Annual Report 2017

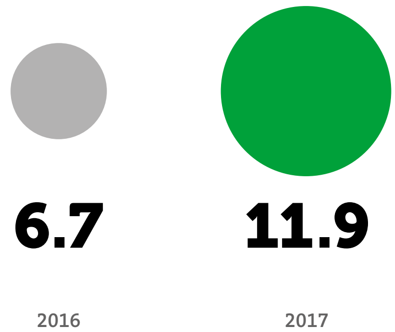
GROUP KEY FIGURES

Revenues 2017 in EUR m

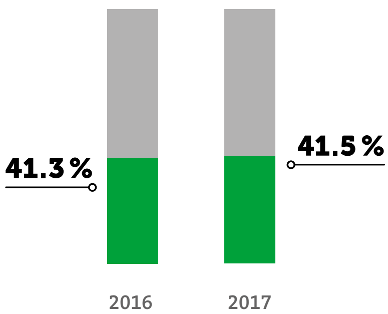
+ 20 %

130.6

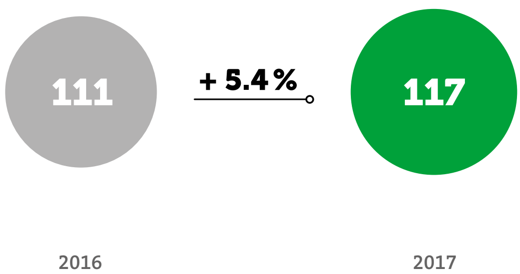
EBIT (adjusted) in EUR m



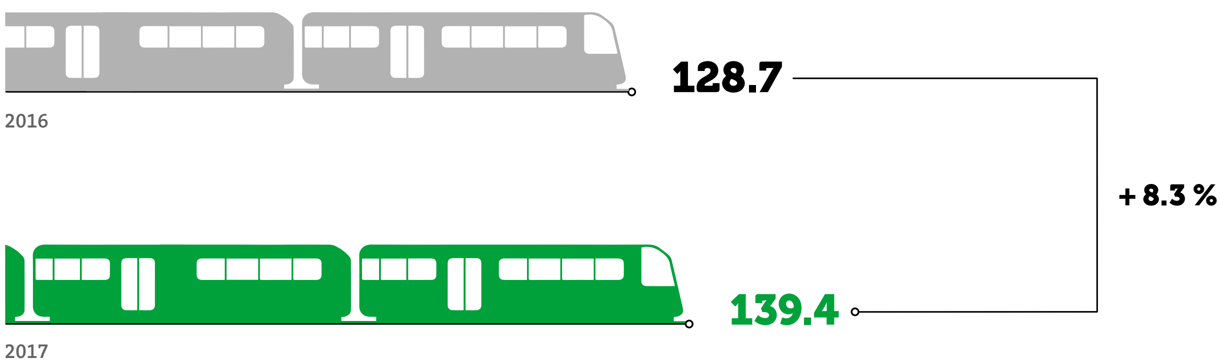
Equity ratio in %



Order volume in EUR m



Incoming orders in EUR m



CONTENT

TO THE SHAREHOLDERS

Dear readers,
Dear shareholders,

In the beginning the word was Industry 4.0, the interlinking of analogue production with modern information and communication technology. Today, we are on our way to Society 4.0, where everyone communicates with everyone, information is available and can be used in real time and new service offers that can be used 24/7 are constantly emerging.

Our market, intelligent system solutions for local public transport, is an important part of this new service society. Digitisation or Public Transport 4.0 is, therefore, a must for transport companies worldwide today if they want to be accepted and successful going forward. We, init innovation in traffic systems SE, will support them in this endeavour.

Digitisation has been a part of init's DNA since it was founded over 35 years ago. Even back then we developed and implemented demand-driven systems for buses. Today, these systems have been rediscovered to avoid gridlocks.

Over decades we have refined the corresponding technological solutions and adjusted them in cities like New York under extreme circumstances. init therefore has a big head start on new competitors and groups that are just discovering this market. Unlike them, we have the know-how, the hardware and software and the system competence required to quickly implement functioning solutions.

A decisive factor is the linkage of control and ticketing systems. Our electronic ticketing via apps and credit card systems with best price calculations and booking of all payment transactions also across multiple transport companies is currently growing far above average. Here we have strengthened our position with relevant acquisitions to leverage new potential for init.

Because we control the interfaces and can easily integrate all application areas, we are also becoming more of a partner for transport companies for the whole technical operation. To be able to meet the growing demand, we have positioned ourselves well here too. We set up a new division that is responsible exclusively for the operation of systems and, for example, also offers a 24/7 hotline service in three languages.

Electromobility and autonomous driving are further hallmarks of the ongoing technological revolution 4.0. This changes vehicle times and changeover times, reach, planning, optimisation and monitoring of traffic. This poses new challenges for the transport companies as well. We presented innovative products at the IT-Trans 2018 in Karlsruhe and are cooperating with a leading bus manufacturer to provide a breakthrough for autonomous driving at transport companies.

Innovations like this do not appear out of thin air. They come at a price because they require early investments in research and development as well as acquisitions in new production areas.

Our organisation mastered this task well in 2017 and finally even exceeded the projected budget for revenues, earnings and incoming orders.

We will have to strengthen our investments further in 2018 in order to maintain our technological edge and to fulfil the new requirements from our customers. However, we are confident that we will then be able to present you, our shareholders, with higher revenues and even better earnings once again.

Thank you for the trust you have placed in us!

For the Managing Board

Dr. Gottfried Greschner, CEO

init innovation in traffic systems SE

MANAGING BOARD OF INIT SE

Members in Office		Responsibilities
Dr. Ing. Gottfried Greschner (CEO) **Born 1946**	**since 1983** Managing Director at INIT GmbH **since 2001** Chief Executive Officer (CEO)	**Business Development, Strategy, Production and Purchasing**
Dipl.-Kfm. Dr. Jürgen Greschner (CSO) **Born 1961**	**since 2004** Managing Director at INIT GmbH **since 2004** Chief Sales Officer (CSO) **since 2015** Deputy Chief Executive Officer	**Sales and Marketing, Research and Technology, Projects and System Design, Support and Operations**
Dr. Hans Heribert Bäsch (CFO) **Born 1960**	**since July 2017** Chief Financial Officer (CFO)	**Accounting, Treasury, Controlling, Risk Management, M&A, Investor Relations, Human Resource, Compliance, Logistics**
Dipl.-Inform. Joachim Becker (COO) **Born 1956**	**since 2001** Managing Director at INIT GmbH **since 2001** Chief Operating Officer/Central Telematics and IT (COO)	**Real-Time Systems, Back-Office Operations, Mobility as a Service, IT**
Dipl.-Ing. (FH) Matthias Kühn (COO) **Born 1973**	**since 2015** Managing Director at INIT GmbH **since 2016** Chief Operating Officer/Telematics Devices and Ticketing (COO)	**Back-Office Ticketing, Telematic Devices, Maintenance and Installation**

The curriculum vitae of each Managing Board Member, containing detailed information, you will find on the website under Investor Relations / Corporate Governance.

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

init mastered many challenges in the previous financial year, and at the same time, set the course for a successful future. Trends such as digitisation, Internet of Things or the technical vision to integrate objects of all kinds into a universal digital network, and the offer of new mobility services encompassing all means of transport are changing our lives and require constant adjustments to the business model of init. Our organisation assumes an active role in its market and shapes the technological development in local public transport worldwide.

With init's products and services, revenues of the 2017 financial year were increased significantly through organic growth and due to acquisitions. The IT environment is in a stage of transformation. Despite that, through a committed and constructive teamwork of all employees of the organisation, the operating earnings compared to the previous-year adjusted EBIT were increased significantly. We expect this development to continue for the long term. Cash flow from operating activities, which was still unsatisfactory at the end of 2017, will also improve significantly in future.

With this report we would like to inform you about the activity of the Supervisory Board at init and make the deliberations and decisions in 2017 more transparent.

Last year, the Supervisory Board of init obtained regular, timely and comprehensive information from the Managing Board in order to fulfill its duty to advise the Managing Board and monitor its management of the business. This information was provided in the form of oral and written reports. The briefings and discussions at the Supervisory Board meetings involved all the important issues and measures pertaining to the company and its 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). At its final meeting, the Supervisory Board performed a self-evaluation of its efficiency in 2017. This focused on organizational issues, information for the Supervisory Board, human resources matters and how the members of the Supervisory Board perceived their role. The Supervisory Board took part in training measures.

The Chairman of the Supervisory Board and, for individual issues, the other members of the Supervisory Board, were constantly in 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 and its reports. Where statutory provisions or the articles of incorporation required the approval of the Supervisory Board for measures to be taken, these were always deliberated at the appropriate time and presented for a resolution.

The 2017 financial year was also characterised by personnel changes. Bernhard Smolka, CFO of init SE until 30 June 2017, stepped down from the Managing Board at his own request, but remains closely linked to the company as general manager of the largest operating entity, INIT GmbH.

The Supervisory Board would like to thank Bernhard Smolka for his successful work as CFO, in which he played a key role in the success of init since the IPO in July 2001, and is delighted that he will continue to shape the future of the company in a key role.

Dr Hans Heribert Bäsch, who has already been an ordinary member of the Managing Board since 1 May 2017, took over the role of CFO from Mr. Smolka from 1 July 2017. He holds a doctorate in business management and has many years of extensive experience in modern financial management and corporate governance from international groups and mid-market listed companies. Dr Bäsch already introduced himself in depth at the last Annual General Meeting.

MEETINGS OF THE SUPERVISORY BOARD

Meetings are convened at least once a quarter. In 2017 a total of five Supervisory Board meetings took place, one of which was a strategy meeting, as well as one workshop on the new EU Market Abuse Regulation. All Supervisory Board members were present at all meetings and at the workshop.

Based on the reports by the Managing Board, the following areas were discussed regularly in the Supervisory Board meetings: the economic situation including business and liquidity planning, order intake, order backlog, potential risks, compliance issues, legal disputes, key business transactions, projects of particular importance, critical subsidiaries, acquisitions, medium-term and long-term corporate strategy including organizational issues as well as human resources planning and development.

There was also a special focus on the following topics in the 2017 financial year:

- Foundation of the subsidiary in New Zealand (INIT Innovations in Transportation NZ Limited)
- Approval for init SE to take out a loan (KfW development bank program)
- Approval of new schedules of responsibilities for the Managing Board
- Approval for HanseCom Public Transport Ticketing Solutions GmbH to take out a loan
- Agreement of a share buyback
- Discussion of the annual and consolidated financial statements as well as of the 2016 dependent company report with the involvement of the auditor
- Adoption of the 2016 annual financial statements and approval of the 2016 consolidated financial statements as well as discussion of the proposal by the Managing Board for the appropriation of profit
- The quarterly statements and the half-year financial report for 2017
- Adoption of the proposals for resolutions for the agenda for the 2017 Annual General Meeting and of the report of the Supervisory Board for 2016
- Appointment of Dr Hans Heribert Bäsch as a member of the Managing Board of init SE and agreement on the request by Mr. Bernhard Smolka to step down from his position as a member of the Managing Board of init SE
- Resolution on the external audit engagement for the non-financial report (sustainability report)
- Examination of the relationship between Managing Board salaries and staff pay
- Approval of the proposal for a resolution on the Managing Board share bonus
- Adjustment of the fixed salaries of the Managing Board
- Determination of the targets for female representation on the Managing Board and Supervisory Board
- Approval of the Declaration of Compliance with the German Corporate Governance Code as amended 7 February 2017
- Implementation of the new data protection regulations
- Research projects

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

The annual financial statements and the combined management report of init innovation in traffic systems SE as of 31 December 2017 were prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements dated 31 December 2017 were prepared according to Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS) as adopted by the EU.

All these documents were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, appointed by the Annual General Meeting as auditor of init innovation in traffic systems SE and group auditor. They all received an unqualified audit opinion. The annual financial statements, combined management report, consolidated financial statements and audit reports were provided to all members of the Supervisory Board in good time.

The annual financial statements, combined management report and consolidated financial statements as well as the auditor's reports and audit reports were discussed in detail with the Managing Board and the auditor at the Supervisory Board meeting on 19/20 March 2018. The auditors responsible reported on the significant audit findings, in particular also on the key audit matters. For init SE, these were the revenue recognition from system contracts, the measurement of inventories and the measurement of shares in associated companies. In addition, the auditor reported on the internal control and risk management system in relation to the financial reporting process, on services rendered in addition to the audit and on its independence as defined in the statutory requirements. Detailed answers were given to questions raised by the members of the Supervisory Board. Based on this evidence and its own examination, the Supervisory Board came to the conclusion that the audit methodology used was reasonable and appropriate and that the figures and computations contained in the financial statements had been adequately tested and were consistent. No objections were raised. We therefore agree with the results of the audit. The annual financial statements of init innovation in traffic systems SE prepared by the Managing Board and the consolidated financial statements of the init group were approved; the annual financial statements of init innovation in traffic systems SE were therefore adopted.

The Managing Board has presented its proposal to the Supervisory Board for the appropriation of profits. Under the proposal, the following appropriation of the retained earnings of init SE of EUR 21,102,701.84 will be recommended at the Annual General Meeting on 16 May 2018: distribution of a sum total of 22 cents per dividend-bearing no-par value share. The remaining amount is to be carried forward. The Supervisory Board endorsed this proposal.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor, also audited the report on the relationships with affiliated companies ("dependent company report") prepared by the Managing Board in accordance with Section 312 of the German Stock Corporation Act (AktG). The auditor issued the following auditor's report 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 took note of the Managing Board's dependent company report and the results of the audit of the report by the auditor, examined both reports and discussed both results with the Managing Board and the auditor. The Supervisory Board endorsed the results of the audit of the dependent company report by the auditor. After the final results of the discussions and its own examination of the dependent company report, the Supervisory Board is of the opinion that the Managing Board's findings are relevant and it therefore raises no objections to the Managing Board's declaration at the end of the report.

The Supervisory Board also adopted the report of the Supervisory Board at its meeting on 19/20 March 2018.

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 from 7 February 2017 (published in the German Federal Gazette (Bundesanzeiger) on 24 April 2017) were taken into consideration. On 7 December 2017 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 in this annual report.

Should any changes be made to this Declaration of Compliance during the financial year, the Supervisory Board together with the Managing Board will immediately update this information and make it available to all shareholders on the website of init.

CONSOLIDATED NON-FINANCIAL REPORT

The Supervisory Board has reviewed the consolidated non-financial report, which was prepared in accordance with Section 315b HGB, according to Section 171 (1) AktG (German Stock Corporation Act). Additionally, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich was engaged for the audit of the consolidated non-financial report in accordance with ISAE 3000. They prepared a corresponding report, presented it to the Supervisory Board and orally informed the Supervisory Board of its activity. The Supervisory Board acknowledges the findings of the audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, and after reviewing it came to the conclusion that the consolidated non-financial report is in compliance with the relevant provisions and there are not objections to be made.

FINAL COMMENTS

The 2017 annual report for the shareholders was overhauled after agreement was reached between the Supervisory Board and the Managing Board and was reduced to the statutory components. Therefore, for the first time the annual report will no longer cover sustainability topics. Instead, there is a separate non-financial report on init SE's website in line with new statutory requirements.

Moreover, the Managing Board will publish a short report providing a clear view of key markets, projects, products and future topics. This will be published shortly on the company's website.

The Supervisory Board would like to thank all employees and the Managing Board for their personal contribution in 2017. Our thanks also go to our shareholders, customers and business partners for the trust they have placed in us.

Karlsruhe, March 2018

Hans-Joachim Rühlig

On behalf of the Supervisory Board

Dipl.-Kfm. Hans-Joachim Rühlig
Chairman

SUPERVISORY BOARD OF INIT SE

Members in Office		Other Supervisory Boards
Dipl.-Kfm. Hans-Joachim Rühlig, Chairman **Born 1948** **Ostfildern, Germany** **Independent Management Consultant**	Supervisory Board Member since 2011 Chairman since 2014 Elected until AGM 2019 Independent financial expert within the meaning of § 100 para 5 AktG Former Managing Board member of Ed. Züblin AG, Stuttgart/Germany	None
Dipl.-Ing. Ulrich Sieg, Deputy Chairman **Born 1949** **Jork, Germany** **Consulting Engineer specialised in Public Transport**	Supervisory Board Member since 2014 Deputy Chairman since 2016 Elected until AGM 2019 Former Deputy Chief Executive Officer and Managing Board member of Hamburger Hochbahn AG/Germany	Member of the Supervisory Board of SECURITAS Holding GmbH, Düsseldorf/Germany
Drs. Hans Rat **Member** **Born 1945** **Schoonhoven, Netherlands** **Honorary Secretary General of UITP, Managing Director of Beaux Jardins B.V., Schoonhoven, Netherlands**	Supervisory Board Member since 2012 Elected until AGM 2019 Former Secretary General of the International Association of Public Transport (UITP)	None

The curriculum vitae of each Supervisory Board Member you will find also on the website under Investor Relations / Corporate Governance.

CORPORATE GOVERNANCE REPORT

According to the principles of the German Corporate Governance Code applicable in Germany, corporate governance encompasses the company's entire management and supervision system. The Code aims to enhance the trust of national and international investors, customers, employees and the public in the management and supervision of listed companies. Efficient cooperation between the Managing Board and the Supervisory Board, respecting the interests of shareholders and openness and transparency in company communication are thus key aspects of good corporate governance.

In this report, init aims to provide a transparent and comprehensible picture of the principles of responsible and sound management ("corporate governance") applicable in Germany and of how they are put into practice at init.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

In compliance with the Section 161 of the German Stock Corporation Act (AktG), the Managing Board and the Supervisory Board of a listed stock corporation are required each year to declare compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the Federal Official Gazette and to disclose any deviation from these recommendations. The Declarations of Compliance with the Code are accessible on the company's website for a period of five years. Since the Code was introduced in 2002, our company has complied regularly with almost all its recommendations.

The Managing Board and Supervisory Board of init issued the most recent Declaration of Compliance pursuant to Section 161 AktG on 7 December 2017. The Declaration below relates to the Code version of 7 February 2017, which was published in the Federal Official Gazette on 24 April 2017. Owing to the size of the firm and company-specific features, the Managing Board and Supervisory Board declare that the recommendations have been and are adhered to 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 of init (item 3.8 para. 3 of the Code):

init does not believe that agreeing to an excess encourages the performance and motivation of the members of the Supervisory Board and the willingness to hold this office.

Managing Board

An age limit is not specified for members of the Managing Board (item 5.1.2 para. 2 of the Code):

init operates in a market that requires flexibility, special expertise and many years of experience. Therefore, age limits for members of the Managing Board are not considered by init to be in the company's interests.

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):

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 or time limit for membership 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).

When 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.

CORPORATE MANAGEMENT DECLARATION

The principles of responsible and sound management have guided the actions of the management and control bodies of init since its foundation. The division of responsibilities between the Annual General Meeting, the Managing Board and the Supervisory Board, as required by the German Stock Corporation Act and the articles of incorporation of our company, and the interaction between the different governing bodies are discussed below:

Managing Board

determines corporate objectives and strategic direction, reports to the Supervisory Board

The Managing Board is the management body of the listed European Company (Societas Europea, SE). 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 all key issues relating to the company's business development and risks and agrees corporate strategy with the Supervisory Board. Furthermore, it ensures that legal rules, official regulations and company-internal guidelines are adhered to, and works with the Supervisory Board with a view to ensuring that all employees of the group comply with them.

The Managing Board of init currently has five members, who together bear responsibility for overall business management. As a central part of managing the company, the Managing Board sets down the corporate goals and strategic direction of init, decides on questions of principle relating to business policy and determines the internal organisation of the company. It decides on appointments to management posts, with due consideration for diversity. More detailed rules are contained in particular in the rules of procedure of the Managing Board approved by the Supervisory Board

Unlike other companies, the Managing Board of init is very actively involved in the day-to-day operations of the respective company units and manages these. In keeping with the practices of responsible business management, it is therefore very close to the key reference groups of a company, its customers, suppliers and employees and its shareholders and investors. This enables it to react very quickly and directly to new situations.

The Managing Board convenes in regular meetings and, unless otherwise stipulated, passes decisions based on a simple majority of the votes cast.

Supervisory Board

appoints, monitors and advises the Managing 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. Aspects of diversity are considered when selecting members.

The Supervisory Board has laid down rules of procedure for itself and makes its decisions through resolutions that are adopted by a simple majority of the members of the Supervisory Board taking part in the vote.

In a self-assessment, the Supervisory Board regularly assesses the efficiency of its work.

The Supervisory Board of init comprises three members in accordance with the articles of incorporation. The Supervisory Board endeavours in its entirety to provide a competence profile that ensures that the Managing Board of init is supervised competently and given informed advice. The persons intended to be appointed to the Supervisory Board should provide assurance, based on their professional expertise and experience, their integrity, independence and personality, that they can responsibly carry out the tasks of a supervisory board member in a leading international technology firm for the mobility sector.

When appointing members to the Supervisory Board, potential conflicts of interest, the number of members of the Supervisory Board and diversity are likewise adequately taken into consideration. Because of the size of both the company and of the Supervisory Board of init, no Supervisory Board committees have hitherto been established. In their own estimation, the Supervisory Board members consider themselves to be independent within the meaning of item 5.4.2 of the Code.

The Supervisory Board is provided with timely, regular and comprehensive information about the company's business activities by the Chief Executive Officer. All members of the Managing Board must support the Chief Executive Officer in the performance of this duty.

The Supervisory Board convenes in regular meetings at least once a quarter and, unless otherwise stipulated, adopts decisions based on a simple majority of the votes cast. A resolution of the Supervisory Board adopted in writing by means of fax or e-mail, by telephone or using electronic means of communication or a combination of the above-mentioned means of communication is permitted in accordance with the articles of incorporation of init. Precise details on the form in which resolutions are adopted are determined by the Chairman. The Chairman of the Supervisory Board draws up a written record of resolutions.

Further details about the work of the Supervisory Board are provided in the "Report of the Supervisory Board" section of this Annual Report (on pages 7 to 10).

Working principles of the Managing Board and Supervisory Board

The Managing Board and Supervisory Board of init work together closely for the good of the company and its shareholders. This dual board system is a basic principle of German company law. It assigns executive management to the Managing Board and supervision to the Supervisory Board. Both boards are obliged to ensure the continued existence of the company and sustained value creation by the company in accordance with the principles of a social market economy. These principles demand legality as well as ethically based and responsible conduct.

The Managing Board regularly provides the Supervisory Board with timely and comprehensive information on all relevant issues of company management, business performance, the risk situation, risk management and compliance and agrees the company's strategic direction with the Supervisory Board.

Motions for resolutions and detailed written documents are provided to the Supervisory Board at least one week prior to its meeting.

Annual General Meeting and rights of shareholders

At the Annual General Meeting, shareholders exercise their rights, in particular their right to information, and use their voting rights. 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 and the Supervisory 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, subject to instructions. Each share carries one vote. To enable shareholders to prepare for the Annual General Meeting, the invitation, agenda and other information about the Annual General Meeting are available on the company's website. The voting results are also published on the website directly after the Annual General Meeting.

The Annual General Meeting of init is generally held within the first six months of the financial year. The Annual General Meeting is chaired by the Chairperson of the Supervisory Board. He or she determines the order of the agenda items and the type and form of voting. The Chairperson is empowered to place appropriate restriction on the right to ask questions and to speak for the entire Annual General Meeting, for individual agenda items and / or for individual speakers.

Transparency as a basic principle of communication

Consistent, comprehensive and timely information is a fundamental principle at init. For that reason, shareholders, investors, analysts, journalists and interested members of the public are informed transparently about the performance of the company in the respective financial year by means of press releases, capital market information, annual reports, half-year financial reports and quarterly statements in German and English.

At the time these documents are published, all the information also becomes available on the company's website and can be accessed there at any time. Furthermore, the Investor Relations team maintains a regular dialogue with capital market participants. In addition, shareholders and the public can find information about the organisational structure of init and about the members of the Managing Board and Supervisory Board on the website. The website includes a financial calendar covering all key dates.

Compliance and ethical guidelines

The Managing Board is obliged to ensure compliance with legal provisions and internal guidelines and to work towards ensuring compliance therewith by group companies. In addition to compliance with laws set down by legislators, it is important above all to anchor ethically and morally sound behaviour in the company's corporate culture.

As a result, compliance is an essential component of init's corporate values. With the rules of conduct that apply across the group, we want to protect employees and companies as well as clients, business partners and capital market participants. The ethical guidelines of init are available to employees as important guidance for the manner in which the company's vision and mission are put into action. As a basis for everything the company does, they create trust, credibility and transparency and serve to prevent infringements against legal requirements. This is a key factor in the success of the company.

In the ethical guidelines applicable to init, there are specific rules on matters such as corruption, granting and accepting benefits, on the documentation of business transactions as well as on the comprehensive, truthful and compliant passing on of information to employees, shareholders, the capital market, the media and other interest groups. The init ethical guidelines are published on the website at www.initse.com.

The ethical guidelines are handed over to the employees in the group companies in a timely manner, either when they join the company or already at the application stage. Furthermore, employees worldwide are informed about init's ethical guidelines at least once a year, through communication via the Intranet, email or in meetings.

