Half-Year Financial Report 2018

CONTENT

GROUP KEY FIGURES

according to IFRS

EUR'000	2018	2017	Change in %
Balance Sheet (30/06/)			
Balance sheet total	166,172	186,035	-10.7
Shareholders' equity	73,504	72,907	0.8
Equity ratio (in %)	44.2	39.2	12.8
Non-current assets	65,600	69,656	-5.8
Current assets	100,572	116,379	-13.6
Income Statement (01/01 – 30/06/)			
Revenues	59,317	58,319	1.7
Gross profit	18,757	19,172	-2.2
EBIT	1,086	2,307	-52.9
EBITDA	3,317	4,298	-22.8
Consolidated net profit	440	1,368	-67.8
Earnings per share (in EUR)	0.04	0.14	-71.4
Dividend (in EUR) – paid in the reporting period	0.22	0.22	0.0
Cash Flow (01/01 - 30/06/)			
Cash flow from operating activities	3,954	-6,308	162.7
Share (01/04 – 30/06/)			
Issue price (in EUR)	5.10	5.10	
Peak share price (in EUR)	20.80	16.99	22.4
Bottom share price (in EUR)	16.70	13.51	23.6

CORPORATE BODIES

Supervisory Board

>> **Dipl.-Kfm. Hans-Joachim Rühlig**, Ostfildern, Germany (Chairman)

Independent financial expert within the meaning of § 100 para 5 AktG
Former Financial Managing Director,
Ed. Züblin AG, Stuttgart/Germany

>> **Dipl.-Ing. Ulrich Sieg**, Jork, Germany (Deputy-Chairman)

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**, Schoonhoven, Netherlands

Former Secretary General of the International Association of Public Transport (UITP)

Managing Board

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

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

>> **Dr. Hans Heribert Bäsch**
(CFO until 30 September 2018)
Accounting, Treasury, Controlling, Risk Management, M&A, Investor Relations, Human Resource, Compliance, Logistics

>> **Dipl.-Inform. Joachim Becker**
(COO – Central Telematics and IT)
Real-Time Systems, Back-Office Operations, Mobility as a Service, IT

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

TO THE SHAREHOLDERS

Dear Sir or Madam,
dear Shareholders,

A new catch word is making the rounds – "digital disruption". It implies nothing more than the realisation that as digitisation continues to impact more on the economy and society, in commercial and private spheres, all the existing ways of thinking and behavioural patterns will be revolutionised. Providers in the "mobility market" are also gripped by this "mobility revolution" and must address the changing conditions to continue to exist.

What does this mean for our business? In short – it opens up many new opportunities. This is because digitisation has been the daily business of our company for 35 years. This includes the constant innovative development of products and systems, swift responses to changing customer needs and the integration of new technologies. init has always been a driver of the "mobility of the future" and will continue to do so for the "mobility 4.0" that is now called for.

The key results of the first half of 2018 show that these are not mere words. The acquisition of the Finnish Mattersoft Oy has extended our product range in the areas of IoT (internet of things) and SaaS (software as a service) and in web-based offerings. This also led to an order from the Finnish city Turku to install for the first time the credit and bank card standard EMV as a payment method in public transport in Scandinavia – a milestone project in the region. We have thus also gained important expertise that we can apply to the US market. In particular, electronic ticketing via apps and credit card systems with best-price billing and booking of all payment transactions even between several transport operators pave the way to above-average growth rates here.

This kind of disruption, the transformation of old systems to the new digital era is one of init's core competencies that secures our competitive advantage not only on the North American market. For example, Metrolink, one of the largest regional transport associations in the US and operator of the local rail transport network in Southern California, opted in favour of an init ticketing system. INIT Innovations in Transportation, Inc. – our wholly owned US subsidiary – won a contract to update and modernise the existing payment system. The order comprises 155 new Ticket Vending Devices (TVDs), Ticket Office Machines (TOMs), and a core back-office account-based system. The new ticketing system will allow cash and cashless transactions, making it worth it the transport operator by significantly reducing the operating costs.

init was chosen here as the most technically efficient provider to replace the old ticket vending devices. The new payment system will improve the operator's operational efficiency and fare management.

