Half-Year Financial Report 2017

GOOD TO GO

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.

Group KEY FIGURES

according to IFRS

EUR '000	2017	2016	Change in %
Balance Sheet (30/06)			
Balance sheet total	187,000	156,959	19.1
Shareholders' equity	72,972	70,686	3.2
Equity ratio (in %)	39.0	45.0	
Non-current assets	70,621	45,356	55.7
Current assets	116,379	111,603	4.3
Income Statement (01/01 – 30/06)			
Revenues	58,319	41,834	39.4
Gross profit	19,016	11,488	59.9
EBIT	2,152	1,928	11.6
EBITDA	4,137	3,693	12.0
Consolidated net profit	1,336	1,187	12.6
Earnings per share (in EUR)	0.14	0.12	12.8
Dividend (in EUR)		0.22 *	
Cash Flow			
Cash flow from operating activities	–6,308	–571	1,004.7
Share (01/04 – 30/06)			
Issue price (in EUR)	5.10	5.10	
Peak share price (in EUR)	16.99	15.31	11.0
Bottom share price (in EUR)	13.51	12.60	7.2

* Payment in 2017 for the financial year 2016

Corporate BODIES

Supervisory Board

- Dipl.-Kfm. Hans-Joachim Rühlig, Ostfildern, Germany (Chairman)
  Former Financial Managing Director,
  Ed. Züblin AG, Stuttgart, Germany
  Until 31/07/2017: Member and Vice-Chairman of the Supervisory Board of CG Gruppe AG, Berlin, Germany

- Dipl.-Ing. Ulrich Sieg, Jork, Germany
  (Deputy-Chairman)
  Consulting engineer specialising in public transport
  Member of the Supervisory Board of SECURITAS Holding GmbH, Düsseldorf, Germany

- Drs. Hans Rat, Schoonhoven, Netherlands
  Honorary Secretary General of UITP
  Managing Director Beaux Jardins B. V.,
  Schoonhoven, Netherlands

Managing Board

- Dipl.-Ing. Dr. Gottfried Greschner (CEO; Chairman)
  Business Development, Strategy, Production and Purchasing

- Dipl.-Kfm. Dr. Jürgen Greschner
  (CSO; Deputy Chief Executive Officer)
  Sales and Marketing, Projects and System Design, Support and Operations

- Dipl.-Inform. Joachim Becker
  (COO – Central Telematics and IT)
  Real-Time Systems, Back-Office Operations, IT

- Dipl.-Ing. (FH) Matthias Kühn
  (COO – Telematics Devices and Ticketing)
  Back-Office Ticketing, Telematic Devices,
  Maintenance and Services

- Dipl.-Kfm. Bernhard Smolka (CFO until 30/06/2017)
  Compliance, Financial Services

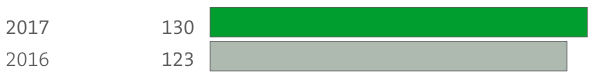
- Dr. Hans Heribert Bäsch
  (CAO from 01/05/2017–30/06/2017,
  CFO since 01/07/2017)
  Compliance, Administration and Financial Services

Revenues 1st half-year

in million EUR

Order backlog 1st half-year

in million EUR



EBIT 1st half-year

in million EUR

EBITDA 1st half-year

in million EUR

LETTER TO THE SHAREHOLDERS

Dear Sir or Madam,
dear Shareholders,

A revolution is currently under way that is changing and increasingly shaping our lives. It is of a technological nature and the dominating topic of our times – digitisation. The possibility of being able to call up, analyse and use real-time information virtually anywhere by smartphone, tablet and laptop is changing our lives. New service offerings are on the increase, while corporate business models and value chains are being redefined across industries.

Our company, init innovation in traffic systems SE, has been a force driving digitisation for more than 30 years. Things have undergone a fundamental change since we had to first of all convince our customers – the transport companies – in the past of the value of digitisation and of the associated necessary investments. What counts today is how rapidly we can digitise processes, come up with innovative offerings and implement new solutions.

These changing customer needs are also changing the requirements made of our company. We are in ever greater demand by transport companies as a partner who can reliably guarantee certain service areas and process chains. Today this extends all the way to the assumption of the entire technical operation of systems and the entire ticketing process, including underlying billing for passengers and offsetting processes between transport companies.

Demand for this is growing at an exorbitant rate. Smart ticketing in particular, mainly via mobile phone, is growing at high double-digit rates and continues to promise major potential in future. We are well equipped for this and have stepped up our efforts by making targeted acquisitions in this field in Germany and the US. As is often the case with rapidly growing start-up activities, you have to accept some initial losses before being able to rapidly gain market share and become a force to be reckoned with in the market itself. Although this weighed on our results in the first half of 2017, but results are already set to improve in 2018.

Today our software processes payment transaction in billions for our customers – the transport companies – and these are set to rise even further. We are already the leading supplier of mobile ticketing in Germany and are also on track to assume this position in the US, where we have very rapidly secured four major orders for integrated e-ticketing solutions, the first of which is already up and running in Portland.

We are just as active in the growth fields of electromobility, networking of traffic systems, data communication security, automatic passenger counting and vehicle diagnostics.

We are doing this not only out of our love for technology, but because our customers want these solutions. We have to do more than others to satisfy their demand for a partner of first choice. Although this may incur more costs and effort in the short run, it will, however, pay off in the long run – also for you, our shareholders.

Thank you for the trust you have placed in us!

For the Managing Board of
init innovation in traffic systems SE

Dr. Gottfried Greschner
Chairman (CEO)

SHARE AND INVESTOR RELATIONS

Upswing on stock exchanges – init share waits for new impetus

The first half of 2017 on stock exchanges was impacted by political events and a persistent inflow of liquidity on capital markets. The outcome of elections in the Netherlands and France, which confirmed the democratic powers and so shored up stability in the European Union, contributed to the largely confident sentiment on German and European equity markets. In addition to this was the better-than-expected economic data.