As the majority of init's clients are public transport companies or associations in Germany and abroad, public order management and the formal procurement system in the public sector are of special significance. Public sector procurement is strongly structured and regulated by laws relating to procurement and protected through their regulations on competition, increased transparency and clarity of decisions. These regulations must be observed at all times by public sector clients as well as by bidders like init, from needs assessment through the tendering phase to awarding of contracts and order processing. Sensitivity in dealing with public sector clients is therefore an important principle for the business operations of the init group.

There is no centrally-managed compliance organisation at init. Rather, compliance topics are coordinated locally by the respective management as well as legal departments within the group. These flat hierarchies enable quick response to compliance cases. The init group has implemented a number of measures to strengthen the compliance organisation. The principle of dual control is one of the preventive and control measures in the organisation, which is included in an authorisation guideline for the entities. Besides, a whistleblowing system has been installed to enable employees, as well as customers, business partners and third parties to report non-compliant conduct, anonymously or personalised. The system immediately forwards every notification to the legal department or to the Managing Board, where it is reviewed and processed.

Accounting and auditing

The annual financial statements and the combined management report of init are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared according to Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS) as adopted by the EU.

Following their preparation by the Managing Board, the annual and consolidated financial statements are audited by the auditor as well as adopted by the Supervisory Board. The annual and consolidated financial statements 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. The Supervisory Board takes care to ensure the independence of the auditor and proposes an auditor for election by the Annual General Meeting.

On 24 May 2017, the Annual General Meeting of init passed a resolution to elect Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor and group auditor for the 2017 financial year, as proposed by the Supervisory Board. The individual auditors responsible at Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft are Mr Kresin and Mr Werling (since 1 October 2016). There is a regular change of auditors within the audit company.

Shareholdings of the Managing Board and the Supervisory Board

The members of the Managing Board indirectly or directly hold a total of 3,899,513 shares in the company as of 31 December 2017, which equates to 38.8 percent of the shares. The Supervisory Board of init does not hold any shares.

An individualised disclosure of the shares held by the members of the Managing Board is included in the notes to the consolidated financial statements.

Members of the Managing Board and of the Supervisory Board and persons closely associated with them are legally obliged, pursuant to Article 19 of Regulation (EU) No 596 / 2014 of the European Parliament and of the Council on market abuse (market abuse regulation), to reveal any transactions conducted on their own account relating to securities of the company if the total amount of the transactions conducted by the member and / or persons closely associated with him or her within a calendar year reach or exceed a total of EUR 5k. The transactions notified to init in the last financial year were duly published without delay. A list of the manager transactions notified in the 2017 financial year is available in the company register at www.unternehmensregister.de.

Remuneration of the Managing Board and Supervisory Board

The remuneration report is part of the combined management report and is published in this Annual Report starting on page 46.

The Annual General Meeting of init on 21 July 2016 decided with a three-quarters majority to omit individualised disclosure of the remuneration for Managing Board members for a period of five years.

Equal participation of women and men in management positions

Women are not currently represented on the Managing Board or the Supervisory Board of init, which means setting a target of zero is legally possible. The Supervisory Board thus once again set the target for the representation of women on the Supervisory Board and Managing Board at zero percent until 30 June 2022. However, it is possible that the Supervisory Board may consider a different target when filling any vacancy that arises unexpectedly and for future positions on the Supervisory Board and Managing Board.

The proportion of women at the first management level below the Managing Board is currently 50 percent on account of the restructuring within the group and the resulting rise in the number of persons at that level. At the second management level below the Managing Board, the proportion of women is still 80 percent. The Managing Board will therefore strive to ensure that the proportion of women does not fall below 30 percent at the first and second management levels below the Managing Board by 30 June 2022. This target was set in order to ensure sufficient flexibility in appointing suitable persons.

INIT SHARE

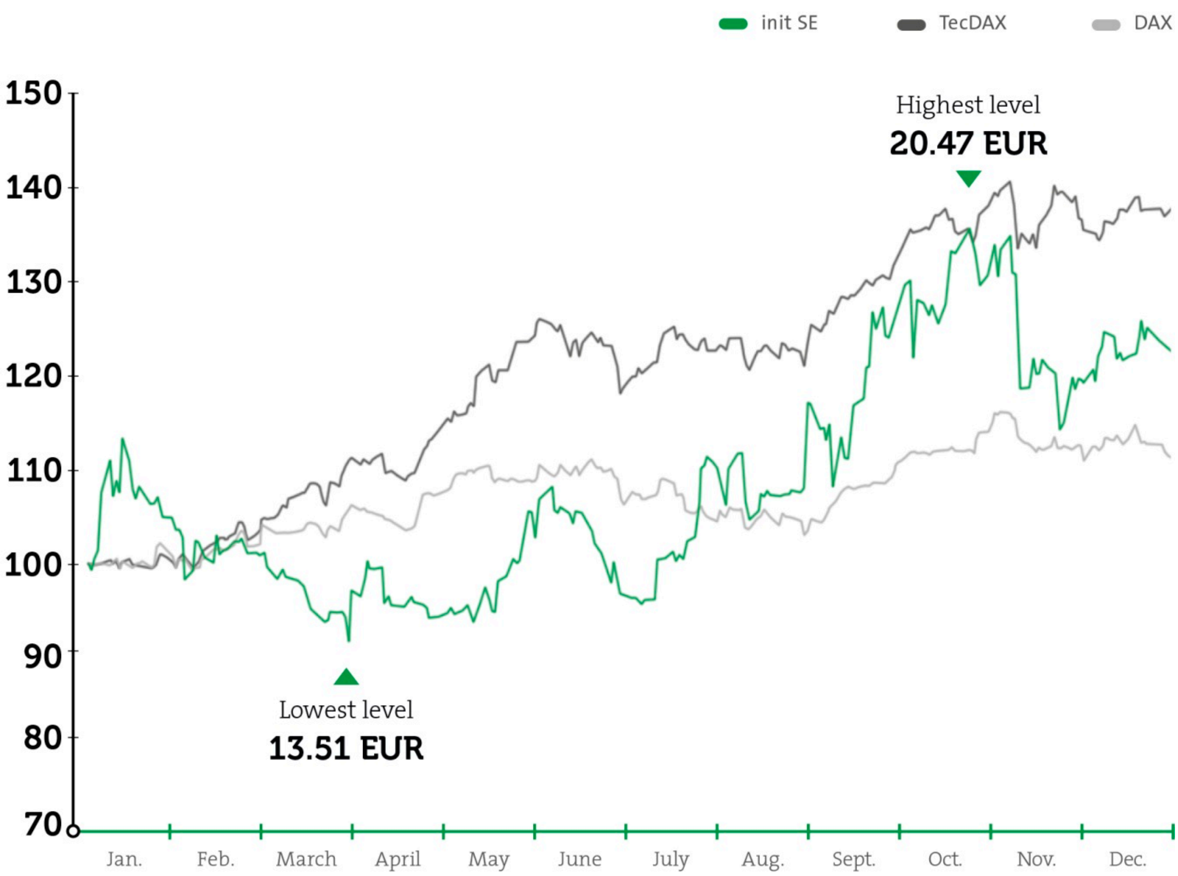
POSITIVE SURPRISE FROM THE STOCK MARKETS IN 2017 – INIT SHARE OUTPERFORMS THE DAX

2017 was a surprisingly positive year for the stock markets, especially for investors in shares. The shareholders of init innovation in traffic systems SE were among the winners, with both the authoritative share indexes and the init share recording strong overall price gains.

The capital markets continued to be shaped by new political and economic developments on the one hand and the continuing expansionary monetary policy of the central banks on the other. The influx of further liquidity beyond the European stock markets in particular on the back of surprisingly positive economic data despite heightened risk potential. For the markets, the outcome of the elections in the Netherlands, France and the UK was an indication of increased stability in the European Union.

This boosted investor confidence, which grew still further in the second half of the year, shored up by stronger-than-expected economic growth. Hopes for new impetus from the planned tax reform by the US administration as well as persistently strong demand for exports helped the key share indexes in Germany, Europe and the USA to reach record levels on several occasions.

Performance of the init share (02/01/2017–29/12/2017) (indexed)



AGM

16 May 2018

at the Congress Centre in Karlsruhe

For example, the main European shares rose in value by almost 10 per cent when measured against the EURO STOXX index for the year, while the German DAX share index gained 13 per cent and the TecDAX index for leading German technology stocks even grew in value by almost 40 per cent.

The price of the init share (ISIN DE0005759807) likewise climbed by over 22 per cent in 2017 overall, with growing demand from institutional and private investors in the second half of the year in particular. After dropping to its annual low of EUR 13.51 at the end of March, the init share climbed to EUR 16 by the end of July thanks to a turnaround driven initially by positive reports on order intake. After some isolated instances of profit taking, the share price rebounded strongly after further positive company reports as well as share purchases by our anchor shareholder.

As a consequence, the init share outperformed even the DAX, reaching an annual high of EUR 20.47 after the commencement of the share buyback plan announced on 18 October 2017. This was followed by a spate of profit taking and at year end the init share stood at EUR 18.30. The trend in the new year was more favourable and market analysts which keep an regular eye on init recommend the share as a Buy with a target share price of between EUR 22 and EUR 28.

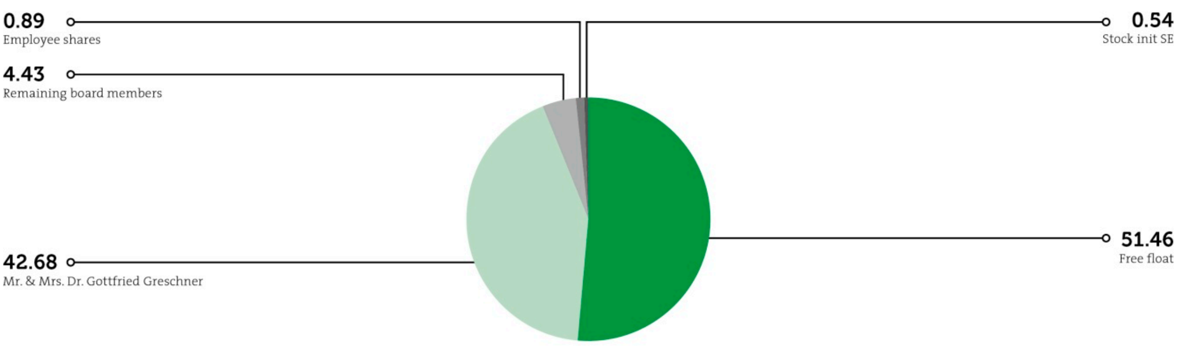
SHARE BUYBACK AND SHAREHOLDER STRUCTURE

In order to be equipped for existing and future employee stock ownership plans, incentive programs for executives or for acquisitions, the Managing Board of init innovation in traffic systems SE passed a resolution on 18 October 2017 to exercise the authorisation granted to it by the Annual General Meeting on 13 May 2015 (agenda topic 6) to purchase up to 35,000 treasury shares (pursuant to Section 71 (1) No. 8 of the German Stock Corporation Act (AktG)) for a total maximum purchase price of EUR 700k (excluding incidental expenses) on the stock exchange.

Accordingly, the company acquired a total of 35,000 treasury shares at a weighted average price of EUR 19.69 (excluding incidental expenses) in the period from 19 October 2017 up to and including 10 November 2017. The repurchased shares had a total value of EUR 689,290.24 (excluding incidental expenses). The acquisition of the no par value shares was carried out by Commerzbank AG, the bank commissioned by init, via the XETRA exchange. The number of shares repurchased corresponds to a share of 0.35 per cent of the capital stock of init innovation in traffic systems SE. The share buyback passed by resolution dated 18 October 2017 has thus been completed.

There are no significant changes in shareholder compared to the previous year:

Shareholder structure as of 31 December 2017 (in %)



INVESTOR RELATIONS

The guiding principles of init's corporate policy also include active dialogue with shareholders, capital market participants, analysts and the media. Once the relevant documents are published, all those interested can also find this information on the company's website. For questions relating to the init share, the Investor Relations (IR) team can be contacted by phone and the Investor Service can be reached via email (ir@initse.com).

init also presented itself to national and international investors at four capital market conferences and at the German equity forum. In addition, the IR team carried out a large number of one-on-one discussions and conference calls with national and international market participants. This contributed to a high level of acceptance of the init share. Measured in terms of average daily trading volume, liquidity remained at a high level. Alongside open and transparent communication with the stakeholders on the capital market, the goal of Investor Relations' work is to increase both the liquidity of the init share and the business value in relation to the share price.

STABLE DIVIDENDS

One of the decisive elements of the corporate policy of init innovation in traffic systems SE is to achieve a balance between a shareholder-friendly dividend policy and strengthening the substance of the company as a basis for future growth. Therefore, the Managing Board and the Supervisory Board proposed at the 2017 Annual General Meeting to increase the dividend by 10 per cent to EUR 0.22 (previous year: EUR 0.20) per dividend-entitled no-par value share. This was approved by the shareholders with a majority of 99.6 per cent for the capital stock of 67.8 per cent represented at the Annual General Meeting on 24 May 2017.

Because init plans investments in promising future growth areas also for **2018**, the Managing Board and the Supervisory Board have decided to propose a stable dividend of EUR 0.22 per dividend-entitled no-par value share at the Annual General Meeting planned for 16 May 2018.

0.22

EUR dividend

proposal to the AGM 2018

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	575980
Code	IXX
Designated sponsors	Commerzbank AG Oddo Seydler Bank AG
Capital stock	10,040,000 no-par bearer shares

Capital marked based figures	FY 2017	FY 2016
High (in EUR)	20.47	16.80
Low (in EUR)	13.51	12.60
Start price (in EUR)	14.88	16.15
Closing price (in EUR)	18.30	14.93
Market capitalisation (in EUR m)	184	150
Average daily trading volume (in shares)*	12,187	10,861
Dividend per common share (in EUR)**	**0.22	0.22
Earnings per share (in EUR)	0.37	0.86

*all German stock exchanges

**proposal to the next AGM

(source Bloomberg)

COMBINED MANAGEMENT REPORT

init innovation in traffic systems SE, Karlsruhe
(formerly init innovation in traffic systems AG)

GROUP PRINCIPLES

Group Business Model

Organisational structure of the group

The init group (hereinafter also referred to as init SE or init) is the world-leading provider of integrated planning, dispatching, telematics and ticketing solutions for buses and trains. For more than 30 years, init has been supporting transport companies in making public transport more attractive, faster, more punctual and efficient.

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 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.

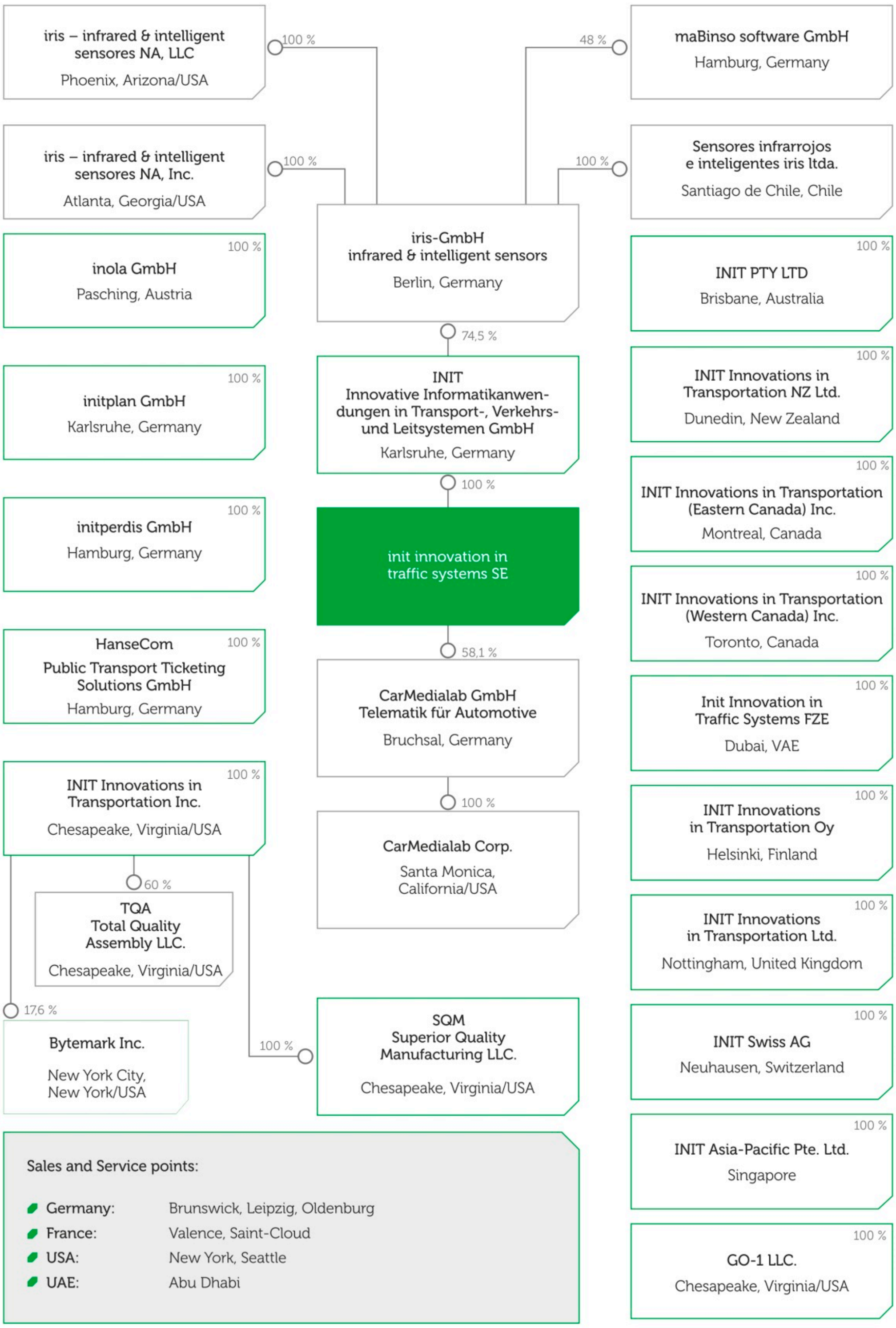
Furthermore, dioxide emissions that are harmful to the climate, environmental damage and conserve resources will be reduced. init's system solutions can put transport companies in a better position to meet society's growing mobility requirements and assert themselves in a competitive environment characterised by rationalisation and liberalisation.

The Annual General Meeting of init AG on 21 July 2016 resolved to convert the company into a European Company (Societas Europaea – SE). The conversion into an SE created a legal form that is recognised throughout Europe for the group holding company based in Germany as a basis for further international expansion is acomplished. The conversion was completed with the entry into the commercial register as of 9 March 2017.

As of 6 June 2017, INIT Innovations in Transportation NZ Ltd. was established in New Zealand in order to ensure proper on-site operation of the project.

Another change resulted from the investment by INIT Innovations in Transportation, Inc. with its registered office in Chesapeake (USA) in Bytemark Inc., New York (Bytemark) in November 2017. In September 2016, init acquired a 26.44 per cent share in Bytemark, recognising the investment at equity in the consolidated financial statements. Bytemark performed a capital increase in November 2017 in which init did not participate. Therefore, the share was diluted to 17.6 per cent. A further capital increase is planned for the second quarter of 2018. USD 13.0m will flow to the company through these two capital increases.

This year the init group management report was combined again with the management report of init innovation in traffic systems SE, Karlsruhe ("init SE") pursuant to Section 315 (5) of the German Commercial Code (HGB) in connection with Section 298 (2) HGB. The management report is therefore hereinafter referred to as the combined management report. The annual financial statements of init SE, which are drawn up in line with the provisions of the HGB and the combined management report are published simultaneously with the consolidated financial statements in the online edition of the German Federal Gazette (Bundesanzeiger).


iris – infrared & intelligent sensores NA, LLC
Phoenix, Arizona/USA
100 %
iris – infrared & intelligent sensores NA, Inc.
Atlanta, Georgia/USA
100 %
48 %
maBinso software GmbH
Hamburg, Germany
100 %
Sensores infrarrojos e inteligentes iris ltda.
Santiago de Chile, Chile
iris-GmbH infrared & intelligent sensors
Berlin, Germany
74,5 %
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH
Karlsruhe, Germany
100 %
init innovation in traffic systems SE
58,1 %
CarMedialab GmbH Telematik für Automotive
Bruchsal, Germany
100 %
CarMedialab Corp.
Santa Monica, California/USA
100 %
inola GmbH
Pasching, Austria
100 %
initplan GmbH
Karlsruhe, Germany
100 %
initperdis GmbH
Hamburg, Germany
100 %
HanseCom Public Transport Ticketing Solutions GmbH
Hamburg, Germany
100 %
INIT Innovations in Transportation Inc.
Chesapeake, Virginia/USA
60 %
TQA Total Quality Assembly LLC.
Chesapeake, Virginia/USA
17,6 %
Bytemark Inc.
New York City, New York/USA
100 %
SQM Superior Quality Manufacturing LLC.
Chesapeake, Virginia/USA
100 %
INIT PTY LTD
Brisbane, Australia
100 %
INIT Innovations in Transportation NZ Ltd.
Dunedin, New Zealand
100 %
INIT Innovations in Transportation (Eastern Canada) Inc.
Montreal, Canada
100 %
INIT Innovations in Transportation (Western Canada) Inc.
Toronto, Canada
100 %
Init Innovation in Traffic Systems FZE
Dubai, VAE
100 %
INIT Innovations in Transportation Oy
Helsinki, Finland
100 %
INIT Innovations in Transportation Ltd.
Nottingham, United Kingdom
100 %
INIT Swiss AG
Neuhausen, Switzerland
100 %
INIT Asia-Pacific Pte. Ltd.
Singapore
100 %
GO-1 LLC.
Chesapeake, Virginia/USA
Sales and Service points:
Germany: Brunswick, Leipzig, Oldenburg
France: Valence, Saint-Cloud
USA: New York, Seattle
UAE: Abu Dhabi

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 right through to serial production.

In order to meet the "Buy America" requirements in the US business, init also runs two small production operations in the USA. The company Superior Quality Manufacturing, LLC., Chesapeake, Virginia/USA ("SQM") produces various devices from the init product family and acts as a contract manufacturer of INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH, Karlsruhe ("INIT GmbH"). With Total Quality Assembly LLC., Chesapeake, Virginia/USA ("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 and reduce manufacturing costs while maintaining quality demands at a consistently high level. In order to keep production costs as low as possible, init concentrates on core development competences.

There are no dependencies on individual manufacturers or service providers. This generally allows init to switch suppliers quickly should a business partner be unavailable.

Key markets and competitive position

Our integrated solutions for planning, dispatching, telematics and electronic fare collection systems make us a partner to transport companies on four continents. init has successfully realised numerous projects for more than 600 domestic and international customers during a corporate history that spans more than 30 years. To this end, init operates a global network of subsidiaries that deliver local support for projects and look after customers.

The most significant operative units in Germany with a total of approximately 584 employees are located at the Karlsruhe, Berlin and Hamburg sites, where software and hardware are developed and new technologies implemented. In addition, the group's strategy is defined at the Karlsruhe location. The biggest group companies outside Germany are in North America, with a total of 100 employees, and in Dubai, United Arab Emirates, with 14 employees.

The core sales markets are Europe, North America, Australia and New Zealand as well as the Arab world. The regional distribution of revenue volume is heavily contingent on large-scale projects and varies accordingly from year to year.

init's modular product concept allows both an individual combination of single modules as well as integration of other systems and integration in third 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 market for planning, dispatching, telematics and ticketing solutions in public transport. init systems currently manage fleets comprising more than one hundred thousand vehicles around the world.

External influencing 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 and revenues. In the end, increased acceptance and use of public transport also results in a reduction of carbon dioxide and particulate matter emissions. In this way, the init group makes a direct contribution to environmental protection.

Population growth, increasing urbanisation and impending traffic gridlock are leading to growing public transport passenger numbers. In Germany, the Federal Administrative Court declared bans on certain diesel vehicles to be legal. The willingness to expand public transport is therefore growing in many countries and regions. In order to cope with the soaring demand for mobility and simultaneously avoid pollution, billions must be invested in intelligent traffic systems. Another current trend is hardware substitution and software modernisation of ageing 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 control, objectives and strategy

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

The corporate **control** of init group is managed via annual planning of revenues, earnings before interest and taxes (EBIT) and incoming orders, which are reviewed on a regular basis using plan/actual analyses. The insights revealed by these analyses are then used to prepare updated forecasts and develop corrective measures if necessary.

Incoming orders is an important indicator from which future revenues, growth and operating results are derived. Operating cash flow is another key performance indicator which indicates, whether init is able to generate cash surpluses from its operating business.

The overarching **objective** of the corporate policy is sustainable, profitable growth, and simultaneously ensuring solvency at all times.

Financial objectives

The init group's strategic objective is to continue increasing its revenues significantly with integrated systems over the next few years. Based on the order backlog and with the large number of existing and anticipated tenders, revenue growth should be generated again in 2018. We are aiming for a long-term average growth target of 10 per cent per year.

Based on the good order backlog at the beginning of the 2018 financial year and through further projected growth in new project business, maintenance and subsequent delivery business, we expect revenues between EUR 135m and EUR 145m for 2018. We expect EBIT for 2018 in the range of EUR 10m to EUR 12m.

Non-financial objectives

Customer satisfaction

Customer satisfaction is of pivotal importance at init. We achieve this through trust-based collaboration with our business partners and strict compliance with our quality principles: the technological edge, cost-effectiveness and reliability of our products and systems. We also set great store by delivery reliability from the customer's perspective and a commitment to service. We have set down the principles of our daily business dealings in our ethical guidelines.

