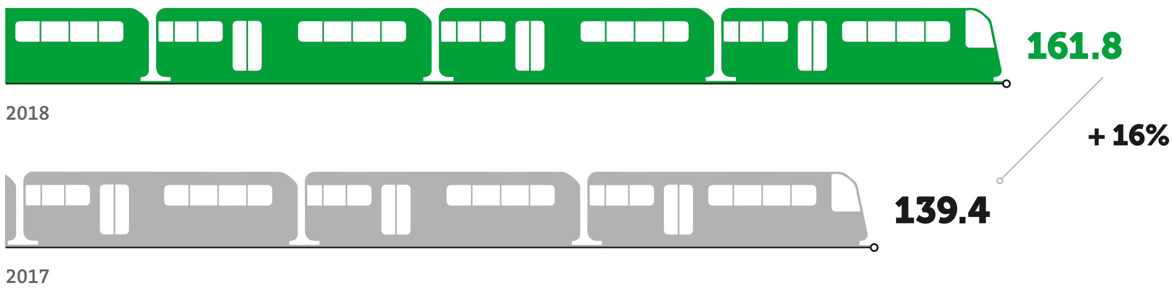
TOGETHER.

Designing. Mobility.

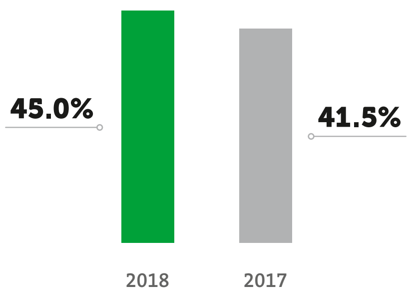
Annual report 2018

GROUP KEY FIGURES

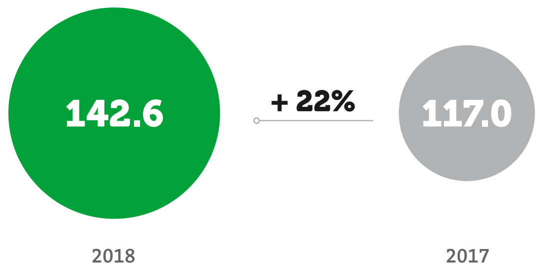
Incoming orders in EUR m



Equity ratio in %



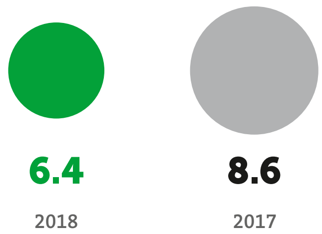
Order volume in EUR m



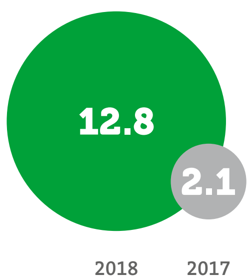
Revenues 2018 in EUR m

135.7 + 4%

EBIT in EUR m



Cash flow from operating activities in EUR m



CONTENT

f.l.t.r. Dr Jürgen Greschner, Achim Becker, Dr Gottfried Greschner, Matthias Kühn, Jennifer Bodenseh

TO THE SHAREHOLDERS

Dear readers,
Dear shareholders,

Two key terms are at the centre of the discussion about the economic future: digitisation and mobility. Experts, politicians and corporate leaders all agree that these areas, particularly the interlinking of the two, will provide the biggest opportunities. However, they also require the greatest efforts in international competition and increasing investments in innovations. These developments also shaped our business in the previous year.

Mobility is a key factor for the functioning of modern economic and social systems. For example, according to a Eurostat survey, more than half of all city dwellers are dependent on the public transport system. In other areas, public transport systems play an even more existential role. And still, many people continue to be excluded from these transport systems to this day. The declared goal of transport policy across the world is therefore to give all citizens access to it.

Digitisation, as already successfully realised by init internationally in collaboration with transport companies, is playing an increasingly important role in this process. It changes people's mobility behaviour and the demand they place on transport companies. As special service providers, in future they will be able to use apps to put together customised packages for passengers ("Mobility as a Service").

Better, specialised offers not only facilitate increased mobility overall, but also lead to a greater utilisation of public transport services as well. Particular importance will be attached to the simple and easy purchase of tickets by passengers (smart ticketing). This requires an efficient background system that includes tariff management, revenue sharing, simple integration of third-party systems and various identification media as well as the setting up of a multimodal mobility platform.

For this purpose, init offers a wide range of end devices, internet-based applications and apps and, as a leading technology leader, benefits from the above-average growth in this market segment. Analyses of our customers (recently, for example, by National Express West Midlands in the UK) reveal that this removes the biggest hurdle to using the public transport system. Waiting times decrease, buses become more punctual and faster, passenger numbers and revenue for the transport companies increase significantly.

The interlinking of digitisation and mobility creates a win-win situation for everyone: passengers, transport companies and the environment, as particulate matter and emissions are reduced as well. That is why all countries are investing in the expansion of the local public transport systems. Governments have set goals worldwide for the use of zero emission vehicles and e-mobiles in local public transport and public funds have been provided to support these goals. However, this poses new challenges to transport companies in planning, operation and fleet management. From the basis of information to fundamental decisions for charging management and range forecast through to the conditioning of vehicles, init is the only provider to offer an integrated solution that covers all processes affected by electromobility.

This interlinking of digitisation and mobility, which init implements in its business model, will in future will also define the success of our company. The environment in which this is taking place is changing at an ever increasing pace. In order to remain successful, this requires constant innovation and higher investments by technology leaders like init.

Our Company accomplished this feat on its own in the previous financial year with investments of EUR 11.5m – excluding the new developments paid by customers. The additional expenses required affected our earnings, however the investments are already starting to bear fruit.

This is not only reflected in the record revenues, but above all in the development of new orders received. Record incoming orders of over EUR 160m prove that we fulfil the current requirements of our customers and meet the needs of the market.

We are not satisfied with the result achieved in 2018, which was below expectations, due also to the write-downs required on an investment in the US. In 2019, we would like to continue our growth, but above all we would like to achieve a turnaround in earnings and at the same time convert investments into higher profits. To achieve this goal, we have strengthened the company with careful acquisitions in some subareas and are in an excellent position today with our integrated solutions.

Thank you for the trust you have placed in us!

For the Managing Board
Dr Gottfried Greschner, CEO
init innovation in traffic systems SE

MANAGING BOARD OF INIT SE

Members in Office		Responsibilities
Dr. Ing. Gottfried Greschner (CEO) **Born 1946**	**since 1983** Managing Director at INIT GmbH **since 2001** Chief Executive Officer (CEO)	**Business Development, Strategy, Production and Purchasing**
Dipl.-Kfm. Dr. Jürgen Greschner (CSO) **Born 1961**	**since 2004** Managing Director at INIT GmbH **since 2004** Chief Sales Officer (CSO) **since 2015** Deputy Chief Executive Officer	**Sales and Marketing, Human Resources, Legal Management, Research and Technology, Projects and System Design, Support and Operations**
Dr. Hans Heribert Bäsch (CFO until 30/09/2018) **Born 1960**	**from July 2017** **to Sept. 2018** Chief Financial Officer (CFO)	**Accounting, Treasury, Controlling and Logistics, Risk Management, M&A, Investor Relations, Human Resources, Compliance**
Dipl.-Inform. Joachim Becker (COO until 31/03/2019) **Born 1956**	**since 2001** Managing Director at INIT GmbH **since 2001** **until March 2019** Chief Operating Officer / Central Telematics and IT (COO)	**Real-Time Systems, Back-Office Operations, Mobility as a Service, IT, Data Protection Quality Management**
Jennifer Bodenseh (CFO since 01/10/2018) **Born 1986**	**since 2015** **until Sept. 2018** authorised signatory init SE **since Oct. 2018** Chief Financial Officer (CFO)	**Financial Services, Controlling and Logistics, Risk Management, M&A, Investor Relations, Compliance**
Dipl.-Ing. (FH) Matthias Kühn (COO) **Born 1973**	**since 2015** Managing Director at INIT GmbH **since 2016** Chief Operating Officer / Telemat-Devices and Ticketing (COO) **as of April 2019** Chief Operating Officer / Telematics, Ticketing and IT (COO)	**Back-Office Ticketing, Telematic Devices, Maintenance and Installation**

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

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

Digitisation and mobility are the most important topics in economy and society today. init links the two in its business model. Our company will therefore play a key role in shaping the important fields of the future. The environment in which this is taking place is changing at an ever increasing pace. In order to remain successful, this requires constant innovation and higher investments by technology leaders like init. Considering its record revenues, init successfully mastered this challenge in the past financial year.

However, more important and relevant is the development on the orders side, because it shows how well a company succeeds in meeting current customer requirements and future market needs. Thus we were pleased to receive record incoming orders of over EUR 160m for the past financial year. This reflects a successful future strategy and above all, the high expertise and motivation of employees. On this good basis, the objective in the current year is to convert this into tangible success for you, the shareholders. This will also be a measure of the Managing Board's work.

The pleasing development in incoming orders is, however, yet to show effect in the result. EBIT recorded a strong decrease compared to the previous year. This is mainly attributable to higher development expenses, one-off effects and process delays. The Supervisory Board discusses the project management with the Managing Board intensively. Through organisational changes, we expect the EBIT to stabilise at the level of previous years.

In this report we would like to inform you about the activity of the Supervisory Board at init and make the deliberations and decisions in 2018 more transparent.

In the past year, the Supervisory Board of init obtained regular, timely and comprehensive information from the Managing Board in order to fulfil its duty to advise the Managing Board and monitor its management of the business. This information was provided in the form of oral and written reports. The briefings and discussions at the Supervisory Board meetings involved all the important issues and measures pertaining to the company and its business operations.

Due to the size of both the company and the size of the Supervisory Board (three members), the Supervisory Board did not form any committees. At its final meeting, the Supervisory Board performed a self-evaluation of its efficiency in 2018. This review focused on organisational issues, information for the Supervisory Board, human resources matters and how the members of the Supervisory Board perceived their role. The Supervisory Board took part in training measures.

The Chairman of the Supervisory Board and, for certain issues, the other members of the Supervisory Board, were constantly in close contact with the Managing Board throughout the financial year. In addition, transactions relevant to reporting were disclosed on an ad hoc basis. Between meetings, the Chairman of the Supervisory Board informed the members of the Supervisory Board in a timely manner, orally and in writing, of any discussions with the Managing Board and its reports. Where statutory provisions or the articles of incorporation required the approval of the Supervisory Board for measures to be taken, these were always deliberated at the appropriate time and presented for a resolution.

The 2018 financial year was also characterised by personnel changes.

Dr. Hans Heribert Bäsch – CFO of init SE until 30 September 2018 – left the company by mutual agreement on the best of terms as of 31 October 2018 to pursue new professional challenges.

Jennifer Bodenseh took over the position of the CFO effective 1 October 2018. Ms. Bodenseh started her professional career at init in 2009 and already headed Financial Services as authorised signatory. She has gained a reputation as a financial expert in the last few years and as member of the inner management, made significant contributions to successful decisions. We are delighted as we have won a manager for the Managing Board of init, who was trained at init.

Joachim Becker will be stepping down at his own request from the Managing Board of init SE when his contract ends on 31 March 2019. He has served as Chief Operating Officer (COO) on the company's Board for 18 years and was responsible for central telematics and information systems. During this time, init evolved into the world's leading provider of integrated planning, dispatching, telematics and ticketing solutions for buses and trains.

Mr Becker, who holds a degree in computer science, began his career at init in 1983 as one of the company's first employees. He was extensively involved in building the company and its product range in the areas of planning, operations management and information technology. His most recent accomplishment was the development of the Mobility as a Service (MaaS) growth area. After his departure from the Managing Board, Mr Becker will remain active as Managing Director of INIT GmbH in Karlsruhe.

The Supervisory Board would like to thank Mr Becker for his extraordinary achievements in software development and his many years of successful work as Managing Director and COO.

Matthias Kühn will be taking over his tasks on the Managing Board. As of 1 April 2019, the Managing Board of init SE will thus be composed of only four persons.

MEETINGS OF THE SUPERVISORY BOARD

Meetings are convened at least once a quarter. In 2018 a total of five Supervisory Board meetings took place, one of which was a strategy meeting. All Supervisory Board members were present at all meetings.

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

There was also a special focus on the following topics in the 2018 financial year:

- Foundation of the subsidiary in Ireland (INIT INNOVATIONS IN TRANSPORTATION LIMITED)
- Closure of the subsidiary in Finland (INIT Innovations in Transportations OY)
- Acquisition of the company Mattersoft OY, Finland
- Business processes/ERP software
- Approval for init SE to take out a loan (KfW development bank program)
- Approval of a new schedule of responsibilities for the Managing Board
- Agreement to the share buyback
- Discussion of the annual and consolidated financial statements as well as of the 2017 dependent company report and the non-financial group report with the involvement of the auditor
- Adoption of the 2017 annual financial statements, approval of the 2017 consolidated financial statements, release of the 2017 non-financial group report as well as discussion of the proposal by the Managing Board for the appropriation of profits
- The quarterly statements and the 2018 half-year financial report
- Adoption of the proposals for resolutions for the agenda for the 2018 Annual General Meeting and of the report of the Supervisory Board for 2017

- Appointment of Ms. Jennifer Bodenseh as member of the Managing Board of init SE and the resolution of severance and termination agreement to be concluded with Dr. Hans Heribert Bäsch
- Examination of the relationship between Managing Board salaries and staff pay
- Approval of the proposal for a resolution on the Managing Board share-based bonus
- Reappointment of Dr. Gottfried Greschner, Dr. Jürgen Greschner and Mr. Matthias Kühn as Managing Board members of init SE
- Adjustment of the fixed salaries of the Managing Board
- Approval of the Declaration of Compliance with the German Corporate Governance Code as amended 7 February 2017
- Implementation of the new data protection regulations, cyber risk, data security
- Efficiency review of the Supervisory Board
- Approval of non-audit services of the auditor

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AS WELL AS OF THE COMBINED MANAGEMENT REPORT

The annual financial statements and the combined management report of init innovation in traffic systems SE as of 31 December 2018 were prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements dated 31 December 2018 were prepared according to Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS) as adopted by the EU.

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

The annual financial statements, combined management report and consolidated financial statements as well as the independent auditor's reports and audit reports were discussed in detail with the Managing Board and the auditor at the Supervisory Board meeting on 20 March 2019. The auditors responsible reported on the significant audit findings, in particular also on the key audit matters. For init SE, these were the revenue recognition from construction contracts, the measurement of inventories and the measurement of shares in associated companies. In addition, the auditor reported on the internal control and risk management system in relation to the financial reporting process, on services rendered in addition to the audit and on its independence as defined in legal regulations. Detailed answers were given to questions raised by the members of the Supervisory Board. Based on this evidence and its own examination, the Supervisory Board came to the conclusion that the audit methodology used was reasonable and appropriate and that the figures and computations contained in the financial statements had been adequately tested and were consistent. No objections were raised. We therefore agree with the results of the audit. The annual financial statements of init innovation in traffic systems SE prepared by the Managing Board and the consolidated financial statements of the init group were approved; the annual financial statements of init innovation in traffic systems SE were therefore adopted.

The Managing Board has presented its proposal to the Supervisory Board for the appropriation of profits. Under the proposal, the following appropriation of the retained earnings of init SE of EUR 24,209,327.22 will be recommended at the Annual General Meeting on 15 May 2019: distribution of a sum total of 12 cents per dividend-bearing no-par value share. The remaining amount is to be carried forward. The Supervisory Board endorsed this proposal.

Ernst & Young GmbH Wirtschaftsprüfungs-gesellschaft, Stuttgart, as the auditor, also audited the report on the relationships with affiliated companies ("dependent company report") prepared by the Managing Board in accordance with Section 312 AktG ["Aktiengesetz": German Stock Corporation Act]. The auditor issued the following auditor's report concerning the result:

"Based on the audit and assessment performed in accordance with our professional duties, we hereby confirm that

- the factual statements contained in the report are correct,
- payments of the company for the legal transactions referred to in the report were not inappropriately high and
- in connection with the measures listed in the report there was nothing to imply an assessment substantially different from that of the Managing Board."

The Supervisory Board took note of the Managing Board's dependent company report and the results of the audit of the report by the auditor, examined both reports and discussed both results with the Managing Board and the auditor. The Supervisory Board endorsed the results of the audit of the dependent company report by the auditor. After the final results of the discussions and its own examination of the dependent company report, the Supervisory Board is of the opinion that the Managing Board's findings are appropriate and it therefore raises no objections to the Managing Board's declaration at the end of the report.

The Supervisory Board also adopted the report of the Supervisory Board at its meeting on 20 March 2019.

CORPORATE GOVERNANCE CODE

The Supervisory Board actively implemented and monitored compliance with the German Corporate Governance Code. On 4 December 2018 the Managing Board and the Supervisory Board jointly issued an updated Declaration of Compliance pursuant to Section 161 AktG and made it permanently available to shareholders on the company's website.

Pursuant to Section 3.10 of the German Corporate Governance Code, the Managing Board also reports on behalf of the Supervisory Board on corporate governance at init in this annual report.

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

NON-FINANCIAL GROUP REPORT

No changes were made to the main processes of the non-financial group report 2018 compared with the previous year. In cases of doubt, Ernst & Young supported us in an advisory capacity. The Supervisory Board reviewed the non-financial group report 2018, which was prepared in accordance with Section 315b HGB, according to Section 171 (1) AktG. It came to the conclusion that it fulfils the current requirements and therefore did not raise any objections. The non-financial group report is available on the init SE website in the section Financial Reports.

The Supervisory Board would like to thank all employees and the Managing Board for their personal contribution in financial year 2018. Our thanks also go to our shareholders, customers and business partners for the trust they have placed in us.

Karlsruhe, March 2019

Hans-Joachim Rühlig

On behalf of the Supervisory Board

Dipl.-Kfm. Hans-Joachim Rühlig
Chairman

SUPERVISORY BOARD OF INIT SE

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

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

CORPORATE GOVERNANCE REPORT

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

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

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

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

The Managing Board and Supervisory Board of init issued the most recent Declaration of Compliance pursuant to Section 161 AktG on 4 December 2018. The Declaration below relates to the Code version of 7 February 2017, which was published in the Federal Official Gazette on 24 April 2017. Owing to the size of the firm and company-specific features, the Managing Board and Supervisory Board declare that the recommendations have been and are adhered to with the following exceptions:

Interaction between the Managing Board and the Supervisory Board

<u>The D&O insurance does not provide for an excess payable by members of the Supervisory Board of init (item 3.8 para. 3 of the Code):</u>

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

Managing Board

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

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

Supervisory Board

<u>The Supervisory Board has not formed any committees (item 5.3.1 of the Code), an audit committee (item 5.3.2 of the Code) or a nomination committee (item 5.3.3 of the Code):</u>

The specific conditions do not exist and init considers this impractical due to the size of both the company and the Supervisory Board (three members).

<u>No age limit or time limit for membership has been specified for members of the Supervisory Board. The Supervisory Board has not given any specific goals for its composition (item 5.4.1 para. 2 of the Code).</u>

When proposing future candidates at the Annual General Meeting, the Supervisory Board will take account of the legal requirements and focus exclusively on the professional and personal qualifications of the person.

CORPORATE MANAGEMENT DECLARATION

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

Managing Board

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

The Managing Board is the management body of the listed European Company (Societas Europea, SE). It manages the affairs of the company and is bound by the German Stock Corporation Act to uphold the interests and business policies of the company. The Managing Board provides the Supervisory Board with regular, timely and comprehensive information about all key issues relating to the company's business development and risks and agrees corporate strategy with the Supervisory Board. Furthermore, it ensures that legal rules, official regulations and company-internal guidelines are adhered to, and works with the Supervisory Board with a view to ensuring that all employees of the group comply with them.

The Managing Board of init currently has five members. Joachim Becker (COO) will be stepping down at his own request from the Managing Board of init SE when his contract ends on 31 March 2019. Matthias Kühn (COO) will be taking over his tasks on the Managing Board. As of 1 April 2019, the Managing Board of init SE will thus be composed of only four people who together bear responsibility for overall business management. As a central part of managing the company, the Managing Board sets down the corporate goals and strategic direction of init, decides on questions of principle relating to business policy and determines the internal organisation of the company. It decides on appointments to management posts, with due consideration for diversity. More detailed rules are contained in particular in the rules of procedure of the Managing Board approved by the Supervisory Board.

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

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

Supervisory Board

Appoints, monitors and advises the Managing Board

The Supervisory Board acts in an advisory capacity to the Managing Board and monitors its affairs. It is also responsible for appointing members of the Managing Board and defining their number. Aspects of diversity are considered when selecting members.

The Supervisory Board has laid down rules of procedure for itself and makes its decisions through resolutions that are adopted by a simple majority of the members of the Supervisory Board taking part in the vote. In a self-assessment, the Supervisory Board regularly assesses the efficiency of its work.

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

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

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

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

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

Working principles of the Managing Board and Supervisory Board

The Managing Board and Supervisory Board of init work together closely for the good of the company and its shareholders. This dual board system is a basic principle of German company law, the European legal provisions and the statutes. It assigns executive management to the Managing Board and supervision to the Supervisory Board. Both boards are obliged to ensure the continued existence of the company and sustained value creation by the company in accordance with the principles of a social market economy. These principles demand legality as well as ethically based and responsible conduct.
The Managing Board regularly provides the Supervisory Board with timely and comprehensive information on all relevant issues of company management, business performance, the risk situation, risk management and compliance and agrees the company's strategic direction with the Supervisory Board.

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

Annual General Meeting and rights of shareholders

At the Annual General Meeting, shareholders exercise their rights, in particular their right to information, and use their voting rights. The meeting decides on all matters assigned to it by law, such as the election of members of the Supervisory Board, the discharge of the Managing Board and the Supervisory Board, the appropriation of profits and amendments to the articles of incorporation. At the Annual General Meeting, shareholders have the opportunity to address the meeting on any items on the agenda, to raise relevant questions and to file motions. Shareholders can exercise their voting rights at the Annual General Meeting either in person, through a duly authorised representative, or by a proxy of init, subject to instructions. Each share carries one vote. To enable shareholders to prepare for the Annual General Meeting, the invitation, agenda and other information about the Annual General Meeting are available on the company's website. The voting results are also published on the website directly after the Annual General Meeting.
The Annual General Meeting of init is generally held within the first six months of the financial year. The Annual General Meeting is chaired by the Chairperson of the Supervisory Board. He or she determines the order of the agenda items and the type and form of voting. The Chairperson is empowered to place appropriate restriction on the right to ask questions and to speak for the entire Annual General Meeting, for individual agenda items and / or for individual speakers.

Transparency as a basic principle of communication

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

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

Compliance and ethical guidelines

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

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

In the ethical guidelines applicable to init, there are specific rules on matters such as combating corruption and bribery, granting and accepting benefits, on the documentation of business transactions as well as on the comprehensive, truthful and compliant passing on of information to employees, shareholders, the capital market, the media and other interest groups. The ethical guidelines form the binding code of conduct for the entire init group and apply without exception to all employees – across teams, hierarchy levels, countries and all individual companies within our group.

The init ethical guidelines are published on the website and are handed over to the employees in the group companies in a timely manner, either when they join the company or already at the application stage. Furthermore, employees worldwide are informed

about init's ethical guidelines at least once a year, through communication via the Intranet, email or in meetings. The employees of group companies confirm that they have received and acknowledged the information. Moreover, init's Managing Board maintains an active exchange with the management of all the consolidated companies.

Once a year, the Managing Board members meet with the managing directors of the group companies. At this annual management meeting, management is again made aware of the topic combating corruption and bribery in particular, and the Code of Conduct in general, in order to establish it at the group companies and among the company's own employees.

On the Managing Board of init SE, the CFO is responsible for compliance. The respective management as well as legal departments within the group coordinate compliance topics locally. These flat hierarchies enable quick response to compliance cases

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

We require and encourage the reporting of all processes that indicate a criminal offence or a systematic breach of laws or internal rules. To this end, an online whistleblower system was created at the end of 2017 and launched as at 1 January 2018 which enables employees as well as customers, business partners and third parties to report improper conduct, either anonymously or not anonymously. The system immediately forwards every report to the Legal department or the Managing Board, where it is reviewed and processed. In addition to this, init compiled a special handbook that defines internal processes, their documentation and the systematic processing of reports. The company's preventive and control measures also include the dual control principle, which is set out for the companies in a set of signature rules.

