for the new building in Kaeppelestrasse ("Telematics and Electronic Fare Collection Systems" segment) and replacement and expansion investments. The predicted investment volume of the new building in Kaeppelestrasse is approximately EUR 11m, which is being financed by a bank loan of EUR 6.5m.
The investments of EUR 9.5m in 2012 mostly related to the acquisition of land and buildings at Kaeppelestrasse 8/8a and 10 ("Telematics and Electronic Fare Collection Systems" segment). This investment came to EUR 6.4m and is carried under "Investment property". The properties are intended to secure the site in the long term, but are initially leased up to 31 December 2017 without the option of termination. This position also includes software to the value of EUR 2.8m (previous year: EUR 3.6m), which will be amortised over 5 years. Of this, EUR 2.0m (previous year: EUR 2.6m) relates to the software of initperdis GmbH ("Other" segment).
98.2 per cent of investments in tangible assets, intangible assets and investment properties accounted for by the "Telematics and Electronic Fare Collection Systems" segment: (previous year: 97.7 per cent).

Liquidity

Operating cash flow amounted to EUR 11.4m (previous year: EUR 11.3m) and is therefore slightly above that of the previous year. This is accounted for by incoming payments for large-scale projects. Net working capital (current assets less cash and cash equivalents less trade payables) came to EUR 49.0m (previous year: EUR 49.7m). Cash flow from investing activities amounted to EUR -4.1m (previous year: EUR -9.4m) and essentially relates to investments in tangible fixed assets and investments in the new building in Kaeppelestrasse. Cash flow from financing activities totalled EUR -1.9m (previous year: EUR -5.1m) based on the payment of dividends, the buyback of treasury shares and opposite from the raising of loans.

Cash, including short-term securities, came to EUR 25.6m at the end of December 2013 (previous year: EUR 20.5m). This corresponds to an increase of 24.9 per cent, arising from a loan of EUR 6.5m which was taken up for the new building in Kaeppelestrasse. With business and earnings showing a positive trend, the init group continued to expand its financial strength in financial year 2013 and is therefore able to meet all its payment obligations and finance the group's future growth plans largely from own funds. In addition, the init group has guarantee and credit lines available in the amount of around EUR 92.3m. On the balance sheet date, 52.3 per cent of these were being utilised. Additionally, in the US init has a bond line of USD 75.0m at its disposal, which can also be used in Canada. Round about CAD 26.5m and USD 5.7m were in use at the year end.
Parent company guarantees of EUR 24.6m were in place.

Asset position

The init group's asset position can be described as solid in financial year 2013.
The balance sheet total had risen as at 31 December 2013 by around EUR 7.8m compared with the previous year and amounts to EUR 118.3m (previous year: EUR 110.5m). In addition to the financing of the new building, this is due to increased future receivables from production orders. This rise is accounted for by the good progress made in completing ongoing projects. These services will be billed to the clients in the course of financial year 2014, once the milestones triggering payment have been reached. On the other hand, inventories were reduced considerably due to hardware deliveries. Equity had risen to EUR 62.1m at the year end (previous year: EUR 57.8m) and is therefore about 7.5 per cent above the previous year's figure. The equity ratio is therefore 52.5 per cent (previous year: 52.3 per cent) and has therefore slightly improved.
Around EUR 110.8m of segment assets (previous year: EUR 103.0m) is accounted for by the "Telematics and Electronic Fare Collection Systems" division and around EUR 10.8m (previous year: EUR 10.8m) by the "Other" segment.

Multi-period overview of financial and asset position

Financial year EUR m	2009	2010	2011	2012	2013
Equity	39.0	46.7	56.9	57.8	62.1
Debt capital	32.6	37.7	52.9	52.7	56.2
Cash	9.3	18.4	23.5	20.3	25.4
Balance sheet total	71.6	84.4	109.8	110.5	118.3
Operating cash flow	5.6	14.6	17.4	11.3	11.4

Principles and objectives of financial management

Securing the liquidity of the init group has top priority. In addition, we aim to maintain and optimise the group's financing capabilities. Financial risks, particularly currency risks, are reduced by the use of financial instruments. To spread risk, init holds its financial resources in more than five different currencies. The group also holds 25kg of gold. The init group is classed by its main banks as "investment grade".

Personnel

In order to complete ongoing projects on time and secure continued growth, init moderately increased its workforce at all locations in 2013. With this added capacity, init is well equipped to master its high order backlog and the probable continuing upward trend, so that only minor additions to the workforce will be needed in 2014.

Employee profit-sharing

init's business success depends to a large degree on the employees who drive it forward with their experience and motivation. The Managing Board therefore decided on 11 March 2013 to allow employees to participate in the company's profits, depending on its operating results. Every permanent employee will receive a profit share of EUR 3,500 for 2013. Trainees will receive a profit share of 25 per cent of the amount granted to employees. These sums are recognised in the annual financial statements as other liabilities. Additionally, each permanent employee received 50 shares in the company in December in the context of non-profit-linked asset sharing. These shares are subject to a qualifying period of two years.

Employee figures

As at 31 December 2013, the init group employed a total of 462 staff (previous year: 430) including temporary workers, research assistants and diploma candidates. This includes 46 part-time employees. Of the total number of employees, 396 are accounted for by the "Telematics and Electronic Fare Collection Systems" division.
21 employees were pursuing apprenticeships as IT specialists, IT systems electrical engineers, warehousing specialists, industrial clerks or office clerks. Furthermore, init offers the opportunity of training in the fields of electrical engineering, mechatronics, information technology, industrial engineering and business studies within the scope of courses at the University of Cooperative Education.

Social benefits and family support

It is absolutely essential to retain our employees' expertise within the company in order to sustain its success. In addition to a number of fringe benefits, we also offer our personnel flexible working hours so that family and working life can be reconciled. init has already won a number of awards for being a family-friendly company. A further priority in our company is the health of employees. We therefore regularly organise health check-ups in collaboration with health insurance companies, bear the costs of flu vaccinations, and have taken out additional dental insurance and travel health insurance for every employee.

Ethical guidelines

We have set down the principles of our business dealings in our ethical guidelines. They represent the basis of init's corporate culture and are a mandatory framework shaping daily actions and decisions on every level, beyond national borders and in every part of our group.
For example, all employees with the appropriate qualifications have equal access to management positions. With the internationalisation of our business, we therefore now enjoy greater diversity at our top management levels.

General statement on the economic situation

The Managing Board assesses the development of the business in 2013 as satisfactory overall, although the planned incoming orders of EUR 105m and the planned revenues of EUR 105m were not achieved, with revenues being affected by currency influences. These currency influences also had a negative impact on EBIT, meaning that in this context also the planned EUR 18.0m was not fully achieved. With the existing order backlog amounting to EUR 143m, however, the basis for further growth is secured. init's cash resources are more than sufficient to finance most of its further growth. The operating cash flow comes to EUR 11.4m and should continue to improve in the coming months as a result of scheduled incoming payments. With the orders in France and Finland, init has the references to generate further projects from these regions. Revenues and return on equity remain above average. However, more aggressive price competition was also observed.

Events after the reporting date

No events of special note that had a significant effect on the asset, earnings and financial position of the company occurred after the reporting date.

Forecast, opportunities and risks

Risk and opportunities management system

As a global operator, a technology-oriented company such as init is faced with a number of risks that could affect its asset, financial and earnings position. Along with general economic and cyclical risks, which are beyond the company's control, there are operating and technical risk factors that may impact our future sales and earnings performance. All risks are continuously analysed and evaluated by the management of init AG and its subsidiaries to ensure a rapid response if required and be able to minimise potentially detrimental effects. Opportunities are identified and managed at Managing Board meetings.

The main risks for init are divided into the following categories:

1) Contract risks
2) Project risks
3) Financial risks
4) Other risks

The other risks include the core areas production, development, purchasing/logistics, personnel, sales, business planning and IT.

Risks are recorded, analysed and evaluated and adequate risk prevention measures implemented in a risk management system that covers all business processes and corporate decisions. Both the Managing Board and Supervisory Board are kept informed of imminent risks. Before decisions are made, these risks are discussed in detail by the appropriate bodies and the opportunities and risks weighed up.

The init group examines the risks at all associated companies. No significant changes to the risk management system compared with the previous year have occurred.

Inherent operating risks, such as project delays, quality-related or human resources risks, are regularly recorded and monitored by way of monthly reports. The incoming order situation, financial risks, supply delays and the liquidity situation are analysed weekly to ensure that appropriate measures can be immediately initiated, where necessary. Market, development and strategic risks are examined on a quarterly basis. Risks concerning legal aspects and contracts are worked on and examined by our in-house lawyers, where necessary with the support of outside expert counsel.

Individual risks

Contract risks

The profit margins that can be obtained from fixed price contracts could diverge from the original estimates due to changes in costs or unexpected technical difficulties. If contractual requirements are not met, it can result in substantial contractual penalties, claims for compensation, refusal to pay or termination of the contract. A dispute in connection with an international cooperation agreement gave rise to claims amounting to approximately EUR 2m last year. We consider these claims, at the level asserted, to be unjustified. Appropriate provisions have been set up.

Project and product risks

A crucial success factor for the init group is project management. For each major project, init implements a project plan for constant progress monitoring. A controlling system enables the company to identify any deviations from the specified time and costs, the deliveries and the hours worked and, in cases of deviations from the target, initiate the appropriate countermeasures. Calculations, the order situation and the project progress are regularly examined for the purpose of a target/performance analysis.

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 rectifications or replacements that will affect the margin.

Currently, init has no claims against it on grounds of product defects or based on warranty which have had a considerable impact on the asset, financial and earnings position of the group. Future claims, however, cannot completely be ruled out, since init is also dependent on its suppliers and sub-contractors in terms of quality, schedule effectiveness and price.

Financial risks

The init group's financial risks are a central component of the risk management system and deal with the risks relating to the use of financial instruments.

The group concludes transactions exclusively with recognised, creditworthy third parties. All customers requesting credit-based transactions with the group are subjected to credit checks. In addition, accounts receivable are constantly monitored. Recognisable risks of default are taken into account as value adjustments. In view of the latest economic developments, the high levels of public debt in the US and Europe and the potential impact of measures to consolidate public budgets, considerable uncertainty is attached to our assessments of the general economic situation and of our market. In addition to the threat of insolvency in individual countries, there is also a high risk of bad debt losses. While a large number of init's customers are state-subsidised or public transport companies, it is nonetheless the case that some states have recently undergone financial difficulties (e. g. Greece, Dubai and Ireland). As a result, it is not unlikely that we will face bad debt losses in the future. In addition, contractually established payment terms could change to our disadvantage, with the result that we could encounter cash flow predictability risks and liquidity risks. There are currently no significant clusters of default risks within the group, with the exception of the accounts receivable from Dubai, for which an appropriate risk provision has been created. Of the EUR 8.5m in accounts receivable owed to group company in Dubai that had not been settled on 31 December 2013, EUR 2.5m has now been paid. Our general contractor from the first Dubai project did not forward approximately EUR 2m of payments by an end customer to us. init has sued for the account receivable. There is the risk of default on these receivables. An appropriate risk provision has been created.

After CarMedialab ("Other" segment) generated a loss of EUR 0.5m in 2012, the company succeeded in breaking even in 2013. Activities to optimise sales and profit are ongoing. However, the effectiveness of these measures cannot be guaranteed in the future. If the planned growth is not achieved, an impairment of goodwill amounting to EUR 0.2m will have to be recognised.

Contracts concluded in foreign currencies involve exchange rate risks that can affect sales, purchase prices, the valuation of accounts receivable, currency reserves and liabilities and therefore profit as well. init meets these foreign exchange risks with active exchange rate management, making use of forward exchange dealings and currency options. Since init also tries to keep its options open here and focus on active currency management, losses cannot be ruled out. Due to our risk policy, however, we consider this risk of loss to be minimal. In 2013, init used this strategy to partly compensate the currency risks. A sensitivity analysis on this subject is provided in Note 31.

init's investments include stocks, bonds, fixed-interest securities and fixed-term deposits. Exchange and interest rate risks can therefore affect the group's financial result. To spread risk, init purchased 25kg of gold, which is subject to market price fluctuations. The interest rate risk arising from the two variable-rate loans to finance the properties at Kaeppelestrasse 8/8a and 10 as well as the new building has no significant influence on our earnings, financial and asset position.

Other risks

Economic risks

As an internationally operating company, init is subject to the cyclical trends of the global economy and to the specific economic circumstances of the countries in which its individual projects are implemented. The government debt crises and resulting public spending cuts thus also pose a potential risk to init's business development.

The market for transport services, in which init's customers are primarily involved, is essentially dependent on the political will to improve the infrastructure and the funds made available for it. Delays and the postponement or cancellation of publicly funded investment projects and development funding due to a poor budgetary position can therefore adversely affect the init group's growth. Based on our current assessment and if and when the most recent political declarations of intent are implemented, many of init's key markets should, however, still see increased state investment. Government subsidies could, however, be considerably reduced in the future to combat sovereign debt. Our customers' financing options could deteriorate as a consequence, with the result that intentions to buy our products and services could change, be postponed or even be cancelled. Prices could also fall significantly as a result of the unfavourable market situation.

On the other hand, a number of government aid programmes have been implemented in the industrialised nations to counteract this crisis and stimulate economic activity through investments worth billions. The infrastructure sector in particular, which includes local public transport, is a focal point of these investments. This will bring with it additional business opportunities for init.