A customer survey is carried out annually to check that these objectives are being met. The overall result of the 2017 customer survey reflects a constant level compared to the previous year.

Employee qualification and know-how

Well trained and entrepreneurially minded 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. Hence, more than 400 internal and external training measures took place in 2017.

Some 75 per cent of init's permanent employees have a university degree, particularly in the fields of information technology, electrotechnology, HF technology, physics, mathematics, industrial engineering, information technology, applied computer science, international business and business studies. init maintains very close contact with the Karlsruhe Institute of Technology (KIT) and universities of applied sciences in the Karlsruhe area in order to keep track of the latest technological developments and to identify technical changes early on. In this connection, we provide students with practical work in part-time positions and supervise theses at bachelor and master degree level as well as dissertations.

As a rule, new employees in the subsidiaries are sent on training visits to the group's headquarters in Germany to ensure they can also meet the customers' high demands on our technology locally. Conversely, employees from Germany also spend several weeks a year at the foreign subsidiaries, either within the scope of their training or in connection with ongoing projects, as a means of promoting communication and cooperation while simultaneously ensuring that the expertise flowing into individual projects, technologies and products is maintained at the same high level around the globe.

As a full-service provider, init develops, produces, integrates, installs and maintains hardware and software solutions for all important tasks within transport companies. Our **strategy**: init concentrates on innovative mobility concepts that secure a technological advantage for forward-looking transport companies to make their services more attractive, more efficient and faster.

Significant factors are:

- Innovation: 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.
- Thinking in systems: deployed autonomously or built into systems – our modular total solutions offer a maximum degree of flexibility during planning and operation.
- Investment security: 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 and actions. Customers thus become partners with whom we join forces 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, with more than 25 of these internationally. Our active participation in pioneering projects on four continents 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.

Group non-financial statement

Implementation of Directive 2014/95/EU of the EU (Reporting obligation for non-financial information) in German law requires capital market-oriented companies in Germany to publish annual reports related to environmental protection, social responsibility and treatment of employees, respect for human rights as well as anti-corruption and bribery from 2017 financial year onwards. For the 2017 financial year, init has submitted a group non-financial statement in accordance with Section 315b, 315c HGB, which was simultaneously published with the annual report in a separate group non-financial report on init's website at: www.initse.com/dede/investors/corporate-governance.

Research and Development

The research and development department plays a key role in the init group. On the one hand, technical innovations and developments on the market have to be observed in order to turn these into own innovative products at an early stage. On the other hand, 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.

Some 330 init hardware and software developers worked at the Karlsruhe, Braunschweig, Bruchsal, Hamburg, Berlin and Pasching sites in the 2017 financial year on new products and product concepts as well as on further developing existing products. In addition, numerous new customised software developments and interfaces were realised.

Overall in 2017, the init group spent a total of EUR 6.9m (previous year: EUR 5m) on the basic development of new products and the enhancement of existing ones independent from customers. This is 5.3 per cent (previous year: 4.6 per cent) of revenues. 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.

EUR 6.9 m

was spent on the basic development of new products.

To provide responses and solutions to future customer requirements at an early stage, init is further closely involved in research and funds research and sponsoring projects with a diverse focus.

Thus the MENDEL research project funded by BMWi is laying the foundation that at the end of the project in 2018, init products are ready to fulfill the requirements resulting from electromobility, and to ensure a smooth transition from conventionally-driven buses to electric buses from the perspective of the operation control system of transport companies.

As part of the iQMobility project, init has a cooperation with Scania and addresses questions related to autonomous vehicles. The current focus here is on the role distribution between driving and steering these vehicles, but tasks and activities beyond the control of the vehicle, carried out by the driver (e.g., ticket sales, social control on the passenger space) are also being investigated and considerations how these can be ensured in future are made.

The current results of EBSF and 3ibs projects are being continued in the course of the EBSF_2 project which is funded by the EU. Obtaining proof of interoperability of built-in computers and operating control systems by using open standard interfaces are at the forefront. Interoperability is to be proven by a field study in London.

In the INK 2016 project (and a first project at a transport company in south-east Asia), the results of the aim4it projects are being continued and gradually put into practice. Therefore, it is expected that at the beginning of 2019, init will be able to offer a usable solution for passengers with which they receive extensive and barrier-free information on traffic as well as communicate their wishes individually to the transport company. For example, reservations for connections or requests for help in boarding and alighting by the driver can be mentioned.

In other projects, init is currently working on application possibilities and product enhancements with the use of "artificial intelligence". In addition, on the one hand, efforts are being made to gain knowledge and insight into optimisation of traffic through the use of sensors (related to IOT = Internet of Things) and, on the other, to take into account the basic principles of data protection during entry of this additional data thus ensuring the privacy of the passengers (privacy by design).

ECONOMIC REPORT

General economic and sector-specific conditions

Despite numerous global challenges, the dynamics of the macroeconomic development in the previous financial year increased further. According to the International Monetary Fund (IMF, World Economic Outlook from 22 January 2018) the performance of the global economy in 2017 therefore may have increased by 3.7 per cent which is higher than expected. This was broad-based growth, however, there were positive surprises particularly in Europe and USA, the two key regions for init's future growth.

The economists of the IMF used this opportunity to revise their growth forecasts for 2018 and 2019 upwards by 0.2 percentage points to 3.9 per cent, respectively. They quoted the positive momentum of the global economy as a whole as well as the additional impetus from the recently passed tax reform in the US. However, this will presumably mainly spur the US economy and companies like init that produce in the US.

Risks that could endanger these positive expectations are mainly political and financial in nature. In addition to the possible intensification of the new global conflicts, particularly the increase in the interest rates with their negative effects on state budgets and investments may strain the economic environment in advanced economies as well as in emerging countries. Protectionist trends originating from the US may slow down the upward trend.

In 2017, around 120 countries worldwide recorded an increase in their gross domestic products (GDP). In industrialised countries, particularly the US and Germany, the two key markets for init products, the growth was stronger than expected. According to the findings of the IMF, the German economy recorded a 2.5 per cent stronger growth than the US economy at 2.3 per cent. However, this ranking is expected to reverse in the next two years, because the IMF raised its forecast for both countries by 0.4 to 0.6 percentage points to growth rates between 2.0 (Germany, 2019) and 2.7 per cent (USA, 2018). This also applies to Canada, another important target market for init so far, where the overall economic performance is now projected to grow at 2.3 per cent (2018) and 2.0 (2019), which is higher by 0.2 and 0.3 percentage points than the previous forecast.

The positive development especially in the second half of 2017 was characterised by the increase in world trade, investments and production in Asia. The key markets in emerging countries such as China, Brazil and South Africa also gained from the growth rates of up to 6.8 per cent (China) for the year as a whole. China and an even stronger India (estimated growth of 7.4 or 7.8 per cent) should stand at the top of the upswing in 2018 and 2019.

According to the economists of the IMF, the perspectives have also improved for Europe and especially for the eurozone, the key sales markets for init products. For 2018 and 2019, therefore, the projected growth rates were raised by 0.3 percentage points to 2.2 or 2.0 per cent, which is mainly attributable to the robust condition of the German economy.

For Asia, a future growth market for init, the economists are also more confident, where the growth in world trade and the increase in investments are expected to have a particularly inspiring effect. The growth forecast for Japan as well as for ASEAN member states was therefore raised significantly.

By contrast, the development in the UK is assessed to be more negative. BREXIT is expected to dampen the economy, therefore reducing the forecast for 2018 and 2019 to growth rates of 1.5 per cent (2017: 1.7 per cent).

Sector-specific developments

The further brightening of perspectives for the global economy also provide fertile ground for new developments in the transport sector. Provided other conditions remain unchanged, further resources should make more funds available for investments in the local public transport, therefore an increase in tenders is expected for 2018 and 2019. In particular in Germany, the new grand coalition plans to significantly strengthen the local public transport system and the rail infrastructure financially.

This applies equally to emerging economies as well as industrialised countries, both of which are seeing a trend towards urbanisation, that is, the influx of people into economically booming urban areas. This gives rise to an ever increasing number of mega cities. It marks accelerated population and economic growth, which demands corresponding investment in the infrastructure to ensure the proper functioning of economic and social systems.

Investments in the expansion of local public transport system, particularly in industrialised countries, must increase due to ecological reasons. Private transport increases the negative effect from particulate matter and greenhouse gas emissions. An ever-increasing number of investment programs are started to protect humans as well as the environment, which especially focus on the intelligent expansion of local public transport thus sustainably boosting the market for traffic telematics.

Furthermore, the consciousness to enable physically challenged people to participate in public life without barriers by enabling access to the public transport system is on the rise worldwide. The EU is planning to implement the "European Accessibility Act" in this context. Thus new service offers and "smart" technologies are required.

Especially innovations for the bus and rail traffic, which have always been init's core business, are in high demand. Besides, the rapidly progressing digitisation offers new growth potentials. It changes people's mobility behaviour and their requirements from transport operators. For example, special service providers can create individual packages for customers using apps, which tie in the transport facilities into a complete, optimum travel chain ("Mobility as a Service"). Better, more individual offers will not only lead to increased mobility overall but will also facilitate greater utilisation of public transport services, provided these can offer appropriate services.

That is why more and more transport operators go for a technology partner like init, in order to render comprehensive services – from planning through to technical operation to ticketing and settlement of the related cash flows.

The demand for an intelligent, multi-modular interlinking of all passenger transport providers is growing constantly, which init realises successfully together with public transport operators around the world. Thus in December 2017 in Karlsruhe, the headquarters of init SE, RegioMOVE was started, a worldwide flagship project designed to integrate all the existing mobility offers in the technology region of Karlsruhe, starting from rental bikes through to bus and train connections and an autonomously flying "volocopter" service in the future.

Trends like autonomous driving and electromobilty also require an efficient underlying system architecture with the possibility to integrate new partners and their data smoothly and promptly. This requires tried and tested planning, telematics and ticketing solutions. Other current growth areas are automatic passenger counting and – in response to the growing use of apps on smartphones – "smart ticketing".

On the other hand, the rapidly increasing demand for "mobility as a service" and the resulting new growth potential also gives rise to new competitors. These are often start-ups from related industry sectors such as automotive and software. The increase in competitiveness could come to the fore in the form of higher margin pressure in future tenders.

However, according to our assessment, currently the opportunities arising from new industry-specific developments outweigh the risks. Their realisation depends on the investment policy of the transport companies and the funds available.

init's key target markets in Germany, Europe and North America are characterised by the political willingness to provide additional amounts running into billions for an expansion of the infrastructure for local public transport. Moreover, in Germany – and also in other industrialised countries, there are discussions to make local public transport system free of cost for users. This would result in further investments, albeit with a higher burden for public budgets.

Business performance

Distribution of revenues in the init group also depends on the investment behaviour of the public transport companies. Traditionally it is spread unevenly over the financial year, with the first quarter as a rule being the weakest and the fourth quarter being the strongest in terms of revenues. This was once again confirmed in the past financial year.

The first quarter with revenues of around EUR 27.5m (Q1 2016: EUR 19.4m) was completely in line with our expectations.

The positive business development of the init group continued into the second quarter. The group generated overall revenues of EUR 30.8m (Q2 2016: EUR 22.4m). Revenues for the first six months thus increased year on year to EUR 58.3m (previous year: EUR 41.8m). The increase of EUR 16.5m (around 40 per cent) stems with EUR 8.6m from the acquisitions made in the second half of 2016.

In the third quarter, revenues of EUR 31.3m was generated (Q3 2016: 27.7m). In the first nine months of 2017, revenues in the init group was EUR 89.6m, which was around 29 per cent above the previous year's figure (EUR 69.5m). Of this increase in revenues EUR 13.5m was attributable to the acquisitions made in 2016 and EUR 6.6m to the entities in the group before the acquisitions. Even adjusted for the acquisitions, the EBIT increased to EUR 6.1m (Q1-Q3 2016, adjusted: EUR 2.1m).

In the fourth quarter of 2017 the init group achieved revenues of EUR 40.9m (Q4 2016: EUR 39.1m) and operating earnings before interest and taxes (EBIT) of EUR 3.8m (Q4 2016: EUR 4.8m). Adjusted for profit contribution from new acquisitions for one-off and currency effects, EBIT in the fourth quarter of 2017 comes to EUR 6.8m (Q4 2016: EUR 5.8m).

Therefore, we exceeded our revenue forecast of EUR 120m thanks to a clear operational improvement of the group business.

Net assets, financial position and results of operations

Results of operations

For the year as a whole, the init group reported a new **revenue record** at EUR 130.6m (previous year: EUR 108.6m) and thus exceeded the budget of around EUR 120m. This translates into growth of EUR 22.0m or 20 per cent and therefore, lies after a weak previous year, even above-average on the long-term average. EUR 10m (45 per cent) of the increase is attributable to the core business and EUR 12m (55 per cent) to the first-time inclusion of new acquisitions over the whole year.

The EBIT margin in the group is 6.6 per cent (previous year: 10.7 per cent). EBIT-margin adjusted for profit contributions from the new acquisitions as well as for one-off and currency effects is to 9.1 per cent (previous year: 6.2 per cent).

A share of 72.6 per cent of total revenue was generated outside Germany (previous year: 61.5 per cent). North America was the strongest market in the reporting period, where revenues increased to EUR 46.5m (previous year: EUR 41.0m).

Revenues in Germany decreased year-on-year. At EUR 35.8m (previous year: EUR 41,8m) this was below the previous-year figure because some major projects were already completed to a large extent in the previous year.

In the other countries (UAE, Australia and New Zealand) by contrast, a significant year-on-year increase in revenues was recorded. In the reporting period, revenues for these countries increased from EUR 3.8m in 2016 to EUR 12.8m. This is mainly attributable to the two new contracts won in the UAE and New Zealand.

In Europe (without Germany), revenues increased and stands at EUR 35.5m (previous year: EUR 22.0m). Essentially this was due to the good progress made in completing ongoing major projects in Birmingham and Luxembourg and to high follow-up deliveries.

EUR 130.6m

the init group achieved a new revenue record in the previous financial year.

At EUR 8.6m, the **EBIT** exceeded our expectations which were in the range of EUR 5m to EUR 7m. This is below the previous-year figure of EUR 11.7m, which is however mainly attributable to the one-off effect of around EUR 4.7m on the earnings of 2016 from the write-up of old shares in iris-GmbH. Adjusted for profit contributions from new acquisitions by one-off and currency effects, the EBIT comparison is as follows:

Comparison of adjusted EBIT

In EUR m	01/01 to 31/12/2017	01/01 to 31/12/2016
EBIT according to income statement	8.6	11.7
One-off effects	1.6	-4.7
Profit contribution from new acquisitions	1.5	0.8
Currency effects	0.2	-1.1
Adjusted EBIT	**11.9**	6.7

Therefore, the EBIT adjusted for special effects increased from EUR 6.7m in the previous year to EUR 11.9m in the reporting period (up EUR 5.2m or 77.6 per cent). Adjusted EBIT margin came to 9.1 per cent (previous year: 6.2 per cent).

The return on equity (EBIT divided by reported equity) without taking into consideration the special effects comes to 11.7 per cent (previous year: 15.3 per cent). The return on capital adjusted for special effects is 16.2 per cent (previous year: 8.8 per cent).

Gross profit increased by EUR 11.4m to EUR 42.7m (previous year: EUR 31.3m), which corresponds to an increase of 36.7 per cent (previous year: -1.8 per cent).

The sales and marketing expenses increased year on year by EUR 2,9m or 22 per cent to EUR 16.1m.

The general administrative expenses increased year on year by EUR 2,2m or 26 per cent to EUR 10.7m. The comparably steep increase in sales and marketing expenses and general administrative expenses results from the first-time fully year consolidation of new acquisitions.

Other operating income remained virtually constant at EUR 2.0m (previous year: EUR 1.9m) and mainly results from rental income, public grants, income from value adjustments on receivables and benefits in kind.

The **foreign currency losses** of EUR 0.2m (previous year: foreign currency gains of EUR 1.1m) were chiefly comprised of negative effects from the balance of unrealised gains and unrealised losses from the valuation of receivables in foreign currencies. Net result of currency hedging transactions had a countervailing effect.

Net interest income (balance of interest income and interest expense) totalled EUR -0.7m (previous year: EUR -0.5m) and resulted mainly from the property financing in Karlsruhe and Chesapeake, the share of interest on the pension provisions, the current purchase option for the remaining shares of iris-GmbH and from the euro loans taken out during the year.

At EUR 3.6m, **net profit** was down on the previous year by EUR 5.0m (previous year: EUR 8.6m). A positive special effect of EUR 4.7m from the upward revaluation of the previous interests in iris-GmbH was included in 2016 and one-off negative special effects of EUR 1.6m are included in the reporting period. Earnings per share comes to EUR 0.37 (previous year: EUR 0.86). At 53.6 per cent (previous year: 22.9 per cent) the tax rate is significantly above the previous-year level. This is particularly attributable to non-deductible write-down of shares in Bytemark.

Total comprehensive income fell from EUR 8.3m in 2016 to EUR -0.6m in 2017. The decline mainly resulted from higher unrealised currency effects of EUR -4.1m (previous year: gains of EUR 1.1m) and from significantly lower consolidated net income compared to the previous year. For further details, please refer to our statement of comprehensive income.

Multi-period overview of the earnings position

Financial year In EUR m	2012	2013	2014	2015	2016	**2017**
Revenue	97.3	100.1	103.0	105.3	108.6	130.6
Gross profit	34.0	37.5	36.6	31.8	31.3	42.7
EBIT	17.3	17.7	18.7	10.8	11.7	8.6
Consolidated net income/net loss for the year	10.9	12.1	12.1	7.6	8.6	3.6

Incoming orders

In financial year 2017, incoming orders exceeded our expectations and were above the previous-year level. This was the result both of a higher volume of tenders and of more contracts being awarded in our favour once again. The Managing Board had projected incoming orders of EUR 120m to EUR 130m for 2017. Overall, incoming orders at EUR 139.4m (previous year: EUR 128.7m), reached their second-highest level in the company's history.

EUR 139.4 m

Incoming orders in 2017 reached their second-highest level in the company's history.

38.5 per cent of orders were generated in the North American market. Of the other incoming orders, 33.9 per cent were from Germany, 21.2 per cent from Europe and 6.4 per cent from other countries.

In 2017, as in the previous year, a number of new orders in the single-digit million range were received and an increasing number of ticketing orders was recorded. In addition, several large-scale orders were received in the reporting period.

Incoming orders in North America came to approximately USD 60m. This comprises numerous small and medium projects; worth mentioning are the orders from Orange County Transportation Authority (OCTA) and from our regular customer in Albany. OCTA has engaged init to assume the installation of the passenger terminal and a ticketing background system. 556 vehicles will be equipped with the PROXmobil3 passenger terminal, which is capable of accepting Open Payment transactions as well. As part of the order in Albany, the existing operation control system will be developed further into a cloud-based system, the automatic passenger counting system will be updated and passenger infotainment displays will be integrated into numerous stops as well as in buses. The order value of both projects lies in the single-digit million range.

In Germany, incoming orders totalled EUR 47.2m. Orders were received for a number of small and medium-sized projects. Of particular note is the new telematics and payment system of the Hamburg-Holstein GmbH public transport company (VHH). 600 buses and 154 bus routes will constitute a pioneering mobility system in mid-2019. The order volume lies in the lower double-digit million range.

Incoming orders in Europe totalled EUR 29.6m and were driven by many small new projects as well as by follow-up orders and follow-on work.

Incoming orders in other countries more than doubled and came to EUR 9.0m. The order from New Zealand is worth special mention. Nine regions have set the target to build and commission the most modern ticketing system of New Zealand in 2018. 444 buses, 23 bus depots, 54 stationary and many mobile sales outlets will be equipped with new hardware and software. Besides, init will not only assume the whole data management, but also the financial processing through to settlement of sales revenues between individual public transport companies. The order is worth several million euros.

EUR 117.0m

Order backlog at year-end amounted to EUR 117.0m.

The order backlog at year-end amounted to EUR 117.0m (previous year: EUR 111.4m). We expect that approximately 70 per cent of revenues in 2018 will result from processing this order backlog.

Internationally, our market is still characterised by a large number of new tenders. Additionally, our long-term customer relationships secure a stable business base for init, as they normally lead to follow-up orders and maintenance contracts. We recorded incoming orders of more than EUR 50m in 2017 as a result of additional deliveries, maintenance contracts and order extensions alone.

Financial position

As in the previous year, the init group's financial position in financial year 2017 can be described as solid.

Capital structure

Liabilities to banks as of 31 December 2017 amounted to EUR 42.2m (previous year: EUR 35.3m) and mainly relate to real estate and acquisition financing as well as euro loans taken out to increase financial flexibility. Project delays may lead to delayed payments because the milestones are accepted by the customer at a later date. The non-current portion results from the real estate financing of Käppelestr. 4, 4a, 8, 8a and 10 of EUR 4.1m (previous year: EUR 5.5m), from real estate financing for the new facility in the US of EUR 5.7m (previous year: EUR 2.8m) and from acquisition financing of EUR 5.3m (previous year: EUR 7.3m) as well as from further investment and project loans of EUR 2.4m. The loans have different dates of maturity until 2026.

Overall, non-current liabilities according to the consolidated balance sheet increased by EUR 0.8m to EUR 33.0m. This was attributable in particular to the financing of the new facility in the US (EUR 3.6m), the increase in pension provisions (EUR 0.8m) and the increase in other liabilities because of the option agreement for purchase of the remaining interests in iris-GmbH (EUR 0.2m). Reimbursements of long-term loans for real estate financing in Karlsruhe as well as the reduction of deferred tax liabilities had the opposite effect.

Current liabilities according to the consolidated balance sheet decreased from EUR 76.5m to EUR 70.5m. This change primarily comprises an increase in liabilities to banks of EUR 4.9m, a decrease in trade accounts payable of EUR 5.6m and liabilities from POC of EUR 0.9m, as well as a decrease in provisions by EUR 1.2m. Furthermore, income tax liability decreased by EUR 2.6m and other liabilities by EUR 1.3m.

The group's static debt-equity ratio (debt capital divided by equity capital multiplied by 100) is 57.5 per cent (previous year: 46.3 per cent) and thus rose owing to the effects cited above. The dynamic debt-equity ratio (net debt capital divided by EBITDA) is 1.6 (previous year: 1.0).

Investments

The investments amounting to EUR 10.4m (previous year: 14.5m) chiefly comprise the new facility in the US and capital expenditure to replace and expand existing assets.

Liquidity

Operating cash flow amounted to EUR 2.1m (previous year: EUR 13.2m) and was therefore significantly below the previous-year figure. This is particularly attributable to the retrospective tax payments for 2016, to significant increases in accounts receivable as well as to the reduction of trade accounts payable.

Net working capital (current assets less liquid funds less current liabilities) came to EUR 22.4m (previous year: EUR 19.1m). Cash flow from investing activities amounted to EUR -9.8m (previous year: EUR -16.1m) and mainly relates to investments in the new facility in the US.

Cash flow from financing activities amounts to EUR 4.6m (previous year: EUR 12.4m) and mainly results from the utilisation of euro loans and real estate loans in the US. These were offset by the dividend payment, the purchase of treasury shares and the repayment of non-current and current loans.

Liquid funds, including securities that can be sold in the short term, came to EUR 19.8m at the end of December 2017 (previous year: EUR 24.0m).

Net assets

The init group's net assets may likewise be described as solid in the financial year 2017.

Compared to the previous year, the total assets as of 31 December 2017 decreased by around EUR 8.3m and amounts to EUR 176.8m (previous year: EUR 185.1m). The main reason for this being the decrease in liquid funds due to the payment of trade accounts payable at the end of the year. Additionally, the balance sheet is influenced by negative currency effects of EUR 4.1m, primarily relating to the US dollar. Equity at year-end decreased to EUR 73.3m (previous year: EUR 76.4m). Equity ratio comes to 41.5 per cent (previous year: 41.3 per cent) and is thus slightly higher than the previous-year level.

Multi-period overview of the net assets and financial position of the init group

Financial year

In EUR m	2012	2013	2014	2015	2016	2017
Equity	56.9	57.8	62.1	67.8	76.4	73.3
Debt capital	52.9	52.7	56.2	61.0	108.7	103.5
Cash	23.5	20.3	25.4	9.2	23.9	19.8
Balance sheet total	109.8	110.5	118.3	128.8	185.1	176.8
Operating cash flow	17.4	11.3	11.4	0.5	13.2	2.1

Performance of init SE pursuant to HGB

General information

In addition to the init group report the following also summarises the performance of init SE.

init SE is the management holding company of the init group and, as such, does not carry out any operating activities. It manages the operating companies of the group financially and is responsible for strategic planning and risk management. Additionally, init SE handles tasks in the areas of accounting, controlling, legal and human resources of INIT GmbH, initplan and INIT Nottingham.

init SE's annual financial statements are prepared in accordance with the HGB. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). This results in differences in accounting and valuation methods. These relate above all to pension obligations.

Results of operations

init SE is controlled using annual projections for revenues and earnings before taxes.

The revenues of init amounted to EUR 7.6m (previous year: EUR 7.5m) and were generated largely through services provided for INIT GmbH, initplan and INIT Nottingham and through rental income. Earnings before taxes amounted to EUR 6.5m (previous year: EUR 12.4m) and therefore in line with our projection of around EUR 5m to EUR 8m. Because of profit/loss transfer agreements, earnings before taxes include the total earnings of INIT GmbH and initplan.