Accounting and auditing

The annual financial statements and the combined management report of init are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared according to Section 315a HGB based on the International Financial Reporting Standards (IFRS) as adopted by the EU.
Following their preparation by the Managing Board, the annual and consolidated financial statements are audited by the auditor as well as adopted by the Supervisory Board. The annual and consolidated financial statements are disclosed within 90 days after the end of the financial year. Within the scope of the audit, the auditor immediately advises the Chairman of the Supervisory Board of all key issues and events which may arise during the audit. The Supervisory Board takes care to ensure the independence of the auditor and proposes an auditor for election by the Annual General Meeting.

On 16 May 2018, the Annual General Meeting of init passed a resolution to elect Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor and group auditor for the 2018 financial year, as proposed by the Supervisory Board. The individual auditors responsible at Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft are Mr Kresin and Mr Werling (since 1 October 2016). There is a regular change of auditors within the audit company.

Shareholdings of the Managing Board and the Supervisory Board

The members of the Managing Board indirectly or directly hold a total of 3.905.861 shares in the company as of 31 December 2018, which equates to 38,9 percent of the shares. The Supervisory Board of init does not hold any shares.
An individualised disclosure of the shares held by the members of the Managing Board is included in the notes to the consolidated financial statements.

Members of the Managing Board and of the Supervisory Board and persons closely associated with them are legally obliged, pursuant to Article 19 of Regulation (EU) No 596 / 2014 of the European Parliament and of the Council on market abuse (market abuse regulation), to reveal any transactions conducted on their own account relating to securities of the company if the total amount of the transactions conducted by the member and / or persons closely associated with him or her within a calendar year reach or exceed a total of EUR 5k. The transactions notified to init in the last financial year were duly published without delay. A list of the manager transactions notified in the 2018 financial year is available in the company register at www.unternehmensregister.de.

Remuneration of the Managing Board and Supervisory Board

The remuneration report is part of the combined management report and is published in this Annual Report starting on page 45.

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

Equal participation of women and men in management positions

The proportion of women on the Managing Board has increased for the first time and now stands at 20 percent. At present, women are not represented on the Supervisory Board of init, therefore the setting of the target figure zero was legally practicable. However, it is possible that the Supervisory Board may consider a different target when filling any vacancy that arises unexpectedly and for future positions on the Supervisory Board.

The proportion of women at the first management level below the Managing Board is currently 33 percent on account of the restructuring within the group and the resulting rise in the number of persons at that level. At the second management level below the Managing Board, the proportion of women continuous to be 50 percent. The Managing Board will therefore strive to ensure that the proportion of women does not fall below 30 percent at the first and second management levels below the Managing Board by 30 June 2022. This target was set in order to ensure sufficient flexibility in appointing suitable persons.

INIT SHARE

HIGH VOLATILITY IN TIMES OF UNCERTAINTY NEW IMPULSES IN FINANCIAL COMMUNICATION

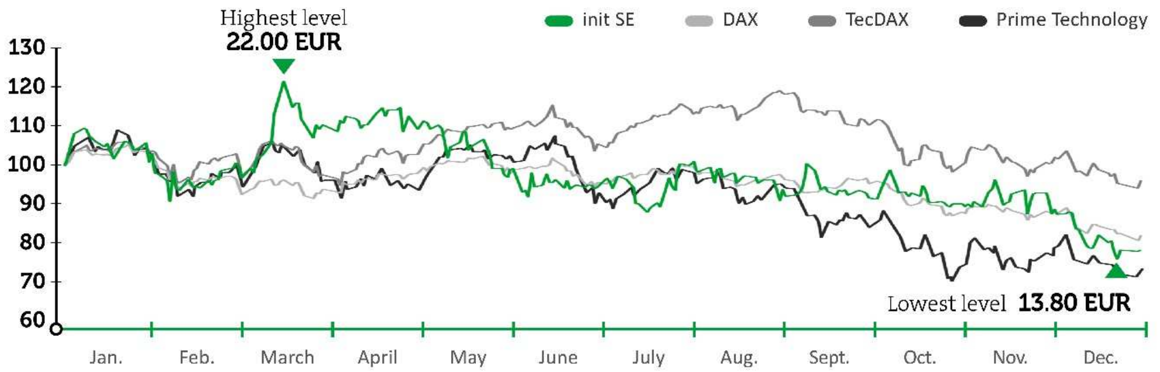
The year 2018 marked an end to a long bullish run on the stock exchanges. A combination of numerous uncertainty factors during the year led to an increasingly higher restraint among investors, which eventually affected almost all stock exchanges and resulted in falling prices. Particularly the concerns about a slowdown or even an end to economic growth increased in the second half of the year. They were fuelled by indications of fatigue of the current growth engine China and an emerging trade war between China and the US. Additionally, in Europe there were fears of the consequences of a hard BREXIT, i.e., the unregulated exit of the UK from the EU, as well as higher political risks in Italy and Eastern Europe.

As a result, investors in German shares also saw record losses in the past year. Although the leading German index DAX initially recorded an historical high, the prices of the 30 leading German stock corporations soon began to crumble. The negative trend was accentuated by an increase in the number of profit warnings and guidance adjustments. Interrupted by short phases of recovery, at minus 18 percent, DAX thus experienced the year with biggest losses since the financial crisis in 2008. The situation was not muchbetter for investors in technology shares. The Prime Technology Performance Index dropped almost 29 percent; TecDAX, the index of leading technology shares, fell 3 percent over the year as a whole.

The performance of the init share (ISIN DE0005759807) was also characterised by high volatility in the reporting period. The initial positive start into the year was strengthened by the publication of provisional figures for 2017 and the planning for 2018. The init share thus reached its annual high of EUR 22 in mid-March. This was followed by a spate of profit taking, still the share price developed better than the general indices until May. Only then it was hit by the general weakness in technology shares, which was even stronger for second liners. The share price stood at EUR 14.20 at the end of the reporting period, 23 percent lower than at the beginning of the year. However, in the meantime the share price has rallied again significantly as a result of intensive financial communication.

This is also reflected in the assessment of financial analysts. At this price level, their current recommendation for init SE is a clear buy with a target share price of between EUR 23.50 and EUR 26.

Performance of the init share (02/01/2018–28/12/2018) (indexed)



AGM

15 May 2019

in Karlsruhe Convention Centre

EXPANSION OF FINANCIAL COMMUNICATION

The Managing Board of init SE has responded early to the emerging bearish sentiment on the stock markets and intensified its financial communication. In addition to participation in key capital market conferences, there was a special focus on personal discussions with the current or potential investors. These activities were developed further after the early announcement of the change in the position of the CFO.

These measures were accompanied by change of one of the designated sponsors of the init share. As of 1 February 2019, in addition to Oddo Seydler Bank AG currently, Pareto Securities AS, Frankfurt am Main, took over this function. Pareto Securities is an international, independent and diversified financial services provider and supports a global customer base with currently around 500 employees.

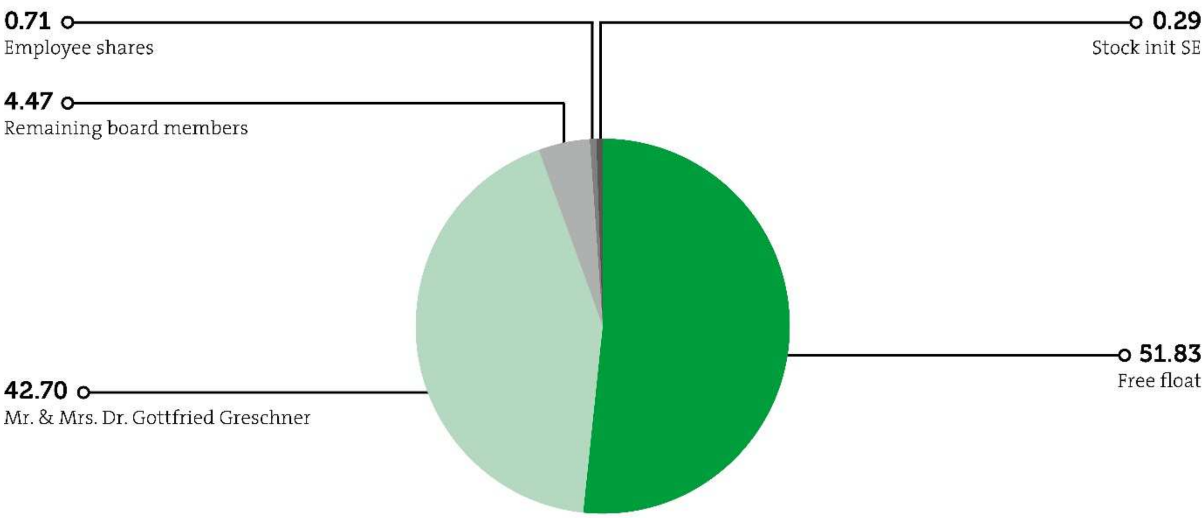
CHANGE IN OFFICE OF THE CFO: JENNIFER BODENSEH BECOMES THE FIRST WOMAN TO BE PROMOTED TO THE INIT MANAGING BOARD

The change in the role of the CFO which had already been announced in July 2018 was completed according to plan and became effective as of 1 October 2018, with the Supervisory Board's appointment of Jennifer Bodenseh as the first woman to the Managing Board of the company. She will succeed Dr. Hans Heribert Bäsch, who left the company by mutual agreement on the best of terms to pursue new professional challenges.

Ms. Bodenseh started her professional career at init in 2009 and already headed Financial Services as authorised signatory with the Accounting, Information Management and Controlling teams. Additionally, she already took over the tasks of the CFO during an illness-related representation. Moreover, she was responsible for the further development and introduction of internal systems as well as the implementation of acquisition projects.

Jennifer Bodenseh thus gained a reputation in the last few years as a financial expert and as member of the inner management. In this way, she already made significant contributions to successful decisions for init.

Shareholder structure as of 31 December 2018 (in %)



0.12

EUR dividend

proposal to the AGM 2019

The Managing Board wants to maintain this dividend and growth strategy. As the business profit in the past financial year decreased, but the requirements with regard to forward-looking investments resulting from the fast technological transformation still remain high, the Managing Board deems it necessary to adjust the dividend payment accordingly. Subject to the approval by the Supervisory Board, a reduction in dividends to EUR 0.12 per share will be recommended at the Annual General Meeting on 15 May 2019.

SHARE BUYBACK

init SE acquired a total of 28,578 treasury shares at a weighted average price of EUR 17.50 (excluding incidental expenses) in the period from 18 July 2018 up to and including 20 August 2018. The repurchased shares had a total value of EUR 499,990.02 (excluding incidental expenses).

The acquisition of the no par value shares took place on the basis of an ad-hoc announcement dated 17 July 2018 and was carried out by Commerzbank AG, the bank commissioned by init, via the XETRA exchange. The number of shares repurchased corresponds to a share of 0.28 percent of the capital stock of init SE.

The repurchased shares are to be used for existing and future employee stock ownership plans, incentive programmes for executives as well as acquisition currency and/or sold to third parties for cash. As of reporting date 31 December 2018, init held 29,143 treasury shares, which is 0.29 percent of the capital stock.

BALANCED DIVIDENDS AND GROWTH STRATEGY

At the last Annual General Meeting on 16 May 2018, the shareholders of init SE expressed satisfaction at the Managing Board's fair strategy based on a balance between growth financing with own resources and appropriate distribution of company profits. The Managing Board and the Supervisory Board were exonerated with 94.71 and 97.81 per cent of the votes cast, respectively. The proposal of the Managing Board and the Supervisory board for appropriation of retained earnings was accepted almost unanimously with 99.85 per cent of the votes cast. The shareholders thus received an unchanged dividend of EUR 0.22 per share for the 2017 financial year.

Basic share information	
Exchange	Frankfurt Stock Exchange
Index/Segment	Prime Standard, Regulated Market
Class	no-par bearer shares (at EUR 1 each)
ISIN	DE 0005759807
WKN	575980
Code	IXX
Designated sponsors	Oddo Seydler Bank AG Pareto Securities AS (since 01/02/2019) Commerzbank AG (until 31/01/2019)
Capital stock	10,040,000 no-par bearer shares

Capital marked based figures	**FY 2018**	**FY 2017**
High (in EUR)	**22.00**	20.47
Low (in EUR)	**13.80**	13.51
Start price (in EUR)	**18.45**	14.88
Closing price (in EUR)	**14.20**	18.30
Market capitalisation (in EUR m)	**142**	184
Average daily trading volume (in shares)*	**8,436**	12,187
Dividend per common share (in EUR)**	****0.12**	0.22
Earnings per share (in EUR)	**0.24**	0.37

*all German stock exchanges
**proposal to the next AGM
(source Bloomberg)

COMBINED MANAGEMENT REPORT

init innovation in traffic systems SE, Karlsruhe
(until March9, 2017 init innovation in traffic systems AG)

GROUP PRINCIPLES

Group Business Model

Organisational structure of the group

Organisational structure of the groupThe init group (hereinafter also referred to as init SE or init) is the world-leading provider of integrated planning, dispatching, telematics and ticketing solutions for buses and trains. For more than 35 years, init has been supporting transport companies in making public transport more attractive, faster, more punctual and more efficient.

In a complete value-added chain, init develops, produces, integrates, installs, maintains and operates software and hardware products that help transport companies meet their daily requirements. These include planning, management and optimisation of operations as well as fare management.

By providing these products and services, init contributes towards improving the quality of transport services in terms of customer gearing, punctuality, convenience, service, safety and shorter travel times. init also enables transport companies to reduce their costs and/or boost their economic efficiency.

Furthermore, CO_2 emissions that are harmful to the climate and environmental damage are reduced and resources are conserved. init's system solutions can put transport companies in a better position to meet society's growing mobility requirements and assert themselves in a competitive environment characterised by rationalisation and liberalisation.

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

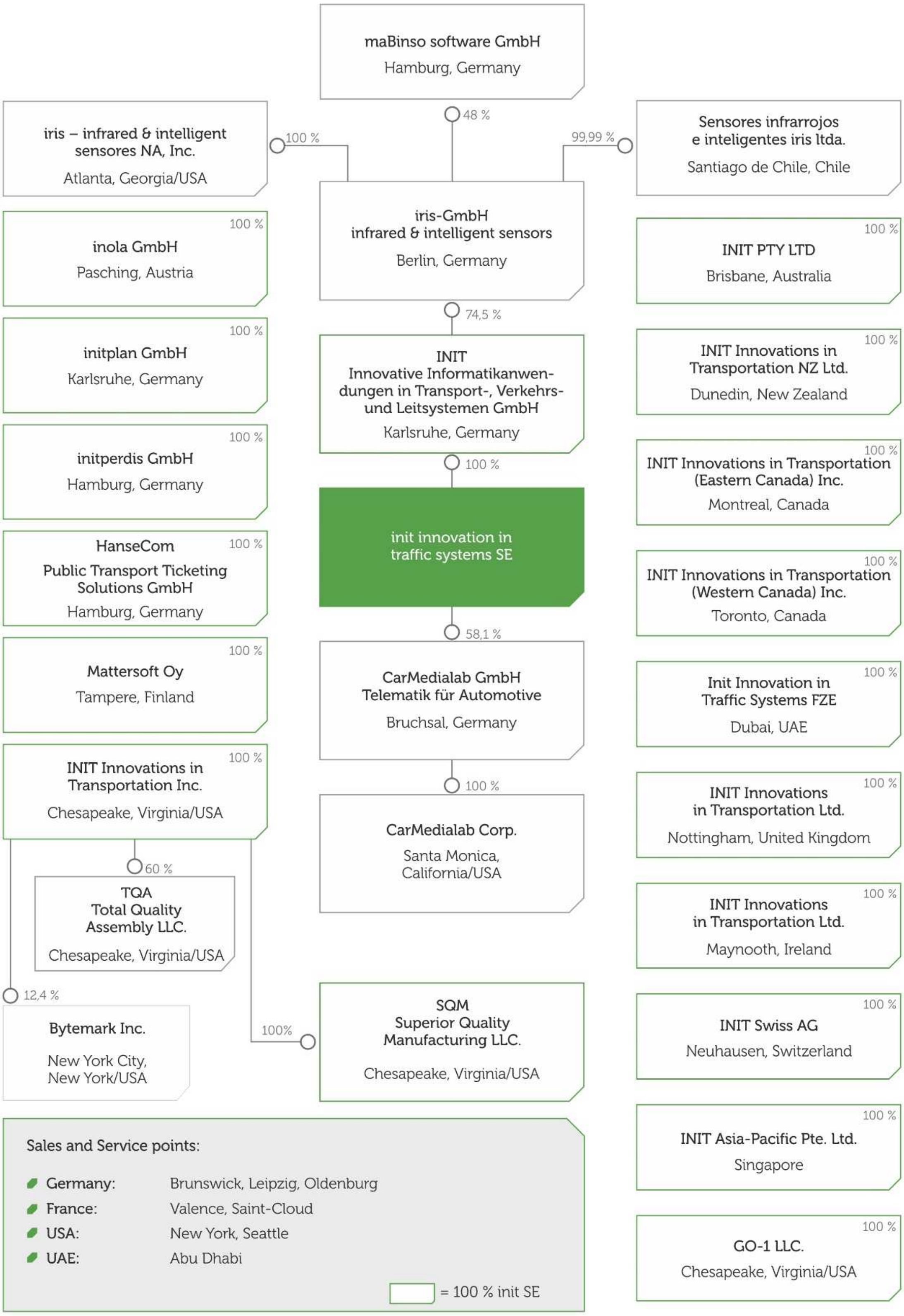
As of 21 March 2018, the company INIT Innovations in Transportation Ltd. was founded in Maynooth (Ireland). The company was founded primarily in order to create additional development capacity.

As of 1 January 2018, init acquired a 100 per cent stake in Mattersoft Oy with its registered office in Tampere (Finland). This helped in expanding the range of products of the init group to include a central traffic light priorities solution in particular. Know-how was acquired in the areas of IoT (Internet of Things), SaaS (Software as a Service) as well as web-based offerings. The purchase price allocation was completed in the second quarter of 2018.

Furthermore, another change resulted from the investment by INIT Innovations in Transportation, Inc. with its registered office in Chesapeake (US) in Bytemark Inc., New York (US), or 'Bytemark' for short.

In September 2016, init acquired a 26.44 per cent investment in Bytemark, which was included in the consolidated financial statements using the equity method. Bytemark performed a capital increase in November 2017 in which init did not participate. This resulted in a dilution in the shareholding of 17.6 per cent as of 31 December 2017. Further capital increases were performed in February and July 2018, in which init did also not participate ether. The share of init was diluted to 12.4 per cent as a result. As of 31 December 2018, the disclosure as an associated company as well as the inclusion in the consolidated financial statements using the equity method is maintained. Because of particularly the seat held by init on the Board of Directors of Bytemark a significant influence exists.

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


maBinso software GmbH
Hamburg, Germany
48 %
iris – infrared & intelligent sensores NA, Inc.
Atlanta, Georgia/USA
100 %
99,99 %
Sensores infrarrojos e inteligentes iris ltda.
Santiago de Chile, Chile
iris-GmbH infrared & intelligent sensors
Berlin, Germany
74,5 %
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH
Karlsruhe, Germany
100 %
init innovation in traffic systems SE
58,1 %
CarMedialab GmbH Telematik für Automotive
Bruchsal, Germany
100 %
CarMedialab Corp.
Santa Monica, California/USA
100 %
inola GmbH
Pasching, Austria
100 %
initplan GmbH
Karlsruhe, Germany
100 %
initperdis GmbH
Hamburg, Germany
100 %
HanseCom Public Transport Ticketing Solutions GmbH
Hamburg, Germany
100 %
Mattersoft Oy
Tampere, Finland
100 %
INIT Innovations in Transportation Inc.
Chesapeake, Virginia/USA
60 %
TQA Total Quality Assembly LLC.
Chesapeake, Virginia/USA
12,4 %
Bytemark Inc.
New York City, New York/USA
100%
SQM Superior Quality Manufacturing LLC.
Chesapeake, Virginia/USA
100 %
INIT PTY LTD
Brisbane, Australia
100 %
INIT Innovations in Transportation NZ Ltd.
Dunedin, New Zealand
100 %
INIT Innovations in Transportation (Eastern Canada) Inc.
Montreal, Canada
100 %
INIT Innovations in Transportation (Western Canada) Inc.
Toronto, Canada
100 %
Init Innovation in Traffic Systems FZE
Dubai, UAE
100 %
INIT Innovations in Transportation Ltd.
Nottingham, United Kingdom
100 %
INIT Innovations in Transportation Ltd.
Maynooth, Ireland
100 %
INIT Swiss AG
Neuhausen, Switzerland
100 %
INIT Asia-Pacific Pte. Ltd.
Singapore
100 %
GO-1 LLC.
Chesapeake, Virginia/USA
Sales and Service points:
Germany: Brunswick, Leipzig, Oldenburg
France: Valence, Saint-Cloud
USA: New York, Seattle
UAE: Abu Dhabi
= 100 % init SE

Business processes

The value-added chain in the init group essentially includes the development, production management, quality assurance, implementation, servicing as well as maintenance and operation of integrated hardware and software solutions for all key tasks within transportation companies. Hardware manufacturing is mainly outsourced to qualified producers who work closely as subcontractors with our init engineers. The quality we require is assured by having our own staff assist in each stage of the production process, from proto-typing to the test series right through to serial production.

Among other things in order to meet the "Buy America"–requirements in the US business, init also runs two production operations in the US. The company Superior Quality Manufacturing LLC., Chesapeake, Virginia, US (SQM), manufactured various devices from the init product range. With Total Quality Assembly LLC., Chesapeake, Virginia/US (TQA), init has built up a cable production operation in partnership with a supplier.

It is one of our top management priorities to optimise production processes and reduce manufacturing costs while maintaining quality at a consistently high level. In order to keep production costs as low as possible, init concentrates on core development competences.

init takes care when selecting producers or service providers to ensure that no dependencies arise in the case of high quality standards. This generally allows init to switch suppliers quickly should a business partner be unavailable.

Key markets and competitive position

Our integrated solutions for planning, dispatching, telematics and electronic fare collection systems make us a partner to transport companies on four continents. init has successfully completed numerous projects for more than 600 domestic and international customers during a corporate history that spans more than 35 years. To this end, init operates a global network of subsidiaries that deliver local support for projects and look after customers.

The most significant operating entities in Germany with a total of approximately 617 employees are located at the Karlsruhe, Berlin and Hamburg sites, where software and hardware are developed and new technologies implemented. In addition, the group's strategy is defined at the Karlsruhe location. The biggest group companies outside Germany are in North America, with a total of 109 employees, in Dubai (United Arab Emirates) with 14 employees and in Great Britain with 10 employees.

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

init develops specialised IT solutions for all operational tasks of transportation companies: from planning and scheduling to operational control and passenger information as well as electronic fare management to analysis and optimisation of operational processes. The scope and complexity of this integrated solution is unique. For all operational tasks of transportation companies init offers a modular product concept that allows both an individual combination of single modules as well as integration of other systems and integration in third systems via standardised interfaces. As a result, init stands out from its competitors due to a more comprehensive, efficient and flexible product offering

init has thus assumed a leading position in the market for planning, dispatching, telematics and ticketing solutions in public transport. init systems currently manage fleets comprising more than one hundred thousand vehicles around the world.

External influencing factors

User-friendly ticketing systems, reliable customer information and fast transport links help transport companies to enhance the attractiveness of their passenger services, and therefore ensure rising passenger numbers and revenues. In the end, increased acceptance and use of public transport also results in a reduction of carbon dioxide and particulate matter emissions. In this way, the init group makes a direct contribution to environmental protection.

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

Over 90 per cent of our customers are public or state-subsidised transport companies. For this reason, tenders for new projects are often only held when the corresponding state funding is available. Funding cuts and public budget consolidation measures thus indirectly have a major influence on the init group's business development.

Corporate control, objectives and strategy

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

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

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

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

Financial objectives

The init group's strategic objective is to continue increasing its revenues significantly with integrated systems over the next few years. Based on the order backlog and with the large number of existing and anticipated tenders, revenue growth should be generated again in 2019. We are aiming for a long-term average growth target of 10 per cent per year.

