Integrated. Innovative. International.

ANNUAL REPORT 2019

Group Key Figures

Order backlog in EUR m

151.8 + 6.5%
2019

142.6
2018

Revenues in EUR m

156.5 + 15.3%
2019

135.7
2018

EBIT in EUR m

+ 153.1%

16.2
2019

6.4
2018

Cash flow from operating activities in EUR m

+ 44.5%

18.5*
2019

12.8
2018

Equity ratio in %

45.5%*
2019

45.0%
2018

Incoming orders in EUR m

160.2
2019

161.8
2018

* adjusted based on the leasing standard IFRS 16

CONTENT

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

TO THE SHAREHOLDERS

Dear readers,
Dear shareholders,

When a seasoned broker summarises the annual balance sheet of a company in a "clear buy!" recommendation that is a reason to celebrate. Our company, init innovation in traffic systems SE, is one such "clear buy". This report explains why and what we are doing to ensure it remains that way in future.

The past year was an excellent one for init. We hit all our growth targets despite all the global economic turmoil, and above all reported a strong increase in EBIT margin. At around EUR 156m, we achieved a new revenue record and revenue growth of around 15 per cent.

EBIT more than doubled compared to the previous year and, at over EUR 16m, even slightly exceeded our adjusted guidance. At the same time, we achieved an important milestone with an EBIT margin of more than 10 per cent.

Incoming orders in 2019 show that this growth is not just a single event, but is sustainable. At around EUR 160m, incoming orders are higher than the annual revenue, matching the record level of the previous year.

And the trend is upward: The Board of Directors of the Metropolitan Transit Authority of Harris County (METRO), the public local transport provider for the region around Houston in Texas (USA), has announced that they will commission us to deliver an ID-based fare management system. This alone translates into a contract volume of well over USD 30m.

Such achievements prove that in the ticketing area, which has been expanded in a targeted manner in recent years, init enjoys a leading position on the competitive North American market. We want to assert and expand this position with further innovative products. The next step will be for passengers to purchase and pay for their tickets by showing their hands. This vein identification system is being developed by our subsidiary iris in Berlin. This will create a next generation of ID-based ticketing systems.

Our assistance system for vision, hearing or mobility impaired passengers is another example of our innovative power. The ASSISTIVEtravel app offers needs-based support for this group of passengers. The highly successful MAVIS pilot project in Singapore has since received numerous awards and is being increasingly offered in Europe.

A fully new approach based on innovative technologies is also being used for the passenger guidance system that we are currently developing for high-traffic transport systems, for example in Asian mega cities such as Hong Kong. Here, passengers waste a lot of time because they gather in certain sections of platforms and trains, while other parts are almost empty. Our solution already shows on the platform where there is space. This helps passengers to position themselves in the right waiting areas in front of coaches with free spaces before the train arrives. If we manage to save just seconds at these stops, the transport company can save millions by better utilisation of the existing infrastructure.

A completely new challenge for transport companies is the integration of the electric vehicles that are becoming more popular worldwide as integral parts of climate protection programmes. As a pioneer and sole provider on the market, init is capable of offering a comprehensive system solution comprising all operational processes of the application of electric buses.

Like in our other init solutions, artificial intelligence is put to use here as well. Software using artificial intelligence was developed at init for the first time 30 years ago. Currently, machine learning software is being tested at our customer in San Francisco. The results show a significant improvement in punctuality (forecast).

Our investments in pioneering technologies are starting to bear fruit. Against this background, we are in a good position to reach our average annual growth rate of 15 per cent in revenues. Of course, we will have to wait and see how the corona crisis affects the public transport sector. We nevertheless believe in our original planning. For 2020, we are targeting revenues of around EUR 180m. The improvement of EBIT margin will continue, and operating earnings will increase to EUR 18-20m.

We want to share this growth with you, our shareholders, via an appropriate dividend. We are sure that in view of the demand for our products created by megatrends such as digitisation, smart mobility and climate protection, the init share will remain a “clear buy”.

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**
Jennifer Bodenseh (CFO) **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, Data Protection, Quality Management**
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) **since of April 2019** Chief Operating Officer / Telematics, Ticketing and IT (COO)	**Back-Office Ticketing, Telematic Devices, Maintenance and Installation, IT, Real-Time Systems, Back-Office Operations, Mobility as a Service**

Former Members		Responsibilities
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**

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,

Artificial intelligence, climate protection, digitisation and mobility remain the most important topics in business and society today. init has taken these challenges onboard, integrating them into its business model and supporting local public transport. Our company will therefore play a key role in shaping 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. init successfully mastered this challenge in the past financial year. The necessary measures were introduced in 2018 and visible success can already be seen in the revenues and earnings for 2019.

The follow-up measures we have taken are also reflected on the orders side. This shows just how well init has succeeded in meeting current customer requirements and future market needs. This proves the order intake 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. Direct effects of the corona crisis on budgeted revenues and EBIT are not yet apparent at the present time. However, this may change suddenly due to the dynamic development.

On this basis, the objective of the Supervisory Board and the Managing Board in the current year is to at least stabilise the development of the group in order to ensure that you, the shareholders of init, also benefit from this success. This will also be a measure of the Managing Board's work.

The pleasing development in incoming orders is also reflected in earnings. At EUR 16.2m, EBIT more than doubled compared to the previous year.. Essentially this was due to new developments, successful follow-up business and strict cost management. The market price of the init share outperformed this development, gaining 73.25 per cent from the end of 2018 to the end of 2019.

In the next few years, in-depth process analyses will lead to changes in internal processes and possibly also in responsibilities. In this context, the Supervisory Board has in-depth discussions with the Managing Board about project management and internal processes. Through new developments, investments and organisational changes, we expect the EBIT to increase in the medium term.

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 2019 more transparent.

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

Due to the size of both the company and the size of the Supervisory Board (four members), the Supervisory Board did not form any committees. At its final meeting, the Supervisory Board performed a self-evaluation of its efficiency in 2019. This review focused on organisational issues, information for the Supervisory Board, personnel matters and how the members of the Supervisory Board perceived their role. The Supervisory Board attended training.

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 2019 financial year was also characterised by personnel changes.

Dipl.-Ing. Joachim Becker stepped down at his own request from the Managing Board of init SE when his contract ended on 31 March 2019. He 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. Dipl.-Ing. (FH) Matthias Kühn, member of the Managing Board, took over his tasks on the Managing Board. The Managing Board of init SE has thus had four members since 1 April 2019.

There were also changes to the Supervisory Board. Dipl.-Ing. (FH) Christina Greschner is the new member of the monitoring body that has been enlarged to four persons. Ms. Greschner has extensive knowledge of the init group and its individual business fields; in addition to a degree in engineering, she also has a master's degree in Family Entrepreneurship. The election of Ms. Greschner reflects the skills profile of the Supervisory Board of init SE as a whole.

MEETINGS OF THE SUPERVISORY BOARD

Meetings are convened at least once a quarter. In 2019 a total of six Supervisory Board meetings took place, one of which was a constituent meeting and one strategy meeting. All Supervisory Board members were present at all meetings.

The Supervisory Board also met regularly without the Management Board.

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, incoming orders, 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 2019 financial year:

- Foundation of a subsidiary in Dubai by the subsidiary Init Innovation in Traffic Systems FZE, Dubai
- Foundation of a subsidiary in Belarus by the subsidiary HanseCom Public Transport Ticketing Solutions GmbH, Hamburg
- Intended Acquisition of DResearch Fahrzeugelektronik Gruppe by the subsidiary iris-GmbH infrared & intelligent sensors, Berlin
- Business processes/ERP software
- Approval of a new schedule of responsibilities for the Managing Board
- Approval of the new rules of procedure of the Supervisory Board and the Managing Board
- Agreement to the share buyback
- Discussion of the 2018 annual and consolidated financial statements as well as of the dependent company report and the non-financial group report with the involvement of the auditor
- Adoption of the 2018 annual financial statements, approval of the 2018 consolidated financial statements, release of the 2018 non-financial group report as well as discussion of the proposal by the Managing Board for the appropriation of profits
- Auditor proposal 2019
- The quarterly statements and the 2019 half-year financial report
- Adoption of the proposals for resolutions for the agenda for the 2019 Annual General Meeting and of the report of the Supervisory Board for 2018
- 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
- Conclusion of new Managing Board contracts
- Approval of the Declaration of Compliance with the German Corporate Governance Code as amended 7 February 2017
- Efficiency review of the Supervisory Board
- Approval of non-audit services of the auditor
- Dividend policy discussion

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 2019 were prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements dated 31 December 2019 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 unqualified audit opinions. 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 18 March 2020. 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 long-term contracts and the measurement of inventories for the init group as well as the measurement of shares in affiliated companies for the annual financial statement of init SE. 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 24,233,756.07 will be recommended at the Annual General Meeting 2020: distribution of a total of 40 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 acknowledged the Managing Board's dependent company report and the results of the audit of the report by the auditor, examined both reports and discussed the results of both 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 18 March 2020.

CORPORATE GOVERNANCE CODE

The Supervisory Board actively implemented and monitored compliance with the German Corporate Governance Code. On 11 December 2019 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 2019 compared with the previous year. In cases of doubt, an external consultant supported us in an advisory capacity. The Supervisory Board reviewed the non-financial group report 2019, which was prepared in accordance with Section 315b HGB, according to Section 171 (1) AktG. It came to the conclusion that the report 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 2019. Our thanks also go to our shareholders, customers and business partners for the trust they have placed in us.

Karlsruhe, March 2020

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 2022 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 2022 Former Deputy Chief Executive Officer and Managing Board member of Hamburger Hochbahn AG/Germany	Member of the Supervi-Board of SECURITAS Hol-ding GmbH, Dusseldorf/Germany Member of the Advisory HanseCom Public Ticketing of Solutions Hamburg/Germany
Dipl.-Ing. (FH) Christina Greschner Member **Born 1977** **Karlsruhe, Germany** **Currently on parental leave**	▶ Supervisory Board Member since 2019 ▶ Elected until AGM 2022 Extensive knowledge of the init group International experience Master degree „Family Entrepreneurship“	None
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 2022 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 11 December 2019. 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 (four 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

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 four members who together bear responsibility for overall business management. Joachim Becker (COO) stepped down at his own request from the Managing Board of init SE upon expiry of his contract on 31 March 2019. Matthias Kühn (COO) took over his tasks on the Managing Board. As the central task of corporate management, the Managing Board develops the strategic orientation of the company, ensures that the risks of business activities are handled responsibly by means of a suitable internal control and risk management system and ensures that legal requirements and internal guidelines are observed within the company (compliance). Furthermore, it decides on appointments to management posts, with due consideration for diversity. However, the professional and personal qualifications of the individual persons are in the focus. It also sets targets for the proportion of women in the two management levels below the Managing Board. 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.

Supervisory Board

The Supervisory Board advises and monitors the Managing Board in the management of the company. Decisions of fundamental importance to the company are subject to the approval of the Supervisory Board and are set out in the rules of procedure of the Managing Board. In addition, transactions with related parties may, by law, require the prior approval of the Supervisory Board.

The Chairman of the Supervisory Board is elected by the Supervisory Board from among its members. He coordinates the work of the Supervisory Board and represents the interests of the Supervisory Board externally.

In addition, the Supervisory Board is responsible for appointing members of the Management Board, determining their number in accordance with legal and statutory requirements and setting the target figure for the proportion of women on the Management Board. Diversity aspects are taken into account in the selection process, but the focus is on the professional and personal qualifications of the individual persons.

At init, the Supervisory Board is composed of shareholder representatives and, in accordance with the articles of incorporation, of four persons. These are appointed for three years. The Supervisory Board endeavors 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 conduct, 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. Each member of the Supervisory Board ensures that he or she has sufficient time to perform his or her duties.

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.

The Supervisory Board has laid down rules of procedure and 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.

The Supervisory Board is responsible for providing the necessary training and continuing education. It also regularly evaluates the efficiency of its activities as part of a self-assessment.

Further details about the work of the Supervisory Board are provided in the “Report of the Supervisory Board” section of this Annual Report.

Cooperation within the Supervisory Board and with the Management Board

The Managing Board and Supervisory Board of init work closely together for the benefit of the company. Good corporate governance requires an open discussion between and within both bodies.

The 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, in particular the strategy, planning, business performance, the risk situation and the risk management.

The Chairman of the Managing Board informs immediately the Chairman of the Supervisory Board about important events that are of material importance for the assessment of the situation and development as well as for the management of the company. They are in active contact between the meetings.

If necessary, the Supervisory Board also meets without the Managing Board and, if required, convenes an extraordinary meeting of the Supervisory Board.

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. Within this context, fighting corruption and bribery is a high priority, as strict compliance with legal regulations and the avoidance of violations in connection with corruption form the basis for our business activities. The objective is to maintain and continue to establish ethically, morally and legally irreproachable conduct in all areas of the company. Furthermore, init strives to keep all employees up to date on the topic of fighting corruption.

The Ethical Guidelines comprise all applicable statutory and company requirements for our employees. They prescribe a specific code of conduct and stipulate that corruption and bribery are not tolerated by our company. They include specific rules, such as ones on the granting or acceptance of benefits, the documentation of business transactions and the comprehensive, truthful and lawful provision of information to employees, shareholders, the capital market, the media and other stakeholder 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.

init's 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 order to establish it at the group companies and among the company's own employees.

In the year under review it was decided to revise the existing Ethical Guidelines and republish them at the beginning of 2020. The existing basic content will be retained, but the new guidelines will deal more specifically with the key aspects of corporate social responsibility. Among other things, there is an additional section on combating corruption and bribery, as well as clearly defined instructions and rules of conduct in business activities.

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.

In addition, a risk matrix with compliance-related topics was drawn up as part of risk management in the year under review. This is reviewed and updated annually in order to evaluate new topics, identify the need for action and derive measures for compliance with any laws and regulations.

As the customers of init are mainly public transport companies or associations in Germany and abroad, public and formalised procurement are of major economic importance. Public procurement is strongly structured and regulated by public procurement law. Public procurement law protects the transparency and comprehensibility of decisions through its regulations on competition. These legal regulations in procurement law must be observed at all times by public customers as well as by participating tenderers such as init, from needs assessment to the tender phase through to awarding of the contract and order fulfilment.

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 which enables employees as well as customers, business partners and third parties to report improper conduct, either anonymously or not anonymously. The system is accessible to all and is available on the company's website. The system immediately forwards every report to the Legal department or the Managing Board, where it is reviewed and processed. 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 auditor supports the Supervisory Board in monitoring the management of the company, in particular in auditing the accounting and monitoring the accounting-related control and risk management systems. The auditor's report informs the capital market about the correctness of the accounting.

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 15 May 2019, the Annual General Meeting of init passed a resolution to elect Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor and group auditor for the 2019 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 and Supervisory Board indirectly or directly hold a total of 3,917,889 shares in the company as of 31 December 2019, which equates to 39.02 per cent of the 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 20k. The transactions notified to init in the last financial year were duly published without delay. A list of the manager transactions notified in the 2019 financial year is available in the company register at https://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.

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 due to the reduction in the total number of Board members and now stands at 25 per cent. The Supervisory Board has now been able to find a suitable person for its body as planned and thus increased the proportion of women on its Board to 25 per cent for the first time. When the resolution was passed, the target figure was set at zero.

The proportion of women in the first management level below the Managing Board was 33 per cent in 2019. As a result of the restructuring that took place in the Group in 2020, this figure is again 50 per cent. With regard to the second management level below the Managing Board, the proportion of women is now 40 per cent, instead of 50 per cent in 2019.
The Managing Board will strive to ensure that the proportion of women does not fall below 30 per cent 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

INIT SHARE AGAIN OUTPERFORMS DAX AND TECDAX

The global stock exchanges were generally bullish in 2019, with many stock exchange indexes reaching new historical highs at the end of the reporting period. While the German index DAX gained 25 per cent during the year, the index of leading technology shares (TecDAX) gained over 23 per cent.

At the turn of the year 2018/2019, investors were still expecting an economic slowdown due to growing trade risks and were initially on the defensive, leading to negative price developments. Share prices rallied after these pessimistic expectations were not confirmed.

The upward trend was fuelled by the policy change of the US Federal Reserve Bank that again followed a more expansive monetary policy of reducing interest rates and purchasing bonds. The European Central Bank (ECB) also maintained this course, with the outlook of further low interest rates ensuring an inflow of liquidity on the stock exchanges. Thus the boom at the US and European stock exchanges continued.

The init share (ISIN DE0005759807) outperformed the German stock exchange indexes. From a relatively low level of EUR 14.20 at the turn of the year,

AGM

date will be announced shortly

initially the price rose to EUR 17.00. But then the announcement of the figures for 2018 and the cautious guidance for 2019 triggered selling of shares, leading to a price decrease to the annual low of EUR 12.15.

However, not only init used this low price for a share buyback programme. It also generated interest from investors in the init share again – buoyed by positive company reports and record incoming orders. The turnaround in the development of the share price was supported by the half-year figures and the upward adjustment of the guidance for the year as a whole. A sustained positive news flow and numerous analyst recommendations intensified the upward trend until year-end. The init share thus closed 2019 at a price of EUR 23.10, an appreciation of 73.3 per cent.