Net assets and financial position

Other financial indicators of relevance to init SE are liquidity and the equity ratio, and these are discussed in the following. As of the balance sheet date, liquid funds including securities totalled EUR 0.1m (previous year: EUR 0.6m). The change in liquid funds resulted chiefly from cash paid out in repayments and interest for real estate financing, distribution of dividends and the settlement of income taxes. By contrast, the profit transfer from INIT GmbH had a positive effect on liquid funds. The liquid funds and existing credit lines, which can be used jointly with INIT GmbH, are sufficient to meet all existing payment obligations.

The assets mainly comprise financial assets, land and buildings, receivables from associated companies and other assets. A list of financial assets can be found in the notes.

The balance sheet total of init SE amounted to EUR 55.4m (previous year: EUR 56.8m) while the equity ratio was 76.7 per cent (previous year: 69.4 per cent).

The net assets, financial position and results of operations of init SE can be regarded as solid.

Non-financial performance indicators

The annual average number of employees of init SE was 43 (previous year: 44). Of these, 27 on average were full-time staff (previous year: 25).

In total, employees took part in 70 internal and external continuing training measures in 2017.

Opportunities and risks of future development

Please refer to the relevant section (Forecast, opportunities and risks) of the group, as the opportunities and risks of the company due to its holding function are closely related to those of the group.

Internal control and risk management system in relation to the financial reporting process

Here reference is made to the relevant section for the group (Internal control and risk management system pertaining to the Group financial reporting process).

Expected business development and outlook

For the financial year 2018, we expect a slight increase in revenues of around EUR 7.9m.

The development of init SE largely depends on the performance of its operating subsidiaries. The largest of these, INIT GmbH, is expected to generate earnings before taxes of around EUR 6m to EUR 8m in 2018. On this basis, init SE is projecting EBIT of EUR 7m to EUR 9m.

Closing statement to the dependent company report

Under Section 312 of the German Stock Corporation Act (AktG), the Managing Board is required to prepare a report on the company's relationships with its affiliated companies ("dependent company report"), which is then verified by the company's auditors. The dependent company report prepared by the Managing Board closes with the following declaration:

"We hereby declare that, according to the circumstances known to us at the time when the legal transactions and measures were undertaken, the company received a commensurate consideration in the financial year under review for all the transactions and measures listed in the report on our relationships with affiliated companies ("dependent company report"), and that the company suffered no adverse effects as a result of measures and acts either undertaken or omitted."

Principles and objectives of financial management

Securing the liquidity of the init group has top priority. This requires a liquidity-oriented corporate policy and a steady alignment of all corporate processes aimed at improving the liquidity and earnings. Financial risks, particularly interest risks and currency risks, are reduced by the use of derivative hedging instruments. For maintaining financial flexibility, the init group has appropriately high credit lines, which have only been used partially.

Employees

In order to complete ongoing projects on time and secure continuous growth, init moderately increased its workforce in the original init group in 2017. With the existing capacities, init is equipped to handle its order backlog and the expected positive order trend, so that only moderate additions to the workforce will be needed in 2018 as well. However, we must significantly strengthen our development capacities in order to meet the challenges in the ticketing business, digitisation, autonomous driving and electromobility.

Employee figures

Overall, the init group had 737 employees on an annual average (previous year: 702) including temporary workers, research assistants and diploma candidates. This includes 103 part-time employees.

In addition, 21 employees were pursuing apprenticeships as IT specialists, IT systems electrical engineers, warehousing specialists, industrial clerks or office clerks or were studying electrical engineering, mechatronics, information technology, industrial engineering and business studies at the University of Cooperative Education.

Employee profit participation

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 3 April 2017 to allow employees to participate in the company's earnings before taxes. A profit-participation cash payment of EUR 2,500 per employee will be made for the 2017 financial year. In addition, 50 shares of the company per employee were transferred under an asset-sharing plan (there may be deviations from this rule for individual subsidiaries). These shares are subject to a lock-up period of two years and were issued to staff in December.

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, e.g. covering the cost of day care, 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 for flu vaccinations, and have taken out foreign 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 shape 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 now also enjoy greater diversity at higher management levels.

Overall picture of the economic situation

The Managing Board regards the business performance in 2017 as positive overall. A clear operational improvement in the business of the group was evident in the past financial year. At EUR 139.4m, incoming orders clearly exceeded the projected range (EUR 120 to 130m). At EUR 130.6m and EUR 8.6m respectively, revenues and EBIT are also above the forecast of EUR 120m for revenues and EUR 5m to EUR 7m for EBIT. This is primarily attributable to a general recovery in the worldwide business, higher investment of our customers and additional business in follow-up delivery and maintenance. This resulted in a significant increase in revenues of EUR 22m or 20 per cent compared to the previous year. Thereof EUR 12m is attributable to the first-time full-year consolidation of new acquisitions and EUR 10m to the core business.

With the existing order backlog of EUR 117.7m as at 31 December 2017, a good foundation has been laid for the 2018 financial year. The init group's improved earnings performance in the 2017 financial year means the company has a solid financial position to be able to finance its growth targets in 2018.

The operating cash flow in 2017 came to just EUR 2.1m. For the coming financial year we expect it to increase significantly again due to lower tax payments, improved payment receipts and more efficient project management. We would like to fairly share our success with our shareholders and intend to distribute dividends as in the past. The dividend for the 2017 financial year amounts to 22 cents per share. We look forward to the 2018 financial year with optimism and confidence.

SUBSEQUENT EVENTS

As of 1 January 2018, init acquired a 100 per cent stake in Mattersoft Oy with its registered office in Tampere (Finland). This acquisition will expand the range of products of the init group, particularly by a central light signalling trigger. Know-how will be won in the areas of IoT (Internet of Things), SaaS (Software as a Service) as well as web-based offers. Besides, Mattersoft Oy will give access to qualified developer capacities at the University location of Tampere.

Other events of special note that had a significant effect on the net assets, financial position and results of operations of the company did not occur after the reporting date. For further information, please refer to the subsequent events report in the notes to the separate financial statements of init SE and the consolidated financial statements in note 37.

FORECAST, OPPORTUNITIES AND RISKS

If goals are to be achieved, events, developments and actions are required. However, not all factors that influence these goals are known, which means that assumptions must be made in forecasting future performance. Where factors have negative effects on the achievement of goals, this constitutes a risk. Positive effects give rise to an opportunity.

Outlook

Rarely since the company was founded in 1983 have global economic influences on the business of the init group been as difficult to gauge as they are for 2018 and the next few years. The decision on the part of the people of the UK to exit the European Union and the associated negative consequences of Brexit, the resurgence of protectionist tendencies and last but not least the new US government have significantly widened the spectrum of risks.

Furthermore, a new wave of technological change has also swept over the markets for init products. This opens up opportunities for innovative solutions while creating risks in the shape of new competitors. In addition to the ever present issue of the digitisation of business processes, other main issues are innovations in electromobility, the networking of transport systems, the security of data communications and self-driving vehicles in public transport.

Digitisation, especially the new developments in real-time data communication between vehicles or between vehicles and infrastructures, will lead to a more efficient utilisation of the transport infrastructure in future while also completely altering people's behaviour in terms of mobility. Better, specialised offers will not only lead to increased mobility overall but will facilitate greater utilisation of public transport services as well. The experts also believe that self-driving vehicles, which are currently being heavily promoted, will have a positive effect on public transport.

This will place new customer demands on init systems, up to and including the provision of technical and management services for transport companies. However, the associated need for greater investment – which tends to be a growth driver for init's business – will also lead to demands in terms of assuming financing functions, which – together with increased competition from service providers new to the sector – will impact the margins negatively.

Thus, our expectations for the business performance of the init group in 2018 are shaped by a number of factors, positive and negative. One factor is that an acceleration in revenue growth, in mobile phone ticketing in particular, can be expected as a result of the new orders received in 2017 and the acquisitions made. Another factor, and one that is still difficult to gauge, is increased global economic risks, and principally the so far unpredictable policies of the new US government (keyword: protectionism) with its consequences for international companies such as init.

Against this backdrop, the Managing Board of init SE in its overall view currently anticipates group revenues in the order of EUR 135m to EUR 145m. The operating earnings before interest and taxes (EBIT) will be in the range of EUR 10 to 12m.

A significant indicator of future development is incoming orders. With EUR 139.4m, init achieved the second highest figure in the company's history in 2017. With the current order backlog of EUR 117.0m, we have a solid base for further growth. The target range for incoming orders in 2018 is between EUR 140m and EUR 150m with a view to securing ongoing positive business performance. The forecast of the target range for incoming orders is based on probability-weighted assumptions of running and expected tenders.

EUR 150 m

The target range for incoming orders in 2018 is between EUR 140 and 150 m

Actual results may differ materially from those projected if significant assumptions are changed or new uncertainties arise. This is particularly true of the exchange rates, the achievable market prices for new projects, being awarded the contract in current tenders and the timing of incoming orders.

One growth driver beyond 2017 will be mobile phone ticketing or smart ticketing. In this field, init strengthened its hand in 2016 with two acquisitions. North America is the region with the largest share of government programmes and tenders for ticketing projects. The US is pursuing the most ambitious investment programme in this area, even after the change of government. Another area of growth is automatic passenger counting.

Urbanisation is a global megatrend that is also rapidly increasing the demands placed on public transport systems and the demand for transport telematics. More than 1,000 cities worldwide with more than 500,000 inhabitants are facing mobility problems that can only be solved by expanding public transport in an intelligent way. Mobility solutions such as those offered and facilitated by init are therefore at the forefront of the investment programmes.

In addition, the worldwide necessary measures to reduce particulate matter and greenhouse gases now constitute ecological growth drivers for the transport telematics market. Investments in expanding climate-friendly public transport systems were therefore a key element of the programmes adopted at the UN climate change conference held in Marrakesh in 2016. Countries such as the United Kingdom, Canada, the United States and Germany – init's main markets – are leading the way in this and seek to make an important contribution to climate protection through the provision among other things of considerable funding for the development of public transport.

The intelligent, multimodal networking of different passenger transport providers, such as those already realised successfully by init in collaboration with transport companies around the world, is a central component of these investment programmes. Demand for these systems is growing worldwide. Intermodal (individual, local and long distance integrated) planning and monitoring systems are likely to see the strongest growth. Intermodal transport control systems that can react to disruptions or accidents immediately and adequately or that can make them predictable and therefore preventable with special analysis tools will drive growth.

In all these areas init has already decisively set the course for the future through forward-looking investments and by participating in pioneering research projects.

We therefore regard ourselves as being well equipped, even in a fiercely competitive environment, to maintain our position on a lasting basis as the world-leading provider of planning, dispatching, telematics and ticketing solutions for buses and trains and to continue to pursue a stable growth path.

Furthermore, we expect in future to enhance customer satisfaction as a parameter of success, further advancing the "good" level we have already achieved.

Risk management system (RMS)

Risk management basically begins at the moment a plan, an ideal picture of future reality arises. Every business activity involves a diverse range of risks.

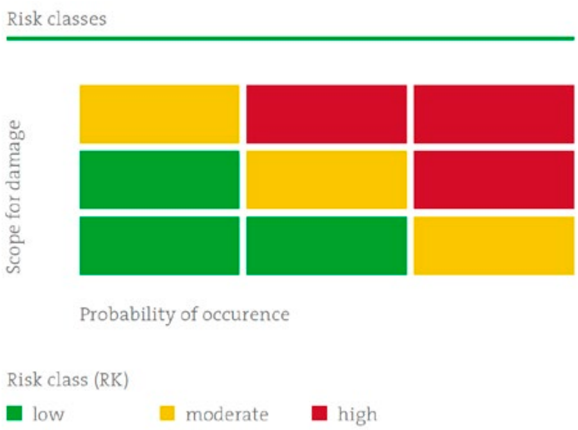
Risk management is the systematic and ongoing identification and evaluation of risks and the control and monitoring of the risks that have been established. It is a systematic process that is centrally managed and is applied across many areas of the group's operations.

The aim of an RMS is not to avoid all risks but to manage identified risks. After all, to realise one's plan and take advantage of the resulting opportunities, risks must be entered into. It is a matter of weighing up these risks. We understand risk to mean any negative deviation from our projected results, while opportunities are a positive deviation. Thus, risk management also means opportunity management.

Risks are evaluated on the basis of the probability of a risk occurring and its potential scope for damage after the measures that have been taken (net view), with the risk graded as low, moderate or high. The scope for damage is viewed in terms of its effect on net profit.

	Probability of occurrence in %	Scope for damage in EUR m
low	0 < Probability of occurrence ≤ 33	< 0.5
moderate	33 < Probability of occurrence ≤ 66	0.5 to 2
high	66 < Probability of occurrence ≤ 100	> 2

The results are regularly reported to the Managing Board. The frequency of reporting depends on the particular risk group.



It is to be noted that risks that are currently classed as having a low risk potential may have greater scope for damage than risks that are currently classed as having a higher risk potential.

The internal control system (ICS) is also integrated into the risk management system. The ICS is concerned with risks arising from operational processes in all areas of the company.

The ICS is conceived on the basis of the internationally recognised framework for internal control systems produced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Internal Control – Integrated Framework) and is adapted on an ongoing basis.

The individual processes in the companies are analysed, potential risks are identified and corresponding controls are assigned. The results are documented in a matrix and regularly updated. The results of this self-assessment are reviewed each year and the processes identified as needing action are reported to the Managing Board.

The audit for general suitability of the early risk warning and internal monitoring system pursuant to Section 317 (4) HGB is carried out by an external auditor. The auditor also reports to the Supervisory Board on any material weaknesses it has found in the internal control and risk management system.

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

The primary objective of init SE's internal accounting-related control and risk management system is to secure the compliance of the financial reporting, i.e., to make sure that the consolidated financial statements and combined management report comply with all relevant statutory 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 IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V.": Institute of Public Auditors in Germany] 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 appropriateness and reliability of the internal and external financial reporting and
- compliance with the legislation applicable to the Company

The risk management system comprises 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 SE 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 information reported by the subsidiaries. The consolidated financial statements are prepared with the help of certified consolidation software. In addition, the necessary steps are taken under the dual control 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 combined management 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 reporting on 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 combined management 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 is regularly spot checked for completeness and accuracy.
- The subsidiaries provide the parent company with monthly reports on their business trend and submit monthly accounts. Monthly reports are presented for ongoing projects as well. 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 further implemented a risk management system relating to the group financial reporting process that includes measures to identify and assess material risks as well as the corresponding risk-mitigating measures in order to safeguard compliance of the consolidated financial statements.

Risks

A global technology-oriented company such as init is faced with a number of risks that could affect its net assets, financial position and results of operations.

Below, the risks and opportunities are broken down into and described in risk categories, which may have a considerable impact on the net assets, financial position and results of operations of the init group. The potential for as yet unknown risks or risks that are considered negligible today that may also impact the net assets, financial position and results of operations cannot be fully ruled out.

External and industry risks

Economic risks (RC: moderate)

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. A state financial crises and the resulting public spending cuts thus also pose a potential risk to init's business development. Political conflicts such as those in the Near and Middle East could have a sustained impact on further business development of the init group, where they affect the financing and completion of transport projects. The extent to which increased political uncertainty regarding the future of the EU and/or increasing economic protectionism in some leading industrialised countries will impact the global economy is still difficult to estimate reliably at this time.

General market risks (RC: moderate)

Market risks are fundamentally shaped by the development of the global economy. The market for transport services, in which init's customers are primarily involved in, is also strongly dependent on the political will to improve 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.

On the other hand, a number of government aid programmes have been implemented in 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.

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

Hosting and operating business (RC: low)

Customers are increasingly demanding not only the realisation of a project but services related to hosting and the operating business. In addition to server support and data backup, this also includes special analyses for customers and even the operation of ticket vending machines (cash and ticket handling) and expanded services in the area of maintenance and repairs. Hosting and the operating business can result in high claims for compensation from customers, if the promised services cannot be provided or there is an interference or interruption in operations. This risk can be minimised by selecting suitable equipment and service partners, regular support and maintenance of the systems as well as through central monitoring by the system support.

Risks arising from the procurement market (RC: low)

Vehicles can only be equipped successfully if the necessary hardware is made available at the right time and in the right quantity and quality. Poor quality or hidden faults may otherwise require cost-intensive rectifications or replacements that will negatively affect the margin. Delivery dates and quality are therefore constantly monitored. Quality control is conducted at the supplier's premises, upon receipt of goods as well as during installation of hardware in the project.

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

Risks resulting from legal and political framework conditions (RC: moderate)

In addition to economic risks, there may also be risks resulting from legal and political framework conditions. National laws of individual countries must be observed when realising a project. This includes provisions of labour law (e.g., minimum wage), environmental regulations, building codes, technical specifications and safety regulations that can result in fines and claims for damages or the costly reworking of a project in the event of non-compliance. Political framework conditions are closely related to the objectives of individual governments, the political will to improve mass transit and avoid emissions, and in particular also the available funds. Tenders are often cancelled because funding is unavailable or insufficient.

Risk category	Probability of occurrence	Scope for damage
Economic risks	moderate	moderate
General market risks	moderate	moderate
Hosting	moderate	low
Risks from the procurement market	low	moderate
Risks resulting from legal and political framework conditions	moderate	moderate

Company-specific risks

Technology risks (RC: moderate)

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. In addition, its participation in multiple research projects means that new technologies are used within the group at an early stage. More about this can be found in the “Research and development” section. Nevertheless, the development of new products can incur costs without necessarily resulting in the desired success.

Project risks (RC: high)

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, order situation and project progress are regularly examined for the purpose of a target performance analysis.

In a few major projects, complex development requirements resulted in project delays and therefore to additional expenses, resulting in a reduction in margin and high prefinancing, which in turn is directly reflected in earnings and in operating cash flow. This risk remains a significant factor in future.

IT risks (RC: low)

For an IT company, the securing of electronic data is of the utmost importance. Various risks must therefore be taken into account.

In the init group, electronic data are secured on multiple bands and stored for years. The bands are stored in various locations – including outside init’s premises. Nevertheless, it cannot be fully ruled out that data may be lost or can no longer be reconstructed. However, we rate this risk as low.

Cybercrime has also skyrocketed within the context of globalisation and digitisation. More and more frequently, weaknesses in software and devices are being exploited in order to attack IT systems. init has a multi-level security solution with scan engines for e-mail and Internet traffic from various manufacturers. On principle, init encrypts emails, WLAN connections and hard drives in laptops. Antivirus and patching solutions are managed centrally. Furthermore, the company carries out active directory administration including access rights management. Third-party computers and smartphones cannot access the init network. Data exchange platforms are not permitted on the init network; init has its own solution for a CITRIX ShareFile. Based on these far-reaching measures, we rate the risk as low.

Despite all measures, there is a residual risk that the technology does not recognise all threats as such. For this reason, all IT users in the init group are made aware of potential and / or existing threats within the scope of a special orientation event for new employees and updates with monthly, company-wide meetings. Multiple firewalls have been installed and an access control system is in place to protect against hacking. The hard drives of init devices are encrypted in case a mobile device is lost and smartphones can be erased by remote access. However, the init group currently rates the residual risk from user behaviour and the expected costs of an unimpeded outbreak, e.g., a crypto trojan, incurred as the result of a work stoppage and recovery times as high.

Despite all the measures taken, cyber risks cannot be fully ruled out. Potential losses are covered by corresponding cyber risk insurance policies. As a result, overall IT risks can be assessed as low.

Human resources risks (RC: moderate)

The experience, individual expertise and professional competence 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 mainly depends on the availability of sufficiently qualified personnel. Due to the labour market situation in Germany and in the technology region Karlsruhe in particular, like in the past year it is very difficult to recruit qualified personnel. init takes account of this by operating a long-term personnel policy which includes the participation of employees in the success of the company. In addition to the dual study programme, offers for student internships as well as dissertation programmes for bachelors and masters, init relies more on direct cooperation with professors, universities and institutes of higher education and thus ensures that highly qualified and motivated employee succeed.

However, 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 office workstations 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.

Investment risks (RC: high)

init made a number of investments in 2016 in order to secure the long-term economic success of the group, achieve our strategic objectives and exploit existing opportunities in the market. Because this included some investments in companies that are in a weak economic position or in start-ups, the risk of making a bad investment in individual cases is high and, in addition to losses that must be borne, could also result in corresponding write-downs and the loss of returned funds.

Risk category	Probability of occurrence	Scope for damage
Technology risks	low	high
Project risks	high	high
IT risks	low	moderate
Human resources risks	moderate	moderate
Investment risks	high	high

Financial risks

Exchange rate risk (RC: high)

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 consolidated earnings as well. init meets these foreign exchange risks with active exchange rate management. Forward exchange dealings and foreign currency management may be used. Since init also tries to keep its options open here and focus on active currency management, possible losses cannot be ruled out. Despite our active currency policy, we assess the present risk of losses to be high. A sensitivity analysis on this subject is provided in Note 30 of the consolidated financial statements.

Interest risk (RC: moderate)

Variable-rate loans which were taken out to finance construction and an acquisition to expand the head office in Karlsruhe were converted to fixed-rate loans. The interest risk arising from the remaining short-term, variable-rate loans currently has no significant influence on our net assets, financial position and results of operations.

Credit risk (RC: low)

The group concludes transactions exclusively with recognised, creditworthy third parties. All customers requesting credit-based transactions with the group are subjected to credit checks. The majority of init customers are public or state-subsidised transport companies.

The group also practices active receivables management. Some deliveries are made only against prepayment or with cash against document. Discernible risks of default are taken into account as value adjustments.

Based on our measures and past experience, we assess this risk to be low.

Prefinancing (RC: high)

In addition, contractually established payment terms could change over time to our disadvantage, with the result that we could encounter cash flow predictability risks and liquidity risks. In the past, an increasing number of payment plans for large-scale projects needed to be accepted that required a large degree of prefinancing. Furthermore, projects may be rescheduled or delayed, resulting in a delayed warehouse issue of technical devices and parts, which in turn increases the working capital and ties up funds.

Risks related to pensions (RC: moderate)

Prior to 1997, init made direct commitments to employees. There are a total of 40 direct pension commitments, which were reinsured through life insurance policies. The provisions for pensions are currently adequate. A defined benefit plan was converted to defined contribution, therefore eliminating all related risks. Repurchase offers were created for old contracts; appropriate provisions have been recognized.

Risk category	Probability of occurrence	Scope for damage
Exchange rate risk	high	moderate
Interest change risk	high	low
Credit risk	low	low
Prefinancing	high	high
Pension-related risks	high	low

Legal and fiscal risks

Legal risks (RC: low)

Within the scope of their usual business activities, init SE and its subsidiaries are currently only faced with very few legal disputes. These proceedings are overseen by in-house lawyers. We do not believe that the outcome of any currently pending proceedings will have a significant negative impact on our business activities. Nevertheless, asserted claims and legal disputes are naturally associated with uncertainty, which makes it difficult to reliably estimate their financial impact and which is why the current assessment may change at any time.

Fiscal risks (RC: low)

The init group operates in various countries around the world and is therefore subject to countless legal and tax regulations. In the individual companies, multiple years have not yet been conclusively assessed for tax. Because of differing inter-pretations, in particular of cross-border matters, by the treasuries in various jurisdictions, negative consequences for the net asset, financial position and results of operations cannot be excluded.

Risk category	Probability of occurrence	Scope for damage
Legal risks	low	moderate
Fiscal risks	low	low

Overall risk assessment

The overall risk situation of the init group is based on the individual risks in all risk categories. In addition to the risk categories described, there are unforeseeable events that may disrupt production and business processes, such as natural disasters, political instability, terror attacks or pandemics. For this reason, contingency plans have been developed to ensure that business operations can resume, preventive measures have been established and, wherever possible, insurance has been concluded.

Group Risk Management consolidates the described information about risks and opportunities from the individual organisational units in order to obtain an overall picture. The overall situation with regard to the group's risks is derived from the individual risks described.

As one of the fundamental principles of entrepreneurial behaviour, init takes particular care to ensure that legal and ethical regulations are observed. Furthermore, ensuring that sensitive data is handled securely is a prerequisite for maintaining business relationships with customers and suppliers in a trusting, cooperative environment.

In this context, individual risks and the overall risk situation of the init group have not changed significantly compared to the previous year. There are currently no identifiable risks that could individually or in combination with other risks jeopardise the continuation of the group as a going concern. The possibility of setbacks on the path towards sustained realisation of growth and profitability targets cannot be fully excluded.

From today's perspective, the aforementioned risks do not prevent the init group from achieving or even exceeding the respective goals and plans, in particular considering the solid net assets, financial position and results of operations and what continues to be a predominantly positive business outlook.

We are convinced that the established risk management system will enable risks and opportunities within the company to be identified at an early stage, risks to be faced successfully and potential opportunities to be exploited.

Opportunities

The market for init systems is in a state of technological upheaval characterised by digitisation and networking. This results in new requirements on the customer side and sustained additional growth potential.

A new offering requested by an increasing number of customers is the assumption of parts of or the entire technical operation, including system maintenance. This is currently already being adopted by Luxembourg and several other countries around the world are expected to do the same in the near future. This is associated with sales potential that could exceed the scope of the original investment volume over several years.

Furthermore, increasing digitisation means that customers are now demanding actively integrated solutions and, in particular, that they want to standardise their IT landscape. Customers often have software, ticketing machines, control and ticketing systems and apps from various sources. Data must be fed to all of these systems accordingly. The necessary level of complexity can be reduced with the help of an integrated solution that feeds all systems in real time and ensures the consistency of all data. init is one of the providers of choice in this regard because we have already executed major projects in Germany, the USA and the UK, with others in the pipeline.