After the election of Donald Trump, share prices rallied in January across the board. In particular after the elections in March and April, there was a general rise. After that, profit taking set in until the general election in Great Britain at the beginning of June once again prompted price increases. By the end of June, the index of the 30 leading German stock corporations (DAX) had increased by 7.3 per cent. The technology stock index, the TecDAX, turned in an even sharper increase gaining around 17 per cent.

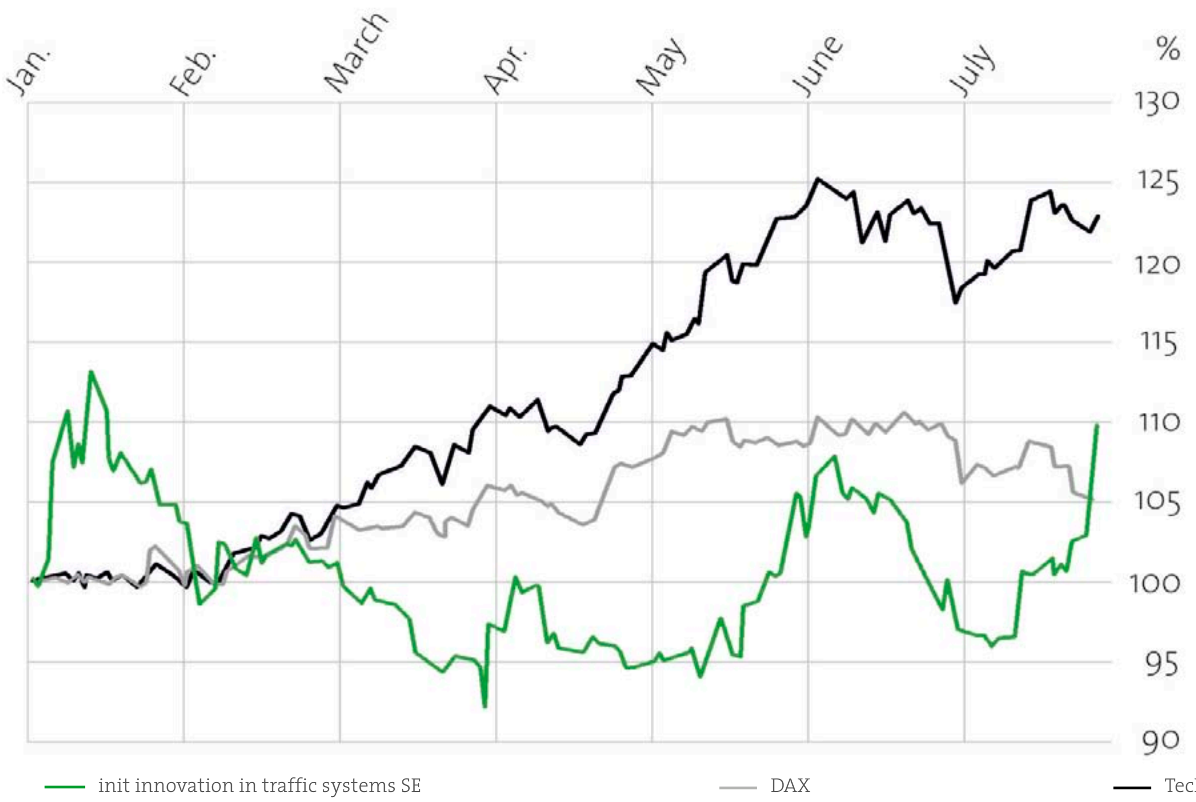
The init share (ISIN DE0005759807) remained largely unperturbed by political events and general stock market movements over the reporting period. After a positive start into the year with double-digit growth value in January, further positive triggers did not materialise for the share, whilst index values benefited from high liquidity. By the end of March, the init stock slipped to a low for the year of EUR 13.51.

The turnaround then followed in the wake of positive reports on incoming orders so that by mid-June the share had again reached EUR 16. After this, profit taking ensued so that at the end of June, the share price stood at EUR 14.37. This meant a loss of 4 per cent on value compared to the start of the year, though this could subse-quently be regained.

Most equity analysts currently rate init innovation in traffic systems SE as “neutral” or as a “buy”, with price targets of between EUR 15 and 17.

Performance January to July 2017 (Xetra)

(indexed)



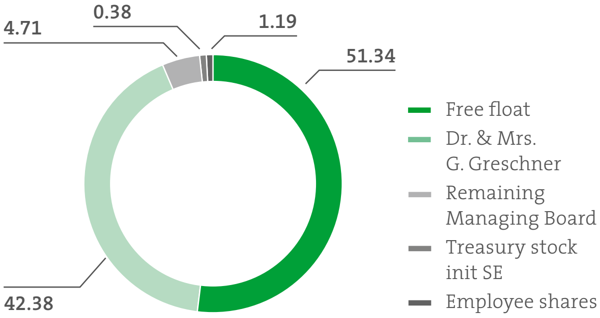
Dividend hike resolved at AGM

For the shareholders, the AGM had lots of good news: As well as the 10-percent hike in the dividend to EUR 0.22 (previous year: EUR 0.20) per dividend-bearing share, a sharp rise in incoming orders was announced and the guidance for 2017. Revenues are expected to rise to around EUR 120 million and operating profit (EBIT) to come in between EUR 5 and 7 million.

In light of these developments and prospects, shareholders showed themselves to be satisfied with the work of the Managing Board and Supervisory Board. The proposal for the application of net profit was accepted by a majority of 99.5 per cent. 95.9 per cent of shareholders approved the Managing Boards' actions and a 98.4 per cent approval rate was also secured by the Supervisory Board.

Shareholder structure as of 30 June 2017

(in %)



CFO Bernhard Smolka hands over to successor Dr. Herbert Bäsch

One sad point for many shareholders was the departure of the long-standing CFO Bernhard Smolka. Smolka was a crucial element in init's success since the IPO in July 2001. The Managing Board and the Supervisory Board thanked Bernhard Smolka for his commitment and welcomed the news that he will remain with the group in future as Managing Director of the group's largest operating company.