Turku and Metrolink are only two examples of innovative disruption by means of which init can make "mobility 4.0" a reality for its customers. We are also currently working on a series of other digital research projects. These concern the optimum deployment and infrastructure planning for electric buses as well as the ITCS-controlled operation of self-driving vehicles, the networking of existing mobility offerings in a region or the protection of underground public transport systems, and the development of an inter-modal travel information and booking platform.

Digital disruption is a growth driver for init, generating demand for innovative solutions for transport companies, such as those we have developed for more than 35 years.

The price we have to pay for this is a temporary increase in research expenses, as was the case in the first half of 2018. However, we are able to finance this from our own cash flow, which has improved by more than EUR 10 million year-on-year during the same period. The reward we want to reap from this investment is a sustained acceleration of our growth and more return for you, our shareholders.

Thank you for the trust you have placed in us!

Dr. Gottfried Greschner, CEO

init innovation in traffic systems SE

SHARE AND INVESTOR RELATIONS

Stop and go on the stock markets – analysts see price potential for the init share

The equity market blew hot and cold for investors in the first half of 2018. The good start to the year with largely bullish prices was followed by a sharp correction in February. The protectionist signals sent out by the US government raised doubts as to whether the as yet strong global economic upturn can remain intact. Many of the main business climate indices deteriorated increasingly. The uncertainties were underpinned further by the US president's plan to introduce punitive tariffs on the movement of goods with China and Europe, and through expectations of rising interest rates in the US and Europe.

Despite some recurrent, short recovery phases from March onwards, concerns that the trade war between the US and China would escalate led to another significant correction recently. Volatility was very pronounced in the period under review, especially on the German stock market indices. The DAX index, which represents the 30 leading German public limited companies, recorded a decline on 4.7 per cent up to the end of June. The TecDAX, the technology stocks index, put in a more differentiated performance and even managed to rise by 6.4 per cent during the reporting period.

The init share (ISIN DE0005759807) initially performed in line with general trend over the reporting period. The positive start to the year was boosted further by the publication in March of the preliminary figures for 2017 and projections for 2018, driving up the init share to its highest level of EUR 22. Although this was followed by profit taking, the share price outperformed the general indices up to May. Only at the end of the reporting period was the init share also affected by the general price weakness. It traded at EUR 17.15 at the end of June.

At this price level, the equity analysts view init innovation in traffic systems SE as a buying opportunity with price targets of between EUR 22 and EUR 26.

Performance January to June 2018 (Xetra)

(indexed)

Annual General Meeting confirms dividends and growth strategy

In response to the record revenues of more than EUR 130 million and year-on-year growth of 20 per cent or EUR 22 million compared to the previous year, shareholder representatives expressed their satisfaction with the strategy of the Management Board at the Annual General Meeting held on 16 May 2018, with a large majority of 99.85 per cent voting in favour of the proposal put forward by the Management Board and Supervisory Board on the appropriation of distributable profit. Shareholders thus received an unchanged dividend of EUR 0.22 per share.

Shareholder satisfaction with the company's organic growth as well as with the growth strategy that is focused on targeted acquisitions was also reflected in the votes on granting discharge to the Management Board and Supervisory Board, which came to 94.71 and 97.81 per cent respectively.

Share buyback in July

init innovation in traffic systems SE decided on 17 July 2018 to acquire up to 30,000 treasury shares (in accordance with Section 71 (1) (8) of the German Stock Corporation Act (AktG)) via the stock exchange at a maximum purchase price of EUR 500,000 (excluding ancillary costs) in exercise of the authorisation granted to it by the Annual General Meeting on 13 May 2015 under agenda item 6.

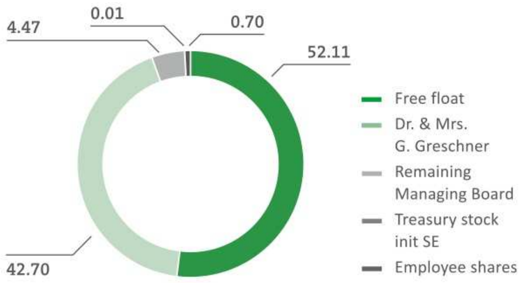
It plans to conduct the share buyback in the period from 18 July 2018 to 27 September 2018.