Smart cities will in future have transport systems that are coordinated in a way that allows people to reach their destinations efficiently and in an environmentally friendly way, using the corresponding real-time information and communication systems for various means of transport. This begins with the use of an autonomous bus or car sharing as the feeder and goes beyond public transport services through to the hiring of a bicycle, for example. All of this can be planned, optimised and charged accordingly using our system. This enhances the performance of public transport services and creates new demand potential for init.

75 %

The acquired subsidiary HanseCom currently manages more than 75 per cent of the fares for all public transport services in Germany

Today, an integrated solution includes “smart” ticketing systems in particular. With this in mind, we expanded our product spectrum in a targeted manner by investing in Bytemark and acquiring HanseCom. Together with Bytemark, init is the leading provider of mobile phone ticketing solutions for transport companies in North America. The two companies have already worked together on a wide range of major projects in North America and now want to continue their collaboration on a global basis. HanseCom currently manages more than 75 per cent of the fares for all public transport services in Germany and has numerous customers in the area of mobile phone ticketing. In future, this area will present great opportunities for the company to also generate considerable international growth.

ID-based systems (e.g., credit cards) open up a new field of e-ticketing that can be integrated with other ordering and payment systems. In future, init solutions could thus comprise all the various payment systems for mobility in a city. This paves the way for considerable revenue potential in new market segments.

How beneficial integrated systems and their acceptance by passengers are, depends mainly on the corresponding apps for customers. To this end, init has launched a dedicated development team for this purpose. Apps are primarily deployed in demand-driven bus services, where tablets or smartphones can serve as mobile on-board computers. This is an important cost advantage for smaller bus or transport companies in particular. init provides them with its own control system in a "cloud" that they can make full use of, the costs of which, however, are distributed across all the connected enterprises.

According to experts "autonomous driving", which is currently being widely publicised, will have a positive influence on public transport. In this context, init solutions are in high demand at various interfaces. For example, the ongoing cooperation project IQ Mobility is examining the effects of self-driving buses on the system architecture within vehicles as well as on dispatching and planning systems.

The topic of electromobility is closely related to autonomous driving. But beyond that, it also points to other transport systems and power grids via interfaces. Here, too, init software can become more widespread in future. In the MENDEL research project, optimisation algorithms in different areas are currently being used in the introduction of electric mobility to lay the foundation for providing a cost-efficient charging infrastructure for the planning and implementation of public transport that also takes into account a uniform load in the energy grid. The on-board units (intelligent broad-casting and telematics units) for cars and the corresponding software for telediagnosis and smart charging developed by the subsidiary CarMedialab are already being used in electric vehicles. The promotion of electric vehicle sales should create further sales opportunities for these.

Intermodal transport control systems that can immediately react to disruptions or accidents in an appropriate manner, or that can even make them predictable using special analysis tools and therefore preventable, can accelerate init's growth in future. This is the focus of the InREAKT project, in which init is a main participant and which has now been successfully completed.

Other European research projects offer equally promising earnings prospects for init. For example, Aim4it is a project that is developing a public transport system that provides barrier-free accessibility for passengers with special mobility requirements. The Austrian INK 2016 project is further developing the interfaces between a vehicle and a customer's mobile device developed in the Aim4it project and is implementing them with Bluetooth.

Population growth, increasing urbanisation and impending traffic gridlock are leading to growing public transport passenger numbers around the world. The willingness to expand public transport is therefore growing in many countries and regions. In order to cope with the soaring demand for mobility and simultaneously avoid pollution, billions must be invested in intelligent traffic systems. As long as the necessary public funding is available, this will drive the long-term growth of init.

This applies in particular to the US, where the implementation of the new administration's plans to stimulate economic growth and employment through increased government spending and investments in infrastructure could strengthen this long-term trend. The medium-term prospects for init on the Asian market should develop on a similar trajectory.

init has tapped a new, rapidly growing business field in the area of logistics with its new subsidiary inola. "Industry 4.0" demands that all stakeholders react more quickly to new situations. All processes along the value chain, from production to delivery, are being put to the test and have to be continually optimised. This is where the software solutions of inola come into play. They provide optimally usable results based on heuristic analysis for issues to which companies must find a satisfactory solution as part of their development towards "Industry 4.0" if they intend to continue to be successful.

inola's inclusion in the init group also offers multiple opportunities for tapping new market potential. The experience garnered by init over the course of 30 years and more than 400 international projects in using intelligent system solutions to make public transport services more efficient, faster and more attractive for customers can also be transferred to the logistics sector. Conversely, inola has the necessary user knowledge when it comes to logistics and industry to make init's hardware and software applicable to this area as well.

All of these developments, products and new business areas result in opportunities that could enable more dynamic growth for init than currently expected.

Overall, the opportunities offer a good starting position for the positive development of the company expected in the future.

BASIC FEATURES OF THE REMUNERATION SYSTEM IN ACCORDANCE WITH SECTION 315A (2) HGB

Remuneration system for the Managing Board

The salaries for members of the Managing Board are set by the Supervisory Board. The remuneration of the Managing Board is determined by the size of the company, its economic and financial situation, the amount and structure of remuneration at comparable companies as well as its relationship to the salaries paid to staff. The salary system for Managing Board members at init innovation in traffic systems SE – 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 2017 totalled EUR 1,675k (previous year: EUR 1,584k).

2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee shares and applicable as a percentage from an operating profit before taxes of EUR 5.0m upwards. The management bonus is limited to 25 per cent of the total compensation package excluding the restricted shares under item 3. The variable share of the remuneration for the Managing Board came to EUR 129k in 2017 (previous year: EUR 157k).

3. Another bonus for 2017 in the form of 750/1,500 shares, as far as the net profit exceeds EUR 5m before taxes and after deducting all bonuses. Furthermore, for each EUR 1m of profit that exceeds the amount of EUR 5m up to EUR 10m, another 50/100 shares are granted as bonus. Further, for each EUR 1m of profit that exceeds the amount of EUR 10m up to EUR 15m, another 100/200 shares are granted as bonus. Similarly, for each EUR 1m of profit that exceeds the amount of EUR 15m, another 150/300 shares are granted as bonus. The number of shares is limited to 6,000/12,000. These shares are subject to a vesting 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 remuneration including income tax payable on it totalled EUR 215k for the past financial year (previous year: EUR 208k).

4. Based on the aforementioned remuneration system, remuneration of EUR 101k was paid to the members of the Managing Board who were also Managing Directors of INIT GmbH (previous year: EUR 60k).

5. Pension commitments exist for two of the five members of the Managing Board as well as for a former Board member. The increase in pension provisions (DBO) for these three persons was EUR 137k in 2017 (previous year: EUR 502k). The increase is the result of a reduction in the interest rate used.

6. A defined contribution plan instead of a direct pension commitment exists for two members of the Managing Board as well as for one former member of the Managing Board. The expenses for this amounted to EUR 22k in 2017 (previous year: EUR 13k).

7. An additional defined contribution plan exists for four members of the Managing Board as well for a former member of the Managing Board. The expenses for this amounted to EUR 107k in 2017 (previous year: EUR 89k).

In compliance with Section 285 No. 9a Sentences 5 to 8 HGB, Section 315a (1) HGB and 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 (3) Sentence 1 and Section 286 (5) Sentence 1 HGB), which the Annual General Meeting on 21 July 2016 resolved to do.

No benefits payable to members leaving the Managing Board have been agreed. However, a termination bonus may be specified in an individual termination agreement. Like in previous year, this was not the case in 2017.

Remuneration system for the Supervisory Board

The applicable remuneration of the Supervisory Board was decided at the Annual General Meeting of 21 July 2016, based on a proposal put forward by the Managing Board and the Supervisory Board. The articles of incorporation of init innovation in traffic systems SE were amended accordingly.

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals EUR 19,000 p.a. for the members and EUR 38,000 p.a. for the Chairman. The variable component depends in equal parts of 50 per cent on the share price and of 50 per cent on the net profit before tax. The variable component is limited to 200 per cent of the fixed component and is calculated using the following formula:

V= ((0.5*price/8 +0.5*net profit before tax/8m) -1) * fixed component

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

The following is a breakdown of the remuneration of the Supervisory Board in the 2017 financial year:

Name	Fixed component in EUR k	Variable component in EUR k
Hans-Joachim Rühlig	38	19
Ulrich Sieg	19	9
Drs. Hans Rat	19	9

REPORTING IN ACCORDANCE WITH SECTION 315A (1) HGB

Information on shareholders' equity

init SE has a capital stock of EUR 10,040,000, 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 fully paid up. For the rights and obligations related to the shares, please refer to Sections 118 et seq. of the German Stock Corporation Act (AktG).

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 3,455,000 shares in init SE. This is around 34.4 per cent of the capital stock. As of 31 December 2017, init SE held a total of 53,824 treasury shares (31 December 2016: 59,665).

There are no shares with special rights.

No voting control exists for shares held by employees.

Please refer to Note 42 in the consolidated financial statements for notifications pursuant to Section 21 (1) of the German Securities Trading Act (WpHG).

Conditional capital

The company's capital stock will be increased by up to EUR 5,000,000 by issuing up to 5,000,000 new bearer shares (2016 conditional capital). The conditional capital increase was made solely for the purpose of granting shares, on the exercise of option or conversion rights or on the performance of option or conversion obligations, to holders of bonds with warrants attached and convertible bonds issued as authorised by the Annual General Meeting of 21 July 2016.

The new shares will be issued at the option or conversion price (issuing price of the share) set pursuant to the authorisation of 21 July 2016 (2016 authorisation). The conditional capital increase will only be carried out provided the holders of warrants from warrant bonds or convertible bonds issued or guaranteed by 20 July 2021 by the company or companies in which it directly or indirectly holds a majority interest pursuant to the authorisation of 21 July 2016 exercise their option or conversion rights or meet their corresponding option or conversion obligations or the company exercises its substitution right and other forms of performance are not selected and insofar as its own shares are not used to satisfy these rights. The new shares will participate in the profit from the beginning of the financial year in which they are created; if legally permissible, and not-withstanding this and Section 60 (2) of the German Stock Corporate Act (AktG), the Managing Board may determine the profit share of new shares, even for a financial year that has already ended, with the approval of the Supervisory Board.

The Managing Board is entitled to determine further details of the implementation of the conditional capital increase with the approval of the Supervisory Board.

Statutory requirements and provisions of the articles of incorporation 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 of the German Stock Corporation Act (AktG). 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

On 21 July 2016, the company's Annual General Meeting adopted a resolution to create conditional capital of EUR 5,000,000. The conditional capital increase was made solely for the purpose of granting shares, on the exercise of option or conversion rights or on the performance of option or conversion obligations, to holders of bonds with warrants attached and convertible bonds issued as authorised by the Annual General Meeting of 21 July 2016. The new shares will be issued at the option or conversion price (issuing price of the share) set pursuant to the authorisation of 21 July 2016 (2016 authorisation). The conditional capital increase will only be carried out provided the holders of warrants from warrant bonds or convertible bonds issued or guaranteed by 20 July 2021 by the company or companies in which it directly or indirectly holds a majority interest pursuant to the authorisation of 21 July 2016 exercise their option or conversion rights or meet their corresponding option or conversion obligations or the company exercises its substitution right and other forms of performance are not selected and insofar as its own shares are not used to satisfy these rights. The new shares will participate in the profit from the beginning of the financial year in which they are created; if legally permissible, and not-withstanding this and Section 60 (2) of the German Stock Corporate Act (AktG), the Managing Board may determine the profit share of new shares, even for a financial year that has already ended, with the approval of the Supervisory Board. The Managing Board is entitled to determine further details of the implementation of the conditional capital increase with the approval of the Supervisory Board.

With the resolution passed at the Annual General Meeting on 13 May 2015 the company is authorised to purchase treasury stock.

CORPORATE MANAGEMENT DECLARATION

With regard to the required declaration by the management, please refer to the Corporate Governance Report in the 2017 Annual Report which is available on the Internet at: www.initse.com under the tab Investor Relations – Corporate Governance.

RESPONSIBILITY STATEMENT BY THE LEGAL REPRESENTATIVES

We assure to the best of our knowledge and in accordance with the applicable reporting principles that the financial statements give a true and fair view of the net assets, financial position and results of operations of the company, and that the management report, which is combined with the management report of init SE, includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Karlsruhe, 16 March 2018

The Management Board

Dr. Gottfried Greschner

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CONSOLIDATED FINANCIAL STATEMENTS

init innovation in traffic systems SE, Karlsruhe (IFRS)
(formerly: init innovation in traffic systems AG)

CONSOLIDATED INCOME STATEMENT

for 2017 (IFRS)

EUR '000	Notes no.	01/01/ to 31/12/2017	01/01 to 31/12/2016
Revenues	4, 35	130,554	108,635
Cost of sales	5	-87,892	-77,341
Gross profit		42,662	31,294
Sales and marketing expenses		-16,069	-13,139
General administrative expenses		-10,650	-8,427
Research and development expenses	6, 21	-6,893	-5,027
Other operating income	7	2,003	1,885
Other operating expenses		-212	-445
Foreign currency gains and losses	8	-166	1,080
Expenses and Income from associated companies	22	-2,112	-245
Holding gain (acquisition iris-GmbH)	3	0	4,689
Earnings before interest and taxes (EBIT)		8,563	**11,665**
Interest income		168	45
Interest expenses		-870	-542
Earnings before taxes (EBT)		7,861	**11,168**
Income taxes	9, 23	-4,217	-2,559
Net profit		3,644	**8,609**
thereof attributable to equity holders of parent company		3,660	8,586
thereof non-controlling interests		-16	23
Earnings and diluted earnings per share in EUR	11	0.37	0.86

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for 2017 (IFRS)

EUR '000	01/01 to 31/12/2017	01/01 to 31/12/2016
Net profit	3,644	**8,609**
Items to be reclassified to the income statement:		
Net gains (+) / net losses (–) on currency translation	-4,053	1,144
Items not to be reclassified to the income statement:		
Actuarial losses on defined benefit obligations for pensions after taxes	-201	-1,453
Total other comprehensive income	-4,254	**-309**
Total comprehensive income	-610	**8,300**
Thereof attributable to equity holders of the parent company	-594	8,277
Thereof non-controlling interests	-16	23

CONSOLIDATED BALANCE SHEET

as of 31 December 2017 (IFRS)

Assets

EUR '000	Notes no.	**31/12/2017**	31/12/2016
Current assets			
Cash and cash equivalents	14, 31	19,763	23,920
Marketable securities and bonds	15, 31	27	30
Trade accounts receivable	16, 31	34,472	25,908
Future receivables from production orders from PoC method	16, 31	27,417	38,180
Receivables from related parties	34	168	120
Inventories	17	25,953	27,006
Income tax receivable		1,677	1,870
Other current assets	18	3,137	2,522
Current assets, total		112,614	**119,556**
Non-current assets			
Property, plant and equipment	19	35,817	31,742
Investment property	20	1,918	1,323
Goodwill	21	8,987	8,987
Other intangible assets	21	9,681	10,274
Interests in associated companies	22	2,783	5,453
Deferred tax assets	23	2,410	5,207
Other non-current assets	24	2,595	2,590
Non-current assets, total		64,191	**65,576**
Assets, total		**176,805**	**185,132**

Liabilites and shareholders' equity

EUR '000	Notes no.	31/12/2017	31/12/2016
Current liabilities			
Bank loans	25, 31	24,599	19,669
Trade accounts payable	25, 31	11,030	16,641
Accounts payable from PoC method	16, 25	7,115	8,053
Advance payments received	25	1,431	806
Income tax payable	25	958	3,514
Provisions	27	11,211	12,448
Other current liabilities	25, 26	14,127	15,411
Current liabilities, total		70,471	**76,542**
Non-current liabilities			
Bank loans	25, 31	17,559	15,680
Deferred tax liabilities	23	2,277	4,490
Pensions accrued and similar obligations	28	9,390	8,637
Other non-current liabilities	26	3,799	3,382
Non-current liabilities, total		33,025	**32,189**
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	29	10,040	10,040
Additional paid-in capital	29	5,397	5,642
Treasury stock	29	-926	-889
Surplus reserves and consolidated unappropriated profit	29	59,869	58,409
Other reserves	29	-1,237	3,017
		73,143	**76,219**
Non-controlling interests		166	182
Shareholders' equity, total		73,309	**76,401**
Liabilities and shareholders' equity, total		176,805	**185,132**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as of 31 December 2017

		Attributable to equity holders of			
	Notes no.	29	29	29	
EUR '000		Subscribed capital	Additional paid-in capital	treasury stock	
Status as of 31/12/2015		**10,040**	**5,809**	**-436**	
Net profit					
Other comprehensive income					
Total comprehensive income					
Dividend paid out					
Share-based payments			-167	566	
Acquisition of subsidiaries					
Acquisition of treasury stock				-1,019	
Status as of 31/12/2016		**10,040**	**5,642**	**-889**	
Status as of 31/12/2016		**10,040**	**5,642**	**-889**	
Net profit					
Other comprehensive income					
Total comprehensive income					
Dividend paid out					
Share-based payments			-245	653	
Acquisition of treasury stock				-689	
Rounding				-1	
Status as of 31/12/2017		**10,040**	**5,397**	**-926**	

	the parent company					Non-controlling interests	Shareholders' equity total
	29	28					
		Other reserves					
	Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Securities marked to market	Total		
	52,281	**-1,232**	**4,560**	**-1**	**71,021**	**159**	**71,180**
	8,586				8,586	23	8,609
		-1,453	1,145		-308		-308
	8,586	-1,453	1,145		8,278	23	8,301
	-2,183				-2,183		-2,183
					399		399
	-276				-276		-276
					-1,019		-1,019
	58,408	**-2,685**	**5,705**	**-1**	**76,220**	**182**	**76,402**
	58,408	**-2,685**	**5,705**	**-1**	**76,220**	**182**	**76,402**
	3,661				3,661	-16	3,645
		-201	-4,053		-4,254		-4,254
	3,661	-201	-4,053		-593	-16	-609
	-2,200				-2,200		-2,200
					408		408
					-689		-689
		-1	-1		-3		-3
	59,869	**-2,887**	**1,651**	**-1**	**73,143**	**166**	**73,309**

CONSOLIDATED CASH FLOW STATEMENT

for 2017 (IFRS)

EUR '000	**01/01/ to 31/12/2017**	01/01/ to 31/12/2016
Cash flow from operating activities:		
Net income	3,644	8,609
Holding gain (acquisition iris-GmbH)	0	-4,689
Amortisation and depreciation	4,200	4,058
Gains on the disposal of fixed assets	-44	-113
Change in provisions and accruals	-55	-438
Change in inventories	65	-107
Change in trade accounts receivable and future receivables from production orders	-2,672	3,258
Change in other assets, not provided by / used in investing or financing activities	-688	-1,313
Change in trade accounts payable	-3,104	2,363
Change in advanced payments received and liabilities from PoC method	336	3,908
Change in other liabilities, not provided by / used in investing or financing activities	-2,480	1,205
Amount of other non-cash income and expenses	2,849	-3,559
Net cash from operating activities	2,051	13,182
Cash flow from investing activities:		
Payments received on disposal of property, plant and equipment	555	708
Investments in property, plant, equipment and other intangible assets	-9,737	-7,940
Investment property	-625	-14
Investment in subsidiaries less acquired cash	0	-3,254
Inflows from associated companies and loans receivable	0	-5,557
Net cash flows used in investing activities	-9,807	-16,057
Cash flow from financing activities:		
Dividend paid out	-2,200	-2,183
Cash payments for the purchase of treasury stock	-689	-1,019
Payments received from bank loans incurred	16,061	22,068
Redemption of bank loans	-8,549	-6,456
Net cash flows used in financing activities	4,623	12,410
Net effects of currency translation and consolidation changes in cash and cash equivalents	-1,024	347
Changes in cash and cash equivalents	-4,157	9,882
Cash and cash equivalents at the beginning of the period	23,920	14,038
Cash and cash equivalents at the end of the period	19,763	23,920

Additional information regarding the cash flow statement can be found in note 33.

NOTES

init innovation in traffic systems SE, Karlsruhe

1. Information about init

init innovation in traffic systems SE, Kaeppelestrasse 4–10 Karlsruhe, Germany ("init SE") was established on 18 August 2000 as the holding company of the init group. The conversion of init innovation in traffic systems AG to init innovation in traffic systems SE (HRB 727217) was resolved at the Annual General Meeting on 21 July 2016 and implemented with the entry in the Commercial Register on 9 March 2017. The init group is an internationally operating system supplier of transportation telematics (telecommunications and information technology, globally also called Intelligent Transportation Systems – ITS). init SE 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 SE and its subsidiaries are consistent with the IFRS applicable in the EU. The consolidated financial statements comply with the requirements of § 315a of the German Commercial Code (HGB).

The consolidated financial statements were prepared in euro. Unless otherwise indicated, all figures are rounded to a full thousand (EUR k / EUR '000).

The financial year of all included companies ends on 31 December.

For the sake of clarity individual items of the consolidated balance sheet and the income statement have been combined; these are shown and explained separately in the notes. The income statement was prepared using the function of expense method.

In principle, the accounting policies and measurement methods applied are consistent with those applied in the previous year.

The following standards are applicable for the first time in the financial year 2017; however, there is no impact on the financial position, performance and cash flows of the init group.

Standard	Title
Amendment to IAS 12	Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses
Amendment to IAS 7	Statement of Cash Flows - Disclosure Initiative
Annual improvements IFRS (2014–2016 cycle)	

EU endorsement received:

The IASB has published the following standards, which have already been introduced into European law in the context of a comitology procedure, but which were not yet mandatory for the 2017 financial year. The group did not opt to early adopt these standards.

Standard	Title	Application
Amendment to IFRS 9	Financial instruments	January 2018
IFRS 15	Revenue from Contracts with Customers	January 2018
IFRS 16	Leases	January 2019
Amendments to IFRS 2	Share based payment	July 2016

In July 2014, the IASB introduced IFRS 9, Financial Statements. IFRS 9 presents revised guidance on the classification and measurement of financial assets. This standard replaces IAS 39. The basis of this standard refers the management of cash flow characteristics and the business model. Further, a new valuation model is based on credit default. IFRS 9 contains new regulations for the application of hedge accounting in order to clearly illustrate risk management activities by companies, especially in regard to managing non-financial risks. The new standard is applicable for annual periods beginning on or after 1 January 2018. The group considers the impairment of assets concerning the valuation model in IFRS 9 as likely to be minor and a bit more volatile. init will renounce to adapt prior-year figures in accordance with the transitional regulation of IFRS 9. In general, differences between book values of financial assets and financial liabilities due to the application of IFRS 9 will be recorded in retained earnings or other reserves on 1 January 2018.

In May 2014, the IASB published IFRS 15, Revenue from Contracts with Customers. The recognition of revenues aims to depict the transfer of promised goods or services to the customer in an amount which reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Revenues will be realized when control of the goods or services is passes to the customer. IFRS 15 substitutes IAS 11, Construction Contracts and IAS 18, Revenue as well as the corresponding interpretations. The standard is applicable for annual periods beginning or after 1 January 2018. A prior application is not permitted. init applies IFRS 15 with a modified retrospective method which means that in the start of the subsequent reporting period a profit neutral recognition takes place using accumulated adaptive accounting of the opening value in retained earnings. Further findings in the implementation of IFRS 15 confirm no significant effects on init's consolidated accounts. On 1 January 2018, retained earnings will alter by EUR 761k. This adjustment derives from the split of transaction prices into different contractual obligations with different remaining terms. The predominant number of construction contracts are currently recognised using the percentage of completion method which complies with the requirements for the timing specific revenue realization. Further, adjustments in the balance sheet (e.g. separate items for financial assets and financial liabilities) and additional quantitative and qualitative notes will be made.

IFRS 16 was published in January 2016 and substitutes IAS 17, Leases and the approach to lessor accounting from IFRS 16. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, and ensures for lessees that all leases have to be recognized with a single model similar to the accounting of financial leases in IAS 17. There will be no significant changes in the accounting for lessors. IFRS 16 is applicable for annual periods beginning on or after 1 January 2019. An early adoption is acceptable as long as IAS 15 is applied by the company. For the first application of the new standard lessees can choose between a comprehensive or modified retrospective recognition. The transitional regulations of IFRS 16 include certain transitional simplifications. The impact of the application of IFRS 16 is currently under review (effective for annual periods beginning on or after 1 January 2019). It is currently assumed that an increase in the balance sheet total of around EUR 8.0m and a rise in EBIT of around EUR 0.4m at the cost of interest expense will primarily result from the leases for buildings and mainly related parties. The group has not early adopted this standard. The scope of the disclosures in the notes is expected to increase significantly (effective for annual periods beginning on or after 1 January 2018).

Further published standards introduced into European law have no relevance for init.

EU endorsement outstanding:

The IASB has published the following list of standards and interpretations whose application was not yet mandatory during the 2017 financial year. These standards and interpretations have not yet been adopted into EU law and were not applied by the group.

Standard	Title	Publication by IASB
IFRS 14	Regulatory Defferal Accounts	January 2014
IFRS 17	Insurance Contracts	May 2017
Amendments to IFRS 10 und IAS 28	Sales or contributions of assets between an investor and its associate / joint venture	September 2014
Interpretation IFRIC 23	Uncertaincy over Income Tax Treatments	June 2017
Interpretation IFRIC 22	Foreign currency transaction and prepaid consideration	December 2016
Amendments to IAS 40	Transfer of investment property	December 2016
Improvements to IFRS (2014–2016)		December 2016

The standards and interpretations listed above will be applied when they take effect within the European Union. There are no plans to early adopt the new standards in the init group.