Smolka hands his responsibilities (finance, controlling and investor relations) to Dr Herbert Bäsch, who introduced himself to shareholders at the AGM. Bäsch, who has a doctorate in business, has extensive experience in financial and commercial management, in particular with internationally operating medium-sized companies. Over the last eight years, he was finance director at GLATFELTER GERNSBACH GmbH, a world-leading manufacturer of technical products and specialty papers with revenue of around USD 550 million and over 1,400 staff. Prior to that he was CFO of VERBIO AG, whose IPO he successfully managed.

Up-to-date information about the init share and our Investor Relations services can be found on our website *www.initse.com*.

Basic share information

Exchange	Frankfurt Stock Exchange
Index / Segment	Prime Standard, Regulated Market
Class	No-par bearer shares (at EUR 1 each)
ISIN	DE0005759807
WKN	575 980
Code	IXX
Designated sponsors	Commerzbank AG, Oddo Seydler Bank AG
Capital stock today	10,040,000 no-par bearer shares
Market capitalisation (as of 30 June 2017)	EUR 144.3m

GROUP MANAGEMENT REPORT FOR THE FIRST HALF OF THE YEAR

General economic and sector-specific conditions

Compared to the beginning of the year, macroeconomic prospects improved towards the middle of 2017. In particular, economic sentiment is good in the advanced economies and in emerging economies too the economic situation has improved palpably. Correspondingly, economic researchers have revised their full-year forecasts upwards slightly.

In their "Economic Outlook", both the International Monetary Fund (IMF) as well as the Organisation for Economic Cooperation and Development (OECD) now expect the global economy to grow by 3.5 per cent in the current year and by 3.6 per cent in 2018. They also agree in their estimates that the risks for this scenario remain very high though. In particular, the impact of decisions taken by the Trump Administration in the USA is viewed as crucial here.

In particular, economic experts see signs for rising demand for high-tech products and increasing investment, which could also provide init's business with additional impetus. This is particularly true for the euro zone. Here, the moderate pace of growth is expected to accelerate to 1.8 per cent in 2017 and 2018. In the first months of the year, economic growth came in considerably above expectations here, though growth rates in individual countries vary considerably.

The OECD expects init's domestic market, Germany, to post GDP growth of around 2 per cent for 2017 and 2018 thus placing it above average. Economic researchers expect investment in both property and plant as well as in equipment to grow much faster than the economy as a whole. Exports are also likely to support the upswing with the gradual recovery of the global economy. In the current year, the Institute for World Economy (IfW) projects that exports will rise by 4 per cent followed by 4.8 per cent in the coming year.

The record budget surplus of over EUR 25 billion this year provides a good basis for public investment, for instance in transport infrastructure, electromobility and digitalisation. All these factors tend to be growth drivers for init business.

On the other hand, economic experts have cut their forecasts significantly for Great Britain, another key market for init solutions. Here, the negative consequences of BREXIT are becoming increasingly apparent. This results in a clear deterioration of the growth rate at 1.6 per cent for 2017 and just 1.0 per cent for 2018.

In the United States, production growth should accelerate to 2.2 per cent this year and to 2.5 per cent next year thanks to significant fiscal impetus, the IfW projects. For Canada, the OECD also expects growth of 2.8 per cent this year and 2.3 per cent next year.

The globally necessary measures for the reduction of particulates and greenhouse gas emissions are one of the sustainable growth drivers in the market for transport telematics. Increasing "urbanisation", the migration of people to more economically successful conurbation areas are creating an increasing number of major cities which are growing more rapidly than their transport systems. For the sake of the functionality of economic and social systems as well as for environmental reasons, rising investment in the expansion of public passenger transport networks is therefore to be expected.

Innovations for bus and tram transport, as has always been init's core business, stand at the top of this list. The intelligent, multi-modal networking of different passenger transport providers, such as those already realised successfully by init in collaboration with transport companies from around the world, is one of the central components of these investment programmes.

Rapidly increasing digitisation also provides new growth potential in public passenger transport networks. Digitisation changes the mobility habits of people and their demands on transport companies. 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. Better, more individual provision not only leads to increased mobility overall but will facilitate greater utilisation of public transport services as well.

Self-driving cars and the trend towards electromobility also push in this direction. Other growth areas are automatic passenger counting and – in response to the growing use of apps on smartphones – smart ticketing.

Whether the opportunities arising from all these sector-specific conditions can also be realised for init continues to depend above all on the investments made by transport companies. In many cases the inflow of public funds and the political course of action for this is critical for their willingness to invest.

At present, the climate for greater subsidies for transport infrastructure has improved in most of init's target markets. This should already be reflected this year, and especially in 2018, in a renewed increase in tenders.

Group principles

Compared to 31 December 2016, the following changes occurred with respect to the group principles: On 6 June 2017, init SE established a subsidiary in New Zealand. The service company INIT innovation in transportations NZ Limited is necessary in order to be able to successfully carry out contracts in New Zealand.

Report on earnings, asset and financial position

General performance

The distribution of revenues within the init group is traditionally uneven over the course of the financial year, with the first quarters usually weaker, and the fourth quarter the strongest.

In the first six months of 2017, revenues in the init group stood at EUR 58.3m, roughly 40 per cent higher than the figure from the previous year (EUR 41.8m). Of this increase, around EUR 8.6m was attributable to acquisitions. Especially satisfying is that core business (group structure before acquisitions) also grew by EUR 7.9m, an increase of 18.9 per cent on the previous year.

The operating result improved considerably in the second quarter and is on track for the half-year target. The most meaningful earnings benchmark for init is earnings before interest, taxes, depreciation and amortisation (EBITDA). This improved in the first half-year 2017 to EUR 4.1m (1st half-year 2016: EUR 3.7m). Adjusted for acquisitions, the figure stands at EUR 4.6m.

A similar picture is also seen as regards to the EBIT, which increased to EUR 2.2m (previous year: EUR 1.9m). Excluding the charges from increased writedowns on assets from acquisitions, it would have stood at EUR 2.6m. Adjusted for acquisitions, EBIT stands at EUR 3.3m and thus improved by 73.7 per cent on the previous year. After adjusting for FX effects, earnings growth is in fact a lot higher.

