



# init

innovation in traffic systems AG



Q3 2002 Report



*Overview*

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*Ladies and Gentlemen,*

The general downturn in the economy has now also reached the domestic market for traffic telematics, resulting in a logjam of tender invitations and order placements. Although init was still able to achieve numerous successes in Austria, Sweden and North America in recent months, our expectations in our main market in Germany were not realized due to the economically and politically induced hesitancy to invest on the part of public transportation operators. The resulting decline in demand was more than made up for by the surge in orders in Europe and the United States. On the whole, however, there was a shift in emphasis in new orders from fare management systems to operations control systems, which generally require a longer project duration, higher start-up costs and more customer-specific adaptations.

Against this background, init posted third-quarter sales of EUR 9.5 million (previous year: EUR 9.0 million). Total sales in the init Group in the first nine months of 2002 amounted to EUR 18.2 million, an increase of 11.7% year on year (EUR 16.3 million). The current drop in tender invitations in Germany and the shift in emphasis in new orders from fare management systems with short project times to telematics systems projects lasting significantly longer is resulting in a postponement of planned sales until the financial year 2003.

This development makes planning for the current financial year more difficult, but it will have a positive effect on 2003. As an established comprehensive supplier of innovative telematics systems and pioneering fare management systems, init will profit disproportionately from a revival of business in Germany.

Our growth continues to be driven by the rising need for environmentally conscious mobility, the impending collapse of transportation, the necessity for rationalization in public transportation and the trend toward cashless fare management systems.

*New orders up 29% against previous year*

Of particular significance in the third quarter was the order placed by Sweden's largest local public transportation network, AB StorStockholms Lokaltrafik. This order – at EUR 11 million the largest single order in the company's history – is for the equipping of 1,700 vehicles operated by the transportation network with a new generation of on-board computers by the end of 2004. These computers are a new development by init that is based on standard PC components and will be optimized especially for use in vehicles. The system integrates the complete application software along with a communications system for the central data transfer between the 24 depots and the buses using wireless LAN technology. init will also supply a system for passenger information in the vehicles. Moreover, the order includes options for the delivery of a computerized operations control system as well as additional hardware and software components. The leading Swedish local public transportation network aims to set new standards with the new generation of on-board computers developed by init. This new project in Stockholm is the fourth large order for init in Sweden. AB StorStockholms Lokaltrafik has been a customer since 1990.

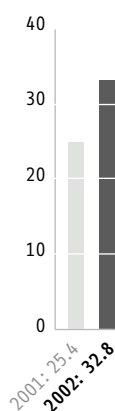
In addition to the growing business in Europe, init products also continue to meet with a steadily rising demand in North America, in particular our systems for counting passengers. Thus, we succeeded in obtaining a follow-up order in Montreal (Canada) as well as a new order in Portland, Oregon (USA). The combined volume of these two orders amounts to over EUR 1.2 million.

In the third quarter of 2002 alone, new orders totaled over EUR 14.0 million. This brought the total incoming orders up to September 30th to EUR 32.8 million, representing an increase of around 29% year on year (EUR 25.4 million). The orders on hand as of September 30, 2002, amounted to EUR 37.4 million and, thus, even topped the high level of EUR 36.5 million of the previous year. init remains a well-placed bidder in various tender processes. The value of the bids together with tenders already processed but not yet decided totals some EUR 20 million.

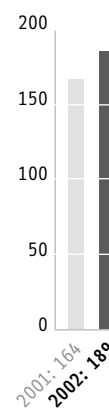
*Research and development at a high level*

The outstanding technological market position of init products is one of our major competitive strengths. In order to maintain and further enhance this status, our efforts in the field of research and development remain at a high level. In the second quarter we resolved to develop a new generation of onboard computers that will first be used in Stockholm. Excluding customer-specific developments, R&D expenditure including the capitalized software thus totaled around 9% of sales.