3. Accounting policies and consolidation principles

Basis of consolidation

Name	Registered office	Share as of 31/12/2017	Share as of 31/12/2016
Fully consolidated companies			
INIT Innovative Informatikanwendungen in Transport, Verkehrs- und Leitsystemen GmbH ("INIT GmbH")[1)]	Karlsruhe, Germany	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 Toronto")	Toronto, 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")[1)]	Karlsruhe, Germany	100%	100%
INIT Innovations in Transportation Oy ("INIT Helsinki")	Helsinki, Finland	100%	100%
INIT Innovations in Transportation Ltd. ("INIT Nottingham")	Nottingham, UK	100%	100%
INIT Swiss AG ("INIT Neuhausen")	Neuhausen, Switzer-land	100%	100%
initperdis GmbH ("initperdis")	Hamburg, Germany	100%	100%
INIT Asia-Pacific Pte. Ltd. ("INIT Singapur")	Singapore	100%	100%
CarMedialab GmbH ("CML")	Bruchsal, Germany	58.1%	58.1%
CarMedialab Corp. ("CML Corp.")	Santa Monica / California, USA	58.1%	58.1%
TQA Total Quality Assembly LLC ("TQA")	Chesapeake / Virgina USA	60%	60%
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake / Virgina USA	100%	100%
GO-1 LLC ("GO-1")	Chesapeake / Virgina USA	100%	100%
iris-GmbH infrared & intelligent sensors ("iris")[3)]	Berlin, Germany	74.5%	74.5%
iris – infrared & intelligent sensores NA, Inc. ("iris Atlanta")[3)]	Atlanta / Georgia, USA	74.5%	74.5%
iris – infrared & intelligent sensores NA, LLC ("iris Phoenix")[2)]	Phoenix / Arizona, USA	74.5%	74.5%
Sensores infrarrojos e inteligentes iris ltda. ("iris Santiago")[2)]	Las Condes / Santiago de Chile, Chile	74.5%	74.5%
inola GmbH ("inola")	Pasching, Austria	100%	100%
HanseCom Public Transport Ticketing Solutions GmbH ("HanseCom")	Hamburg, Germany	100%	100%
INIT innovation in transportations NZ Limited ("INIT Dunedin")	Dunedin, New Zealand	100%	-

Name	Registered office	Share as of 31/12/2017	Share as of 31/12/2016
Associated companies (at equity)			
maBinso software GmbH ("maBinso")	Hamburg, Germany	35.8%	35.8%
Bytemark Inc. ("Bytemark")	New York, USA	17.6%	26.44%

1) Total exempted pursuant to Section 264 Paragraph 3 of German Commercial Code (HGB)

2) Company not consolidated due to its minor importance

3) Due to the put option described in the business combinations section, the economic participation rate is 100 per cent

In November 2017, a change in INIT Chesapeake resulted from the share of Bytemark Inc., New York (Bytemark). In September 2016, init invested in Bytemark with 26.44 per cent which was recognised as "at equity" in the consolidated accounts. Bytemark executed an increase in capital by November 2017 which init did not participate in. As a result, the share was diluted to 17.6 per cent. However, the disclosure as associated company despite of a share below 20 per cent will be maintained on 31 December 2017 since a continuously significant influence derives from the participation in the board of directors. A further increase in capital is planned in the second quarter of 2018 where init's share will be shrinking to 12.4 per cent. Bytemark will gain USD 13.0m through either increase in capital which secures a continuing growth of the start-up company and which will support financing important investments on the market.

Company formations in 2017 and 2016

On 6 June 2016, a subsidiary of init SE was founded in Dunedin/ New Zealand. The service company INIT innovation in transportations NZ Limited is necessary in order to successfully complete contacts in New Zealand. Share capital of NZD 1k and a capital reserve of NZD 199k were paid in on 7 July 2017.

The company inola GmbH was founded in Pasching (near Linz / Austria) with effect from 12 July 2016. The company develops optimisation solutions capable of being used both within the init group and sold to third parties. Share capital of EUR 35k was paid in on 13 July 2016.

Business combinations in 2016

HanseCom Public Transport Ticketing Solutions GmbH, Hamburg

Effective 1 October 2016, init SE took over 100 per cent of HanseCom's public transport ticketing solutions GmbH, Hamburg, the leading provider of sales and customer management systems for local public transport in Germany.

With this strategic investment, the init group is expanding its strong position in a dynamically growing submarket and is thus steadily strengthening its solution competence for up-to-date ticketing. In addition, init will also acquire a number of new key accounts in Germany and Austria through the acquisition.

After all value defining facts are known for HanseCom, the provisional purchase price allocation has been adapted definitively in the third quarter of 2017. Therefore, as of the acquisition date 1 October 2016, the fair value of identifiable assets and liabilities of HanseCom are as follows:

EUR '000	
Assets	
Cash and cash equivalents	74
Receivables and other assets	651
Inventories	926
Tangible assets	33
Intangible assets (customer base / technology)	1,802
Total	**3,486**

EUR '000	
Liabilities	
Payables	1,808
Provisions	1,882
Deferred tax liabilities	1
Total	**3,691**
Fair value of net assets	-205
Goodwill from company acquisition	379
Total consideration for business combination	**174**

The total consideration for the acquisition amounts to EUR 174k, of which EUR 74k stems from the compensation for the cash received and the compensation for the net assets received.

The fair value of trade receivables is EUR 339k. This corresponds to the gross contributions of the contractual claims. We assume that all receivables are fully collectible.

HanseCom's revenues from the date of acquisition to 31 December 2016 amounted to EUR 918k, the net loss for the period amounted to EUR 393k. HanseCom emerged from an asset deal on 1 May 2016.

The goodwill of EUR 379k is covered by expected additional business from the portfolio expansion, as an integrated solution for SAP-based systems can now be offered.

The finalization of the purchase price allocation leads to an adjustment of EUR 41k in the group's EBIT.

Cash payment due to company acquisition:

EUR '000	
Cash acquired with the subsidiary	74
Purchase price (included in cash flow from investing activities)	174
Actual cash payment due to company acquisition	100

iris-GmbH infrared & intelligent sensors (iris-GmbH), Berlin

With effect from 29 January 2016, INIT GmbH acquired a further 6 per cent investment, and on 7 July 2016 another 25.5 per cent investment in iris-GmbH infrared & intelligent sensors (iris-GmbH) in Berlin. At the time of acquisition, this was an increase in the at-equity investment. Effective on 7 July 2016, additional shares of 25.5 per cent were acquired (IFRS 3, date of the acquisition of control 8 July 2016). iris-GmbH is a developer and manufacturer of sensor components and products for automatic passenger counting. The company develops, produces and supplies optoelectronic sensors for integration into various systems.

iris-GmbH in Berlin has three subsidiaries, based in Atlanta (Georgia / US), Phoenix (Arizona / US) and in Santiago de Chile (Chile), which handle sales and service in their respective areas. iris-GmbH also has a 48 per cent investment in maBinso software GmbH in Hamburg. As of 1 July 2016 maBinso's profit is included at equity in the consolidated financial statements.

Until 29 January 2016, INIT GmbH had 43 per cent of the shares in this company and 49 per cent by 7 July 2016. With the purchase of a further 25.5 per cent with effect from 7 July 2016, the investment now amounts to 74.5 per cent. The agreed purchase price for the 6.0 per cent investment was EUR 762k, and EUR 4,500k for the acquisition of the 25.5 per cent investment. In addition, a two-sided option was agreed to take over the remaining 25.5 per cent of the shares in June 2020. Under certain conditions, the holder of the shares has the right to sell his shares to the init group in the period from 1 June 2020 to 30 June 2020 (put option). Insofar as this right is not required or if the prerequisites were not fulfilled, the init group is entitled to acquire these shares for EUR 5,000k (call option).

The 43 and 49 per cent investments had previously been consolidated at equity. From the moment at which control was assumed on 8 July 2016, iris-GmbH was fully consolidated based on the put-call option, whereby the income statement of iris-GmbH was included for half a year from 1 July 2016 onwards. The net profit for the year was included at equity for 49 per cent in the consolidated financial statements for the first half of 2016, and is shown in the income statement under "Income from associated companies".

The holding was acquired for strategic reasons. iris-GmbH, a global specialist in sensor systems for the automatic counting of passengers, operates in a growth market. iris-GmbH will continue operating independently in its own market segment and supply both init and other companies with its sensor technology, which is currently superior to that of its competitors.

The fair values of the identifiable assets and liabilities of iris-GmbH including its subsidiaries at the acquisition date on 7 July 2016 break down as follows:

EUR '000	
Assets	
Cash and cash equivalents	2,103
Receivables and other assets	2,966
Inventories	2,966
Tangible assets	1,244
Intangible assets (customer base / technology)	7,698
Other intangible assets	118
Shareholdings (equity interests)	72
Financial assets	2
Total	**17,169**

EUR '000	
Liabilities	
Payables	1,805
Provisions	1,627
Deferred tax liabilities	2,386
Total	**5,818**
Fair value of net assets	11,351
Goodwill from company acquisition	4,219
Total consideration for business combination	**15,570**

The useful life of the intangible assets is between 3 and 15 years.

Based on the purchase price for the last 25.5 per cent of the shares of EUR 4,500k and taking into account the allocation of equity capital from the acquisition in January 2016 of EUR 317k, the value of the old shares amounted to EUR 8,039k.

The put option was taken into account based on an exercise price of EUR 4,000k, an interest rate of 4.55 per cent and a maturity of 4 years with a present value of EUR 3,348k for the consideration paid. The non-controlling interests are reported in other non-current liabilities.

The fair value of accounts receivable is EUR 2,930k. This corresponds to the gross amounts of the contractual receivables. We expect all receivables to be recoverable.

The carrying amount (at equity) of the previous 49 per cent investment at the acquisition date amounted to EUR 3,350k (including prorated result in 2016). In connection with the acquisition of the additional investment, the fair value of the previous investment was redetermined. The revaluation was carried out as described above. The gain of EUR 4,689k resulting from the revaluation was recognised through profit or loss under "Holding gain (acquisition iris-GmbH)" in the consolidated income statement.

iris-GmbH's revenue from the acquisition date until 31 December 2016 amounted to EUR 7,262k and the net profit for the same period EUR 198k. If the company had been acquired at the beginning of 2016, iris-GmbH would have generated revenues of EUR 13,440k and a profit of EUR 753k for the init group.

The goodwill of EUR 4,219k includes the value of expected synergies in the areas of procurement and sales, which was not recognised separately. The goodwill recognised in the balance sheet is not tax-deductible.

Cash payment due to company acquisition:

EUR '000	
Cash acquired with the subsidiary	2,103
Purchase price (included in cash flow from investing activities)	4,500
Actual cash payment due to company acquisition	2,397

Consolidation methods

The annual financial statements of the fully consolidated companies are prepared according to the standard accounting and measurement 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 local accounting regulations are adjusted accordingly.

The agreed contingent consideration is reported at the acquisition date fair value. In agreement with IAS 39, subsequent changes to the fair value of a contingent consideration constituting an asset or liability are reported through profit or loss or in other comprehensive income. A contingent consideration classed as equity is not revalued. Its subsequent payment is reported in the shareholders' equity. Where a contingent consideration does not fall within the scope of IAS 39, it is measured in agreement with the relevant IFRS.

Capital is consolidated by offsetting the acquisition cost against the group share in the revalued shareholders' equity 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 non-controlling 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 through profit or loss immediately after acquisition. In case of de-consolidations, the remaining carrying amounts of the credit differences are taken into account proportionally when calculating the disposal result. Measurement using the equity method is based on the same principles, with goodwill being reported in the investments.

Receivables and payables as well as expenses and income between consolidated companies are offset against each other. Assets from intragroup services are adjusted by intercompany profits. Deferred taxes are recognised to reflect temporary valuation differences from consolidation processes.

Currency translation

The financial statements of the subsidiaries of init SE 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 Toronto, INIT Brisbane, INIT Dubai, INIT Nottingham, SQM, INIT Neuhausen, CML Corp., INIT Singapore, GO-1, iris Atlanta, iris Phoenix and iris Santiago corresponds to their national currency. When translating 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 historical 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 reserves).

Transactions in a different currency than the functional currency will be converted with the exchange rate on the date of the transaction. Thereof resulting currency conversion differences are recognised through profit or loss.

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 of the reporting date, and the presentation of income and expenditure during the reporting period. 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 carrying amounts of assets and liabilities in the next financial year are explained below.

Future receivables from production orders

Assumptions and estimates are required for the accounting and measurement of future receivables from production orders. There are uncertainties regarding the degree of completion. This is dependent on the assumptions for future hours, material expenses and possible order extensions. Further information will be given in note 16.

Goodwill
Goodwill from a business combination is initially recognised at acquisition cost, measured as transferred consideration in excess of 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 carrying value may have decreased. This test requires the estimation of the recoverable amount to be higher than the value in use or the net realisable amount of the cash-generating units to which the goodwill is allocated. To this end, 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 present value of these cash flows. For further information, please refer to note 21.

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 note 28.

Development costs
Development costs are capitalised as per the accounting principles and measurement methods presented. To calculate the values to be capitalised, corporate management must make assumptions on the amount of cash flow expected in the future from assets, on the interest rates to be applied and on the timeframe for the influx of expected future cash flows generated by assets. Research and development costs are expensed as incurred. In certain cases, development costs are capitalised (please refer to the explanations on other intangible assets in the notes 21).

Furthermore, estimates are also necessary for the reporting of value adjustments on doubtful receivables and of contingent liabilities and other provisions. They are also needed when determining the fair value of non-current property, plant, equipment and intangible assets and when recognising deferred taxes on unused tax losses.

Inventories
Inventories are required to be stated at the lower of value of acquisition or production cost and the net realisable value in accordance with IAS 2.9. In order to secure the lowest of both values, init determines inventories by means of experience and evaluation of the markdown from previous projects. Next to this standardised approach, init carries out a case-by-case review for storages. Typical reasons for a markdown of the inventories are faulty products or technical obsolescence.

Realisation of income

Income from contracts 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 construction contracts is recorded using the percentage of completion (PoC) method. The percentage of completion of orders in progress and not yet invoiced at the reporting date is determined using the expected total costs (“cost-to-cost method”). This happens regardless of the time of payment. An expected loss from a production order is posted immediately as an expense.Great importance here lies in the estimation of the percentage of completion in regard to the extent of delivery and performance which is necessary for the completion of contractual obligations. Significant estimations especially include total costs and contractual risks including technical, political and regulatory risks. In the percentage of completion method changes in estimates can raise and reduce revenues. In the evaluation whether an economic benefit will be gained, the creditworthiness of customers is taken into account in the estimated probability. Moreover, the most likely scenario needs to be evaluated which can be a continuation or a cancellation of a contract. Individually for every contract all relevant facts will be included in this evaluation.

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 after the installation has been completed.

Income from operating leases for investment property is reported in other operating income spread, evenly over the entire term of the lease.

Interest income is realised when interest has accrued.

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

Public subsidies and European Union subsidies

Public subsidies and subsidies from the European Union 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 instruments 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.

Regular way purchases and sales of financial assets are reported on the trade day, i.e. the day on which the company has made a firm commitment to purchase the asset. Regular way purchases and sales are purchases and sales of financial assets which prescribe the provision of the assets within a period specified by market regulations or conventions.

Financial liabilities are recognised at amortised costs with effective interest method. The effective interest is determined firstly at its initial recognition in financial liabilities. Changes to conditions lead to a new valuation of the book value of financial liabilities.

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

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 shareholders' 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 amortised cost less any impairment losses. Impairment losses on trade receivables are recognised if they are substantially overdue. Likewise, as in the case of future claims from production orders, value adjustments are made if penalties are foreseen or other indications for a default of the debtor are to be recognized. Other profits and losses are entered in the operating result of the accounting period if the receivables are derecognised 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 interest change and 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.

Gains or losses from changes in the current prices of derivative financial instruments that do not meet the hedge accounting criteria are immediately recognised through profit or loss. 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 revenue recognition.

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

The group records hedge accounting when necessary requirements are met. Currently hedge accounting is not applied by the group.

Inventories

Inventories are measured at their acquisition or production costs on the reporting date at the time of their addition. The lower value out of acquisition or production costs and net selling price is recorded on the balance sheet date. If the net selling price of inventories previously written off has increased, their value is raised appropriately up to the maximum of their acquisition or production costs. The production costs comprise both direct costs and the manufacturing and material overheads incurred in production, any depreciation and other production-related expenses. Borrowing costs are reported as an expense in the period in which the debts were accrued. Impairment losses are recognised where necessary.

Property, plant and equipment

Property, plant and equipment are measured at acquisition cost less scheduled depreciation. The depreciation of the historical acquisition cost follows the straight-line method over the average useful life.

The average useful lives are as follows:

Buildings	25-50 years
Plant and machinery	3-5 years
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 a useful life of 50 years.

Group as lessor

Leases of the group where all the opportunities and risks inherent in the property are not substantially transferred to the lessee, are classified as operating leases. No finance leases for the group as lessor exist.

Other intangible assets

Purchased intangible assets are measured at acquisition cost and amortised using the 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 development costs were capitalised in 2017 as the conditions therefore, 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.

Interests in associated companies

The interests in associated companies comprise investments in companies accounted for at equity. On acquisition, these are measured at acquisition costs. Subsequent measurement takes into account the pro rata results of the company, the profit distributions effected and any impairments to be recognized on the investment rate.

Impairment of assets

Long-lived and intangible assets are checked for impairment if events or changes have occurred which suggest that the carrying amount of an asset can no longer be realised. Goodwill is tested for impairment once a year or if events or changes have occurred which suggest that the carrying amount of an asset can no longer be realised. Where the facts and circumstances indicate that an impairment of value has occurred, the carrying amounts of the assets are compared with their prospective future income. If necessary, they are written down to lower of cost or market.

Deferred tax assets and deferred tax liabilities

The company determines its deferred income taxes using the balance sheet 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 measurements of assets and liabilities and the corresponding tax assessment bases, as well as for the future utilisation of unused tax losses. 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 reversed. 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 31.0 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. A company calculates deferred tax liabilities on the difference between proportional equity of a subsidiary as in the group balance sheet and the associated company value in the tax balance sheet of the group (“outside basis differences”) if realisation is probable. The company can individually choose the timing of payout of subsidiaries or reinvestment and therefore, recognises deferred taxes only on “outside-basis-differences” when payout is planned or predicted.

When necessary conditions for netting out deferred taxes within a tax group are given, deferred tax assets and deferred tax liabilities are netted out.

Other long-term liabilities

The company holds 25kg gold to minimise the euro risk. The gold is measured at fair value.

Financial liabilities

Financial liabilities are carried at amortised cost.

Pensions accrued and similar obligations

The pension provisions 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 directly in equity through other comprehensive income. Current and past service costs are recorded immediately trough profit or loss.

Provisions

The provisions are taken into account where a past event has led to a current liability, their utilization is more likely than not, and the amount of the liability can be estimated reliably. Provisions are measured at their settlement amount and not offset against positive profit contributions. Provisions are only setup for legal or constructive liabilities vis-à-vis third parties. Non-current provisions are discounted.

NOTES ON THE CONSOLIDATED INCOME STATEMENT

4. Revenues

Revenues are composed of the following amounts:

EUR '000	2017	2016
Revenues resulting from the application of the percentage of completion method	83,538	71,380
Revenues from maintenance contracts	24,864	20,086
Revenues from additional and replacement deliveries	22,152	17,169
Total	**130,554**	**108,635**

The sharp increase in maintenance revenues in 2017 is due to the special effect of retrospective billing maintenance for 2016 and 2017 for the project in Abu Dhabi. The in 2017 invoiced proportion for 2016 amounts to AED 5,525k.

5. Cost of sales

Cost of sales is composed as follows:

EUR '000	2017	2016
Cost of materials and purchased services	41,713	38,029
Personnel expenses	31,272	26,601
Depreciation and amortisation	2,974	3,037
Rental expenses	2,850	2,822
Travel and entertainment costs	2,232	2,171
Valuation adjustments on inventories	634	123
Valuation adjustments on accounts receivables	642	75
Other	5,574	4,483
Total	**87,891**	**77,341**

The increase in the valuation adjustments on accounts receivable in 2017 mainly results from the further valuation adjustment of the receivable of AED 747k from our general contractor in Dubai. The carried out contrary effects therefore, are reversals of valuation adjustments.

As in the previous year, the vehicle costs as well as repair and maintenance expenses are also included in the item “Other”. The rise in the item “Other” mainly results from a legal dispute. On the other hand, other cost of sales include income from the reversal of provisions of EUR 840k (previous year: EUR 1,160k).

6. Research and development costs

Research and development costs, which consist exclusively of personnel costs, are divided into the development of software and hardware as follows:

EUR '000	2017	2016
Software	5,890	3,912
Hardware	1,003	1,114
Total	**6,893**	**5,026**

7. Other operating income

Other operating income primarily includes allocated benefits in kind and rental income. Additionally, EUR 424k (previous year: EUR 220k) results from public subsidies and subsidies from the European Union. Income from operating leases amounted to EUR 320k (previous year: EUR 313k).

8. Foreign currency gains and losses

EUR '000	2017	2016
Balance of unrealised currency gains / losses	153	3,829
Balance of realised currency gains / losses	-749	-2,996
Currency gains / losses from consolidation transactions	430	247
Total	**-166**	**1,080**

The decline results mainly from a less volatile development of the US dollar exchange rate in the reporting period.

9. Income tax

EUR '000	2017	2016
Current income tax	3,351	5,930
Deferred income tax	865	-3,371
Total	**4,217**	**2,559**

The tax expenditure resulting from the application of the tax rate of init SE is reconciled to income tax expenditure in the following table. The tax rate of the German companies is made up of corporation tax of 15.0 per cent (previous year: 15.0 per cent) plus 5.5 per cent solidarity surcharge thereon, and trade tax of 15.05 per cent (previous year: 15.05 per cent). For other countries the tax rate varies between 0 and 38 per cent. A tax rate of 31.0 per cent (previous year: 31.0 per cent) is used as the basis for the calculation of deferred taxes and tax reconciliation.

EUR '000	2017	2016
Profit before income tax	7,861	11,168
Theoretical income tax expenditure at 31.0%	2,437	3,462
Tax rate differences for foreign subsidiaries	-134	312
Tax effect of non-deductible / taxed expenses / income	344	68
Tax effects of tax-free increases in net worth	-70	0
Taxes unrelated to accounting period	645	-208
Tax effects from results of associated companies	857	-76
Tax-neutral revaluation of iris-GmbH	0	-1,453
Other	138	454
Effective income tax expenditure	**4,217**	**2,559**
Effective tax expenditure in %	**53.6**	22.9

The tax quote in 2017 is significantly higher than the previous year and likewise it is higher than the theoretical tax quote of 31 per cent. This is due to the non-tax deductible impairment of shares in Bytemark of EUR 857k as well as out-of-period taxes of EUR 645k from retrospective tax payments in reference to an audit. On the other side, a tax-neutral holding gain (acquisition iris-GmbH) was included the previous year.

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	2017	2016
Changes to deferred tax assets	2,797	66
Changes to deferred tax liabilities	-2,212	-636
Offset and recognised in equity	91	-551
Currency adjustments	189	136
Tax-neutral holding gain (acquisition iris-GmbH)	0	-2,386
Deferred tax expense (+) / income (–)	**865**	**-3,371**

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

10. Net gains and losses from financial instruments

Net gains from the other financial assets and liabilities are as follows:

Interest expense and income:

EUR '000	2017	2016
Loans and receivables	168	45
Financial liabilities recognised at cost	-652	-321
Total	**-484**	**-276**

Currency effects:

EUR '000	2017	2016
Loans and receivables	718	-3,508
Financial assets available for sale	7	4
Financial liabilities recognised at cost	-124	-12
Financial assets and liabilities reported at fair value through profit or loss	-1,167	192
Total	**-566**	**-3,324**

In addition to impairments and reversals of impairments, the net gains from the loans and receivables also include foreign currency effects.

The net gains and losses from the financial assets and liabilities reported at their fair value through profit or loss essentially include the results from changes in market value.

11. Earnings per share

Earnings per share are calculated by dividing the consolidated net profit due to the shareholders of the parent company by the weighted number of shares outstanding (subscribed capital less treasury stock). Since init SE had not issued any stock options by the reporting dates, there were no diluted earnings per share to be calculated.

	2017	2016
Net profit (shareholders of the parent company) in EUR '000	3,644	8,609
Weighted average number of shares outstanding	9,992,731	9,964,091
Undiluted earnings per share in EUR	0.37	0.86

12. Paid and proposed dividends

EUR '000	2017	2016
Ordinary dividends declared and paid during the financial year	2,200	1,991
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2017: 22 cents per share (2016: 22 cents per share)	2,208	2,200

13. Personnel expenses

Personnel expenses totalled EUR 55,035k (previous year: EUR 45,325k).