Performance of the init share (02/01/2019–30/12/2019) (indexed)

0.40

EUR dividend

proposal to the AGM 2020

ANNUAL GENERAL MEETING 2019 ELECTS NEW SUPERVISORY BOARD

Last year's Annual General Meeting on 15 May 2019 expressed its satisfaction with the strategy of the Managing Board and passed the proposals of management with a large majority. Approval rates for the exoneration of Managing Board and Supervisory Board were as high as for the proposal of Managing Board and Supervisory Board for appropriation of retained earnings. The shareholders thus received a dividend of EUR 0.12 per share for the 2018 financial year (previous year: EUR 0.22). There was one change from the regular re-election of the Supervisory Board: Dipl. - Ing. FH Christina Greschner is the new member of the monitoring body that has been extended to four members. Dipl.-Kfm. Hans-Joachim Rühlig, Dipl.- Ing. Ulrich Sieg and Drs. Hans Rat were re-elected with a large majority.

SHARE BUYBACK

The share buyback programme proposed by the Managing Board was not exploited fully. The acquisition of the no par value shares was carried out in accordance with the ad-hoc release dated 9 April 2019. As a result, the company acquired a total of 15,164 treasury shares via the stock exchange (XETRA) at a weighted average price of EUR 13.22 in the period from 10 April up to and including 16 April 2019. The number of acquired shares corresponds to a share of 0.15 per cent of the capital stock of init. As the share price then started to firm up, the Managing Board decided against utilising the entire share buyback volume (38,000 shares).

INTEREST AMONG INVESTORS WAS AWAKENED

The new approach of init for its financial communication was very well received. In addition to the conventional instruments such as capital market conferences and one-on-ones with the current and potential investors and a road show in Luxembourg, the 1st init Investors' Day was organised in Karlsruhe on 26 June 2019. At this event, in addition to current facts and growth perspectives, management presented a deep insight into markets, products and ongoing projects. Based on the current information on the coronavirus the Investor Day will not take place in 2020.

Capital market based figures	FY 2019	FY 2018
High (EUR)	23.80	22.00
Low (EUR)	12.15	13.80
Start price (EUR)	13.80	18.45
Closing price (EUR)	23.10	14.20
Market capitalisation (EUR m)	231.9	142
Average daily trading volume (shares)*	8,014	8,436
Dividend per common share (EUR)	**0.40	0.12
Earnings per share (EUR)	1.13	0.24

*all German stock exchanges/**proposal to the next AGM

(Source Bloomberg)

Shareholder structure as of 31 December 2019	%
Dr. Gottfried Greschner (directly and indirectly held, parties related to him):	42.58
Corporate bodies	4.71
Employee shares (lock up shares)	0.53
Treasury shares init SE	0.37
Free float	51.81

COMBINED MANAGEMENT REPORT

init innovation in traffic systems SE, Karlsruhe

GROUP PRINCIPLES

Group Business Model

Organisational structure of the group

The init group (hereinafter also referred to as init SE or init) is one of the few providers 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.

init develops, produces, integrates, installs, maintains and operates software and hardware products that help transport companies meet their operational needs and requirements. These include planning, management and optimisation of operations as well as fare management.

init's products and services are designed to improve the quality of transport services in terms of customer orientation, punctuality, convenience, service, safety and shorter travel times. At the same time, it also enables transport companies to reduce their costs and/or boost their economic efficiency.

With the help of our products, CO_2 emissions that are harmful to the climate and environmental damage are reduced and resources 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.

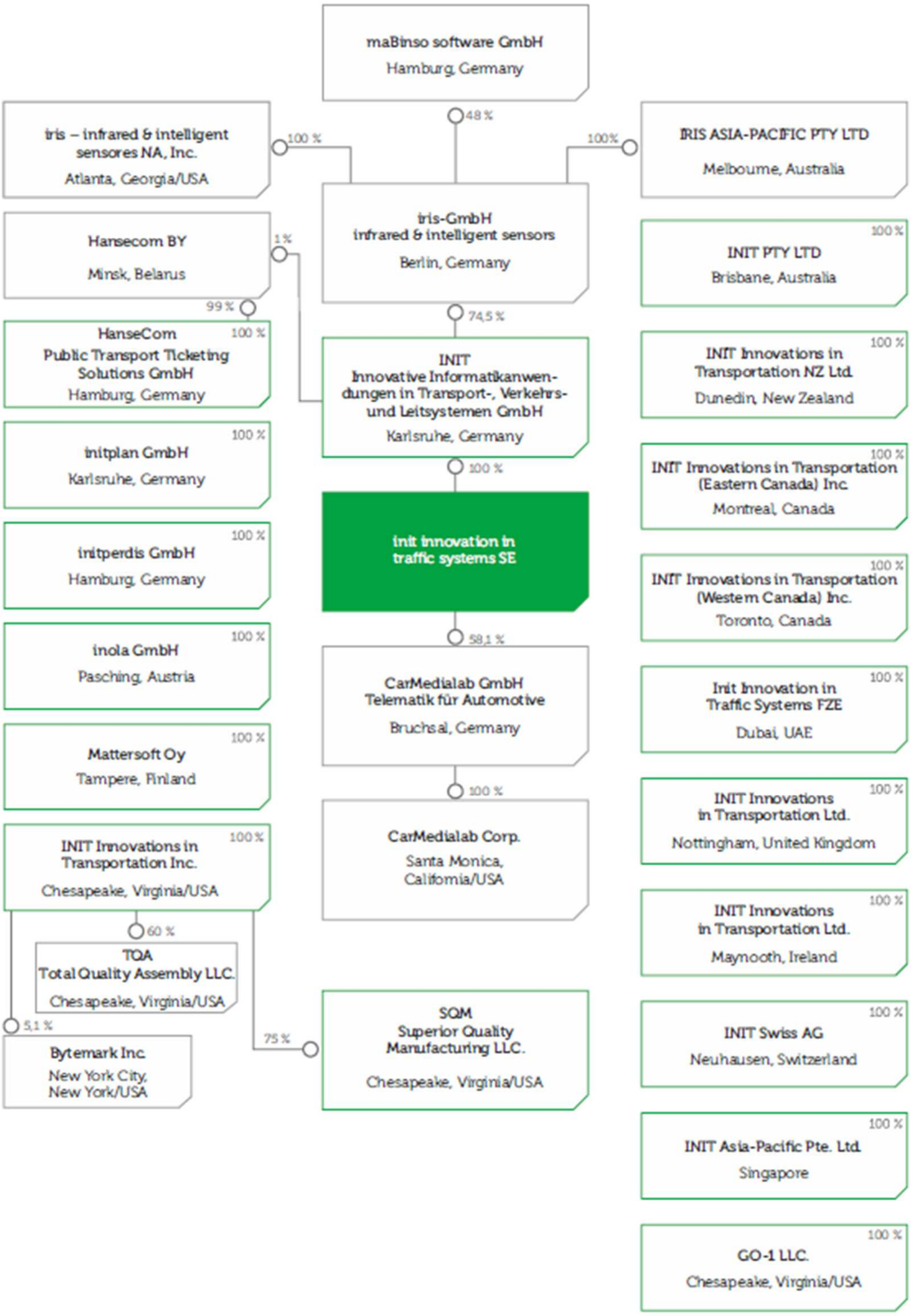
The init group has grown sustainably and continuously. Branch offices on four continents guarantee customer proximity and in-depth understanding of local market requirements.

On 16 July 2019, IRIS ASIA-PACIFIC PTY LTD was founded in Melbourne (Australia) to drive further growth of the iris group. The share capital amounts to AUD 1.00.

On 26 December 2019, the subsidiary Hansecom BY was founded in Minsk (Belarus), with HanseCom Public Transport Ticketing Solutions GmbH in Hamburg holding a stake of 99 per cent and INIT GmbH holding 1 per cent. The company was founded in order to create additional capacity for developing apps. The share capital of BYN 50,000.00 had been paid in by 15 January 2020.

In financial year 2019, 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. Due to capital increases in November 2017 as well as in February and July 2018, in which init did not participate, the diluted share stood at 12.4 per cent as of 31 December 2018. Another capital increase was performed at Bytemark as of 30 September 2019, also without init's participation. The share in Bytemark was diluted further to 5.1 per cent as a result. The participation in the board of directors and therefore a significant influence remains. As of 31 December 2019, the disclosure as an associated company as well as the inclusion in the consolidated financial statements using the equity method is unchanged.

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 %
IRIS ASIA-PACIFIC PTY LTD
Melbourne, Australia
100 %
iris-GmbH
infrared & intelligent sensors
Berlin, Germany
Hansecom BY
Minsk, Belarus
1 %
99 %
HanseCom
Public Transport Ticketing Solutions GmbH
Hamburg, Germany
100 %
INIT PTY LTD
Brisbane, Australia
100 %
74,5 %
INIT
Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH
Karlsruhe, Germany
INIT Innovations in Transportation NZ Ltd.
Dunedin, New Zealand
100 %
initplan GmbH
Karlsruhe, Germany
100 %
INIT Innovations in Transportation (Eastern Canada) Inc.
Montreal, Canada
100 %
100 %
init innovation in traffic systems SE
initperdis GmbH
Hamburg, Germany
100 %
INIT Innovations in Transportation (Western Canada) Inc.
Toronto, Canada
100 %
inola GmbH
Pasching, Austria
100 %
58,1 %
CarMedialab GmbH
Telematik für Automotive
Bruchsal, Germany
Init Innovation in Traffic Systems FZE
Dubai, UAE
100 %
Mattersoft Oy
Tampere, Finland
100 %
100 %
CarMedialab Corp.
Santa Monica, California/USA
INIT Innovations in Transportation Ltd.
Nottingham, United Kingdom
100 %
INIT Innovations in Transportation Inc.
Chesapeake, Virginia/USA
100 %
INIT Innovations in Transportation Ltd.
Maynooth, Ireland
100 %
60 %
TQA
Total Quality Assembly LLC.
Chesapeake, Virginia/USA
5,1 %
Bytemark Inc.
New York City, New York/USA
75 %
SQM
Superior Quality Manufacturing LLC.
Chesapeake, Virginia/USA
INIT Swiss AG
Neuhausen, Switzerland
100 %
INIT Asia-Pacific Pte. Ltd.
Singapore
100 %
GO-1 LLC.
Chesapeake, Virginia/USA
100 %

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 prototyping 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, USA (SQM) produces various devices from the init product range. With Total Quality Assembly LLC., Chesapeake, Virginia/USA (TQA), init has built up a cable production operation in partnership with a supplier.

It is one of the top management priorities of the init group to further optimise production processes and reduce manufacturing costs while maintaining quality demands at a consistently high level. Production processes are optimised on an ongoing basis to keep production costs as low as possible.

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 700 domestic and international customers during a corporate history that spans more than 35 years. To this end, init operates a network of subsidiaries across many continents that deliver local support for projects and customers.

The most significant operating entities in Germany with a total of approximately 655 employees are located at the Karlsruhe, Berlin and Hamburg sites, where software and hardware are developed, and new technologies implemented. The group’s strategy is defined at the Karlsruhe location. The biggest group companies outside Germany are in North America, with a total of 123 employees, in Dubai (United Arab Emirates) with 17 employees and in the UK with 12 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 dependent 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 modular product concept allows both an individual combination of single modules as well as integration of other systems in third systems via standardised interfaces.

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 passenger 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.

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 legitimate. The German government is willing to provide billions of euros for expanding local public transport systems from 2020.

The reason being the climate action programme with the objective to make local public transport more attractive and increase the number of public transport passengers. 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, request for tenders for new projects are often only issued 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 four 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.

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. In financial year 2019, revenues were increased significantly by 15.3 per cent to EUR 156.5m. Based on the current order backlog, climate policy developments and with the large number of existing and anticipated tenders, revenue growth should be generated again in 2020. We are aiming for long-term average growth of 15 per cent per year.

Based on the good order backlog at the beginning of financial year 2020 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 180m for 2020. We expect EBIT of between EUR 18,0m and EUR 20,0m for 2020.

To increase our performance potential and create highest-possible internal transparency, as well as to lay the foundation for the upcoming implementation of a new ERP system, we performed a process analysis in the 2019 reporting year involving all our business units. The findings of this analysis have been considered directly in the selection process of the new ERP system and as part of the upcoming implementation to optimise processes, so that ultimately, they are contributing towards improving the value creation process in the group and preparing the group for further future growth.

Non-financial objectives

Customer satisfaction

One of the key topics at init are our customers and their satisfaction. We achieve this both 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. More than 35 years of experience have given us a deep understanding of our customers' requirements, enabling us to successfully implement our personalised customer solutions. 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

Our employees make init's success possible. Highly-qualified employees with high commitment 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 5,500 training hours were completed in internal and external training measures in 2019.

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.

New employees at our subsidiaries generally receive training at the group headquarters in Karlsruhe. Conversely, employees from Germany also spend several weeks a year at the foreign subsidiaries, either within the scope of their training or in connection with ongoing projects, as a means of promoting communication and cooperation while simultaneously ensuring that the expertise flowing into individual projects, technologies and products is maintained at the same high level around the globe.

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

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 2019, init has submitted a group non-financial statement in accordance with Sections 289b, 289c, 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 our 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.

Some 385 init hardware and software developers worked at the Karlsruhe, Braunschweig, Bruchsal, Berlin, Hamburg, Maynooth, Pasching, Tampere and Seattle sites in financial year 2019 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 2019, the init group spent a total of EUR 10.4m (previous year: EUR 11.5m) on the basic development of new products and the enhancement of existing ones independent from customers. This is 6.7 per cent (previous year: 8.5 per cent) of revenues. In addition, the group accomplished customer-funded, project-based new and further developments adding up to around three times that amount. As in the previous year, no development costs were capitalised.

EUR 10.4 m

EUR 10.4m was spent on the basic development of new products in 2019.

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.

The MENDEL project, in which init dealt very intensively with the topic of electromobility and the corresponding effects on the planning process and operation of public transport in the past 3.5 years, was concluded successfully in mid-2019. init acquired a wealth of experience from this project and is ready for the application of electric buses; thus expanding its product offering.

The successful transfer of research findings to specific project applications was demonstrated in the pilot project MAVIS (formerly MAVIE) at LTA (Land Transport Authority) in Singapore. The implementation of the app solution as travel assistance for people with reduced mobility was so successful that not only the term and the scope of the project were extended, but the solution was also given the Asia Pacific Special Recognition Award and the UITP award in the "Diversity & Inclusion" category.

Besides capturing data for steering passengers with the help of IoT technologies (IoT: Internet of Things) in the MobileDataFusion project sponsored by the Federal Ministry for Economic Affairs and Energy (BMWi), the U-hoch-3 (U^3) project sponsored by the Federal Ministry of Education and Research was started in 2019. On the basis of big data architecture and the use of machine learning, this project focuses on showing capacity utilisation for vehicles in real time as well as on forecasting passenger flow.

ECONOMIC REPORT

General economic and sector-specific conditions

Overall global economic growth in 2019 was weaker than expected by economists as late as in October 2019. Accordingly, this resulted in downward revisions in growth projections for 2020 and 2021 as well. These multiple downward revisions are mainly due to trade tensions between the US and China on the one hand and between the US and the EU on the other. Recently, the forecasts for the current financial year were again revised downward due to the spread of the coronavirus.

According to the OECD Interim Economic Assessment from 2 March 2020, annual global GDP growth is projected to drop from 2.9 per cent in 2019 to 2.4 per cent in 2020. According to the OECD's estimate, if the virus spreads further in the Asia-Pacific region, Europe and North America, the growth projected for 2020 could be halved.

However, according to the OECD, the risks for global economic growth in 2020 have increased significantly as the coronavirus continues to spread at the end of February, bringing with it the associated increasing risk of a pandemic. OECD considers that the global economy may even shrink in the current first quarter. This would hit the economy in all leading industrialised and emerging countries.

Growth in the euro area is therefore expected to be considerably more moderate. Although IMF experts assumed in their January outlook that foreign demand will stabilise at a high level, the economic output here (following 1.2 per cent in 2019) will presumably to grow by just 1.3 per cent in 2020 and 1.4 per cent in 2021. According to the IMF, the projections for Germany in January 2020 looked even gloomier than other EU core countries like France and Italy. It revised its growth forecast for Germany to 1.1 per cent (from 1.2 per cent) for 2020 and 1.4 per cent for 2021.

Considering the effects of the corona epidemic, in its current interim report from 2 March 2020 the OECD presented a more negative assessment, as it has already resulted in disruptions to supply chains of producer countries. For 2020, a growth of only 0.8 per cent in 2020 and 1.2 per cent in 2021 is now projected for the euro area. For Germany, the OECD forecast now sees an increase of just 0.3 per cent (2020) and 0.9 per cent (2021) in the economic output.

Economic conditions for demand of init solutions remain favourable in the growth market North America, even if the momentum is expected to decrease there as well. According to the latest WEO, a weakening in the effect of the expansive monetary and fiscal policy is expected in the US. Growth in the US economy is expected to moderate from 2.3 per cent in 2019 to just 2.0 per cent in 2021 and decline further to 1.7 per cent in 2021. By contrast, the economy in Canada, which is also a key market for init products, is expected to develop positively according to the IMF. Following moderate growth of 1.5 per cent for 2019, the economy here is expected to grow by 1.8 per cent this year and in the next year.

Following the negative developments in the second half of 2019, the IMF reassessed and lowered its projection for the economic momentum in emerging and developing countries in Asia – the potential future growth markets for init solutions. Nevertheless, these countries remain the main drivers of the global economy with growth rates of 5.6 (earlier forecast: 5.8) per cent in 2019 and 5.8 per cent in 2020 and 5.9 (compared to earlier forecast: 6.2) per cent in 2021.