Market risks

Hardware and software as developed and marketed by init are subject to rapid changes and constant innovations. In order to limit the development risk, we must, on the one hand, keep up with 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. init therefore factors suggestions and requests from customers into its product development on an ongoing basis. Nevertheless, the development of new products can incur costs without necessarily resulting in the desired success.

Competitors (including players from outside the industry) continuously try to break into the market on the basis of price and thus gain market shares at init's expense. 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. Owing to the increase in the number of competitors, however, init is faced with the risk of decreasing prices and margins as well as the loss of tenders.

Market risks are also incurred through political conflicts, e.g. in the Middle East, which could have an adverse effect on the init group's further business development.

Human resources risks

The experience and qualifications of employees are the key to the success of the init group. The successful handling of projects depends on their completion as scheduled, the scope of each individual project, the enforceability of contractual terms, support from the customer and specific national laws and regulations.

Apart from unforeseeable technical and customer-specific difficulties, timely completion of projects also depends on the availability of sufficiently qualified personnel. init takes account of this by operating a long-term personnel policy which includes the involvement of employees in the success of the company.

Nevertheless, the possibility cannot be ruled out that experts or key individuals will leave the company or that vacancies cannot be filled with appropriately qualified staff. In the event of a pandemic, a sufficient number of home offices are available to ensure that the majority of init's employees are able to access the company's servers using secure VPN connections and perform necessary work from home. The company pays a share of the employees' Internet costs.

Opportunities

With the tenders recently won in France and Finland, init has gained new customers and markets. These references are particularly important for further tenders in these regions. Additionally, we are represented in several tenders in the Asia-Pacific region, where we have been able to make promising contacts with potential new customers. initperdis, in conjunction with initplan, has succeeded in winning further international customers. In many cases, tenders for planning and staff scheduling are issued together. This means that the init group is in a position to present a single face to the customer and offer everything from one source.
In the US, we are working vigorously on our first ticketing project. Once the project is completed we will be able to show our first reference in Ticketing for the North American market, which will considerably increase our chances of winning future tenders. We see considerable market potential here in the next ten years.
We also see a great advantage in the growing interest of transport companies in integrated systems. In this case, init is ideally equipped to combine ticketing and ITCS with the electronic ticket printer with on-board computer function EVENDpc. We will benefit here from our international references, which have a signal effect for many new potential customers from all over the world and should be of advantage to us when additional infrastructure investments are made.

Forecast

As explained above, the init group was not quite able to achieve its goals in terms of sales, income and incoming orders in the financial year just ended. Incoming orders, in particular, remained considerably below our expectations. We are currently involved in numerous tenders worldwide. We are confident that we will be able to win a large part of these ongoing and pending tenders in financial year 2014. We see particular potential for this in the Asian region. In the US, on the other hand, the number of tenders declined in the past year due to budget debates and the fiscal cliff. However, we are assuming that this situation will ease again in 2014 due to the latest budget increases.
With an order backlog that continues to be substantial, at approximately EUR 143m, we have already secured a major part of the planned revenues for 2014. Assuming that our order backlog is completed on schedule, that the few orders we still lack can be won soon and that exchange rates remain at their current level, we anticipate a successful year in 2014. Therefore, for 2014 we anticipate revenues of between EUR 103m and EUR 107m at almost unchanged margins, with an EBIT between EUR 17m and EUR 19m. Of the planned revenues, between EUR 98m and EUR 100m is accounted for by the “Telematics and Electronic Fare Collection Systems” segment and EUR 5m to EUR 7m by the “Other” segment. The planned EBIT is split into EUR 16.9m to EUR 18.5m for the “Telematics and Electronic Fare Collection Systems” segment and EUR 0.1m to EUR 0.5m for the “Other” segment.
Our planning incorporates total incoming orders for 2014 of EUR 105m. Of these, EUR 100m will be accounted for by the “Telematics and Electronic Fare Collection Systems” segment and EUR 5m by the “Other” segment. The planning of incoming orders is based on the assumptions that tenders will not be delayed and that price competition will not continue to intensify. Actual earnings could deviate significantly from the forecast if uncertainties occur or underlying assumptions prove to be false.
With integrated solutions from telematics, planning and fare collection systems and experience from numerous international projects, init is a sought-after partner to transport companies on four continents as they expand their intelligent infrastructure. On this basis, we will be able to extend our range of products and services technologically and regionally and thus participate adequately in the expected growth of our sector.
Against this background, our intention for financial year 2014 is to achieve “good” customer satisfaction once again, to guarantee that our personnel are highly qualified, and to pursue and implement technical innovations.

Assessment of the overall risk position

The Managing Board's view is that, overall, the risks to which the init group is exposed are at present comparatively low, based on the group's solid earnings, financial and asset position and the continued predominantly positive business outlook.

Internal control and risk management system pertaining to the group's financial reporting process

The primary objective of init AG's internal accounting-related control and risk management system is to secure the regularity of financial reporting, i.e. to make sure that the consolidated financial statements and group status report comply with all relevant rules and regulations.
The internal control and risk management system pertaining to the financial reporting process is not defined by law. We understand internal control and risk management to be a comprehensive system and follow the definitions provided by the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors) in Düsseldorf, Germany, on the internal control system pertaining to the financial reporting process and the risk management system. According to this definition, an internal control system is understood to mean the principles, processes and measures introduced by the management of a company which are focused on the organisational implementation of decisions passed by the management to ensure:

> the efficiency and cost-effectiveness of operations (this includes the protection of assets including the prevention and identification of economic impairment),
> the truth and reliability of internal and external accounting, and
> compliance with the legal requirements relevant to the company.

The risk management system comprises the totality of all organisational regulations and measures established to identify and handle risks relating to the business activities of the company.
The following structures and processes have been implemented in the group with regard to the financial reporting processes of our consolidated companies:
The Managing Board has overall responsibility for the internal control and risk management system pertaining to the group's financial reporting process.
The closing information reported by init AG and its subsidiaries, which itself is based on entries made in the various entities, forms the underlying data base for the preparation of the consolidated financial statements. The parent company in Karlsruhe, the subsidiary concerned, or external regional accounting companies are responsible for preparing the closing information of the subsidiaries. In the case of subjects requiring special expertise, we sometimes call on external providers for assistance, e.g. to value pension liabilities. The consolidated financial statements are then prepared on the basis of the reported information. The stages in the process to prepare the consolidated financial statements are carried out in accordance with the peer-review principle.
The principles, the operational and organisational structure, and the processes of the accounting-related internal control and risk management system are laid down in a manual and in organisation instructions. These are reviewed and revised regularly in line with current external and internal developments.
With respect to the financial reporting processes of our consolidated companies and the group's financial reporting process, we consider features of the internal control and risk management system essential which may significantly affect the group accounting and the overall view presented by the consolidated financial statements including the group status report. These include the following elements in particular:

> Identification of key areas of risk and control relevant to the financial reporting process.
> Controls designed to monitor the financial reporting process and its results at management level in regular board meetings.

- Preventive control measures for the group's accounting and finance and in operating and performance-related corporate processes that generate essential information for the preparation of the consolidated financial statements including the group status report, including a separation of functions and pre-defined authorisation processes in relevant areas.
- Uniform accounting is primarily ensured through a group accounting manual.
- Accounting data are regularly spot checked for completeness and accuracy.
- The subsidiaries provide the parent company with monthly reports on their business trend and submit monthly accounts. Ongoing projects are reported on a quarterly basis. Major foreign companies in the group are visited once or twice a year. Particular focus is placed here on a discussion of special issues and an examination of these companies' figures and projects.
- Measures exist to ensure proper IT-based processing of accounting-related facts and figures.
- The group has also implemented a risk management system for the group-wide financial accounting process which includes measures to identify and assess material risks along with appropriate risk-reducing measures to ensure adequacy of the consolidated financial statements.

Basic features of the remuneration system in accordance with section 315 paragraph 2 no. 4 HGB (German commercial code)

Remuneration system for the Managing Board

The salaries for members of the Managing Board is set by the Supervisory Board. The salary is determined by the size of the company, its economic and financial position, and the amount and structure of salaries at comparable companies.
The salary system for Managing Board members at init innovation in traffic systems AG – including in their capacity as managing directors of subsidiaries – provides for the following:

1. A fixed salary component payable on a pro rata basis in 13 monthly instalments. The fixed component of the Board members' salaries in 2013 totalled EUR 1,533k (previous year: EUR 1,574k).
2. A variable component linked to the consolidated earnings before taxes after deduction of all management bonuses and employee shares and applicable as a percentage from a threshold of EUR 10.0m of consolidated earnings before taxes upwards. The management bonus is limited to 25 per cent of the total compensation package excluding the restricted shares under item 3. The variable component of the Board members' salaries in 2013 totalled EUR 255k (previous year: EUR 256k).
3. An additional management bonus for 2013 in the form 2,500 shares, if consolidated earnings before taxes and after deduction of all management bonuses exceed EUR 10m. In this case, each member of the Board receives 150 shares for each EUR 1m of excess profit. For three Board members, the number of shares is limited to 10,000 and for two Board members to 6,000. These 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 fair value of this salary including income tax payable on it totalled EUR 754k for the financial year just ended (previous year: EUR 749k).
4. Pension commitments exist for three of the five members of the Managing Board. The reduction of the pension accruals (DBO) for these three Board members was EUR 138k in 2013 (previous year: appropriation to the accruals of EUR 945k). The reduction results from the increased calculatory interest rate.
5. A defined contribution plan instead of a direct pension commitment exists for two members of the Managing Board. The expenses for this amounted to EUR 8k in 2013 (previous year: EUR 8k).
6. An additional defined contribution plan exists for four members of the Managing Board. In 2013, expenses for this item amounted to EUR 92k (previous year: EUR 86k).

Based on the resolution passed by the shareholders' meeting on 24 May 2011, an individualised disclosure of the Board members' salaries can be withheld for a period of five years n compliance with Section 315a (1) HGB (German Commercial Code) in conjunction with Section 314 (1) no. 6a sentences 5 to 8 HGB (Section 314 (2) sentence 2 in conjunction with Section 286 (5) HGB).
No benefits payable to members leaving the Managing Board have been agreed. However, a termination bonus may be specified in an individual termination agreement. This was not the case in 2013.

Remuneration system for the Supervisory Board

The applicable salaries of the Supervisory Board were decided at the shareholders' meeting of 24 May 2011, based on a proposal put forward by the Managing Board and the Supervisory Board. The articles of incorporation of init innovation in traffic systems AG were amended accordingly.
In addition to the reimbursement of expenditure, the annual salary of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals EUR 18k p.a. for the members and EUR 36k p.a. for the Chairman. The variable component depends in equal amounts on the share price and the consolidated earnings before taxes. The variable salary is limited to 200 per cent of the fixed salary and is calculated using the following formula:
V= ((0.5*price / 10 + 0.5*consolidated earnings before taxes / 10m) -1)* fixed component
Where V (variable salary) is less than zero, the variable component does not apply and only the fixed component of the salary is payable.
The following is a breakdown of the salary of the Supervisory Board in 2013:

Name	Fixed component in EUR '000	Variable component in EUR '000
Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	36	38
Hans-Joachim Rühlig	18	19
Drs. Hans Rat	18	19

Reporting in accordance with § 315 paragraph 4 HGB

Particulars of shareholders' equity

The capital stock of init innovation in traffic systems AG amounting to EUR 10,040,000 is divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of EUR 1 per share. The shares have been issued and are fully paid up. For the rights and obligations related to the shares, please refer to Sections 118 ff. AktG. (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, Karlsruhe, directly or indirectly holds 3,437,550 shares in init AG. This is approximately 34.2 per cent of the capital stock. init AG held a total of 39,918 treasury shares as at 31 December 2013 (as at 31 December 2012: 54,899 shares). There are no shares with special rights. No voting control exists for shares held by employees. During the reporting period there was no information provided pursuant to § 21 para 1 WpHG.

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 Sections 84, 85 AktG (German Stock Corporation Act).
Amendments to the articles of incorporation are subject to the legal control of Sections 133 and 179 AktG.

Authority of the Managing Board to issue and repurchase stock

At the annual shareholders' meeting on 24 May 2011, a resolution was passed to create authorised capital to the amount of EUR 5,020,000. With the approval of the Supervisory Board, the Managing Board is authorised to increase the company's capital stock by up to EUR 5,020,000 by 23 May 2016 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 are obliged to offer them to the shareholders for subscription. However, with the approval of the Supervisory Board, the Managing Board is authorised to withdraw the subscription right, so that up to 1,004,000 new shares at a price not substantially lower than the stock market value of the company shares at the time the issue price is specified. The aim is to balance peak amounts, to open up additional capital markets, to acquire equity holdings 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. Based on a resolution passed at the annual shareholders' meeting on 12 May 2010, the company is authorised to purchase treasury shares.

Corporate management declaration

With regard to the required declaration by the management, please refer to the version in the Corporate Governance Report for financial year 2013 which is available on the Internet at http://www.initag.de/en/investor_relations/corporate_governance.php.

Responsibility statement by the legal representatives

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, 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 in the remaining months of the financial year.

