

AUDIT OPTION

“Independent auditor’s report

To init innovation in traffic systems SE

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

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the group as of December 31, 2018, and of its financial performance for the financial year from 1 January 2018 to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the Responsibility Statement by the Legal Representatives referred to above.

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

Basis for the opinions

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

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

Key audit matters in the audit of the annual financial statements

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

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

1. Revenues from construction contracts

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

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

Auditor's response

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

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

regard to the first-time application of IFRS 15 we have assessed the set-up of the processes for the implementation of the new standard.

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

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

Reference to related disclosures

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

2. Measurement of inventories

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

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

Auditor's response

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

Reference to related disclosures in the consolidated financial statements

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

Other information

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

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

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

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

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

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

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

they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

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

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

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

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

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

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

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

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures;
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;
- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides;
- perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are

therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

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

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

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

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

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

German Public Auditor responsible for the engagement

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

Stuttgart, March 19 2019

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Werling

Kresin

Wirtschaftsprüfer

Wirtschaftsprüfer