The earnings contribution from new acquisitions (Bytemark, iris, HanseCom and inola) stands at EUR -1.2m in total. The largest contribution here comes from Bytemark. Bytemark is a start-up company in the smart ticketing sector. All new companies have significant market and growth potential. For example, HanseCom runs the "HandyTicket Deutschland" platform to provide a mobile phone ticketing solution that is tailored especially to the German market. Ticketing is one of the init group's most important growth segments worldwide. Ticketing business at INIT GmbH, Karlsruhe and for INIT Inc., Virginia/US grew by between 50 and 70 per cent in 2016.

Order situation

From an historic perspective, over the first six months of 2017, init has generated the highest order intake in any first half-year. Order intake for the first half stands at EUR 84.3m (1st half-year 2016: EUR 80.2m), thereby exceeding our expectations.

All in all, init managed to acquire new orders totalling EUR 42.5m in the second quarter (Q2 2016: EUR 45.2m). In addition to maintenance contracts and follow-up orders, a large share of the incoming orders took the form of new projects. The contract from New Zealand is particularly worthy of mention here. Our target of EUR 120 to 130m in incoming orders for 2017 therefore remains in place.

The order backlog as at 30 June 2017 stands at around EUR 130m and is therefore above the EUR 123m achieved on the previous year's reporting date. Consequently, it is more than sufficient to cover our full-year revenue target.

Earnings position

In the second quarter 2017, revenues of EUR 30.8m (Q2 2016: EUR 22.4m) were generated. The rise in revenues for the first half-year is partially due to acquisitions in the second half-year 2016, though is also attributable to strong growth in established business areas. Revenues were in line with our planning for the first half of the year.

Breakdown of revenues by region for the first half-year:

in million EUR	01/01–30/06/2017	%	01/01–30/06/2016	%
Germany	17.6	30.2	14.0	33.5
Rest of Europe	14.2	24.4	7.9	18.9
North America	23.0	39.4	18.5	44.3
Other countries (Australia, UAE)	3.5	6.0	1.4	3.3
Group total	**58.3**	**100.0**	**41.8**	**100.0**

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

Gross profit stands at EUR 19.0m and is thus considerably above the previous year (1st half-year 2016: EUR 11.5m).

Sales and administrative expenses were EUR 3.5m above the previous year. The increase in costs was essentially due to acquisitions in the second half-year 2016 (increase of EUR 2.1m) and to a rise in the number of employees and additional external consultancy costs.

Research and development expenditure came in at EUR 3.4m and were EUR 0.9m above the previous year. These costs are focused on various new developments as well as on the improvement of existing hard and software products.

New acquisitions invested EUR 0.6m in Research and Development. This corresponds to 7 per cent of their revenues.

Foreign currency gains and losses stands at EUR -0.4m and includes both realised gains and losses from payments already received from revenues and advance payments as well as unrealised gains and losses from the valuation of receivables, liabilities and forward exchange contracts (1st half-year 2016: EUR +1.6m).

Earnings Before Interest and Taxes (EBIT) stood at EUR 2.2m and was higher than in first half-year of 2016 (EUR 1.9m) due to higher revenues and was in line with our target.

Net interest income (balance of interest income and interest expenses) stands at EUR -0.2m (1st half-year 2016: EUR -0.2m). Interest expenses are incurred primarily from interest for real estate finance at the Karlsruhe site as well as from the utilisation of euro loans.

As a result of the aforementioned effects, overall **net profit** increased as at 30 June 2017 year-on-year to around EUR 1.4m (1st half-year 2016: EUR 1.2m). This corresponds to earnings per share of EUR 0.14 (1st half-year 2016: EUR 0.12).

Taking into account unrealised losses from currency translation, **total comprehensive income** as at 30 June 2017 declined to EUR -1.3m (1st half-year 2016: EUR 0.8m).

Asset and financial position

The **balance sheet total** increased by EUR 1.1m to EUR 187.0m compared to 31 December 2016 and is therefore EUR 30.0m higher than it was on 30 June 2016. The increase is essentially due to new acquisitions (EUR +23.6m) as well as to a rise in long-term debt (EUR +8.9m).

Cash and cash equivalents, including **marketable securities and bonds**, stood at EUR 14.8m on the reporting date (31 December 2016: EUR 23.9m).

The reduction in **future receivables from production orders** to EUR 33.7m (31 December 2016: EUR 38.2m) is essentially due to the fact that customers made payments on attaining certain project milestones (milestone payments).

Compared with 31 December 2016, **inventories** rose by EUR 5.1m to EUR 32.1m. The reason for this is imminent hardware deliveries, which will cause inventories to fall again in the months to come.

Current and non-current liabilities to banks in the amount of EUR 42.7m (31 December 2016: EUR 35.3m) primarily comprise real estate and acquisition finance as well as short-term euro loans as part of our liquidity management. Delayed incoming payments due to the postponement of project milestones and restrictive payments plans in major projects in part require high pre-finance.

Our available **guarantee and credit lines** fully ensure solvency and funding for all business activities and their expansion.

Equity stands at EUR 73.0m and is thus higher than in the previous year (1st half-year 2016: EUR 70.7m). The **equity ratio** stands at 39 per cent (1st half-year 2016: 45 per cent).

Cash flow from operations stands at EUR -6.3m (1st half-year 2016: EUR -0.6m) and therefore contracted on the previous year, primarily due to the expansion of inventories and high back and advance tax payments. The rise in inventories results from anticipated hardware deliveries in major projects as well as from the securing of materials with subcontractors. This stood opposite an increase in trade accounts payable and in deferred tax assets. We expect operating cash flow to improve again over the further course of business as a result of agreed payment receipts for major projects.

Cash flow from investing activities stands at EUR -7.7m (1st half-year 2016: EUR -3.6m) and results primarily from expenses for the new build project in the USA as well as from replacement and expansion investments.

