

## REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

init mastered many challenges in the previous financial year, and at the same time, set the course for a successful future. Trends such as digitisation, Internet of Things or the technical vision to integrate objects of all kinds into a universal digital network, and the offer of new mobility services encompassing all means of transport are changing our lives and require constant adjustments to the business model of init. Our organisation assumes an active role in its market and shapes the technological development in local public transport worldwide.

With init's products and services, revenues of the 2017 financial year were increased significantly through organic growth and due to acquisitions. The IT environment is in a stage of transformation. Despite that, through a committed and constructive teamwork of all employees of the organisation, the operating earnings compared to the previous-year adjusted EBIT were increased significantly. We expect this development to continue for the long term. Cash flow from operating activities, which was still unsatisfactory at the end of 2017, will also improve significantly in future.

With this report we would like to inform you about the activity of the Supervisory Board at init and make the deliberations and decisions in 2017 more transparent.

Last 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.

The Supervisory Board did not form any committees due to the size of the company and the size of the Supervisory Board (three members). At its final meeting, the Supervisory Board performed a self-evaluation of its efficiency in 2017. This focused on organizational issues, information for the Supervisory Board, human resources matters and how the members of the Supervisory Board perceived their role. The Supervisory Board took part in training measures.

The Chairman of the Supervisory Board and, for individual 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 2017 financial year was also characterised by personnel changes. Bernhard Smolka, CFO of init SE until 30 June 2017, stepped down from the Managing Board at his own request, but remains closely linked to the company as general manager of the largest operating entity, INIT GmbH.

The Supervisory Board would like to thank Bernhard Smolka for his successful work as CFO, in which he played a key role in the success of init since the IPO in July 2001, and is delighted that he will continue to shape the future of the company in a key role.

Dr Hans Heribert Bäsch, who has already been an ordinary member of the Managing Board since 1 May 2017, took over the role of CFO from Mr. Smolka from 1 July 2017. He holds a doctorate in business management and has many years of

extensive experience in modern financial management and corporate governance from international groups and mid-market listed companies. Dr Bäsch already introduced himself in depth at the last Annual General Meeting.

### MEETINGS OF THE SUPERVISORY BOARD

Meetings are convened at least once a quarter. In 2017 a total of five Supervisory Board meetings took place, one of which was a strategy meeting, as well as one workshop on the new EU Market Abuse Regulation. All Supervisory Board members were present at all meetings and at the workshop.

Based on the reports by the Managing Board, the following areas were discussed regularly in the Supervisory Board meetings: the economic situation including business and liquidity planning, order intake, 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 2017 financial year:

- ▶ Foundation of the subsidiary in New Zealand (INIT Innovations in Transportation NZ Limited)
- ▶ Approval for init SE to take out a loan (KfW development bank program)
- ▶ Approval of new schedules of responsibilities for the Managing Board
- ▶ Approval for HanseCom Public Transport Ticketing Solutions GmbH to take out a loan
- ▶ Agreement of a share buyback
- ▶ Discussion of the annual and consolidated financial statements as well as of the 2016 dependent company report with the involvement of the auditor
- ▶ Adoption of the 2016 annual financial statements and approval of the 2016 consolidated financial statements as well as discussion of the proposal by the Managing Board for the appropriation of profit
- ▶ The quarterly statements and the half-year financial report for 2017
- ▶ Adoption of the proposals for resolutions for the agenda for the 2017 Annual General Meeting and of the report of the Supervisory Board for 2016
- ▶ Appointment of Dr Hans Heribert Bäsch as a member of the Managing Board of init SE and agreement on the request by Mr. Bernhard Smolka to step down from his position as a member of the Managing Board of init SE
- ▶ Resolution on the external audit engagement for the non-financial report (sustainability report)
- ▶ Examination of the relationship between Managing Board salaries and staff pay
- ▶ Approval of the proposal for a resolution on the Managing Board share bonus
- ▶ Adjustment of the fixed salaries of the Managing Board
- ▶ Determination of the targets for female representation on the Managing Board and Supervisory Board
- ▶ Approval of the Declaration of Compliance with the German Corporate Governance Code as amended 7 February 2017
- ▶ Implementation of the new data protection regulations
- ▶ Research projects

## AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

The annual financial statements and the combined management report of init innovation in traffic systems SE as of 31 December 2017 were prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements dated 31 December 2017 were prepared according to Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS) as adopted by the EU.

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

The annual financial statements, combined management report and consolidated financial statements as well as the auditor's reports and audit reports were discussed in detail with the Managing Board and the auditor at the Supervisory Board meeting on 19/20 March 2018. 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 system contracts, the measurement of inventories and the measurement of shares in associated companies. In addition, the auditor reported on the internal control and risk management system in relation to the financial reporting process, on services rendered in addition to the audit and on its independence as defined in the statutory requirements. 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 21,102,701.84 will be recommended at the Annual General Meeting on 16 May 2018: distribution of a sum total of 22 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 Wirtschaftsprüfungsgesellschaft, 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 of the German Stock Corporation Act (AktG). The auditor issued the following auditor's report concerning the result:

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

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

The Supervisory Board took note of the Managing Board's dependent company report and the results of the audit of the report by the auditor, examined both reports and discussed both results with the Managing Board and the auditor. The Supervisory Board endorsed the results of the audit of the dependent company report by the auditor. After the final results of the discussions and its own examination of the dependent company report, the Supervisory Board is of the opinion that the Managing Board's findings are 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 19/20 March 2018.

## 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 from 7 February 2017 (published in the German Federal Gazette (Bundesanzeiger) on 24 April 2017) were taken into consideration. On 7 December 2017 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 website of init.

## CONSOLIDATED NON-FINANCIAL REPORT

The Supervisory Board has reviewed the consolidated non-financial report, which was prepared in accordance with Section 315b HGB, according to Section 171 (1) AktG (German Stock Corporation Act). Additionally, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich was engaged for the audit of the consolidated non-financial report in accordance with ISAE 3000. They prepared a corresponding report, presented it to the Supervisory Board and orally informed the Supervi-

sory Board of its activity. The Supervisory Board acknowledges the findings of the audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, and after reviewing it came to the conclusion that the consolidated non-financial report is in compliance with the relevant provisions and there are not objections to be made.

## FINAL COMMENTS

The 2017 annual report for the shareholders was overhauled after agreement was reached between the Supervisory Board and the Managing Board and was reduced to the statutory components. Therefore, for the first time the annual report will no longer cover sustainability topics. Instead, there is a separate non-financial report on init SE's website in line with new statutory requirements.

Moreover, the Managing Board will publish a short report providing a clear view of key markets, projects, products and future topics. This will be published shortly on the company's website.

The Supervisory Board would like to thank all employees and the Managing Board for their personal contribution in 2017. Our thanks also go to our shareholders, customers and business partners for the trust they have placed in us.

Karlsruhe, March 2018



On behalf of the Supervisory Board

Dipl.-Kfm. Hans-Joachim Rühlig  
Chairman

## SUPERVISORY BOARD OF INIT SE

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

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