Trade disputes with the US are expected to weigh on the economic growth in China, bringing it down from an estimated 6.1 per cent in 2019 to 6.0 (earlier forecast: 6.2) per cent in 2020 and 5.8 (earlier forecast: 5.9) per cent in 2021. Following growth of 4.8 per cent in 2019, the projections for India have also been revised downward to 5.8 (earlier forecast: 7.0) per cent in 2020 and 6.5 (earlier forecast: 7.4) per cent in 2021.

Currently (as of 2 March 2020), the OECD is more pessimistic about the current year due to the consequences of the corona epidemic. It has revised the growth forecast for all emerging countries in Asia significantly. OECD sees a drop in growth rate for China to below 5 per cent and for India to 5.1 per cent.

The success of efforts to contain the coronavirus epidemic will be decisive for the further development of the global economy in 2020 and 2021. The further advancement of this pandemic would have significant adverse effects on the global economy due to the production, trade and travel restrictions.

Another factor influencing economic development in 2020 and 2021 will be whether there is an escalation or easing of trade tensions between the US, China and the EU. The outcome of negotiations related to a new trade agreement between the UK and the EU also plays a role for Europe.

As means to promote growth, the IMF explicitly recommends higher investments in an environmentally friendly infrastructure, such as in public transport. To counter an economic downturn, the OECD recommends higher public expenditures.

Sector-specific developments

Due to the general economic development, the economic sector where init solutions can be applied, may see above-average growth again. According to the current UITP (International Association of Public Transport) Public Transport Trends Report, this sector is benefiting to a particularly large degree from innovations and is promoting their implementation.

Mass public transport remains the backbone of sustainable mobility solutions in cities and urban areas. However, there are numerous complementary solutions (e.g., sharing offers), whose integration not only creates new complexities but also demands technological advancement and new business models from transport companies. At the same time, cost structures have to be improved, financial constraints taken into consideration and new sources of income tapped.

To make public transport more attractive and make people switch to these systems, their changed requirements and higher demands need to be considered. Transport companies are expected to provide data-based, personalised services using artificial intelligence. These mobility offers have to be integrated, available round-the-clock, barrier-free and convenient to stand out from the competition and achieve high customer satisfaction.

Public transport is thus increasingly becoming a data-driven economic sector, where new players are offering mobility services with still insecure business models in addition to the existing transport companies with their established infrastructure. The proliferation of private taxis and sharing models as well as demand-driven services pose a new challenge for local public transport systems.

The provision, analysis and use of data in real time thus gains even higher significance for transport companies competing with the new services. This is accompanied by higher investments in hardware and software, both stationary as well as in vehicles. This is taking place in an environment where worldwide mega trends such as progressing urbanisation and digitalisation are increasing the demand for intelligent system solutions, such as those developed and offered by init.

An ever-increasing number of people are getting access to public transport systems; however, they are demanding higher quality from these systems at the same time. Here, new opportunities for transport companies arise from increasing digitalisation, the associated automation of processes and higher use of digital devices (for example, smart phones). Developments such as these and technological innovations promote demand for platform solutions and efficient system architecture like that already offered by init – with the possibility to integrate new partners and their data smoothly and quickly.

Digitalisation also offers additional opportunities for transport companies to improve the efficiency of their operations and simultaneously reduce operating costs. This comprises optimum resource planning as well as maintenance, ensuring enhanced operability and availability of vehicles.

The use of zero-emission vehicles and electric vehicles in public transport is currently under special focus of politics and transport companies. The "Clean Vehicles Directive" defines obligatory targets for public procurement of zero and low emission vehicles in every EU country for the period until 2025 and 2030. Similar programmes have also been started in North America and India.

However, this poses new challenges to cities and transport companies in planning, operation and workshop management of their fleet. From the 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.

To reduce private transport, it is necessary to combine a strong public transport system with personalised offers that are tailored to the customers' needs. The key to success lies in regional mobility platforms that add real value by setting up an integrated information, booking and payment platform with open programming interfaces.

The pilot project regiomove in Karlsruhe shows how such platform-based connectivity can be realised successfully. With a booking and payment platform developed by init, since 3 March 2020 this pilot project has been offering a seamless intermodal service chain of various providers and means of transport. Train, bus, rental bike or car sharing. Rural or urban – they are all integrated in a network, transforming the Karlsruher Verkehrverbund (KVV) into a mobility network. From September 2020, regiomove will be available in the Google and Apple app stores. regiomove is a worldwide lighthouse project for "Mobility as a Service" (MaaS) trend.

For intermodal use of transport systems, 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.

"Smart" ticketing systems are therefore a key component of "smart mobility." Smart ticketing registered high growth internationally as well.

In December 2019, the new European Commission president Ursula von der Leyen outlined her suggestions for a "Green Deal" that aims to make Europe the first climate neutral continent by 2050. The EU proposes to provide EUR 1 trillion in the next 10 years in a special fund.

One point of the deal is smart transport, which requires higher spending on the transport infrastructure. Automated mobility and intelligent traffic management systems should make the transport sector more efficient and cleaner. This requires intelligent applications and solutions for mobility as a service (MaaS), such as those already being developed by init. This is associated with investments running into billions.

Investment programmes such as the EU's "Green Deal" are being designed worldwide. Further sustainable growth is therefore to be expected for "smart transport", for the development and expansion of intelligent local public transport systems and the associated technologies.

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. In 2019, there was a shift within this distribution. The second and the fourth quarter were the strongest.

The first quarter of 2019 with revenues of around EUR 35.3m (Q1 2018: EUR 29.5m) was above our expectations.

The positive business development of the init group continued into the second quarter of 2019. The group generated overall revenues of EUR 41.7m (Q2 2018: EUR 29.9m), thus making it the second strongest quarter in financial year 2019. Revenues for the first six months increased significantly year on year to EUR 77.0 (previous year: EUR 59.3m).

Revenues of EUR 35.8m (Q3 2018: EUR 36.3m) were generated in the third quarter of 2019. In the first nine months of 2019, revenues of the init group stood at EUR 112.8m, also significantly higher than the figure from the previous year (EUR 95.6m).

In the fourth quarter of 2019, the init group generated revenues of EUR 43.7m (Q4 2018: EUR 40.0m), thus making it the strongest quarter in the current financial year.

Net assets, financial position and results of operations

Results of operations

For the year 2019 as a whole, the init group recorded a new **revenue record** at EUR 156.5m (previous year: EUR 135.7m) and thus achieved the budget target of EUR 150m – EUR 160m, which had been revised in July 2019. This translates into growth of EUR 20.8m or 15.3 per cent compared to the previous year and therefore stands above the long-term average.

In July 2019, the revenues forecast for financial year 2019 was raised from EUR 145m to EUR 150m to EUR 160m. The main reasons for significantly exceeding the original budgeted revenues of EUR 145m were the increased demand in the follow-up business in Europe and Dubai as well as additional revenue in the sensor supply business.

Operating earnings before interest and taxes (EBIT) exceeded our forecast raised in July 2019 (of around EUR 15m) slightly. EBIT for the 2019 financial year amounted to EUR 16.2m (previous year: EUR 6.4m). In July 2019. The forecast for EBIT was raised from EUR 7.5m to EUR 15m due to the positive development. The exceeding of the originally planned EBIT is improved by EUR 2.5m due to the increased revenues in the delivery business and EUR 1.1m due to the development of exchange rates. Other effects included various measures to increase efficiency, such as process optimiation of internal workflows and cost savings in various areas.

The EBIT margin in the group increased significantly to 10.4 per cent (previous year: 4.7 per cent).

A share of 71.6 per cent of total revenue was generated outside Germany (previous year: 70.0 per cent). North America remains the strongest market, where revenues increased to EUR 55.7m (previous year: EUR 49.9m).

Revenues in Germany increased year on year. At EUR 44.4m, revenues here are above the previous-year figure (previous year: EUR 40.6m). Here we could process projects successfully and conclude hardware deliveries.

In the other countries (United Arab Emirates, Australia and New Zealand), a significant year-on-year increase in revenues was recorded. Here we achieved an increase in revenues from EUR 15.1m in 2018 to EUR 18.5m in the reporting year. Follow-up projects and an increase in our hardware delivery business made a significant contribution.

Revenues also increased in Europe (excluding Germany) and stand at EUR 37.9m (previous year: EUR 30.1m). Essentially this was due to the good progress made in completing major ongoing projects in Birmingham and Luxembourg.

EUR 156.5 m

The init group achieved a new revenue record in financial year 2019.

Gross profit of EUR 53.2m was generated (previous year: EUR 46.0m) The gross margin comes to 34.0 per cent and is therefore at the previous-year level (previous year: 33.9 per cent).

At EUR 16.7m (previous year: EUR 16.7m), the sales and marketing expenses are at the previous-year level.

The general administrative expenses increased significantly year on year to EUR 13.3m. One reason being the lower income from the reversal of provisions and higher impairments due to the first-time application of the IFRS 16 standard for leases.

Other operating income increased slightly at EUR 3.4m (previous year: EUR 2.6m) and mainly results from rental income, public grants, income from value adjustments on receivables and benefits in kind.

The **foreign currency gains** of EUR 0.7m (previous year: foreign currency losses of EUR 0.9m) were chiefly comprised of positive effects from the balance of unrealised gains and unrealised losses from the measurement of receivables in foreign currencies. The net results of currency hedging transactions are in addition to this.

The **net interest result** (balance of interest income and interest expense) totalled EUR -1.0m (previous year: EUR -0.9m) 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. Due to the first-time application of IFRS 16, the net interest result increased by EUR 0.1m.

At EUR 11.3m, the **consolidated net profit** improved by EUR 8.9m compared to the previous year (previous year: EUR 2.4m), mainly due to the increase in revenues, a lower impairment on our investment in Bytemark of EUR 0.6m (previous year: EUR 2.1m) as well as a number of efficiency improvement measures. These measures mainly include the above-mentioned effects such as cost savings programs, the expansion of the after-sales business and improved internal processes. Earnings per share amounted to EUR 1.13 (previous year: EUR 0.24). At 25.6 per cent the tax rate is significantly below the previous-year level (previous year: 55.6 per cent). The decline in the tax rate is attributable to the good result of our subsidiary Init Innovation in Traffic System FZE in Dubai. The higher tax rate in the previous year was due to the non-deductible impairment of the shares in Bytemark.

Total comprehensive income increased from EUR 4.0m in 2018 to EUR 10.7m in 2019. This increase mainly stems from the positive development of the consolidated net profit in financial year 2019. Please refer to the comprehensive income statement for more information on the development.

Incoming orders

In financial year 2019, incoming orders are in line with our expectations and were just slightly below the record level of the previous year. We achieved this result because in addition to a number of small and mid-sized projects, large projects were awarded in our favour once again. The Managing Board had projected incoming orders of EUR 150m to EUR 160m for 2019. Overall, at EUR 160.2m (previous year: EUR 161.8m), incoming orders reached **the second highest level in the company's history**

EUR 160.2 m

2019 recorded the second highest incoming orders in the company's history and were just slightly below the record level of the previous year

40.1 per cent of orders were generated in the North American market. Of the other incoming orders, 27.2 per cent were from Germany, 22.2 per cent from Europe and 10.5 per cent from other countries.

Incoming orders in North America came to approximately USD 72.0m. This comprises numerous smaller and mid-sized projects and the large project Metropolitan Transit (MTS). MTS chose init for the introduction of an account-based fare management system in San Diego, USA. The total order value amounts to USD 30m including the option for operation and maintenance. Compared to the previous year, incoming orders for North America decreased in 2019; which is primarily attributable to the strong incoming orders in 2018. In 2018, we recorded the largest contract of our company's history – the Sound Transit project in Seattle, USA with an initial order volume of USD 50m.

The decrease in North America was compensated by the increase in incoming orders particularly in Germany and in other countries. Thus, overall incoming orders match the previous-year level.

Meanwhile, via an ad-hoc release on 27 February 2020 in the North America market, it was reported that the Metropolitan Transit Authority of Harris County (METRO), Houston Texas, USA, will start negotiations with init for the delivery of an ID-based fare management system. It is expected that the contract will be signed in the second quarter of 2020. After successful closing, init expects an order value of well over USD 30m.

At EUR 35.5m, incoming orders in Europe were slightly above the previous-year level and were characterised by numerous smaller and mid-sized new projects.

In Germany, incoming orders increased from EUR 31.1m in 2018 to EUR 43.6m. 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 increased significantly compared to the previous year and amounted to EUR 16.3m in the current financial year. In Abu Dhabi, init was engaged to deliver, install, extend and maintain the AVM system jointly with the operator. The order has a total volume of more than EUR 15.0m including maintenance services.

EUR 151.8 m

Order backlog at year-end amounted to EUR 151.8m.

The order backlog at year-end amounted to EUR 151.8m (previous year: EUR 142.6m). We expect that the processing of this order backlog will result in the revenue recognition of approximately 60 per cent in 2020.

Internationally, our market is still characterised by a large number of new tenders. 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 60m in 2019 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 2019 can still be described as solid.

Capital structure

Liabilities to banks as of 31 December 2019 amounted to EUR 30.1m (previous year: EUR 35.8m) and mainly relate to real estate and acquisition financing as well as euro loans taken out to increase financial flexibility. Project delays may lead to delayed payments because the milestones are accepted by the customer at a later date. The non-current portion results from the real estate financing of Kaeppelestrasse 4, 4a, 8, 8a and 10 of EUR 1.7m (previous year: EUR 2.8m). Furthermore, there are loans for acquisition financing of EUR 1.3m (previous year: EUR 3.3m), investment loans of EUR 2.0m (previous year: EUR 2.0m) as well as another long-term loan of EUR 10,0m (previous year: EUR 10,0m). The loans have different dates of maturity until 2026.

Non-current liabilities according to the consolidated balance sheet increased by EUR 2.3m to EUR 37.3m. The increase of EUR 10.1m is primarily attributable to the first-time application of the IFRS 16 standard for leases. This was offset by the decrease in pensions (EUR 2.7m) and the repayment of long-term loans for real estate financing at the Karlsruhe location (EUR 1.1m). Deferred tax liabilities remain at the previous-year level (EUR 0.3m).

Current liabilities according to the consolidated balance sheet increased from EUR 57.7m to EUR 77.6m. This change primarily comprises an increase of EUR 10.3m in contract liabilities from POC, an increase of EUR 2.5m in lease liabilities due to the first-time application of the new IFRS 16 lease standard and an increase of EUR 6.0m in other liabilities.

The group's static debt-equity ratio (debt capital divided by equity multiplied by 100) is 35.1 per cent (previous year: 47.3 per cent) and thus decreased further owing to the effects cited above. The dynamic debt-equity ratio (liabilities to banks plus current/non-current lease liabilities less cash and cash equivalents divided by EBITDA) comes to 0.6 (previous year: 1.4).

Investments

The investments amounting to EUR 5.7m (previous year: EUR 2.8m) chiefly comprise capital expenditure to replace and expand existing assets and prepayments.

Liquidity

Operating cash flow amounted to EUR 21.1m (previous year: EUR 12.8m) and was therefore significantly above the previous-year figure. This is particularly attributable to the strong consolidated result. The positive effect from the application of IFRS 16 lease standard amounted to EUR 2.6m.

Net working capital (current assets less current liabilities) came to EUR 37.8m (previous year: EUR 46.4m). Cash flow from investing activities amounted to EUR -5.6m (previous year: EUR -2.9m) and mainly relates to replacement and expansion investments as well as prepayments for rights of use of EUR 1.4m.

Cash flow from financing activities amounts to EUR -10.1m (previous year: EUR -9.0m) and results mainly from the repayment of euro loans and long-term loans as well as from the first-time application of IFRS 16 for lease liabilities of EUR -2.8m.

Cash and cash equivalents, including securities that can be sold in the short term, came to EUR 26.2m at the end of December 2019 (previous year: EUR 20.6m).

Net assets

The init group's net assets may likewise be described as solid in financial year 2019.

Compared to the previous year, the total assets as of 31 December 2019 increased by around EUR 32.1m and amount to EUR 200.4m (previous year: EUR 168.5m). The main reason for this is the increase in trade receivables and the increase in fixed assets due to the first-time application of IFRS 16 standard for leases. Equity at year-end increased to EUR 85.5m (previous year: EUR 75.8m). Due to the increase in total assets, the equity ratio fell to 42.7 per cent and is therefore 2.5 percentage points below the 45.0 per cent of the previous year. Adjusted for the effect from the first-time application of the IFRS 16 standard for leases, the equity ratio would have been 45.5 per cent and thus slightly above the previous year.

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 German GAAP. 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 7.8m) 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 2.2m (previous year: EUR 5.7m) and were therefore above our projection of around EUR 1m. Earnings before taxes include the income from investments in Mattersoft Oy of EUR 0.2m and profit/loss transfer of initplan (EUR 0.9m) and INIT GmbH (EUR 0.2m).

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 0.1m (previous year: EUR 0.3m). The change in liquid funds resulted chiefly from cash paid out in repayments and interest for real estate financing, distribution of dividends and the settlement of income taxes. By contrast, the profit distribution of Mattersoft Oy had a positive effect on liquid funds. 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 associated companies and other assets. A list of financial assets can be found in the notes.

Total assets of init SE amounted to EUR 55.5m (previous year: EUR 57.3m), while the equity ratio was 83.1 per cent and therefore stands above the previous-year level (previous year: 80.2 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 52 (previous year: 50). Of these, 27 on average were full-time staff (previous year: 27).

In total, employees took part in 60 internal and external continuing training measures in 2019.