*Incoming orders  
Q1-Q3 in million €*



*Employees  
(permanent)*



*Number of Employees*

*(permanent, without back staff, temporary staff, trainees and apprentices) at the end of period*

	30.09.2002	30.09.2001
Germany	167	150
USA	22	14
<b>Total</b>	<b>189</b>	<b>164</b>

#### *Price development stable*

Purchase prices were kept largely stable or even reduced through the conclusion of master purchase agreements with our suppliers. However, we are concerned by the decline in the value of the U.S. Dollar against the Euro. We have hedged all existing orders through forward exchange transactions up to the end of 2004, so that the budgeted net earnings in the existing North American projects will be achieved and, thus, only a reduction in sales is to be expected. Since, however, the decline in the exchange rate can only partially be passed on in the form of higher prices, we must expect that the profit margins, which are currently higher than in Europe, will be significantly lower on future projects in the U.S. Against this background, we have intensified our efforts to build up suppliers for specific products in the U.S., so that receivables denominated in U.S. Dollars can be set off against payables in the same currency and manufacturing costs can be further reduced through internationalization of purchasing.

#### *Profitability and outlook*

Earnings (EBIT) of the init Group for the first nine months of 2002 improved compared to the mid-year figure to EUR -0.81 million but were still below the comparable figure for the previous year (EUR +0.91 million). Even if the periods are not entirely comparable due to increased expenses this year over the same period last year (company pension plans, employee shares, commissions, general meeting and software depreciation), this reflects, above all, the poor economic situation in Germany.

Due to the sluggish introduction of fare management systems by public transportation operators in Germany, incoming orders and sales were largely driven by the surge in business and the successful projects in Europe and the United States. However, these orders are mostly for computerized operations control systems usually requiring longer project times and more customer-specific adaptations. This also led to a marked increase in manufacturing costs. This shift in emphasis is resulting in a postponement of sales to the first two quarters of the financial year 2003 and beyond. For the financial year 2002, therefore, we anticipate only a slight rise in total sales against the previous year (EUR 31.1 million) and a return on sales before taxes of around 5% of sales.

The liquidity situation of init AG remains very comfortable. The existing orders alone will generate future liquidity for init of over EUR 40 million. As per the cut-off date of September 30, 2002, we had liquid funds in excess of EUR 6.4 million (previous year: EUR 4.7 million).

Karlsruhe, November 2002



Dr. Gottfried Greschner  
Chairman of the Board

*init shares –  
Under pressure in a weak market*

For our shareholders, too, the third quarter was the worst this year. While the Neuer Markt was laid to rest with much ado by the media as part of the reorganization of the stock markets by Deutsche Börse, the indexes again lost a considerable amount of value, taking the stock of init AG down with it. At the beginning of September, the price managed to rally slightly to EUR 6.90, only to sink to its lowest level since the beginning of the year. Nevertheless, the init share was able to achieve a value development that was clearly better than that of the Nemax All-Share Index at the end of period. Thus, looking back over the last years, init is still one of the most successful new issue on the Neuer Markt.

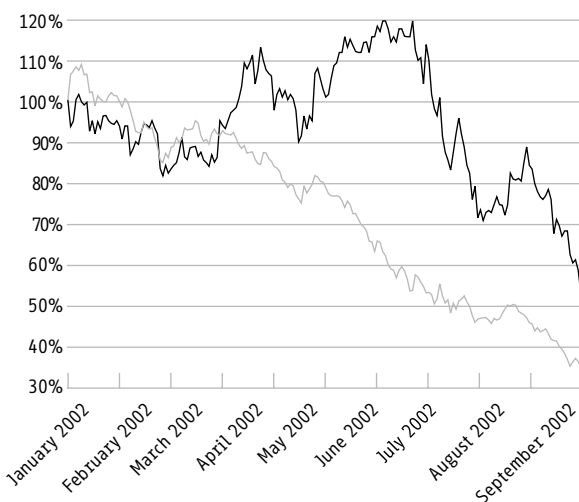
*Directors Holdings*

<i>Management Board</i>	<i>Number of shares</i>
Dr. Gottfried Greschner, CEO	3,837,812
Joachim Becker, COO	466,983
Wolfgang Degen, COO	138,364
Bernhard Smolka, CFO	9,600