Karlsruhe, 12 March 2014

The Managing Board

Dr. Gottfried Greschner

Joachim Becker

Wolfgang Degen

Dr. Jürgen Greschner

Bernhard Smolka

Consolidated Financial Statements 2013

Consolidated Income Statement

for 2013 (IFRS)

EUR '000	Notes No.	**1/1 to 31/12/13**	1/1 to 31/12/12
Revenues	4, 36	100,120	97,297
Cost of revenues	5	–62,664	–63,291
Gross profit		**37,456**	**34,006**
Sales and marketing expenses		–10,427	–10,298
General administrative expenses		–6,078	–5,828
Research and development expenses	6, 22	–3,559	–3,838
Other operating income	7	1,883	896
Other operating expenses	8	–528	–51
Foreign currency gains and losses	9	–1,292	2,022
Income from associated companies	23	270	261
Other income and expenses		0	148
Earnings before interest and taxes (EBIT)		**17,725**	**17,318**
Interest income		114	313
Interest expenses		–303	–478
Earnings before taxes (EBT)		**17,536**	**17,153**
Income taxes	10, 24	–5,468	–6,281
Net profit		**12,068**	**10,872**
thereof attributable to equity holders of parent company		12,083	11,104
thereof non-controlling interests		–15	–232
Net profit and diluted net profit per share in EUR	12	1.21	1.11

Consolidated Statement of Comprehensive Income

for 2013 (IFRS)

EUR '000	**1/1 to 31/12/13**	1/1 to 31/12/12
Net profit	**12,068**	**10,872**
Items to be reclassified to the income statement:		
Net gains (+)/net losses (-) on currency translation	–508	–1,647
Items not to be reclassified to the income statement:		
Actuarial gains/losses on defined benefit obligations for pensions	521	–1,433
Total Other comprehensive income	**13**	**–3,080**
Total comprehensive income	**12,081**	**7,792**
thereof attributable to equity holders of the parent company	12,096	8,024
thereof non-controlling interests	–15	–232

Consolidated Balance Sheet

as of 31 December 2013 (IFRS)

Assets EUR '000	Notes No.	31/12/13	31/12/12
Current assets			
Cash and cash equivalents	15, 32	25,446	20,329
Marketable securities and bonds	16, 32	153	157
Trade accounts receivable	17, 32	17,170	18,068
Future receivables from production orders (Percentage of completion method)	17, 32	31,933	25,893
Inventories	18	12,598	15,021
Income tax receivable		97	23
Other current assets	19	2,718	3,358
Current assets, total		90,115	82,849
Non-current assets			
Tangible fixed assets	20	9,470	7,156
Investment property	21	6,257	6,340
Goodwill	22	4,388	4,388
Other intangible assets	22	2,818	3,574
Interest in associated companies	23	1,888	1,879
Deferred tax assets	24	1,548	2,122
Other assets	25	1,829	2,144
Non-current assets, total		28,198	27,603
Assets, total		**118,313**	**110,452**

Liabilites and shareholders' equity EUR '000	Notes No.	31/12/13	31/12/12
Current liabilities			
Bank loans	26, 32	1,942	240
Trade accounts payable	26, 32	8,948	5,183
Accounts payable of "Percentage of completion method"	17, 26	5,339	5,999
Accounts payable due to related parties	26, 35	55	102
Advance payments received	26	1,287	1,545
Income tax payable	26	380	3,964
Provisions	28	8,298	9,920
Other current liabilities	27	9,823	10,915
Current liabilities, total		**36,072**	**37,868**
Non-current liabilities			
Bank loans	26, 32	9,050	3,768
Deffered tax liabilities	24	4,992	4,087
Pensions accrued and similar obligations	29	5,431	5,884
Other non-current liabilities	27	676	1,088
Non-current liabilities, total		**20,149**	**14,827**
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	30	10,040	10,040
Additional paid-in capital	30	5,962	5,579
Treasury stock	30	–763	–650
Surplus reserves and consolidated unappropriated profit		48,785	44,718
Other reserves	30	–1,996	–2,009
		62,028	**57,678**
Non-controlling interests		64	79
Shareholders' equity, total		**62,092**	**57,757**
Liabilities and shareholders' equity, total		**118,313**	**110,452**

Consolidated Statement of Changes in Equity

as of 31 December 2013 (IFRS)

	Notes	Attributable to equity holders		
	No.	30	30	30
EUR '000		Subscribed capital	Additional paid-in capital	Treasury stock
Status as of 31/12/2011		**10,040**	**5,122**	**–1,196**
Net profit		–	–	–
Other comprehensive income		–	–	–
Total comprehensive income		**–**	**–**	**–**
Dividend paid out		–	–	–
Share-based payments		–	457	578
Acquisition of treasury stock		–	–	–32
Status as of 31/12/2012		**10,040**	**5,579**	**–650**
Status as of 31/12/2012		**10,040**	**5,579**	**–650**
Net profit		–	–	–
Other comprehensive income		–	–	–
Total comprehensive income		**–**	**–**	**–**
Dividend paid out		–	–	–
Share-based payments		–	383	721
Acquisition of treasury stock		–	–	–834
Status as of 31/12/2013		**10,040**	**5,962**	**–763**

of the parent company				Non-controlling interest	Shareholders' equity total
30	29				
	Other reserves				
Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Total		
41,590	**–229**	**1,300**	**56,627**	**311**	**56,938**
11,104	–	–	11,104	–232	10,872
–	–1,433	–1,647	–3,080	–	–3,080
11,104	–1,433	–1,647	8,024	–232	7,792
–7,976	–	–	–7,976	–	–7,976
–	–	–	1,035	–	1,035
–	–	–	–32	–	–32
44,718	**–1,662**	**–347**	**57,678**	**79**	**57,757**
44,718	**–1,662**	**–347**	**57,678**	**79**	**57,757**
12,083	–	–	12,083	–15	12,068
–	521	–508	13	–	13
12,083	521	–508	12,096	–15	12,081
–8,016	–	–	–8,016	–	–8,016
–	–	–	1,104	–	1,104
–	–	–	–834	–	–834
48,785	**–1,141**	**–855**	**62,028**	**64**	**62,092**

Consolidated Cash Flow Statement

for 2013 (IFRS)

EUR '000	**1/1 to 31/12/2013**	1/1 to 31/12/2012
Cash flow from operating activities		
Net income	12,068	10,872
Depreciation/amortisation	2,776	2,577
Losses on the disposal of fixed assets	36	25
Change of provisions and accruals	–2,075	2,515
Change of inventories	2,423	–171
Change in trade accounts receivable and future receivables from production orders	–5,142	5,644
Change in other assets, not provided by/used in investing or financing activities	881	–1,505
Change in trade accounts payable	3,765	–2,399
Change in advanced payments received and liabilities from PoC method	–918	–2,059
Change in other liabilities, not provided by/used in investing or financing activities	–5,135	–1,517
Amount of other non-cash income and expenses	2,756	–2,650
Net cash from operating activities	**11,435**	**11,332**
Cash flow from investing activities		
Payments received on disposal of tangible fixed assets	143	15
Investments in tangible fixed assets and other intangible assets	–4,503	–3,138
Investment property	–4	–6,369
Inflows from associated companies and loans receivable	261	68
Investments in marketable securities as part of short-term cash management	–18	0
Net cash flows used in investing activities	**–4,121**	**–9,424**
Cashflow aus der Finanzierungstätigkeit		
Dividend paid out	–8,016	–7,976
Cash payments for the purchase of treasury stock	–835	–32
Payments received from bank loans incurred	7,216	3,010
Redemption of bank loans	–232	–61
Net cash flows used in financing activities	**–1,867**	**–5,059**
Nett effects of currency translation and consolidation changes in cash and cash equivalents	–330	–44
Increase/reduction in cash and cash equivalents	**5,117**	**–3,195**
Cash and cash equivalents as the beginning of the period	20,329	23,524
Cash and cash equivalents at the end of the period	**25,446**	**20,329**

Additional information regarding the cash flow statement can be found in Note 34.

Notes 2013

init innovation in traffic systems AG, Karlsruhe (IFRS)

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1. Information about init

init innovation in traffic systems Aktiengesellschaft, Kaeppelestrasse 4–6, Karlsruhe, Germany ("init AG") was established on 18 August 2000 as the holding company of the init group and is entered in the Commercial Register of the Mannheim District Court (Germany) under HRB 109120. 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 and Electronic Fare Collection Systems" and "Other". init AG is a listed company, ISIN DE0005759807, and has been in the regulated market (Prime Standard) since 1 January 2003.

2. Accounting Principles

The 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. The consolidated financial statements comply with the requirement of § 315a HGB. The consolidated financial statements were prepared in Euro. Unless otherwise indicated, all figures are rounded to a full thousand (EUR k).
The financial year of all included companies ends on 31 December. For the sake of clarity of the statement, individual items in the balance sheet and the consolidated income statement have been combined; these are shown and explained separately in the notes. The consolidated income statement was prepared on the basis of the cost-of-sales format. In principle, the accounting practices and valuation methods applied are consistent with the methods applied in the previous year with the following exceptions.
IFRS applied and/or revised as on 1 January 2013 which is relevant to init:

IFRS 13 Fair Value Measurement

IFRS 13 was published in May 2011 and applies for the first time to financial years commencing on or after 1 January 2013. The standard stipulates the guidelines for fair value measurements and defines comprehensive quantitative and qualitative disclosures for evaluating the fair value. It does not specify the point at which assets and liabilities must or can be measured at fair value. IFRS 13 defines the fair value as the price a party would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants on the valuation date. The application of this standard required revised and additional disclosures.

Amendment to IAS 1 – Presentation of Components of Other Comprehensive Income

The amendment to IAS 1 was published in June 2011 and applies for the first time to financial years commencing on or after 1 July 2012. The amendment to IAS 1 relates to the presentation of components of other comprehensive income. Components that are expected to be reclassified to profit or loss in future ("recycling") are listed separately from those which will remain in equity. The application of this standard changed the presentation of the Other Comprehensive Income.

IAS 19 Employee Benefits

The revised IAS 19 was published in June 2011 and applies for the first time to financial years commencing on or after 1 January 2013. The revisions made range from basic amendments, such as those concerning the determination of the expected return on plan assets and the removal of the corridor approach, which served to spread or smooth the volatility resulting from pension commitments over time, all the way to mere clarifications and rephrased sections. The application of this standard mainly required revised and additional disclosures.

EU endorsement received:

The IASB has published the following standards and interpretations, which have already been introduced into European law in the context of a comitology procedure, but which were not mandatory as yet for the 2013 financial year. The group did not opt for an early application of these standards and interpretations.

Standard	Title	Application
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
Amendment to IFRS 10, IFRS 11 and IFRS 12	Transitional provisions	1 January 2014
Amendment to IFRS 10, IFRS 12 and IAS 27	Investment companies	1 January 2014
IAS 27	Separate Financial Statements (revised 2011)	1 January 2014
IAS 28	Investments in Associates and Joint Ventures (revised 2011)	1 January 2014
Amendment to IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014

No significant effects on the init group are expected from the amendments to these standards.

EU endorsement outstanding:

The IASB has published the following list of standards and interpretations whose application was not yet mandatory during the 2013 financial year. These standards and interpretations have not yet been recognised by the EU and were not applied by the group.

Standard	Title	Publication by IASB
IFRS 14	Regulatory deferral Accounts	January 2014
IFRS 9	Financial Instruments: Classification and Measurement	2009, 2010 and November 2013
Amendments to IFRS 7 and IFRS 9	Disclosures: Mandatory Effective Date and Transitional Provisions	December 2011
IFRS 9	Financial Instruments: Hedge accounting	November 2013
IAS 19	Employee Contributions	November 2013
Improvements to IFRS (2010–2012)		December 2013
Improvements to IFRS (2011–2013)		December 2013
IFRIC 21	Levies	May 2013

No significant effects on the init group are expected from the amendments to these standards.
The standards and interpretations listed above will be applied when they take effect within the European Union. There are no plans to apply the new standards in the init group beforehand.

3. Principles of Valuation and Consolidation

Consolidated Group

Name	Registered seat	Share 2013	Share 2012
Fully Consolidated Companies			
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH ("INIT GmbH")	Karlsruhe	100%	100%
INIT Innovations in Transportation Inc. ("INIT Chesapeake")	Chesapeake/Virginia, USA	100%	100%
INIT Innovations in Transportation (Eastern Canada) Inc./INIT Innovations en Transport (Canada Est) Inc. ("INIT Montreal")	Montreal, Canada	100%	100%
INIT Innovations in Transportation (Western Canada) Inc. ("INIT Vancouver")	Vancouver, Canada	100%	100%
INIT PTY LTD ("INIT Brisbane")	Brisbane/Queensland, Australia	100%	100%
Init Innovation in Traffic Systems FZE ("INIT Dubai")	Dubai, United Arab Emirates	100%	100%
initplan GmbH ("initplan")	Karlsruhe	100%	100%
INIT Innovations in Transportation Oy ("INIT Helsinki")	Helsinki, Finland	100%	100%
INIT Innovations in Transportation Limited ("INIT Nottingham")	Nottingham, Great Britain	100%	100%
INIT Swiss AG ("INIT Neuhausen")	Neuhausen, Switzerland	100%	100%
initperdis GmbH ("initperdis")	Hamburg	100%	100%
INIT Asia-Pacific Pte. Ltd. ("INIT Singapore")	Singapore	100%	100%
CarMedialab GmbH ("CML")	Bruchsal	58.1%	58.1%
CarMedialab Corp. ("CML Corp.")	Marina del Rey/ California, USA	58.1% through CML	58.1% through CML
TQA Total Quality Assembly LLC ("TQA")	Chesapeake/Virginia, USA	60% through INIT Chesapeake	60% through INIT Chesapeake
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake/Virginia, USA	100% through INIT Chesapeake	85.7% through INIT Chesapeake
Associated companies (at-equity)			
iris-GmbH infrared & intelligent sensors ("iris")	Berlin	43% through INIT GmbH	43% through INIT GmbH

Company formations in 2013

There were no business formations in 2013.
Backdated to 1 January 2013 INIT Chesapeake acquired in the second quarter the remaining 14.3 per cent of ownership interest in SQM. The purchase price amounted to USD 100k.