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 2020, we expect revenues of 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 positive result of between EUR 0.5m and EUR 1.0m. On this basis, init SE is projecting EBIT of around EUR 2m.

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 long-term 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 strengthen continuous growth, init increased its workforce significantly in the original init group in financial year 2019. An increase in the workforce is also necessary in financial year 2020 to handle the order backlog. In particular, we will thus strengthen our development capacity 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. Further capacities were added to this location in 2019. Furthermore, the company HanseCom founded a subsidiary in Belarus to create further additional capacity for developing apps.

Employee figures

Overall, the init group had 866 employees as an annual average (previous year: 796) including temporary workers, research assistants and students writing their theses. This includes 125 part-time employees (previous year: 103).

In addition, 32 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 is our top priority. Absolutely essential in this context is the work-life-balance of our employees: our contribution includes a number of modern working methods and voluntary benefits, for example, flexible working time, subsidies for childcare and insurance. We also offer our employees a wide range of internal sporting and cultural activities. We also support, among other things, events and organisations, for example, DAS FEST, Baden TV, Kammertheater, Hikkaduwa Verein e.V., Kinderschutzbund Karlsruhe, University of Applied Sciences, Karlsruhe (study course traffic management), Indoor Meeting and Karlsruhe Sport Club.

This commitment is appreciated not only by our employees but also by external independent juries, which presented us with the "Germany's best jobs of the future" award in 2019 just as in 2018. As in the previous year, INIT Inc., our branch office in North America, was presented with the "Best Place to Work" award in 2019.

Ethical Guidelines

We have set down the principles of our business and social 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.

All employees with the appropriate qualifications have equal access to management positions. With internationalisation, we now enjoy greater diversity at all levels and it has become part of our corporate culture.

Overall picture of the economic situation

The Managing Board regards the business performance in 2019 as very positive. The projected incoming orders in the range of EUR 150m to EUR 160m were achieved at EUR 160.2m. At EUR 156.5m, revenues are significantly above the original budget of EUR 145m and within the range of the budget adjusted in July 2019 of EUR 150m to EUR 160m. EBIT at EUR 16.2m is also significantly above the originally projected target of EUR 7.5m and slightly above the target of EUR 15m adjusted in July 2019.

With the existing order backlog of EUR 151.8m as of 31 December 2019, init laid a good foundation for financial year 2020. The init group's improved earnings performance in the 2019 financial year means the company has a solid financial position to be able to finance its growth targets in 2020.

In 2019, operating cash flow amounted to EUR 21.1m, which translates into a significant increase compared to the previous year (EUR 12.9m). Based on the order backlog available, we expect higher cash flow for financial year 2020. 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 40 cents per share for financial year 2019. We look forward to financial year 2020 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

The prior growth forecasts for global economy published by the IMF in January 2020 were revised by the OECD on 2 March 2020 due to the outbreak of the coronavirus. In the event of this epidemic spreading further, the current forecast sees growth at half the rate projected. We at init also expect growth rates to be below the 2019 level due to the coronavirus and its effects on the global economy, which are still difficult to predict; however, initial indications are already visible on the stock market.

In addition, the IMF warned that numerous risks still exist, for example, from another escalation in the trade dispute. In addition, there are geopolitical tensions, between the US and Iran, for example. Also, the protests that are critical of the government in many countries may have a negative impact on the economy. It is still difficult to assess the effects on the global economy.

Growth in most industrialised countries, which are still init's main markets, will tend to be moderate or negative. Nevertheless, init continues to expect strong domestic demand in the US and rising investments in infrastructure. But also in Germany as well as in Europe we will benefit from investments in the transport infrastructure due to climate policy.

As of 31 January 2020, the UK has withdrawn from the EU with an agreement, thus avoiding a no-deal Brexit for the time being. The signed agreement provides for a transitional period until the end of 2020, which should guarantee exemption from customs duties for imports and exports. The economic output of the UK will most probably decrease after the end of this transitional period. We still do not expect any significant effects for the init group.

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.

The advancing digitisation, one of init's core competences since the foundation of the company, is changing the mobility behaviour of people and their requirements from the transport companies, however, also creating new growth potential due to new technologies and services. Special service providers can thus create individual packages using apps ("Mobility as a Service"). Better, specialised offers not only facilitate increased mobility overall, but also make public transport services more attractive.

However, the 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. 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.

The Managing Board's assessment of the business performance of the init group in 2020 is thus shaped by a number of offsetting factors. The current global economic risks are counterbalanced by favourable sector trends.

In its overall outlook for 2020, the Managing Board of init SE anticipates a significant increase on the revenues side. Therefore, excluding additional revenues from potential acquisitions, the target for group revenues 2020 is set at around EUR 180m. Operating earnings before interest and taxes (EBIT) (also excluding special effects from potential acquisitions) will then be in the order of around EUR 18m to EUR 20m. The revenue and earnings contributions from acquisitions depend on the acquisition dates. In the event that these are delayed, it will be necessary to adjust the forecast. Direct effects of the corona crisis on the revenue and earnings planning are not yet foreseeable at the moment, but this may change in short-term due to the extremely dynamic development.

This is based on the development in incoming orders, which amounted to EUR 160.2m. With the current order backlog of EUR 151.8m (excluding acquisitions), we have a very good base for further sustainable growth. The target range for incoming orders in 2020 is between EUR 180m and EUR 190m (including incoming orders from new acquisitions) 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. Incoming orders in connection with new acquisitions have been taken into account in these figures.

EUR 180 m

The target range for incoming orders in 2020 is between EUR 180m and EUR 190m.

Particularly in heavily industrialised countries, investments in the expansion of public transport systems should increase in the next few years for ecological reasons, as already announced for Germany from 2020.

Because of the investments driven by climate policy, init expects a number of additional opportunities for integrated technology providers in the next few years. Our company is equipped to exploit these opportunities thanks to 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 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.

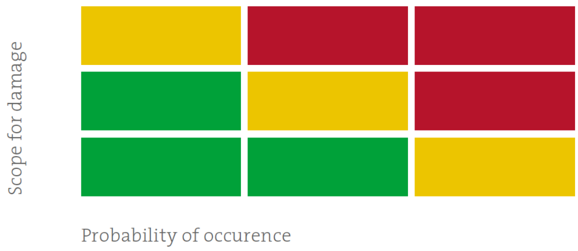
The aim of a risk management system (RMS) is not to avoid all risks but to manage identified risks. After all, to realise one's plan and take advantage of the resulting opportunities, risks must be entered into. It is a matter of weighing up these risks. We understand risk to mean any negative deviation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

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

	Probability of occurrence %	Scope for damage 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



Risk class (RK)

■ low ■ moderate ■ high

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 Supervisory Board is informed about critical risks.

The legal basis for the establishment of an early warning system for the detection of risk and internal monitoring system is provided in Section 91 (2) AktG. The duty of the auditor to audit the suitability of the system as part of the audit of annual financial statements results from Section 317 (4) HGB.

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 Dusseldorf, 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 all 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 reporting 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; this includes a separation of functions and predefined 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 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 reporting is based on individual risk assessments of the areas of business planning, procurement, human resources, sales, project management and IT, which are summarized in the following risk categories (external and industry risks as well as company-specific risks) and financial and fiscal risks. 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

Market development and trends (RC: low)

New social topics such as urbanisation, climate-neutrality or smart cities as well as new mobility topics such as digitisation, autonomous driving or electromobility require permanent monitoring of market development and trends and demand openness towards new requirements and needs. Through our sales, marketing and research activities, we ensure that we deal with the new trends and developments at an early stage to exploit opportunities resulting therefrom.

Business environment and competition (RC: moderate)

New competitors are entering the market due to new social megatrends and developments in mobility. 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 and new innovations are required to maintain our competitive edge.

Industry and customers (RC: low)

Our customers are public and private transport companies as well as companies from the supply industry. Public transport companies are dependent on public investments and subsidies. On the one hand, this reduces the risk of default, but on the other hand, delays, postponements and cancellations due to a poor budgetary situation can diminish in market potential. We deem this risk to be low due to various sales activities (new customer acquisition, tapping new potential in Germany and other countries and expansion of the service portfolio).

Hosting and operating business (RC: low)

Customers are increasingly demanding not only the realisation of a project but also 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 a disruption 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. Delays in delivery or poor quality or hidden faults may require cost-intensive rectifications or replacements that will negatively affect margins. Therefore, quality control is conducted on the supplier's premises, upon receipt of goods as well as during installation of hardware in the project and delivery dates are monitored by our procurement department.

Although currently there have been no significant delays in delivery and product defects or warranty claims against init 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 since init is also dependent on its suppliers and subcontractors in terms of quality, adherence to schedules and price.

Due to the current spread of the coronavirus, higher risk of delays in delivery at our suppliers cannot be precluded.

Risk category	Probability of occurrence	Scope for damage
Market development and trends	moderate	low
Business environment and competition	moderate	moderate
Industry and customers	low	moderate
Hosting	moderate	low
Risks from the procurement market	moderate	moderate

Probability of company-specific risks

Technology risks (RC: low)

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. init factors suggestions and requests from customers in its product development. In addition, its participation in multiple research projects means that new technologies are used within the group at an early stage. 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. Project risks are analysed regularly by controlling in cooperation with project contact persons. The projects are analysed in terms of financial aspects as well as in terms of suppliers, development, contract and other significant risks to initiate corresponding countermeasures. Costings, order situation and project progress are regularly examined for the purpose of a variance analysis. Measures to improve the situation have already been implemented for critical projects.

IT risks related to data security (RC: low)

For an IT company, the securing of electronic data is of the utmost importance. In the init group, electronic data are secured in multiple ways and stored locally for many years. We have an efficient IT infrastructure that we modernise permanently to minimise 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 multilevel 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, information for all employees is available in our internal knowledge management. Additionally, init will try to obtain further information security certifications in the new reporting year, for example, ISO27001.

IT risks related to GDPR (RC: high)

The European General Data Protection Regulation (GDPR) has been mandatory since 25 May 2018. init had already implemented measures to meet these more stringent 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.

To determine whether data protection and data security system comply with the legal data protection requirements and fulfil the GDPR requirements, the data protection officer performs 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 and can be contacted directly. There is a regular exchange of information on current data protection topics.

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.

IT risks related to user behaviour (RC: high)

Due to the increase in cybercrime, there is a higher risk for a security incident that can be triggered by a wrong reaction of the user (e.g., harmful email content) Despite our comprehensive technical measures and regular implementation of new security technologies, a residual risk cannot be excluded completely. This risk is countered by informing our employees regularly and we have not determined any incident due to a wrong reaction of a user until now. Nevertheless, we still deem the risk to be high.

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 labour market situation in Germany and particularly in the technology region of Karlsruhe remains very difficult as in the prior year. There are challenges in recruiting qualified personnel and in keeping them in the company in the long term. init counters personnel risks by operating a long-term personnel policy, intensifying the measures for personnel development and various additional benefits.

One measure was 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 allow employees to participate 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 steady supply of highly qualified and motivated employees.

We as a company are prepared for current and future social and health risks, as in the case of the current outbreak of the coronavirus and implement all possible precautions and safeguards to minimise this risk for our employees, customers and partners.

Investment risks (RC: moderate)

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 2019, we recognised an impairment loss of USD 650k on the Bytemark investment and valued it at zero. init's share in the loss came to USD 337k. Total group shares now amount to EUR 390k. Accordingly, we still assess the scope of damage as moderate.

Risk category	Probability of occurrence	Scope for damage
Technology risks	low	moderate
Project risks	high	high
IT risks related to data security	low	low
IT risks related to GDPR	moderate	high
IT risks related to user behaviour	moderate	high
Human resources risks	moderate	moderate
Investment risks	moderate	moderate

Financial risks

Exchange rate risk (RC: moderate)

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. Due to our active currency risk policy, we assess the present risk of losses to be moderate. A sensitivity analysis on this subject is provided in note 30 of the notes to the consolidated financial statements.

Interest risk (RC: low)

The loans taken out to finance construction and to expand the head office in Karlsruhe are mostly 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: moderate)

A long-term loan of EUR 9.6m 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: moderate)

In addition, contractually established payment terms could change over time to our disadvantage, with the result that we could encounter risk arising from the predictability of cash flows.

Risk related to pensions (RC: low)

Prior to 1997, init made direct commitments to employees. There is 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	moderate	moderate
Interest rate risk	low	low
Credit risk	low	low
Loan risk	low	high
Prefinancing	moderate	moderate
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 onla 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: moderate)

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 finally assessed for tax. Because of differing interpretations, particularly 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	high	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 obtained.

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 characterised by new technologies, digitisation and networking. This results in constant new requirements on the customer side and sustained additional growth opportunities for init.

New enhanced 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.

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 potential for init.

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 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. 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 onboard 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 due to ecological reasons for reducing particulate matter and greenhouse gas emissions in industrialised countries. 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. 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.

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 calendar-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 optimise the charging capacity with regard to load peaks. This makes 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 an operational disruption 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, further discussions and higher climate policy targets are expected, which will significantly increase 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.

Population growth, increasing urbanisation and the rapid increase in the volume of individual traffic are significant factors for new strategies for sustainable urban development of cities. This will lead to growing public transport passengers numbers worldwide. 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. The government in Germany is willing to strongly promote investments in public transport systems by 2031, which should make buses and trains more attractive and drive forward the green transformation of the transport sector.

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.

But we make good progress also with regard to expertise in new technologies (IoT and Software as a Service). We have expanded the range of products of the init group through acquisitions 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 rapidly growing business field in the area of logistics with its 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 analyses 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 12 monthly instalments. The fixed component of the Board members' salaries in 2019 totalled EUR 1,475k (previous year: EUR 1,733k).

2. A variable component linked to the group EBIT and after deduction of all management bonuses and employee shares and applicable as a percentage from a threshold of EUR 8.0m upwards. The management bonus is limited to 25 per cent of the total compensation package excluding the share bonuses under item 3. The variable component of the Managing Board members' salaries in 2019 totalled EUR 192k (previous year: EUR 82k).

3. Another management bonus for 2019 in the form of 750/1,500 shares, provided group EBIT exceeds EUR 8.0m after deducting all management bonuses. Furthermore, for each EUR 1.0m of EBIT that exceeds the amount of EUR 8.0m up to EUR 15.0m, another 150/300 shares are granted as a bonus. Further, for each EUR 1m of profit that exceeds the amount of EUR 15m, another 250/500 shares are granted as bonus. The number of shares is limited to 10,000/20,000. 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 525k for the past financial year (previous year: EUR 146k).

4. Based on the aforementioned remuneration system, with reference to 2-3 of this report, variable remuneration of EUR 33k (previous year: EUR 0k) was paid to members of the Managing Board who retired in 2019 and then continued as Managing Directors of INIT GmbH.

5. Pension commitments exist for two of the four members of the Managing Board as well as for two former members. The increase in pension provisions (DBO) for these four persons was EUR 262k in 2019 (previous year: EUR 59k). The increase is the result of a reduction in the interest rate used.

6. Instead of a direct pension commitment, there are defined contribution pension plans for three members of the Managing Board and for one former member of the Managing Board. The expenses for this amounted to EUR 27k in 2019 (previous year: EUR 23k).

7. An additional defined contribution plan exists for three members of the Managing Board as well for two former members of the Managing Board. The expenses for this amounted to EUR 113k in 2019 (previous year: EUR 116k).

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 5 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 0k (previous year: EUR 85k) was paid in 2019.

Remuneration system for the Supervisory Board

The applicable remuneration of the Supervisory Board was decided at the Annual General Meeting of 15 May 2019, based on a proposal put forward by the Managing Board and the Supervisory Board.

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 25k p.a. for the members and EUR 50k 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 EBIT. The variable component is paid only when EBIT reaches the threshold of EUR 8m. The variable component is limited to 200 per cent of the fixed component and is calculated using the following formula:

V= ((0.5 x share price/EUR 8 + 0.5 x EBIT/EUR 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 2019 financial year:

Name	Fixed component in EUR k	Variable component in EUR k
Hans-Joachim Rühlig	50	56
Ulrich Sieg	25	28
Christina Greschner	15	9
Hans Rat	25	28

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 3,445,000 shares in init SE. This is around 34.3 per cent of the capital stock. As of 31 December 2019, init SE held a total of 36,934 treasury shares (31 December 2018: 29,143).

There are no shares with special rights.

No voting control exists for shares held by employees.

Please refer to Note 44 in the consolidated financial statements for notifications pursuant to Section 21 (1) of the German Securities Trading Act (WpHG).

Conditional capital

The company's capital stock 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 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 treasury 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.

Authorised capital

On 15 May 2019, the company's Annual General Meeting adopted a resolution according to which the Managing Board is authorised in the period until 15 May 2024, with the approval of the Supervisory Board, to increase the capital stock of the company once or gradually by issuing new voting or non-voting no-par value bearer shares ("Authorised capital 2019"). Capital increases may be effected against cash or non-cash contribution. The Managing Board is also authorised, subject to the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights particularly in the following cases:

- for a capital increase against cash contribution, up to a total of 10 per cent of the existing capital stock, provided the issue amount of the new shares is not significantly below the market price of listed shares of the same category and carrying the same rights.
- Where necessary, to grant subscription rights for new shares in the same scope that they would be entitled to if they exercised their conversion and/or option rights or fulfilled their conversion and/or option obligations;
- the fractional amounts arising from the exercise ratio;
- to tap into additional capital markets;
- for a capital increase against non-cash contribution for acquisition of companies, their components or investments in companies or other assets (even if a component of the purchase price is paid in cash in addition to shares) or as part of business combinations or mergers;
- to provide up to 250,000 new shares as employee shares

This change to articles of incorporation was entered in the commercial register on 13 June 2019.