*Supervisory Board*

Prof. Dr.-Ing. Dr.-Ing. E.h. Günter Girnau	–
Bernd Koch	–
Fariborz Khavand	–

*Performance Q1-Q3 2002*



— init - innovation in traffic systems AG  
 - - Nemax-All-Share

*Dr. Gottfried Greschner named  
“Entrepreneur of the Year 2002”*

In these dismal times on the stock market, we were still able to welcome an important award for init - innovation in traffic systems AG at the end of October. Our Managing Board chairman, founder and principal shareholder, Dr. Gottfried Greschner, was named “Entrepreneur of the Year 2002” in the category “Information Technology” in the business leaders’ competition initiated by the consultants and accountants Ernst & Young. Officially awarded at a ceremony in Frankfurt’s Alte Oper on October 23rd, the prize is for “exceptional entrepreneurs” and “outstanding entrepreneurial performance”. An independent jury of experts assessed the finalists based on the criteria of employee orientation, innovation, commitment of the entrepreneur and prospects for the future. Based on the results, winners were chosen in the categories Industry, Trade, Services, Information Technology and Start-ups. For us, this honor means even more incentive to achieve our corporate objectives and to continue to devote all our energy to the benefit of our investors, customers and employees.

*Company calendar 2003*

March 2003	Analysts- and press conference on financial statements Disclosure of 2002 annual report
Wk. 21/22	Disclosure of quarterly report
May 2003	General Meeting

*Your contact for Investor Relations*

Bernd Gorenflo  
 init - innovation in traffic systems AG  
 Käppelestraße 6  
 D-76131 Karlsruhe  
 Tel. +49-721 6100 358  
 Fax +49-721 6100 399  
 ir@initag.de

## *Notes to the interim report*

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

init AG was founded on August 2, 2000, and became the parent company of INIT GmbH in the first quarter of 2001. The consolidated group of init AG comprises INIT GmbH with 100% (Q3/2001 100%) and INIT Inc., USA, with 100% (Q3/2001 100%). INIT GmbH holds 43% of the shares of iris GmbH, Berlin, and 44% of the shares of id Systeme GmbH, Hamburg, which are consolidated "at equity". Under the terms of a purchase contracted dated June 15, 2001, init AG acquired 18% of the shares of INIT Inc., USA, and on August 9, 2001, purchased the remaining 82% of the shares of INIT Inc., USA, held by INIT GmbH.

Section 4 of the by-laws authorizes the Managing Board with the consent of the Supervisory Board to increase the capital stock by up to EUR 4 million through one or more issues of up to a maximum of 4,000,000 shares against cash or non-cash contributions by May 18, 2006. The Managing Board is also authorized with the consent of the Supervisory Board to exclude subscription rights in order, among other things, to issue up to 250,000 new shares as employee shares. On July 8, 2002, the Managing Board resolved to increase the capital stock by 40,000 shares. 34,526 shares were issued to existing and/or new employees of the company. The issue price was EUR 6 per share.

The shareholders' meeting on May 15, 2002, authorized the company to acquire its own shares. On September 11, 2002, the Managing Board resolved to repurchase up to 40,000 shares that are to be issued to employees and trainees of the company and its subsidiary as asset sharing in spring 2003. The stock held in treasury is valued at cost of acquisition (cost method) at EUR 144,000 and openly separated from equity. Of the present treasury stock of 25,474 shares, 5,474 shares derive from the capital increase and 20,000 from the share repurchase program. The repurchase was effected at an average price of EUR 5.56 per share.

**Consolidated balance sheet (US-GAAP)**  
with "as-if" comparison values of the previous year

Assets	30.09.2002	30.09.2001	31.12.2001
	T€	T€	T€
<b>Current assets</b>			
1. Cash and cash equivalents	1,856	4,714	3,888
2. Fixed-interest securities	4,586	1,534	2,560
3. Trade accounts receivable, net	9,828	5,697	6,460
4. Accounts receivable from related parties	42	27	15
5. Inventories	4,821	4,081	4,438
6. Deferred tax asset	2,182	1,823	994
7. Prepaid expenses and other current assets	1,282	1,130	845
	<b>24,597</b>	<b>19,006</b>	<b>19,200</b>
<b>Non-current assets</b>			
1. Tangible fixed assets, net	1,635	1,613	1,629
2. Internally generated software and other intangible assets, net	5,066	4,089	4,299
3. Goodwill, net	1,877	1,880	1,877
4. Financial investments	713	153	212
5. Loans	117	163	117
6. Deferred tax asset	29	4	29
7. Other assets	273	281	249
	<b>9,710</b>	<b>8,183</b>	<b>8,412</b>
	<b>34,307</b>	<b>27,189</b>	<b>27,612</b>