Based on the good order backlog at the beginning of financial year 2019 and through further projected growth in new project business, maintenance and operation as well as in the hardware delivery business, we expect revenues of around EUR 145m for 2019. We expect EBIT of around EUR 7.5m for 2019. The very high investments in research and development, amounting to EUR 11.5m, impacted earnings in 2018. These high investments have to lead to a significant increase in revenues in the coming years.

In 2019, a process analysis was started to ensure the strategically planned growth and to strengthen the efficiency in the projects. The main focus here is to increase the consolidated result and further improve init's cash flow position.

Non-financial objectives

Customer satisfaction

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

A customer survey is carried out annually to check that the objective of customer satisfaction is being met.

Employee qualification and know-how

Well trained and entrepreneurially minded employees are the key to business success. For this reason, it is part of init's corporate philosophy to ensure that every individual receives training, continuing professional development and a share in the company's success. Numerous measures were offered for company-specific training, for example on-the-job training, seminars, workshops and conference visits. Thus, more than 4,800 training hours were completed in internal and external training measures in 2018. Also, the Talent in Mobility Award in the Best Manager category was presented to one of our employees in 2018.

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

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

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

Significant factors are:

- Innovative power: using the know-how that we have gathered over many years and with our great dedication to development, we convert new technologies into practical applications.
- Thinking in systems: deployed autonomously or built into systems – our modular total solutions offer a maximum degree of flexibility during planning and operation.
- Investment security: when it comes to technologies, interfaces and software, we are guided by international standards that will continue to hold true tomorrow. In many cases, init has itself set standards through customised, tailored solutions. init often assumes a leading position while defining national and international standards in our sector.
- Customer proximity: init is where its customers are. This applies to our sites just as much as to our thinking and actions. Customers thus become partners with whom we join forces to get things moving and with whom we create new offerings in long-standing partnerships.
- Internationality: init has been in the market for more than 35 years and has been active internationally for more than 25 years. Our active participation in pioneering projects on four continents ensures contact with ultra-modern development standards and a focus on international solutions. This is technology transfer that takes our customers forward and thus secures init a unique competitive position.

Group non-financial statement

Implementation of Directive 2014/95/EU of the EU (Reporting obligation for non-financial information) in German law requires capital market-oriented companies in Germany to publish annual reports related to environmental protection, social responsibility and treatment of employees, respect for human rights as well as combating corruption and bribery from financial year 2017 onwards. For financial year 2018, init has submitted a group non-financial statement in accordance with Section 315b, 315c HGB, which will be simultaneously published with the annual report in a separate group non-financial report on init's website at: https://www.initse.com/ende/investors/financial-reports.

Research and Development

The research and development department plays a key role in the init group. On the one hand, technical innovations and developments on the market have to be observed in order to turn these into own innovative products at an early stage. On the other hand, the challenge lies in bringing technical innovations onto the market at the right time. Our employees' high level of training in research and development, combined with collaboration with universities and research institutes, ensures that we react quickly to new technological developments and changing market requirements and that we are flexible in catering to our customers' constantly changing needs.

Some 370 init hardware and software developers worked at the Karlsruhe, Braunschweig, Bruchsal, Berlin, Hamburg, Maynooth and Pasching sites in financial year 2018 on new products and product concepts as well as on further developing existing products. In addition, numerous new customised software developments and interfaces were realised.

Overall in 2018, the init group spent a total of EUR 11.5m (previous year: EUR 6.9m) on the basic development of new products and the enhancement of existing ones independent from customers. This is 8.5 per cent (previous year: 5.3 per cent) of revenues. In addition, the group accomplished customer-funded, project-based new and further developments adding up to around two and a half times that amount again. As in the previous year, no development costs were capitalised.

EUR 11.5 m

was spent on the basic development of new products in 2018.

To provide responses and solutions to future customer requirements at an early stage, init is further closely involved in research and funding projects in hugely diverse focus areas.

As part of the iQMobility project, in which init has a cooperation with Scania and addresses the implications of autonomous driving for existing solutions, the topic of communication security and system reliability is increasingly moving into focus. Building-up on the current project findings, topics like modular system architectures and the use of modern communication technologies are being investigated more closely in this project and implemented in init's applications in practice.

As part of project MAVIE, the functionality of an app solution as travel assistance for people with reduced mobility is being tested in practice on two lines in a pilot operation at LTA in Singapore.

As part of the MobileDataFusion project funded by the Federal Ministry of Transport and Digital Infrastructure (BMVI) in connection with its mFund initiative, init is continuing its activities in the area of "privacy by design" in an IoT applications environment. With the possibility of collecting anonymised movement data of passengers, the first steps with regard to the possibilities of steering passengers are taken through this project and integrated in the product portfolio.

ECONOMIC REPORT

General economic and sector-specific conditions

Global economic growth weakened over the course of 2018. According to the latest findings of the International Monetary Fund (IMF, World Economic Outlook, January 2019), the expansion recorded for the past year has weakened and the forecast for 2019 has been adjusted downward. Following 3.7 per cent in 2018, the economic experts are now projecting a growth rate of just 3.5 per cent and 3.6 per cent for 2019 and 2020, respectively, 0.2 and 0.1 percentage points lower than still expected in October 2018.

The main reason according to the IMF being the trade and tariff conflicts between China and the US as well as softening momentum in some countries in the second half of 2018. In addition to China, the current economic engine, this particularly applies to the European Union, where negative effects are anticipated for the automotive industry in Germany compounded by problems due to BREXIT and the fiscal and debt policy of countries like Italy.

On a global scale, the economic experts see risks of further escalation regarding protectionist trade restrictions and their effects on economic activity as well as with regard to corporate and national household debt. This could be a threat to the stability on the financial markets and may mean further disruptions for economic development.

Growth in most industrialised countries – which are still init's main markets – will be below average against this backdrop. Following 2.3 per cent in 2018, according to the IMF, it may decrease to 2.0 per cent in 2019 and 1.7 per cent in 2020.

The countries in the euro area are hit hardest by the declining momentum. After 1.8 per cent in 2018, the economy here is projected to grow by just 1.6 and 1.7 per cent in 2019 and 2020, respectively.

The first country the IMF experts mention is Germany, where there has been a marked increase in uncertainty for the most important economic sector, the automotive industry, due to the "diesel crisis". This and a simultaneous decrease in foreign demand will only be partially compensated by domestic private consumption. Following a growth rate of 1.5 per cent in 2018, the economic experts only see an increase of 1.3 per cent for 2019 (that is a downward adjustment of 0.6 percentage points) or 1.6 per cent in 2020 in init's home market.

Another important market is the United Kingdom. There is still substantial uncertainty around the conditions and the negative consequences of BREXIT, withdrawal of the country from the European Union. For one thing, this already led to subdued growth in 2018 (1.4 per cent), and for the following years – provided an agreement is reached between the EU and the UK on further economic cooperation – the forecast projects an only moderate increase of 1.5 (2019) and 1.6 per cent (2020).

init is not expecting any significant effects from the BREXIT. Even in the event of a "no-deal", the business relationship can continue without hindrance via our local company in Nottingham. The British government has announced that it will support the local economy with drastic tariff cuts.

By contrast, the US economy continues to benefit from the measures of the government such as tax cuts and higher public spending. Strengthening of the US dollar on the back of the expected increase in the key interest rate is having a positive effect on companies like init which realise numerous projects in North America. Thus the economic output there increased by 2.9 per cent in the past year, while an increase of 2.5 per cent is projected for 2019. However, growth is already expected to fall to around 1.8 per cent in 2020.

For the group of emerging markets and developing economies, the IMF still assumes there will be above-average growth rates of 4.6 per cent (for 2018), 4.5 per cent (for 2019) and up to 4.9 per cent for 2020. However, the forecasts were adjusted slightly downward for these countries as well. This mainly reflects softening growth momentum in China, where 6.6 per cent in 2018 is expected to be followed by growth of only 6.2 per cent in 2019 and 2020. The IMF currently anticipates growth in other Asian developing countries, which will gain significance as init's sales markets in future, outpacing China in 2019 and 2020.

These assumptions are based on the assessment that no further geopolitical escalations and trade restrictions between China, Europe and US will occur. However, if it is not possible to contain these conflicts, the IMF forecast as a result higher import prices, flagging investments, shrinking industrial output and further drops in share prices on the financial markets. This would significantly reduce the growth projections for almost all countries.

Sector-specific developments

Investments in the transport infrastructure and in public transport are less sensitive to cyclical trends and therefore less dependent on global economic development. Increasing political risks and economic uncertainty may have a negative impact; however, transport companies' willingness to invest primarily depends on the earnings situation and the possibility of funding from public sources.

Rising passenger numbers in all countries, steady growth prospects in industrialised countries and emerging economies despite higher risks, and the necessity for many countries to build and maintain efficient transport systems form a stable basis for further development of this sector. Moreover, especially in times of general economic weakness, investments in infrastructure are recommended as a measure to provide new impetus for economic development. The IMF also considers this as one possible means to counter a potential slowdown.

Provided the financing situation remains stable, a further increase in the number of new tenders can be expected in this sector. This applies equally to emerging economies as well as industrialised countries, both of which are seeing trends such as advancing urbanisation, i.e., the influx of people into booming urban areas. Accordingly, they are exposed to the same requirements necessary for the expansion of public transport systems. According to the latest statistics (Eurostat 2018), around half of all city dwellers rely on public transport to commute to their workplace. Despite this, many have been excluded from using public transport, although it is the declared goal of transport policy around the world to enable access to public transport to all citizens.

This requires intelligent, multimodal networking of all passenger transport providers, such as those already successfully realised by init internationally in collaboration with transport companies. Furthermore in Karlsruhe – the headquarters of init, RegioMOVE is being realised, which is a worldwide flagship project designed to integrate all the existing mobility offers, starting from rental bikes through to bus and train connections and Carsharing in the future.

The now rapidly advancing digitisation, init's core competence since the foundation of the company in the 1980s, is changing the mobility behaviour of people and their requirements from the transport companies, however, also creating new growth potential. Special service providers can thus create individual packages using apps ("Mobility as a Service"). Passengers can then choose the transport offering that suits them best. Therefore, better, specialised offers not only facilitate increased mobility overall, but also lead to a greater utilisation of public transport services as well.

However, the rapidly increasing demand for "Mobility as a Service" and the resulting new growth potential also spawns new competitors. The increased competition may manifest itself in tighter margins in future tenders.

On the other hand, new technological developments and trends like autonomous driving and electromobility also facilitate demand for platform solutions and efficient system architecture with the possibility to integrate new partners and their data smoothly and promptly.

Particular significance will be attached to the simple and easy purchase of tickets by passengers (smart ticketing) and to the settlement of cash flows between the cooperating transport companies. This requires uniform, secure booking and payment with simultaneous optimisation of the related sales processes and costs. This requires an efficient background system that includes tariff management, revenue sharing, simple integration of third-party systems and various identification media (credit cards, smart cards) as well as the setting up of a multimodal mobility platform. For this purpose, init offers a wide range of end devices, internet-based applications and apps, and as a leading technology leader, should therefore be able to benefit from the above-average growth in this market segment.

Investments in the expansion of public transport systems, particularly in industrialised countries, should increase further for ecological reasons. The negative effect from particulate matter and greenhouse gas emissions, primarily from private transport, have led to a paradigm shift in transport policy. An ever-increasing number of investment programmes are being created to protect humans as well as the environment, which especially focus on the intelligent expansion of public transport, thus sustainably boosting the market for traffic telematics.

Ambitious policy goals have been set worldwide for the use of zero emission vehicles and e-mobiles in public transport and public funds have been provided to support these goals. However, this poses new challenges to transport companies in planning, operation and workshop management. From information basis for fundamental decisions via charge management and range forecast to adjustments in the current information systems, all functionalities must be taken into consideration in an integrated solution.

These sector-specific developments result in a series of additional opportunities for integrated technology providers like init. Provided there are no crisis-driven cuts in public funding for investments in infrastructure and incentive for public transport system, these developments will drive further growth.

Business performance

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

The first quarter of 2018 with revenues of around EUR 29.5m (Q1 2017: EUR 27.5m) was completely in line with our expectations.

The positive business development of the init group continued into the second quarter of 2018. The group generated overall revenues of EUR 29.9m (Q2 2017: EUR 30.8m). Revenues for the first six months increased slightly year on year to EUR 59.3m (previous year: EUR 58.3m).

Revenues of EUR 36.3m (Q3 2017: EUR 31.3m) were generated in the third quarter of 2018. In the first nine months of 2018, revenues of the init group stood at EUR 95.6m, roughly 7 per cent higher than the figure from the previous year (EUR 89.6m).

In the fourth quarter of 2018, the init group generated revenues of EUR 40.0m (Q4 2017: EUR 41.0m).

For the year as a whole, the init group reported a new **revenue record** of EUR 135.7m (previous year: EUR 130.6m) and thus achieved the budget target of EUR 135m – EUR 145m. This translates into growth of EUR 5.1m or 3.9 per cent and therefore, after a strong previous year, still remains above the long-term average.

Net assets, financial position and results of operations

Results of operations

Earnings before interest and taxes (EBIT), however, fell short of the forecast (EUR 10 to 12m). EBIT for the past fiscal year amounted to a figure of EUR 6.4m (previous year: EUR 8.6m). This is primarily due to the fact that additional work was not planned or not planned to this extent in the development of new and residual hardware and software, particularly in the case of major ticketing projects

In addition, non-cash impairments on an investment in the US were required. This was counteracted by the adjustment of the group-wide devaluation rates for inventories.

The EBIT margin in the group is 4.7 per cent (previous year: 6.6 per cent). However, the capital expenditure (R&D) in 2018 should have a sustainable positive effect on growth and the EBIT of init SE.

A share of 70.0 per cent of total revenue was generated outside Germany (previous year: 72.6 per cent). The strongest market in the reporting period was North America, where revenues increased to EUR 49.9m (previous year: EUR 46.5m).

Revenues in Germany increased year on year. At EUR 40.6m, this was above the previous-year figure (previous year: EUR 35.8m), because some major projects were already completed to a large extent in the previous year. At EUR 40.6m (previous year: EUR 35.8m), sales in Germany are higher than in the previous year, as several projects were worked on in the current financial year and hardware deliveries were completed

In the other countries (United Arab Emirates, Australia and New Zealand), by contrast, a significant year-on-year increase in revenues was recorded. Revenues for these countries increased from EUR 12.8m in 2017 to EUR 15.1m in the reporting period. This is mainly attributable to the two new contracts won in the United Arab Emirates and New Zealand.

Revenues decreased in Europe (excluding Germany) and stand at EUR 30.1m (previous year: EUR 35.5m).

Essentially this was due to the good progress made in completing ongoing major projects in Birmingham and Luxembourg.

EUR 135.7 m

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

The return on equity (EBIT divided by reported equity) comes to 8.4 per cent (previous year: 11.7 per cent).

Gross profit increased by EUR 3.3m to EUR 46.0m (previous year: EUR 42.7m). The gross margin improved by 4 percent to 33.9 percent (previous year: 32.7 percent).

The sales and marketing expenses increased year on year by EUR 0.6m or 3.8 per cent to EUR 16.7m.

The general administrative expenses increased year on year by EUR 0.1m or 0.8 per cent to EUR 10.7m.

Other operating income increased slightly at EUR 2.6m (previous year: EUR 2.0m) and mainly results from rental income, public grants, income from value adjustments on receivables and benefits in kind.

The **foreign currency losses** of EUR 0.9m (previous year: foreign currency losses of EUR 0.2m) were chiefly comprised of negative effects from the balance of unrealised gains and unrealised losses from the measurement of receivables in foreign currencies. Net results of currency hedging transactions had a countervailing effect.

The **net interest result** (balance of interest income and interest expense) totalled EUR -0.9m (previous year: EUR -0.7m) and resulted mainly from the property financing at the locations in Karlsruhe, the share of interest on the pension provision, the current purchase option for the remaining shares of iris-GmbH and the euro loans taken out during the year.

At EUR 2.4m, **consolidated net profit** fell by EUR 1.2m compared with the previous year (EUR 3.6m in the previous year), which is mainly caused by the lower EBIT. Earnings per share amounted to EUR 0.24 (previous year: EUR 0.37). At 55.6 percent (previous year: 53.6 percent), the tax rate remained at the previous year's level. In both fiscal years, the increased tax rate is due in particular to the non-deductible impairment of the shares in Bytemark.

Total comprehensive income increased from EUR -0.6m in 2017 to EUR 4.0m in 2018. The increase is mainly due to high positive unrealised currency effects of EUR 1.5m (previous year: loss of EUR 4.1m). Please refer to the comprehensive income statement for more information on the development.

Multi-period overview of the earnings position

Financial year

In EUR m	2013	2014	2015	2016	2017	**2018**
Revenue	100.1	103.0	105.3	108.6	130.6	135.7
Gross profit	37.5	36.6	31.8	31.3	42.7	46.0
EBIT	17.7	18.7	10.8	11.7	8.6	6.4
Consolidated net profit for the year	12.1	12.1	7.6	8.6	3.6	2.4

Incoming orders

In financial year 2018, incoming orders exceeded our expectations and were significantly above the previous-year level. This was the result of both a higher volume of tenders and more contracts being awarded in our favour once again. The Managing Board had projected incoming orders of EUR 140m to EUR 150m for 2018. Overall, at EUR 161.8m (previous year: EUR 139.4m), incoming orders **reached their highest level in the company's history.**

EUR 161.8 m

In 2018, incoming orders reached their highest level in the company's history

56.0 per cent of orders were generated in the North American market. Of the other incoming orders, 20.7 per cent were from Europe, 19.2 per cent from Germany and 4.1 per cent from other countries.

In 2018, as in the previous year, a number of new orders in the single-digit million range were received and an increasing number of ticketing orders was recorded. In addition, several large-scale orders were received in the reporting period. Compared to the previous year, incoming orders increased strongly in North America in particular, while incoming orders in Germany were somewhat weaker.

Incoming orders in North America came to approximately USD 106.0m. This comprises numerous small and medium projects, but mainly stems from the largest project of the group's history to date. The Central Puget Sound Regional Transit Authority (Sound Transit), Seattle, US, awarded init an order at the end of September for the delivery and operation of a next-generation ticketing system. This project contract comprises a volume of roughly USD 50m over four years. Additionally, a further eleven one-year options for the operation and maintenance were already commissioned. Hence, the total order value amounts to USD 90m and ensures init plannable and recurring revenues over multiple years.

Incoming orders in Europe totalled EUR 33.5m and were driven by many small and medium-sized new projects as well as by follow-up orders and and additional hardware deliveries.

In Germany, incoming orders totalled EUR 31.1m. Orders were received for a large number of smaller and medium-sized projects. The order volume lies in the single-digit million euro range.

Incoming orders in other countries decreased slightly compared from EUR 9.0m in the previous year to EUR 6.6m in the current fiscal year. A significant contribution was made by our subsidiary in Dubai, where we received new orders for equipping buses in Dubai.

EUR 142.6 m

Order backlog at year-end amounted to EUR 142.6m

The order backlog at year-end amounted to EUR 142.6m (previous year: EUR 117.0m). We expect that approximately 50 per cent of revenues in 2019 will result from processing this order backlog.

Internationally, our market is still characterised by a large number of new tenders. Additionally, our long-term customer relationships secure a stable business base for init, as they normally lead to follow-up orders and maintenance and service contracts. We recorded incoming orders of more than EUR 50m in 2018 as a result of additional deliveries, maintenance contracts and order extensions alone.

Financial position

As in the previous year, the init group's financial position in financial year 2018 can be described as solid.

Capital structure

Liabilities to banks as of 31 December 2018 amounted to EUR 35.8m (previous year: EUR 42.2m) and mainly relate to real estate and acquisition financing as well as short-term euro loans taken out to increase financial flexibility. Project delays may lead to delayed payments because the milestones are accepted by the customer at a later date. The non-current portion results from the real estate financing of Kaeppelestr. 4, 4a, 8, 8a and 10 of EUR 2.8m (previous year: EUR 4.1m). Furthermore, there are loans for acquisition financing of EUR 3.3m (previous year: EUR 5.3m), investment loans of EUR 2.0m (previous year: EUR 2.5m) as well as another long-term loan of EUR 10m (previous year: EUR 0m). The loan for the facility in the US (previous year: EUR 5,7m) was replaced by a portion of the new long-term loan. The loans have different dates of maturity until 2026.

Overall, non-current liabilities according to the consolidated balance sheet decreased by EUR 0.2m to EUR 35.0m. The reductions resulted from the amortisation of long-term loans for real estate financing at the Karlsruhe location (EUR 1.3m) and the reduction in provisions (EUR 0.4m). Conversely, a long-term loan (EUR 10m) was contracted to replace the loan for the building in the US and other liabilities increased due to the option agreement to purchase the remaining shares in iris-GmbH at the balance sheet date (EUR 0.2m). Deferred tax liabilities increased (EUR 0.3m.

Current liabilities according to the consolidated balance sheet decreased from EUR 68.4m to EUR 57.7m. This change primarily comprises a decrease in liabilities to banks of EUR 6.2m, a decrease in trade payables of EUR 1.6m and contract liabilities by EUR 0.9m and the reduction in other liabilities by EUR 1.9m.

The group's static debt-equity ratio (debt capital divided by equity multiplied by 100) is 47.3 per cent (previous year: 57.5 per cent) and thus decreased owing to the effects cited above. The dynamic debt-equity ratio (net debt capital divided by EBITDA) is 1.4 (previous year: 1.6).

Investments

The investments amounting to EUR 2.8m (previous year: EUR 10.4m) chiefly comprise capital expenditure to replace and expand existing assets.

Liquidity

Operating cash flow amounted to EUR 12.8m (previous year: EUR 2.1m) and was therefore significantly above the previous-year figure. This is in particular attributable to the very strong reduction in receivables as a result of our active receivables management and the lower reduction in trade payables.

Net working capital (current assets less cash and cash equivalents less current liabilities) came to EUR 46.4m (previous year: EUR 49.1m). Cash flow from investing activities amounted to EUR -2.9m (previous year: EUR -9.8m) mainly relates to the acquisition of Mattersoft and replacement and expansion investments.

Cash flow from financing activities amounts to EUR -9.0m (previous year: EUR 4.6m) and resulted mainly from the repayment of euro loans and long-term loans.
Cash and cash equivalents, including securities that can be sold in the short term, came to EUR 20.6m at the end of December 2018 (previous year: EUR 19.8m).

Net assets

The init group's net assets may likewise be described as solid in financial year 2018.

Compared to the previous year, the total assets as of 31 December 2018 decreased by around EUR 8.3m and amount to EUR 168.5m (previous year: EUR 176.8m). The main reason for this is the decrease in trade receivables and the amortisation of loans at the end of the year. Equity at year-end increased to EUR 75.8m (previous year: EUR 73.3m). The equity ratio comes to 45.0 per cent (previous year: 41.5 per cent) and is thus higher than the previous-year level.

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

Financial year In EUR m	2013	2014	2015	2016	2017	2018
Equity	57.8	62.1	67.8	76.4	73.3	75.8
Debt capital	52.7	56.2	61.0	108.7	103.5	92.7
Cash	20.3	25.4	9.2	23.9	19.8	20.6
Balance sheet total	110.5	118.3	128.8	185.1	176.8	168.5
Operating cash flow	11.3	11.4	0.5	13.2	2.1	12.8

Performance of init SE pursuant to HGB

General information

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

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

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

Results of operations

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

Revenues of init SE amounted to EUR 7.8m (previous year: EUR 7.6m) and were generated largely through services provided for INIT GmbH, initplan, INIT Nottingham and INIT Montreal as well as through rental income. Earnings before taxes amounted to

EUR 5.7m (previous year: EUR 6.5m) and were therefore in below our projection of around EUR 7m to EUR 9m. Because of profit/loss transfer agreements, earnings before taxes include the earnings of INIT GmbH (EUR 2.7m) and initplan (EUR 0.8m).

Net assets and financial position

Other financial indicators of relevance to init SE are liquidity and the equity ratio, and these are discussed in the following. As of the reporting date, cash and cash equivalents including securities totalled EUR 0.3m (previous year: EUR 0.1m). The change in cash and cash equivalents resulted chiefly from cash paid out in repayments and interest for real estate financing, distribution of dividends and the settlement of income taxes. By contrast, the profit transfer from INIT GmbH had a positive effect on cash and cash equivalents. The cash and cash equivalents and existing credit lines, which can be used jointly with INIT GmbH, are sufficient to meet all existing payment obligations.