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 treasury 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 2019 Annual Report which is available on the Internet at: https://www.initse.com under the tab Investor Relations – Corporate Governance.

RESPONSIBILITY STATEMENT BY THE LEGAL REPRESENTATIVES

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

Karlsruhe, 13 March 2020

The Managing Board

Dr. Gottfried Greschner   Dr. Jürgen Greschner

Jennifer Bodenseh   Matthias Kühn

CONSOLIDATED FINANCIAL STATEMENTS

init innovation in traffic systems SE, Karlsruhe

CONSOLIDATED INCOME STATEMENT

for the financial year 2019 (IFRS)

EUR '000	Notes no.	01/01/ to 31/12/2019	01/01 to 31/12/2018
Revenues	4, 36	156,464	135,711
Cost of sales	5	-103,226	-89,732
Gross profit		53,238	45,979
Sales and marketing expenses		-16,709	-16,680
General administrative expenses		-13,328	-10,734
Research and development expenses	6, 21	-10,440	-11,491
Other operating income	7	3,355	2,603
Other operating expenses		-176	-295
Foreign currency gains and losses	8	673	-868
Expenses and income from associated companies	22	-373	-2,142
Earnings before interest and taxes (EBIT)		16,240	**6,372**
Interest income		102	64
Interest expenses		-1104	-943
Earnings before taxes (EBT)		15,238	**5,493**
Income taxes	9, 23	-3,903	-3,054
Net profit		11,335	**2,439**
thereof attributable to equity holders of parent company		11,332	2,440
thereof non-controlling interests		3	-1
Earnings and diluted earnings per share in EUR	11	1.13	0.24

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year 2019 (IFRS)

EUR '000	01/01 to 31/12/2019	01/01 to 31/12/2018
Net profit	11,335	**2,439**
Items to be reclassified to the income statement:		
Net gains (+) / net losses (–) on currency translation	389	1,491
Items not to be reclassified to the income statement:		
Actuarial losses on defined benefit obligations for pensions after taxes	-986	71
Total other comprehensive income	-597	**1,562**
Total comprehensive income	10,738	**4,001**
thereof attributable to equity holders of the parent company	10,735	4,002
thereof non-controlling interests	3	-1

CONSOLIDATED BALANCE SHEET

as of 31 December 2019 (IFRS)

Assets

EUR '000	Notes no	31/12/2019	31/12/2018
Current assets			
Cash and cash equivalents	14, 32	26,174	20,620
Marketable securities and bonds	15, 32	37	28
Trade accounts receivable	16, 32	43,025	26,120
Contract assets	16, 32	22,099	26,215
Receivables from related parties	35	52	95
Inventories	17	27,783	27,909
Income tax receivable		810	2,212
Other current assets	18	3,734	3,153
Current assets, total		123,714	**106,352**
Non-current assets			
Property, plant and equipment	19	50,805	35,643
Investment property	20	1,480	1,898
Goodwill	21	9,035	9,035
Other intangible assets	21	8,765	9,772
Interests in associated companies	22	390	749
Deferred tax assets	23	3,017	2,242
Other non-current assets	24	3,192	2,770
Non-current assets, total		76,684	**62,109**
Bilanzsumme		**200,398**	**168,461**

Liabilites and shareholders' equity

EUR '000	Notes no.	**31/12/2019**	31/12/2018
Current liabilities			
Bank loans	25, 31	17,842	18,390
Trade accounts payable	25, 31	8,560	9,417
Contract liabilities	16, 25	16,435	6,188
Advance payments received	25	747	1,430
Income tax payable	25	3,040	1,056
Provisions	27	10,263	9,042
Other current liabilities	25, 26	20,697	12,184
Current liabilities, total		77,584	**57,717**
Non-current liabilities			
Bank loans	25, 31	12,228	17,442
Deferred tax liabilities	23	2,619	2,579
Pensions accrued and similar obligations	28	11,149	9,505
Provisions	27	1,204	1,566
		10,067	0
Other non-current liabilities	26	0	3,890
Non-current liabilities, total		37,267	**34,982**
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	29	10,040	10,040
Additional paid-in capital	29	5,688	5,262
Treasury stock	29	-582	-510
Surplus reserves and consolidated unappropriated profit	29	70,505	60,479
Other reserves	29	-272	326
		85,379	**75,597**
Non-controlling interests		168	165
Shareholders' equity, total		85,547	**75,762**
Liabilities and shareholders' equity, total		**200,398**	**168,461**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as of 31 December 2019 (IFRS)

	Attributable to equity holders of			
Notes.	30	30	30	
EUR '000	Subscribed capital	Additional paid-in capital	treasury stock	
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	
Adjustment IFRS 15				
Status as of 31/12/2018	**10,040**	**5,262**	**-510**	
Status as of 31/12/2018	**10,040**	**5,262**	**-510**	
Net profit				
Other comprehensive income				
Total comprehensive income				
Dividend paid out				
Share-based payments		427	128	
Acquisition of treasury stock			-201	
Rounding		-1	1	
Status as of 31/12/2019	**10,040**	**5,688**	**-582**	

	the parent company					Non-controlling interests	Shareholders' equity total
	30	29					
		Other reserves					
	Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Securities marked to market	Total		
	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**
	60,479	**-2,816**	**3,143**	**-1**	**75,597**	**165**	**75,762**
	11,332				11,332	3	11,335
		-986	389		-597		-597
	11,332	-986	389		10,735	3	10,738
	-1,287				-1,287		-1,287
	-20				535		535
					-201		-201
	1		-1				
	70,505	**-3,802**	**3,531**	**-1**	**85,379**	**168**	**85,547**

CONSOLIDATED CASH FLOW STATEMENT

for the financial year 2019 (IFRS)

EUR '000	**01/01/ to 31/12/2019**	01/01/ to 31/12/2018
Cash flow from operating activities:		
Net income	11,335	2,439
Amortisation and depreciation	7,213	4,569
Gains or losses on the disposal of fixed assets	-65	26
Change in provisions and accruals	2,360	-562
Change in inventories	357	-1,512
Change in trade accounts receivable and contract assets	-11,538	10,784
Change in other assets, not provided by / used in investing or financing activities	324	-616
Change in trade accounts payable	-1,511	-1,739
Change in advanced payments received and contract liabilities	9,556	-1,083
Change in other liabilities, not provided by / used in investing or financing activities	4,038	-2,802
Amount of other non-cash income and expenses	-937	2,548
Adjustment IFRS 15 retrospective modified	0	757
Net cash from operating activities	21,132	12,809
Cash flow from investing activities:		
Payments received on disposal of property, plant and equipment	96	253
Investments in property, plant, equipment and other intangible assets	-5,652	-2,761
Investment property	0	0
Investment in subsidiaries less acquired cash	0	-356
Net cash flows used in investing activities	-5,556	-2,864
Cash flow from financing activities:		
Dividend paid out	-1,328	-2,336
Cash payments for the purchase of treasury stock	-200	-500
Payments received from bank loans incurred	8,534	15,531
Redemption of bank loans	-14,297	-21,657
Change in current and non-current lease liabilities	-2,849	0
Net cash flows used in financing activities	-10,140	-8,962
Net effects of currency translation and consolidation changes in cash and cash equivalents	118	-126
Changes in cash and cash equivalents	5,554	857
Cash and cash equivalents at the beginning of the period	20,620	19,763
Cash and cash equivalents at the end of the period	26,174	20,620

Additional information regarding the cash flow statement can be found in note 34

NOTES

init innovation in traffic systems SE, Karlsruhe

1. Information about init

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

2. Accounting principles

The consolidated financial statements and the comparative previous-year figures were prepared in compliance with the International Financial Reporting Standards (IFRS). The consolidated financial statements of init SE and its subsidiaries are consistent with the IFRS applicable in the EU. The consolidated financial statements comply with the requirements of Section 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 are consistent with those applied in the previous year.

The following standards are applicable for the first time in the financial year 2019; however, there is no impact on the financial position, performance and cash flows of the init group:

Standard	Title
Amendment to IFRIC 23	Uncertainty over income tax treatment
Amendment to IFRS 9	Prepayment features with negative compensation
Amendment to IAS 28	Long-term interests in associates and joint ventures
Amendment to IFRS 19	Plan amendment, curtailment and settlement
Annual improvements to IFRS standards Cycle 2015-2017	

IFRS 16 was applied for the first time at init from 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17 as well as the extended requirements of IFRIC 4.

Lessor accounting for leases is substantially unchanged. These leases will continue to be classified as operating or finance leases. Therefore, IFRS 16 does not have an impact for leases where the group is the lessor.

The group adopted IFRS 16 using the modified retrospective method of adoption, meaning that the cumulative impact of the first-time application of the standard is recognised as an adjustment of the retained earnings in the opening balance sheet. Contracts were not reassessed at the time of transition. init has decided to recognise all leases previously classified as leases in accordance with IAS 17 or IFRIC 4 at the date of initial application. IFRS 16 is not applied to agreements that were not previously classified as leases under IAS 17 and IFRIC 4. Leases that end within twelve months of the date of the first-time application (short-term leases) and leases with a value (low-value assets) of less than EUR 4,200 (if the contract currency is in euros) or USD 5,000 (if the contract currency is in a foreign currency) are not capitalized; instead, the lease payments associated with these leases are recognised on a straight-line basis over the term of the lease. For further information on leases, see the notes 3, 19, 27 and 34.

The reconsiliation of the off-balance sheet lease obligations as of 31 December 2018 to the balance sheet lease liabilities due to the application of IFRS 16 as of 1 January 2019 is as follows:

in '000 EUR	01/01/2019
Off-balance sheet lease and rental liabilities as of 31/12/2018	**12,478**
Short term leases	-200
Leases of low-value assets	-74
Leases already concluded as of 31/12/18 which will commence in 2019	3,746
Off-balance sheet leases and rental liabilities as of 01/01/2019	**8,458**
Off-balance sheet leases and rental liabilities as of 01/01/2019 discounted	**8,587**
Reasonably certain renewal and termination option	187
Non-lease components	**-2**
Leases due to the first-time application of IFRS 16 as of 01/01/2019	**8,772**
Lease liabilities from finance leases as of 01/01/2019	0
Total lease liabilities as of 01/01/2019	**8,772**

EU endorsement received:

The International Accounting Standards Board (IASB) published the following standards, which have already been introduced into European law in a comitology procedure, but which were not yet mandatory for the 2019 financial year. The group did not opt to early adopt these standards.

Standard	Title	Application
IFRS 9, IAS 39 and IFRS 7	Interest	January 2020
IAS 1	Presentation of financial statements	January 2020
IAS 8	Accounting and valuation methods, changes in estimates and errors	January 2020

EU endorsement outstanding:

The IASB published the following list of standards and interpretations whose application was not yet mandatory during the 2019 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
Amendments to IFRS 3	Definition of a business operation	October 2018
Amendments to IAS 1 and IAS 8	Definition of materiality	January 2020

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. init does not expect this to have any significant effect on the net assets, financial position and results of operations.

3. Accounting policies and consolidation principles

Provisions

Provisions are recognised when 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of init SE and its subsidiaries as of 31 December 2019. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically the group controls an investee if, and only if, the group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the group and to the non-controlling interests. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any retained investments are recognised at fair value.

Name	Registered office	**Share as of 31/12/2019**	Share as of 31/12/2018
Fully consolidated companies			
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH ("INIT GmbH")[1)]	Karlsruhe, Germany	100.0 %	100.0 %
INIT Innovations in Transportation Inc. ("INIT Chesapeake")	Chesapeake/Virginia, USA	100.0 %	100.0 %
INIT Innovations in Transportation (Eastern Canada) Inc. / INIT Innovations en Transport (Canada Est) Inc. ("INIT Montreal")	Montreal, Canada	100.0 %	100.0 %
INIT Innovations in Transportation (Western Canada) Inc. ("INIT Toronto")	Toronto, Canada	100.0 %	100.0 %
INIT PTY LTD ("INIT Brisbane")	Brisbane / Queensland, Australia	100.0 %	100.0 %
Init Innovation in Traffic Systems FZE ("INIT Dubai")	Dubai, United Arab Emirates	100.0 %	100.0 %
initplan GmbH ("initplan")[1)]	Karlsruhe, Germany	100.0 %	100.0 %
INIT Innovations in Transportation Ltd. ("INIT Nottingham")	Nottingham, UK	100.0 %	100.0 %
INIT Swiss AG ("INIT Neuhausen")	Neuhausen, Switzerland	100.0 %	100.0 %
initperdis GmbH ("initperdis")	Hamburg, Germany	100.0 %	100.0 %
INIT Asia-Pacific Pte. Ltd. ("INIT Singapore")	Singapore	100.0 %	100.0 %
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	60.0 %	60.0 %
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake / Virginia USA	75.0 %	100.0 %
GO-1 LLC ("GO-1")	Chesapeake / Virginia USA	100.0 %	100.0 %
iris-GmbH infrared & intelligent sensors ("iris")[2)]	Berlin, Germany	74.5 %	74.5 %
iris – infrared & intelligent sensores NA, Inc. ("iris Atlanta")[2)]	Atlanta / Georgia, USA	74.5 %	74.5 %
Sensores infrarrojos e inteligentes iris ltda. ("iris Santiago")[2)]	Las Condes / Santiago de Chile, Chile		74.5 %
inola GmbH ("inola")	Pasching, Austria	100.0 %	100.0 %
HanseCom Public Transport Ticketing Solutions GmbH ("HanseCom")	Hamburg, Germany	100.0 %	100.0 %
INIT innovation in transportations NZ Limited ("INIT Dunedin")	Dunedin, New Zealand	100.0 %	100.0 %
Mattersoft Oy ("Mattersoft")	Tampere, Finland	100.0 %	100.0 %
INIT Innovations in Transportations Ltd ("INIT Maynooth")	Maynooth, Ireland	100.0 %	100.0 %
IRIS ASIA-PACIFIC PTY LTD ("iris Melbourne")	Melbourne, Australia	74.5 %	
Hansecom BY ("Hansecom Minsk")	Misnk, Belarus	100.0 %	

Name	Registered office	Share as of 31/12/2019	Share as of 31/12/2018
Associated companies (at equity)			
maBinso software GmbH ("maBinso")	Hamburg, Germany	35.8 %	35.8 %
Bytemark Inc. ("Bytemark")	New York, USA	5.1 %	12.4 %

1) Fully exempted pursuant to Section 264 (3) HGB

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

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

A change occurred in connection with the investment in Bytemark in September 2019.

In September 2016, init had acquired a 26.44 per cent stake in Bytemark, as a result of which the investment was included in the consolidated financial statements "at equity". Bytemark carried out a capital increase in November 2017 in which init did not participate. In February and in July 2018, further capital increases were carried out in which init also did not participate. This diluted the shareholding to 12.4 per cent. In September 2019, further capital increases were implemented in which init also did not participate. As a result, the shareholding has been diluted to 5.1 per cent. As of 31 December 2019, the disclosure as an associated company as well as the inclusion in the consolidated financial statements using the equity method is maintained. The seat held by init on the Board of Directors of Bytemark gives init a significant influence.

Company formations in 2019 and 2018

On 16 July 2019, iris-GmbH infared & intelligent sensors, Berlin (iris-GmbH), in which INIT Innovative Informatikanwendungen in Transport-, Verkehr- und Leitsystemen GmbH, Karlsruhe (INIT GmbH), holds a 74.5 per cent stake, founded another subsidiary based in Melbourne, Australia.

On 26 December 2019, HanseCom and INIT GmbH founded a subsidiary Hansecom BY in Minsk, Belarus. HanseCom holds 99 per cent of the shares in this company and INIT GmbH holds 1 per cent. The main objective of Hansecom Minsk is to provide app development services on site and thus access capacity in Belarus. The equity capital of 50 TBYN had not yet been paid in as of 31 December 2019.

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

Business combinations in 2019 and 2018

There were no business acquisitions in 2019.

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 broadend especially in the area of 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. 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 were taken into account for Mattersoft 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, 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.

Trade accounts receivable and payable as well as expenses and income between consolidated companies are offset against each other. Assets from intracompany services are adjusted for 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, INIT Dunedin and iris Melbourne corresponds to their local 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 using 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 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 29.

Development costs

Development costs are capitalised in accordance with 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. Alongside this standardised approach, init carries out a case-by-case review of the inventories. Typical reasons for a markdown of the inventories are faulty products or technical obsolescence. Goods as well as work in process and finished goods are combined in one position. The devaluation was calculated on a generalised basis and taken into account to reduce profit. In 2018, 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-term construction contracts. Please refer to the remarks on inventories in note 17.

Right-of-use assets and lease liabilities

The group uses the incremental borrowing rate to calculate the net present value of the lease payments. The incremental borrowing rate is determined using as reference the general interest level and the group's internal interest rates for loans of a comparable maturity and duration. The incremental borrowing rate is defined by asset class and region of the leased asset and comes to 1.0 per cent for office buildings, 1.25 per cent for vehicles and 1.25 per cent for IT equipment. For other leases it is determined per individual contract.

Extension and termination options have to be considered for the determination of the lease period of contracts und the valuation of right-of-use assets. init determines the duration of a lease as the contract period including potential extension options that are highly likely to be exercised. Multiple contracts contain extension and termination options. The group regularly reviews whether a conclusive event has taken place or significant circumstances have occurred that can impact the end of lease contracts and thus, an extension or an early termination become probable.