Information about the individual transactions and the daily volume are published online under the following link:

https://www.initse.com/ende/investors/the-share

Shareholder structure as of 30 June 2018

(in %)



Basic share information

Exchange	Frankfurt Stock Exchange
Index / Segment	Prime Standard, Regulated Market
Class	no-par bearer shares (at EUR 1 each)
ISIN	DE 0005759807
WKN	575 980
Code	IXX
Designated Sponsors	Commerzbank AG, Oddo Seydler Bank AG
Capital stock	10,040,000 no-par bearer shares
Market capitalisation (30 June 2018) in EUR m	172

GROUP MANAGEMENT REPORT FOR THE FIRST HALF OF THE YEAR

General economic conditions

Although the experts continue to forecast growth of 3.9 per cent this year and the next, they have issued a warning that the risks of a downturn have increased even in the short term. While global expansion remains strong, it has become considerably more fragile. Growth will slow down in many developed countries, including the eurozone countries, Japan and the UK.

In contrast, the US economy will remain on its growth trajectory, largely owing to the latest tax cuts and higher public spending. However, growth is expected to slow down even in the US in the coming years, as the impact of temporary fiscal impetus levels off.

In the reporting period, the economic experts have become increasingly concerned as to whether the global economic growth can be sustained. Unlike the assumptions and predictions given in the init Annual Report for 2017, the International Monetary Fund (IMF, World Economic Outlook, July 2018) believes the political risks in important regions of the worlds have increased considerably.

According to the IMF, the greatest short-term threat to global growth is the risk that the current trade conflicts will escalate further, with negative consequences for trading volumes, asset prices and investments. The IMF model points out that global production could fall by some 0.5 per cent below current forecasts by 2020, if the current trade policy threats are realised and this leads to falling confidence in future business development.

Other risks also become more significant in the second quarter of 2018. The IMF refers here primarily to the political uncertainty in Europe, where the European Union faces fundamental political challenges concerning migration policy, tax policy, the rule of law and the institutional architecture of the eurozone. The conditions and consequences of Brexit have yet to be clarified despite months of negotiations.

The economic experts at the IMF have therefore downgraded their growth expectations most tangibly for the eurozone and the UK, namely by 0.2 percentage points to 2.2 per cent in 2018 and by 0.1 percentage points to 1.9 per cent for 2019. The reduction in the forecast was even greater for Germany, France, Italy and the UK.

On the fiscal side, the IMF experts see the policy of the Federal Reserve Bank in the US as being crucially important for global development. In view of the rising inflation, the Fed is set to raise interest rates further in the next two years, tighten its monetary policy compared with other developed countries and thus strengthen the US dollar. Companies such as init that realise many projects in North America can then benefit from the strong US dollar.

Sector-specific developments

The growing political risks can impact in particular on investment in transport infrastructure. With an otherwise unchanged positive trend as far as demand is concerned, the investment appetite of the transport operators is heavily dependent on the funding terms. Rising interest rates and uncertainty arising from political decisions could lead to constraints compared with the original planning.

Nonetheless, the number of project requests for tender is still rising at present and this trend is expected to continue in 2019 too. No restrictions are being made to the statements made in the Annual Report 2017 with regard to the key growth drivers such as urbanisation, reduction of pollutant emissions, digitisation, new services such as mobility as a service (MaaS), autonomous driving, electromobility and smart ticketing.

Group principles

Compared to 31 December 2017, the following changes occurred with respect to group organisation:

As of 1 January 2018, init acquired a 100 per cent stake in Mattersoft Oy located in Tampere (Finland). With this acquisition, the product range of the init group is extended to include a central light signaling trigger in particular and know-how acquired in the area of IoT (internet of things), SaaS (software as a service) and web-based offers. Furthermore, Mattersoft Oy opens up access to qualified developer capacities at the university location of Tampere. The purchase price allocation was concluded in the second quarter. The revaluation of the assets led to the following book values: technology EUR 0.8m, customer base EUR 0.5m. No significant goodwill arose from this transaction. A detailed explanation on it will be published in the Annual Report 2018.

init formed a subsidiary in Dublin, Ireland on 21 March 2018. Init Innovations in Transportation Limited aims to carry out development services on site and thus have access to the developer capacities in Ireland. Equity of EUR 100,000 was paid in in the second quarter.

Change to the position of Chief Financial Officer

Dr. Hans Heribert Bäsch, Chief Financial Officer of init innovation in traffic systems SE, will leave the company in best mutual agreement in order to pursue new professional challenges. The appointment of the new CFO of init SE will be made by 1 October 2018 at the latest.