Cash flow from financing activities stands at EUR 5.6m (1st half-year 2016: EUR 12.6m) and is essentially comprised of the uptake of real estate loans in the US as well as from short-term loans. The payment of the dividend combined with the redemption of existing loans had an offsetting effect.

Personnel

On average, the init group counted 733 employees in the first half-year 2017 (1st half-year 2016: 538) including temporary workers, research assistants and diploma candidates. There are a further 18 (Q2 2016: 17) employees in apprenticeships.

Annual average number of employees by region:

	01/01–30/06/2017	01/01–30/06/2016
Employees in Germany	601	425
Employees in the rest of Europe	16	8
Employees in North America	99	87
Employees in other countries	17	18
Total	**733**	**538**

Opportunities and risks

The opportunities and risks which can have a crucial impact on the asset, financial and earnings position of the init group are set out in our Annual Report 2016 on page 54 et seq. The opportunities and risks described in the Annual Report 2016 remain largely unchanged. Since publication of the Annual Report 2016, the assessment of the opportunities and risks has changed in the following points.

Given the international nature of the business of the init group, there is a relatively high FX risk. The charges from pre-finance in the init group also increased compared to the end of the year so that further loans were drawn upon. Furthermore, start-up companies such as our US minority shareholding naturally have a considerably higher need for capital due to their strong growth; however, they also entail a greater risk. init is in this regard working together with its key copartners in an effort to provide proportionate financing in the short term. All foreseeable risks are regularly analysed and corresponding measures initiated. In our opinion, there are no risks capable of jeopardising the continued existence of the company.

Events after the reporting date

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

Related party transactions

Transactions with related parties are set out in the Notes under “Other Disclosures” on page 17.

Forecast and outlook

In terms of revenue and earnings, performance by the init group in the second quarter of 2017 also confirmed the assessment and forecasts of the Managing Board. The results achieved were in line with targets so that the Managing Board was able to leave guidance unchanged for 2017, despite great uncertainties in global politics. Revenue is therefore expected to rise to around EUR 120m and operating profit (EBIT) to come in between EUR 5 and 7m.

By contrast, order income beat expectations. In the first six months of 2017, init generated the highest order income in a first half year with EUR 84.3m and future prospects are also very positive. Our target of EUR 120 to 130m for order income for 2017 therefore remains in place.

Over the medium term, the Managing Board views digitisation, electromobility, self-driving vehicles, the networking of transport systems and security for data communication as specific growth drivers on the market for init solutions. Further growth fields are automatic passenger counting and “smart ticketing”. Here, init has made targeted acquisitions and as one of the market leaders should benefit especially from the rapid expansion of this sector.

In addition to this, as partner for transport companies, init increasingly benefits from the assumption of technical operations of systems. In Asia, there is also great opportunities for software solutions for vehicle diagnostics, on driver behaviour and in passenger counting.

Over the long term, init benefits from sustainable growth trends such as increasing requirements of public transport systems, investment in climate protection and the need for the modernisation of IT infrastructure for transport companies in industrialised countries. In particular, from 2018, init’s Managing Board again expects growth to accelerate and earnings to rise considerably.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for half-year financial reporting, the consolidated half-year financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the init group, and the consolidated half-year Management Report of the init group includes a fair review of the development and performance of the business and the position of the init group, together with a description of the material opportunities and risks associated with the expected development of the init group for the remaining months of the financial year.

Karlsruhe, 11 August 2017

The Managing Board

Dr. Gottfried Greschner

Dr. Jürgen Greschner

Dr. Hans Heribert Bäsch

Joachim Becker

Matthias Kühn

Consolidated INCOME STATEMENT (IFRS)

from 1 January 2017 to 30 June 2017 (unaudited)

EUR '000	01/04 to 30/06/2017	01/04 to 30/06/2016	01/01 to 30/06/2017			01/01 to 30/06/2016
			init group new	init group without acquisitions	only Bytemark, iris, HanseCom, inola	
Revenues	30,778	22,395	58,319	49,685	8,634	41,834
Cost of revenues	-19,838	-16,232	-39,303	-33,083	-6,220	-30,346
Gross profit	**10,940**	**6,163**	**19,016**	**16,602**	**2,414**	**11,488**
Sales and marketing expenses	-4,123	-2,858	-7,930	-6,477	-1,453	-5,737
General administrative expenses	-2,842	-1,946	-5,063	-4,385	-678	-3,791
Research and development expenses	-1,401	-1,248	-3,427	-2,783	-644	-2,514
Other operating income	343	333	792	725	67	748
Other operating expenses	-27	-83	-58	-51	-7	-160
Foreign currency gains and losses	-497	545	-418	-317	-101	1,648
Income from associated companies	-509	123	-760	0	-760	246
Earnings before interest and taxes (EBIT)	**1,884**	**1,029**	**2,152**	**3,314**	**-1,162**	**1,928**
Interest income	7	6	39	39	0	13
Interest expenses	-122	-114	-256	-226	-30	-222
Earnings before taxes (EBT)	**1,769**	**921**	**1,935**	**3,127**	**-1,192**	**1,719**
Income taxes	-469	-279	-599	-599	0	-532
Net profit	**1,300**	**642**	**1,336**	**2,528**	**-1,192**	**1,187**
thereof attributable to equity holders of parent company	1,312	618	1,353	2,555	-1,192	1,218
thereof non-controlling interests	-12	24	-17	-17	0	-31
Earnings and diluted earnings per share in EUR	0.13	0.06	0.14	0.26	-0.12	0.12
Average number of floating shares	9,990,817	9,987,080	9,992,762	9,992,762	9,992,762	9,966,065

Consolidated STATEMENT OF COMPREHENSIVE INCOME (IFRS)

from 1 January 2017 to 30 June 2017 (unaudited)