Especially contracts for office buildings include extension and termination options with potentially significant impact. Extension and termination options are used once their exercise is considered to be predominantly likely. Currently, a termination option of leased office buildings within the group is not applied as it is not considered to be likely. Refer to note 19 for further information on the right-of-use assets or to note 27 for lease liabilities.

Revenue Recognition

init develops, manufactures, integrates, installs, maintains and operates software and hardware for transportation companies and provides related services. Revenue from contracts with customers is recognised in terms of the point in time and the period, when the power of disposition of goods or services is transferred to the customer. 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 streams. 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 concluded 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 best suited 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 the transfer of risk.

Contract terms with individual customers are considered in order to determine the transaction price assuming that contractually promised goods and services are transferred to the customer and the contract will not be terminated, extended or changed. The transaction price is the consideration whuch 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 weighted by probability and reduce revenue. From our experience the probability 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 extended guarantees, referred to as "service-type warranties". They 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 "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 note 29 "Provisions".

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

A contract liability is the obligation of the group to transfer goods or services to a customer for which he has received or will receive. Where a customer is required to pay a consideration before the group provides goods or services is transferred to him, a contract liability is recognised when the payment is made or due. The usual terms of payment of our receivables are 30 days without deduction/discount

Income from operating leases for investment property is reported in other operating income and spread evenly over the entire term of the lease. Please refer to the disclosures on IFRS 16 in note 20.

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.

Financial instruments and other financial assets

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 accounts receivable, other assets, trade accounts payable and other liabilities, it is assumed that the fair values correspond to the carrying amounts.

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

Valuation allowances for individual customer receivables are recorded when it appears probable that the invoices issued will not be paid. The write-off of a receivable against the valuation allowance already recorded is made when all possibilities to collect the receivables have been exhausted and these are therefore to be regarded as irrecoverable.

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.

Securities and bonds

Securities are classified as financial assets at fair value through other comprehensive income. Following their initial recognition, they are reported at their fair value (exchange or market price), with gains or losses recognised as a separate item in the shareholders' equity.

Trade accounts receivable and contract assets

Trade accounts receivable are non-derivative financial assets with fixed or estimable payments not listed in an active market. A receivable is recorded when an unconditional claim to consideration exists from the customer (i.e. it falls due automatically over time). After initial inclusion, the receivables are reported at amortised cost less any impairment losses. Impairment losses on trade accounts receivable are recognised if they are significantly overdue. For trade accounts receivable and contract assets, init uses a simplified method to calculate the estimated credit losses. Init therefore does not track changes in the credit risk but instead records risk provisioning based on the total ECL term. The group has a prepared an impairment matrix based on past experience with credit losses and adjusted for future-related factors which are specific for the borrower and the economic conditions. 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 gains and losses are included 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 on the reporting date 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 raised appropriately up to the maximum of their acquisition or production costs. The production costs comprise both direct costs and the manufacturing and material overheads incurred in production, any depreciation and other production-related expenses. Borrowing costs are reported as an expense in the period in which the debts were accrued. Impairment losses are recognised where necessary.

Property, plant and equipment

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

The average useful lives are as follows:

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

If there are indications of impairment, property, plant and equipment are tested for impairment inccordance with IAS 36.

Right-of-use assets

The group records right-of-use assets at the commencement date of the leased asset. According to IFRS 16.23 the commencement date is when the leased asset has been made available to the lessee in a useable condition. Right-of-use assets are carried at cost less accumulated depreciation and impairment losses and are adjusted in the event of a revaluation of lease liabilities. The amount of the right-of-use assets comprise the amount of the lease liabilities, initial direct costs and paid lease payments less any lease incentives received. Right-of-use assets are amortised on a straight-line basis over the lease term.

The following depreciation periods exist for the right-of-use assets depending on their asset class:

Office buildings	1-10 years
Vehicles	3-5 years
IT-equipment	3-5 years
Other	2-10 years

For information on right-of-use assets please refer to note 19 and for lease liabilities refer to note 27.

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 with 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 2019 as the conditions were not met.

After initial recognition of 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 commence 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 cost. Subsequent measurement takes into account the pro rata results of the company, the profit distributions effected and any impairments to be recognised on the carrying anount of the investment. If there is objective evidence that the net investment in the associated company is impaired, it is tested as a whole for impairment in accordance with IAS 36. If the recoverable amount is less than the amortised carrying amount of the net investment, it is written down to the recoverable amount.

Impairment of non-monetary assets

Long-lived non-monetary 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. For goodwill, this comparison finds for the group as a whole, as the group as a whole has only one cash-generating unit. 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. An income tax rate taken as the basis was 31.0 per cent was taken as a basis. 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 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 a payout is planned or predicted.

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

Other long-term liabilities

The company holds 25kg gold. The gold is measured at fair value.

Financial liabilities

Financial liabilities are carried at amortised cost.

Lease liabilities (short- and long-term)

init as lessee

The group applies a single approach and valuation for all leases (with the exception of short-term leases and leases for a low value assets). Lease liabilities are recognised showing the payment obligations for leased assets. Right-of-use assets represent the right to use the underlying asset for the period specified in the lease agreement. For further information on the right-of-use asset, please refer to note 19.

At the beginning of the lease, the group recognises lease liabilities, being the present value of the minimum lease payments to be made over the lease term. Lease payments include fixed rental payments for the leased assets less any incentives and a possible residual value guarantee. The group has no variable lease payments that are index-linked or rate-dependent.

Lease liabilities are revalued if there is a change in the lease term, a change in the lease payments (for example, changes in future payments), a change in the incremental borrowing rate or if there is a probable change in the valuation of an extension option.

For further information on the lease obligations recognised in the balance sheet, please refer to note 27.

Pensions accrued and similar obligations

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

The discount rate for the valuation of the obligations must be determined on the basis of returns, which are generated on the market for high-quality fixed-interest corporate bonds on the balance sheet date. According to prevailing opinion, these are corporate bonds with an AA rating. Payments based on the obligations are generally calculated taking into account actuarial gains and losses and assumptions are discounted to the balance sheet date using the interest rate equivalent to the term. This requires a yield curve which, depending on the term, represents a yield for AA-rated corporate bonds is depicted.

NOTES ON THE CONSOLIDATED INCOME STATEMENT

4. Revenues

Revenues are composed of the following amounts:

EUR '000	2019	2018
Revenues resulting from the application of the POC method and delivery projects	99,538	87,523
Revenues from maintenance contracts	31,980	24,598
Revenues from additional and replacement deliveries	24,946	23,590
Total	**156,464**	**135,711**

In the item "Revenues resulting from the application of the POC method and delivery projects" consists of EUR 24,124k (previous year: EUR 20,991k) from revenues of delivery projects.

Several projects for which revenues had already been recognised in 2018 were impacted in 2019 by additional work on unforeseeable cost increases. If the additional costs had been known in 2018, the percentage of completion of these orders as of 31 December 2018 would have been estimated lower. Furthermore, in 2019, for some projects new information led to adjustments to the estimate of total remuneration for the contract in question. If this new information had already been known as of 31 December 2018 in each case, the changes in estimates would have resulted in a decrease in contract assets and an increase in contract liabilities as of 31 December 2018 totalling EUR 5,241k. The revenues would in 2018 would decreased accordingly, and in 2019 revenues would have been higher by this amount.

5. Cost of sales

Cost of sales is composed as follows:

EUR '000	2019	2018
Cost of materials and purchased services	48,202	46,423
Personnel expenses	37,722	30,808
Depreciation and amortisation	4,924	3,334
Rental expenses	1,538	3,196
Travel and entertainment costs	2,667	2,407
Valuation adjustments on inventories	115	-1,150
Valuation allowances on trade accounts receivables	960	351
Other	7,098	4,363
Total	**103,226**	**89,732**

The first-time application of IFRS 16 resulted in a shift in 2019 between depreciation and rental expenses amounting to EUR 1,050k.

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, this item contains income from the reversal of provisions of EUR 656k (previous year: EUR 2.509k).

In 2018 the devaluation rate of inventories were adjusted to the changed business environment. This led to the 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	2019	2018
Software	8,137	10,219
Hardware	2,303	1,272
Total	**10,440**	**11,491**

The year-on-year decrease in research and development costs resulted from the above-average investment in new technologies in the previous year.

7. Other operating income

Other operating income primarily includes allocated benefits in kind and rental income. Additionally, EUR 528k (previous year: EUR 630k) results from public subsidies and subsidies from the European Union. Income from operating leases amounted to EUR 322k (previous year: EUR 325k).

8. Foreign currency gains and losses

EUR '000	2019	2018
Balance of unrealised currency gains / losses	1,287	-521
Balance of realised currency gains / losses	-709	-373
Currency gains / losses from consolidation transactions	95	25
Total	**673**	**-868**

Realised and unrealised gains and losses result almost exclusively from effects, resulting from USD and CAD positions.

9. Income tax

EUR '000	2019	2018
Current income tax	4,314	2,844
Deferred income tax	-411	211
Total	**3,903**	**3,054**

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 (previous year: 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	2019	2018
Profit before income tax	15,238	5,493
Theoretical income tax expenditure at 31.0%	4,724	1,703
Tax rate differences for foreign subsidiaries	-857	-318
Tax effect of non-deductible / taxed expenses / income	65	1,057
Tax effects of tax-free increases in net worth	0	13
Taxes unrelated to accounting period	-78	156
Tax effects from results of associated companies	88	556
Other	-39	-113
Effective income tax expenditure	**3,903**	**3,054**
Effective tax expenditure in %	**25.6**	55.6

The tax rate in 2019 is below the previous year and below the theoretical tax rate of 31.0 per cent. This is mainly due to the earnings of companies with lower tax rates. The reconsilation of the deferred tax assets and deferred tax liabilities to the deferred taxes reported in the consolidated income statement breaks down as follows:

EUR '000	2019	2018
Changes to deferred tax assets	775	-168
Changes to deferred tax liabilities	-41	301
Offset and recognised in equity	-444	-31
Currency adjustments	-121	109
Deferred tax expense (+) / income (-)	**-411**	**211**

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	2019	2018
Loans and receivables	102	64
Financial liabilities recognised at cost	-726	-730
Interest expenses for pensions	-190	-155
Others	-70	-58
Interest expense from leases	-118	0
Total	**-1,002**	**-879**

Currency effects:

EUR '000	2019	2018
Loans and receivables	-1,176	-159
Financial liabilities recognised at cost	-1	67
Financial assets and liabilities reported at fair value through profit or loss	518	660
Total	**-659**	**568**

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.

	2019	2018
Net profit (shareholders of the parent company) in EUR '000	11,335	2,440
Weighted average number of shares outstanding	10,005,661	10,011,030
Undiluted earnings per share in EUR	1.13	0.24

12. Paid and proposed dividends

EUR '000	2019	2018
Ordinary dividends declared and paid during the financial year	1,200	2,208
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2019: 40 cents per share (2018: 12 cents per share)	4,003	1,202

13. Personnel expenses

Personnel expenses totalled EUR 67,776k (previous year: EUR 61,235k).

Cost of sales includes the following amounts:

EUR '000	2019	2018
Wages and salaries	30,905	25,275
Social security contributions	4,980	4,239
Pension costs	1,628	1,213
Share-based payment expense	209	80

Sales and marketing expenses include the following amounts:

EUR '000	2019	2018
Wages and salaries	9,573	9,518
Social security contributions	1,283	1,137
Pension costs	362	360
Share-based payment expense	133	40

General administrative expenses includes the following amounts:

EUR '000	2019	2018
Wages and salaries	6,938	6,621
Social security contributions	979	871
Pension costs	263	283
Share-based payment expense	85	26

Research and development expenses include the following amounts:

EUR '000	**2019**	2018
Wages and salaries	8,512	9,426
Social security contributions	1,570	1,623
Pension costs	358	439
Share-based payment expense	0	0

NOTES ON THE CONSOLIDATED BALANCE SHEET

14. Cash and cash equivalents

EUR '000	**Fair values 2019**	Fair values 2018
Cash in banks (current accounts)	24,438	16,297
Short-term deposits (fixed-term deposits/call money)	1,736	4,323
Total	**26,174**	**20,620**

15. Marketable securities and bonds

This item refers to marketable securities and bonds with a total fair value of EUR 37k (previous year: EUR 28k). 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 9k (previous year: increased by EUR 1k).

16. Trade accounts receivable and contract assets

EUR '000	**2019**	2018
Gross trade accounts receivable	47,627	29,762
Less cumulative valuation aloowances	-4,602	-3,642
Subtotal	43,025	**26,120**
Contract assets	22,099	26,215
Total	**65,124**	**52,335**

Compared to the previous year, trade accounts receivable rose sharply due to a high number of billings at the end of the year.

The valuation allowances for trade accounts receivable developed as follows:

EUR '000	2019	2018
As of 01/01	3,642	3,127
Addition	1,004	648
Utilised	0	0
Unused amounts reversed	-106	-262
Currency effects	62	129
As of 31/12	**4,602**	**3,642**

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 aging structure of trade accounts receivable was as follows:

EUR '000	2019	2018
Carrying amount	65,124	52,335
Adjusted gross receivables	4,467	4,117
Neither past due nor impaired	48,164	38,570
Past due but not impaired		
< 30 days	5,056	5,640
30–60 days	4,328	1,185
60–90 days	1,598	489
90–180 days	817	736
> 180 days	694	1,598

The past due trade accounts receivable amount to EUR 17.0m (previous year: EUR 13.8m), of which projects in Dubai account for EUR 3.1m (previous year: EUR 3.1m). Of the past due trade accounts receivable in Dubai, around EUR 3.1m (previous year: EUR 2.9m) was written down. The general contractor for the first Dubai project did not pass payments from the end customer of AED 12.1m on to us. init has carried out various enforcement measures in Dubai and Kuwait that have not been successful to date. There is therefore a high probability that these receivables will be lost.

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	2019	2018
Costs accrued plus profits from projects not yet invoiced	225,712	208,882
Less payments received	-220,048	-188,854
Balance	**5,664**	**20,028**
Of which: contract asset	22,099	26,215
Of which: contract liabilities	16,435	6,188

The increase in contract liabilities as well as the decrease in contract assets is mainly due to advance payments received in newly acquired major projects and improved payment terms for ongoing projects.

17. Inventories

EUR '000	2019	2018
Raw materials and supplies	1,694	1,512
Goods and unfinished and finished products	25,482	25,314
Advance payments to suppliers	607	1,083
Total	**27,783**	**27,909**

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 led to an adjustment throught proft and loss of EUR 1,142k.

18. Other current assets

EUR '000	2019	2018
Derivative financial instruments	28	137
Prepaid expenses	907	547
Other tax refund claims	1,324	942
Cost to obtain a contract	435	106
Cost to fulfil a contract	359	531
Due from personnel	354	371
Other	327	519
Total	**3,734**	**3,153**

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 fulfil 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	Right of use	Assets under construction
Acquisition and production costs					
As of 01/01/2019	34,107	3,823	10,012	0	0
Additions in current financial year	76	1,077	2,747	15,046	1,363
Disposals in current financial year	3	183	509	0	0
Reclassification in current financial year	427	0	0	0	0
Currency differences	249	43	119	-13	0
Acquisition of subsidiaries	0	0	0	0	0
As of 31/12/2019	34,856	4,760	12,369	15,033	1,363
Depreciation					
As of 01/01/2019	3,633	2,332	6,334	0	0
Additions in current financial year	880	556	1,793	2,532	0
Disposals in current financial year	0	155	484	0	0
Reclassification in current financial year	33	0	0	0	0
Currency differences	13	26	83	0	0
As of 31/12/2019	4,558	2,759	7,726	2,532	0
Carrying amount as of 31/12/2019	**30,297**	**2,001**	**4,643**	**12,501**	**1,363**

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	0
Additions in current financial year	244	413	1,738	0	0
Disposals in current financial year	86	44	583	0	0
Reclassification in current financial year	40	877	-936	0	0
Currency differences	510	85	96	0	0
Acquisition of subsidiaries	0	0	6	0	0
As of 31/12/2018	34,107	3,823	10,012	0	0
Depreciation					
As of 01/01/2018	2,714	1,190	5,860	0	0
Additions in current financial year	865	536	1,619	0	0
Disposals in current financial year	0	38	547	0	0
Reclassification in current financial year	36	593	-647	0	0
Currency differences	18	51	49	0	0
As of 31/12/2018	3,633	2,332	6,334	0	0
Carrying amount as of 31/12/2018	**30,474**	**1,491**	**3,678**	**0**	**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 2019 totalled EUR 5,760k (previous year: EUR 3,020k) 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.

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 2.8m (previous year: EUR 4.1m).

Due to the first-time application of IFRS 16, additions to the right-of-use assets of office buildings were EUR°13,512k and EUR 1,155k were vehicles. Further additions belong to the asset classes IT-equipment and other. Depreciations of the right-of-use assets amount to EUR 2,001k of office-buildings and EUR 401k of vehicles in 2019. The remaining depreciation relates to IT-equipment and others.

Property, plant and equipment contain prepayments for assets under construction amounting to EUR 1,363k from the reconstruction of a not fully equipped building, where the contract has been signed in 2019. According to IFRS 16 Appendix B1, such a contract cannot be activated as a right-of-use asset, when the commencement date is not in 2019. Out of the same contract further prepayments of EUR 383k exist.