Company formations in 2012

INIT Singapore was established on 29 September 2012 to handle the sales and project activities of the init group in the Asia-Pacific region. The acquisition costs amounted to EUR 126k (SGD 200k). init AG holds 100 per cent of the shares.

Business combinations in 2013 and 2012

There were no business combinations within the meaning of IFRS 3 in 2013 and 2012.

Consolidation Method

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 on the same reporting date as the financial statements of the parent company. Where required, any financial statements prepared in accordance with national accounting regulations are adjusted accordingly.
Company mergers are reported using the purchase method. The acquisition costs for the company acquired are measured on the basis of the transferred consideration stated at the fair value at the time of acquisition. Any costs incurred in the context of the merger are reported as expenses and recognised as administrative expenses. For gradual company acquisitions, the equity share previously held by the buyer in the acquired company is redetermined at its fair value at the time of acquisition and the resulting profit or loss reported in the consolidated income statement.
The agreed contingent consideration is reported at the fair value at the time of acquisition. In agreement with IAS 39, subsequent changes to the fair value of a contingent consideration constituting an asset or liability are reported in the consolidated income statement or other earnings. A contingent consideration classed as equity is not revalued. Its subsequent payment is reported in the shareholders' capital. Where a contingent consideration does not fall under the scope of IAS 39, it is valued in agreement with the relevant IFRS.
The capital is consolidated by offsetting the acquisition cost against the group share in the revalued shareholders' capital of the consolidated subsidiaries at the time when control was acquired. The recognisable assets, liabilities and contingent claims and liabilities of the subsidiaries are recognised at their full market value irrespective of the amount of the minority interests. 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 capitalised and subjected to an impairment test in line with IFRS 3 "Business Combinations"/IAS 36 "Impairment of Assets". Negative differences are recognised in the profit and loss immediately after the acquisition. In case of de-consolidations, the remaining book values of the positive differences are taken into account proportionally when calculating 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". The functional currency of INIT Chesapeake, TQA, INIT Montreal, INIT Vancouver, INIT Brisbane, INIT Dubai, INIT Nottingham, SQM, INIT Neuhausen, CML Corp. and INIT Singapore corresponds to its national currency. When converting financial statements in a foreign currency to the currency of the init group (euro), the assets and liabilities are converted using the current rate on the reporting date, whereas the shareholders' equity is converted using the historic exchange rate. Items of the consolidated income statement 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 comprehensive income).

Estimates and assumptions

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 on the balance sheet, the specification of contingent liabilities as on the reporting date, and the statement of income and expenditure during the period under review. The actual amounts may deviate from these estimates.
The most important forward-looking assumptions and any other significant sources of uncertainty in the estimations that exist on the reporting date which could give rise to the risk of having to adjust the book value of assets and liabilities in the next financial year are explained below.

Goodwill

Goodwill from a business combination is valued at acquisition cost on initial recognition, measured as transferred consideration excess above the share of the group in the fair value of the acquired, identifiable assets, liabilities and contingent claims and liabilities. After initial recognition, the goodwill is reported at acquisition 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 decreased. This check requires an estimation of the use value of the cash-generating units to which the goodwill is allocated. To this end, the corporate management must estimate the foreseeable future cash flows of the cash-generating units and, in addition, must also select an appropriate discount rate in order to calculate the cash value of these cash flows. For further information, please refer to section 22 in this text.

Pensions and other post-employment benefits

The expenditure from defined benefit plans is calculated using actuarial methods, made on the basis of assumptions relating to discount rates, future wage and salary increases, mortality and future pension increases. Due to the long-term nature of these plans, such assumptions are subject to significant uncertainties. For further information, please refer to section 29 in this text.

Development costs

Development costs are capitalised as per the accounting principles and valuation methods presented. To calculate the values to be capitalised, the corporate management must make assumptions on the amount of cash flow expected in future from assets, on the interest rates to be applied and on the time frame for the influx of expected future cash flows generated by assets. Research and development costs are entered as expenses as incurred. In certain cases, development costs are capitalised (please refer to the explanations on other intangible assets).

Assumptions and estimations are also necessary for reporting and valuing future receivables from long-term order completion, for value adjustments on doubtful receivables and for contingent liabilities and other provisions. They are also needed when determining the fair value of non-current tangible and intangible assets and when applying deferred taxes to tax losses carried forward.

Realisation of income

Income is realised 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 realised:
Income from system contracts is recorded using the Percentage-of-Completion method. The percentage of completion of orders in progress and such not yet invoiced at the reporting date is determined by the ratio of costs accrued to the total costs ("cost-to-cost" method).
Income from product sales is realised upon transfer of the key risks and opportunities to the customer. Where the installation at the customer's place of business is an important prerequisite for the commissioning, the revenues are not realised until the installation has been completed.
Income from operating leases for investment property is reported evenly over the entire term of the lease in other operating income.
Interest income is realised where interest has accrued.
Income from dividends is reported once the group has a legitimate claim for payment.

Public subsidies and European Union subsidies

Public subsidies and subsidies from the European Union (grants received for two research projects) 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.

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 fair value and recognised as income or expenses, 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 fair value. Financial investments other than those reported at their fair value and recognised as income or expenses 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 financial year, where permissible and appropriate.
The purchase and sale of financial assets as customary in the market is reported on 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 fair value of financial investments traded in organised markets is determined using the current price (buying rate) quoted on the reporting date. The fair 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 fair value of another, basically identical, financial instrument, the analysis of discounted cash flows, and the use of other valuation models.

Securities and bonds

Until their final maturity, securities are classified as financial assets available for sale. Following their initial recognition, financial assets available for sale are reported at their fair value (exchange or market price), with gains or losses recognised as a separate item in the shareholder's equity. Once the financial investment is derecognised or its value found to be impaired, the cumulated gain or loss previously recognised in the equity capital is reported through profit or loss.

Trade accounts receivable and future receivables from production orders

Receivables are non-derivative financial assets with fixed or estimable payments not listed in an active market. After initial inclusion, the receivables are reported at the net book value less impairment. Profits and losses are entered in the operating result related to the accounting period if the receivables are charged off or impaired. The future receivables from production orders correspond to the balance of costs incurred plus the profits of projects not invoiced and advance payment invoices issued.

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 fair value at the time of conclusion of the contract and, in the following periods, are measured at their fair value. Derivative financial instruments are reported as assets if their fair value is positive and as liabilities if their fair value is negative.

Profits or losses from changes in the current prices of derivative financial instruments not meeting the hedge accounting criteria are immediately recognised as income or expenses. In contrast, the adjustment of order values to the current prices on the reporting dates for projects invoiced in a foreign currency always has a counter-effect on the net income realisation.

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 abstains from presenting this as hedge accounting because it does not meet the requirements, 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 realisable on the reporting 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 is reported as an expense in the period in which the debts were accrued. Impairment losses are recognised where necessary.

Tangible fixed assets

Tangible fixed assets are valued at acquisition cost less scheduled depreciation. The depreciation of the historical acquisition cost follows the straight-line method over the average useful life. Low-value assets are written off immediately or depreciated over a period of between three and five years.

The average useful lives are as follows:

Buildings	50	years
Buildings on third-party land	9–10	years
Plant and machinery	3–5	years
Other installations, factory and office equipment	3–10	years

Investment property

The property and land serving to generate rentals from third parties is treated as investment property. The value is determined using the cost method. The depreciation of the financial investments follows the straight-line method over their actual useful life, which is normally 50 years.

Group as lessor

Leases under which all the opportunities and risks inherent in the property are not substantially transferred by the group to the lessee are classified as operating leases.

Other intangible assets

Purchased intangible assets are valued at acquisition cost and depreciated in a straight-line method over their useful life of three to ten years.

In accordance with IAS 38 “Intangible Assets”, the company capitalises 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 capitalised until the software is marketed and offered for sale. No software was capitalised in 2013 and in 2012 because the conditions were not met.

After initial recognition of the development costs, the cost method is used according to which the asset is reported at acquisition cost less cumulated amortisation and cumulated impairment losses. Software development costs were amortised per product using straight-line depreciation over a maximum period of three years. The depreciation and amortisation commences at the time of sale to the customer. Furthermore, capitalised 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 decreased. Irrespective of this, these costs are subjected to an impairment test at least once a year until the time of sale to the customers.

Interests in associated companies

The interests 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.

Impairment 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 asset can no longer be realised (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 recognised in accordance with IAS 12 "Income Taxes" 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 levelled. 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 per cent. Deferred tax assets for the unused tax losses carried forward of a subsidiary are recorded to the extent that taxable income is likely to be available for these, so that the loss carried forward can actually be used.

Liabilities

Liabilities are carried at net book value.

Pensions accrued and similar obligations

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.

Provisions

The provisions are taken into account where a past event has led to a current liability, their utilisation 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. Long-term provisions are discounted.

Notes on the Consolidated Income Statement

4. Revenues

The revenues are composed of the following amounts:

EUR '000	2013	2012
Revenues resulting from the application of the Percentage-of-Completion method	77,443	78,046
Revenues from maintenance contracts	12,584	10,440
Revenues from additional and replacement deliveries	10,093	8,811
Total revenues	**100,120**	**97,297**

5. Cost of revenues

The costs of revenues are composed as follows:

EUR '000	2013	2012
Cost of materials and purchased services	34,158	35,645
Personnel expenses	18,724	16,924
Depreciation	2,090	1,844
Valuation adjustments on inventories	1,213	173
Rental expenses	1,923	1,972
Travel and entertainment costs	1,550	1,566
Other	3,006	5,167
Total	**62,664**	**63,291**

The increase in adjustments on inventories mainly results from old stock which needs to be held for several years because of delivery obligations.
Other costs of revenues primarily include vehicle costs and repair and maintenance expenses.

6. Research and development costs

EUR '000	2013	2012
Software development	3,020	3,001
Hardware development and research costs	539	837
Total	**3,559**	**3,838**

7. Other operating income

The other operating income primarily includes EUR 833k (2012: EUR 578k) from allocated benefits in kind, compensatory payments made by insurance companies, and rent. Also included are EUR 200k (2012: EUR 68k) from the reversal of provisions, along with EUR 242k (2012: EUR 104k) from public subsidies and subsidies from the European Union. The income from operating leases for the investment properties at Kaeppelestrasse 8/8a and 10 in Karlsruhe amounted to EUR 320k (2012: EUR 74k).

8. Other operating expenses

The other operating expenses includes EUR 147k (2012: EUR 8k) from losses on disposal of fixed assets, EUR 87k (2012: EUR 29k) depreciation on investment property and expenses consist of write-downs of marketable securities and bond issues totalling EUR 21k due to the assumption of a permanent impairment.

9. Foreign currency gains and losses

EUR '000	2013	2012
Balance of unrealised currency gains/losses	–766	1,281
Balance of realised currency gains/losses	–318	159
Currency gains/losses from consolidation transactions	–208	582
Total	**–1,292**	**2,022**

10. Income tax

EUR '000	2013	2012
Current income tax	4,114	6,136
Deferred income tax	1,354	145
Total	**5,468**	**6,281**

The current income taxes in the previous year were affected by the payment due to a tax audit. The increase in deferred income taxes compared to last year is mainly attributable to the increase in future receivables from production orders.

The tax expenditure resulting from the application of the tax rate of init AG changes to income tax expenditure as follows. The tax rate of the German companies is made up of corporation tax of 15.0 per cent (2012: 15.0 per cent) plus 5.5 per cent solidarity surcharge thereon, and trade tax of 14.35 per cent (2012: 14.35 per cent). For other countries the tax rate varies between 0 and 38 per cent. The average comes up to a rounded theoretical tax rate in the amount of 30.0 per cent.

EUR '000	2013	2012
Profit before income tax	17,536	17,153
Theoretical income tax expenditure at 30.0%	5,261	5,146
Tax rate differences for foreign subsidiaries	104	204
Tax effect of non-deductible/taxed expenses/income	83	64
Tax effects of tax-free increases in net worth	53	0
Taxes unrelated to accounting period	–25	705
Tax effects from results of associated companies	–81	–78
Other	73	240
Effective income tax expenditure	**5,468**	**6,281**
Effective tax expenditure in %	31.2	36.6

Due to the taxes unrelated to the accounting period reported based on a company audit the overall tax ratio in the previous year was higher than the current year figure.
The change from the deferred tax assets and deferred tax liabilities to the deferred taxes reported in the consolidated income statement is composed of the following:

EUR '000	2013	2012
Changes to deferred tax assets	574	–777
Changes to deferred tax liabilities	905	388
Settled and recognised in equity	–145	491
Currency adjustments	20	43
Deferred tax expense/income	**1,354**	**145**

The effects recognised in equity refer to the reported actuarial gains/losses from defined benefit pension commitments.

11. Net earnings and losses from financial instruments

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

EUR '000	2013	2012
Loans and receivables	–772	993
Financial assets available for sale	–21	–8
Financial liabilities recognised at cost	112	12
Financial assets and liabilities reported at fair value through profit or loss	–159	434
Total	**–840**	**1,431**

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 fair value through profit or loss essentially include the results from changes in the market value.

12. Net profit per share

The net profit per share is calculated by dividing the consolidated annual net profit due to the shareholders of the parent company by the weighted number of shares issued (issued capital less treasury shares). Since init AG had not issued any stock options by the reporting dates, there was no diluted net profit per share to be calculated.