EUR '000	01/04 to 30/06/2017	01/04 to 30/06/2016	01/01 to 30/06/2017	01/01 to 30/06/2016
Net profit	**1,300**	**642**	**1,336**	**1,187**
Items to be reclassified to the income statement				
Net losses (-) / net gains (+) on currency translation	-2,041	2,036	-2,659	-423
Total Other comprehensive income	**-2,041**	**2,036**	**-2,659**	**-423**
Total comprehensive income	**-741**	**2,678**	**-1,323**	**764**
thereof attributable to equity holders of the parent company	-729	2,654	-1,306	795
thereof non-controlling interests	-12	24	-17	-31

Consolidated BALANCE SHEET (IFRS)

as of 30 June 2017 (unaudited)

EUR '000	30/06/2017	31/12/2016
Cash and cash equivalents	14,807	23,920
Marketable securities and bonds	36	30
Trade accounts receivable	28,310	25,908
Future receivables from production orders (Percentage of completion method)	33,673	38,180
Receivables from related companies	170	120
Inventories	32,066	27,006
Income tax receivable	3,317	1,870
Other current assets	4,000	2,522
Current assets, total	**116,379**	**119,556**
Property, plant and equipment	37,044	31,742
Investment property	1,315	1,323
Goodwill	9,325	9,325
Other intangible assets	10,129	10,599
Interest in associated companies	4,317	5,453
Deferred tax assets	5,888	5,357
Other non-current assets	2,603	2,590
Non-current assets, total	**70,621**	**66,389**
Assets, total	**187,000**	**185,945**
Bank loans	23,210	19,669
Trade accounts payable	17,216	16,641
Accounts payable from "Percentage of completion method"	7,544	8,053
Advance payments received	1,291	806
Income tax payable	0	3,514
Provisions	12,878	13,134
Other current liabilities	13,090	15,411
Current liabilities, total	**75,229**	**77,228**
Bank loans	19,538	15,680
Deferred tax liabilities	6,668	4,519
Pensions accrued and similar obligations	8,992	8,637
Other non-current liabilities	3,601	3,382
Non-current liabilities, total	**38,799**	**32,218**
Liabilities, total	**114,028**	**109,446**
Subscribed capital	10,040	10,040
Additional paid-in capital	5,318	5,642
Treasury stock	–569	–889
Surplus reserves and consolidated unappropriated profit	57,659	58,507
Other reserves	359	3,017
Attributable to equity holders of the parent company	72,807	76,317
Non-controlling interests	165	182
Shareholders' equity, total	**72,972**	**76,499**
Liabilities and shareholders' equity, total	**187,000**	**185,945**

Consolidated
STATEMENT OF CHANGES IN EQUITY (IFRS)

as of 30 June 2017 (unaudited)

	Attributable to equity holders of the parent company								Non-controlling interest	Shareholders' equity total
					Other reserves					
EUR '000	Subscribed capital	Additional paid-in capital	Treasury stock	Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Securities marked to market	Total		
Status as of 01/01/2016	10,040	5,809	–436	52,281	–1,232	4,560	–1	71,021	159	71,180
Net profit				1,218				1,218	–31	1,187
Other comprehensive income						–423		–423		–423
Total comprehensive income				1,218		–423		795	–31	764
Share-based payments		–458	219					–239		–239
Acquisition of treasury stock			–1,019					–1,019		–1,019
Status as of 30/06/2016	**10,040**	**5,351**	**–1,236**	**53,499**	**–1,232**	**4,137**	**–1**	**70,558**	**128**	**70,686**
Status as of 01/01/2017	10,040	5,642	–889	58,507	–2,686	5,704	–1	76,317	182	76,499
Net profit				1,353				1,353	–17	1,336
Other comprehensive income						–2,659		–2,659		–2,659
Total comprehensive income				1,353		–2,659		–1,306	–17	–1,323
Dividend paid out				–2,200				–2,200		–2,200
Share-based payments		–324	320					–4		–4
Rounding difference				–1		1		0		0
Status as of 30/06/2017	**10,040**	**5,318**	**–569**	**57,659**	**–2,686**	**3,046**	**–1**	**72,807**	**165**	**72,972**

Consolidated
CASH FLOW STATEMENT (IFRS)

from 1 January 2017 to 30 June 2017 (unaudited)

EUR '000	01/01 to 30/06/2017	01/01 to 30/06/2016
Cash flow from operating activities		
Net income	1,336	1,187
Depreciation	1,985	1,765
Gains on the disposal of fixed assets	–40	–54
Change in provisions and accruals	382	–87
Change in inventories	–5,674	–3,827
Change in trade accounts receivable and future receivables from production orders	–1,068	3,639
Change in other assets, not provided by / used in investing or financing activities	–3,119	–1,326
Change in trade accounts payable	2,330	662
Change in advanced payments received and liabilities from PoC method	373	–319
Change in other liabilities, not provided by / used in investing or financing activities	–5,033	–785
Amount of other non-cash income and expenses	2,220	–1,426
Net cash from operating activities	**–6,308**	**–571**
Cash flow from investing activities		
Payments received on disposal of tangible fixed assets	68	490
Investments in property, plant, equipment and other intangible assets	–7,760	–3,347
Investments in associated companies	0	–762
Net cash flows used in investing activities	**–7,692**	**–3,619**
Cash flow from financing activities		
Dividend paid out	–2,200	0
Cash payments for the purchase of treasury stock	0	–1,019
Payments received from bank loans incurred	11,958	14,230
Redemption of bank loans	–4,153	–607
Net cash flows used in financing activities	**5,605**	**12,604**
Net effects of currency translation and consolidation changes in cash and cash equivalents	–718	–101
Decrease / increase in cash and cash equivalents	**–9,113**	**8,313**
Cash and cash equivalents at the beginning of the period	23,920	14,038
Cash and cash equivalents at the end of the period	**14,807**	**22,351**

NOTES TO THE CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS 2017

Notes to the half-year financial statements

The init group is an international system house for intelligent transportation systems (ITS). init innovation in traffic systems SE, Karlsruhe is a listed company, ISIN DE0005759807, and has been in the regulated market (Prime Standard) since 1 January 2003.

