

Report of the SUPERVISORY BOARD

Dear Sir or Madam,

In this report my colleagues and I would like to inform you about our activities, particularly about the monitoring and advising of the Managing Board for which the Supervisory Board is responsible pursuant to the articles of incorporation and the German Stock Corporation Act, and thereby to make the deliberations and decisions of the Supervisory Board in the 2016 financial year transparent for you.



**DIPL.-KFM.
HANS-JOACHIM RÜHLIG**

- *Chairman of the Supervisory Board*
- *Ostfildern, Germany*
- *Born 1948*
- *Supervisory Board member since 2011 / Chairman since 2014*
- *Elected until AGM 2019*

Function / profession

- Independent financial expert within the meaning of § 100 para 5 AktG.
- Since 1994 at Ed. Züblin AG, from 2007 to 2013 in the Managing Board as CFO.

Other Supervisory Boards or Advisory Boards

- Member of the Supervisory Board and Deputy Chairman of CG Group AG, Berlin, Germany.

The Annual General Meeting of init AG on 21 July 2016 resolved to convert the company into a European Company (SE). This conversion was entered in the Commercial Register on 9 March 2017 and since then the company has been trading as init innovation in traffic systems SE. However, this has no effect on the areas of authority and responsibility of the company's governing bodies – the Managing Board and Supervisory Board.

Revenues at init in the 2016 financial year were in line with our expectations. Operating earnings were according to plan. Conditions in our markets deteriorated. The financial crisis affecting numerous countries led to the further postponement of capital investments. The IT market is also undergoing dramatic upheaval (e.g. Industry 4.0, self-driving vehicles, electrically powered vehicles). This has had and is continuing to have an impact on our own business activity and strategy. However, we also see considerable market potential in these changes. We will therefore tap new markets and expand development capacity. The Supervisory Board sees significant market opportunities in the medium term thanks to the measures that have been put in place, the expertise of our employees and the high quality of our products. The Supervisory Board expects that init, with its global positioning and technical know-how, will share in these trends. To do so will, however, require a further bolstering of the sales set-up and of research and development and an adaptation of processes. init's customers continue to be price-sensitive. At the beginning of 2017 the Supervisory Board held a strategy discussion with the Managing Board. This covered both organisational matters and issues relating to the market, products, human resources, and research and development.

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

The Supervisory Board did not form any committees due to the size of the company and the size of the Supervisory Board (three members). In its penultimate Supervisory Board meeting, it subjected itself to a self-evaluation of its efficiency in 2016. This focused on organisational issues, information for the Supervisory Board and human resources matters. The Supervisory Board took part in training measures.

The Chairman of the Supervisory Board and, for individual issues, the other members of the Supervisory Board, kept in constant 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. 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.

In the 2016 financial year this applied to approval of the GO-1 LLC loan and the associated investment in the new facility for US subsidiary INIT Inc. as well as the INIT Inc. capital increase and its subsequent acquisition of an interest in Bytemark Inc. The Supervisory Board approved the purchase of parts of the operations of HanseCom Public Transport Ticketing Solutions GmbH, the establishment of a new company in Austria (inola GmbH) and the associated purchase of optimisation software, and the increase in the interest held by INIT GmbH in iris-GmbH and an option agreement with the same. In addition, the Supervisory Board approved share buybacks for employee stock ownership plans.



DIPL.-ING. ULRICH SIEG

- ▶ *Deputy Chairman of the Supervisory Board*
- ▶ *Jork, Germany*
- ▶ *Born 1949*
- ▶ *Supervisory Board member since 2014 / Deputy Chairman since 2016*
- ▶ *Elected until AGM 2019*

Function / profession

- ▶ Since 1978 at Hamburger Hochbahn AG, from 1999 to 2014 in the Managing Board for bus and metro.
- ▶ Technical consultant for the public transport journal "Nahverkehrspraxis".
- ▶ Consulting engineer specialising in public transport.

Other Supervisory Boards or Advisory Boards

- ▶ Member of the Supervisory Board of SECURITAS Holding GmbH, Duesseldorf, Germany.



Entry on 9 March 2017



DRS. HANS RAT

- ▶ Member of the Supervisory Board
- ▶ Schoonhoven, The Netherlands
- ▶ Born 1945
- ▶ Supervisory Board member since 2012
- ▶ Elected until AGM 2019

Function / profession

- ▶ From 1998 to 2012 Secretary General of the International Association of Public Transport (UITP).
- ▶ Honorary Secretary General of UITP.
- ▶ Managing Director of Beaux Jardins B.V., Schoonhoven, The Netherlands.

Other Supervisory Boards or Advisory Boards

- ▶ none.

6 times

Supervisory Board meetings
in 2016

Meetings of the Supervisory Board

Meetings are convened at least once a quarter. In 2016 a total of six Supervisory Board meetings took place, one of which was a constituent meeting in the third quarter. All Supervisory Board members were present at four regular meetings and at the constituent meeting; at the meeting on 9 June 2016 Messrs. Rat and Sieg were absent but communicated their voting intentions before the meeting, enabling resolutions to be adopted.

