init

Quarterly statement Q1/2017

GOOD TO GO

INNOVATIVE TICKETING

In many places, buying a ticket is still something of a barrier in public transport. However, init offers innovative solutions that can greatly simplify the entire ticketing process.

INNOVATIONS BY RESEARCH AND DEVELOPMENT

By taking part in a number of research projects, init helps to shape the mobility trends of the future.

DIGITISATION

Mobile devices are being used ever more frequently in public transport. init develops mobile apps for all target groups, be it passengers or transport company staff.

INTERNATIONAL FOCUS

With the conversion into an SE init has adopted a new legal form. By doing so, the company is further emphasising its clear international focus.

IMPORTANT BUSINESS TRANSACTION IN THE FIRST QUARTER 2017

On 24 February 2017 it was announced that Mr. Bernhard Smolka will hand over his position to Dr. Herbert Bäsch after the Annual General Meeting 2017 and will withdraw the Managing Board as of 30 June 2017. Dr. Bäsch was appointed by the Supervisory Board as a full member of the Managing Board of init SE with effect from 1 May 2017.

Following the entry in the Commercial Register on 9 March 2017, the conversion of init innovation in traffic systems AG, which was resolved at the Annual General Meeting on 21 July 2016, to init innovation in traffic systems SE (HRB 727217) was implemented.

Orders

All in all, init managed to acquire new orders to the value of EUR 41.8m in the first quarter (Q1 2016: EUR 35.0m). The volume of the incoming orders is thus the highest in the company's history in the first quarter and exceeded our expectations. The main part of incoming orders consists of new ITCS projects, additional deliveries and maintenance contracts.

We are well on our way to achieving our target for incoming orders of between EUR 120m and EUR 130m for 2017. However, this depends both on whether we win more of the large tenders in which we are currently participating and whether the resulting orders are placed this year.

Orders on hand as of 31 March 2017 stand at around EUR 115.7m and are therefore clearly above the EUR 97.0m achieved on the previous year's balance-sheet date.

Earnings position

Revenues of EUR 27.5m (Q1 2016: EUR 19.4m) were generated in the first quarter of 2017 which is in line with our expectations.

Breakdown of revenues by region for the first three months:

in million EUR	01/01–31/03/2017	%	01/01–31/03/2016	%
Germany	8.0	29.1	6.2	32.0
Rest of Europe	7.6	27.6	3.4	17.5
North America	10.3	37.5	8.9	45.9
Other countries (Australia, UAE)	1.6	5.8	0.9	4.6
Group total	**27.5**	**100.0**	**19.4**	**100.0**

Revenues based on customer's location.

Earnings before interest and taxes (EBIT) decreased to EUR 0.3m compared with Q1 2016 (EUR 0.9m) but is above our planning.

In addition, in the first quarter of 2017, only minor **foreign currency gains** (EUR 0.1m) from the valuation of receivables and liabilities (Q1 2016: foreign currency gains of EUR 1.1m) were achieved.

Adjusted for foreign currency effects, EBIT as of 31 March 2017 is clearly above the previous year's level.

At EUR 7.4m, the **gross profit** was higher than the previous year's level (EUR 5.3m) as a result of higher revenues. The relative gross margin was slightly down compared to the previous year.

As a result of the acquisitions made in the second half of 2016, **sales and administrative expenses** came in at EUR 6m, which is EUR 1.3m above the previous year's level.

Research and development expenses are around EUR 0.1m above the previous year due to new development work and amount to EUR 1.4m.

Net interest income (balance of interest income and interest expenses) stands at EUR -0.1m (Q1 2016: EUR -0.1m). Interest expenses are incurred primarily from interest for real estate finance at the Karlsruhe site and the new building in USA, the financing of the acquisitions made in 2016, as well as from short-term euro loans.

Overall, **net profit** as at 31 March 2017 is balanced (Q1 2016: EUR 0.5m), which is due to the previous mentioned effects. This corresponds to earnings per share of EUR 0.00 (Q1 2016: EUR 0.06).

As a result of unrealised losses from currency translation of foreign companies (especially as a result of the slightly lower exchange rate of the US dollar as of 31 March 2017) and due to lower net profit, **total comprehensive income** amounts to EUR -0.6m (Q1 2016: EUR -1.9m). This development is reflected in the change in **other reserves**.

Net assets and financial position

Operating cash flow stands at EUR -3.2m (Q1 2016: EUR -1.2m) and deteriorated compared with the previous year which was primarily due to the lower net profit, the payment of income tax liabilities, the higher decrease of other liabilities as well as the higher increase in inventories. This is offset by the increase of trade accounts payable as well as the reduction of income tax receivables. We expect operating cash flow to continue to rise over the further course of business as a result of payment receipts for major projects.