Cost of sales includes the following amounts:

EUR '000	2017	2016
Wages and salaries	25,420	21,490
Social security contributions	4,506	4,277
Pension costs	912	569
Share-based payment expense	434	267

Sales and marketing expenses include the following amounts:

EUR '000	2017	2016
Wages and salaries	9,256	7,338
Social security contributions	1,013	844
Pension costs	249	161
Share-based payment expense	122	87

General administrative expenses includes the following amounts:

EUR '000	2017	2016
Wages and salaries	4,875	4,311
Social security contributions	982	668
Pension costs	294	157
Share-based payment expense	80	57

Research and development expenses include the following amounts:

EUR '000	2017	2016
Wages and salaries	5,598	5,027
Social security contributions	985	-
Pension costs	232	-
Share-based payment expense	77	-

Social security contributions, pension costs and share-based payment expense were disclosed as production costs in the previous reporting period.

NOTES ON THE CONSOLIDATED BALANCE SHEET

14. Cash and cash equivalents

EUR '000	Fair values 2017	Fair values 2016
Cash in banks (current accounts)	18,098	21,073
Short-term deposits (fixed-term deposits / call money)	1,665	2,847
Total	**19,763**	**23,920**

15. Marketable securities and bonds

This item refers to marketable securities and bonds with a total fair value of EUR 27k (previous year: EUR 30k). 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 7k (previous year: EUR 4k), and this impairment was recognised as an expense.

16. Trade accounts receivable and future receivables from production orders

EUR '000	2017	2016
Gross trade receivables	37,599	28,992
Less cumulative value adjustments	-3,127	-3,084
Subtotal	34,472	**25,908**
Future receivables from production orders	27,417	38,180
Total	**61,889**	**64,088**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2017	2016
As of 01/01	3,084	2,732
Addition	1,074	387
Utilised	-88	-99
Unused amounts reversed	-647	-353
Currency effects	-296	84
Increase through acquisition subsidiaries	0	333
As of 31/12	**3,127**	**3,084**

The expenses from the addition for the year as well as the income from unused amounts reversed are included in the income statement under “Cost of sales”.

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

EUR '000	2017	2016
Carrying amount	61,889	64,088
Adjusted gross receivables	3,354	4,888
Neither past due nor impaired	49,573	55,272
Past due but not impaired		
< 30 days	3,423	1,971
30–60 days	1,785	945
60–90 days	1,101	91
90–180 days	1,501	399
> 180 days	1,152	522

The past due accounts receivable amount to EUR 12.3m (previous year: EUR 8.8m), whereby the projects in Dubai account for EUR 3.0m of this amount (previous year: EUR 3.2m). Of the past due accounts receivable in Dubai, around EUR 2.8m (previous year: EUR 2.3m) 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. Arbitration was decided in favour of init and an official copy of the judgment for Dubai was obtained. The enforcement measures in Dubai were not successful. Subsequently, the relevant applications for the recognition and enforcement of the arbitration in Dubai were filed before the Kuwait court. However, there is still the risk of default on these claims.

For future receivables from production orders, value-impairing factors which may primarily result from changes in contractual values are continuously considered in concurrent project calculations.

At the reporting date, there were no indications to suggest that the debtors of the receivables which were 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	2017	2016
Costs accrued plus profits from projects not yet invoiced	231,758	236,360
Less payments received	-211,456	-206,233
Balance	**20,302**	**30,127**
Of which: future receivables from production orders	27,417	38,180
Of which: liabilities from percentage of completion (see liabilities)	7,115	8,053

17. Inventories

EUR '000	2017	2016
Raw materials and supplies	1,769	1,597
Goods and unfinished and finished products	23,455	19,934
Repayments	729	5,475
Total	**25,953**	**27,006**

18. Other current assets

EUR '000	2017	2016
Derivative financial instruments	490	220
Prepaid expenses	500	569
Other tax refund claims	1,590	725
Due from personnel	420	505
Other	137	503
Total	**3,137**	**2,522**

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

These are financial assets apart from prepaid expenses.

The tax refund claims are mainly pre-tax refund claims against European states inside and outside the EU as well as North America.

19. Property, plant and equipment

EUR '000	Land and buildings	Plant and machinery	Other equipment	Assets under construction
Acquisition and production costs				
As of 01/01/2017	24,651	2,804	9,925	4,382
Additions in current financial year	5,931	270	2,251	451
Disposals in current financial year	666	319	2,136	0
Reclassification in current financial year	3,947	0	0	-3,947
Currency differences	-464	-263	-349	-886
As of 31/12/2017	33,399	2,492	9,691	0
Depreciation				
As of 01/01/2017	2,347	1,265	6,408	0
Additions in current financial year	705	373	1,663	0
Disposals in current financial year	287	300	2,023	0
Reclassification in current financial year	-3	0	8	0
Currency differences	-47	-148	-196	0
As of 31/12/2017	2,715	1,190	5,860	0
Carrying amount as of 31/12/2017	**30,684**	**1,302**	**3,831**	**0**

EUR '000	Land and buildings	Plant and machinery	Other equipment	Assets under construction
Acquisition and production costs				
As of 01/01/2016	17,940	2,036	9,458	273
Additions in current financial year	1,426	203	1,667	3,908
Disposals in current financial year	383	10	1,423	0
Reclassification in current financial year	5,002	0	0	0
Currency differences	120	78	-40	201
Acquisition of subsidiaries	546	498	242	0
As of 31/12/2016	24,651	2,805	9,904	4,382
Depreciation				
As of 01/01/2016	1,544	911	6,012	0
Additions in current financial year	534	310	1,607	0
Disposals in current financial year	36	0	1,210	0
Reclassification in current financial year	293	0	0	0
Currency differences	12	44	-21	0
As of 31/12/2016	2,347	1,265	6,388	0
Carrying amount as of 31/12/2016	**22,304**	**1,540**	**3,516**	**4,382**

The property, plant and equipment essentially concern the administration buildings at Kaeppelestrasse 4 and 4a in Karlsruhe, the building in Chesapeake, USA, as well as office equipment and technical equipment. Depreciation follows the straight-line method over the average useful life of the asset. Scheduled depreciation in 2017 totalled EUR 2,741k (previous year: EUR 2,451k) and is included in the consolidated income statement under “Cost of sales”, “Sales and marketing expenses” and “General administrative expense”. The individual figures can be found in note 21.

In 2017 the building in Chesapeake, USA, was completed and reclassified from "Assets under construction" to "Land and buildings". The scheduled depreciation was carried out for the first time in the second half of 2017.

Following a change of use resulting from owner-occupation, the property at Kaeppelestrasse 10 was reclassified from "Investment property" to "Land and buildings" within property, plant and equipment with effect from 1 October 2016. This entailed the reclassification of acquisition costs of EUR 5,002k and an amortisation of TEUR 293.

Currently there are no restrictions on the right of disposal. The loans for financing the two administration buildings are fully secured by land charges in the amount of EUR 5.5m (previous year: EUR 6.7m).

20. Investment property

EUR '000	**2017**	2016
Acquisition costs as of 01/01	1,389	6,377
Additions in financial year	625	14
Changes in property, plant and equipment in financial year	0	-5,002
Acquisition costs as of 31/12	2,014	1,389
Depreciation as of 01/01	67	291
Additions in financial year	24	68
Changes in property, plant and equipment in financial year	5	-293
Depreciation as of 31/12	96	66
Carrying amount as of 31/12	**1,918**	**1,323**

Composition of earnings from investment property during the period under review:

EUR '000	**2017**	2016
Rental income from investment property	320	313
Direct operating expenses * used to generate rental income	18	59

* 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. Until 31 December 2015 the land and property not operated for commercial purposes within the meaning of IAS 40 "Investment Property" concerned the neighbouring properties Kaeppelestrasse 8, 8a and 10 in Karlsruhe acquired in 2012.

The Kaeppelestrasse 10 property was reclassified on 1 October 2016, as a result of a change in its use. Acquisition costs of EUR 5,002k were reclassified.

Since April 2015 the properties Kaeppelestrasse 8 and 8a are fully leased for a period of 5 years and may not be terminated prior to this date.

In November 2017, iris Atlanta bought an apartment in Atlanta, USA, which will be let from 2018.

The investment property is measured at amortised cost plus incidental costs and recognised on the balance sheet at a carrying amount of EUR 1.9m (previous year: EUR 1.3m). 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 2.0m. This was determined using the discounted cash flow method. The measurement 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 carrying amount.

The operation, maintenance and care of the land and buildings are handled by the tenants, who also bear the related costs.

21. Goodwill and other intangible assets

EUR '000	Goodwill	Internally generated software	Licences and others
Acquisition and production costs			
As of 01/01/2017	8,987	8,483	16,348
Additions in current financial year	0	0	842
Disposals in current financial year	0	0	333
Currency differences	0	0	-16
As of 31/12/2017	8,987	8,483	16,841
Depreciation			
As of 01/01/2017	0	8,483	6,074
Additions in current financial year	0	0	1,435
Disposals in current financial year	0	0	333
Currency differences	0	0	-16
As of 31/12/2017	0	8,483	7,160
Carrying amount as of 31/12/2017	**8,987**	**0**	**9,681**

EUR '000	Goodwill	Internally generated software	Licences and others
Acquisition and production costs			
As of 01/01/2016	4,388	8,483	6,032
Additions in current financial year	4,220	0	8,027
Disposals in current financial year	0	0	42
Acquisition of subsidiaries	379	0	2,326
Currency differences	0	0	5
As of 31/12/2016	8,987	8,483	16,348
Depreciation			
As of 01/01/2016	0	8,483	4,574
Additions in current financial year	0	0	1,537
Disposals in current financial year	0	0	42
Currency differences	0	0	5
As of 31/12/2016	0	8,483	6,074
Carrying amount as of 31/12/2016	**8,987**	**0**	**10,274**

The scheduled depreciation for items of property, plant and equipment, goodwill and other intangible assets in 2017 totalled EUR 4,176k (previous year: EUR 3,988k) and is included in the consolidated income statement under “Cost of sales” (EUR 2,974k), “Sales and marketing expenses” (EUR 394k) and “General administrative expense” (EUR 808k).

Impairment test of goodwill

The impairment test of the goodwill is carried out exclusively at group level, since this is only a cash generating unit.

So far no impairment of goodwill was necessary.

The recoverable amount of the cash-generating unit 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 three years. Steady cash flows were shown for the following period. The interest rate applied for the discounting is 9.28 per cent before taxes (previous year: 8.04 per cent).

The following assumptions taken as a basis for the calculation of the economic benefit involve forecast uncertainties:

- Revenues
- Free cash flow
- Discount rate

Revenues: Revenues are planned on the basis of the order backlog, the open and announced tenders, offers made and past experience. Increasing revenues are expected.

Free cash flow: Free cash flow is the planned EBIT minus notional taxes, investments and changes in the net working capital as well as the addition of depreciation. 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 unit. An interest rate of 6.4 per cent (previous year: 5.55 per cent) after taxes was applied. Cash flows arising after the period of three years are determined using a growth discount of 1.0 per cent (previous year: 1.0 per cent).

Sensitivity analysis on the assumptions

With an increase in the interest rate of 4.9 percentage points, the fair value of the cash-generating unit would equal the carrying amount.

A reduction in planned revenues and free cash flows by around 8.2 per cent for each year and the perpetual annuity for the cash-generating unit means that the fair value equals the carrying amount.

Without the above mentioned changes the fair value as of the reporting date exceeds the carrying amount of the cash-generating unit by EUR 125,665k.

Other intangible assets

Licences and others:

The licences include external software costs as well as programming and consulting of EUR 901k (previous year: EUR 983k). The scheduled amortisation amounts to EUR 501k (previous year: 489k) and is included in the consolidated income statement item “Cost of sales”.

The capitalised technology and the capitalised customer base from the takeover of iris-GmbH in 2016 amounted to EUR 6,929k (previous year: EUR 7,442k). Scheduled amortisation amounts to EUR 513k (previous year: EUR 257k) and is included in the income statement item “Cost of sales”.

The capitalised customer base from the takeover of HanseCom in 2016 amounts to EUR 1,714k. Scheduled amortisation amounts to EUR 353k (previous year: EUR 88k) and is included in the income statement item “Cost of sales”.

22. Interests in associated companies

The associated company maBinso software GmbH, Hamburg, is not publicly listed. The business of maBinso is the creation, sale and operation of software as well as the related consulting for public transport. The earnings before taxes amounted to EUR 125k. The net profit corresponds to the comprehensive income and amounted to EUR 125k (previous year: EUR 53k). In 2016, the pro-rata result for init group amounted to EUR 59k. No payout was made in the 2017 financial year. Amortisation of investments in associated companies was not required.

The associated company Bytemark is not publicly listed. The purpose of the company is the creation of mobile ticketing solutions for transport companies. Sales for the 2017 financial year totalled USD 4,137k. The profit before tax for the full year 2017 is USD -6,226k. The after-tax result corresponds to the total result and amounts to USD -6,248 (previous year: USD -5,758k). The pro-rata result of the init group for 2017 is EUR -1,306k. No payout was made in the 2017 financial year. Due to a market transaction of Bytemark’s shares, amortisation on the shares in the associated company was indicated and amounted to EUR 866k. The fair value on the reporting date was determined by the price paid per share of this market transaction. The current and non-current assets amount to USD 1,152k. This corresponds to total assets. Together current and non-current liabilities total USD 1,089k.

23. Deferred taxes

The deferred tax assets and liabilities are as follows:

EUR '000	2017	2016
Deferred tax assets		
Receivables	106	264
Inventories	2,198	2,309
Property, plant and equipment	150	0
Other assets	336	2
Provisions	450	1,108
Pensions accrued and similar obligations	1,635	1,524
Total deferred tax assets	**4,875**	**5,207**
Deferred tax liabilities		
Future receivables from production orders	2,252	595
Property, plant and equipment	80	493
Goodwill	5	0
Other intangible assets	2,148	2,307
Other liabilities	105	1,026
Derivatives	152	68
Total deferred tax liabilities	**4,742**	**4,489**

No deferred tax assets were recognised in 2016 and 2017 for previously unused tax losses carried forward. On 31 December 2017, the unused tax losses carried forward were EUR 831k (previous year: EUR 468k).

On 31 December 2017, 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 31.5m (previous year: EUR 31.1m).

In the reporting period deferred tax assets and deferred tax liabilities of EUR 2.465k were netted out.

24. Other non-current assets

EUR '000	**2017**	2016
Asset value of pension liability insurance	1,214	1,171
Security deposits *	297	318
Loans *	0	5
Gold stock	861	867
Other *	223	229
Total	**2,595**	**2,590**

* Non-current financial assets

On the reporting date, there were no indications to suggest that the value of the other assets which are not measured at fair value was impaired.

No non-current financial assets are overdue.

25. Liabilities

	31/12/2017			31/12/2016		
		Remaining term			Remaining term	
EUR '000	**Total**	< 1 year	>5 years	Total	< 1 year	>5 years
Bank loans	42,158	24,599	4,397	35,349	19,669	1,852
Trade accounts payable	11,030	11,030	0	16,641	16,641	0
Accounts payable from percentage of completion	7,115	7,115	0	8,053	8,053	0
Advance payments received	1,431	1,431	0	806	806	0
Income tax liabilities	958	958	0	3,514	3,514	0
Other liabilities	14,127	14,127	0	15,411	15,411	0

Terms relating to the above financial liabilities:

The bank loans of EUR 42,158k (previous year: EUR 35,349k) relate to long-term loans of EUR 4,136k (previous year: EUR 5,503k) for financing the buildings at Kaeppelestrasse 4, 4a, 8 / 8a and 10 which are fully secured by a land charge and the resultant current share of EUR 1,322k (previous year: EUR 1,214k). In addition, there are loans for acquisition financing of EUR 7,345k (previous year: EUR 9,345k), investment loans of EUR 2,500k (previous year: EUR 0k) as well as a loan of EUR 6,529k (previous year: EUR 2,782k) for the new building in the USA. They also include euro loans amounting to EUR 19,915k (previous year: EUR 16,444k) as well as other bank loans of EUR 411k (previous year: EUR 61k).

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	**2017**	97,826	3,580	59,046	35,200
Credit insurance companies	**2017**	22,045	0	22,045	0
Bond line for USA and Canada	**2017**	77,110	0	0	0
Banks	2016	100,052	5,796	59,056	35,200
Credit insurance companies	2016	21,857	0	21,857	0
Bond line for USA and Canada	2016	89,214	0	0	0

The credit and guarantee lines are essentially sufficient to finance the further growth of the company. On 31 December 2017, the cash line drawdown totalled EUR 19,915k (previous year: EUR 16,455k), the guarantee lines EUR 22,830k (previous year: EUR 36,073k), and the bond line EUR 77,110k (previous year: EUR 83,456k).

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 note 34.

For the terms and conditions relating to the liabilities from derivative financial instruments included in the other liabilities, please refer to note 30.

26. Other liabilities (non-current and current)

	31/12/2017			31/12/2016		
		Remaining term			Remaining term	
EUR '000	**Total**	< 1 year	> 1 years	Total	< 1 year	> 1 years
Tax liabilities	2,152	2,152	0	2,058	2,058	0
Due to personnel	5,715	5,715	0	5,304	5,304	0
Derivative financial instruments	0	0	0	476	476	0
Social security liabilities	239	239	0	232	232	0
Liabilities for services not invoiced by subcontractors	1,625	1,625	0	4,011	4,011	0
Liability from option contract	3,579	0	3,579	3,348	0	3,348
Sundry	4,616	4,396	220	3,364	3,330	34
Total	**17,926**	**14,127**	**3,799**	**18,793**	**15,411**	**3,382**

The “Sundry” item mainly contain deferred revenues from warranty contracts of EUR 3,079k (previous year: EUR 1,982k). There are no other liabilities with a residual term of more than 5 years.

The “Sundry” item includes current financial liabilities of EUR 1,317k (previous year: EUR 1,348k). In addition, the liabilities from the option contract as well as other non-current financial liabilities amounting to EUR 3,799k (previous year: EUR 3,382k) are included.

27. Provisions

EUR '000	As of 01/01/2017	Currency differences	Utilised	Unused amounts reversed	Addition	**As of 31/12/2017**
Provisions for warranties	4,314	177	139	756	970	4,212
Provisions for unrealised costs	5,934	216	577	40	351	5,452
Provisions for anticipated losses related to projects	1,232	0	303	0	144	1,073
Other provisions	969	36	556	10	107	474
Total	**12,449**	**429**	**1,575**	**806**	**1,572**	**11,211**

The provisions for warranties were calculated on the basis of a percentage of average sales in the past two years determined from empirical figures in the past.

The provisions for unrealised costs essentially concern work still outstanding in invoiced orders.

The provisions for anticipated losses related to projects were set up on grounds of significant technological requirements as well as various new developments in one project and were determined in the concurrent project calculations.

28. Pensions accrued and similar obligations

For the employees of init SE, INIT GmbH, initplan and initperdis there are both defined benefit plans and defined contribution plans. The liabilities include obligations from current pensions and for pension entitlements of future retirees. The defined benefit obligations 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 after departing the Managing Board of init SE and after departing as Managing Director of subsidiaries). 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:

Discount rate in per cent (previous year)	1.70 (1.80)
Biometric basis	Klaus Heubeck’s “Richttafeln G” (actuarial tables) of 2005
Pension trend	4.00 (4.00)
Employee turnover	0.00 (0.00)

The company's pension provisions as of the reporting dates developed as follows:

EUR '000	2017	2016
Pensions accrued at the beginning of the year (Defined Benefit Obligation – DBO)	9,016	7,864
Service cost	358	97
Interest cost	160	197
Actuarial gains (–) / losses (+)	292	902
Pension payments	-46	-44
DBO at the end of the year	9,780	**9,016**
Plan assets	-390	-378
Pensions accrued	9,390	**8,637**

The plan assets contain the asset value of pension liability insurance as well as deposits on a pledged account and have developed as of the reporting date as follows:

EUR '000	2017	2016
Fair value of the plan assets on 01/01	378	368
Interest income from plan assets	2	3
Financial actuarial gains (+) / losses (–)	-1	-1
Contributions to plan assets by the group	11	8
Fair value of the plan assets on 31/12	**390**	**378**

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

EUR '000	2017	2016
Service cost	358	97
Interest cost	160	197
Expenses for pension payments	**518**	**294**

In the consolidated income statement, the service cost is included in the cost of sales (EUR 254k), the sales and marketing expenses (EUR 42k) and the general administrative expense (EUR 62k), and the interest paid is reported in the item of the same name.

EUR '000	2017	2016
Cumulated amount of the financial actuarial gains included in the shareholders' equity, after deducting deferred taxes	-2,887	-2,686

EUR '000	2017	2016
Defined benefit obligation (DBO) on 31/12	9,780	9,016
Experience adjustments	-142	103

The pension provisions attributable to persons in key management positions totalled EUR 4,555k (previous year: EUR 4,417k). Of this, an amount of EUR 223k (previous year: EUR 215k) pertains to a former Managing Board member.

Sensitivities of the principal actuarial assumptions

The interest rate as well as the life expectancy have been identified as principal actuarial assumptions. Changes would have the following implications:

Implications for the DBO	+0.5% actuarial interest rate	-0.5% actuarial interest rate	+1 year life ex-pectancy	-1 year life ex-pectancy
2017	-995	580	212	-710
2016	-712	805	429	-423

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 148k (previous year: EUR 136k) have been entered into to compensate risks. A further EUR 242k (previous year: EUR 242k) has been deposited on a pledged bank account due to the small amount involved. The excess obligations are financed from current cash flows.

Future cash flows

Expected pension payments (EUR '000):

2018	2019	2020	2021	2022	2023-2027
236	253	271	292	332	1,876

Previous year

2017	2018	2019	2020	2021	2022-2026
221	229	246	264	285	1,765

The weighted average maturity of the DBO of the defined benefit plans is 16 years (previous year: 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 716k (previous year: EUR 621k), of which EUR 122k (previous year: EUR 105k) is allocated to persons in key management positions.

29. Shareholders' equity

Capital stock

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 are fully paid in.

Shares outstanding:

	2017	2016
As of 01/01	9,980,335	10,017,598
Acquisition of treasury stock	-35,000	-75,253
Issue of stock to Managing Board, managing directors and key personnel	21,453	18,141
Issue of stock to employees	19,388	19,849
As of 31/12	**9,986,176**	**9,980,335**

Shares of init SE held by members of the Managing Board and the Supervisory Board as of 31 December 2017:

Managing Board	Number of shares
Dr. Gottfried Greschner, CEO *	3,455,000
Dr. Jürgen Greschner, CSO	91,000
Dr. Hans Heribert Bäsch, CFO	500
Joachim Becker, COO	349,383
Matthias Kühn, COO	3,630

Supervisory Board	Number of shares
Hans-Joachim Rühlig	0
Ulrich Sieg	0
Drs. Hans Rat	0

* 3,420,000 of which are held by Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe. Dr. Gottfried Greschner holds a 74.2 per cent stake in this company.

Concerning the information provided pursuant to § 26 para 1 WpHG we refer to note 42.

Conditional capital

The company's Annual General Meeting adopted a resolution on 21 July 2016 to create conditional capital of EUR 5,000,000. The company's capital stock may be increased by up to EUR 5,000,000 by issuing up to 5,000,000 new bearer shares. The conditional capital increase was made solely for the purpose of granting shares, on the exercise of option or conversion rights or on the performance of option or conversion obligations, to holders of bonds with warrants attached and convertible bonds issued as authorised by the Annual General Meeting of 21 July 2016.

Additional paid-in capital

The additional paid-in capital on 31 December 2017 amounted to EUR 5,397k, of which EUR 3,141k resulted from the premium of the shares sold at the time of the initial public offering. Due to the sale of treasury stock in 2007, the additional paid-in capital increased by EUR 514k. EUR 1,987k was transferred from 2005 to 2016 as part of the recognised expenses from the share-based payments (see note 36). In 2017 an amount of EUR 245k was released.

Treasury stock

The treasury stock as of 1 January 2017 totalled 59,665 shares. Based on a resolution passed at the shareholders' meeting of 13 May 2015, the company is authorised to purchase treasury shares. On 18 October 2017 a decision was made to repurchase up to 35,000 shares. 35,000 shares were repurchased from 19 October to 11 November 2017 at an average price of EUR 19.69.

As part of an employee stock ownership plan, shares of init SE at no cost were offered to the employees of init group as profit sharing. 19,388 shares were transferred to employees in December 2017. Within the scope of the incentive scheme for members of the Managing Board, managing directors and key personnel in the first half year of 2017, a total of 21,453 shares were transferred with a vesting period of five years where shares canot be resold. 35,801 shares of the total 40,841 shares transferred were sold to subsidiaries for transfer to their employees. On 31 December 2017, there were consequently 53,824 treasury shares.

The company's treasury stock was valued at acquisition cost at EUR 926k (previous year: EUR 889k) and openly deducted from the equity capital. The total of 53,824 shares as of 31 December 2017 corresponds to an imputed share of EUR 53,824 (0.54 per cent) of the capital stock. The shares were repurchased at an average price of EUR 17.19 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 59,869k (previous year: EUR 58,409k) include the retained earnings of init SE and results of init SE and the consolidated subsidiaries generated since group affiliation.

Other reserves

Difference from pension measurement: The actuarial gains and losses are recorded through other comprehensive income.

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

Marking securities to market: Changes in the fair value of available-for-sale financial instruments are recognised in this reserve.

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, limiting the financial risks and maintaining the high equity ratio. The group has shown a consistently high equity ratio in the last few years. At the annual shareholders' meeting 2016, a resolution to create conditional capital of EUR 5,000,000 was passed.

30. 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, trade accounts receivables 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 acquires derivative financial instruments. 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 and foreign currencies. However, since init also tries to keep its options open with regard to hedging currency risks, it may incur currency losses.