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

Total assets of init SE amounted to EUR 57.3m (previous year: EUR 55.4m), while the equity ratio was 80.2 per cent (previous year: 76.7 per cent).

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

Non-financial performance indicators

The annual average number of employees of init SE was 50 (previous year: 43). Of these, 27 on average were full-time staff (previous year: 25).

In total, employees took part in 56 internal and external continuing training measures in 2018.

Opportunities and risks of future development

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

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

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

Expected business development and outlook

For financial year 2019, we expect a slight increase in revenues to around EUR 8.0m.

The development of init SE largely depends on the performance of its operating subsidiaries. The largest of these, INIT GmbH, is expected to generate a loss before taxes for 2019 due to orders with low contribution margins from the 2016 and 2017 fiscal years. On this basis, init SE is projecting EBIT of EUR -0.5m to EUR +1.0m.

Closing statement to the dependent company report

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

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

Principles and objectives of financial management

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

Employees

In order to complete ongoing projects on time and secure continuous growth, init moderately increased its workforce in the original init group in financial year 2018. A moderate increase in the workforce is also necessary in financial year 2019 in order to handle the order backlog and the expected positive order trend. In particular, we must significantly strengthen our development capacities in order to meet the challenges in the ticketing business, digitisation, autonomous driving and electromobility. To cover the staffing requirements in the area of software development, one more development location was already founded in 2018 in Maynooth, Ireland.

Employee figures

Overall, the init group had 796 employees as an annual average (previous year: 737) including temporary workers, research assistants and students writing their theses. This includes 103 part-time employees.

In addition, 27 employees were pursuing apprenticeships as IT specialists, IT systems electrical engineers, warehousing specialists, industrial clerks or office clerks or were studying electrical engineering, mechatronics, information technology, industrial engineering or business studies at universities of cooperative education.

Social benefits and family support

The success of our business depends on the expertise and commitment of our employees. For this reason, the support and well-being of our employees, also outside the company, is our top priority. Factors such as the work-life-balance of our employees is absolutely essential in this context. Our contribution includes, for example, flexible working time, subsidies for childcare and insurance offerings. The well-being and health of our employees as well as team spirit is a further priority for us, which is why we offer a range of internal sporting and cultural activities. As part of this, we support, among other things, events and organisations, for example; DAS FEST, Baden TV, Hikkaduwa Verein e.V., Kinderschutzbund Karlsruhe, Karlsruhe University of Applied Sciences (traffic management study course), Indoor Meeting, Karlsruhe Sport Club.

This commitment is appreciated not only by our employees but also by external independent juries, which presented us with two awards in 2018, “Germany’s best jobs of the future” and the “B:Efficiency Award”.

Ethical guidelines

We have set down the principles of our business dealings in our ethical guidelines. They represent the basis of init’s corporate culture and shape daily actions and decisions on every level, beyond national borders and in every part of our group.

For example, all employees with the appropriate qualifications have equal access to management positions. With the internationalisation of our business, we now also enjoy greater diversity at higher management levels.

Overall picture of the economic situation

The Managing Board regards the business performance in 2018 as satisfactory overall. Incoming orders exceeded the projected range of EUR 140m to EUR 150m significantly. In 2018, incoming orders reached a historical high at the company of EUR 161.8m. At EUR 135.7m, revenues are in line with our budget. EBIT at EUR 6.4m is below the target of EUR 10m to EUR 12m.

With the existing order backlog of EUR 142.6m as of 31 December 2018, a good foundation has been laid for financial year 2019. The init group has a solid financial position to finance the expected growth in 2019.

In 2018, operating cash flow amounted to EUR 12.8m, which translates into a significant increase compared to the previous year (EUR 2.1m). Based on the order backlog available, we expect higher cash flow for financial year 2019. We would like to share our success with our shareholders fairly and therefore intend to distribute dividends as in the past. The Management Board proposes a dividend of 12 cents per share for the financial year 2018. We look forward to financial year 2019 with optimism and confidence.

FORECAST, OPPORTUNITIES AND RISKS

The achievement of the business objectives of init SE depends on certain events, developments or the implementation of actions and strategies as planned. Assumptions must be made for these and other factors in forecasting future performance. Where factors both known and unknown have negative effects on the achievement of goals, this constitutes a risk. Positive effects give rise to opportunities.

Outlook

It is still very difficult to assess the effect of global economic factors for the business of the init group for 2019 and the subsequent years. The reason for this is the increase in risks or new risks arising in the reporting period. These include, for example, the still uncertain effects of BREXIT, the resurgence of protectionist tendencies in many countries, rising geopolitical tensions between the East and the West as well as trade and customs conflicts between China and the US.

Because economic growth in most industrialised countries, which are still init's main markets, are likely to weaken against this backdrop, which in turn can affect the investment decisions of the public and private sectors, the general economic factors are expected to have a negative impact on the growth opportunities of init SE. This applies particularly to Germany and the UK, two of the most important markets for init solutions. In contrast, init is benefiting from the strong domestic demand and rising investments in infrastructure in the US.

Investments in the transport infrastructure and in public transport are less sensitive to cyclical trends and therefore less dependent on global economic development. Increasing political risks and economic uncertainty may still have a negative impact; however, transport companies' willingness to invest primarily depends on the earnings situation and the possibility of funding from public sources.

Rising passenger numbers in all countries form a stable basis for growing demand for init products and solutions. Moreover, especially in times of general economic weakness, investments in infrastructure are recommended as a measure to provide new impetus for economic development.

Against this backdrop, provided the financing situation is stable, a further increase is expected in tenders in the market for intelligent mobility solutions as realised by init as a technology leader in public transport. Rising urbanisation worldwide also requires intelligent, multimodal networking of all passenger transport providers, such as those already successfully realised by init internationally in collaboration with transport companies.

The now rapidly advancing digitisation, init's core competence since the foundation of the company, is changing the personal mobility and what people expect from the transport companies. However, this is also creating new growth potential. Specialised service providers can thus create individual packages using apps ("Mobility as a Service"). Therefore, better, specialised offers not only facilitate increased mobility overall, but also lead to greater use of public transport services.

However, the rapidly increasing demand for "Mobility as a Service" and the resulting new growth potential also spawns new competitors. The increased competition may manifest itself in tighter margins in future tenders.

On the other hand, new technological developments and trends like autonomous driving and electromobility are also fuelling demand for platform solutions and efficient system architecture. Particular significance is attached to the simple and easy purchase of tickets by passengers (smart ticketing) and to the settlement of cash flows between the cooperating transport companies. This requires uniform, secure booking and payment with simultaneous optimisation of the related sales processes and costs. This requires an efficient background system that includes tariff management, revenue sharing, simple integration of third-party systems and various identification media (credit cards, smart cards) as well as the setting up of a multimodal mobility platform. For this purpose, init offers a wide range of end devices, internet-based applications and apps, and as one of the technology leaders, should therefore be able to benefit from the above-average growth in this market segment.

In the short term, the Managing Board's assessment of the business performance of the init group in 2019 is thus shaped by a number of factors, both positive and negative. Increased global economic risks are counterbalanced by sustained favourable sector trends, the record incoming orders in 2018 and positive effects from the acquisitions, particularly in the area of mobile phone ticketing.

In its overall outlook, the Managing Board of init SE anticipates a significant increase on the revenues side. Therefore, the target for group revenues 2019 is set at around EUR 145m. Operating earnings before interest and taxes (EBIT) will then be in the order of EUR 7.5m.

This is based on the development in incoming orders. At EUR 161.8m, init achieved the highest figure for incoming orders in the company's history in 2018. With the current order backlog of EUR 142.6m, we have a very good base for further growth. The target range for incoming orders in 2019 is between EUR 150m and EUR 160m with a view to securing ongoing positive business performance. The forecast of the target range for incoming orders is based on probability-weighted assumptions of current and future tenders.

EUR 150 m

The target range for incoming orders in 2019 is between EUR 150m and EUR 160 m

Particularly in heavily industrialised countries, investments in the expansion of public transport systems should increase further in the next few years for ecological reasons. An ever-increasing number of investment programmes are being created to protect humans as well as the environment, which focus especially on the intelligent expansion of public transport, thus sustainably boosting the market for traffic telematics.

These diverse sector-specific growth factors result in a series of additional opportunities in the coming years for integrated technology providers like init. Our company is equipped to exploit these opportunities through targeted new developments and acquisitions.

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

Risk management system (RMS)

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

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

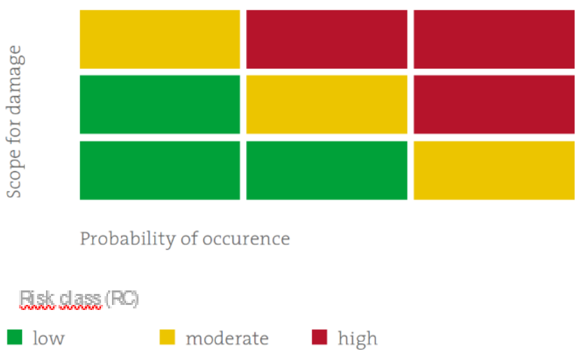
The aim of an Risk management system (RMS) is not to avoid all risks but to manage identified risks. After all, to realise one's plan and take advantage of the resulting opportunities, risks must be entered into. It is a matter of weighing these risks. We understand risk to mean any negative deviation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

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

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

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

Risk classes



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

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

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

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

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

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

The primary objective of init SE's internal accounting-related control and risk management system is to ensure the compliance of the financial reporting, that is to make sure that the consolidated financial statements and combined management report comply with all relevant statutory rules and regulations.

The internal control and risk management system pertaining to the financial reporting process is not defined by law. We understand internal control and risk management to be a comprehensive system and follow the definitions provided by the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V.": Institute of Public Auditors in Germany] in Düsseldorf, Germany, on the internal control system pertaining to the financial reporting process and the risk management system. According to this definition, an internal control system is understood to mean the principles, processes and measures introduced by the management of a company which are focused on the organisational implementation of decisions passed by the management to ensure:

- the efficiency and cost-effectiveness of operations (this includes the protection of assets, including the prevention and identification of economic impairment),
- the appropriateness and reliability of the internal and external financial reporting
- compliance with the legislation applicable to the Company

The risk management system comprises organisational regulations and measures established to identify and handle risks relating to the business activities of the company.

The following structures and processes have been implemented in the group with regard to the financial reporting processes of our consolidated companies:

The Managing Board has overall responsibility for the internal control and risk management system pertaining to the group financial reporting process.

The financial statements information reported by init SE and its subsidiaries, which itself is based on the entries made in the various entities, forms the underlying data base for the preparation of the consolidated financial statements. The parent company in Karlsruhe, the subsidiary concerned or external regional accounting companies are responsible for preparing the financial statements information of the subsidiaries. In the case of subjects requiring special expertise, we sometimes call on external providers for assistance, for example to measure pension liabilities. The consolidated financial statements are then prepared on the basis of the information reported by the subsidiaries. The consolidated financial statements are prepared with the help of certified consolidation software. In addition, the necessary steps are taken in accordance with the dual control principle.

The principles, the operational and organisational structure and the processes of the accounting-related internal control and risk management system are set out in a manual and in organisational instructions. These are reviewed and revised regularly in line with current external and internal developments.

With respect to the financial reporting processes of our consolidated companies and the group's financial reporting process, we consider features of the internal control and risk management system material which may significantly affect the group accounting and the overall view presented by the consolidated financial statements including the combined management report. These include the following elements in particular:

- Identification of key areas of risk and control relevant to the financial reporting process.
- Controls designed to monitor the financial reporting process and reporting on its results to the Managing Board in regular board meetings.
- Preventive control measures for the group's accounting and finance and in operating and performance-related corporate processes that generate material information for the preparation of the consolidated financial statements including the combined management report, including a separation of functions and pre-defined authorisation processes in relevant areas.
- Uniform accounting is primarily ensured through a group accounting manual.
- Accounting data is regularly spot checked for completeness and accuracy.
- The subsidiaries provide the parent company with monthly reports on their business development and submit monthly financial statements. Monthly reports are presented for ongoing projects as well. Major foreign companies in the group are visited once or twice a year. Particular focus is placed here on a discussion of special issues and an examination of these companies' figures and projects.
- Measures exist to ensure proper IT-based processing of accounting-related facts and figures.

The group has further implemented a risk management system pertaining to the group financial reporting process that includes measures to identify and assess material risks as well as the corresponding risk-mitigating measures in order to ensure compliance of the consolidated financial statements.

Risks

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

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

External and industry risks

Economic risks (RC: moderate)

As a company with international operations, init is subject to the cyclical trends of the global economy and to the specific economic circumstances of the countries in which its individual projects are implemented. A state financial crisis and the resulting public spending cuts thus also pose a potential risk to init's business development. Political conflicts could also have a sustained impact on the further business development of the init group where they affect the financing and completion of transport projects. The extent to which increased political uncertainty regarding BREXIT and/or increasing economic protectionism in some leading industrialised countries will impact the global economy is still difficult to estimate reliably at this time.

General market risks (RC: moderate)

Market risks are fundamentally shaped by the development of the global economy. The market for transport services, in which init's customers are primarily involved, is also strongly dependent on the political will to improve infrastructure and the funds made available for it. Delays and the postponement or cancellation of publicly funded investment projects and subsidies due to a poor budgetary position can therefore adversely affect the init group's growth.

On the other hand, a number of government programmes have been implemented in industrialised nations to counteract this crisis and help to reduce particulate matter and nitrogen oxides through investments in public transport worth billions. This will bring with it additional business opportunities for init.

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

Hosting and operating business (RC: low)

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

Risks arising from the procurement market (RC: moderate)

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

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

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

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

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

Company-specific risks

Technology risks (RC: moderate)

Hardware and software as developed and marketed by init are subject to rapid changes and constant innovations. In order to limit the development risk, we must, on the one hand, keep up with technological advances. On the other, new products must be launched at the right time. Therefore, the requirements and changes of the market must be constantly monitored. init therefore factors suggestions and requests from customers into its product development on an ongoing basis. In addition, its participation in multiple research projects means that new technologies are used within the group at an early stage. More about this can be found in the “Research and development” section. Nevertheless, the development of new products can incur costs without necessarily resulting in the desired success.

Project risks (RC: high)

A crucial success factor for the init group is project management. For each major project, init implements a project plan for constant progress monitoring. For major projects, it is planned to hire a "Contract Manager" who will regularly check the progress of the project for compliance with the contractual regulations and, if necessary, initiate appropriate measures. A controlling system enables the company to identify any deviations from the specified time and costs, the deliveries and the hours worked and, in cases of deviations from the target, initiate the appropriate countermeasures. Costings, order situation and project progress are regularly examined for the purpose of a variance analysis.

IT risks (RC: low)

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

In the init group, electronic data are secured in multiple ways and stored decentrally for many years. We have an efficient IT infrastructure that we modernise permanently to minimize downtime risks. Nevertheless, it cannot be fully ruled out that data may be lost or can no longer be reconstructed. However, based on these extensive and far-reaching measures, we rate the risk as low.

Cybercrime has also skyrocketed within the context of globalisation and digitisation. Both the Federal Office for the Protection of the Constitution and security experts in the industry are warning against the rising cyber attacks worldwide. Vulnerabilities in software and hardware are being exploited more frequently to attack IT systems. init uses multi-level security mechanisms particularly in the areas of authentication, access rights and encryption. A key focal point is early identification of deviations from our company guidelines with regard to information security management, which is performed by a combination of automatic as well as manual reviews. This process is DIN EN ISO 9001 certified. In the course of a special introductory event, new employees in the init group are made aware of the possible risks. Furthermore, there are company-wide updates with monthly discussions in order to inform all users regularly.

The European General Data Protection Regulation (GDPR) is mandatory since 25 May 2018. Given higher requirements in this area, init had already implemented measures to meet these requirements, for example by appointing a data protection officer. The data protection officer conducts regular reviews and reports to the Managing Board, if necessary. Besides, the data protection officer initiates training measures and is available as an advisor to the employees. The data protection officer is also named as an external contact person on the init website. Furthermore, every entity is advised by a data protection officer in order to ensure compliance with local data protection laws. Considering the increasingly complex and stricter data protection laws and the rising cybercrime, we consider this risk to be moderate.

Human resources risks (RC: moderate)

The experience, individual expertise and professional competence and qualifications of the employees are the key to the success of the init group. The successful handling of projects depends on their completion as scheduled, the complexity of each individual project, the enforceability of contractual terms, support from the customer and specific national laws and regulations.

Apart from unforeseeable technical and customer-specific difficulties, timely completion of projects mainly depends on the availability of sufficiently qualified personnel. Due to the labour market situation in Germany and in the high-tech region of Karlsruhe in particular, like in the past year it is very difficult to recruit qualified personnel. init takes account of this by operating a long-term personnel policy and by intensifying the measures for personnel development. One measure has been the foundation of the init Academy in 2018. The init Academy's tasks are the further training and competence development of employees and the initiation of joint learning and knowledge transfer. Another approach of the personnel policy is to include employees in the success of the company. In addition to the dual study programme, offers for student internships as well as dissertation programmes for bachelors and masters students, init is focusing more on direct cooperation with professors, universities and institutes of higher education and thus ensuring a continued supply of highly qualified and motivated employees.

However, the possibility cannot be ruled out that experts or key individuals will leave the company or that vacancies cannot be filled with appropriately qualified staff.

Investment risks (RC: high)

For the sustained economic success of our group, the achievement of our strategic goals and the exploitation of existing market opportunities, init repeatedly makes acquisitions. As some of these are investments in economically weaker economic positions or in start-up companies, the risk of a bad investment is high and in addition to losses to be assumed, could also result in corresponding write-downs and the loss of contributed financial funds.

In financial year 2018, we recognised an impairment loss of USD 1,550k on the Bytemark investment. In addition, the share in the loss comes to USD 961k. Total group shares now amount to EUR 749k. The scope of damage after impairment has been reclassified from high to moderate.

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

Financial risks

Exchange rate risk (RC: high)

Contracts concluded in foreign currencies involve exchange rate risks that can affect sales, purchase prices, the valuation of receivables, currency reserves and liabilities and therefore consolidated earnings as well. init counters these foreign exchange risks with active exchange rate management. Forward exchange transactions and options may be used. Since init also tries to remain open to opportunities and focus on active currency management, possible ensuing losses cannot be ruled out. Despite our active currency risk policy, we assess the present risk of losses to be high. A sensitivity analysis on this subject is provided in note 30 of the notes to the consolidated financial statements.

Interest risk (RC: moderate)

The majority of loans taken out to finance construction and to expand the head office in Karlsruhe are fixed-rate loans. The interest risk arising from the short-term, variable-rate loans currently has no significant influence on our net assets, financial position and results of operations at present.

Credit risk (RC: low)

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

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

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

Loan risk (RC: low)

A long-term loan of EUR 10.0m is subject to minimum capital requirements. A dynamic debt ratio of

3.5 must not be exceeded. If the requirements are exceeded, the loan can be declared due immediately. We estimate the probability of occurrence to be low due to the close monitoring and planning of this key figure.

Prefinancing (RC: high)

In addition, contractually established payment terms could change over time to our disadvantage, with the result that we could encounter cash flow predictability risks and liquidity risks.

Risks related to pensions (RC: moderate)

Prior to 1997, init made direct commitments to employees. There are a total of 37 direct pension commitments, which were reinsured through life insurance policies. The provisions for pensions are currently adequate. A defined benefit plan was converted to defined contribution, therefore eliminating all related risks. Repurchase offers were created for old contracts; appropriate provisions have been recognised.

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

Legal and fiscal risks

Legal risks (RC: low)

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

Fiscal risks (RC: low)

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

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

Overall risk assessment

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

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

As one of the fundamental principles of entrepreneurial behaviour, init takes particular care to ensure that legal and ethical regulations are observed. In addition, the init group has a web-based whistleblower system that enables customers, employees, suppliers and third parties to report non-compliant conduct, particularly violations against applicable law. At the same time, ensuring that sensitive data is handled securely is a prerequisite for maintaining business relationships with customers and suppliers in a trusting, cooperative environment.

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

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

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

Opportunities

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

A new offering requested by an increasing number of customers is the assumption of all or part of the technical operation, including system maintenance. It is already being ordered by many customers. This is associated with sales potential that could exceed the scope of the original investment volume over several years.

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

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

75 %

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

Today, an integrated solution includes "smart" ticketing systems in particular. With this in mind, we expanded our product spectrum in a targeted manner. Our subsidiary HanseCom currently already manages more than 75 per cent of the fares for all public transport services in Germany and has numerous customers in the area of mobile phone ticketing. In future, this area will present great opportunities for the company to also generate considerable international growth.

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

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

Additional opportunities for integrated technology providers like init may arise from the increase in investments for reducing particulate matter and greenhouse gas emissions in the industrialised countries. Ambitious policy goals have been set worldwide for the use of zero emission vehicles and electric cars in public transport, and public funds have been provided to support these goals. The California Air Resources Board (CARB), for example, strives with its Innovative Clean Transit (ICT) Initiative to fully convert the public transport to zero emission vehicles. According to this, starting 2023, a quarter of buses purchased annually by large bus operators (more than 100 buses) should be emission-free. This quota should increase to 50 per cent by 2026 and 100 per cent by 2029.

With the recent “Clean Vehicles Directive”, the European member states have also set binding procurement targets for emission-free or low-emission vehicles by public authorities and companies. According to the directive, the national targets for granting public contracts for environment friendly buses should lie between 24 and 45 per cent in 2025 and between 33 and 66 per cent in 2030. Half of these targets have to be achieved through the procurement of emission-free buses, i.e., electric buses. For the other half, buses with gas engines (liquid gas and natural gas) are also permitted. For Germany and Sweden, for example, this means that by 2025 almost a quarter of newly procured public buses must be fully electric.

In the MENDEL research project, optimisation algorithms in different areas are currently being used in the introduction of electric mobility to lay the foundations for providing a cost-efficient charging infrastructure for the planning and implementation of public transport that also takes into account a uniform load in the energy grid. The on-board units (intelligent wireless and telematics units) for cars and the corresponding software for telediagnosis and smart charging developed by the subsidiary CarMedialab are already being used in electric vehicles. Subsidies for electric vehicle sales should create further sales opportunities for these.

Besides, init offers its customers end-to-end solutions in the area of electromobility. These include the simulation of various electromobility scenarios for the selection of the best charging and location concepts for electric buses, the impact from the use of electric buses on vehicle and staff requirements and the calculation of investment and operating costs. The eMOBILE-PLAN system is suitable both for simulation and for the daily operational planning of calender-based timetables, blocks and duties with the use of electric buses.

The interplay of MOBILEcharge with MOBILE-PERDIS allows the use of intelligent charging systems, which not only monitor the charging process but also optimize the charging capacity with regard to load peaks. This enables making charging processes as cost-effective as possible.

Furthermore, charging statuses of individual buses can be displayed in INIT-ITCS and estimates can be made. This can be used to check whether in case of a breakdown in operation an alternate route is possible for the electric bus with the remaining charge available. Subsequently, electromobility-specific data for a predefined time period can be collected, analysed and fed back into the planning process for a variance analysis.

Moreover, bans on vehicles can be expected for more and more cities, leading to a significant increase in the number of public transport passengers in the next few years. This in turn will lead to additional demand for intelligent solutions in public transport.

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

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

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

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

The acquisition of Mattersoft Oy meant a significant additional gain, especially with regard to expertise in new technologies (IoT and Software as a Service). This acquisition expands the range of products of the init group to include various apps, a timetable simulator, presentation of track diagrams and systems for passenger information. Particularly the web-based Mattersoft solution for central traffic light priorities solution is also interesting for other markets. Through this extended portfolio, we can offer cloud-based ITCS solutions, which are particularly interesting also for small transport companies.

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

inola's inclusion in the init group also offers multiple opportunities for tapping new market potential. The experience garnered by init over the course of 35 years and more than 400 international projects in using intelligent system solutions to make public transport services more efficient, faster and more attractive for customers can also be transferred to the logistics sector. Conversely, inola has the necessary user knowledge when it comes to logistics and industry to make init's hardware and software applicable to this area as well.