	2013	2012
Net profit (shareholders of the parent company) in EUR '000	12,083	11,104
Weighted average number of shares issued	10,011,332	9,964,773
Undiluted net profit per share in EUR	1.21	1.11

13. Paid and proposed dividends

EUR '000	2013	2012
Ordinary dividends declared and paid during the financial year	8,016	7,976
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2013: 80 cents per share (2012: 80 cents per share)	8,000	7,988

14. Personnel expenses

The personnel expenses totalled EUR 32,198k (2012: EUR 30,414k).

Notes on the Consolidated Balance Sheet

15. Cash and cash equivalents

EUR '000	Fair values 2013	Fair values 2012
Deposits with credit institutions (current accounts)	9,174	14,703
Short-term deposits (fixed-term deposits/call money)	16,272	5,626
Total	**25,446**	**20,329**

16. Securities and bond issues

This item refers to securities and bond issues with a total fair value of EUR 153k (2012: EUR 157k). Due to the assumption of a permanent impairment, the fair value (market value on the reporting date) of the securities and bond issues was reduced by EUR 21k (2012: EUR 8k), and this impairment was recognised as an expense. The fair value of the Greek bonds amounted to EUR 25k at the reporting date (2012: EUR 27k). In 2013 there were purchases of securities valued at EUR 18k. There was no sale of securities in the current year and in the previous year.

17. Trade accounts receivable and future receivables from production orders

EUR '000	2013	2012
Gross trade receivables	18,064	18,829
Less cumulative value adjustments	–894	–761
Subtotal	17,170	18,068
Future receivables from production orders	31,933	25,893
Total	**49,103**	**43,961**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2013	2012
As of 1 January	761	176
Transfer to expenditure	259	755
Drawdown	0	–66
Release	–101	–103
Currency effects	–25	–1
As of 31 December	**894**	**761**

The expenses from transfer and the income from release are included in the income statement under "Other operating expenses" or rather "Other operating income".
On 31 December, the age structure of trade accounts receivable was as follows:

EUR '000	2013	2012
Book value	49,103	43,961
Adjusted gross receivables	3,955	2,165
Neither delinquent nor impaired	35,459	37,664
Delinquent but not value-impaired		
< 30 days	7,922	694
30–60 days	1,396	829
60–90 days	1,317	1,125
90–180 days	382	962
> 180 days	460	1,283

The delinquent accounts receivable amount to EUR 15.4m (2012: EUR 7.1m), whereby the projects in Dubai account for EUR 4.2m of this (2012: EUR 5.3m). Of the delinquent accounts receivable in Dubai, around EUR 0.6m (2012: EUR 0.6m) was written down. The general contractor for the first Dubai project did not pass payments from the end customer worth AED 12.1m on to us. init has gone to court to obtain the payment. The risk of non-recovery has been calculated in.
For future receivables from production orders value-impairing factors are continuously being considered in the context of the concurrently running project calculations. At the reporting date, there were no indications to suggest that the debtors of the receivables not subject to value impairment would not meet their financial obligations.

Production orders

The production orders valued on the reporting date using the Percentage-of-Completion method but not yet invoiced are as follows:

EUR '000	2013	2012
Costs accrued plus profits from projects not yet invoiced	138,596	96,425
Less payments received	–112,002	–76,531
Balance	**26,594**	**19,894**
Of which: future receivables from production orders	31,933	25,893
Of which: liabilities from Percentage-of-Completion (see Liabilities)	5,339	5,999

18. Inventories

EUR '000	2013	2012
Raw materials and supplies	1,076	1,266
Goods (valued at net realisable value)	10,554	10,362
Work in process (valued at production cost)	492	583
Deposits paid	476	2,810
Total	**12,598**	**15,021**

19. Other current assets

EUR '000	2013	2012
Derivative financial instruments	875	810
Accruals	695	1,071
Other tax refund claims	643	943
Due from personnel	152	84
Other	353	450
Total	**2,718**	**3,358**

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

20. Tangible fixed assets

EUR '000	Land and buildings	Plant and machinery	Factory and office equipment	Facilities under construction
Acquisition and production costs				
As of 1 January 2013	4,566	777	8,145	361
Additions in current financial year	47	758	2,180	1,223
Disposals in current financial year	15	0	2,068	0
Currency differences	–31	–31	–73	0
As of 31 December 2013	4,567	1,504	8,184	1,584
Depreciation				
As of 1 January 2013	747	293	5,653	0
Additions in current financial year	214	146	1,287	0
Disposals in current financial year	15	0	1,898	0
Currency differences	–8	–13	–37	0
As of 31 December 2013	938	426	5,005	0
Book value as of 31 December 2013	**3,629**	**1,078**	**3,179**	**1,584**

EUR '000	Land and buildings	Plant and machinery	Factory and office equipment	Facilities under construction
Acquisition and production costs				
As of 1 January 2012	4,093	437	8,472	0
Additions in current financial year	613	371	1,395	361
Disposals in current financial year	124	22	1,707	0
Currency differences	–16	–9	–15	0
As of 31 December 2012	4,566	777	8,145	361
Depreciation				
As of 1 January 2012	687	258	6,132	0
Additions in current financial year	188	61	1,224	0
Disposals in current financial year	124	21	1,691	0
Currency differences	–4	–5	–12	0
As of 31 December 2012	747	293	5,653	0
Book value as of 31 December 2012	**3,819**	**484**	**2,492**	**361**

The tangible fixed assets essentially concern the administration building at Kaeppelestrasse 4 in Karlsruhe, two residential buildings leased to employees, office equipment and technical installations. The depreciation follows the straight-line method over the average useful life of the asset. The scheduled depreciation in 2013 totalled EUR 1,647k (2012: EUR 1,473k) and is included in the consolidated income statement under “Cost of revenues”, “Sales and marketing expenses” and “Administrative expenses”.

The facilities under construction refer to payments made totalling EUR 1,584k (2012: EUR 361k) for the new building. No depreciation on the facilities under construction was reported in 2013. Currently there are no restrictions on the right of disposal, nor has any tangible fixed asset been pledged as collateral for liabilities. At the end of the year, the contractual commitments for the building plans totalled EUR 10.7m (2012: EUR 173k).

21. Investment property

EUR '000	2013	2012
Acquisition costs as of 1 January	6,369	0
Additions in current financial year	4	6,369
Acquisition costs as of 31 December	6,373	6,369
Depreciation as of 1 January	29	0
Additions in current financial year	87	29
Depreciation as of 31 December	116	29
Book value as of 31 December	**6,257**	**6,340**

Composition of earnings from investment property during the period under review

EUR '000	2013	2012
Rental income from investment property	320	74
Operating expenditure* used to generate rental income	87	29

*including maintenance and repairs

The group does not face any restrictions on the disposal of investment property, nor does it have any contractual commitments to purchase, build or develop any investment property. Moreover, there are no contractual commitments to carry out any repairs, maintenance or improvements.
The land and property not operated for commercial purposes within the meaning of IAS 40 “Investment Property” concern the acquired neighbouring properties Kaeppelestrasse 8, 8a and 10 in Karlsruhe in 2012. All three properties are fully leased until 31 December 2017. The investment property is valued at amortised cost plus incidental costs and recognised on the balance sheet at a book value of EUR 6.3m (2012: EUR 6.3m). The buildings are depreciated on a straight-line basis over a useful life of 50 years.
The fair value at the end of the reporting period amounts to EUR 6.4m. The fair value was determined using the discounted cash flow method. The valuation of investment property is dependent upon the assumptions used to calculate future cash flows. Changes in the interest rate, the expected price developments and market conditions affect the future cash flows and, in consequence, the amount of the fair value. The valuation was done internally because of the principle of materiality and the expected immaterial difference between fair value and book value.
The operation, maintenance and care of the land and buildings are handled by the tenants, who also bear the related costs. Consequently, there were no expenses directly allocable to the investment property in 2013 other than scheduled depreciation (2012: EUR 0k).

22. Intangible assets

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As of 1 January 2013	4,388	9,572	5,800
Additions in current financial year	0	0	295
Disposals in current financial year	0	451	388
Currency differences	0	–19	–5
As of 31 December 2013	4,388	9,102	5,702
Depreciation			
As of 1 January 2013	0	9,572	2,226
Additions in current financial year	0	0	1,042
Disposals in current financial year	0	451	379
Currency differences	0	–19	–5
As of 31 December 2013	0	9,102	2,884
Book value as of 31 December 2013	**4,388**	**0**	**2,818**

EUR '000	Goodwill	Internally generated software	Licences
Acquisition and production costs			
As of 1 January 2012	4,388	9,582	6,799
Additions in current financial year	0	0	398
Disposals in current financial year	0	0	1,395
Currency differences	0	–10	–2
As of 31 December 2012	4,388	9,572	5,800
Depreciation			
As of 1 January 2012	0	9,407	2,715
Additions in current financial year	0	175	900
Disposals in current financial year	0	0	1,387
Currency differences	0	–10	–2
As of 31 December 2012	0	9,572	2,226
Book value as of 31 December 2012	**4,388**	**0**	**3,574**

Impairment test of goodwill

To check for impairment of value, the goodwill was allocated to following the cash-generating units: "Telematics and Electronic Fare Collection Systems", "Driver Dispatch Systems" and "Automotive".

The book value of the goodwill:

EUR '000	2013	2012
Telematics and Electronic Fare Collection Systems	1,877	1,877
Automotive	203	203
Driver Dispatch Systems	2,308	2,308
Total	**4,388**	**4,388**

So far no impairment of goodwill was necessary.
The recoverable amount of the above cash-generating units is determined on the basis of the calculation of the economic benefit of using cash flow projections based on budgetary accounting approved by the Managing Board for a period of four years. Steady cash flows were shown for the following period. The interest rate applied for the discounting is 7.3 per cent before taxes (2012: 8.5 per cent).
The following assumptions taken as a basis for the calculation of the economic benefit involve forecast uncertainties:

- Revenue
- Potential distributable profit
- Discount rate

Revenue: Revenues are estimated on the basis of the order volume, the open and announced tenders, submitted offers, and past experiences.
Potential distributable profit: The potential distributable profits arise from the planned revenues minus planned costs and taxes. Past experience supports the basis of this determination.
Discount rate: The discount rate reflects the estimate of the company management in regard to the risks relating to the cash-generating units. A uniform interest rate of 5.12 per cent (2012: 5.95 per cent) after taxes was applied. Cash flows arising after the period of four years are determined using a growth discount of 1.0 per cent (2012: 1.0 per cent).

Sensitivity analysis on the assumptions

- Discount rate: With an increase in the interest rate within a realistic range, the goodwill of the cash-generating units would not be impaired.
- Revenue and potential distributable profit: A marked decline in revenues and earnings in the "Telematics and Electronic Fare Collection Systems" and "Driver Dispatch Systems" segment would result in an impairment loss on goodwill. If the planned growth for the "Automotive" segment cannot be achieved an impairment loss on goodwill will be necessary.

Other intangible assets

Internally generated software:

The internally generated software was completely amortised in 2012 and since then there have been no more additional amounts capitalised. The amortisation totalled EUR 175k in 2012 and is included in the consolidated income statement under "Cost of revenues".

Licences:
The licences include external software costs as well as programming and consulting in the amount of EUR 2,818k (2012: EUR 3,574k). The scheduled amortisation amounts to EUR 1,042k (2012: 900k) and is included in the consolidated income statement under "Cost of revenues".

23. Interests in associated companies

The associated company iris is not publicly listed. The following table contains summarised financial information on the associated company:

EUR '000	Balance sheet total 31/12	Equity 31/12	Total liabilities 31/12	Revenues	Profit
2013	6,961	4,428	2,533	10,230	628
2012	7,232	4,408	2,824	8,888	608

The business of iris is the development, production and sale of sensors, and sensor and information processing systems. In 2013, the pro-rata result amounted to EUR 270k (2012: EUR 261k). A distribution was made in the 2013 financial year of EUR 261k (2012: EUR 0k). Depreciation of investments in associated companies were not required.

24. Deferred taxes

The deferred tax assets and liabilities are as follows:

EUR '000	**31/12/2013**	31/12/2012
Deferred tax assets		
Inventories	124	360
Other assets	55	43
Other intangible assets	0	4
Provisions	587	805
Other liabilities	0	48
Pensions accrued and similar obligations	570	710
Other	212	152
Total deferred tax assets	**1,548**	**2,122**
Deferred tax liabilities		
Future receivables from production orders	3,483	2,738
Other assets	389	290
Tangible fixed assets	429	167
Goodwill	43	39
Other intangible assets	634	845
Other liabilities	14	8
Total deferred tax liabilities	**4,992**	**4,087**

No deferred tax assets were accrued in 2012 and 2013 for previously unused tax losses carried forward. On 31 December 2013, the unused corporate tax loss carried forward was EUR 675k (2012: EUR 641k). On 31 December 2013, 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 totalled EUR 17.2m (2012: EUR 18.8m).

25. Other non-current assets

EUR '000	**2013**	2012
Asset value of pension liability insurance	961	888
Security deposits	115	162
Loans	18	22
Gold stock	694	1,021
Other	41	51
Total	**1,829**	**2,144**

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

26. Liabilities

	31/12/2013			31/12/2012		
	Remaining term			Remaining term		
EUR '000	**Total**	< 1 year	> 5 years	Total	< 1 year	> 5 years
Bank loans	10,992	1,942	4,182	4,008	240	2,855
Trade accounts payable	8,948	8,948	0	5,183	5,183	0
Accounts payable from percentage of completion	5,339	5,339	0	5,999	5,999	0
Accounts payable to related parties	55	55	0	102	102	0
Advance payments received	1,287	1,287	0	1,545	1,545	0
Income tax liabilities	380	380	0	3,964	3,964	0
Other liabilities	10,499	9,823	0	12,003	10,915	0

Terms relating to the above financial liabilities:
The bank loans of EUR 10,992k (2012: EUR 4,008k) relate to long-term loans of EUR 9,050k (2012: EUR 3,768k) for financing the buildings at Kaeppelestrasse 4, 8/8a, 10 as well as the new building in the Kaeppelestrasse Karlsruhe, which are fully secured by a land charge and the resultant short-term share of EUR 1,217k (2012: EUR 230k). They also include overdraft facilities amounting to EUR 725k (2012: EUR 10k).