Liabilities and shareholders' equity	30.09.2002	30.09.2001	31.12.2001
	T€	T€	T€
<b>Current liabilities</b>			
1. Short-term debt and current portion of long-term debt	728	184	127
2. Trade accounts payable	1,552	3,127	2,215
3. Accounts payable due to related parties and persons	333	437	568
4. Advance payments received	5,552	2,868	1,553
5. Accrued expenses	2,305	1,416	1,175
6. Deferred tax liability	1,633	1,491	900
7. Prepaid expenses and other current liabilities	3,660	1,394	2,259
	<b>15,763</b>	<b>10,917</b>	<b>8,797</b>
<b>Non-current liabilities</b>			
1. Long-term debt after deduction of current portion	18	61	51
2. Deferred tax liability	1,507	607	1,427
3. Dormant partners capital	511	511	511
4. Pension accrued and similar obligations	741	659	669
	<b>2,777</b>	<b>1,838</b>	<b>2,658</b>
<b>Shareholders' equity</b>			
1. Subscribed capital (Shares without nominal value) Allowed: 14,000,000 shares Issued and floating: 10,040,000 shares	10,040	10,000	10,000
2. Additional paid-in capital	3,141	2,873	2,941
3. Treasury shares at cost (25,474 shares)	-144	0	0
4. Consolidated unappropriated profit	2,801	1,604	3,195
5. Other comprehensive income	-71	-43	21
	<b>15,767</b>	<b>14,434</b>	<b>16,157</b>
	<b>34,307</b>	<b>27,189</b>	<b>27,612</b>

**Consolidated statement of operations (US-GAAP)**  
with "as-if" comparison values of the previous year

	Q3 2002 01.07.02 to 30.09.02	Q3 2001 01.07.01 to 30.09.01	Q1-Q3 2002 01.01.02 to 30.09.02	Q1-Q3 2001 01.01.01 to 30.09.01
	T€	T€	T€	T€
1. Revenues	9,517	9,003	18,184	16,318
2. Cost of revenues	7,356	5,910	15,070	9,816
<b>Gross profit</b>	<b>2,161</b>	<b>3,093</b>	<b>3,114</b>	<b>6,502</b>
3. Selling and marketing expenses	728	508	2,325	1,504
4. General administrative expenses	579	501	1,721	2,220
5. Research and development expenses	126	746	642	1,909
6. Other operating income and expenses	-46	20	349	17
7. Depreciation and amortization of goodwill	0	3	0	9
<b>Operating profit/loss</b>	<b>682</b>	<b>1,355</b>	<b>-1,225</b>	<b>877</b>
8. Interest income and expenses	23	-3	50	-105
9. Income from investments accounted for by the equity method	28	22	190	38
10. Foreign currency exchange gains/losses	-294	-2	206	-2
11. Other income/expenses	15	0	22	0
<b>Profit/Loss before income tax and minority interests</b>	<b>454</b>	<b>1,372</b>	<b>-757</b>	<b>808</b>
12. Income tax	167	684	-363	415
13. Minority interests	0	24	0	0
<b>Net income/deficit</b>	<b>287</b>	<b>664</b>	<b>-394</b>	<b>393</b>
<i>Income per share (undiluted) in €</i>	<i>0.03</i>	<i>0.07</i>	<i>-0.04</i>	<i>0.04</i>
<i>Income per share (diluted) in €</i>	<i>0.03</i>	<i>0.07</i>	<i>-0.04</i>	<i>0.04</i>
<i>Average number of floating shares (undiluted)</i>	<i>10,036,444</i>	<i>10,000,000</i>	<i>10,012,148</i>	<i>10,000,000</i>
<i>Average number of floating shares (diluted)</i>	<i>10,036,444</i>	<i>10,000,000</i>	<i>10,012,148</i>	<i>10,000,000</i>