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

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

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

Remuneration system for the Managing Board

The salaries for members of the Managing Board are set by the Supervisory Board. The remuneration of the Managing Board is determined by the size of the company, its economic and financial situation, the amount and structure of remuneration at comparable companies as well as its relationship to the salaries paid to staff. The salary system for Managing Board members at init innovation in traffic systems SE – including in their capacity as Managing Directors of subsidiaries – provides for the following:

1. A fixed salary component payable on a pro rata basis in 13 monthly instalments. The fixed component of the Board members' salaries in 2018 totalled EUR 1,733k (previous year: EUR 1,675k).

2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee shares and applicable as a percentage from consolidated earnings before taxes of EUR 5.0m upwards. The management bonus is limited to 25 per cent of the total compensation package excluding the share bonuses under item 3. The variable share of the remuneration for the Managing Board came to EUR 82k in 2018 (previous year: EUR 129k).

3. Another management bonus for 2018 in the form of 750/1,500 shares, in as far as consolidated earnings exceed EUR 5.0m before taxes and after deducting all management bonuses. Furthermore, for each EUR 1.0m of profit that exceeds the amount of EUR 5.0m up to EUR 10.0m, another 50/100 shares are granted as a bonus. Further, for each EUR 1m of profit that exceeds the amount of EUR 10m up to EUR 15m, another 100/200 shares are granted as a bonus. Similarly, for each EUR 1.0m of profit that exceeds the amount of EUR 15.0m, another 150/300 shares are granted as a bonus. The number of shares is limited to 6,000/12,000. These shares are subject to a vesting period of five years. The income tax on the non-cash benefit of the share transfer is borne by the company. The fair value of this remuneration including income tax payable on it totalled EUR 146k for the past financial year (previous year: EUR 215k).

4. Based on the aforementioned remuneration system, remuneration of EUR 0k was paid to the members of the Managing Board who were also Managing Directors of INIT GmbH (previous year: EUR 101k).

5. Pension commitments exist for two of the five members of the Managing Board as well as for a former member. The increase in pension provisions (DBO) for these three persons was EUR 59k in 2018 (previous year: EUR 137k).

6. Instead of a direct pension plan, there are defined contribution pension plans for three members of the Management Board and for one former member of the Management Board. The expenses for this amounted to EUR 23k in 2018 (previous year: EUR 22k).

7. An additional defined contribution plan exists for four members of the Managing Board as well for two former members of the Managing Board. The expenses for this amounted to EUR 116k in 2018 (previous year: EUR 107k).

In compliance with Section 285 No. 9a Sentences 5 to 8 HGB, Section 315a (1) HGB and Section 314 (1) no. 6a sentences 5 to 8 HGB, the individualised disclosure of the Managing Board members' salaries can be suppressed for a period of five years (Section 314 (3) Sentence 1 and Section 286 (5) Sentence 1 HGB), and a corresponding resolution was passed at the Annual General Meeting on 21 July 2016.

No benefits payable to members leaving the Managing Board have been agreed. However, a termination bonus may be specified in an individual termination agreement. A termination bonus of EUR 85k (previous year: EUR 0k) was paid in 2018.

Remuneration system for the Supervisory Board

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

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

V= ((0.5 x shareprice/8 + 0.5 x consolidated earnings before tax/8m) -1) x fixed component

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

The following is a breakdown of the remuneration of the Supervisory Board in the 2018 financial year:

Name	Fixed component in EUR k	Variable component in EUR k
Hans-Joachim Ruehlig	38	17
Ulrich Sieg	19	9
Hans Rat	19	9

REPORTING IN ACCORDANCE WITH SECTION 315A (1) HGB

Information on shareholders' equity

init SE has capital stock of EUR 10,040,000, divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of EUR 1 per share. The shares have been issued and fully paid up. For the rights and obligations related to the shares, please refer to Sections 118 et seq. of the German Stock Corporation Act (AktG).

The Managing Board is not aware of any restrictions relating to the voting rights or the transfer of shares.

Dr. Gottfried Greschner, Karlsruhe, directly or indirectly holds 3,456,800 shares in init SE. This is around 34.4 per cent of the capital stock. As of 31 December 2018, init SE held a total of 29,143 treasury shares (31 December 2017: 53,824).

There are no shares with special rights.

No voting control exists for shares held by employees.

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

Conditional capital

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

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

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

Statutory requirements and provisions of the articles of incorporation on the appointment and dismissal of members of the Managing Board and on amendments to the articles of incorporation

For the appointment and dismissal of members of the Managing Board, please refer to Sections 84, 85 of the German Stock Corporation Act (AktG). Amendments to the articles of incorporation are subject to the statutory provisions of Sections 133 and 179 AktG.

Authority of the Managing Board to issue and repurchase stock

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

Based on a resolution passed at the shareholders' meeting of 13 May 2015, the company was authorised to purchase treasury shares.

CORPORATE MANAGEMENT DECLARATION

With regard to the required declaration by the management, please refer to the Corporate Governance Report in the 2018 Annual Report which is available on the Internet at: www.initse.com under the tab Investor Relations – Corporate Governance.

RESPONSIBILITY STATEMENT BY THE LEGAL REPRESENTATIVES

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

Karlsruhe, 15 March 2019

The Management Board

Dr. Gottfried Greschner

Dr. Jürgen Greschner

Joachim Becker

Jennifer Bodenseh

Matthias Kühn

CONSOLIDATED FINANCIAL STATEMENTS

init innovation in traffic systems SE, Karlsruhe (IFRS)
(until 9 March 2017 init innovation in traffic systems AG)

CONSOLIDATED INCOME STATEMENT

for the financial year 2018 (IFRS)

EUR '000	Notes no.	01/01/ to 31/12/2018	01/01 to 31/12/2017
Revenues	4, 35	135,711	130,554
Cost of sales	5	-89,732	-87,892
Gross profit		45,979	42,662
Sales and marketing expenses		-16,680	-16,069
General administrative expenses		-10,734	-10,650
Research and development expenses	6, 21	-11,491	-6,893
Other operating income	7	2,603	2,003
Other operating expenses		-295	-212
Foreign currency gains and losses	8	-868	-166
Expenses and income from associated companies	22	-2,142	-2,112
Earnings before interest and taxes (EBIT)		6,372	**8,563**
Interest income		64	168
Interest expenses		-943	-870
Earnings before taxes (EBT)		5,493	**7,861**
Income taxes	9, 23	-3,054	-4,217
Net profit		2,439	**3,644**
thereof attributable to equity holders of parent company		2,440	3,660
thereof non-controlling interests		-1	-16
Earnings and diluted earnings per share in EUR	11	0.24	0.37

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year 2018 (IFRS)

EUR '000	01/01 to 31/12/2018	01/01 to 31/12/2017
Net profit	2,439	**3,644**
Items to be reclassified to the income statement:		
Net gains (+) / net losses (–) on currency translation	1,491	-4,053
Items not to be reclassified to the income statement:		
Actuarial losses on defined benefit obligations for pensions after taxes	71	-201
Total other comprehensive income	1,562	**-4,254**
Total comprehensive income	4,001	**-610**
thereof attributable to equity holders of the parent company	4,002	-594
thereof non-controlling interests	-1	-16

CONSOLIDATED BALANCE SHEET

as of 31 December 2018 (IFRS)

Assets

EUR '000	Notes no.	**31/12/2018**	31/12/2017
Current assets			
Cash and cash equivalents	14, 31	20,620	19,763
Marketable securities and bonds	15, 31	28	27
Trade accounts receivable	16, 31	26,120	34,472
Contract assets	16, 31	26,215	27,417
Receivables from related parties	34	95	168
Inventories	17	27,909	25,953
Income tax receivable		2,212	1,677
Other current assets	18	3,153	3,137
Current assets, total		106,352	**112,614**
Non-current assets			
Property, plant and equipment	19	35,643	35,817
Investment property	20	1,898	1,918
Goodwill	21	9,035	8,987
Other intangible assets	21	9,772	9,681
Interests in associated companies	22	749	2,783
Deferred tax assets	23	2,242	2,410
Other non-current assets	24	2,770	2,595
Non-current assets, total		62,109	**64,191**
Assets, total		**168,461**	**176,805**

Liabilites and shareholders' equity

EUR '000	Notes no.	31/12/2018	31/12/2017
Current liabilities			
Bank loans	25, 31	18,390	24,599
Trade accounts payable	25, 31	9,417	11,030
Accounts payable from PoC method	16, 25	6,188	7,115
Advance payments received	25	1,430	1,431
Income tax payable	25	1,056	958
Provisions	27	9,042	9,104
Other current liabilities	25, 26	12,184	14,127
Current liabilities, total		**57,717**	**68,364**
Non-current liabilities			
Bank loans	25, 31	17,442	17,559
Deferred tax liabilities	23	2,579	2,277
Pensions accrued and similar obligations	28	9,505	9,390
Provisions	27	1,566	2,107
Other non-current liabilities	26	3,890	3,799
Non-current liabilities, total		**34,982**	**35,132**
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	29	10,040	10,040
Additional paid-in capital	29	5,262	5,397
Treasury stock	29	-510	-926
Surplus reserves and consolidated unappropriated profit	29	60,479	59,869
Other reserves	29	326	-1,237
		75,597	**73,143**
Non-controlling interests		165	166
Shareholders' equity, total		**75,762**	**73,309**
Liabilities and shareholders' equity, total		**168,461**	**176,805**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as of 31 December 2018 (IFRS)

		Attributable to equity holders of			
	Notes no.	29	29	29	
EUR '000		Subscribed capital	Additional paid-in capital	treasury stock	
Status as of 31/12/2016		**10,040**	**5,642**	**-889**	
Net profit					
Other comprehensive income					
Total comprehensive income					
Dividend paid out					
Share-based payments			-245	653	
Acquisition of treasury stock				-689	
Rounding				-1	
Status as of 31/12/2017		**10,040**	**5,397**	**-926**	
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			-135	316	
Acquisition of subsidiaries				600	
Acquisition of treasury stock				-500	
Adaption IFRS 15					
Status as of 31/12/2018		**10,040**	**5,262**	**-510**	

	the parent company					Non-controlling interests	Shareholders' equity total
	29	28					
		Other reserves					
	Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Securities marked to market	Total		
	58,408	**-2,685**	**5,705**	**-1**	**76,220**	**182**	**76,402**
	3,661				3,661	-16	3,645
		-201	-4,053		-4,254		-4,254
	3,661	-201	-4,053		-593	-16	-609
	-2,200				-2,200		-2,200
					408		408
					-689		-689
		-1	-1		-3		-3
	59,869	**-2,887**	**1,651**	**-1**	**73,143**	**166**	**73,309**
	59,869	**-2,887**	**1,651**	**-1**	**73,143**	**166**	**73,309**
	2,440				2,440	-1	2,439
		71	1,492		1,563		1,563
	2,440	71	1,492		4,003	-1	4,002
	-2,336				-2,336		-2,336
					181		181
	-236				364		364
					-500		-500
	742				742		742
	60,479	**-2,816**	**3,143**	**-1**	**75,597**	**165**	**75,762**

CONSOLIDATED CASH FLOW STATEMENT

for the financial year 2018 (IFRS)

EUR '000	**01/01/ to 31/12/2018**	01/01/ to 31/12/2017
Cash flow from operating activities:		
Net income	2,439	3,644
Amortisation and depreciation	4,569	4,200
Gains or losses on the disposal of fixed assets	26	-44
Change in provisions and accruals	-562	-55
Change in inventories	-1,512	65
Change in trade accounts receivable and contract assets	10,784	-2,672
Change in other assets, not provided by / used in investing or financing activities	-616	-688
Change in trade accounts payable	-1,739	-3,104
Change in advanced payments received and contract liabilities	-1,083	336
Change in other liabilities, not provided by / used in investing or financing activities	-2,802	-2,480
Amount of other non-cash income and expenses	2,548	2,849
Adjustment IFRS 15 retrospective modified	757	0
Net cash from operating activities	12,809	2,051
Cash flow from investing activities:		
Payments received on disposal of property, plant and equipment	253	555
Investments in property, plant, equipment and other intangible assets	-2,761	-9,737
Investment property	0	-625
Investment in subsidiaries less acquired cash	-356	0
Net cash flows used in investing activities	-2,864	-9,807
Cash flow from financing activities:		
Dividend paid out	-2,336	-2,200
Cash payments for the purchase of treasury stock	-500	-689
Payments received from bank loans incurred	15,531	16,061
edemption of bank loans	-21,657	-8,549
Net cash flows used in financing activities	-8,962	4,623
Net effects of currency translation and consolidation changes in cash and cash equivalents	-126	-1,024
Changes in cash and cash equivalents	857	-4,157
Cash and cash equivalents at the beginning of the period	19,763	23,920
Cash and cash equivalents at the end of the period	20,620	19,763

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

NOTES

init innovation in traffic systems SE, Karlsruhe
(until 9 March 2017 init innovation in traffic systems AG)

1. Information about init

init innovation in traffic systems SE, Kaeppelestrasse 4–10 Karlsruhe, Germany ("init SE") was established on 18 August 2000 as the holding company of the init group. The conversion of init innovation in traffic systems AG to init innovation in traffic systems SE (HRB 727217) was resolved at the Annual General Meeting on 21 July 2016 and implemented with the entry in the Commercial Register on 9 March 2017. The init group is an internationally operating system supplier of transportation telematics (telecommunica-tions and information technology, globally also called Intelligent Transportation Systems – ITS). init SE is a listed company, ISIN DE0005759807, and has been in the regulated market (Prime Standard) since 1 January 2003.

2. Accounting principles

The consolidated financial statements and the comparative previous-year figures were prepared in com-pliance with the International Financial Reporting Standards (IFRS). The consolidated financial statements of init SE and its subsidiaries are consistent with the IFRS applicable in the EU. The consolidated financial statements comply with the requirements of § 315e of the German Commercial Code (HGB).

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

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

The income statement was prepared using the function of expense method.

The accounting policies and measurement methods apart from the first-time application of IFRS 15 are consistent with those applied in the previous year.

The following standards are applicable for the first time in the financial year 2018; however, there is no impact on the financial position, performance and cash flows of the init group:

Standard	Title
Amendment to IFRS 9	Financial instruments
Amendments to IFRS 2	Share based payment

EU endorsement received:

The IASB has published the following standards, which have already been introduced into European law in the context of a comitology procedure, but which were not yet mandatory for the 2018 financial year. The group did not opt to early adopt these standards.

Standard	Title	Application
IFRS 16	Leases	January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 2019
IFRS 9	Prepayment feature with negative compensation	January 2019
IAS 19	Defined benefit plans: employee contribution	January 2019

The new standard IFRS 16, Leases, determines the recognition, measurement, presentation and disclosure of leases. IFRS 16 was first published in January 2016 replacing the former leases standard IAS 17 and IFRIC 4. The first-time application of IFRS 16 is mandatory for financial years after 1 January 2019. IFRS 16 uses a single accounting model for lessees similar to IAS 17 and, in principle, is applicable for all leases, including subleases. However, options exist for “low-value” assets and short-term leases. The change in definition is mainly due to a change in the concept of control of an object. IFRS 16 distinguishes between leases and service contracts and determines whether there is an identifiable asset which is under the con-trol of the lessee. At the inception of a lease, a liability equivalent to the present value of future lease pay-ments is recognised as well as an asset that represents the right-of-use. The amortisation expense for the right of use and the interest expense are reported separately. A revaluation of a lease liability is required when certain events occur e.g., a change in the lease term or the lease payments.

For lessors, IFRS 16 will essentially not result in any changes compared to the current standard IAS 17.

The init group has not early adopted the new standard. The leases are classified in different asset catego-ries. At the init group the asset categories are office buildings, vehicles, small computer appliances and other. init uses the option to not apply the standard for intangible assets (IFRS 16.3-4). Moreover, leases with a term of under 12 months will not be recognised, the liability will be recognised as straight-line ex-pense. Leases with a low value likewise not affected by the changes to IFRS 16. If the value of a lease exceeds the limit of EUR 4,200 (or USD 5,000) set by init, the lease will not be capitalised. Instead it will be expensed on a straight-line basis. The incremental borrowing rate is used as interest rate.

The transition approach that is used by init is the modified retrospective approach. This means that the cumulated impact of the first-time application of the standard in 2019 is an adjustment to the retained earnings in the opening balance. The assessment and measurement of leases is therefore carried out at the time of initial application and without including the retrospective periods. Leases that end within twelve months of the initial application date are classified as current leases. On 1 January 2019, the average in-cremental borrowing rate on 1 January 2019 is 1.17%.

Effect on balance sheet on 01/01/2019:

EUR '000	01/01/2019
Right-of-use office buildings	8,503
Right-of-use vehicles	674
Right-of-use small computing appliances	46
Right-of-use other	134
Total	**9,357**

EUR '000	01/01/2019
Lease liabilities <= 1 year	2,513
Lease liabilities > 1 year and <= 5 years	5,244
Lease liabilities > 5 years	1,600
Total	**9,357**

Effect on income statement on 01/01/2019:

EUR '000	01/01/2019
Depreciation	-194
Lease expense	-11
Interest expense	-8

Due to the initial application of IFRS 16 the balance sheet will be increased by over EUR 9m. As a result of the front-loading effect a higher expense is noted in comparison to linear depreciation as before.

The accounting rules for lessors have been changed only slightly by the new standard, and therefore, largely correspond to the provisions of IAS 17. Therefore, the standard is not expected to have a material impact in the financial statements on init as lessor.

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

EU endorsement outstanding:

The IASB has published the following list of standards and interpretations whose application was not yet mandatory during the 2018 financial year. These standards and interpretations have not yet been endorsed into EU law and were not applied by the group.

Standard	Title	Publication by IASB
IFRS 17	Insurance Contracts	May 2017
IFRS 3	Definition of a business operation	October 2018
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between an investorand its associate / joint venture	September 2014
Interpretation IFRIC 23	Uncertainty over Income Tax Treatments	June 2017
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions	February 2018
Amendments to IAS 1 and IAS 8	Definition of materiality	October 2018
Improvements to IFRS (2015–2017)		December 2017

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

3. Accounting policies and consolidation principles

Basis of consolidation

Name	Registered office	Share as of 31/12/2018	Share as of 31/12/2017
Fully consolidated companies			
INIT Innovative Informatikanwendungen in Transport, Verkehrs- und Leitsystemen GmbH ("INIT GmbH")[1]	Karlsruhe, Germany	100%	100%
INIT Innovations in Transportation Inc. ("INIT Chesapeake")	Chesapeake/Virginia, USA	100%	100%
INIT Innovations in Transportation (Eastern Canada) Inc. / INIT Innovations en Transport (Canada Est) Inc. ("INIT Montreal")	Montreal, Canada	100%	100%
INIT Innovations in Transportation (Western Canada) Inc. ("INIT Toronto")	Toronto, Canada	100%	100%
INIT PTY LTD ("INIT Brisbane")	Brisbane / Queensland, Australia	100%	100%
Init Innovation in Traffic Systems FZE ("INIT Dubai")	Dubai, United Arab Emirates	100%	100%
initplan GmbH ("initplan")[1]	Karlsruhe, Germany	100%	100%
INIT Innovations in Transportation Oy ("INIT Helsinki")	Helsinki, Finland		100%
INIT Innovations in Transportation Ltd. ("INIT Nottingham")	Nottingham, UK	100%	100%
INIT Swiss AG ("INIT Neuhausen")	Neuhausen, Switzer-land	100%	100%
initperdis GmbH ("initperdis")	Hamburg, Germany	100%	100%
INIT Asia-Pacific Pte. Ltd. ("INIT Singapore")	Singapore	100%	100%
CarMedialab GmbH ("CML")	Bruchsal, Germany	58.1%	58.1%
CarMedialab Corp. ("CML Corp.")	Santa Monica / California, USA	58.1%	58.1%
TQA Total Quality Assembly LLC ("TQA")	Chesapeake / Virginia USA	60%	60%
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake / Virginia USA	100%	100%
GO-1 LLC ("GO-1")	Chesapeake / Virginia USA	100%	100%
iris-GmbH infrared & intelligent sensors ("iris")[3]	Berlin, Germany	74.5%	74.5%
iris – infrared & intelligent sensores NA, Inc. ("iris Atlanta")[3]	Atlanta / Georgia, USA	74.5%	74.5%
iris – infrared & intelligent sensores NA, LLC ("iris Phoenix")[2]	Phoenix / Arizona, USA		74.5%
Sensores infrarrojos e inteligentes iris ltda. ("iris Santiago")[2]	Las Condes / Santiago de Chile, Chile	74.5%	74.5%
inola GmbH ("inola")	Pasching, Austria	100%	100%
HanseCom Public Transport Ticketing Solutions GmbH ("HanseCom")	Hamburg, Germany	100%	100%
INIT innovation in transportations NZ Limited ("INIT Dunedin")	Dunedin, New Zealand	100%	100%
Mattersoft Oy	Tampere, Finland	100%	-
INIT Innovations in Transportations Ltd („INIT Maynooth")	Maynooth, Ireland	100%	-

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

2) Company not consolidated due to its minor importance

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

Name	Registered office	Share as of 31/12/2018	Share as of 31/12/2017
Associated companies (at equity)			
maBinso software GmbH ("maBinso")	Hamburg, Germany	35.8%	35.8%
Bytemark Inc. ("Bytemark")	New York, USA	12.4%	17.6%

Changes occurred in relation to INIT Chesapeake's share of Bytemark Inc., New York (Bytemark) in February and July 2018. In September 2016, init acquired a 26.44 per cent interest in Bytemark which was recognised using the equity method in the financial statements. Bytemark experienced a capital increase in November 2017 in which init did not participate. Further capital increases were performed in February and July 2018, in which init did also not participate either. The share of init was diluted to 12.4 per cent as a result. As of 31 December 2018, the disclosure as an associated company as well as the inclusion in the consolidated financial statements using the equity method is maintained. Particularly because of the seat held by init on the Board of Directors of Bytemark a significant influence exists.

Company formations in 2018 and 2017

On 21 March 2018, the subsidiary INIT Innovations in Transportation Ltd. Maynooth/Ireland was founded. The aim of INIT Maynooth is mainly to carry out development support locally and use development capacities of Ireland. The share capital of EUR 100k was paid in on 23 May 2018.

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

Business combinations in 2018 and 2017

Mattersoft OY, Finland

Effective 1 January 2018, init took over 100 per cent of Mattersoft Oy located in Tampere/Finland.

With this acquisition the product range of the init group has been broadened especially in the area of central traffic light priorities solutions as well as know-how in the area IoT (Internet of Things), SaaS (Software as a Service) and web-based services. Mattersoft Oy further provides access to qualified software development capacities at the university city of Tampere.

After all value determining facts and circumstances were known, the purchasing price allocation was completed in the second quarter of 2018. On the purchase date 1 January 2018 the fair value of identified assets and liabilities of Mattersoft was as follows:

EUR '000	
Assets	
Cash and cash equivalents	652
Receivables and other assets	120
Inventories	13
Tangible assets	6
Intangible assets (customer base / technology)	1,292
Total	**2,083**

EUR '000	
Liabilities	
Payables	136
Provisions	129
Deferred tax liabilities	258
Total	**523**
Fair value of net assets and liabilities	1,560
Goodwill	48
Total consideration for business combination	**1,608**

The total consideration for the acquisition amounts to EUR 1.608k, of which EUR 652k stems from the compensation for the cash received. The purchase price was paid in cash and in shares.

The fair value of trade receivables is EUR 101k. This corresponds to the gross amounts of the contractual claims. We assume that all receivables are fully collectable.

The goodwill of EUR 48k is covered by expected additional business from the portfolio expansion, to include a central traffic light priorities solution as well as know-how in the area IoT (Internet of Things), SaaS (Software as a Service) and web-based services.

In 2018, revenue of EUR 1,579k and earnings before taxes of EUR 555k for Mattersoft were taken into account in the consolidated financial statements.

Cash outflow due to business combination:

EUR '000	
Total consideration for business combination	1,608
Purchase price in form of shares	600
Purchase price (included in cash flow from investing activities)	1,008
Cash acquired with the subsidiary	652
Actual cash paid due to company acquisition	356

Consolidation methods

The annual financial statements of the fully consolidated companies are prepared according to the standard accounting and measurement principles of the group in line with the IFRS on the same reporting date as the financial statements of the parent company. Where required, any financial statements prepared in accordance with local accounting regulations are adjusted accordingly.