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	**2013**	75,335	2,229	60,000	13,106
Credit insurance companies	**2013**	17,000	0	17,000	0
Bond line for USA and Canada	**2013**	54,473	0	0	0
Banks	2012	63,527	2,320	48,000	13,207
Credit insurance companies	2012	17,000	0	17,000	0
Bond line for USA and Canada	2012	56,738	0	0	0

The credit and guarantee lines are sufficient to finance the further growth of the company. On 31 December 2013, the cash line drawdown totalled EUR 709k (2012: EUR 0k), the guarantee lines EUR 47,589k (2012: EUR 39,119k), and the bond line EUR 22,150k (2012: EUR 35,468k).
No interest is charged on the trade accounts payable.
For the terms and conditions relating to the accounts payable to related parties, please refer to item 35 of the notes.
For the terms and conditions relating to the liabilities from derivative financial instruments included in the other liabilities, please refer to item 31 of the notes.

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

	31/12/2013			31/12/2012		
	Remaining term			Remaining term		
EUR '000	**Total**	< 1 year	> 5 years	Total	< 1 year	> 5 years
Tax liabilities	1,431	1,431	0	1,296	1,296	0
Due to personnel	4,763	4,763	0	5,242	5,242	0
Derivative financial instruments	68	68	0	218	218	0
Social security liabilities	80	80	0	132	132	0
Remaining work	1,651	1,651	0	2,448	2,448	0
Others	2,506	1,830	0	2,667	1,579	0
Total	**10,499**	**9,823**	**0**	**12,003**	**10,915**	**0**

28. Provisions

EUR '000	**As of 1/1/2013**	Currency differences	Usage	Release	Transfer	**As of 31/12/2013**
Provisions for warranties	3,464	–50	1,643	52	1,476	3,195
Provisions for insufficient production costs	4,503	–32	1,703	68	781	3,481
Provisions for anticipated losses related to projects	310	0	310	0	16	16
Other provisions	1,643	0	210	0	173	1,606
Total	**9,920**	**–82**	**3,866**	**120**	**2,446**	**8,298**

All provisions are expected to mature within one year.
The provisions for warranties were calculated as a lump sum using a rate of average sales in the past two years determined from empirical figures in the past.
The provisions for insufficient production costs essentially concern work still outstanding in invoiced orders.
The provisions for anticipated losses related to projects was set up on grounds of the significant technological requirements and various new developments within one project and was determined in concurrently running project calculations.
A dispute in the context of an international cooperation agreement led to claims brought against us to the amount of around EUR 2m. We do not believe that this amount is justified. Appropriate provisions have been set up. Meanwhile the claim is being defended in legal proceedings.

29. Pensions accrued and similar obligations

For the employees of init AG, INIT GmbH, initplan and initperdis there are both benefit plans and defined contribution pension plans. The liabilities include obligations from current pensions and for pension entitlements of future retirees. Pension liabilities are calculated using the projected unit credit method. These pension commitments grant employees an old-age pension (independent of salary) after attaining the age of 63 (Dr. Gottfried Greschner 65). Risks of defined benefit plans are affected by the capital markets and demographic change. In order to mitigate these risks only defined contribution plans have been offered for several years.

The following parameters were taken into consideration:

	init AG, INIT GmbH, initplan	initperdis
Actuarial interest rate in per cent (2012)	3.67 (3.00)	3.67 (3.00)
Biometric bases	Klaus Heubeck's "Richttafeln G" (Actuarial Tables) of 2005	

The values of the commitments were calculated as on the individual reporting dates based on personnel data as on the respective reporting dates.
The company's pension accruals as on the reporting dates developed as follows:

EUR '000	**2013**	2012
Pensions accrued at the beginning of the year (Defined Benefit Obligation – DBO)	6,499	4,315
Service cost	85	52
Interest cost	192	219
Financial actuarial gains (-)/losses (+)	–667	1,924
Pension payments	–11	–11
Pensions accrued (DBO) at the end of the year	6,098	6,499
Plan assets	–667	–615
Pensions accrued	**5,431**	**5,884**

The plan assets contain the asset value of pension liability insurances and have developed as of the balance sheet date as follows:

EUR '000	2013	2012
Fair Value of the plan assets on 1/1	615	561
Interest income from plan assets	18	17
Financial actuarial gains	1	0
Contributions to plan assets by the group	33	37
Fair value of the plan assets on 31/12	**667**	**615**

With regard to the defined benefit plans, the expenses for pension payments consist of the following:

EUR '000	2013	2012
Service cost	85	52
Interest cost	192	219
Expenses for pension payments	**277**	**271**

In the consolidated income statement, the service cost is included in the cost of revenues (EUR 13k), the sales and marketing expenses (EUR 37k) and the administrative expenses (EUR 35k), and the interest paid is reported in the item of the same name.

EUR '000	31/12/2013	31/12/2012
Cumulated amount of the financial actuarial losses included in the shareholders' equity, after deducting deferred taxes	1,141	1,662

EUR '000	2013	2012
Defined benefit obligation (DBO) on 31/12	6,098	6,499
Adjustments to the DBO based on experience	–47	–17

The pension accruals attributable to members of the Managing Board totalled EUR 3,131k (2012: EUR 3,269k).

EUR '000	2009	2010	2011	2012	2013
DBO	2,606	2,914	4,315	6,499	6,098

Sensitivities of the principal actuarial assumptions:

The interest rate as well as the life expectancy has been identified as principal actuarial assumptions: A 0.5 per cent change in the assumed actuarial interest rate would have the following implications:

EUR '000	Increase	Decrease
Implications for the defined benefit obligation (DBO)	(464)	523

A change of 1 year in the assumed life expectancy would have the following implications:

EUR '000	Increase	Decrease
Implications for the defined benefit obligation (DBO)	219	(219)

The same method was applied in the calculation of the sensitivity of the DBO as for the calculation of the defined benefit obligation.

Asset/Liability Matching Strategy

Reinsurance contracts in the amount of EUR 667k have been entered into to compensate risks. The excess obligations are financed from current cash flows due to the small amount.

Future Cash Flows

Expected pension payments (EUR'000):

2014	2015	2016	2017	2018	2019–2023
186	187	190	198	204	1,334

The weighted average maturity of the DBO of the defined benefit plans is 17 years.

Defined contribution plans

In the 2002 financial year, init changed its pension scheme regulations for new commitments. Accordingly, the company will no longer make any new, direct commitments. The amount recorded as expenses for contribution-based plans totalled EUR 346k (2012: EUR 311k), of which EUR 100k (2012: EUR 94k) are allocated to the members of the Managing Board.

30. Shareholders' equity

Subscribed capital

The capital stock is divided into 10,040,000 no-par bearer shares each accounting for EUR 1.00 of the capital stock. The shares have been issued and fully paid up.

Floating shares:	2013	2012
As of 1/1	9,985,101	9,938,463
Acquisition of treasury stock	–35,992	–2,200
Issue of stock to Managing Board, managing directors and key personnel	34,879	33,592
Issue of stock to employees	16,094	15,246
As of 31/12	**10,000,082**	**9,985,101**

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

Managing Board	Number of shares	Supervisory Board	Number of shares
Dr. Gottfried Greschner, CEO*	3,437,550	Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	0
Joachim Becker, COO	338,533	Hans-Joachim Rühlig	0
Wolfgang Degen, COO	54,579	Drs. Hans Rat	0
Dr. Jürgen Greschner, CSO	93,550		
Bernhard Smolka, CFO	26,050		

*3,450,000 of which held by Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe

During the reporting period there was no information provided pursuant to § 21 para 1 WpHG.

Authorised capital

At the annual shareholders' meeting on 24 May 2011, a resolution to create authorised capital of EUR 5,020,000 was passed. With the approval of the Supervisory Board, the Managing Board is authorised to increase the company's capital stock by up to EUR 5,020,000 by 23 May 2016 through a single or repeated issuing of up to 5,020,000 ordinary shares in return for cash or contributions in kind.

Additional paid-in capital

The additional paid-in capital on 31 December 2013 amounted to EUR 5,962k, EUR 3,141k of which resulted from the premium of the shares sold at the time of the initial public offering. EUR 1,924k was transferred from 2005 to 2012 as part of the recognised expenses from the share-based remuneration (see item 37) and EUR 383k in 2013. Due to the sale of treasury stock in 2007, the additional paid-in capital increased by EUR 514k.

Treasury stock

The treasury stock as on 1 January 2013 totalled 54,889 shares. The resolution passed at the annual shareholders' meeting on 12 May 2010 authorised the company to purchase treasury stock. On 11 November 2013, a decision was made to repurchase of 40,000 shares of treasury stock; between 11 November and 20 December 2013, 35,992 shares of treasury stock were repurchased at an average price of EUR 23.19. In 2012, the company acquired 2,200 shares at an average price of EUR 14.52. As part of an employee stock

ownership plan, 16,094 shares were transferred to employees in the 2013 financial year. These shares are subject to a vesting period of two years. Within the scope of the incentive scheme for members of the Managing Board, managing directors and key personnel in the first quarter of 2013, a total of 34,879 shares were transferred with a vesting period of five years. On 31 December 2013, there were consequently 39,918 shares of treasury stock.
The company's treasury stock was valued at acquisition cost at EUR 763k (2012: EUR 650k) and openly deducted from the equity capital. The total of 39,918 shares as of 31 December 2013 corresponds to an imputed share of EUR 39,918 (0.40 per cent) of the capital stock. The shares were repurchased at an average price of EUR 19.13 per share. The treasury stock was repurchased for use as consideration within the scope of business combinations and to acquire other companies or parts of companies or participations, or, where required, to open up additional capital markets or to issue them to employees and members of the Managing Board.

Surplus reserves and consolidated unappropriated profit

The surplus reserves and consolidated unappropriated profit in the amount of EUR 48,785 (2012: 44,718) includes the retained earnings of init AG and all results of the consolidated subsidiaries.

Other reserves

Difference from pension valuation: The actuarial gains and losses are recorded in this item without affecting the operating result.
Difference from currency conversion: This reserve is used to record differences due to converting the financial statements from foreign currencies into the reporting currency.

Capital management

The objective of capital management is to ensure financial flexibility for long-term business continuity and to secure strategic activities. Here, the init group focuses on securing liquidity, limit the financial risks and maintain the high equity ratio. The group shows a consistently high equity ratio over the last years. At the annual shareholders' meeting 2011, a resolution to create authorised capital of EUR 5,020,000 was passed.

31. 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 and bonds is the investment of the funds of the group. 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. In addition, init holds 25kg of gold to minimise the euro risk. Its value is subject to fluctuations because of valuation at its market price on the reporting date. The changes in value are reported in the income statement. There were no changes to the objectives or methods of financial risk management.
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, the change in the exchange rates constitutes a substantial risk. To eliminate this rate change risk, the group uses forward exchange transactions for all major business transactions if payment follows much later than the firm purchase or sale commitment. The hedges must be in the same currency as the underlying secured transaction. The group usually only enters into hedging transactions 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 a currency risk. The effects are determined by relating the hypothetical changes in the risk variables to the amount of financial assets and liabilities at the reporting date.
If the value of the euro relative to the foreign currencies reported by init on 31 December 2013 had appreciated by 10 per cent, the operating result would have been EUR 1,384k less. The resulting appreciation of forward exchange transactions would have totalled EUR 1,196k. As a counter-effect, it would also have resulted in expenses of EUR 2,580k owing to cash in banks, accounts receivable and liabilities. If, however, the value of the euro relative to all foreign currencies reported by init on 31 December 2013 had depreciated by 10 per cent, the operating result would have been EUR 1,222k higher. This breaks down as follows: EUR 1,358k to forward exchange transactions, compensated by appreciation of cash in banks, accounts receivable and liabilities at EUR 2,580k.
If the value of the euro relative to the foreign currencies reported by init on 31. December 2012 had appreciated by 10 per cent, the operating result would have been EUR 482k higher. The resulting appreciation of forward exchange transactions would have totalled EUR 3,131k. As a counter-effect, it would also have resulted in expenses of EUR 2,649k owing to cash in banks, accounts receivable and liabilities. If, however, the value of the euro relative to all foreign currencies reported by init on 31 December 2012 had depreciated by 10 per cent, the operating result would have been EUR 1,228k less. This breaks down as follows: EUR 3,877k to forward exchange transactions, partially compensated for by appreciation of cash in banks, accounts receivable and liabilities at EUR 2,649k.

Risk of default

The group does not have any material risk of default concentrations with the exception of the receivables from Dubai, for which an appropriate provision for risks was set up. This is due, on the one hand, to the fact that over 90 per cent of the orders are publicly subsidised and, on the other, to the fact that the orders are usually paid on account or billed on the basis of predefined performance progress. Furthermore, the accounts receivable are checked and/or dunned every fortnight for receipt of payment. Allowance for individual receivables is recognised when it is probable that the demands made will not be satisfied. The write-off a receivable against the already recognised impairment will be executed, when all possibilities for collecting the receivables are exhausted and these are considered as uncollectible. The losses of receivables outstanding for the 2013 financial year totalled EUR 0k (2012: EUR 66k).
All customers requesting transactions with the init group based on credit are subjected to a credit investigation. Since the group concludes transactions only with recognised, creditworthy third parties, it does not require collateral. 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.