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 three quarters usually weaker and the fourth quarter the strongest.

In the first six months of 2018, init group generated revenues of EUR 59.3m, which were at the prior year level of EUR 58.3m.

The operating result fell by EUR 1.2 million compared with the previous year to EUR 1.1m (1st half-year 2017: EUR 2.3m).

In the first six months of 2018 EUR 1.1m more were invested in research and development.

Traditionally, the third and above all the fourth quarter are particularly strong at init in terms of revenues and earnings. We are therefore keeping our forecast for revenues (EUR 135 to 145m) and earnings (EBIT: EUR 10 to 12m) unchanged.

Order situation

All in all, init managed to acquire new orders in the amount of EUR 44.3m in the second quarter (Q2 2017: EUR 42.5m). The volume of incoming orders is therefore up slightly on the same quarter of the previous year.

As of 30 June 2018, the volume of incoming orders totalled around EUR 73m (30 June 2017: around EUR 84m). Several large orders from the US have already been deferred to the second half of the year. We are nonetheless well on track to achieving our target of EUR 140 to 150m for orders received for 2018. However, this depends both on whether we win more of the large tenders we are currently participating in and if the resulting orders are placed this year.

The order backlog as of 30 June 2018 comes to around EUR 130m and is therefore unchanged from the previous year's balance-sheet date.

Earnings position

Revenues of EUR 29.9m were generated in the second quarter of 2018 (Q2 2017: EUR 30.8m). At EUR 59.3m, init group revenues in the first half of 2018 were up slightly on the previously year's figure (1st half-year 2017: EUR 58.3m). Revenues for the first two quarters matched our expectations.

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

in million EUR	01/01-30/06/2018	%	01/01-30/06/2017	%
Germany	16.1	27.2	17.6	30.2
Rest of Europe	12.5	21.1	14.2	24.4
North America	22.8	38.4	23.0	39.4
Other countries (Australia, VAE)	7.9	13.3	3.5	6.0
Total	**59.3**	**100.0**	**58.3**	**100.0**

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

Gross profit came to EUR 18.8m and is therefore down slightly on the previous year (1st half-year 2017: 19.2m).

Sales and administrative expenses of EUR 13.5m as of 30 June 2018 were some EUR 0.5m higher than the previous year. Expenses increased mainly as a result of the purchase of Mattersoft.

Research and development expenses of EUR 4.5m as of 30 June 2018 were EUR 1.1m higher than the previous year and focused mainly on numerous new developments and on the implementation of new trends, particularly in the field of digitisation.

Foreign currency gains and losses stood at EUR -0.1m. The figure 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 2017: EUR -0.4m).

Owing to the aforementioned effects, **earnings before interest and taxes** (EBIT) fell to EUR 1.1m in the first half of 2018 compared to the first half of 2017 (EUR 2.3m).

Net interest income (balance of interest income and interest expenses) totalled EUR -0.4m (1st half-year 2017: 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.

Overall, **net profit** fell to EUR 0.4m as of 30 June 2018 compared with the same period of the previous year (1st half-year 2017: EUR 1.4m). This corresponds to earnings per share of EUR 0.04 (1st half-year 2017: EUR 0.14).

Taking into account unrealised profits from currency translation – particularly from US dollars – **total comprehensive income** rose to EUR 1.0m as of 30 June 2018 (1st half-year 2017: EUR -1.3m).

Asset and financial position

Compared with 31 December 2017, **balance sheet total** declined by EUR 10.6m to EUR 166.2m and is currently down EUR 19.9m on the balance sheet date of 30 June 2017. The decline is largely due to the reduction in receivables and liabilities.

Cash and cash equivalents, including **marketable securities and bonds**, amounted to EUR 18.5m on the reporting date (31 December 2017: EUR 19.8m).

The reduction in **future receivables from production orders** to EUR 26.1m (31 December 2017: EUR 27.4m) is largely due to payments made by customers when certain project milestones were reached (milestone payments).

Inventories came to EUR 26.3m as of 30 June 2018, which was mainly unchanged compared with 31 December 2017.

Current and non-current liabilities to banks of EUR 40.3m (31 December 2017: EUR 42.2m) primarily comprise real estate and acquisition finance as well as short-term euro loans as part of our liquidity management. Some delayed incoming payments due to the postponement of project milestones and restrictive payments plans in major projects require a large degree of prefinancing.