Business combinations are accounted for using the purchase method. The acquisition costs of a business combination are calculated on the basis of transferred consideration and measured at fair value at the time of acquisition. Costs incurred as a result of the business combination are recorded as expenses and reported in administrative expenses. In business combinations achieved in stages, the previously held equity by the acquirer is remeasured at fair value at the date of acquisition and the resulting gain or loss is recognised through profit and loss.

The agreed contingent consideration is reported at fair value at the acquisition date. In agreement with IFRS 9, subsequent changes to the fair value of a contingent consideration constituting an asset or liability are reported through profit or loss or in other comprehensive income. A contingent consideration classed as equity is not revalued. Its subsequent payment is reported in the shareholders' equity. Where a contingent consideration does not fall within the scope of IFRS 9, it is measured in agreement with the relevant IFRS.

Capital is consolidated by offsetting the acquisition cost against the group share in the revalued shareholders' equity of the consolidated subsidiaries at the time when control was acquired. The recognisable assets, liabilities and contingent claims and liabilities of the subsidiaries are recognised at their full market value irrespective of the amount of the non-controlling interests. Intangible assets are reported separately from the goodwill if they are separable from the company or result from a contractual right or other right. All positive differences (goodwill) arising from the initial consolidation are capitalised and subjected to an impairment test in line with IFRS 3 "Business Combinations" / IAS 36 "Impairment of Assets". Negative differences are recognised through profit or loss immediately after acquisition. In case of de-consolidations, the remaining carrying amounts of the credit differences are taken into account proportionally when calculating the disposal result. Measurement using the equity method is based on the same principles, with goodwill being reported in the investments.

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

Currency translation

The financial statements of the subsidiaries of init SE are prepared in their functional currency according to IAS 21 "The Effects of Changes in Foreign Exchange Rates". The functional currency of INIT Chesapeake, TQA, INIT Montreal, INIT Toronto, INIT Brisbane, INIT Dubai, INIT Nottingham, SQM, INIT Neuhausen, CML Corp., INIT Singapore, GO-1, iris Atlanta, iris Santiago, and INIT Dunedin corresponds to their national currency. When translating financial statements in a foreign currency to the currency of the init group (euro), the assets and liabilities are converted using the current rate on the reporting date, whereas the shareholders' equity is converted using the historical exchange rate. Items of the consolidated income statement are converted taking as basis the average currency exchange rate of the year. The resulting conversion differences are shown cumulatively in a separate item in the shareholders' equity (other reserves).

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

Estimates and assumptions

To a certain degree, the preparation of the consolidated financial statements requires estimates and assumptions to be made by the Managing Board that affect the amount of assets and liabilities reported on the balance sheet, the specification of contingent liabilities as of the reporting date, and the presentation of income and expenditure during the reporting period. The actual amounts may deviate from these estimates.

The most important forward-looking assumptions and any other significant sources of uncertainty in the estimations that exist on the reporting date which could give rise to the risk of having to adjust the carrying amounts of assets and liabilities in the next financial year are explained below.

Future receivables from contract assets

Assumptions and estimates are required for the accounting and measurement of future receivables from contract assets. There are uncertainties regarding the degree of completion. This is dependent on the assumptions for future hours, material expenses and possible order extensions. For further information please refer to note 16.

Goodwill

Goodwill from a business combination is initially recognised at acquisition cost, measured as transferred consideration in excess of the share of the group in the fair value of the acquired, identifiable assets, liabilities and contingent claims and liabilities. After initial recognition, the goodwill is reported at acquisition cost less cumulated impairment losses. Goodwill is examined for impairment loss at least once a year or when facts or changes in circumstances indicate that its carrying value may have decreased. This test requires the estimation of the recoverable amount to be higher than the value in use or the net realisable amount of the cash-generating units to which the goodwill is allocated. To this end, corporate management must estimate the foreseeable future cash flows of the cash-generating units and, in addition, must also select an appropriate discount rate in order to calculate the present value of these cash flows. For further information, please refer to note 21.

Pensions and other post-employment benefits

The expenditure from defined benefit plans is calculated using actuarial methods, made on the basis of assumptions relating to discount rates, future wage and salary increases, mortality and future pension increases. Due to the long-term nature of these plans, such assumptions are subject to significant uncertainties. For further information, please refer to note 28.

Development costs

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

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

Inventories

Inventories are required to be stated at the lower of value of acquisition or production cost and the net realisable value in accordance with IAS 2.9. In order to secure the lowest of both values, init determines inventories by means of experience and evaluation of the markdown from previous projects. Next to this standardised approach, init carries out a case-by-case review of the warehouses. Typical reasons for a markdown of the inventories are faulty products or technical obsolescence. Goods as well as work in process and finished products are combined in one position. The devaluation was calculated on a gerneralised basis and taken into account to reduce profit. The devaluation rate of inventories was analysed and adapted due to the changed business environment. The adjustment of the devaluation rate is based on an analysis of the past and takes into account the expected future sales and processing periods of system solutions from long running-term production orders. Therefore please refer to the remarks on inventories in note 17.

Provisions

The provisions are taken into account where a past event has led to a current liability, their utilisation is more likely than not, and the amount of the liability can be estimated reliably. These estimations are subject to numerous assumptions which are reviewed regularly for their adequacy and updated if necessary. In the current financial year, the underlying assumptions for warranty provisions were analysed and then adjusted. We refer to the explanation therefore in note 27.

Revenue Recognition

The new standard for revenue recognition – "IFRS 15: Revenue from Contracts with Customers" was applied for the first time on 1 January 2018. IFRS 15 has to be applied by all companies which are contracting with customers over the delivery of goods or supply of services. Exceptions are contracts which fall within the scope of another standard, e.g., IAS 17 Leases.

init develops, manufactures, integrates, installs, maintains and operates software and hardware for transportation companies and therefore provides related services. Revenue from contracts with customers is recognised in terms of time and period, when the power of disposition of goods or services is transferred to the customer. Amount recognised is the consideration in return of the amount that the group is expected to receive in exchange. Project orders as well as support and maintenance were identified as significant revenue volumes. In the project business, the following essential performance obligations are provided, delivery and set-up of a complete system including the associated software and hardware components as well as necessary development services. In the project business the performance assessment is input-related (cost-to-cost-method). The group has come to the conclusion that revenue from delivery and set-up of an entire system must be recognised over a period of time, as the customer benefits from the group's performance and consumes it at the same time. The fact that another company would not have to redo the installation services the group has delivered so far, proves the service benefits for the customer so far and that the customer uses the service of the group while the group delivers it. The group has concluded that the input-based methodology is suited best to determine the progress of installation services since there is a direct link between the group's work (hours worked and material processed) and the transfer of the service to the customer. Revenue is recognised in the group based on hours worked and the hardware components in relation to total expected hours worked and hardware components for completion of service. Revenue is recognised over time. Individual dependencies between single contracts may exist, e.g., project contracts with maintenance and support agreements concluded at the same time. Maintenance is provided after successful completion of the project, hence diverse contract combinations are given. Revenue for maintenance and support contracts is recognised over time. Revenue for non project related delivery of software and hardware is realised at the point in time of transfer of risk.

Contract terms with individual customers are considered in order to determine the transaction price, therefore, it is assumed that contractually promised goods and services are transferred to the customer and the contract won't be terminated, extended or changed. The transaction price is the consideration in return the group receives in exchange for transferring the promised goods or services.

Generally speaking, no variable consideration exists in the init group. However, penalties are often included in the project contract terms. These penalties are rated by probability and reduce revenue. From our experience the probability therefore is very low.

Normally, no financing components exist in the init group. Taking into account the simplification provided in IFRS 15, the init-group does not adjust the amount of promised consideration for the significant financing component since the agreed milestones within a project are usually less than a year apart. The difference between performance of service and payment is settled within a year. Maintenance contracts usually have a term of up to five years and are paid quarterly or yearly.

For individual contracts the init-group offers to issue extended guarantees, so called "service-type warranties". Those are individually separable and are recognised in line with maintenance services. A subsidiary of the group offers the statutory warranty for the repair of defects. The so-called "service type warranties" are recognised according to IAS 37 in provisions, contingent liabilities and contingent assets. Details of the accounting methods for provisions for warranties can be found in the notes 21 "Provisions".

According to IFRS 15, additional costs for the initiation of a contract and certain contract fulfillment costs must be recognised as an asset. Direct costs of a contract initiation have not incurred nor were capitalised in the init group. Travel expenses and salary of sales employees were recognised as expenses.

The modified retrospective method is used is used within the init group which means that at the beginning of the financial year 2018 a recognition without effect on income using accumulated adjustment postings of the opening balance was made.

The value of the contract asset is the right to receive a consideration in exchange of goods or services transferred to a customer. This asset amounted to EUR 27,417k at the beginning of the financial year (adjustment application IFRS 15 EUR -93k) and EUR 26,215k on 31 December 2018. Trade receivables are the unconditional claim of the group for consideration which was EUR 34,472k at the beginning of 2018 (adjustment application IFRS 15 EUR 0k) and EUR 26,120k at the end of the year.

A contract liability is the obligation of the group to transfer goods or services to a customer for which consideration has already been received. If a customer pays a consideration before goods and services are transferred to the customer, a contract liability is recognised when payment is received or is due. A contract liability is recognised as revenue as soon as the group fulfills its contract obligations. Contract liabilities on 1 January 2018 amounted to EUR 7.115k (adjustment application IFRS 15 EUR 0k) and have a value of EUR 6,188k on 31 December 2018. On 1 January 2018 contract liabilities included revenue of EUR 2,179k. The costs to fulfill a contract on 1 January 2018 were EUR 0k and EUR 531k on 31 December 2018. The costs to obtain a contract amounted to EUR 93k on 1 January 2018 and EUR 106k on 31 December 2018. The total amount of transaction prices of the not yet fulfilled performance obligations were EUR 66,181 at the end of the reporting period. Approximately EUR 35,076k thereof are expected to become revenue in the financial year 2019. The usual payment terms of our trade receivables are 30 days.

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

Interest income is realised when interest has accrued.

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

Public subsidies and European Union subsidies

Public subsidies and subsidies from the European Union are recorded if it has been established with reasonable certainty that the subsidies will be granted and the company meets the relevant requirements. The expense-related subsidies are recorded as income as planned over the period required to offset them against the appropriate expenses which they are to compensate.

Cash and cash equivalents

The cash and cash equivalents comprise short-term, highly liquid funds with original maturities of less than three months from the date of acquisition.

Financial instruments and other financial assets

In July 2014 IASB published IFRS 9 “Financial Instruments”. The new standard combines all three aspects of the recognition of financial instruments: classification and measurement, derecognition and general hedge accounting. This standard substitutes IAS 39 Financial Instruments: Recognition and Measurement and was applied for the first time on 1 January 2018. The standard refers to cash flow characteristics and the management of its business model. It also provides an impairment model based on expected credit losses. Further, IFRS 9 includes new rules on the application of hedge accounting in order to better represent a company’s risk management activities, in particular with regard to the management of non-financial risks.

The following charts show the classification and measurement categories of financial assets according to IAS 39 and the transition to the new classification and measurement categories of IFRS 9 on 1 January 2018.

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

The market value was used to determine the fair value of listed securities and bonds (available for sale). The fair value of the derivative financial instruments and loans was calculated by discounting expected future cash flows using prevailing market interest rates. Due to the short maturities of cash and cash equivalents, trade receivables, other assets, trade payables and other liabilities, it is assumed that the fair values correspond to the carrying amounts.

EUR '000	Measurement categorises IAS 39	New measurement categories IFRS 9
ASSETS		
Loans and receivables		
Cash and cash equivalents	At fair value	At amortised cost
Trade accounts receivable	At fair value	At amortised cost
Accounts receivable from related parties	At fair value	At amortised cost
Contract assets	At fair value	At amortised cost
Other financial assets (current)	At fair value	At amortised cost
Other financial assets (non-current)	At fair value	At amortised cost
Available for sale financial assets	At fair value	
Marketable securities and bonds	At fair value	At fair value through other comprehensive income
Financial assets reported at fair value through profit or loss		
Derivative financial assets	At fair value	At fair value through profit and loss
LIABILITIES		
Financial liabilities recognised at cost		
Bank loans (current and non-current)	At fair value	At amortised cost
Trade accounts payavble	At fair value	At amortised cost
Accounts payable due to related parties	At fair value	At amortised cost
Other liabilities (current)	At fair value	At amortised cost
Other liabilities (non-current)	At fair value	At amortised cost
Financial liabilities reported at fair value through profit and loss		
Derivative financial instruments	At fair value	At fair value through profit and loss

Securities and bonds

Securities are classified as financial assets available for sale. Following their initial recognition, financial assets available for sale are reported at their fair value (exchange or market price), with gains or losses recognised as a separate item in the shareholders' equity. Once the financial investment is derecognised or its value found to be impaired, the cumulated gain or loss previously recognised in the equity capital is reported through profit or loss.

Trade accounts receivable and contract assets

Receivables are non-derivative financial assets with fixed or estimable payments not listed in an active market. After initial inclusion, the receivables are reported at amortised cost less any impairment losses. Impairment losses on trade receivables are recognised if they are significantly overdue. Further impairment losses on contract assets are made if penalties are foreseen or other indications for a default of the debtor are to be recognised. Other profits and losses are entered in the operating result of the accounting period if the receivables are derecognised or impaired. The contract assets correspond to the balance of costs incurred plus the profits of projects not invoiced and advance payment invoices issued.

Derivative financial instruments and hedge accounting

The group uses derivative financial instruments such as forward exchange contracts, currency options and swap transactions to hedge against interest change and currency risks. These derivative financial instruments are reported at their fair value at the time of conclusion of the contract and, in the following periods, are measured at their fair value. Derivative financial instruments are reported as assets if their fair value is positive and as liabilities if their fair value is negative.

Gains or losses from changes in the current prices of derivative financial instruments that do not meet the hedge accounting criteria are immediately recognised through profit or loss. In contrast, the adjustment of order values to the current prices on the reporting dates for projects invoiced in a foreign currency always has a counter-effect on the revenue recognition.

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

Hedge accounting is currently not applied by the group.

Inventories

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

With regard to the measurement method we refer to the description of the section Estimates and assumptions.

Property, plant and equipment

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

The average useful lives are as follows:

Buildings	25-50 years
Plant and machinery	3-5 years
Factory and office equipment	3-10 years

Investment property

The property and land serving to generate rentals from third parties is treated as "investment property". The value is determined using the cost method. The depreciation of the financial investments follows the straight-line method over a useful life and is realised over a period of 25 to 50 years.

Group as lessor

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

Other intangible assets

Purchased intangible assets are measured at acquisition cost and amortised using the straight-line method over their useful life of three to ten years.

In accordance with IAS 38 “Intangible Assets”, the company capitalises software development costs that accrue once it has been proven that the software is intended for own use or for sale and generates future economic benefit, that the resources required for completion of the asset are available, that the costs attributable to the development can be determined reliably, and the software has become technically feasible. Based on the product development process, software is deemed technically feasible upon completion of the detailed program and product design. Prior to this, the corresponding costs are recorded as periodic expenses. Once technical feasibility has been achieved, the corresponding costs are capitalised until the software is marketed and offered for sale. No software development costs were capitalised in 2018 as the conditions therefore, were not met.

After initial recognition of the development costs, the cost method is used according to which the asset is reported at acquisition cost less accumulated amortisation and accumulated impairment losses. Software development costs were amortised per product using straight-line depreciation over a maximum period of three years. The depreciation and amortisation commences at the time of sale to the customer. Furthermore, capitalised software development costs are checked for impairment of value if events or changes have occurred which suggest that the net book value of an asset could have decreased.

Interests in associated companies

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

Impairment of assets

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

Deferred tax assets and deferred tax liabilities

The company determines its deferred income taxes using the balance sheet approach. Accordingly, deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 as income taxes to account for the tax consequences of differences between the balance sheet measurements of assets and liabilities and the corresponding tax assessment bases, as well as for the future utilisation of unused tax losses. The deferred tax assets and deferred tax liabilities are calculated on the basis of the prevailing tax rates for the taxable profit in the year in which the differences are expected to be reversed. The effect of changes in the tax rates on deferred tax assets and deferred tax liabilities is accounted for in the period in which the amendment of the law takes effect. Similar to previous year, the income tax rate taken as the basis was 31.0 per cent. Deferred tax assets for the unused tax losses carried forward of a subsidiary are recorded to the extent that taxable income is likely to be available for these, so that the loss carried forward can actually be used. A company calculates deferred tax liabilities on the difference between proportional equity of a subsidiary as in the consolidated balance sheet and the associated company value in the tax balance sheet of the group (outside basis differences) if realisation is probable. The company can individually choose the timing of payout of subsidiaries or reinvestment and therefore, recognises deferred taxes only on outside-basis-differences when payout is planned or predicted.

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

Other long-term liabilities

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

Financial liabilities

Financial liabilities are carried at amortised cost.

Pensions accrued and similar obligations

The pensions accrued are calculated using the projected unit credit method for defined benefit plans, taking into account any future remuneration and pension adjustments. Actuarial gains and losses are reported directly in equity through other comprehensive income. Current and past service costs are recorded immediately trough profit or loss.

Provisions

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

NOTES ON THE CONSOLIDATED INCOME STATEMENT

4. Revenues

Revenues are composed of the following amounts:

EUR '000	2018	2017
Revenues resulting from the application of the POC method and delivery projects	87,523	83,538
Revenues from maintenance contracts	24,598	24,864
Revenues from additional and replacement deliveries	23,590	22,152
Total	**135,711**	**130,554**

In the item "Revenues resulting from the application of the POC method and delivery projects" consists of EUR 20,991k (previous year: EUR 13,311k) from revenues of delivery projects.

In the previous year a special effect has occurred in revenues from "maintenance contracts" of EUR 1,270k. Revenue from maintenance contracts has increased by this amount in comparison to the previous year.

5. Cost of sales

Cost of sales is composed as follows:

EUR '000	2018	2017
Cost of materials and purchased services	46,423	41,713
Personnel expenses	30,808	31,272
Depreciation and amortisation	3,334	2,974
Rental expenses	3,196	2,850
Travel and entertainment costs	2,407	2,232
Valuation adjustments on inventories	-1,150	634
Valuation adjustments on accounts receivables	351	642
Other	4,363	5,574
Total	**89,732**	**87,891**

As in the previous year, the vehicle costs as well as repair and maintenance expenses are included in the item "Other". On the other hand, an income from the reversal of provisions of EUR 2.509k (previous year: EUR 840k) is included.

In 2018 the devaluation rate of inventories has been adapted due to the changed business environment. This leads to reversal of depreciation through profit or loss of EUR 1,142k.

6. Research and development costs

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

EUR '000	2018	2017
Software	10,219	5,890
Hardware	1,272	1,003
Total	**11,491**	**6,893**

In comparison to the previous year a significant increase in research and development costs result from a necessary growth in development capacities for new technologies.

7. Other operating income

Other operating income primarily includes allocated benefits in kind and rental income. Additionally, EUR 630k (previous year: EUR 424k) results from public subsidies and subsidies from the European Union. Income from operating leases amounted to EUR 325k (previous year: EUR 320k).

8. Foreign currency gains and losses

EUR '000	2018	2017
Balance of unrealised currency gains / losses	-521	153
Balance of realised currency gains / losses	-373	-749
Currency gains / losses from consolidation transactions	25	430
Total	**-868**	**-166**

9. Income tax

EUR '000	2018	2017
Current income tax	2,844	3,351
Deferred income tax	211	865
Total	**3,054**	**4,217**

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

EUR '000	2018	2017
Profit before income tax	5,493	7,861
Theoretical income tax expenditure at 31.0%	1,703	2,437
Tax rate differences for foreign subsidiaries	-318	-134
Tax effect of non-deductible / taxed expenses / income	1,057	344
Tax effects of tax-free increases in net worth	13	-70
Taxes unrelated to accounting period	156	645
Tax effects from results of associated companies	556	857
Other	-113	138
Effective income tax expenditure	**3,054**	**4,217**
Effective tax expenditure in %	**55.6**	53.6

The tax quote in 2018 is significantly higher than the previous year and likewise it is higher than the theoretical tax quote of 31,0 per cent. This is mainly due to the non-application of loss carryforwards and the non-tax deductible impairment amounting to EUR 556k of shares in Bytemark.

The change from the deferred tax assets and deferred tax liabilities to the deferred taxes reported in the consolidated income statement is composed of the following:

EUR '000	2018	2017
Changes to deferred tax assets	-168	2,797
Changes to deferred tax liabilities	301	-2,212
Offset and recognised in equity	-31	91
Currency adjustments	109	189
Deferred tax expense (+) / income (-)	**211**	**865**

The change of deferred tax liabilities includes the addition of deferred taxes from the PPA of Mattersoft.

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

10. Net gains and losses from financial instruments

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

Interest expense and income:

EUR '000	2018	2017
Loans and receivables	64	168
Financial liabilities recognised at cost	-885	-652
Total	**-821**	**-484**

Currency effects:

EUR '000	2018	2017
Loans and receivables	-159	718
Financial assets available for sale	0	7
Financial liabilities recognised at cost	67	-124
Financial assets and liabilities reported at fair value through profit or loss	660	-1,167
Total	**568**	**-566**

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

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

Further information on impairments can be found in note 16.

11. Earnings per share

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

	2018	2017
Net profit (shareholders of the parent company) in EUR '000	2,440	3,660
Weighted average number of shares outstanding	10,011,030	9,992,731
Undiluted earnings per share in EUR	0.24	0.37

12. Paid and proposed dividends

EUR '000	2018	2017
Ordinary dividends declared and paid during the financial year	2,208	2,200
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2018: 12 cents per share (2017: 22 cents per share)	1,202	2,208

13. Personnel expenses

Personnel expenses totaled EUR 61,235k (previous year: EUR 55,035k).

Cost of sales includes the following amounts:

EUR '000	**2018**	2017
Wages and salaries	25,275	25,419
Social security contributions	4,239	4,506
Pension costs	1,213	913
Share-based payment expense	80	434

Sales and marketing expenses include the following amounts:

EUR '000	**2018**	2017
Wages and salaries	9,518	9,256
Social security contributions	1,137	1,013
Pension costs	360	249
Share-based payment expense	40	122

General administrative expenses includes the following amounts:

EUR '000	**2018**	2017
Wages and salaries	6,621	4,875
Social security contributions	871	982
Pension costs	283	294
Share-based payment expense	26	80

Research and development expenses include the following amounts:

EUR '000	**2018**	2017
Wages and salaries	9,426	5,598
Social security contributions	1,623	985
Pension costs	439	232
Share-based payment expense	0	77

NOTES ON THE CONSOLIDATED BALANCE SHEET

14. Cash and cash equivalents

EUR '000	**Fair values 2018**	Fair values 2017
Cash in banks (current accounts)	16,297	18,098
Short-term deposits (fixed-term deposits/call money)	4,323	1,665
Total	**20,620**	**19,763**

15. Marketable securities and bonds

This item refers to marketable securities and bonds with a total fair value of EUR 28k (previous year: EUR 27k). Due to the assumption of a permanent increase in value, the fair value (market value on the reporting date) of the securities and bond issues was revalued through profit and loss by EUR 1k (previous year: reduced by EUR 7k).

16. Trade accounts receivable and contract assets

EUR '000	**2018**	2017
Gross trade receivables	29,762	37,599
Less cumulative value adjustments	-3,642	-3,127
Subtotal	26,120	**34,472**
Contract assets	26,215	27,417
Total	**52,335**	**61,889**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	**2018**	2017
As of 01/01	3,127	3,084
Addition	648	1,074
Utilised	0	-88
Unused amounts reversed	-262	-647
Currency effects	129	-296
As of 31/12	**3,642**	**3,127**

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

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

EUR '000	2018	2017
Carrying amount	52,335	61,889
Adjusted gross receivables	4,117	3,354
Neither past due nor impaired	38,570	49,573
Past due but not impaired		
< 30 days	5,640	3,423
30–60 days	1,185	1,785
60–90 days	489	1,101
90–180 days	736	1,501
> 180 days	1,598	1,152

The past due accounts receivable amount to EUR 13.8m (previous year: EUR 12.3m), whereby the projects in Dubai account for EUR 3.1m of this amount (previous year: EUR 3.0m). Of the past due accounts receivable in Dubai, around EUR 2.9m (previous year: EUR 2.8m) was written down. The general contractor for the first Dubai project did not pass payments from the end customer worth AED 12.1m on to us. Arbitration was decided in favour of init and an official copy of the judgment for Dubai was obtained. The enforcement measures in Dubai were not successful. Subsequently, the relevant applications for the recognition and enforcement of the arbitration in Dubai were filed before the Kuwait court. There is still the risk of default on these claims.