The sole agenda item at the constituent Supervisory Board meeting on 21 July 2016 following last year's Annual General Meeting was the election of the Chairman of the Supervisory Board and of a Deputy Chairman. Mr. Hans-Joachim Rühlig was proposed and elected as Chairman and Mr. Ulrich Sieg was proposed and elected as Deputy Chairman. Both of them accepted their election.

Based on the reports by the Managing Board, the following areas in particular were discussed in the meetings: the economic situation including business and liquidity planning; new orders; the order backlog; potential risks; compliance issues; legal disputes; key business transactions; projects of particular importance; critical subsidiaries; acquisitions; medium and long-term corporate strategy including organisational issues and human resources planning / development. The meetings also concerned themselves with the quarterly statements and the half-year financial report, adoption of the 2015 annual financial statements of init AG and approval of the 2015 consolidated annual financial statements, the proposal for distribution of a dividend, the proposal for the 2016 auditor and the report of the Supervisory Board for 2015. Other subjects of discussion were the appointment of Mr. Matthias Kühn as a member of the Managing Board and the reappointment of the four existing members of the Managing Board, proposing the conversion of init AG into init SE and its articles of incorporation to the Annual General Meeting on 21 July 2016 for agreement and approval, and approval of the agenda for the Annual General Meeting. The Supervisory Board examined the relationship between Managing Board salaries and staff pay, approved the proposal for a resolution on the Managing Board share bonus and signed the Declaration of Compliance with the German Corporate Governance Code in the version of 5 May 2015. The Supervisory Board members suggested enquiring about the services of alternative audit companies, but audit

company rotation was subsequently deferred for efficiency reasons and approval was given for the provision of non-audit services by the auditor.

Audit of annual and consolidated financial statements

The annual financial statements and the combined management report of init innovation in traffic systems AG as of 31 December 2016 were prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements dated 31 December 2016 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 AG and group auditor. They all received an unqualified audit opinion. The annual financial statements, combined management report, consolidated financial statements and auditor's 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 auditor's audit opinions and audit reports were discussed in detail with the Managing Board and the auditor at the Supervisory Board meeting of 21 March 2017. The responsible auditors reported on the key results of their audit, in particular on the internal control and risk management system in relation to the financial reporting process. The auditors also provided information on the services rendered in addition to the audit and on their independence as defined in commercial law. 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 applied auditing procedures were reasonable and appropriate and that the figures and computations contained in the financial statements had been adequately tested and were consistent.

The Managing Board has presented its proposal to the Supervisory Board on the appropriation of profits. Under the proposal, the following appropriation of the balance sheet profit of init AG in the amount of EUR 18,036,662.35 will be recommended at the Annual General Meeting

on 24 May 2017: distribution of a sum total of 22 cents per dividend-bearing share. The remaining profit is to be carried forward. The Supervisory Board endorsed this proposal.

The documents and the auditors' audit reports to be examined were provided to each member of the Supervisory Board in good time and conclusively examined on 21 March 2017. No objections were raised. We therefore agree with the results of the audit. The annual financial statements of init innovation in traffic systems AG 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 AG were therefore adopted.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor, also audited the report on the relationships with affiliated companies ("dependent company report") prepared by the Managing Board under Section 312 of the German Stock Corporation Act (AktG). The auditor issued the following audit opinion 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."

EUR 0.22

Dividend – proposal to the next AGM

The Supervisory Board took note of the Managing Board's report on the relationships with affiliated companies and the results of the audit of the report by the auditor, examined both reports and discussed both results with the Managing Board and the auditor. The Supervisory Board endorsed the results of the audit of the dependent company report by the auditor. After the final results of the discussions and its own examination of the dependent company report, the Supervisory Board is of the opinion that the Managing Board's findings are relevant 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 21 March 2017.

Corporate Governance Code

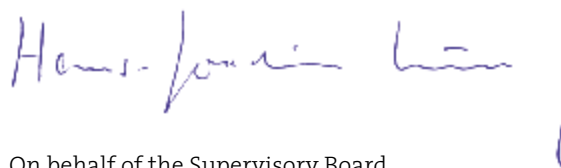
The Supervisory Board actively implemented and monitored compliance with the German Corporate Governance Code. In this context, the amendments to the German Corporate Governance Code of 5 May 2015 were taken into consideration. On 6 December 2016 the Managing Board and the Supervisory Board jointly issued an updated Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (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 homepage of init.

The Supervisory Board would like to thank all employees and the Managing Board for their personal contribution in 2016. Our thanks also go to our shareholders, customers and business partners for the trust they have placed in us.

Karlsruhe, March 2017



On behalf of the Supervisory Board
Hans-Joachim Rühlig
Chairman