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

Equity stood at EUR 73.5m and was thus higher than in the previous year (1st half-year 2017: EUR 72.9m). The equity ratio was 44.2 per cent (1st half-year 2017: 39.2 per cent).

Cash flow from operating activities came to EUR 4.0m (1st half-year 2017: EUR -6.3m) and increased by EUR 10.3m over the previous year mainly because of the sharp reduction in receivables and lower build up of inventories. This was offset primarily by the reduction in trade payables.

Cash flow from investing activities was EUR -1.2m (1st half-year 2017: EUR -7.7m), mainly as a result of payments for replacement and expansion investments, and expenses for the acquisition of subsidiaries.

Cash flow from financing activities was EUR -3.8m (1st half-year 2017: EUR 5.6m) and comprises mainly the payment of the dividends and the repayment of existing loans.

Personnel

On average, the init group counted 771 employees in the first six months (1st half-year 2017: 733) including temporary workers, research assistants and diploma candidates. The increase was mainly due to the subsidiaries that were acquired or newly established for the purpose of expanding development capacities.

Number of employees by region:

	30/06/2018	30/06/2017
Germany	616	601
Rest of Europe	30	16
North America	108	99
Other countries	17	17
Total	**771**	**733**

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 2017 on pages 35 et seq. The opportunities and risks described in the Annual Report 2017 remain largely unchanged.

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 22.

Forecast and outlook

After the first six months of the 2018 financial year, the init group is well on its way to reach the targets it has set for the year as a whole. The indicators reached are largely in line with the Managing Board’s expectations. We are therefore keeping our forecast for revenues (EUR 135 to 145m) and EBIT (between EUR 10 to 12m) unchanged.

This also applies to the order situation: incoming orders totalling around EUR 73m were booked as of June 2018. init is therefore very likely to reach the target of EUR 140 to 150m for incoming orders for 2018 – despite the persistent global uncertainties.

Going forward, we continue to expect growth to accelerate, especially in the ticketing business. In July of the current financial year, we were awarded a strategically important major order for stationary ticketing machines from our customer Metrolink in Los Angeles, US. Another milestone was reached in Turku, Finland, where for the first time the credit and bank card standard EMV will be implemented as a payment method in public transport in Scandinavia.

Similarly, init is closely involved in research and development in the areas of current trends such as electromobility, ID/account-based ticketing, mobility as a service, autonomous driving and cyber security.

On a long-term horizon, init as a full-service provider will become increasingly important as a partner for transport operators in managing the overall technical operation of systems. This opens up additional growth opportunities and leads to greatly enhanced customer loyalty.

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, 9 August 2018

The Managing Board

Dr. Gottfried Greschner Dr. Jürgen Greschner

Dr. Hans Heribert Bäsch Joachim Becker

Matthias Kühn

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Income Statement

from 1 January 2018 to 30 June 2018 (unaudited) IFRS

EUR'000	01/04 to 30/06/2018	01/04 to 30/06/2017	01/01 to 30/06/2018	01/01 to 30/06/2017
Revenues	29,858	30,778	59,317	58,319
Cost of sales	-19,500	-19,222	-40,560	-39,148
Gross profit	**10,358**	**11,556**	**18,757**	**19,171**
Sales and marketing expenses	-3,901	-4,123	-8,167	-7,930
General administrative expense	-2,871	-2,842	-5,356	-5,063
Research and development expenses	-3,208	-2,046	-4,518	-3,428
Other operating income	488	343	881	792
Other operating expenses	-87	-27	-129	-57
Foreign currency gains and losses	-60	-497	-111	-418
Expenses and income from associated companies	-79	-509	-271	-760
Earnings before interest and taxes (EBIT)	**640**	**1,855**	**1,086**	**2,307**
Interest income	-6	7	23	39
Interest expenses	-298	-120	-472	-256
Earnings before taxes (EBT)	**336**	**1,742**	**637**	**2,090**
Income taxes	-104	-506	-197	-722
Net profit	**232**	**1,236**	**440**	**1,368**
thereof attributable to equity holders of parent company	232	1,248	440	1,385
thereof non-controlling interests	0	-12	0	-17
Earnings and diluted earnings per share in EUR	0.02	0.13	0.04	0.14
Average number of floating shares	9,988,661	9,990,817	10,006,148	9,992,762