For contract assets, value-impairing factors which may primarily result from changes in contractual values are continuously considered in concurrent project calculations.

At the reporting date, there were no indications to suggest that debtors of the trade receivables and contract assets which were not subject to value impairment would not meet their financial obligations.

Production orders

The production orders valued on the reporting date using the percentage of completion method but not yet completed are as follows:

EUR '000	2018	2017
Costs accrued plus profits from projects not yet invoiced	208,882	231,758
Less payments received	-188,854	-211,456
Balance	**20,028**	**20,302**
Of which: contract asset	26,215	27,417
Of which: contract liabilities	6,188	7,115

17. Inventories

EUR '000	2018	2017
Raw materials and supplies	1,512	1,769
Goods and unfinished and finished products	25,314	23,455
Advance payments to suppliers	1,083	729
Total	**27,909**	**25,953**

Goods as well as unfinished and finished products are enclosed in one item due to production circumstances. The devaluation was determined blanket and reduced profit. In 2018 the devaluation rate of inventories was adjusted to the changed business environment. This lead to a adaption affecting net income with EUR 1,142k.

18. Other current assets

EUR '000	2018	2017
Derivative financial instruments	137	490
Prepaid expenses	547	500
Other tax refund claims	942	1,590
Cost to obtain a contract	106	0
Cost to fulfill a contract	531	0
Due from personnel	371	420
Other	519	137
Total	**3,153**	**3,137**

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

These are financial assets apart from prepaid expenses.

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

The “Cost to obtain a contract” and the “Cost to fulfill a contract” were depreciated according to the performance progress of the respective contract.

19. Property, plant and equipment

EUR '000	Land and buildings	Plant and machinery	Other equipment	Assets under construction
Acquisition and production costs				
As of 01/01/2018	33,399	2,492	9,691	0
Additions in current financial year	244	413	1,738	0
Disposals in current financial year	86	44	583	0
Reclassification in current financial year	40	877	-936	0
Currency differences	510	85	96	0
Acquisition of subsidiaries	0	0	6	0
As of 31/12/2018	34,107	3,823	10,012	0
Depreciation				
As of 01/01/2018	2,714	1,190	5,860	0
Additions in current financial year	865	536	1,619	0
Disposals in current financial year	0	38	547	0
Reclassification in current financial year	36	593	-647	0
Currency differences	18	51	49	0
As of 31/12/2018	3,633	2,332	6,334	0
Carrying amount as of 31/12/2018	**30,474**	**1,491**	**3,678**	**0**

EUR '000	Land and buildings	Plant and machinery	Other equipment	Assets under construction
Acquisition and production costs				
As of 01/01/2017	24,651	2,804	9,925	4,382
Additions in current financial year	5,931	270	2,243	451
Disposals in current financial year	666	319	2,136	0
Reclassification in current financial year	3,947	0	8	-3,947
Currency differences	-464	-263	-349	-886
Acquisition of subsidiaries	0	0	0	0
As of 31/12/2017	33,399	2,492	9,691	0
Depreciation				
As of 01/01/2017	2,347	1,265	6,408	0
Additions in current financial year	705	373	1,663	0
Disposals in current financial year	287	300	2,023	0
Reclassification in current financial year	-3	0	8	0
Currency differences	-48	-148	-196	0
As of 31/12/2017	2,714	1,190	5,860	0
Carrying amount as of 31/12/2017	**30,685**	**1,302**	**3,831**	**0**

The property, plant and equipment essentially concern the administration buildings at Kaeppelestrasse 4 and 4a in Karlsruhe, the building in Chesapeake, USA, as well as office equipment and technical equipment. Depreciation follows the straight-line method over the average useful life of the asset. Scheduled depreciation in 2018 totalled EUR 3,020k (previous year: EUR 2,741k) and is included in the consolidated income statement under "Cost of sales", "Sales and marketing expenses" and "General administrative expense". The individual figures can be found in note 21.

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

Currently there are no restrictions on the right of disposal. The loans for financing the two administration buildings are fully secured by land charges in the amount of EUR 4.1m (previous year: EUR 5.5m).

20. Investment property

EUR '000	2018	2017
Acquisition costs as of 01/01	2,012	1,390
Additions in financial year	0	625
Currency differences	12	-3
Acquisition costs as of 31/12	2,024	2,012
Depreciation as of 01/01	94	67
Additions in financial year	31	24
Reclassifications in property, plant and equipment in financial year	1	3
Depreciation as of 31/12	126	94
Carrying amount as of 31/12	**1,898**	**1,918**

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

EUR '000	2018	2017
Rental income from investment property	325	320
Direct operating expenses * used to generate rental income	14	18

* including maintenance and repairs

The group does not face any restrictions on the disposal of investment property, nor does it have any contractual commitments to purchase, build or develop any investment property.

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

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

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

The investment property is measured at amortised cost plus incidental costs and recognised on the balance sheet at a carrying amount of EUR 1.9m (previous year: EUR 1.9m). The buildings are depreciated on a straight-line basis over a useful life of 50 years or 27.5 years.

The fair value at the end of the reporting period amounts to EUR 1.8m. The fair value was determined using the discounted cash flow method. The measurement of investment property is dependent upon the assumptions used to calculate future cash flows. Changes in the interest rate, the expected price developments and market conditions affect the future cash flows and, in consequence, the amount of the fair values. The valuation was done internally because of the principle of materiality and the expected immaterial difference between fair value and carrying amount.

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

21. Goodwill and other intangible assets

EUR '000	Goodwill	Internally generated software	Licences and others
Acquisition and production costs			
As of 01/01/2018	8,987	8,483	16,841
Additions in current financial year	0	0	366
Disposals in current financial year	0	0	144
Acquisition of subsidiaries	48	0	1,293
As of 31/12/2018	9,035	8,483	18,356
Depreciation			
As of 01/01/2018	0	8,483	7,160
Additions in current financial year	0	0	1,516
Disposals in current financial year	0	0	92
Currency differences	0	0	0
As of 31/12/2018	0	8,483	8,584
Carrying amount as of 31/12/2018	**9,035**	**0**	**9,772**

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

The scheduled depreciation for items of property, plant and equipment, goodwill and other intangible assets totalled EUR 5,545k (previous year: EUR 4,176k) and is included in the consolidated income statement under “Cost of sales” (EUR 3,334k), “Sales and marketing expenses” (EUR 477k) and “General administrative expense” (EUR 734k).

Impairment test of goodwill

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

So far no impairment of goodwill was necessary.

The recoverable amount of the cash-generating unit is determined on the basis of the calculation of the economic benefit of using cash flow projections based on budgetary accounting approved by the Managing Board for a period of three years. Steady cash flows were shown for the following period. The interest rate applied for the discounting is 9.14 per cent before taxes (previous year: 9.28 per cent).

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

- Revenues
- Free cash flow
- Discount rate

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

Free cash flow: Free cash flow is the planned EBIT minus notional taxes, investments and changes in the net working capital as well as the addition of depreciation. Past experience supports the basis of this determination.

Discount rate: The discount rate reflects the estimate of the company management in regard to the risks relating to the cash-generating unit. An interest rate of 6.3 per cent (previous year: 6.4 per cent) after taxes was applied. Cash flows arising after the period of three years are determined using a growth discount of 1.0 per cent (previous year: 1.0 per cent).

Sensitivity analysis on the assumptions

With an increase in the interest rate of 5.7 percentage points, the fair value of the cash-generating unit would equal the carrying amount.

A reduction in planned revenues and free cash flows by around 8.3 per cent for each year and the perpetual annuity for the cash-generating unit means that the fair value equals the carrying amount.

Without the above mentioned changes the fair value as of the reporting date exceeds the carrying amount of the cash-generating unit by EUR 163,089k (previous year: EUR 125,665).

Other intangible assets

Licences and others:

The licences include external software costs as well as programming and consulting of EUR 829k (previous year: EUR 901k). The scheduled amortisation amounts to EUR 520 (previous year: 501k) and is included in the consolidated income statement item “Cost of sales”.

The capitalised technology and the capitalised customer base from the takeover of iris-GmbH in 2016 amounted to EUR 6,415k (previous year: EUR 6,929k). Scheduled amortisation amounts to EUR 513k (previous year: EUR 513k) and is included in the income statement item “Cost of sales”.

The capitalised customer base from the takeover of HanseCom in 2016 amounts to EUR 1,365k (previous year: EUR 1,714k). Scheduled amortisation amounts to EUR 353k (previous year: EUR 353k) and is included in the income statement item “Cost of sales”.

The capitalised technology and the capitalised customer base from the takeover of Mattersoft in 2018 amounted to EUR 1,163k. Scheduled amortisation amounts to EUR 130k and is included in the income statement item “Cost of sales”.

22. Interests in associated companies

The associated company maBinso software GmbH, Hamburg, is not publicly listed. The business of maBinso is the creation, sale and operation of software as well as the related consulting for public transport. The earnings before taxes amounted to EUR 113k. The net profit corresponds to the comprehensive income and amounted to EUR 79k (previous year: EUR 125k). In 2018, the pro-rata result for init group amounted to EUR 36k. No payout was made in the 2018 financial year. Amortisation of investments in associated companies was not required.

The associated company Bytemark is not publicly listed. The purpose of the company is the creation of mobile ticketing solutions for transport companies. Revenues for the financial year 2018 totalled USD 3,473k. The earnings before tax for the full year 2018 is USD -5,703k. The net profit corresponds to the total result and amounts to USD -5.772 (previous year: USD -6.248). The pro-rata result of the init group for 2018 is EUR 815k. No payout was made in the financial year 2018. Due to the price paid per share of Bytemark in the market transaction, there was an indication of an impairment since this value is below the calculated amortised cost below init’s shares. After a test the impairment was determined. A depreciation of EUR 1,363k was made. The fair value on the reporting date was determined by the price paid per share of this market transaction. The current and non-current assets amount to USD 1,187k. This corresponds to total assets. Together current and non-current liabilities total USD 1,051k.

23. Deferred taxes

The deferred tax assets and liabilities are as follows:

EUR '000	2018	2017
Deferred tax assets		
Receivables	68	106
Inventories	1,692	2,198
Property, plant and equipment	0	150
Other assets	501	336
Provisions	447	450
Pensions accrued and similar obligations	1,504	1,635
Total deferred tax assets	**4,212**	**4,875**
Deferred tax liabilities		
Contract asset	1,541	2,252
Other assets	469	0
Property, plant and equipment	131	80
Goodwill	8	5
Other intangible assets	2,221	2,148
Other liabilities	178	105
Derivatives	0	152
Total deferred tax liabilities	**4,548**	**4,742**

No deferred tax assets were recognised in the previous year for previously unused tax losses carried forward. As of 31 December 2018, the unused tax losses carried forward came to EUR 3,790k (previous year: EUR 831k).

As of 31 December 2018, there were no deferred tax liabilities on retained earnings of subsidiaries on the grounds that appropriate distributions are not planned for the foreseeable future. If such distributions were made, the tax burden would be insignificant for the group. The temporary differences in connection with shares in subsidiaries totalled around EUR 34.8m (previous year: EUR 31.5m).

In the reporting period deferred tax assets and deferred tax liabilities of EUR 1,969k were netted out.

24. Other non-current assets

EUR '000	2018	2017
Asset value of pension liability insurance	1,299	1,214
Security deposits *	414	297
Gold stock	901	861
Other *	156	223
Total	**2,770**	**2,595**

* Non-current financial assets

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

No non-current financial assets are overdue.

25. Liabilities

EUR '000	31/12/2018 Total	Remaining term < 1 year	>5 years	31/12/2017 Total	Remaining term < 1 year	>5 years
Bank loans (short- and long-term)	35,832	18,390	3,572	42,158	24,599	4,397
Trade accounts payable	9,417	9,417	0	11,030	11,030	0
Contract liabilities	6,188	6,188	0	7,115	7,115	0
Advance payments received	1,430	1,430	0	1,431	1,431	0
Income tax liabilities	1,056	1,056	0	958	958	0
Other liabilities (short-term)	12,184	12,184	0	14,127	14,127	0

Terms relating to the above financial liabilities:
The bank loans of EUR 35,832k (previous year: EUR 42,158k) relate to long-term loans of EUR 2,814k (previous year: EUR 4,136k) for financing the buildings at Kaeppelestrasse 4, 4a, 8 / 8a and 10 which are fully secured by a land charge and the resultant current share of EUR 1,322k (previous year: EUR 1,322k). In addition, there are loans for acquisition financing of EUR 5,345k (previous year: EUR 7,345k), investment loans of EUR 1,997k (previous year: EUR 2,500k) as well as a long-term loan of EUR 10,000k (previous year: EUR 0k). The loan for the new building in the USA (previous year: EUR 6,529k) was substituted with a long-term loan. Further euro loans amounting to EUR 14,000k (previous year: EUR 19,915k) as well as other bank loans of EUR 354k (previous year: EUR 411k) exist.

The long-term loan of EUR 10,000k comprises minimum capital requirements. A dynamic debt ratio of 3.5 must not be supassed. In case of exceeding the requirement the loan can be due immediately. Due to a narrow supervison and planning of the ratio, init does not expect to exceed this key figure.

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	**2018**	97,980	4,880	51,400	41,700
Credit insurance companies	**2018**	17,000	0	17,000	0
Bond line for USA and Canada	**2018**	64,986	0	0	0
Banks	2017	97,826	3,580	59,046	35,200
Credit insurance companies	2017	22,045	0	22,045	0
Bond line for USA and Canada	2017	77,110	0	0	0

The credit and guarantee lines are essentially sufficient to finance the further growth of the company. On 31 December 2018, the cash line drawdown totalled EUR 14,000k (previous year: EUR 19,915k), the guarantee lines EUR 21,426k (previous year: EUR 22,830k), and the bond line EUR 64,977k (previous year: EUR 77,110k).

No interest is charged on the trade accounts payable.

For the terms and conditions relating to the accounts payable to related parties, please refer to note 34.

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

26. Other liabilities (non-current and current)

	31/12/2018			31/12/2017		
		Remaining term			Remaining term	
EUR '000	**Total**	< 1 year	> 1 years	Total	< 1 year	> 1 years
Tax liabilities	1,787	1,787	0	2,152	2,152	0
Due to personnel	5,749	5,749	0	5,715	5,715	0
Derivative financial instruments	259	259	0	0	0	0
Social security liabilities	294	294	0	239	239	0
Liabilities for services not invoiced by subcontractors	19	19	0	1,625	1,625	0
Liabilites from option contracts	3,742	0	3,742	3,579	0	3,579
Sundry	4,224	4,076	148	4,616	4,396	220
Total	**16,074**	**12,184**	**3,890**	**17,926**	**14,127**	**3,799**

The "Sundry" item mainly contain deferred revenues from prepaid warranty contracts of EUR 2,815k (previous year: EUR 3,079k). There are no other liabilities with a residual term of more than 5 years.

The "Sundry" item includes current financial liabilities of EUR 1,283 k (previous year: EUR 1,317k). In addition, the liabilities from the option contracts as well as other non-current financial liabilities amounting to EUR 3,890k (previous year: EUR 3,799k) are included.

27. Provisions

EUR '000	As of 01/01/2018	Currency differences	Utilised	Unused amounts reversed	Addition	**As of 31/12/2018**
Provisions for warranties	4,212	-45	221	962	57	3,131
Provisions for unrealised costs	5,452	-31	343	0	587	5,727
Provisions for anticipated losses related to projects	1,073	3	129	189	515	1,267
Other provisions	474	0	200	2	211	483
Total	**11,211**	**-73**	**893**	**1,153**	**1,370**	**10,608**

The provisions for warranties were calculated on the basis of a percentage of average sales in the past two years determined from empirical figures in the past. An adaption of the underlying assumptions resulted in earnings of EUR 784k.

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

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

28. Pensions accrued and similar obligations

For the employees of init SE, INIT GmbH, initplan and initperdis there are both defined benefit plans and defined contribution plans. The liabilities include obligations from current pensions and for pension entitlements of future retirees. The defined benefit obligations are calculated using the projected unit credit method. These pension commitments grant employees an old-age pension (independent of salary) after attaining the age of 63 (Dr. Gottfried Greschner after departing the Managing Board of init SE and after departing as Managing Director of subsidiaries). Risks of defined benefit plans are affected by the capital markets and demographic change. In order to mitigate these risks only defined contribution plans have been offered for several years.

The following parameters were taken into consideration:

Discount rate in per cent (previous year)	1.85 (1.70)
Biometric basis	Klaus Heubeck's "Richttafeln G" (actuarial tables) of 2018 (Heubeck's acturial tables 2005)
Pension trend	4.00 (4.00)
Employee turnover	0.00 (0.00)

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

EUR '000	2018	2017
Pensions accrued at the beginning of the year (Defined Benefit Obligation – DBO)	9,780	9,016
Service cost	117	358
Interest cost	160	160
Actuarial gains (–) / losses (+)	-103	292
Pension payments	-47	-46
DBO at the end of the year	9,907	**9,780**
Plan assets	-402	-390
Pensions accrued	9,505	**9,390**

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

EUR '000	2018	2017
Fair value of the plan assets on 01/01	390	378
Interest income from plan assets	3	2
Financial actuarial gains (+) / losses (-)	-1	-1
Contributions to plan assets by the group	10	11
Fair value of the plan assets on 31/12	**402**	**390**

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

EUR '000	2018	2017
Service cost	117	358
Interest cost	160	160
Expenses for pension payments	**277**	**518**

In the consolidated income statement, the service cost is included in the "cost of sales" (EUR 87k), the "sales expenses" (EUR 15k) and the "general administrative expense" (EUR 14k), and the interest paid is reported in the item of the same name.

EUR '000	2018	2017
Cumulated amount of the financial actuarial gains included in the shareholders' equity, after deducting deferred taxes	-2,816	-2,887

EUR '000	2018	2017
Defined benefit obligation (DBO) on 31/12	9,907	9,780
Experience adjustments	35	-142

The pension provisions attributable to persons in key management positions totalled EUR 4,614k (previous year: EUR 4,555k). Of this, an amount of EUR 224k (previous year: EUR 223k) pertains to a former Managing Board member.

Sensitivities of the principal actuarial assumptions

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

Implications for the DBO	+0.5% actuarial interest rate	-0.5% actuarial interest rate	+1 year life expectancy	-1 year life expectancy
2018	-1,000	525	191	-747
2017	-995	580	212	-710

The same method was applied in the calculation of the sensitivity of the DBO as for the calculation of the defined benefit obligation.

Asset / Liability Matching Strategy

Reinsurance contracts in the amount of EUR 161k (previous year: EUR 148k) have been entered into in order to compensate risks. A further EUR 242k (previous year: EUR 242k) has been deposited on a pledged bank account due to the small amount involved. The excess obligations are financed from current cash flows due to their low value.

Future cash flows

Expected pension payments (EUR '000):

2019	2020	2021	2022	2023	2023-2027
261	279	301	341	357	2,006

Previous year

2018	2019	2020	2021	2022	2022-2026
236	253	271	292	332	1,876

The weighted average maturity of the DBO of the defined benefit plans is 16 years (previous year: 16 years).

Defined contribution plans

In the 2002 financial year, init changed its pension scheme regulations for new commitments. Accordingly, the company will no longer make any new, direct commitments. The amount recorded as expenses for contribution-based plans totalled EUR 804k (previous year: EUR 716k), of which EUR 139k (previous year: EUR 122k) is allocated to persons in key management positions.

29. Shareholders' equity

Capital stock

The capital stock is divided into 10,040,000 no-par bearer shares each accounting for EUR 1.00 of the capital stock. The shares have been issued and are fully paid in.

Shares outstanding:

	2018	2017
As of 01/01	9,986,176	9,980,335
Acquisition of treasury stock	-28,578	-35,000
Issue of stock to Managing Board, managing directors and key personnel	772	21,453
Issue of stock to employees	17,569	19,388
Issue of stock for the acquisition of subsidiaries	34,918	0
As of 31/12	**10,010,857**	**9,986,176**

Shares of init SE held by members of the Managing Board and the Supervisory Board:

Managing Board	Number of shares
Dr. Gottfried Greschner, CEO *	3,456,800
Dr. Jürgen Greschner, CSO	92,800
Joachim Becker, COO	350,283
Jennifer Bodenseh, CFO	1,448
Matthias Kühn, COO	4,530

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

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

Concerning the information provided pursuant to Section 26 (1) of the Securities Trading Act (WpHG) we refer to note 42.

Conditional capital

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

Additional paid-in capital

The additional paid-in capital on 31 December 2018 amounted to EUR 5,262k, of which EUR 3,141k resulted from the premium of the shares sold at the time of the initial public offering. Due to the sale of treasury stock in 2007, the additional paid-in capital increased by EUR 514k. EUR 1,742k was transferred from 2005 to 2017 as part of the recognised expenses from the share-based payments (see note 36). In 2018 an amount of EUR 135k was released.

Treasury stock

The treasury stock as of 1 January 2018 totalled 53,824 shares. Based on a resolution passed at the shareholders' meeting of 13 May 2015, the company is authorised to purchase treasury shares. On 17 July 2018 a decision was made to repurchase up to 30,000 shares. 28,578 shares were repurchased from 18 July to 20 August 2018 at an average price of EUR 17.50.

As part of an employee stock ownership plan, shares of init SE at no cost were offered to the employees of init group as profit sharing. 722 shares were transferred to employees. Within the scope of the incentive scheme for members of the Managing Board, managing directors and key personnel in 2018, a total of 17,619 shares were transferred with a vesting period of five years where shares canot be resold. 15,397 shares of the total 18,341 transferred shares were sold to subsidiaries for transfer to their employees. Further 34,918 shares were transferred to the sellers of the company for the acquisition of a subsidiary. On 31 December 2018, there were 29,143 treasury shares.

The company's treasury stock was measured at acquisition cost at EUR 510k (previous year: EUR 926k) and openly deducted from the equity capital. The total of 29,143 shares as of 31 December 2018 correspond to an imputed share of EUR 29,143 (0.29 per cent) of the capital stock. The shares were repurchased at an average price of EUR 17.49 per share. The treasury stock was repurchased for use as consideration within the scope of business combinations and to acquire other companies or parts of companies or participations, or, where required, to open up additional capital markets or to issue them to employees and members of the Managing Board.

Surplus reserves and consolidated unappropriated profit

The surplus reserves and consolidated unappropriated profit in the amount of EUR 60,479k (previous year: EUR 59,869k) include the retained earnings of init SE and results of init SE and the consolidated subsidiaries generated since group affiliation.

Other reserves

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

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

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

Capital management

The objective of capital management is to ensure financial flexibility for long-term business continuity and to secure strategic activities. Here, the init group focuses on securing liquidity, limiting the financial risks and maintaining the high equity ratio. The group has shown a consistently high equity ratio in the last few years. At the annual shareholders' meeting 2016, a resolution to create conditional capital of EUR 5,000,000 was passed.

30. Objectives and methods of financial risk management

The main financial instruments used by the company – with the exception of derivative financial instruments – include cash, securities, trade accounts receivables and loans. The purpose of the securities and bonds is the investment of funds of the group. The group has a number of other financial assets and liabilities, including trade accounts receivable and payable, which accrue directly within the scope of its business activities.

Furthermore, the group also acquires derivative financial instruments. These predominantly include forward exchange transactions and currency options. The purpose of these derivative financial instruments is the management of currency risks resulting from the business activities of the group.

The group has always pursued the policy of refraining from dealings in financial instruments and foreign currencies. However, since init also tries to keep its options open with regard to hedging currency risks, it may incur currency losses.

In addition, init holds 25kg of gold to minimise inflation risk. The value of gold is subject to fluctuations as it is marked to market on the reporting date. The changes in value are reported in the income statement. There were no changes to the objectives or methods of financial risk management.

The main risks of the group in regard to financial instruments include foreign currency risks and risks of default. Corporate management regularly reviews and monitors each of these risks, which are described more specified in the following.