In addition, init holds 25kg of gold to minimise inflation risk. The value of gold is subject to fluctuations as it is marked to market 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. Management regularly reviews and monitors each of these risks, which are described more specified in the following.

Foreign currency risk

Due to foreign revenues, the change in exchange rates constitutes a substantial risk. To hedge the foreign currency risk, the group uses forward exchange transactions for project business transactions. 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 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 relevant for init on 31 December 2017 had appreciated by 10 per cent, the operating result would have been EUR 148k less. The resulting appreciation of forward exchange transactions would have totalled EUR 1,107k. As a counter-effect, it would also have resulted in expenses of EUR 959k owing to cash in banks, accounts receivable and liabilities in foreign currency. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2017 had depreciated by 10 per cent, the operating result would have been EUR 42k higher. This breaks down as follows: EUR 1,214k relates to forward exchange transactions, compensated for by appreciation of cash in banks, accounts receivable and liabilities in foreign currency of EUR 1,172k.

If the value of the euro relative to the foreign currencies relevant for init on 31 December 2016 had appreciated by 10 per cent, the operating result would have been EUR 6k less. The resulting appreciation of forward exchange transactions would have totalled EUR 791k. As a counter-effect, it would also have resulted in expenses of EUR 785k owing to cash in banks, accounts receivable and liabilities in foreign currency. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2016 had depreciated by 10 per cent, the operating result would have been EUR 12k higher. This breaks down as follows: EUR 971k relates to forward exchange transactions, compensated for by appreciation of cash in banks, accounts receivable and liabilities in foreign currency of EUR 959k.

Risk of default

The group does not have any material risk of default concentrations with the exception of the receivables from the first Dubai project, 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 with reference to predefined milestones. Furthermore, the accounts receivable are checked and if necessary dunned every fortnight for receipt of payment. Allowance for individual receivables is recognised when it is probable that the invoices issued won't be paid for. 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 to be uncollectible. The losses of receivables outstanding for the 2017 financial year totalled EUR 88k (previous year EUR 99k).

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, collateral is not considered to be necessary as it is not customary in our business environment.

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 equivalent to the carrying amount 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 to mainly results from short term euro loans. Further risks can arise from interest rate changes for financial assets. At present an increase in interest rates of 0.5 per cent up or down would not have any significant impact on the net assets, financial position and results of operations of the init group, due to the small size of such transactions.

Liquidity risk

On 31 December 2017, 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 solvency at all times. Our current projects provide the largest source of liquidity. In addition to these current revenues, the init group secures the liquidity risk through appropriate lines of credit that can be drawn as needed.

As on 31 December 2016, the future cash flows from the financial liabilities were as follows:

EUR '000	Carrying amount	2018	2019	2020-2022	>2022
Non-derivative financial liabilities					
Other financial liabilities	27,609	23,609	0	4,000	0
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	0	0	0	0	0
Derivative financial assets	-490	-490	0	0	0
Total		**23,119**	**0**	**4,000**	**0**

The derivative financial liabilities and assets result in payments totalling EUR 11,797k and payments receivable totalling EUR 12,287k.

As on 31 December 2016, the future cash flows from the financial liabilities were as follows:

EUR '000	Carrying amount	2017	2018	2019-2021	>2021
Non-derivative financial liabilities					
Other financial liabilities	36,691	33,309	34	4,000	0
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	476	476	0	0	0
Derivative financial assets	-220	-220	0	0	0
Total		**33,565**	**34**	**4,000**	**0**

The derivative financial liabilities and assets result in payments totalling EUR 18,954k and payments receivable totalling EUR 18,698k.

31. Explanatory notes on the financial instruments

Classification and fair values

The following table states the carrying amounts of the financial instruments of the group reported in the balance sheet on 31 December 2017 compared to 31 December 2016 and shows their classification in appropriate measurement categories according to IAS 39.

	2017	2016
ASSETS		
Loans and receivables	82,327	89,639
Cash and cash equivalents	19,763	23,920
Trade accounts receivable	34,472	25,908
Accounts receivable due to related parties	168	120
Future receivables from production orders	27,417	38,180
Other financial assets (current)	507	959
Other financial assets (non-current)	0	552
Financial assets available for sale	27	**30**
Marketable securities and bonds	27	30
Financial assets reported at fair value through profit or loss	490	**220**
Derivative financial assets	490	220
LIABILITIES		
Financial liabilities recognised at cost	58,304	**56,720**
Bank loans (current and non-current)	42,158	35,349
Trade accounts payable	11,030	16,641
Accounts payable due to related parties	0	0
Other liabilities (current)	1,317	1,348
Other liabilities (non-current)	3,799	3,382
Financial liabilities reported at fair value through profit or loss	0	**476**
Derivative financial instruments	0	476

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 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 carrying amount.

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 carrying amounts, are reasonable approximations of fair values:

EUR '000	Fair value as of 31/12/2017	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Investment property	1,918	0	0	1,918
Financial assets reported at fair value through profit or loss				
Derivative financial assets	490	0	490	0
Financial assets available for sale				
Marketable securities and bond issues	27	27	0	0

For further information regarding “Assets for which fair values are disclosed / Investment property” please refer to note 20.

EUR '000	Fair value as of 31/12/2016	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Investment property	1,363	0	0	1,363
Financial assets reported at fair value through profit or loss				
Derivative financial assets	220	0	220	0
Financial assets available for sale				
Marketable securities and bond issues	30	30	0	0
Financial liabilities reported at fair value through profit or loss				
Derivative financial instruments	476	0	476	0

Over the course of the reporting periods which ended 31 December 2017 and 31 December 2016, there were neither 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 properties.

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 US dollars, New Zealand dollars and Great Britain pound sterling from firm transations. The following derivative financial instruments were concluded:

	Nominal value		Market values	
EUR '000	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016
Forward exchange transactions (Sale) in USD	9,354	11,798	310	-465
Forward exchange transactions (Sale) in GBP	307	1,571	26	117
Forward exchange transactions (Sale) in NZD	2,626	0	154	0
Forward exchange transactions (Purchase) in CAD	0	5,329	0	92

32. Contingencies and other liabilities

Operating lease liabilities – group as lessor

The group has entered into lease agreements to let its investment property for commercial usage. The investment property is comprised of office space and production halls not used by the group itself.

On 31 December, the following receivables existed for future minimum rental payments related to the non-terminable operating leases:

EUR '000	**2017**	2016
Up to one year	320	302
Longer than one year and up to five years	1,058	1,179
Total	**1,378**	**1,481**

Obligations arising from Operating leases

The group has entered into leasing agreements for vehicles and other business and operating equipment. These leases have an average remaining term of between three and four years and do not include extension options. The annual rental liabilities of the init group totalled EUR 1,845k, of which EUR 547k is attributable to the renting of the office building in Karlsruhe (lease expires 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 2,800k (previous year: EUR 2,500k). The future minimum payments under these agreements extend to the year 2026 and amount to:

EUR '000	31/12/2017	31/12/2016
< 1 year	2,457	2,763
1–5 years	4,165	3,456
> 5 years	2,737	2,737
Total	**9,359**	**8,956**

Contingent liabilities

There were no contingent liabilities as of 31 December 2017 (previous year: EUR 335k). The contingent liability from previous year was recognized in 2017.

Legal disputes

Within the scope of current business, init SE 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 net assets, financial position and results of operations of the init group.

OTHER DISCLOSURES

33. Additional notes on the cash flow statement

The cash flow from operating activities includes proceeds from interest amounting to EUR 167k (previous year: EUR 33k) and interest payments amounting to EUR -652k (previous year: EUR -321k).

The cash flows for investments in property, plant and equipment mainly relate to advance payments for the new building in the USA, maintenance of capacities and expansion investments.

Inflows from dividend distributions amounted to EUR 0 (previous year: EUR 559k). Outflow for dividends on init shares totalled EUR 2,200k (previous year: EUR 1,991k).

34. Related party transactions

The companies included in the consolidated financial statements and the associated companies are listed in the section basis of consolidation.

EUR '000	Associated companies 31/12/2017	31/12/2016	Other related parties and persons 31/12/2017	31/12/2016
Trade accounts receivable and other income	532	88	0	0
Trade accounts payable and other expenses	216	564	619	572
Receivables on 31/12	168	120	0	0
Payables on 31/12	0	0	0	0

Associated companies

Similar to the previous year, amounts owed by associated companies result from a loan to maBinso and have a remaining term of less than one year. These are reported in the balance sheet under accounts receivable due to related parties.

Other related party transactions

init SE rents an office building in Kaeppelestrasse 6 in Karlsruhe with 67.39 per cent from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe and with 32.61 per cent from Eila Greschner. The monthly rent payments are approximately EUR 46k (total annual rent: EUR 547k). The rent is contractually fixed until 30 June 2026. Total payments of EUR 54k (previous year: EUR 8k) made to family members of Board members 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 2017 (previous year: EUR 0k).

Remuneration of persons in key management positions

The members of the Managing Board of init SE and the managing directors of INIT GmbH are seen as persons in key management positions. For details on their remuneration, please refer to note 39.

35. 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 mainly include the rest of Europe (predominantly Luxembourg, Norway, Great Britain) and North America (USA and Canada).

Revenues 01/01 to 31/12

EUR '000	2017	%	2016	%
Germany	35,783	27.4	41,772	38.5
Rest of Europe	35,457	27.2	22,034	20.3
North America	46,519	35.6	40,997	37.7
Other countries (Australia, UAE)	12,794	9.8	3,832	3.5
Group total	**130,553**	**100.0**	**108,635**	**100.0**

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

Non-current assets 31/12

EUR '000	2017	%	2016	%
Germany	34,139	68.0	34,837	71.4
Rest of Europe	595	1.2	694	1.4
North America	15,167	30.2	12,946	26.5
Other countries (Australia, UAE)	298	0.6	315	0.6
Group total	**50,199**	**100.0**	**48,792**	**100.0**

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

36. Share-based renumeration

Employee shares

Based on the resolution of the Managing Board of 27 March 2017, published on 3 April 2017 (previous year: 4 July 2016), shares of the company were offered as a form of profit sharing (for certain subsidiaries this arrangement could be different). In December 2017, the employees entitled to subscribe (excluding e.g. the Managing Board, temporary staff and trainees) each received 50 shares (December 2016: 50 shares) at no cost of a price of EUR 17.19 (December 2016: EUR 14.30) 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 who have been with the company less than one year. To qualify, employees needed to be in permanent employment as of 31 December 2017. The shares are subject to a vesting period of two years from the time of transfer. A total of 19,388 shares were transferred (previous year: 19,849).

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 278k (previous year: EUR 261k). This amount was recorded in 2017 as expenses.

Equity-settled management bonuses

A further management bonus for the year 2017 in the form of 750 or 1,500 shares provided that consolidated earnings exceed EUR 5m before taxes and after deduction of bonuses. In addition, for each EUR 1m profit in excess of EUR 5m up to an amount of EUR 10m additionally 50 or 100 shares are granted as a bonus. In addition, a further 100 or 200 shares are granted as bonuses for a sum of EUR 1m profit in excess of EUR 10m. In the same way, a further 150 or 300 shares are granted as bonuses for EUR 1m profit in excess of

EUR 15m. The amount of shares is restricted to 6,000 or 12,000. These shares are subject to a vesting period of five years.

The income tax on the financial benefit relating to the share transfer is 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 managing directors of subsidiaries of the company are paid an equity settled bonus, the amount of which depends on the level of incoming orders and revenues. A total of 21,453 shares (previous year: 18,141) with a vesting 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 group.

On 31 December 2017, the valuation was based on 16,143 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 117k (EUR 18.30 per share) for the Managing Board and EUR 152k (EUR 15.58 per share) for key personnel; these amounts were recorded as expenses in 2017.

37. Subsequent events

On January 1, 2018, init acquired the company Mattersoft OY based in Tampere (Finland). The acquisition price of EUR 1.5m consists of financial acquisition price components of EUR 0.9m (of which EUR 0.4m was paid for purchased cash) and non-financial acquisition price components of EUR 0.6m. Furthermore a profit-related earn-out clause was agreed. With the acquisition of Mattersoft, the product range of the init Group will be expanded with a central traffic light priorities solution as well as know-how in new technologies in the area of IoT (Internet of Things), SaaS (Software as a Service) and web services based will be gained. Furthermore, Mattersoft will help accessing qualified IT-developers at the university city of Tampere. The purchasing price allocation as well as the valuation of the acquired assets and liabilities are not completed yet.

There are no other events after the balance sheet date that have a material impact on the net assets, financial position and results of operations.

38. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

	2017	2016
Employees Germany	603	580
Employees rest of Europe	17	14
Employees North America	100	91
Employees other countries	17	18
Total	**737**	**703**

Managing Board

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

Dr. Gottfried Greschner, Karlsruhe, Germany	Chief Executive Officer
Dr. Jürgen Greschner, Pfinztal, Germany	Chief Sales Officer (Deputy Chairman)
Dr. Hans Heribert Bäsch, Baden-Baden, Germany	Chief Financial Officer since 01/07/2017 Chief Administration Officer from 01/05/2017 – 30/06/2017
Joachim Becker, Karlsruhe, Germany	Chief Operating Officer / Central Telematics and IT
Matthias Kühn, Karlsruhe, Germany	Chief Operating Officer / Telematics Devices and Ticketing
Bernhard Smolka, Mannheim, Germany	Chief Financial Officer until 30/06/2017

Dr. Gottfried Greschner is a member of the foundation board of Majolika-Stiftung für Kunst- und Kulturförderung, Karlsruhe.

Supervisory Board

The members of the Supervisory Board of init SE are:

Dipl.-Kfm. Hans-Joachim Rühlig, Ostfildern, Germany, Chairman	Former Financial Managing Director of Ed. Züblin AG, Stuttgart, Independent financial expert within the meaning of Section 100 (5) AktG
Dipl.-Ing. Ulrich Sieg, Jork, Germany, Deputy Chairman	Consulting engineer specialising in public transportation, Member of Supervisory Board of SECURITAS Holding GmbH, Duesseldorf, Germany
Drs. Hans Rat, Schoonhoven, The Netherlands, Member	Honorary Secretary General of UITP, Managing Director of Beaux Jardins B.V., Schoonhoven, The Netherlands

39. Disclosure of the compensation of key management personnel

The members of the Managing Board received total remuneration of EUR 2,019k in the 2017 financial year (previous year: EUR 1,949k). This total includes fixed salaries of EUR 1,675k (previous year: EUR 1,584k), variable remuneration in the form of management bonuses of EUR 129k (previous year: EUR 157k), and EUR 215k (previous year: EUR 208k) in the form of shares, including the income tax payable for them. The managing directors of INIT GmbH, who are not members of the Managing Board of init SE, received total remuneration of EUR 472k (previous year: EUR 387k). This total includes fixed salaries of EUR 436k (previous year EUR 364k), variable remuneration in the form of management bonuses of EUR 10k (previous year: EUR 0k) and EUR 26k (previous year: EUR 23k) in the form of shares. EUR 101k (previous year: EUR 60k) of the total of EUR 372k applied to a former board member of init SE. In compliance with section 315a (1) HGB 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 21 July 2016 resolved to do.

The total remuneration of the Supervisory Board members for 2017 amounted to EUR 114k (previous year: EUR 92k). This includes a variable share of EUR 38k (previous year: EUR 20k) and is distributed as follows:

EUR '000	Fixed	Variable
Dipl.-Kfm. Hans-Joachim Rühlig	38	19
Dipl.-Ing. Ulrich Sieg	19	9
Drs. Hans Rat	19	9

In the 2017 financial year, the members of the Supervisory Board received EUR 0k (previous year: EUR 0k) for consulting activities.

40. Auditor

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, received compensation for audits of EUR 234k (previous year: EUR 169k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 8k (previous year: EUR 1k). Other appraisal services incurred costs of EUR 0k (previous year: EUR 0k), and other services, of EUR 72k (previous year: EUR 47k).

41. Declaration of compliance with the German Corporate Governance Code

The declaration of compliance for init SE was made by the Managing Board and the Supervisory Board on 7 December 2017, and was made available to the shareholders on our website at https://www.initse.com/ende/investors/corporate-governance.html

42. Notifications under Section 26 (1) WpHG (German Securities Trading Act)

On 28 June 2017 and with a correction on 7 July 2017, Zuricher Kantonalbank, Zurich, Switzerland has informed us according to section 21 (1) WpHG that via shares its voting rights on init innovation in traffic systems SE, Karlsruhe, Germany, felt below the 3 per cent threshold of the voting rights on 23 June 2017 and on that day amounted to 2.99 per cent (this corresponds to 300,405 voting rights).

Universal-Investment private limited company, Frankfurt am Main, Germany has informed us on 10 July 2017 according to section 21 (1) WpHG that via shares its voting rights on init innovation in traffic systems SE, Karlsruhe, Germany rose above the 3 per cent threshold of the voting rights on 5 July 2017 and on that day amounted to 3.001 per cent (this corresponds to 301,270 voting rights).

On 15 September 2017, Universal-Investment private limited company, Frankfurt am Main, Germany has informed us according to section 21 (1) WpHG that via shares its voting rights on init innovation in traffic systems SE, Karlsruhe, Germany felt below the 3 per cent threshold of the voting rights on 15 September 2017 and on that day amounted to 2.98 per cent (this corresponds to 299,395 voting rights).

43. Approval of consolidated financial statements

At the board meeting on 9 March 2017, the consolidated financial statements and the combined management report on 31 December 2017 of init SE issued up by the Managing Board were approved for submission to the Supervisory Board.

Karlsruhe, 16 March 2018

The Managing Board

Dr. Gottfried Greschner

Dr. Jürgen Greschner

Dr. Hans Heribert Bäsch

Joachim Becker

Matthias Kühn

AUDIT OPTION

“Independent auditor’s report

To init innovation in traffic systems SE

We have audited the consolidated financial statements of init innovation in traffic systems SE, Karlsruhe, and its subsidiaries (the “group”), which comprise the consolidated income statement, consolidated statement of comprehensive income for the financial year from 1 January 2017 to 31 December 2017, the consolidated balance sheet as of 31 December 2017, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January 2017 to 31 December 2017, and the notes to the consolidated financial statements, including the recognition and measurement principles presented therein. In addition, we have audited the group management report, which is combined with the management report of init innovation in traffic systems SE for the financial year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the Responsibility Statement by the Legal Representatives.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the group as of December 31, 2017, and of its financial performance for the financial year from 1 January 2017 to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the Responsibility Statement by the Legal Representatives referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Revenues from construction contracts

Reasons why the matter was determined to be a key audit matter

The init group mainly generates its revenues from project development work for providers of public passenger transport under system contracts. Income from system contracts is recognized using the percentage of completion method based on the effective progress of the project. The percentage of completion of unfinished and unbilled contracts as of the reporting date is calculated using the cost-to-cost method. We defined this subject matter as a key audit matter for our audit because the application of the percentage of completion method requires judgment by management related to the percentage of completion, remaining total contract costs and total contract revenues. Changes in these judgments may lead to an increase or decrease in revenues and in net profit or loss for the period. Regarding revenue recognition, there is also a risk of error or infringement, whether due to fraud or error, when determining the achievement of performance targets and forecasts.

Auditor's response

As part of our audit we relied on a controls-based approach and assessed and tested the underlying corporate processes. Furthermore, we also performed substantive audit procedures.

Our audit procedures included reviewing significant contracts and reviewing whether the progress of the project with regard to the contract values and the share of the costs incurred was determined correctly. For this purpose we particularly reviewed the allocation of costs regarding the amount and the related project using orders, evidence of performance as well as supplier invoices. We also reviewed samples of costs reported by every employee involved on a project by agreeing the incurred hours with the recorded hours and obtained an understanding of the hour records used for the calculation for each employee using sampling. Furthermore, we checked the recognized future costs for plausibility and assessed the budget history to draw conclusions regarding reliability of the future costs. We obtained explanations and evidence from the project managers for significant deviations from previous-year assumptions for costs recorded in the reporting period. We assessed the compliance of the accounting and measurement principles applied by init SE for the recognition of revenues with the IFRS framework and the relevant IFRSs standards. Additionally, to mitigate the inherent audit risk of this audit field at the group level, we ensured a group-wide consistent audit procedure by issuing corresponding instructions to the component auditors. Our procedures did not lead to any reservations relating to the accounting treatment of project-related revenues.

Reference to related disclosures

The company's disclosures on revenue recognition from system contracts are to be found in the "revenue recognition" section of Section 3 "Accounting and measurement principles" and in Section 4 "Revenues" in the notes to the income statement in the notes to the consolidated financial statements of the company.

2. Measurement of inventories

Reasons why the matter was determined to be a key audit matter

The init group procures a significant amount of hardware for processing system contracts. To safeguard long-term supply to customers, init procures and stores significant inventories beyond the requirement, particularly for hardware components. Due to the high level of customization and the general technical development, the majority of these hardware components can only be used as spare parts for past contracts. These are recognized at the lower of cost or net realisable value. To enable a measurement of inventories at the lower of these values, the company calculates the net realisable value with the help of allowances that are based on experience and evaluations of past projects. Particularly the calculation of the applied write-down amounts created by the company with the help of the IT-based valuation method as well as the requirement for calculating additional write-down manually, which are not considered through this valuation method, is subject to the assessment of the executive directors of the company.

Auditor's response

Taking into account the fact that there is an elevated risk of misstatements in the accounting due to the estimates and assumptions being made, we examined and tested the processes and controls implemented by the group for inventory measurement. We reviewed the calculation of acquisition and production cost using the financial reporting requirements of IAS 2 to particularly ensure whether they form an appropriate basis for preparing the consolidated financial statements in accordance with IFRSs. As far as inventories were measured at net realisable value, we reviewed the calculation and documentation of the net realisable values on a sample basis. We examined the suitability of the IT-based write-down procedure for recording inventory risks. In addition, we involved internal IT experts to assess the system-based implementation of the write-down procedure in the IT. As far as there were changes in the write-down routine, we reviewed it. We compared the calculation logic of the model with the accounting and valuation methods applied by the company and reviewed it on an accounting basis using sampling. Our audit procedures did not lead to any reservations relating to the measurement of inventories. To mitigate the inherent audit risk of this audit field, we ensured a group-wide consistent audit procedure by issuing corresponding instructions to the component auditors.

Reference to related disclosures in the consolidated financial statements

The company's further disclosures on the measurement of inventories are to be found in the "Inventories" section of Section 3 "Accounting and consolidation principles" and in Section 5 "Production costs of revenues" in the notes to the income statement as well as in Section 17 "Inventories" in the notes to the statement of financial position in the notes to the consolidated financial statements of the company.

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board according to Section 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act] as well as for the CVs of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the "Responsibility Statement by the Legal Representatives" according to Section 297 (2) Sentence 4 HGB in the group management report and also the following components of the Annual Report. We received a version of this by the time this auditor's report was issued:

Letter to the Shareholders

CVs of the member of the Managing Board

init share

Report of the Supervisory Board

CVs of the member of the Supervisory Board

Corporate Governance Report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;

- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures;

- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;

- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides;

- perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on 24 May 2017. We were engaged by the Supervisory Board on 12 September 2017. We have been the auditor of init innovation in traffic systems SE for an uninterrupted period since the audit of the consolidated financial statements for financial year 2001.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the company or entities controlled by it the following services that are not disclosed in the consolidated financial statements or in the group management report:

Voluntary audit of annual financial statements,

Tax advisory as well as

support with regular enforcement procedures.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Peter Werling."

Stuttgart, March 19 2018

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Werling	Kresin
Wirtschaftsprüfer	Wirtschaftsprüfer

IMPRINT

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FIVE-YEAR FINANCIAL SUMMARY

of the init group (IFRS)

Euro k	**2017**	2016	2015	2014	2013
Balance Sheet (31/12)					
Balance sheet total	176,805	185,132	145,082	128,774	118,313
Shareholders' equity	73,309	76,401	71,180	67,770	62,092
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ratio (in %)	41.5	41.3	49.1	52.6	52.5
Return on equity based on EBIT (in %)	11.7	15.3	15.1	27.6	28.5
Non-current assets	64,191	65,576	43,098	34,537	28,198
Current assets	112,614	119,556	101,984	94,237	90,115
Income Statement (01/01–31/12)					
Revenues	130,554	108,635	105,293	102,993	100,120
Gross profit	42,662	31,294	31,839	36,581	37,456
EBIT	8,563	11,665	10,756	18,685	17,725
EBITDA	12,763	15,722	14,117	21,690	20,501
Consolidated net profit	3,644	8,609	7,577	12,067	12,068
Earnings per share (in EUR)	0.37	0.86	0.75	1.20	1.21
Dividend (in EUR)	0.22*	0.22	0.20	0.80	0.80
Cash Flow					
Cash flow from operating activities	2,051	13,182	11,478	502	11,435
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	20.47	16.80	27.99	25.80	26.89
Bottom share price (in EUR)	13.51	12.60	14.08	18.50	21.15

* dividend to be proposed to the AGM 2018

FINANCIAL CALENDAR 2018

Q1

22 March
Publication of 2017 Annual Report and
Press / Analyst Conference in Frankfurt

Q2

09 May
Publication
Quarterly Statement 1 / 2018

16 May
Annual General Meeting 2018,
Congress Centre Karlsruhe

Q3

09 August
Publication
Half-Year Financial Report 2018

Q4

08 November
Publication
Quarterly Statement 3 / 2018

26 – 28 November
Equity Forum
in Frankfurt am Main