Consolidated Statement of Comprehensive Income

from 1 January 2018 to 30 June 2018 (unaudited) IFRS

EUR'000	01/04 to 30/06/2018	01/04 to 30/06/2017	01/01 to 30/06/2018	01/01/ bis 30/06/2017
Net profit	**232**	**1,236**	**440**	**1,368**
Items to be reclassified to the income statement:				
Changes from currency translation	1,686	-2,041	589	-2,659
Total Other comprehensive income	**1,686**	**-2,041**	**589**	**-2,659**
Total comprehensive income	**1,918**	**-805**	**1,029**	**-1,291**
thereof attributable to equity holders of the parent company	1,918	-793	1,029	-1,274
thereof non-controlling interests	0	-12	0	-17

Consolidated Balance Sheet

as of 30 June 2018 (unaudited) IFRS

EUR'000	30/06/2018	31/12/2017
Cash and cash equivalents	18,535	19,763
Marketable securities and bonds	29	27
Trade accounts receivable	25,841	34,472
Future receivables from production orders (Percentage of completion method)	26,117	27,417
Receivables from related parties	147	168
Inventories	26,269	25,953
Income tax receivable	564	1,677
Other current assets	3,070	3,137
Current assets, total	**100,572**	**112,614**
Property, plant and equipment	35,549	35,817
Investment property	1,909	1,918
Goodwill	9,035	8,987
Other intangible assets	10,285	9,681
Interests in associated companies	2,572	2,783
Deferred tax assets	3,632	2,410
Other non-current assets	2,618	2,595
Non-current assets, total	**65,600**	**64,191**
Assets, total	**166,172**	**176,805**
Bank loans	24,342	24,599
Trade accounts payable	7,567	11,030
Accounts payable from “Percentage of completion method”	3,528	7,115
Accounts payable due to related parties	14	0
Advance payments received	1,189	1,431
Income tax payable	0	958
Provisions	10,641	11,211
Other current liabilities	13,507	14,127
Current liabilities, total	**60,788**	**70,471**
Bank loans	15,977	17,559
Deferred tax liabilities	2,422	2,277
Pensions accrued and similar obligations	9,694	9,390
Other non-current liabilities	3,787	3,799
Non-current liabilities, total	**31,880**	**33,025**
Liabilities, total	**92,668**	**103,496**
Attributable to equity holders of the parent company		
Subscribed capital	10,040	10,040
Additional paid-in capital	5,116	5,397
Treasury stock	-25	-926
Surplus reserves and consolidated unappropriated profit	58,855	59,869
Other reserves	-647	-1,237
	73,339	**73,143**
Non-controlling interests	165	166
Shareholders’ equity, total	**73,504**	**73,309**
Liabilities and shareholders’ equity, total	**166,172**	**176,805**

Consolidated Cash Flow Statement

from 1 January 2018 to 30 June2018 (unaudited) IFRS

EUR '000	01/01 to 30/06/2018	01/01 to 30/06/2017
Cash flow from operating activities		
Net income	440	1,368
Depreciation	2,231	1,991
Gain/loss on the disposal of fixed assets	-37	-40
Change in provisions and accruals	-320	221
Change in inventories	-44	-5,674
Change in trade accounts receivable and future receivables from production orders	10,921	-1,068
Change in other assets, not provided by / used in investing or financing activities	1,239	-3,119
Change in trade accounts payable	-3,590	2,330
Change in advanced payments received and liabilities from PoC method	-3,944	373
Change in other liabilities, not provided by / used in investing or financing activities	-2,365	-5,033
Amount of other non-cash income and expenses	-1,334	2,343
Adjustment IFRS 15 modified retrospective method	757	0
Net cash from operating activities	**3,954**	**-6,308**
Cash flow from investing activities		
Payments received on disposal of tangible fixed assets	209	68
Investments in property, plant, equipment and other intangible assets	-1,077	-7,760
Investment in subsidiaries less acquired cash	-356	0
Net cash flows used in investing activities	**-1,224**	**-7,692**
Cash flow from financing activities		
Dividend paid out	-2,208	-2,200
Payments received from bank loans incurred	15,373	11,958
Redemption of bank loans	-17,012	-4,153
Net cash flows used in financing activities	**-3,847**	**5,605**
Net effects of currency translation and consolidation changes in cash and cash equivalents	-111	-717
Decrease in cash and cash equivalents	**-1,228**	**-9,112**
Cash and cash equivalents at the beginning of the period	19,763	23,920
Cash and cash equivalents at the end of the period	**18,535**	**14,808**