Foreign currency risk

Due to foreign revenues, the change in exchange rates constitutes a substantial risk. To hedge the foreign currency risk, the group uses forward exchange transactions for project business transactions. The hedges must be in the same currency as the underlying secured transaction. The group usually only enters into hedging transactions once a firm commitment has been made.

IFRS 7 provides that disclosures of market risks require sensitivity analyses that show the effects of hypothetical changes in risk variables on the operating result and equity. init is primarily exposed to a currency risk. The effects are determined by relating the hypothetical changes in the risk variables to the amount of financial assets and liabilities at the reporting date.

If the value of the euro relative to the foreign currencies relevant for init on 31 December 2018 had appreciated by 10 per cent, the operating result would have been EUR 386k less. The resulting appreciation of forward exchange transactions would have totalled EUR 1,489k. As a counter-effect, it would also have resulted in expenses of EUR 1,103k owing to cash in banks, accounts receivable and liabilities in foreign currency. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2018 had depreciated by 10 per cent, the operating result would have been EUR 471k higher. This breaks down as follows: EUR 1,819k relates to forward exchange transactions, compensated for by appreciation of cash in banks, accounts receivable and liabilities in foreign currency of EUR 1,348k.

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

Risk of default

The group does not have any material risk of default concentrations with the exception of the receivables from the first Dubai project, for which an appropriate provision for risks was set up. This is due, on the one hand, to the fact that over 90 per cent of the orders are publicly subsidised and, on the other, to the fact that the orders are usually paid on account or billed with reference to predefined milestones. Furthermore, the accounts receivable are checked and if necessary dunned every fortnight for receipt of payment. Allowance for individual receivables is recognised when it is probable that the invoices issued won't be paid for. The write-off a receivable against the already recognised impairment will be executed, when all possibilities for collecting the receivables are exhausted and these are considered to be uncollectible. The losses of receivables outstanding for the 2018 financial year totalled EUR 0k (previous year EUR 88k).

All customers requesting transactions with the init group based on credit are subject to a credit investigation. Since the group concludes transactions only with recognised, creditworthy third parties, collateral is not considered to be necessary as it is not customary in our business environment.

The other financial assets of the group, which comprise cash, financial assets available for sale and specific derivative financial instruments, involve a maximum risk of default equivalent to the carrying amount of the respective instruments in case of default of the contracting party.

Interest change risk

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

Liquidity risk

As of 31 December 2018, the financial liabilities of the group had the following maturities. The particulars are based on contractual, non-discounted payments plus agreed or anticipated interest expenses (cash flows).

In order to curb liquidity risks, the liquidity of the init group is controlled by the corporate headquarters. The main aim is to ensure a minimum liquidity of each company to ensure solvency at all times. Our current projects provide the largest source of liquidity. In addition to these current revenues, the init group secures the liquidity risk through appropriate lines of credit that can be drawn as needed.

As on 31 December 2018, the future cash flows from the financial liabilities were as follows:

EUR '000	Carrying amount	2019	2020	2021-2023	> 2023
Non-derivative financial liabilities					
Other financial liabilities	50,461	29,051	9,486	8,338	3,586
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	259	259	0	0	0
Derivative financial assets	-137	-137	0	0	0
Total		**29,173**	**9,486**	**8,338**	**3,586**

The derivative financial liabilities and assets result in payments totalling EUR 16,240k and payments receivable totalling EUR 16,118k.

As on 31 December 2017, the future cash flows from the financial liabilities were as follows:

EUR '000	Carrying amount	2018	2019	2020-2022	> 2022
Non-derivative financial liabilities					
Other financial liabilities	58,507	42,675	4,020	10,798	1,014
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	0	0	0	0	0
Derivative financial assets	-490	-490	0	0	0
Total		**42,185**	**4,020**	**10,798**	**1,014**

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

31. Explanatory notes on the financial instruments

Classification and fair values

The following table states the carrying amounts of the financial instruments of the group reported in the balance sheet on 31 December 2018 compared to 31 December 2017 and shows their classification in appropriate measurement categories according to IFRS 9:

	2018	2017
ASSETS		
Loans and receivables	73,891	82,327
Cash and cash equivalents	20,620	19,763
Trade accounts receivable	26,120	34,472
Accounts receivable due from related parties	95	168
Contract Assets	26,215	27,417
Other financial assets (current)	841	507
Other financial assets (non-current)	0	0
Financial assets available for sale	28	**27**
Marketable securities and bonds	28	27
Financial assets reported at fair value through profit or loss	137	**490**
Derivative financial assets	137	490
LIABILITIES		
Financial liabilities recognised at cost	50,411	**58,304**
Bank loans (current and non-current)	35,832	42,158
Trade accounts payable	9,417	11,030
Accounts payable due to related parties	10	0
Other liabilities (current)	1,262	1,317
Other liabilities (non-current)	3,890	3,799
Financial liabilities reported at fair value through profit or loss	259	**0**
Derivative financial instruments	259	0

Hierarchy of fair values to IFRS 13

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

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

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

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

The following table shows the fair values of assets and liabilities, with the exception of those with carrying amounts, are reasonable approximations of fair values:

EUR '000	Fair value as of 31/12/2018	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Investment property	1,898	0	0	1,898
Financial assets reported at fair value through profit or loss				
Derivative financial assets	137	0	137	0
Financial assets available for sale				
Marketable securities and bond issues	28	28	0	0
Financial liabilities reported at fair value through profit or loss				
Derivative financial instruments	259	0	259	0

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

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

Over the course of the reporting periods which ended 31 December 2018 and 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.

The measurement of fair value at Level 3 in the current financial year is as follows: The fair value was determined using the discounted cash flow method, taking into account the following parameters: price developments, discount rate and sales value of the properties.

Hedging transactions

The derivative financial instruments used to hedge future cash flows relate exclusively to foreign exchange risks in regard to the expected monies received predominantly in US dollars, New Zealand dollars, pound sterling and Danish krone from firm transactions. The following derivative financial instruments were concluded:

	Nominal value		Market values	
EUR '000	**31/12/2018**	31/12/2017	**31/12/2018**	31/12/2017
Forward exchange transactions (Sale) in USD	11,511	9,354	-234	310
Forward exchange transactions (Sale) in GBP	2,256	307	27	26
Forward exchange transactions (Sale) in NZD	2,245	2,626	85	154
Forward exchange transactions (Purchase) in DKK	228	0	0	0

32. Contingencies and other liabilities

Operating lease liabilities – group as lessor

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

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

EUR '000	2018	2017
Up to one year	302	320
Longer than one year and up to five years	937	1,058
Total	**1,239**	**1,378**

Obligations arising from operating leases

The group has entered into lease agreements for vehicles and other business and operating equipment. These leases have an average remaining term of between three and four years and do not include extension options. The annual rental liabilities of the init group totalled EUR 2,114, of which EUR 547k is attributable to the renting of the office building in Karlsruhe (lease expires 2026). No obligations were imposed on the lessee upon conclusion of these lease agreements. The expenses of operating leases in the current financial year amount to EUR 2,500 (previous year: EUR 2,800k). The future minimum payments under these agreements extend to the year 2026 and amount to:

EUR '000	31/12/2018	31/12/2017
< 1 year	2,690	2,457
1–5 years	7,555	4,165
> 5 years	2,821	2,737
Total	**13,066**	**9,359**

From 1 January 2019, the leases will be accounted for in accordance with IFRS 16.

Contingent liabilities

Contingent liabilitis in the amount of EUR 373k result from a legal dispute in case of a loss. The probability of a loss is evaluated as very low. Due to unsolved technical specifications a contingent liability of EUR 340k exists.

Further contingent liabilities did not exist on 31 December 2018.

Legal disputes

Within the scope of current business, init SE along with other group companies is involved in legal disputes that could have an impact on the financial situation of the group. Legal disputes are subject to many uncertainties, and the outcome of individual actions cannot be predicted with any certainty.

To hedge against risks arising from such disputes, the relevant group companies have set up appropriate provisions in their balance sheets where the dispute concerns an event before the reporting date and where a liability is likely and its amount can be determined with sufficient accuracy.

Over and above this, these disputes are not, in our estimation, expected to have any significant sustained effect on the net assets, financial position and results of operations of the init group.

OTHER DISCLOSURES

33. Additional notes on the cash flow statement

The cash flow from operating activities includes proceeds from interest amounting to EUR 78k (previous year: EUR 167k) and interest payments amounting to EUR -435k (previous year: EUR -652k).

The cash flows for investments in property, plant and equipment mainly relate to maintenance of capacities and expansion investments.

Similar to the previous year no inflows from dividend distributions occurred. Outflow for dividends on init shares totalled EUR 2,208k (previous year: EUR 2,200k).

34. Related party transactions

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

	Associated companies		Other related parties and persons	
EUR '000	**31/12/2018**	31/12/2017	**31/12/2018**	31/12/2017
Trade accounts receivable and other income	349	532	0	0
Trade accounts payable and other expenses	447	216	578	619
Receivables on 31/12	95	168	0	0
Payables on 31/12	10	0	0	0

Associated companies

Amounts owed by associated companies mainly result from trade accounts receivables from Bytemark and have a remaining term of less than one year. These are reported in the balance sheet under accounts receivable due to related parties.

Other related party transactions

init SE rents an office building in Kaeppelestrasse 6 in Karlsruhe with 67.39 per cent from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe and with 32.61 per cent from Eila Greschner. The monthly rent payments are approximately EUR 46k (total annual rent: EUR 547k). The rent is contractually fixed until 30 June 2026. Total payments of EUR 12k (previous year: EUR 54k) made to family members of Board members were recognised under personnel expenses.

Terms and conditions of business transactions with related parties and persons

Sales to, and purchases from, related parties and persons are made under generally accepted market terms. There are no guarantees at all for accounts receivable or payable in regard to related parties and persons. The group did not accrue any cumulative value adjustments for accounts receivable from related parties and persons for the financial year to 31 December 2018 (previous year: EUR 0k).

Remuneration of persons in key management positions

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

35. Geographical Information

In the consolidated financial statements, the following amounts can be allocated to the regions specified. In addition to Germany, the regions in which revenues were generated mainly include the rest of Europe (predominantly Luxembourg, Sweden, Great Britain) and North America (USA and Canada).

Revenues 01/01 to 31/12

EUR '000	2018	%	2017	%
Germany	40,630	30.0	35,783	27.4
Rest of Europe	30,124	22.2	35,457	27.2
North America	49,876	36.8	46,519	35.6
Other countries (Australia, UAE)	15,081	11.0	12,794	9.8
Group total	**135,711**	**100.0**	**130,553**	**100.0**

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

Non-current assets 31/12

EUR '000	2018	%	2017	%
Germany	32,596	67.8	34,139	68.0
Rest of Europe	1,736	3.6	595	1.2
North America	13,446	28.0	15,167	30.2
Other countries (Australia, UAE)	284	0.6	298	0.6
Group total	**48,062**	**100.0**	**50,199**	**100.0**

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

36. Share-based renumeration

Employee shares

In 2018, there was no share based remuneration for employees.

In 2017, the share based remuneration was as follows: in December 2017 50 shares were transferred free of charge a price of EUR 17.19 per share at the time of the issuance. The profit-sharing scheme was granted on a pro-rata basis to part-time employees and employees who have been with the company less than one year.

To qualify, employees needed to be in permanent employment as of 31 December 2017. The shares are subject to a vesting period of two years from the time of transfer. A total of 19,388 shares were transferred.

At the date of publication of the Managing Board resolution on 3 April 2017, the fair value based on the market price of the equity instruments issued was EUR 278k. This amount was recorded in 2017 as expenses.

Equity-settled management bonuses

A further management bonus for the year 2018 in the form of 750 or 1,500 shares will be granted provided that consolidated earnings exceed EUR 5m before taxes and after deduction of bonuses. In addition, for each EUR 1m profit in excess of EUR 5m up to an amount of EUR 10m additionally 50 or 100 shares are granted as a bonus. In addition, a further 100 or 200 shares are granted as bonuses for every EUR 1m profit for a sum of up to EUR 15m profit in excess of EUR 10m. A further 150 or 300 shares are granted as bonuses for EUR 1m profit in excess of EUR 15m. The amount of shares is restricted to 6,000 or 12,000. These shares are subject to a vesting period of five years. The income tax on the financial benefit relating to the share transfer is borne by the company. No legal claim may be made to payment of this bonus in the form of shares, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board.

In addition, key personnel and managing directors of subsidiaries of the company are paid an equity settled bonus, the amount of which depends on the level of incoming orders and revenues. A total of 17,619 shares (previous year: 21,453) with a vesting period of five years were granted to the managing directors and to key personnel. The taxes relating to the share transfer are borne by the group.

On 31 December 2018, the valuation was based on 9,071 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 80k (EUR 15.95 per share) for the Managing Board and EUR 66k (EUR 16.15 per share) for key personnel; these amounts were recorded as expenses in 2018.

37. Subsequent events

With effect from 1 January 2019 TQ Systems USA Inc, USA, has carried out a capital increase in SQM of USD 333k and now holds a 25 per cent share of SQM.

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

38. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

	2018	2017
Employees Germany	637	603
Employees rest of Europe	32	17
Employees North America	109	100
Employees other countries	18	17
Total	**796**	**737**

Managing Board

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

Dr. Gottfried Greschner, Karlsruhe, Germany	Chief Executive Officer
Dr. Jürgen Greschner, Pfinztal, Germany	Chief Sales Officer (Deputy Chairman)
Dr. Hans Heribert Bäsch, Baden-Baden, Germany	Chief Financial Officer until 30/09/2018
Joachim Becker, Karlsruhe, Germany	Chief Operating Officer / Central Telematics and IT until 31/03/2019
Jennifer Bodenseh, Landau, Germany	Chief Financial Officer from 01/10/2018
Matthias Kühn, Karlsruhe, Germany	Chief Operating Officer / Telematics Devices and Ticketing

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

Supervisory Board

The members of the Supervisory Board of init SE are:

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

39. Disclosure of the compensation of key management personnel

The members of the Managing Board received total remuneration of EUR 1,961k (previous year: EUR 2,019k). This total includes fixed salaries of EUR 1,733k (previous year: EUR 1,675k), variable remuneration in the form of management bonuses of EUR 82k (previous year: EUR 129k), and EUR 146k (previous year: EUR 215k) in the form of shares, including the income tax payable for them. The managing directors of INIT GmbH, who are not members of the Managing Board of init SE, received total remuneration of EUR 668k (previous year: EUR 472k). This total includes fixed salaries of EUR 645k (previous year EUR 436k), variable remuneration in the form of management bonuses of EUR 18k (previous year: EUR 10k) and EUR 5k (previous year: EUR 26k) in the form of shares. In compliance with section 315a (1) HGB in conjunction with section 314 (1) no. 6a sentences 5 to 8 HGB, the individualised disclosure of the Managing Board members' salaries can be withheld for a period of five years (section 314 (2) sentence 2 in conjunction with section 286 (5) HGB), which the shareholders' meeting on 21 July 2016 resolved to do.

The total remuneration of the Supervisory Board members for 2018 amounted to EUR 111k (previous year: EUR 114k). This includes a variable share of EUR 35k (previous year: EUR 38k) and is distributed as follows:

EUR '000	Fixed	Variable
Dipl.-Kfm. Hans-Joachim Rühlig	38	17
Dipl.-Ing. Ulrich Sieg	19	9
Drs. Hans Rat	19	9

In the 2018 financial year, the members of the Supervisory Board received EUR 0k (previous year: EUR 0k) for consulting activities.

40. Auditor

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, received compensation for audits of EUR 243k (previous year: EUR 234k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 6k (previous year: EUR 8k). Other appraisal services incurred costs of EUR 0k (previous year: EUR 0k), and other services, of EUR 25k (previous year: EUR 72k).

41. Declaration of compliance with the German Corporate Governance Code

The declaration of compliance for init SE was made by the Managing Board and the Supervisory Board on 4 December 2018, and was made available to the shareholders on our website at https://www.initse.com/ende/investors/corporate-governance.html.

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

On 10 December 2018, Midlin MV, Maarsbergen, the Netherlands has informed us according to section 21 (1) WpHG that via shares its voting rights on init innovation in traffic systems SE, Karlsruhe, Germany, rose above the 3 per cent threshold of the voting rights on 3 December 2018 and on that day amounted to 3.02 per cent (this corresponds to 303,225 voting rights).

Teslin Capital Management BV, Maarsbergen, the Netherlands has informed us on 10 December 2018 according to Section 21 (1) WpHG that via shares its voting rights with Midlin NV, Maarsbergen, the Netherlands, on init innovation in traffic systems SE, Karlsruhe, Germany rose above the 3 per cent threshold of the voting rights on 3 December 2018 and on that day amounted to 3.02 per cent (this corresponds to 303,225 voting rights).

43. Approval of consolidated financial statements

At the board meeting on 11 March 2019, the consolidated financial statements and the combined management report on 31 December 2018 of init SE issued up by the Managing Board were approved for submission to the Supervisory Board.

Karlsruhe, 15 March 2019

The Managing Board

Dr. Gottfried Greschner

Dr. Jürgen Greschner

Joachim Becker

Jennifer Bodenseh

Matthias Kühn

AUDIT OPTION

"Independent auditor's report

To init innovation in traffic systems SE

We have audited the consolidated financial statements of init innovation in traffic systems SE, Karlsruhe, and its subsidiaries (the "group"), which comprise the consolidated income statement, consolidated statement of comprehensive income for the financial year from 1 January 2018 to 31 December 2018, the consolidated balance sheet as of 31 December 2018, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January 2018 to 31 December 2018, and the notes to the consolidated financial statements, including the recognition and measurement principles presented therein. In addition, we have audited the group management report, which is combined with the management report of init innovation in traffic systems SE for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the Responsibility Statement by the Legal Representatives.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the group as of December 31, 2018, and of its financial performance for the financial year from 1 January 2018 to 31 December 2018, and

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

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

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2)

f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

1. Revenues from construction contracts

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

The init group mainly generates its revenues from project development work for providers of public passenger transport. These projects usually are long-term construction contracts where income is recognized using the percentage of completion method based on the effective progress of the individual contractual obligation. The percentage of completion of not yet completed contractual obligations as of the reporting date is calculated using the cost-to-cost method. We defined this subject matter as a key audit matter for our audit because the application of the percentage of completion method requires judgment by management related to the identified contractual obligations of the contracts, remaining total contract costs and total contract revenues. Changes in these judgments may lead to a significant increase or decrease in revenues and in net profit or loss for the period. Regarding revenue recognition, there is in addition a risk of error or infringement, whether due to fraud or error, when determining the achievement of performance targets and forecasts. Furthermore, the first-time application of IFRS 15 in the financial year 2018 in regard to the new relevent reporting criteria was of importance in our audit.

Auditor's response

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

Our audit procedures included reviewing significant contracts as well as the analyse of the identified contractual obligations. Further on, the review whether the progress of the project with regard to the contract values and reviwe the share of the costs incurred was determined correctly, took place. For this purpose we particularly reviewed the allocation of costs regarding the amount and the related project using orders, evidence of performance as well as supplier invoices. We also reviewed samples of costs reported by employee groups involved on a project by agreeing the incurred hours with the recorded hours and obtained an understanding of the hour records used for the calculation for each employee using sampling. Furthermore, we checked the recognized future costs for plausibility and assessed the budget history to draw conclusions regarding reliability of the future costs. We obtained explanations and evidence from the project managers for significant deviations from previous-year assumptions for costs recorded in the reporting period. We assessed the compliance of the accounting and measurement principles applied by init innovation in traffic systems SE for the recognition of revenues with the IFRS framework and the relevant IFRS standards. With regard to the first-time application of IFRS 15 we have assessed the set-up of the processes for the implementation of the new standard.

In the context of the assessment of the contract analysis carried out by the legal representatives, we have assessed in particular – on a sample basis – whether the requirements for the period-related revenue recognition of construction contracts exists.

We have acknowledged the carried out disclosure of revenue recognition and the effects of the first-time application of IFRS 15 of init innovation in traffic systems SE's consolidated notes in chapter II. and chapter III. (1). Our procedures did not lead to any reservations relating to the accounting treatment of project-related revenues.

Reference to related disclosures

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

2. Measurement of inventories

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

The init group procures a significant amount of hardware for processing construction contracts. To safeguard long-term supply to customers, init procures and stores significant inventories beyond the requirement, particularly for hardware components. Due to the high level of customization and the general technical development, the majority of these hardware components can only be used as spare parts for past contracts. These are recognised at the lower of cost or net realisable value. To secure a measurement of inventories at the lower of these values, the company calculates the net realisable value with the help of allowances that are based on experience and evaluations of past projects. The devaluation rates used to date in the reporting period were analysed in detail by the company and adjusted to the changed environment based on the gained knowledge. The determination of the used devaluation rates is subject to the assessment of the executive directors of the company.

Auditor's response

Taking into account the fact that there is an elevated risk of misstatements in the accounting due to the estimates and assumptions being made, we examined and tested the processes and controls implemented by the group for inventory measurement. We reviewed the evaluation process and assessed the adjusted devaluation rates in the financial year. To this end, we discussed the expected sales and processing periods with projects managers for significant inventories. We have assessed the course of past projects in line with the assumption of the sales or processing periods , and thus verified the appropriateness of the devaluation rates in random samples. In addition, we have recalculated the system-side conversion of the calculated write-downs in random samples using the determined devaluation rates. Our audit procedures did not lead to any reservations relating to the measurement of inventories. To mitigate the inherent audit risk of this audit field, we ensured a group-wide consistent audit procedure by issuing corresponding instructions to the component auditors.

Reference to related disclosures in the consolidated financial statements

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

Other information

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

- Letter to the Shareholders;
- CVs of the member of the Managing Board;
- init share;
- Report of the Supervisory Board;
- CVs of the member of the Supervisory Board;
- Corporate Governance Report;
- Multi-year ovewrview of key figures of the init group (IFRS).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other legal and regulatory requirements

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

We were elected as group auditor by the Annual General Meeting on 16 May 2018. We were engaged by the Supervisory Board on 15 September 2018. We have been the auditor of init innovation in traffic systems SE for an uninterrupted period since the audit of the consolidated financial statements for financial year 2001.

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

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

- Voluntary audit of annual financial statements,
- Tax advisory as well as
- support with regular enforcement procedures.

German Public Auditor responsible for the engagement

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

Stuttgart, March 19 2019

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Werling	Kresin
Wirtschaftsprüfer	Wirtschaftsprüfer

IMPRINT

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FIVE-YEAR FINANCIAL SUMMARY

of the init group (IFRS)

EUR '000	**2018**	2017	2016	2015	2014
Balance Sheet (31/12)					
Balance sheet total	168,461	176,805	185,132	145,082	128,774
Shareholders' equity	75,762	73,309	76,401	71,180	67,770
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ration (in %)	45.0	41.5	41.3	41.3	49.1
Return on equity based on EBIT (in %)	8.4	11.7	15.3	15.3	15.1
	0				
Non-current assets	62,109	64,191	65,576	43,098	34,537
Current assets	106,352	112,614	119,556	101,984	94,237
Income Statement (01/01–31/12)					
Revenues	135,711	130,554	108,635	105,293	102,993
Gross profit	45,979	42,662	31,294	31,839	36,581
EBIT	6,372	8,563	11,665	10,756	18,685
EBITDA	10,942	12,763	15,722	14,117	21,690
Consolidated net profit	2,439	3,644	8,609	7,577	12,067
Earnings per share (in EUR)	0.24	0.37	0.86	0.75	1.20
Dividend (in EUR)	0.12*	0.22	0.22	0.20	0.80
Cash Flow					
Cash flow from operating activities	12,809	2,051	13,182	11,478	502
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	22.00	20.47	16.80	27.99	25.80
Bottom share price (in EUR)	13.80	13.51	12.60	14.08	18.50

* dividend to be proposed to the AGM 2019

FINANCIAL CALENDAR 2019

Q1

25 March
Publication 2018 Annual Report
Press/analyst conference in Frankfurt am Main

Q2

9 May
Publication Quarterly Statement 1/2019

15 May
AGM 2019
Convention Centre Karlsruhe

Q3

8 August
Publication Half-Year Financial Report 2019

Q4

7 November
Publication Quarterly Statement 3/2019

25–27 November
Equity Forum in Frankfurt am Main