**Cash flow statement (US-GAAP)**

with "as-if" comparison values of the previous year

	Q1-Q3 2002 01.01.02 to 30.09.02	Q1-Q3 2001 01.01.01 to 30.09.01
	T€	T€
<b>Cash flow from operating activities</b>		
1. Profit/Deficit	-394	393
2. Transition of the deficit to the cash inflow from operating activities		
Depreciation and amortization	1,177	814
Gains/Loss from asset separation	-3	0
Increase in provisions and accruals	1,202	1,093
Change in inventories, trade accounts receivable and other assets, not provided by/used in investing or financing activities	-4,239	-3,418
Change in trade accounts payable and other liabilities, not provided by/used in investing or financing activities	4,503	1,395
Change in deferred taxes	-375	-446
Other income (invalid payment)	-190	0
Net cash provided by operating activities	1,681	-169
<b>Cash flow from investment activities</b>		
3. Investments in software development	-1,051	-1,781
4. Investments in tangible fixed assets and other intangible assets	-897	-2,856
5. Investments in financial assets	-311	24
Net cash used in investing activities	-2,259	-4,613
<b>Cash flow from financing activities</b>		
6. Proceeds from issuance of share capital	240	11,865
7. Payments-out for purchase of own shares	-144	0
8. Proceeds from taking up loans	568	0
9. Cash repayments of amounts borrowed	0	-2,774
Net cash provided by financing activities	664	9,091
10. Net effect of currency translation in cash and cash equivalents	-92	-16
Net change in cash and cash equivalents	-6	4,292
11. Cash and cash equivalents at beginning of period	6,448	421
Cash and cash equivalents at end of period	6,442	4,713

## Shareholders' Equity Trend Account (US-GAAP)

	Ordinary shares	Subscribed capital
	Amount	T€
Status by December 31, 2000	200,000	200
Issuance of shares for contribution in kind in Q1-Q2 2001	6,019,048	6,019
Revision item for the contribution in kind		
Issuance of shares for cash contribution in Q1-Q2 2001	1,780,952	1,781
Consolidated unappropriated profit Q1-Q2 2001		
Adjustment item for currency translation after deduction of T€ 0 tax		
Difference from pension evaluation after addition of T€ 1 tax		
Status by June 30, 2001	8,000,000	8,000
Issuance of shares for cash contribution in Q3 2001	2,000,000	2,000
Settlement of the IPO expenses		
Consolidated unappropriated profit Q3 2001		
Adjustment item for currency translation after deduction of T€ 0 tax		
Status by September 30, 2001	10,000,000	10,000
Settlement of the IPO expenses		
Consolidated unappropriated profit Q4 2001		
Adjustment item for currency translation after deduction of T€ 0 tax		
Difference from pension evaluation after deduction of T€ 2 tax		
Change in value of the marketable securities (available for sale) after deduction of T€ 9 tax		
Status by December 31, 2001	10,000,000	10,000
Consolidated unappropriated deficit Q1-Q2 2002		
Adjustment item for currency translation after deduction of T€ 0 tax		
Change in value of the marketable securities (available for sale) after deduction of T€ 12 tax		
Status by June 30, 2002	10,000,000	10,000
Issuance of shares for cash contribution in Q3 2002	40,000	40
Purchase of capital stock		
Consolidated profit Q3 2001		
Adjustment item for currency translation after deduction of T€ 0 tax		
Change in value of the marketable securities (available for sale) after deduction of T€ 26 tax		
Status by September 30, 2002	10,040,000	10,040

Other changes in Shareholders' Equity without effects on profit							
Additional paid-in capital	Consolidated unappropriated profit	Difference from pension evaluation	Difference from currency translation	Stock market valuation of securities	Treasury stock at cost	Total	
T€	T€	T€	T€	T€	T€	T€	
808	1,213	-42	16	0	0	2,195	6,019
-6,019						-6,019	
1,222						3,003	
	-273					-273	
			57			57	
		2				2	
-3,989	940	-40	73	0	0	4,984	
8,200						10,200	
-1,338						-1,338	
	664					664	
			-76			-76	
2,873	1,604	-40	-3	0	0	14,434	
68						68	
	1,591					1,591	
			55			55	
		-5				-5	
				14		14	
2,941	3,195	-45	52	14	0	16,157	
	-681					-681	
			-121			-121	
				18		18	
2,941	2,514	-45	-69	32	0	15,373	
200						240	
					-144	-144	
	287					287	
			-11			-11	
				22		22	
3,141	2,801	-45	-80	54	-144	15,767	