Cash flow from investment activities stands at EUR -2.9m (Q1 2016: EUR -1.2m) and is mainly the result of the new building of INIT Inc. in the US.

Short- and long-term liabilities to banks in the amount of EUR 38.2m (31/12/2016: EUR 21.9m) concern property financing, the acquisition financings of the company acquisitions in 2016 as well as short-term euro loans.

Cash and cash equivalents, including short-term securities and bonds, stood at EUR 20.7m in the reporting period (31/12/2016: EUR 24.0m).

Compared to 31 December 2016, **inventories** rose by EUR 3.7m to EUR 30.7m. This is mainly due to the scheduled build-up of inventories for the hardware deliveries that are due in the coming months.

The available **guarantee and credit lines** continue to provide secure finance for business activities.

In the first quarter 2017 20,701 shares were transferred to the incentive scheme for members of the Managing Board, managing directors and key personnel with a five year lock up period. Consequently, treasury stock totaled 38,964 shares as at 31 March 2017. The average repurchase price was EUR 14.91 per share.

Personnel

The init group employed 728 staff as per 31 March 2017 (Q1 2016: 543) including temporary workers, research assistants and students doing thesis work. The increase is mainly due to the acquisitions made in 2016.

Number of employees by region:

	31/03/2017	31/03/2016
Employees in Germany	598	425
Employees in the rest of Europe	14	11
Employees in North America	100	87
Employees in other countries	16	20
Total	**728**	**543**

Opportunities and risks

The opportunities and risks described in the group status report 2016 (p. 54 et seq.) apply unchanged. Appropriate provision has been made for all recognisable risks. In our opinion, there are no risks capable of jeopardising the continued existence of the company.

There are currently no significant clusters of default risks within the group, with the exception of the receivables from a general contractor from a project in Dubai that have already been value adjusted. init took the matter to a court of arbitration to defend its claim. Since the beginning of May an enforceable title has been filed against the general contractor. Despite this title, there is still the risk that these claims will not be fully collectible.

Opportunities currently exist in the multitude of tenders for public transport infrastructure projects. As a leading international provider of integrated planning, dispatching, telematics and ticketing solutions for buses and trains, init is well positioned because of the numerous references.

Forecast and outlook

init innovation in traffic systems SE largely fulfilled our expectations in the first quarter 2017.

We are therefore adhering to our previous forecast for 2017. For the current year, we anticipate group revenues of around EUR 120m at slightly lower margins. This represents an operating result (EBIT) of EUR 5-7m. Beyond 2017, the margins of newly acquired projects are improving again.

EUR 120 m

are the anticipated group revenues in 2017

We still foresee developments in the next few months as being influenced by major uncertainties in the general economic situation which could have an impact on how orders are placed in tenders.

With a high order backlog in excess of EUR 115.7m, we have already secured a major part of the planned revenues for 2017. If the projects continue to be completed on schedule and we succeed in winning the few, still outstanding orders soon, we will also succeed in reaching our targets for 2017.

We remain confident that we will be able to win a large portion of these ongoing and pending tenders in the 2017 financial year.

EUR 130 m

The target for incoming orders in 2017 is between EUR 120m and EUR 130m

For 2017, we expect incoming orders in the group of approximately EUR 120 to 130m. This plan is based on the assumption that tenders will not be delayed, we will win them in planned scope and that price competition will not continue to intensify. Actual figures could deviate significantly from the forecast if new risk factors arise or assumptions underlying the plan later prove to be false.

However, innovative technologies, increasing demand for ticketing and integrated transport control systems in North America, Europe and Oceania provide init with further opportunities for sustainable growth.

Consolidated
INCOME STATEMENT (IFRS)

from 1 January 2017 to 31 March 2017 (unaudited)

EUR '000	01/01 to 31/03/2017	01/01 to 31/03/2016
Revenues	27,541	19,439
Cost of revenues	–20,109	–14,114
Gross profit	**7,432**	**5,325**
Sales and marketing expenses	–3,807	–2,879
General administrative expenses	–2,221	–1,845
Research and development expenses	–1,382	–1,266
Other operating income	449	415
Other operating expenses	–31	–77
Foreign currency gains and losses	79	1,103
Income from associated companies	–251	123
Earnings before interest and taxes (EBIT)	**268**	**899**
Interest income	32	7
Interest expenses	–134	–108
Earnings before taxes (EBT)	**166**	**798**
Income taxes	–130	–253
Net profit	**36**	**545**
thereof attributable to equity holders of parent company	41	600
thereof non-controlling interests	–5	–55
Net profit and diluted net profit per share in EUR	0.00	0.06
Average number of floating shares	9,984,245	9,975,339

Consolidated Statement of
COMPREHENSIVE INCOME (IFRS)

from 1 January 2017 to 31 March 2017 (unaudited)