Interest change risk

The interest change risk to which the group is exposed mainly relates to the variable interest rate borrowings to finance the properties at Kaeppelestrasse 8/8a and 10 and for the financing of the new building in Karlsruhe. Further risks can arise from interest rate changes for financial assets. The interest change risk does not have any significant impact on the assets, liabilities, earnings situation or financial position of the init group.

Liquidity risk

On 31 December 2013, the financial liabilities of the group had the following maturities. The particulars are based on contractual, non-discounted payments plus agreed or anticipated interest expenses (cash flows). In order to curb liquidity risks, the liquidity of the init group is controlled by the corporate headquarters. The main aim is to ensure a minimum liquidity of each company to ensure the solvency at all times. Our current projects provide the largest source of liquidity. In addition to these current revenues, the init group ensures its liquidity risk through appropriate lines of credit that can be drawn upon as needed.

EUR '000	Book value	2014	2015	2016–2018	> 2018
Non-derivative financial liabilities					
Other financial liabilities	20,824	11,604	1,495	4,399	4,438
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	68	68	0	0	0
Derivative financial assets	–875	–875	0	0	0
Total		**10,797**	**1,495**	**4,399**	**4,438**

The derivative financial liabilities result in payments totalling EUR 2,395k and payments receivable totalling EUR 2,327k.

As on 31 December 2012, the future cash flows from the financial liabilities were as follows:

EUR '000	Book value	2013	2014	2015–2017	> 2017
Non-derivative financial liabilities					
Other financial liabilities	11,873	7,458	436	1,375	3,168
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	218	218	0	0	0
Derivative financial assets	–810	–810	0	0	0
Total		**6,866**	**436**	**1,375**	**3,168**

The derivative financial liabilities result in payments totalling EUR 8,397k and payments receivable totalling EUR 8,179k.

32. Explanatory notes on the financial instruments

Classification and fair values

The following table states the book values of the financial instruments of the group reported in the balance sheet on 31 December 2013 compared to 31 December 2012 and shows their classification in appropriate measurement categories according to IAS 39.

EUR '000	2013	2012
ASSETS		
Loans and receivables	75,062	64,913
Cash and cash equivalents	25,446	20,329
Trade accounts receivable	17,170	18,068
Future receivables from production orders	31,933	25,893
Other assets (current)	376	430
Other assets (non-current)	137	193
Financial assets available for sale	153	157
Marketable securities and bond issues	153	157
Financial assets reported at fair value through profit or loss	875	810
Derivative financial assets	875	810
LIABILITIES		
Financial liabilities recognised at cost	20,824	11,873
Bank loans (current and non-current)	10,992	4,008
Trade accounts payable	8,948	5,183
Accounts payable due to related parties	55	102
Other liabilities (current)	153	1,868
Other liabilities (non-current)	676	712
Financial liabilities reported at fair value through profit or loss	68	218
Derivative financial liabilities	68	218

The fair value of the listed securities and bond issues (available for sale) was determined using their respective market value. The fair 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. Given the short maturities of the cash and cash equivalents, trade accounts receivable, other assets, trade accounts payable, and other liabilities, it is assumed that their fair value is equal to the book value.

Hierarchy of fair values to IFRS 13

The group uses the following hierarchy to determine and report the fair value:

Level 1: Quoted (unadjusted) prices for identical assets or liabilities in active markets.

Level 2: Techniques in which all input parameters with a material impact on the calculated fair value are directly or indirectly observable.

Level 3: Techniques using input parameters that have a material impact on the calculated fair value but which are not based on observable market data.

The following table shows the fair values of assets and liabilities, with the exception of those with book values are reasonable approximations of fair values:

EUR '000	Fair value as of 31/12/2013	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Investment property	6,432			6,432
Financial assets reported at fair value through profit or loss				
Derivative financial assets	875		875	
Financial assets available for sale				
Marketable securities and bond issues	153	153		
Financial liabilities reported at fair value through profit or loss				
Derivative financial liabilities	–68		–68	

EUR '000	Fair value as of 31/12/2012	Level 1	Level 2	Level 3
Financial assets reported at fair value through profit or loss				
Derivative financial assets	810		810	
Financial assets available for sale				
Marketable securities and bond issues	157	157		
Financial liabilities reported at fair value through profit or loss				
Derivative financial liabilities	–218		–218	

In the reporting period ending 31 December 2013 and the reporting period ending 31 December 2012, there were no reclassifications between the fair value categories of Level 1 and Level 2 nor any reclassifications into or out of the fair value category of Level 3.
Through a review of the classification (based on the lowest level input that is significant to the fair value measurement as a whole) of the acquired assets and liabilities is determined whether transfers between the levels have occurred at the end of each reporting period.
The measurement of fair value at Level 2 in the current financial year and the prior year is as follows: derivative financial instruments are determined by discounting the expected future cash flows over the remaining term of the contract at the closing rate.

The measurement of fair value at Level 3 in the current financial year is as follows: The fair value was determined using the discounted cash flow method, taking into account the following parameters: price developments, discount rate and sales value of the property.

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 Arabian dirham, US dollars, Canadian dollars and Great Britain pound from firm commitments. The following derivative financial instruments were concluded:

	Nominal value		Market values	
EUR '000	**31/12/2013**	31/12/2012	**31/12/2013**	31/12/2012
Forward exchange transactions	13,463	35,343	807	592

33. Contingencies and other liabilities

Operating lease liabilities – group as lessor

The group has entered into leasing agreements to let out its investment property for commercial usage. The investment property is comprised of office space and production halls not used by the group itself. The term to maturity on these non-terminable leases is four years at the end of 2013.
On 31 December, the following receivables existed for future minimum rental payments related to the non-terminable operating leases:

EUR '000	**2013**	2012
Up to one year	320	320
Longer than one year and up to five years	960	1,280
Total	**1,280**	**1,600**

Operating leases

The group has entered into leasing agreements for vehicles and other business and operating equipment. These leases have an average term of between three and four years and do not include extension options. The annual rental liabilities of the init group totalled EUR 1,686k, of which EUR 475k is 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 expenses of operating leases in the current financial year amount to EUR 1.8m (2012: EUR 1.8m).

The future minimum payments under these agreements extend to the year 2026 and amount to:

EUR '000	2013	2012
< 1 year	1,648	1,791
1-5 years	5,942	3,432
> 5 years	3,800	4,508
Total	**11,390**	**9,731**

Contingent liabilities

As in the previous year, there were no contingent liabilities on 31 December 2013.

Legal disputes

Within the scope of current business, init AG along with other group companies is involved in legal disputes that could have an impact on the financial situation of the group. Legal disputes are subject to many uncertainties, and the outcome of individual actions cannot be predicted with any certainty. To hedge against risks arising from such disputes, the relevant group companies have set up appropriate provisions in their balance sheets where the dispute concerns an event before the reporting date and where a liability is likely and its amount can be determined with sufficient accuracy.
Over and above this, these disputes are not, in our estimation, expected to have any significant sustained effect on the assets, liabilities, financial position and earnings situation of the init group.

Other disclosures

34. Additional notes on the Cash Flow Statement

The following incoming and outgoing payments are included in the cash flow from operating activities:

EUR '000	2013	2012
Interest expenses	–139	–291
Interest income	94	272
Income tax payments	–8,085	–5,856
Income tax receipts	87	0

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

Inflows from dividend distributions amounted to EUR 261k (2012: EUR 0k). Outflows for dividends totalled EUR 8,016k (2012: EUR 7,976k).

35. Related Party Transactions

The companies included in the consolidated financial statement and the associated companies are listed in the section on the consolidated group.

	Associated companies		Other related parties and persons	
EUR '000	**2013**	2012	**2013**	2012
Trade accounts receivable and other income	0	12	46	0
Trade accounts payable and other expenses	2,062	2,243	540	559
Receivables on 31 December	0	0	0	61
Payables on 31 December	55	108	40	0

Associated companies

The amounts due to related parties and persons relate to trade accounts payable against iris and have a remaining maturity of less than one year. The amounts are shown in the balance sheet under current liabilities.

Other related party transactions

init AG began renting an office building in Karlsruhe from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe on 1 March 2013 (lease previously held by INIT GmbH). The monthly rent payments are approximately EUR 40k (total annual rent: EUR 475k). The rent is contractually fixed until 30 June 2026. A rental deposit of EUR 61k was provided in 2012. Total payments of EUR 65k (2012: EUR 84k) made to family members of a Managing Board member were recognised under personnel expenses.

Terms and conditions of business transactions with related parties and persons

Sales to, and purchases from, related parties and persons are made under generally accepted market terms. There are no guarantees at all 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 financial year to 31 December 2013 (2012: EUR 0k).

Remuneration of persons in key management positions

The members of the Managing Board of init AG and the Managing Directors of INIT GmbH are seen as persons in key management positions. For details on their remuneration, please refer to item 40 of the notes.

36. Segment reporting

The corporate group has the following segments that are obliged to report:

1. The "Telematics and Electronic Fare Collection Systems" segment covers integrated systems for controlling local transport, fare collection systems, passenger information systems and passenger counting systems.
2. The category entitled "Other" encompasses planning systems (planning and data management systems), driver dispatch systems and automotive (analysis systems for the car industry).

Based on the products and services offered by the segments and for the purpose of managing the corporation, the corporate group is subdivided into the following four divisions: Telematics and Electronic Fare Collection Systems, Driver Dispatch Systems, Planning Systems and Automotive. The Planning Systems, Driver Dispatch Systems and Automotive divisions have been subsumed under the segment entitled "Other".

The management monitors the operating results separately for each division in order to make decisions on the distribution of resources and to estimate the profitability. The profitability is determined based on the operational result, which corresponds to the result indicated in the consolidated financial statements.

1 January to 31 December 2013

EUR '000	Telematics and Electronic Fare Collection Systems	Other	Eliminations	Consolidated
Revenues				
With third parties	94,633	5,487	0	100,120
With other segments	685	2,898	–3,583	0
Total revenues	**95,319**	**8,385**	**–3,583**	**100,120**
EBIT	**17,325**	**403**	**–3**	**17,725**
Segment assets	110,833	10,760	–3,280	118,313
Segment liabilities	54,769	4,711	–3,259	56,221
Interest income	129	3	–18	114
Interest expenses	267	54	–18	303
Scheduled depreciation	1,860	916	0	2,776
Cost of revenues	60,561	5,786	–3,683	62,664
Research and development costs	2,699	860	0	3,559
Foreign currency losses	–1,263	–37	8	–1,292
Share in profit of associated companies	270	0	0	270
Income tax	5,317	151	0	5,468
Value impairment	931	220	0	1,151
Interest in associated companies	1,888	0	0	1,888
Investments in tangible and intangible assets, and investment properties	4,426	81	0	4,507

1 January to 31 December 2012 EUR '000	Telematics and Electronic Fare Collection Systems	Other	Eliminations	Consolidated
Revenues				
With third parties	92,586	4,711	0	97,297
With other segments	754	3,130	–3,884	0
Total revenues	**93,340**	**7,841**	**–3,884**	**97,297**
EBIT	**17,265**	**49**	**4**	**17,318**
Segment assets	103,023	10,788	–3,359	110,452
Segment liabilities	51,496	4,538	–3,339	52,695
Interest income	322	6	–15	313
Interest expenses	462	31	–15	478
Scheduled depreciation	1,735	842	0	2,557
Cost of revenues	62,478	4,736	–3,923	63,291
Research and development costs	2,667	1,171	0	3,838
Foreign currency gains (+) and losses (-)	2,060	–5	–33	2,022
Share in profit of associated companies	261	0	0	261
Income tax	6,280	1	0	6,281
Value impairment	456	0	0	456
Interest in associated companies	1,879	0	0	1,879
Investments in tangible and intangible assets, and investment properties	9,285	222	0	9,507

In the Telematics and Electronic Fare Collection Systems segment, around 8.5 per cent of the entire revenue was generated with one customer.

Geographical information

In the consolidated 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).

Sales revenues 1/1 to 31/12 EUR '000	2013	%	2012	%
Germany	25,010	25.0	21,789	22.4
Rest of Europe	25,091	25.0	14,022	14.4
North America	41,731	41.7	46,698	48.0
Other countries (Australia, UAE)	8,288	8.3	14,788	15.2
Group total	**100,120**	**100.0**	**97,297**	**100.0**

The revenue information given above is based on the location of the customer.

Non-current assets 31/12 EUR '000	2013	%	2012	%
Germany	18,032	88.2	17,132	90.4
Rest of Europe	322	1.6	215	1.1
North America	1,892	9.3	1,356	7.2
Other countries (Australia, UAE)	187	0.9	246	1.3
Group total	**20,433**	**100.0**	**18,949**	**100.0**

The non-current assets consist of tangible assets, investment property, intangible assets and interests in associated companies.

37. Share-based remuneration

Employee shares

Based on the resolution of the Managing Board of 11 March 2013, published on 6 May 2013 (2012: 7 May 2012), shares of the company were offered as a form of profit sharing to all employees of init AG and of its subsidiaries. In December 2013, the employees entitled to subscribe (excluding the Managing Board, temporary staff, trainees and suchlike) each received 50 shares (December 2012: 50 shares) at a price of EUR 22.57 (December 2012: EUR 22.08) per share at the time of the issuance. The profit-sharing scheme was granted on a pro-rata basis to part-time employees and employees with less than one year at the company. To qualify, employees needed to be in permanent employment as of 31 December 2013. The shares are subject to a vesting period of two years from the time of transfer. A total of 16,094 shares were transferred (2012: 15,246).