The half-year financial statements as at 30 June 2017 have been produced in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU and meet the requirements of IAS 34. The consolidated half-year financial statements are presented in euros. All figures have been rounded to the nearest thousand euros unless stated otherwise. The half-year group status report and half-year consolidated financial statements as at 30 June 2017 have not been reviewed by the auditors. The half-year financial statements were submitted to the Supervisory Board on 3 August 2017.

Principles of accounting and valuation

The half-year financial statements have been prepared using the same principles of accounting and valuation used to produce the consolidated financial statements as at 31 December 2016, which are described in detail in the notes to the consolidated financial statements. The new accounting standards adopted in the first six months of 2017 did not have a material impact on the consolidated financial statements.

Consolidated group

With effect from 6 June 2017 init SE has established INIT innovation in transport NZ Limited in Dunedin, New Zealand. In addition, there were no changes to the consolidated group as at 31 December 2016.

Inventories

Inventory write-up amounted to EUR 141k (30/06/2016: EUR 208k write-downs). The income is included under cost of revenues in the income statement.

Trade accounts receivable

Write-downs on receivables came to EUR 2,768k (30/06/2016: EUR 2,879k). EUR 316k was booked to the income statement in the current financial year (30/06/2016: EUR 147k).

Property, plant, equipment and other intangible assets

Tangible fixed assets essentially refer to the administration buildings at Kaeppelestrasse 4 and 4a in Karlsruhe and office and technical equipment. Capital expenditure for replacement stood at EUR 1,395k (30/06/2016: EUR 672k). Capitalisations totalling EUR 5,971k were made towards the new building in USA during the first half-year 2017. Another EUR 170k was invested in land and buildings.

The scheduled depreciation totalled EUR 1,977k (30/06/2016: EUR 1,721k). Sales of tangible fixed assets generated profit of EUR 40k (30/06/2016: EUR 72k).

Investment property

Investment property as defined in IAS 40 – property and buildings that are not used for commercial operations – refers to the acquisition of the neighbouring properties at Kaeppelestrasse 8/8a in Karlsruhe in 2012 (30/06/2016: Kaeppelestrasse 8/8a and 10). Rental income was EUR 151k as at 30 June 2017 (30/06/2016: EUR 129k). The scheduled depreciation has been reduced to EUR 8k (30/06/2016: EUR 44k) due to owner-occupation of Kaeppelestrasse 10.

Liabilities

Liabilities are carried at amortised acquisition cost. The current liabilities to banks of EUR 23.2m (31/12/2016: EUR 19.7m) mainly concern the short-term part of the real estate financing of Kaeppelestrasse 4, 4a, 8/8a, 10 as well as short-term euro loans to stabilise the liquidity. The interest change risk arising from variable financing was hedged by an interest rate swap transaction. The long-term liabilities to banks of EUR 19.5m (31/12/2016: EUR 15.7m) relate to the long-term part of the real estate financing and acquisition financing as well as long-term investment financing.

Shareholders' equity

Subscribed capital

The capital stock consists of 10,040,000 no-par bearer shares with an imputed share in the capital stock of EUR 1 per share. The shares have been issued and are fully paid up.

Conditional capital

The annual shareholders' meeting on 21 July 2016 passed a resolution creating contingent capital totalling

EUR 5,000,000. The capital stock of the company may be increased by up to EUR 5,000,000 by issuing up to 5,000,000 new no-par bearer shares. The contingent capital increase serves to grant shares upon the exercise of warrants or conversion rights, or upon fulfilment of option or conversion obligations, to the holders of the warrants or convertible bonds in accordance with the authorisation issued by the annual shareholders' meeting on 21 July 2016.

Additional paid-in capital

As at 30 June 2017, additional paid-in capital was EUR 5,318k, comprising EUR 3,141k from the premium on shares sold in the IPO and the 2002 capital increase. A further EUR 1,696k was allocated for share scheme expenses for the years 2005 to 2016. EUR 33k was reversed following the share transfer to members of the Managing Board and key personnel in 2017. Additional paid-in capital was increased by EUR 514k through the sale of treasury stock in 2007.

Treasury stock

As at 1 January 2017, treasury stock comprised 59,665 shares.

In the first half year of 2017, 21,453 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 totalled 38,212 shares at 30 June 2017.

Treasury stock is valued at acquisition cost (cost method) at EUR 570k (31/12/2016: EUR 889k) and deducted from shareholders' equity. As at 30 June 2017 the 38,212 shares have an imputed share in capital stock of EUR 38,212 (0.38 %). The average repurchase price was EUR 14.91 per share. Treasury stock was purchased for use as a consideration in mergers and acquisitions of other companies or parts of companies, to gain access to new capital markets, or to be issued to staff or members of the Managing Board.

Paid dividends

EUR '000	
Dividend for 2016: 22 cents per share distributed on 29 May 2017	2,200
Dividend for 2015: 20 cents per share, distributed on 22 July 2016	1,991

Contingent liabilities/assets

If a lawsuit is lost contingent liabilities of EUR 335k will be incurred. The probability of the defect is estimated as low. There are no other contingent liabilities or assets as at 30 June 2017 or 31 December 2016.

Legal disputes

init SE and other group companies are involved in legal disputes connected with ongoing business operations that may have an impact on the group's financial situation. Litigation involves a number of variables, and the outcome of individual lawsuits cannot be reliably predicted. The affected group companies have recognised provisions in the balance sheet for events prior to the reporting date that are likely to result in a liability which can be estimated with reasonable accuracy. We do not anticipate any other significant negative outcomes that would have a long-term effect on the assets, liabilities, financial position and earnings situation of the init group. We also refer to the chapter "Opportunities and risks" in the consolidated half-year management report.

Financial instruments

The standard IFRS 9 (financial instruments) replaces the current provisions of IAS 39 (Financial Instruments: Recognition and Measurement) for the accounting of financial instruments. The first-time application is compulsory for fiscal year 2018, whereby an earlier application is permissible. The init Group does not apply this standard prematurely.