EUR '000	01/01 to 31/03/2017	01/01 to 31/03/2016
Net profit	**36**	**545**
Items to be reclassified to the income statement		
Changes on currency translation	–618	–2,458
Total Other comprehensive income	**–618**	**–2,458**
Total comprehensive income	**–582**	**–1,913**
thereof attributable to equity holders of the parent company	–577	–1,858
thereof non-controlling interests	–5	–55

Consolidated
BALANCE SHEET (IFRS)

as of 31 March 2017 (unaudited)

EUR '000	31/03/2017	31/12/2016
Cash and cash equivalents	20,647	23,920
Marketable securities and bonds	29	30
Trade accounts receivable	22,802	25,908
Future receivables from production orders ("Percentage-of-Completion-Method")	37,182	38,180
Accounts receivable from related parties	156	120
Inventories	30,746	27,006
Income tax receivable	0	1,870
Other current assets	3,139	2,522
Current assets, total	**114,701**	**119,556**
Tangible fixed assets	33,710	31,742
Investment property	1,319	1,323
Goodwill	9,325	9,325
Other intangible assets	10,371	10,599
Interest in associated companies	5,104	5,453
Deferred tax assets	5,460	5,357
Other assets	2,581	2,590
Non-current assets, total	**67,870**	**66,389**
Assets, total	**182,571**	**185,945**
Bank loans	21,212	19,669
Trade accounts payable	19,445	16,641
Accounts payable of "Percentage-of-Completion-Method"	7,320	8,053
Advance payments received	707	806
Income tax payable	127	3,514
Provisions	12,833	13,134
Other current liabilities	9,590	15,411
Current liabilities, total	**71,234**	**77,228**
Bank loans	17,018	15,680
Deferred tax liabilities	6,120	4,519
Pensions accrued and similar obligations	8,815	8,637
Other non-current liabilities	3,618	3,382
Non-current liabilities, total	**35,571**	**32,218**
Liabilities	**106,805**	**109,446**
Subscribed capital	10,040	10,040
Additional paid-in capital	5,183	5,642
Treasury stock	–580	–889
Surplus reserves and consolidated unappropriated profit	58,547	58,507
Other reserves	2,399	3,017
Attributable to equity holders of the parent company	75,589	76,317
Non-controlling interests	177	182
Shareholders' equity, total	**75,766**	**76,499**
Liabilities and shareholders' equity, total	**182,571**	**185,945**

Consolidated
CASH FLOW STATEMENT (IFRS)

from 1 January 2017 to 31 March 2017 (unaudited)

EUR '000	01/01 to 31/03/2017	01/01 to 31/03/2016
Cash flow from operating activities		
Net income	36	545
Depreciation	983	877
Losses on the disposal of fixed assets	–34	–21
Change of provisions and accruals	–59	45
Change of inventories	–3,877	–1,466
Change in trade accounts receivable and future receivables from production orders (PoC)	3,426	5,852
Change in other assets, not provided by / used in investing or financing activities	1,224	–810
Change in trade accounts payable	3,166	–384
Change in advanced payments received and liabilities from PoC method	–751	–528
Change in other liabilities, not provided by / used in investing or financing activities	–8,838	–2,837
Amount of other non-cash income and expenses	1,522	–2,441
Net cash from operating activities	**–3,202**	**–1,168**
Cash flow from investing activities		
Inflows from sales of tangible fixed assets	57	392
Investments in tangible fixed assets and other intangible assets	–2,909	–867
Investments in associated companies	0	–762
Net cash flows used in investing activities	**–2,852**	**–1,237**
Cash flow from financing activities		
Cash payments for the purchase of treasury stock	0	–1,019
Payments received from bank loans incurred	5,756	2,531
Redemption of bank loans	–2,807	–278
Net cash flows used in financing activities	**2,949**	**1,234**
Net effects of currency translation and consolidation changes in cash and cash equivalents	–168	–132
Reduction in cash and cash equivalents	**–3,273**	**–1,303**
Cash and cash equivalents at the beginning of the period	23,920	14,038
Cash and cash equivalents at the end of the period	**20,647**	**12,735**

Financial calendar

2017

Q2

24 May
Annual General Meeting 2017
Congress Centre Karlsruhe

Q3

11 August
Publication
Half-Year Financial Report 2017

Q4

10 November
Publication
Quaterly Statement 3/2017

27–29 November
Equity Forum
in Frankfurt am Main

Contact:
init
innovation in traffic systems SE
Kaeppelestrasse 4–10
76131 Karlsruhe
Germany

P.O. Box 3380
76019 Karlsruhe
Germany

Tel. +49.721.6100.0
Fax +49.721.6100.399

info@initse.com
www.initse.com