At the date of publication of the Managing Board resolution, the fair value based on the market price of the equity instruments issued was EUR 401k (2012: EUR 274k). This amount was recorded as expenses.

Management bonuses in the form of stock

A further management bonus in the form of stock was granted to the five members of the Managing Board and the Managing Director of INIT Chesapeake from net profit exceeding EUR 10,000k before taxes and after deduction of all management bonuses and employee shares.

Where this amount is reached, each of the individuals above receives 2,500 shares. Each is granted a further 150 shares for every EUR 1m of additional profit. The number of bonus shares is limited to 6,000 or 10,000 shares per beneficiary. These shares are subject to a lock-up 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 in the form of shares, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board. In addition, key personnel and the managing directors of subsidiaries of the company are paid a bonus in the form of shares, the amount of which depends on the level of incoming orders and revenues. On the whole, 34,789 shares (2012: 32,592) with a lock-up period of five years were granted to the managing directors and to key personnel. The taxes relating to the share transfer are borne by the company.

On 31 December 2013, the valuation was based on 30,725 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 544k (EUR 23.21 per share) for the Managing Board and managing directors and to EUR 181k (EUR 24.95 per share) for key personnel; these amounts were recorded as expenses in 2013.

38. Events after the balance-sheet date

There were no events after the balance-sheet date that had any significant effect on the earnings, financial and assets position.

39. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

	2013	2012
Employees in Germany	347	325
Employees in rest of Europe	4	5
Employees in North America	72	67
Employees in other countries	18	14
Total	**441**	**411**

Managing Board

The following members make up the Managing Board of init AG:

Dr. Gottfried Greschner, Karlsruhe	Chief Executive Officer
Joachim Becker, Karlsruhe	Chief Operating Officer
Wolfgang Degen, Karlsruhe	Chief Operating Officer
Dr. Jürgen Greschner, Pfinztal	Chief Sales Officer
Bernhard Smolka, Karlsruhe	Chief Financial Officer

Dr. Gottfried Greschner is also a member of the advisory board of Stadtmarketing Karlsruhe GmbH, Karlsruhe as well as a member of the foundation board of Majolika-Stiftung für Kunst- und Kulturförderung Karlsruhe.

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 specialising in local public transportation
Dipl.-Kfm. Hans-Joachim Rühlig, Ostfildern, Vice-Chairman	Former Financial Managing Director of Ed. Züblin AG, Stuttgart
Drs. Hans Rat, Schoonhoven	Managing Director of Beaux Jardins B.V., Schoonhoven, Netherlands

40. Particulars of board member salaries

In their capacity as executives, the members of the Managing Board of init AG received remuneration of EUR 423k (2012: EUR 416k), and in their capacity as Managing Directors or departmental heads of INIT GmbH, included in the consolidated financial statements, they received remuneration of EUR 2,119k (2012: EUR 2,163k), thus totalling EUR 2,542k in the 2013 financial year (2012: EUR 2,579k). This total includes fixed salaries of EUR 1,533k (2012: EUR 1,574k), variable remuneration in the form of management bonuses of EUR 255k (2012: EUR 256k), and EUR 754k (2012: EUR 749k) in the form of shares, including the income tax payable for them.

In compliance with Section 315a (1) HGB (German Commercial Code) in conjunction with Section 314 (1) no. 6a sentences 5 to 8 HGB, the individualised disclosure of the Managing Board members' salaries can be withheld for a period of five years (Section 314 (2) sentence 2 in conjunction with Section 286 (5) HGB), which the shareholders' meeting on 24 May 2011 resolved to do.
The total remuneration of the Supervisory Board members for 2013 amounted to EUR 148k (2012: EUR 131k). This includes a variable share of EUR 76k (2012: EUR 59k) and is distributed as follows:

EUR '000	Fixed	Variable
Prof. Dr.-Ing. Dr.-Ing. E. h. Günter Girnau	36	38
Hans-Joachim Rühlig	18	19
Drs. Hans Rat	18	19

In the 2013 financial year, the members of the Supervisory Board received EUR 0k (2012: EUR 0k) for consulting activities.

41. Auditing firm

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Mannheim, received compensation for audits to the amount of EUR 174k (2012: EUR 135k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 8k (2012: EUR 33k). Certification and appraisal services incurred costs of EUR 0k (2012: EUR 0k), and other services, of EUR 0k (2012: EUR 10k).

42. 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 12 December 2013, and was made available to the shareholders on our website at www.initag.com.

43. Approval of consolidated financial statements

In the board meeting on 12 March 2014, the consolidated financial statements and the group status report of init AG drawn up by the Managing Board on 31 December 2013 were approved for forwarding to the Supervisory Board.

Karlsruhe, 12 March 2014

The Managing Board

Dr. Gottfried Greschner   Joachim Becker   Wolfgang Degen

Dr. Jürgen Greschner   Bernhard Smolka

Audit Opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

“We have audited the consolidated financial statements prepared by the the init innovation in traffic systems Aktiengesellschaft, Karlsruhe, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: “German Commercial Code”] and supplementary provisions of 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 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 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 IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and supplementary articles of incorporation and bylaws 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, 12 March 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Grathwol	Hällmeyer
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Annual Financial Statement of init AG

init innovation in traffic systems AG, Karlsruhe

The full annual financial statements of init AG are available on our website at www.initag.com or send an email to ir@initag.de.

Income Statement
for 2013 (HGB)

EUR '000	01/01 – 31/12/2013	01/01 – 31/12/2012
1. Revenues	5,954	5,207
2. Other operating income thereof from currency translations EUR 17k (2012: EUR 11k)	907	295
	6,861	5,502
3. Personnel expenses		
a. Salaries	1,925	1,908
b. Social security and expenditures for pensions and other benefits thereof for retirement benefits EUR 55k (2012: EUR 56k)	326	336
4. Depreciation on tangible fixed assets	122	59
5. Other operating expenses thereof expenses for currency translation EUR 130k (2012: EUR 20k)	2,514	2,056
	4,887	4,359
6. Income from investments thereof from affiliated companies EUR 3,250k (2012: EUR 0k)	3,250	0
7. Income from profit and loss transfer agreements	8,589	7,818
8. Other interest and similar income thereof from affiliated companies EUR 33k (2012: EUR 16k)	42	73
9. Depreciation on marketable securities and bonds	21	8
10. Interest and similar expenses thereof expenses from discounting EUR 5k (2012: EUR 5k)	73	92
	11,787	7,791
11. Profit from ordinary activities	13,761	8,934
12. Income taxes	2,970	3,530
13. Other taxes	18	5
	2,988	3,535
14. **Net profit**	**10,773**	5,399
15. Profit carried forward	8,601	11,218
16. Balance sheet profit	**19,374**	**16,617**

Balance Sheet
as of 31 December 2013 (HGB)

Assets EUR '000	31/12/2013	31/12/2012
A. Non-current assets		
I. Tangible fixed assets		
1. Land, land rights and buildings including buildings on third-party land	8,554	8,672
2. Deposits paid and facilities under construction	1,584	397
	10,138	9,069
II. Financial assets		
1. Interests in affiliated companies	26,495	26,274
2. Loans to affiliated companies	601	1,175
	27,096	27,449
	37,234	**36,518**
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	7,730	8,227
2. Other assets	242	292
	7,972	8,519
II. Securities		
Other securities	153	157
	153	157
III. Cash and cash equivalents, central bank balances, bank balances and cheques	8,012	2,252
	16,137	**10,928**
C. Prepaid expenses	**62**	**11**
	53,433	**47,457**

Liabilities EUR '000	31/12/2013	31/12/2012
A. Shareholders' equity		
I. Subscribed capital	10,040	10,040
./. Treasury shares	–40	–55
	10,000	9,985
II. Additional paid-in capital	10,860	10,489
III. Surplus reserve		
Other surplus reserve	644	772
IV. Balance sheet profit	19,374	16,617
	40,878	**37,863**
B. Provisions		
1. Provisions for pensions and similar obligations	134	125
2. Tax provisions	285	2,960
3. Other provisions	1,095	1,150
	1,514	**4,235**
C. Liabilities		
1. Bank loans	10,268	3,998
2. Trade accounts payable	33	128
3. Liabilities to affiliated companies	126	530
4. Other liabilities	614	703
thereof taxes EUR 40k (2012: EUR 277k)		
thereof for social security EUR 0k (2012: EUR 0k)		
	11,041	**5,359**
	53,433	**47,457**

Glossary

at equity method
The at equity method is an accounting technique for investments generally used when the investor in a corporation is able to exert significant influence over the operation and policies of the corporation (associated company). When using this method, the book value of the investment reflects the share of the company's increase/loss in retained earnings.

Buy America Act
A United States law that states that no funds may be used in an FTA (Federal Transit Administration) funded project unless all iron, steel, and manufactured products used in the project are produced in the United States. However, there are several waivers that apply to these general provisions. This is relevant for init because the vast majority of public transit infrastructure projects in the US are financed by FTA funding.

Calypso
is an international electronic ticketing standard for microprocessor contactless smart cards. It ensures multi-sources of compatible products and allows for interoperability between several transport operators in the same area. It is common in France and further European countries.

Clearing
Calculation and allocation of fares between different operators using common tickets like usual e.g. in transport networks.

Consolidated group
The consolidated group refers to the totality of all companies included in the consolidated financial statements.

COPILOTpc 2
An on-board computer based on the Windows® XP Embedded operating system. As a standard IT platform in the vehicle, it handles classic on-board computer functions. The interfaces also allow large data volumes to be sent quickly and securely from and to third-party systems. This innovative concept was developed by init specifically for use in the vehicle. It primarily provides transport companies with flexibility and a secure investment, while its modular concept means the system can be extended at any time.

EBIT
The EBIT indicates the Earnings Before Interest and Taxes.

E-ticketing/Electronic fare management
The e-ticket (electronic ticket) is a variant of electronic fare management. The ticket is stored in an encrypted format as a data record on a chip card. Using a contactless check-in/check-out system, this allows passengers to scan their chip card at the indicated point of the card reader when getting on or off the bus.

EVENDpc
The EVENDpc is a ticket printer with on-board computer function based on the Windows® XP Embedded operating system. It combines key on-board computer functions such as announcements and GSM communication in a single device and facilitates all forms of e-ticketing.

German Corporate Governance Code
The German Corporate Governance Code is a body of rules and standards for listed companies. Set up by a government commission of the German Ministry of Justice, its aim is to promote the principles of good and responsible corporate governance. The Code aims to make the rules and regulations for the management and supervision of companies in Germany transparent for both national and international investors.

IAS – International Accounting Standards
The IAS are international accounting standards that require transparent and comparable information in financial statements.

IFRS – International Financial Reporting Standards
IFRS are international accounting standards used beyond the European Union, which ensure comparable accounting and disclosure worldwide. The key objective of accounting is to provide decision-oriented information for a wide range of persons interested in the annual financial statements of a company, primarily for investors.

ITCS – Intermodal Transport Control System (also known as CAD/AVL)
The ITCS is a computer-aided, modular information and control instrument. It is the control centre of the transport company. The dispatcher monitors all operations at a glance at his workstation to allow prompt intervention in case of disruptions.

PoC – Percentage of Completion
PoC is a method of reporting income from long-term contracts based on the percentage of a contract completed during the reporting period.

TETRA
(Terrestrial trunked radio) is a standard for digital trunked radio. It allows for a high-performance, fail-safe speech- and radio communication.

VDV core application
A standard defined by the Association of German Transport Companies (VDV) for all types of electronic tickets in Germany. Its aim in the long run is to ensure that passengers throughout Germany are able to use all electronic fare management systems with a single medium (e. g. smart card).

Financial calendar

Date	Event
27 March 2014	Publication of 2013 Annual report and Press/Analyst conference in Frankfurt
9 May 2014	Publication of Q1 report 2014
15 May 2014	Annual General Meeting 2014, Kongresszentrum/Konzerthaus Karlsruhe
12 August 2014	Publication Q2 report 2014
13 November 2014	Publication Q3 report 2014
24–26 November 2014	Analyst conference, German Equity Forum, Frankfurt

Imprint

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Five-year financial summary of the init group
(IFRS)

EUR '000	**2013**	2012	2011	2010	2009
Balance Sheet (31/12)					
Balance sheet total	118,313	110,452	109,756	84,421	71,610
Shareholders' equity	62,092	57,757	56,938	46,667	38,977
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ratio (in %)	52.5	52.3	51.9	55.3	54.4
Return on equity (in %)	19.4	18.8	26.4	21.5	21.3
Non-current assets	28,198	27,603	19,806	13,484	14,297
Current assets	90,115	82,849	89,950	70,937	57,313
Income Statement (01/01–31/12)					
Revenues	100,120	97,297	88,736	80,913	64,955
Gross profit	37,456	34,006	36,294	27,292	23,037
EBIT	17,725	17,318	20,430	15,085	11,754
EBITDA	20,501	19,895	22,891	17,592	14,157
Consolidated net profit	12,068	10,872	15,057	10,014	8,314
Earnings per share (in EUR)	1.21	1.11	1.51	1.00	0.84
Dividend (in EUR)	0.80	0.80	0.80	0.60	0.30
Cash Flow					
Cash flow from operating activities	11,435	11,332	17,433	14,615	5,570
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	26.89	25.70	19.99	15.89	11.30
Bottom share price (in EUR)	21.15	13.60	13.06	9.15	4.75

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