Right-of-use assets

The carrying amounts of the rights of use recognised in the balance sheet and the changes during the reporting period are presented below:

EUR '000	Office buildings	Vehicles	IT-equipment	Other	Total
At 1. January 2019	7,873	706	55	138	8,772
Additions during the year	5,639	449	82	92	6,262
Decpreciation expense	-2,001	-401	-40	-90	-2,532
At 31. December 2019	11,511	754	96	140	12,501

The status as of 1 January 2019 results exclusively from the first-time application of IFRS 16.

Right-of-use assets consist mainly of rented office buildings. The right-of-use asset of the office building Kaeppelestrasse 6 of init SE in Karlsruhe amounts to EUR 3,516k at the year end 2019. The additions of the right-of-use assets result mainly from newly rented offices in USA of EUR 2,200 and in Hamburg of EUR 1,612k as well as the use of extension options of some office buildings.

20.Investment property

EUR '000	**2019**	2018
Acquisition costs as of 01/01	2,024	2,012
Additions in financial year	0	0
Changes in property, plant and equipment in financial year	-427	0
Currency differences	6	12
Acquisition costs as of 31/12	1,603	2,024
Depreciation as of 01/01	126	94
Additions in financial year	30	31
Reclassifications in property, plant and equipment in financial year	-33	1
Depreciation as of 31/12	123	126
Carrying amount as of 31/12	**1,480**	**1,898**

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

EUR '000	2019	2018
Rental income from investment property	322	325
Direct operating expenses * used to generate rental income	16	14

* 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.

The investment property is measured at amortised cost plus incidental costs and recognised on the balance sheet at a carrying amount of EUR 1.5m (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.

As of 31 December 2019, the property in the Kaeppelstrasse 8 was reclassified due to a change in usage to own use. Acquisition costs of EUR 427k were transferred to property, plant and equipment.

The fair value at the end of the reporting period amounts to EUR 1.4m. 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 01/01/2019	9,035	8,483	18,356
Additions in current financial year	0	0	389
Disposals in current financial year	0	0	55
Acquisition of subsidiaries	0	0	0
As of 31/12/2019	9,035	8,483	18,690
Depreciation			
As of 01/01/2019	0	8,483	8,584
Additions in current financial year	0	0	1,396
Disposals in current financial year	0	0	55
Currency differences	0	0	0
As of 31/12/2019	0	8,483	9,925
Carrying amount as of 31/12/2019	**9,035**	**0**	**8,765**

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
Currency differences	0	0	0
As of 31/12/2018	8,987	8,483	17,063
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**

The scheduled depreciation for items of property, plant and equipment, goodwill and other intangible assets totalled EUR 7,191k (previous year: EUR 4,545k) and is included in the consolidated income statement under "Cost of sales" (EUR 4,924k), "Sales and marketing expenses" (EUR 787k) and "General administrative expenses" (EUR 1,480k). Of the scheduled depreciation and amortisation, an amount ofEUR 2,532 k is attributable to the rights of use to be recognised for the first time in 2019 in accordance with IFRS 16.

Impairment test of goodwill

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 8.2 per cent before taxes (previous year: 9.14 per cent).

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

- Revenues
- Free cash flow
- Discount rate

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

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

Discount rate: The discount rate reflects the estimate of the company management in regard to the risks relating to the cash-generating unit. An interest rate of 6.5 per cent (previous year: 6.3 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 10.6 percentage points (previous year: 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 13.1 per cent (previous year: 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 319,150k (previous year: EUR 163,089k).

Other intangible assets

Licences and others:
The licences include external software costs as well as programming and consulting of EUR 678k (previous year: EUR 829k). The scheduled amortisation amounts to EUR 539k (previous year: EUR 520k) and is included in the consolidated income statement item “Cost of sales”.

The capitalised technology and the capitalised customer base from the acquisition of iris-GmbH in 2016 amounted to EUR 5,902k (previous year: EUR 6,415k). 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 acquisition of HanseCom in 2016 amounts to EUR 1,151k (previous year: EUR 1,365k). Scheduled amortisation amounts to EUR 214k (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 acquisition of Mattersoft in 2018 amounted to EUR 1,034k (previous year: EUR 1,163k). Scheduled amortisation amounts to EUR 129k (previous year: 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 net profit amounted to EUR 428k (previous year: EUR 79k). In 2019, the pro-rata result for init group amounted to EUR 205k. No payout was made in the 2019 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 2019 totalled USD 4,901k. The earnings before tax for the full year 2019 is USD -3,058k. The net profit corresponds to the total result and amounts to USD -3,066k (previous year: USD -5,772k). The pro-rata result of the init group for 2019 is EUR -301k. No payout was made in the financial year 2019. In 2018, due to a price paid in a market transaction per share in Bytemark there were indications for an impairment of the shares in the associated company, as this was below the mathematically continued value of the shares held by init. After an impairment test was carried out and the necessity of a value adjustment as of December 31, 2018, write-downs down to USD 650k were made. In fiscal year 2019, we have completely written down our stake in Bytemark. The change since the previous year of USD -650k consists of the amount of USD 337k and the devaluation of USD 313k. The current and non-current assets amount to USD 2,928k. This corresponds to total assets. Together current and non-current liabilities total USD 479k.

23. Deferred taxes

The deferred tax assets and liabilities are as follows:

EUR '000	2019	2018
Deferred tax assets		
Trade accounts receivable	171	68
Inventories	1,600	1,692
Other assets	487	501
Provisions	497	447
Pensions accrued and similar obligations	1,988	1,504
Total deferred tax assets	**4,743**	**4,212**
Deferred tax liabilities		
Contract asset	1,696	1,541
Other assets	243	469
Property, plant and equipment	203	131
Goodwill	14	8
Other intangible assets	2,120	2,221
Other liabilities	69	178
Total deferred tax liabilities	**4,345**	**4,548**

As in the previous year, no deferred tax assets were recognised for previously unused tax losses carried forward. As of 31 December 2019, the unused tax losses carried forward came to EUR 4,393k (previous year: EUR 3,790k).

As of 31 December 2019, there were no deferred tax liabilities on retained earnings of subsidiaries on the grounds that 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 44.5m (previous year: EUR 34.8m).

In the reporting period deferred tax assets and deferred tax liabilities of EUR 1,726k were netted out.

24. Other non-current assets

EUR '000	2019	2018
Asset value of pension liability insurance	1,307	1,299
Security deposits *	397	414
Gold stock	1,091	901
Other *	397	156
Total	**3,192**	**2,770**

* 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

	31/12/2019			31/12/2018		
		Remaining term			Remaining term	
EUR '000	**Total**	< 1 year	>5 years	Total	< 1 year	>5 years
Bank loans (short- and long-term)	30,070	17,842	1,655	35,832	18,390	3,572
Trade accounts payable	8,560	8,560	0	9,417	9,417	0
Contract liabilities	16,435	16,435	0	6,188	6,188	0
Advance payments received	747	747	0	1,430	1,430	0
Income tax liabilities	3,034	3,034	0	1,056	1,056	0
Other liabilities (short-term)	20,697	20,697	0	12,184	12,184	0

Terms relating to the above financial liabilities:
The bank loans of EUR 30,071k (previous year: EUR 35,832k) relate to long-term loans of EUR 1,732k (previous year: EUR 2,814k) 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 1,081k (previous year: EUR 1,322k). In addition, there are loans for acquisition financing of EUR 3,345k (previous year: EUR 5,345k), investment loans of EUR 1,998k (previous year: EUR 1,997k) as well as a long-term loan of EUR 9,583k (previous year: EUR 10,000k). Further euro loans amounting to EUR 12,332k (previous year: EUR 14,000k) as well as other bank loans of EUR 0k (previous year: EUR 354k) exist.

The long-term loan of EUR 9,583k is subject to minimum capital requirements. A dynamic debt ratio of 3.5 must not be exceeded. If this is exceeded the loan can fall due immediately. Due to the close monitoring and planning of this key figure, as well as the current liabilities and EBITDA, init does not expect to exceed this figure in the future.

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	**2019**	92,279	4,179	46,500	41,600
Credit insurance companies	**2019**	17,000	0	17,000	0
Bond line for USA and Canada	**2019**	75,655	0	0	0
Banks	2018	97,960	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

The credit and guarantee lines are sufficient to finance the further growth of the company. As of 31 December 2019, the cash line drawdown totalled EUR 12,332k (previous year: EUR 14,000k), the guarantee lines EUR 25,646k (previous year: EUR 21,426k), and the bond line EUR 75,655k (previous year: EUR 64,977k).

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 35.

For the terms and conditions relating to the liabilities from derivative financial instruments included in the other liabilities, please refer to note 31.

26. Other liabilities (non-current and current)

	31/12/2019			31/12/2018		
		Remaining term			Remaining term	
EUR '000	**Total**	< 1 year	> 1 years	Total	< 1 year	> 1 years
Tax liabilities	2,390	2,390	0	1,787	1,787	0
Due to personnel	7,034	7,034	0	5,749	5,749	0
Derivative financial instruments	39	39	0	259	259	0
Social security liabilities	305	305	0	294	294	0
Liabilities for services not invoiced by subcontractors	22	22	0	19	19	0
Liabilites from option contracts	4,000	4,000	0	3,742	0	3,742
Lease liabilities	2,487	2,487				
Sundry	4,420	4,420	0	4,224	4,076	148
Total	**20,697**	**20,697**	**0**	**16,074**	**12,184**	**3,890**

The “Sundry” item mainly contains deferred revenues from prepaid maintenace contracts of EUR 3,017k (previous year: EUR 2,815k). There are no other liabilities with a residual term of more than 5 years.

The “Sundry” item includes current financial liabilities of EUR 1,401 k (previous year: EUR 1,283 k). The put option underlying the item "Liabilities from option contract" can be exercised until 30 June 2020.

27. Lease liabilities (short-and long-term)

The maturities of the lease liabilities are as follows:

EUR '000	Office buil-dings	Vehicles	IT-Equipment	Other	Total
Within 1 year	2,015	389	19	69	2,487
More than 1 and up to 5 years	6,968	370	66	49	7,453
More than 5 years	2,918	0	0	30	2,948

The following table shows the lease obligations pursuant to IAS 17 from the previous year:

EUR '000	31/12/2018
< 1 year	2,690
1–5 years	7,555
> 5 years	2,821
Total	**13,066**

The annual obligations from rental agreements of init amount to EUR 2,015k of which EUR 547k are attributable to the rental of the office building in Karlsruhe (contract term until 2026). No obligations are imposed on the lessee upon conclusion of these leasing agreements.

The following table shows the carrying amounts of the lease liabilities and the changes during the reporting period:

EUR '000	2019
As of 01/01/2019	8,772
Additions	6,513
Interest increase	118
Payments	-2,849
As of 31/12/2019	12,554
thereof short-term	2,487
thereof long-term	10,067

The following amounts were recognised in profit or loss in the reporting period:

EUR '000	2019
Depreciation expense during the year	2,532
Interest expense for lease liabilities	118
Expense relating to short-term leases	155
Expense relating to leases for low value assets	26
Total amount recognised in profit or loss	2,831

The expenses from operating leases in accordance with IAS 17 amounted to around EUR 2,500k in the previous year.

28. Provisions

EUR '000	As of 01/01/2019	Currency differences	Utilised	Unused amounts reversed	Addition	**As of 31/12/2019**
Provisions for warranties	3,131	-26	21	176	923	3,883
Provisions for unrealised costs	5,727	-99	12	405	69	5,478
Provisions for anticipated losses related to projects	1,267	-15	448	25	688	1,497
Other provisions	483	-3	92	0	215	609
Total	**10,608**	**-143**	**573**	**606**	**1,895**	**11,467**

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 adjustment of the method in the previous resulted in non-recurring income of EUR 784k 2018.

The provisions for unrealised costs essentially concerns 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.

29. 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.. 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)	1.00 (1.85)
Biometric basis	Klaus Heubeck's "Richttafeln G" (actuarial tables) of 2018
Pension trend in per cent (previous year)	4.00 (4.00)
Employee turnover in per cent (previous year)	0.00 (0.00)

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

EUR '000	**2019**	2018
Pensions accrued at the beginning of the year (Defined Benefit Obligation – DBO)	9,907	9,780
Service cost	94	117
Interest cost	180	160
Actuarial gains (–) / losses (+)	1,430	-103
Pension payments	-47	-47
DBO at the end of the year	11,564	**9,907**
Plan assets	-415	-402
Pensions accrued	11,149	**9,505**

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

EUR '000	**2019**	2018
Fair value of the plan assets on 01/01	402	390
Interest income from plan assets	3	3
Financial actuarial gains (+) / losses (-)	-1	-1
Contributions to plan assets by the group	11	10
Fair value of the plan assets on 31/12	**415**	**402**

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

EUR '000	**2019**	2018
Service cost	94	117
Interest cost	180	160
Expenses for pension payments	**274**	**277**

In the consolidated income statement, the service cost is included in the “cost of sales” (EUR 71k), the “sales and marketing expenses” (EUR 12k) and the “general administrative expense” (EUR 11k), and the interest paid is reported in the item of the same name.

EUR '000	**2019**	2018
Cumulated amount of the financial actuarial gains included in the shareholders’ equity, after deducting deferred taxes	-3,802	-2,816

EUR '000	**2019**	2018
Defined benefit obligation (DBO) on 31/12	11,563	9,907
Experience adjustments	85	35

The provisions for pensions attributable to persons in key management positions totalled EUR 4,866k (previous year: EUR 4,614k). Of this, an amount of EUR 693k (previous year: EUR 224k) pertains to two former Managing Board members.

Sensitivities of the principal actuarial assumptions

The interest rate and 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
2019	-1,261	557 689	205	-998
2018	-1,000	525	191	-747

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 173k (previous year: EUR 161k) 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):

2020	2021	2022	2023	2024	2024-2028
286	308	348	365	378	2,110

Previous year

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

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 plan regulations for new commitments. Accordingly, the company no longer makes any new, direct commitments. The amount recorded as expenses for contribution-based plans totalled EUR 857k (previous year: EUR 804k), of which EUR 167k (previous year: EUR 139k) is allocated to persons in key management positions.

30. 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:

	2019	2018
As of 01/01	10,010,857	9,986,176
Acquisition of treasury stock	-15,164	-28,578
Issue of stock to Managing Board, managing directors and key personnel	7,373	772
Issue of stock to employees	0	17,569
Issue of stock for the acquisition of subsidiaries	0	34,918
As of 31/12	**10,003,066**	**10,010,857**

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

Managing Board	Number of shares	Supervisory Board	Number of shares
Dr. Gottfried Greschner, CEO *	3,445,000	Hans-Joachim Rühlig	0
Dr. Jürgen Greschner, CSO	94,400	Ulrich Sieg	0
Jennifer Bodenseh, CFO	1,636	Christina Greschner	371,523
Matthias Kühn, COO	5,330	Drs. Hans Rat	0

* 3,405,000 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 43.

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.

Authorised capital

By resolution of the Annual General Meeting of the company on 15 May 2019, the Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital of the company in the period until 15 May 2024, once or in partial amounts on several occasions by up to a total of 1,004,000.00 by issuing new no-par value bearer shares with or without voting rights ("Authorized Capital 2019"). The capital increases may be effected against cash and/or non-cash contributions take place. The Management Board is also authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory subscription right, in particular in the following cases:

- for a capital increase against cash contribution, up to a total of 10 per cent of the existing share capital, provided that the issue price of the new shares is not significantly lower than the stock exchange price of the already listed shares of the same class and features.
- insofar as it is necessary to grant a subscription right to new shares to the extent to which they would be entitled after exercising the conversion and/or option rights or after fulfilling the conversion and/or option obligations
- for the fractional amounts resulting from the subscription ratio;
- to open up additional capital markets;
- for a capital increase against contributions in kind for the acquisition of companies, parts of companies or interests in companies or other assets (even if a purchase price component is paid out in cash in addition to the shares) or within the scope of company mergers or amalgamations
- to transfer up to 250,000 new shares as employee shares.

Additional paid-in capital

The additional paid-in capital on 31 December 2019 amounted to EUR 5,688k, 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 1,607k was transferred from 2005 to 2018 as part of the recognised expenses from the share-based payments (see note 36). In 2019 an amount of EUR 426k was transferred.

Treasury stock

The treasury stock as of 1 January 2019 totalled 29,143 shares. Based on a resolution passed at the shareholders' meeting of 13 May 2015, the company is authorised to purchase treasury shares. On 9 April 2019 a decision was made to repurchase up to 38,000 shares. 15,164 shares were repurchased from 11 April to 17 April 2019 at an average price of EUR 13.22.

As part of a stock ownership plan 7,373 shares were transferred to board members and managing directors with a vesting period of five years where shares cannot be resold. 6,385 shares of the total 7,373 transferred shares were sold to subsidiaries for transfer to their employees. On 31 December 2019, there were 36,934 treasury shares.

The company's treasury stock was measured at acquisition cost at EUR 582k (previous year: EUR 510k) and openly deducted from the equity capital. The total of 36,934 shares as of 31 December 2019 correspond to an imputed share of EUR 36,934 (0.37 per cent) of the capital stock. The shares were repurchased at an average price of EUR 15.77 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 70,505k (previous year: EUR 60,479k) 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. In addition, a resolution of the Annual General Meeting of 15 May 2019 created authorised capital of up to EUR 1,004,000.

31. 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. 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 in more detail below.

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 2019 had appreciated by 10 per cent, the operating result would have been EUR 556k less. The resulting appreciation of forward exchange transactions would have totalled EUR 309k. As a counter-effect, it would also have resulted in expenses of EUR 865k 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 2019 had depreciated by 10 per cent, the operating result would have been EUR 680k higher. This breaks down as follows: EUR 378k relates to forward exchange transactions, compensated for by appreciation of cash in banks, accounts receivable and liabilities in foreign currency of EUR 1,058k.