Consolidated Statement of Changes in Equity

as of 30 June 2018 (unaudited) IFRS

	Attributable to equity holders of		
EUR '000	Subscribed capital	Additional paid-in capital	Treasury stock
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		-324	320
Status as of 30/06/2017	**10,040**	**5,318**	**-569**
Status as of 31/12/2017	**10,040**	**5,397**	**-926**
Net profit			
Other comprehensive income			
Total comprehensive income			
Dividend paid out			
Share-based payments		-281	300
Adjustment IFRS 15			
Transfer of treasury stock for acquisitions			600
Rounding			1
Status as of 30/06/2018	**10,040**	**5,116**	**-25**

	the parent company					Non-controlling interests	Shareholders' equity total
		Other reserves					
	Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Securities marked to market	Total		
	58,408	**-2,686**	**5,705**	**-1**	**76,220**	**182**	**76,402**
	1,385				1,385	-17	1,368
			-2,659		-2,659		-2,659
	1,385		-2,659		-1,273	-17	-1,290
	-2,200				-2,200		-2,200
					-4		-4
	57,593	**-2,686**	**3,046**	**-1**	**72,742**	**165**	**72,907**
	59,869	**-2,887**	**1,651**	**-1**	**73,143**	**166**	**73,309**
	440				440		440
	-2		589		587		587
	438		589		1,027		1,027
	-2,208				-2,208		-2,208
					19		19
	757				757		757
					600		600
	-1		1		1	-1	
	58,855	**-2,887**	**2,241**	**-1**	**73,339**	**165**	**73,504**

Notes to the Consolidated Half-Year Financial Statements

Explanations 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 of 30 June 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as 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 of 30 June 2018 have not been reviewed by auditors. The half-year financial statements were submitted to the Supervisory Board on 3 August 2018.

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 2017, which are described in detail in the notes to the consolidated financial statements. The new accounting standards adopted in the first six months of 2018 did not have a material impact on the consolidated financial statements.

Consolidated group

As of 1 January 2018, init has acquired a 100 per cent stake in Mattersoft Oy with its registered office in Tampere (Finland).

On 21 March, 2018, init founded Init Innovations in Transportation Limited in Maynooth (Ireland).

Inventories

Inventories were not additionally impaired or increased through profit and loss (30/06/2017: EUR 141k increase). The earnings are included in cost of sales in the income statement of the previous year.

Trade accounts receivable

Write-downs on receivables came to EUR 3,361k (30/06/2017: EUR 2,768k). Thereof, EUR 234k were booked to the income statement (30/06/2017: EUR 316k) in the current financial year.

Property, plant, equipment and other intangible assets

Tangible fixed assets essentially refer to the administration buildings on Kaeppelestrasse 4 and 4a in Karlsruhe, the building in Chesapeake, USA as well as office and technical equipment. Capital expenditure for replacement stood at EUR 908k (30/06/2017: EUR 1,395k). Due to the completion no considerable capitalisations were made either of the new building in USA (30/06/2017: EUR 5,971k) or of land and buildings (30/06/2017: EUR 170k) during the first half-year 2018.

The scheduled depreciation totalled EUR 2,215k (30/06/2017: EUR 1,983k). Sales of tangible fixed assets generated profit of EUR 37k (30/06/2017: EUR 40k).

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 on Kaeppelestrasse 8/8a in Karlsruhe in 2012 as well as the apartments of iris (30/06/2017: Kaeppelestrasse 8/8a). Rental income was EUR 160k as of 30 June 2018 (30/06/2017: EUR 151k). The scheduled depreciation has been increased to EUR 16k (30/06/2017: EUR 8k) due to the addition of new apartments.

Liabilities

Liabilities are carried at amortised acquisition cost. The current liabilities to banks of EUR 24.3m (31/12/2017: EUR 24.6m) 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 improve financial flexibility. The interest change risk arising from variable real estate financing was hedged by an interest rate swap transaction.

The long-term liabilities to banks of EUR 16.0m (31/12/2017: EUR 17.6m) 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 in.