## Division reporting

	Q3 2002		Q2 2001		Q1-Q3 2002		Q1-Q2 2001	
	01.07.02		01.07.01		01.01.02		01.01.01	
	to 30.09.02		to 30.09.01		to 30.09.02		to 30.09.01	
	T€	%	T€	%	T€	%	T€	%
<b>Revenues</b>								
Mobile Telematics and Fare Management Systems	6,378	67.0	5,818	64.6	10,009	55.0	10,933	67.0
Telematics Software and services	3,139	33.0	3,185	35.4	8,175	45.0	5,385	33.0
<b>Total</b>	<b>9,517</b>	<b>100.0</b>	<b>9,003</b>	<b>100.0</b>	<b>18,184</b>	<b>100.0</b>	<b>16,318</b>	<b>100.0</b>
<b>Operating profit/loss</b>								
Mobile Telematics and Fare Management Systems	229	33.6	832	61.4	-2,071	169.1	2,116	241.3
Telematics Software and services	453	66.4	523	38.6	846	-69.1	-1,239	-141.3
<b>Total</b>	<b>682</b>	<b>100.0</b>	<b>1,355</b>	<b>100.0</b>	<b>-1,225</b>	<b>100.0</b>	<b>877</b>	<b>100.0</b>
<b>Amortization</b>								
Mobile Telematics and Fare Management Systems	114	31.4	254	70.8	391	33.2	512	62.9
Telematics Software and services	249	68.6	105	29.2	786	66.8	302	37.1
<b>Total</b>	<b>363</b>	<b>100.0</b>	<b>359</b>	<b>100.0</b>	<b>1,177</b>	<b>100.0</b>	<b>814</b>	<b>100.0</b>
<b>Tangible fixed assets</b>								
Mobile Telematics and Fare Management Systems	14	63.6	154	211.0	889	54.4	1,016	63.0
Telematics Software and services	8	36.4	-81	-111.0	746	45.6	597	37.0
<b>Total</b>	<b>22</b>	<b>100.0</b>	<b>73</b>	<b>100.0</b>	<b>1,635</b>	<b>100.0</b>	<b>1,613</b>	<b>100.0</b>
<b>Investments in tangible fixes assets and intangible assets exclusive software development</b>								
Mobile Telematics and Fare Management Systems	270	54.4	134	71.3	488	54.4	625	65.4
Telematics Software and services	226	45.6	54	28.7	409	45.6	331	34.6
<b>Total</b>	<b>496</b>	<b>100.0</b>	<b>188</b>	<b>100.0</b>	<b>897</b>	<b>100.0</b>	<b>956</b>	<b>100.0</b>

## Geographical arrangement

	T€	%	T€	%	T€	%	T€	%
<b>Revenues</b>								
Germany	6,111	64.2	7,128	79.2	11,849	65.2	12,887	79.0
Europe	77	0.8	1,331	14.8	1,811	10.0	2,621	16.1
North America	3,329	35.0	544	6.0	4,524	24.9	810	5.0
<b>Total</b>	<b>9,517</b>	<b>100.0</b>	<b>9,003</b>	<b>100.0</b>	<b>18,184</b>	<b>100.0</b>	<b>16,318</b>	<b>100.0</b>
<b>Tangible fixed assets</b>								
Germany	16	72.7	83	115.3	1,373	84.0	1,469	91.1
North America	6	27.3	-11	-15.3	262	16.0	144	8.9
<b>Total</b>	<b>22</b>	<b>100.0</b>	<b>72</b>	<b>100.0</b>	<b>1,635</b>	<b>100.0</b>	<b>1,613</b>	<b>100.0</b>



[info@initag.de](mailto:info@initag.de)  
[www.initag.de](http://www.initag.de)