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.

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 contracts are publicly subsidised and, on the other, to the fact that the contracts are usually paid on account or billed with reference to predefined milestones. Furthermore, the trade accounts receivable are checked for receipt of payment and if necessary dunned once a fortnight.. Allowance for individual receivables is recognised when it is probable that the invoices issued will not be settled. The losses of receivables outstanding for the 2019 financial year totalled EUR 0k (previous year; EUR 0k).

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 2019, 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. Please refer to note 26 for more information about the existing lines of credit.

As on 31 December 2019, the future cash flows from the financial liabilities were as follows:

EUR '000	Carrying amount	2020	2021	2022-2024	> 2024
Non-derivative financial liabilities					
Other financial liabilities	40,020	27,562	4,144	6,659	1,655
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	39	39	0	0	0
Derivative financial assets	-28	-28	0	0	0
Total		**11**	**0**	**0**	**0**

The derivative financial liabilities and assets result in payments totalling EUR 3,387k and payments received totalling EUR 3,376k.

As on 31 December 2019, the cash flows from lease liabilities were as follows:

EUR '000	Carrying amount	2020	2021-2024	> 2024
Lease liabilities				
not yet started leases	0	511	2,043	2,681
Lease liabilities	12,554	2,487	7,453	2,948
thereof according to contract duration	0	2,306	5,829	2,271
thereof possible extension options	0	186	1,624	677

The cash flows from lease liabilities with an extension options which are likely to be exercised include payments from rental agreements without a concrete termination date.

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.

32. 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 2019 compared to 31 December 2018 and shows their classification in appropriate measurement categories according to IFRS 9:

	2019	2018
ASSETS		
Loans and receivables	**91,987**	**73,891**
Cash and cash equivalents	26,174	20,620
Trade accounts receivable	43,025	26,120
Accounts receivable due from related parties	52	95
Contract Assets	22,099	26,215
Other financial assets (current)	637	841
Other financial assets (non-current)	0	0
Financial assets available for sale	**37**	**28**
Marketable securities and bonds	37	28
Financial assets reported at fair value through profit or loss	**28**	**137**
Derivative financial assets	28	137
LIABILITIES		
Financial liabilities recognised at cost	**44,032**	**50,411**
Bank loans (current and non-current)	30,071	35,832
Trade accounts payable	8,560	9,417
Accounts payable due to related parties	0	10
Other liabilities (current)	5,401	1,262
Other liabilities (non-current)	0	3,890
Financial liabilities reported at fair value through profit or loss	**39**	**259**
Derivative financial instruments	39	259

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.

Notes

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 31/12/2019	Level 1	Level 2	Level 3
Financial assets reported at fair value through profit or loss				
Derivative financial assets	28	0	28	0
Financial assets available for sale				
Marketable securities and bond issues	37	37	0	0
Financial liabilities reported at fair value through profit or loss				
Derivative financial instruments	39	0	39	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 31/12/2018	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 assets available for sale				
Marketable securities and bond issues	259	0	259	0

Over the course of the reporting periods which ended 31 December 2019 and 31 December 2018, 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.

The measurement of fair value at Level 2 in the current financial year and the previous 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 and pound sterling from firm transactions. The following derivative financial instruments were concluded:

	Nominal value		Market values	
EUR '000	**31/12/2019**	31/12/2018	**31/12/2019**	31/12/2018
Forward exchange transactions (Sale) in USD	2,252	11,511	28	-234
Forward exchange transactions (Sale) in GBP	1,135	2,256	-39	27
Forward exchange transactions (Sale) in NZD	0	2,245	0	85
Forward exchange transactions (Purchase) in DKK	0	228	0	0

33. Contingencies and other liabilities

Contingent liabilities

Contingent liabilities in the amount of EUR 373k result from a legal dispute in case of a loss. The probability of a loss is still evaluated as low. A contingent liability of EUR 184k (previous year: EUR 340k) currently exists from unclarified technical specifications .

Further contingent liabilities did not exist on 31 December 2019.

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

34. Additional notes on the cash flow statement

The cash flow from operating activities includes proceeds from interest amounting to EUR 98k (previous year: EUR 78k) and interest payments amounting to EUR -317k (previous year: EUR -435k).

The cash outflows due to leases amounted to EUR 4,343k, of which EUR 131k are attributable to the cash flow from operating activities and prepayments for a right-of-use asset amounting to EUR 1,363k to the cash flow from investing activities, another EUR 2,849k to the cash flow from financing activities.

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 1,200k (previous year: EUR 2,208k).

35. 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	**31/12/2019**	31/12/2018	**31/12/2019**	31/12/2018
Trade accounts receivable and other income	250	349	0	0
Trade accounts payable and other expenses	130	447	574	578
Receivables on 31/12	277	95	0	0
Payables on 31/12	14	10	0	0

Associated companies

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

Other related party transactions

init SE rents an office building in Kaeppelestrasse 6 in Karlsruhe with 67.39 per cent from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe and with 32.61 per cent from Eila Greschner. The monthly rent payments are approximately EUR 46k (total annual rent: EUR 547k). The rent is contractually fixed until 30 June 2026. Total payments of EUR 9k (previous year: EUR 12k) 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 2019 (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 40.

36. 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 the UK, Luxembourg, the Netherlands and Norway) and North America (USA and Canada).

Revenues 01/01 to 31/12

EUR '000	2019	%	2018	%
Germany	44,426	28.5	40,630	29.9
Rest of Europe	37,906	24.2	30,124	22.2
North America	55,673	35.6	49,876	36.8
Other countries (Australia, UAE)	18,459	11.7	15,081	11.1
Group total	**156,464**	**100.0**	**135,711**	**100.0**

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

Non-current assets 31/12

EUR '000	2019	%	2018	%
Germany	43,426	72.7	32,596	67.8
Rest of Europe	680	1.1	1,736	3.6
North America	14,990	25.1	13,446	28.0
Other countries (Australia, UAE)	622	1.0	284	0.0
Group total	**59,718**	**100.0**	**48,062**	**100.0**

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

37. Share-based renumeration

Employee shares

In 2019, employees will have the choice of receiving 500 euro in cash (gross) or 25 init shares as remuneration. In 2018, there was no share-based remuneration for employees.

Equity-settled management bonuses

A further bonus for 2019 in the form of 750 or 1,500 shares will be granted to the Management Board, if EBIT exceeds EUR 8m after deduction of all bonuses. In addition, for every EUR 1m profit of the amount exceeding EUR 8m up to an amount of EUR 15m further 150 or 300 shares as a bonus. Likewise, for every EUR 1m euros of profit in excess of EUR 15m 250 and 500 shares were granted as a bonus. The number of shares is limited to 10,000 and 20,000 Shares restricted. In the previous year, the Management Board was entitled to a further bonus in the form of 750 and 1,500 shares EUR 5m before taxes and after deduction of all bonuses. In addition, for each EUR 1m of profit in excess of EUR 5m, up to an amount of 10m, a further 50 or 100 shares were granted as bonuses. In addition, a profit of EUR 1m of the amount exceeding EUR 10m up to an amount of EUR 15m, a further 100 or 200 shares is granted as a bonus. Likewise, for every 1 million euros of profit in excess of EUR 15m, further 150 and 300 shares respectively were granted as a bonus. The number of shares was limited to 6,000 and 12,000 shares limited. The shares are subject to a lock-up period of five years and cannot be sold during this period. will be. The income tax on the pecuniary advantage of 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, managing directors of subsidiaries of the company are paid an equity settled bonus, the amount of which depends on the level EBIT. A total of 7,373 shares (previous year: 17,619) 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.

As of 31 December 2019, the valuation was based on 18,275 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 301k (EUR 23.50 per share) for the Managing Board and EUR 126k (EUR 23.10 per share) for key personnel; these amounts were recorded as expenses in 2019.

38. Subsequent events

There are no events after the balance sheet date that have a material impact on the net assets, financial position and results of operations. Please refer to the management report for the effects of the coronavirus.

39. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

	2019	2018
Employees Germany	680	637
Employees rest of Europe	40	32
Employees North America	123	109
Employees other countries	23	18
Total	**866**	**796**

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)
Joachim Becker, Karlsruhe, Germany	Chief Operating Officer / Central Telematics and IT to 31/03/2019
Jennifer Bodenseh, Landau, Germany	Chief Financial Officer
Matthias Kühn, Karlsruhe, Germany	Chief Operating Officer / Telematics, Ticketing and IT

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 Supervisory 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
Dipl.-Ing. (FH), M.A. Christina Greschner Karlsruhe, Member (since 15.05.2019)	Currently on parental leave
Drs. Hans Rat, Schoonhoven, The Netherlands, Member	Honorary Secretary General of UITP, Managing Director of Beaux Jardins B.V., Schoonhoven, The Netherlands

40. Disclosure of the compensation of key management personnel

The members of the Managing Board received total remuneration of EUR 2,225k (previous year: EUR 1,961k). This total includes fixed salaries of EUR 1,475k (previous year: EUR 1,733k), variable remuneration in the form of management bonuses of EUR 204k (previous year: EUR 0k), and EUR 546k (previous year: EUR 146k) 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 976k (previous year: EUR 668k). This total includes fixed salaries of EUR 881k (previous year EUR 645k), variable remuneration in theform of management bonuses of EUR 38k (previous year: EUR 18k) and EUR 57k (previous year: EUR 5k) 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 2019 amounted to EUR 236k (previous year: EUR 111k). This includes a variable share of EUR 121k (previous year: EUR 35k) and is distributed as follows:

EUR '000	Fixed	Variable
Dipl.-Kfm. Hans-Joachim Rühlig	50	56
Dipl.-Ing. Ulrich Sieg	25	28
Dipl.-Ing. (FH), M.A. Christina Greschner	15	9
Drs. Hans Rat	25	28

In the 2019 financial year, the members of the Supervisory Board received EUR 0k (previous year: EUR 0k) for consulting activities.

41. Auditor

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, received compensation for audits of EUR 287k (previous year: EUR 289k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 22k (previous year: EUR 6k). Other appraisal services incurred costs of EUR 0k (previous year: EUR 0k), and other services, of EUR 16k (previous year: EUR 10k).

42. 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 11 December 2019, and was made available to the shareholders on our website at https://www.initse.com/ende/investors/corporate-governance.html

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

For the year 2019, no notifications of changes in the voting rights of init SE pursuant to Section 21 et seq. WpHG.

44. Approval of consolidated financial statements

At the board meeting on 3 March 2020, the consolidated financial statements and the combined management report on 31 December 2019 of init SE issued up by the Managing Board were approved for submission to the Supervisory Board.

Karlsruhe, 13 March 2020

The Managing Board

Dr. Gottfried Greschner

Dr. Jürgen Greschner

Jennifer Bodenseh

Matthias Kühn

AUDIT OPTION

"Independent auditor's report

To init innovation in traffic systems SE, Karlsruhe

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 to 31 December 2019, the consolidated balance sheet as of 31 December 2019, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2019, 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 to 31 December 2019. In accordance with German legal requirements, we have not audited the content of the statement on corporate governance published on the website, which is a component of the management report, and the Responsibility Statement by the Legal Representatives included in the management report.

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 at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019, 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 declaration on corporate governance and 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 consolidated 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 to 31 December 2019. 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 are generally long-term construction contracts; income from these contracts is recognized using the percentage of completion (PoC) method based on the effective progress of the respective performance obligations. The percentage of completion of unfinished and incomplete performance 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 performance obligations identified in 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 also a risk of error or infringement, whether due to fraud or error, when determining the achievement of performance targets and forecasts. The further application of IFRS 15 in financial year 2019 regarding the disclosures in the notes to the financial statements was also relevant for our audit.

Auditor's response

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

Our audit procedures included reviewing significant contracts and analysing the identified performance obligations. The audit also included reviewing whether the progress of the project with regard to the contract values and the share of the costs incurred was determined correctly. For this purpose we particularly reviewed the allocation of costs regarding the amount and the related project using orders, evidence of performance as well as supplier invoices. We also reviewed samples of costs reported by every employee involved on a project by reconciling the incurred hours with the recorded hours and obtained an understanding of the hourly rates used for the calculation for individual employee groups. Furthermore, we tested the recognized future costs for plausibility and assessed the budget history to draw conclusions regarding reliability of the future cost estimates. 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 IFRSs standards. To address the audit risk of this audit field, we ensured group-wide consistent audit procedures by issuing corresponding instructions to the component auditors. With regard to further application of IFRS 15, we examined the processes implemented by init innovation in traffic systems SE for determining the necessary disclosures in the notes to the financial statements.

In assessing the contract analysis performed by the executive directors, we evaluated in particular whether the requirements to recognize revenue over a period of time have been met based on a sample of construction contracts.

In addition, we have acknowledged the disclosure of revenue recognition carried out in accordance with IFRS 15 of init innovation in traffic systems SE's consolidated notes in chapter II. and chapter III. (1). Our audit procedures did not lead to any reservations relating to the accounting treatment of project-related revenues.

Reference to related disclosures

The disclosures on revenue recognition from construction contracts are to be found in the "Revenue Recognition" section of Section 3 "Accounting policies and consolidation principles" and in Section 4 "Revenues" in the notes to the income statement in the notes to the consolidated financial statements.

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, the init group procures and stores significant inventories beyond hose needed to process the construction contract, particularly for hardware components. Due to the high level of customization and the general technical development, the majority of these hardware components can only be used as spare parts for past contracts. These are recognized at the lower of cost or net realisable value. To ensure a measurement of inventories at the lower of these values, the expected net realisable values are determined with the help of percentage age-specific allowances that are based on experience and evaluations of past projects. The determination of the allowances applied is based on assumptions from past experience and is therefore subject to judgement by the executive directors.

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 the valuation processes implemented by the group and verified the allowances. For this purpose, we discussed the expected sales or processing periods for significant inventories with project managers, checked the procedure of past projects for consistency with the assumed sales or processing periods, thus reviewing the appropriateness of the allowances on a sample basis. In addition, we recalculated the system-based implementation of the impairments calculated using the defined allowances on a sample basis. 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

Further disclosures on the measurement of inventories are to be found in section "Estimates and assumptions" and "Inventories" section of Section 3 "Accounting policies and consolidation principles" and in Section 5 "Costs of sales" 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 their CVs. 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:

- To the shareholders
- CVs of the members of the Managing Board
- init share
- Report of the Supervisory Board
- CVs of the members of the Supervisory Board
- Corporate Governance Report.
- Multi-period overview of the group key figures (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 misstatement, 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 misstatement, 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 skepticism 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 15 May 2019. We were engaged by the Supervisory Board on 26 September 2019. We have been the auditor of init innovation in traffic systems SE without interruption since 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 group entities 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
- Review of interim financial statements

German Public Auditor responsible for the engagement

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

Stuttgart, March 17 2020

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Werling Kresin

Wirtschaftsprüfer Wirtschaftsprüfer

IMPRINT

Contact:

init
innovation in traffic systems SE
Kaeppelestraße 4–10
D-76131 Karlsruhe

P.O. Box 3380
D-76019 Karlsruhe

Tel. +49.721.6100.0
Fax +49.721.6100.399

info@initse.com
www.initse.com

Text:

init
info@initse.com

Sebastian Brunner, München
Sebastian.brunner@brunner-communications.de

Picture credits:
Uwe Sülflohn

Illustration title/envelope:
www.istockphoto.com

FIVE-YEAR FINANCIAL SUMMARY

of the init group (IFRS)

EUR '000	2019	2018	2017	2016	2015
Balance Sheet (31/12)					
Balance sheet total	200,398	168,461	176,805	185,132	145,082
Shareholders' equity	85,547	75,762	73,309	76,401	71,180
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ratio (in %)	42.7	45.0	41.5	41.3	49.1
Equity ratio adjusted** (in %)	45.5	45.0	41.5	41.3	49.1
Debt capital	114,851	92,699	103,496	108,731	73,902
Non-current assets	76,684	62,109	64,191	65,576	43,098
Current assets	123,714	106,352	112,614	119,556	101,984
Cash	26,174	20,620	19,764	23,920	14,038
Income Statement (01/01–31/12)					
Revenues	156,464	135,711	130,554	108,635	105,293
Gross profit	53,238	45,979	42,662	31,294	31,839
EBIT	16,240	6,372	8,563	11,665	10,756
EBITDA	23,453	10,942	12,763	15,722	14,117
Consolidated net profit	11,335	2,439	3,644	8,609	7,577
Earnings per share (in EUR)	1.13	0,24	0,37	0,86	0,75
Dividend (in EUR)	0.40*	0,12	0,22	0,22	0,20
Cash Flow					
Cash flow from operating activities	21,132	12,809	2,051	13,182	11,478
Cash flow from operating activities adjusted**	18,535	12,809	2,051	13,182	11,478
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	23.80	22.00	20.47	16.80	27.99
Bottom share price (in EUR)	12.15	13.80	13.51	12.60	14.08

* dividend to be proposed to the AGM 2020
**adjusted for the application of the leasing standard IFRS 16

FINANCIAL CALENDAR 2020

Q1

25 March

Publication 2019 Annual Report
Press/analyst conference

Q2

14 May

Publication Quarterly Statement 1/2020

AGM 2020

date will be announced shortly

Q3

11 August

Publication Half-Year Financial Report 2020

Q4

12 November

Publication Quarterly Statement 3/2020

16–17 November

Equity Forum in Frankfurt am Main

www.initse.com