In the future, a financial instrument is classified into one of three categories, depending on the structure of its contractual payment flows and the nature of the business method. Financial instruments are measured either at amortized cost or at fair value. Receivables from deliveries and services as well as future receivables from production contracts ("percentage of completion") are the most important financial assets of the init Group and are valued at amortized cost. We are currently intending to apply the simplified impairment model of IFRS 9 and recognize the losses expected over the entire term from all receivables and active contract items. The financial impact of the implementation of the new standard depends on the financial instruments that are recorded at the time the application of the standard is applied. On the basis of the current state of our analysis, we do expect non-essential opposing effects, i.e. increases and reductions in impairments pursuant to IFRS 9.

Our preliminary estimates could be subject to change, as we have not yet completed our analysis and therefore cannot conclusively assess the impact on our consolidated financial statements. We will discuss the possible impact of the new standard in more detail in the 2017 Annual Report.

Classification and fair values

The following table states the book values of the financial instruments of the group reported in the balance sheet on 30 June 2017 compared to 31 December 2016 and shows their classification in appropriate measurement categories according to IAS 39.

EUR '000	30/06/2017	31/12/2016
ASSETS		
Loans and receivables	**79,136**	**89,639**
Cash and cash equivalents	14,807	23,920
Trade accounts receivable	28,310	25,908
Accounts receivable due to related parties	170	120
Future receivables from production orders	33,673	38,180
Other financial assets (current)	1,617	959
Other financial assets (non-current)	559	552
Financial assets available for sale	**36**	**30**
Marketable securities and bonds	36	30
Financial assets reported at fair value through profit or loss	**785**	**220**
Derivative financial assets	785	220
LIABILITIES		
Financial liabilities recognised at cost	**65,364**	**56,720**
Bank loans (current and non-current)	42,748	35,349
Trade accounts payable	17,170	16,641
Accounts payable due to related parties	46	0
Other liabilities (current)	1,799	1,348
Other liabilities (non-current)	3,601	3,382
Financial liabilities reported at fair value through profit or loss	**219**	**476**
Derivative financial instruments	219	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 way of discounting the expected future cash flow using the prevailing market interest rates. Given the short maturities of the cash and cash equivalents, trade accounts receivable, other assets, trade accounts payable, and other liabilities, it is assumed that their fair value is equal to the book value.

Hierarchy of fair values to IFRS 13

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

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

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

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

EUR '000	30/06/2017				31/12/2016			
		Level				Level		
	Total	**1**	**2**	**3**	**Total**	**1**	**2**	**3**
Financial assets available for sale								
Marketable securities and bonds	**36**	36			**30**	30		
Financial assets reported at fair value through profit or loss								
Derivative financial assets	**785**		785		**220**		220	
Financial liabilities reported at fair value through profit or loss								
Derivative financial instruments	**219**		219		**476**		476	

In the reporting period ending 30 June 2017 and the reporting period ending 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.

Other disclosures

Related party and persons transactions

The associated companies included in the consolidated financial statements are listed in the section entitled "Consolidated group" in the annual report 2016.

EUR '000	Associated companies		Other related parties and persons	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
Trade accounts receivable and other income	0	0	0	0
Trade accounts payable and other expenses	0	491	311	278
	30/06/2017	31/12/2016	30/06/2017	31/12/2016
Receivables	170	120	0	0
Payables	0	0	0	0

Associated companies

Receivables totalling EUR 170k (31/12/2016: EUR 120k) result from a loan to maBinso Software GmbH, Hamburg, as well as other receivables and have a residual term of less than one year. The item is recognised under current receivables in the balance sheet.

Other transactions with related parties and persons

init SE rents an office building 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 26k (30/06/2016: EUR 4k) made to family members of a Managing Board member were recognised under personnel expenses in the first six months.

Terms and conditions of business transactions with related parties and persons

Transactions (sales and acquisitions) with related parties and persons are executed at market rates. No guarantees exist for receivables and payables in relation to related parties. In the report period as at 30 June 2017, the group had not set aside any valuation allowances for receivables from related parties.

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

The following voice right announcements according to section 21 (1) WpHG have been submitted to init SE in the first half year 2017:

Name	Date	Previous notification	Resulting situation
Zürcher Kantonalbank, Switzerland	23 June 2017*	4.31 %	2.99%

* and correction of 23 June 2017

The aforementioned voting rights announcement and further voting rights are available on the Internet at *https://www.initse.com/ende/investors/the-share.html.*

Karlsruhe, 11 August 2017

The Managing Board

Dr. Gottfried Greschner

Dr. Jürgen Greschner

Dr. Hans Heribert Bäsch

Joachim Becker

Matthias Kühn

Five-year

FINANCIAL SUMMARY

of the init group (IFRS)

EUR '000	2016	2015	2014	2013	2012
Balance Sheet (31/12)					
Balance sheet total	185,945	145,082	128,774	118,313	110,452
Shareholders' equity	76,499	71,180	67,770	62,092	57,757
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ratio (in %)	41.1	49.1	52.6	52.5	52.3
Return on equity (in %)	11.4	10.6	17.8	19.4	18.8
Non-current assets	66,389	43,098	34,537	28,198	27,603
Current assets	119,556	101,984	94,237	90,115	82,849
Income Statement (01/01–31/12)					
Revenues	108,635	105,293	102,993	100,120	97,297
Gross profit	31,253	31,839	36,581	37,456	34,006
EBIT	11,624	10,756	18,685	17,725	17,318
EBITDA	15,678	14,117	21,690	20,501	19,895
Consolidated net profit	8,706	7,577	12,067	12,068	10,872
Earnings per share (in EUR)	0.87	0.75	1.20	1.21	1.11
Dividend (in EUR)	0.22	0.20	0.80	0.80	0.80
Cash Flow					
Cash flow from operating activities	13,182	11,478	502	11,435	11,332
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	16.80	27.99	25.80	26.89	25.70
Bottom share price (in EUR)	12.60	14.08	18.50	21.15	13.60

Financial calendar

2017

Q4

10 November
Publication
Quaterly Statement 3/2017

27–29 November
Equity Forum
in Frankfurt am Main

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