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 solely 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 of 30 June 2018, additional paid-in capital was EUR 5,116k, comprising EUR 3,141k from the premium on shares sold in the IPO and the 2002 capital increase. A further EUR 1,742k was allocated for share scheme expenses for the years 2005 to 2017. EUR 281k was reversed following the share transfer to members of the Managing Board and key personnel in 2018. Additional paid-in capital was increased by EUR 514k through the sale of treasury stock in 2007.

Treasury stock

As of 1 January 2018, treasury stock comprised 53,824 shares. In the first half year of 2018, 17,468 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. 34,918 shares were transferred as a purchase price component of an acquisition with a five-year lock up period. Consequently, treasury stock totalled 1,438 shares on 30 June 2018.

Treasury stock is valued at acquisition cost EUR 25k (cost method) at (31/12/2017: EUR 926k) and deducted from shareholders’ equity. As of 30 June 2018, the 1,438 shares have an imputed share in capital stock of EUR 1,438 (0.01 %). The average repurchase price was EUR 17.19 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 2017: 22 Cent per share distributed on 22 May 2018	2,208
Dividend for 2016: 22 Cent per share distributed on 29 May 2017	2,200

Contingent liabilities/assets

There are no contingent liabilities or assets as on 30 June 2018 or 31 December 2017.

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 for risks in legal disputes 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 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

New accounting standard IFRS 9 Financial Instruments replaces the existing rules set out in IAS 39 Financial Instruments: Recognition and Measurement and was applied for the first time with effect from 1 January 2018. IFRS 9 introduces new rules on the classification and measurement of financial assets and contains new rules on impairment losses on financial instruments.

The following charts disclose classification and measurement categories of financial assets in accordance with IAS 39 and the reconciliation of these with the new classification and measurement categories in accordance with IFRS 9 on 1 January 2018.

The first-time application of IFRS 9 had no impact on the measurement.

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 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.

EUR '000	31/12/2017	New measurement categories IFRS 9
ASSETS		
Loans and receivables	82,327	
Cash and cash equivalents	19,763	At amortised cost
Trade accounts receivable	34,472	At amortised cost
Accounts receivable due to related parties	168	At amortised cost
Future receivables from production orders	27,417	At amortised cost
Other financial assets (current)	507	At amortised cost
Other financial assets (non-current)	0	At amortised cost
Financial assets available for sale	27	
Marketable securities and bonds	27	At fair value in other comprehensive income
Financial assets reported at fair value through profit or loss	490	
Derivative financial assets	490	At fair value through profit or loss
LIABILITIES		
Financial liabilities recognised at cost	58,304	
Bank loans (current and non-current)	42,158	At amortised cost
Trade accounts payable	11,030	At amortised cost
Accounts payable due to related parties	0	At amortised cost
Other liabilities (current)	1,317	At amortised cost
Other liabilities (non-current)	3,799	At amortised cost
Financial liabilities reported at fair value through profit or loss	0	
Derivative financial instruments	0	At fair value through profit or loss

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	30/06/2018				31/12/2017			
		Level				Level		
	Total	1	2	3	Total	1	2	3
Financial assets available for sale								
Marketable securities and bonds	29	29			27	27		
Financial assets reported at fair value through profit or loss								
Derivative financial assets	238		238		490		490	
Financial liabilities reported at fair value through profit or loss								
Derivative financial instruments	218		218		0		0	

In the reporting period ending 30 June 2018 and the reporting period ending 31 December 2017, 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” as well as in the annual report 2017.

EUR '000	Associated companies		Other related parties and persons	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Trade accounts receivable and other income	131	0	0	0
Trade accounts payable and other expenses	137	0	291	311
	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Receivables	147	168	0	0
Payables	14	0	0	0

Associated companies
Receivables totalling EUR 147k (31/12/2017: EUR 168k) essentially result from receivables from Bytemark, 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, Karslruhe 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 7k (30/06/2017: EUR 26k) 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 of 30 June 2018, the group had not set aside any valuation allowances for receivables from related parties.

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

No voice right announcements according to section 21 (1) WpHG have been submitted to init SE in the first half year 2018.

The voting rights announcements are available on the internet at
https://www.initse.com/ende/investors/the-share

Karlsruhe, 9 August 2018

The Managing Board

Dr. Gottfried Greschner

Dr. Jürgen Greschner

Dr. Hans Heribert Bäsch

Joachim Becker

Matthias Kühn

FINANCIAL CALENDAR 2018

Q4

8 November

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