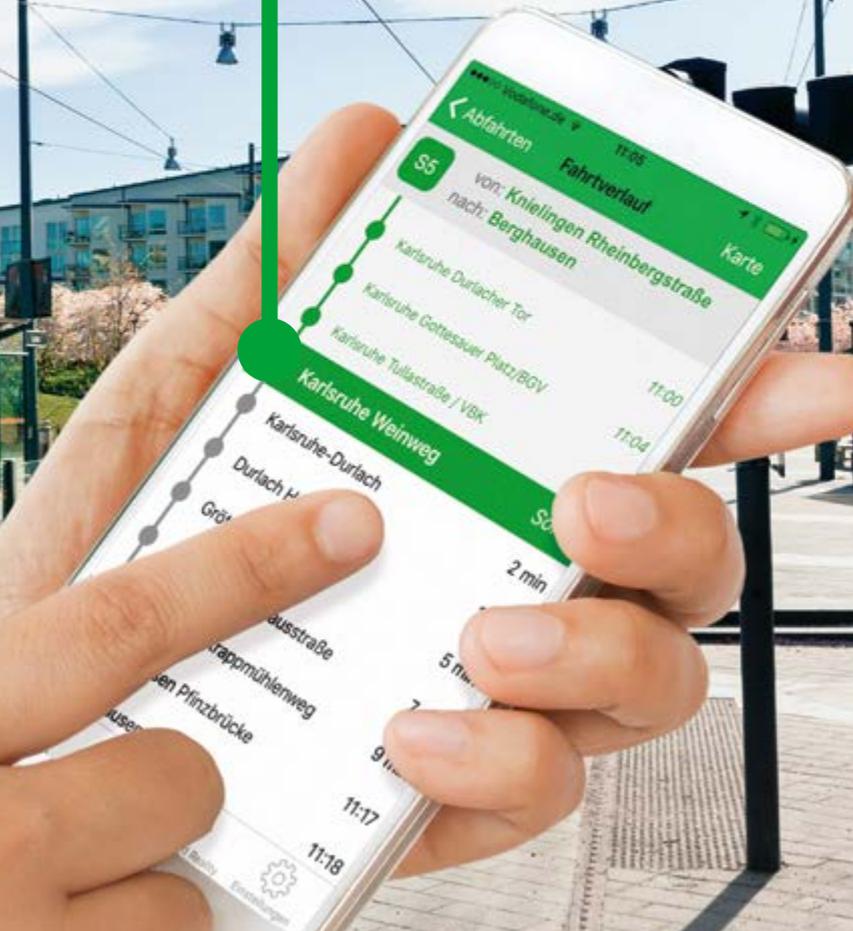


GOOD TO GO



INNOVATIVE TICKETING

Anyplace,
anytime

NEW LEGAL FORM

International
challenges

BUSINESS UPDATE

The future
of mobility

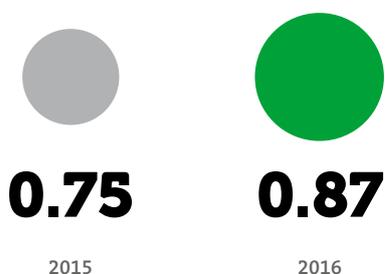


GROUP KEY FIGURES

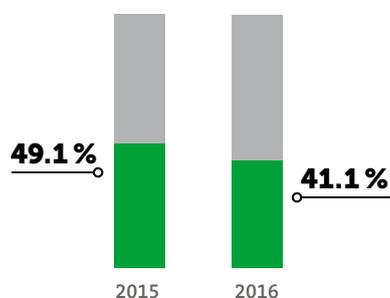
Revenue 2016 in EUR k

108,635 **+3.2%**

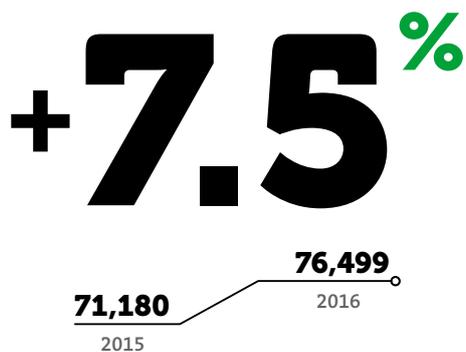
Earnings per share in EUR



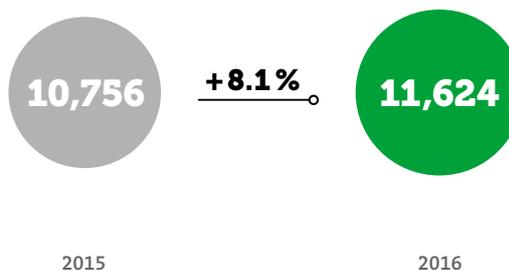
Equity ratio in %



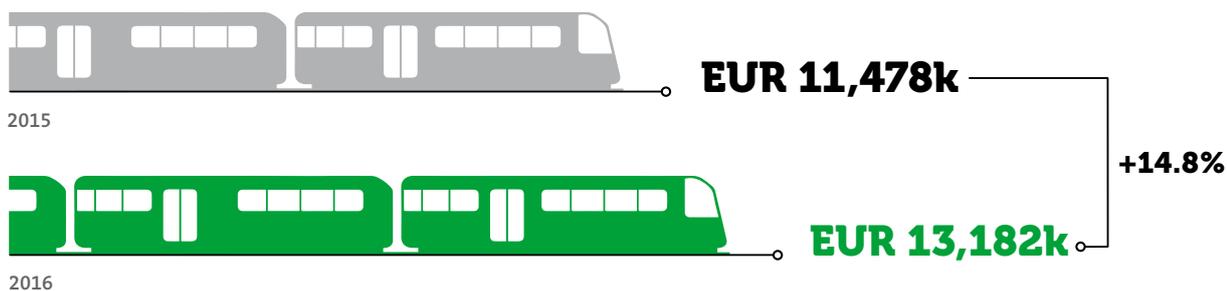
Shareholders' equity in EUR k



EBIT development in EUR k



Cash flow from operating activities



TO THE SHAREHOLDERS

Dear Sir or Madam,
dear Shareholders,

our company has the word “innovation” in its name for good reason. Only through timely investment and innovation can firms achieve lasting success. That is something we have been very good at in past years.

However, innovation requires a constant readiness and ability to adapt to new requirements, circumstances and trends. This ability is undergoing a stiff test at present.

No one predicted the far-reaching political changes that took place in 2016. Nor can anyone imagine precisely the extent to which the new wave of technological change will alter our lives in the years to come. Nonetheless, innovative companies like init must anticipate precisely that and set course in good time to maintain their place in the market.

The upheavals in politics are a lesser challenge for us. Neither Brexit nor “America first” has an effect on our position with local customers. This customer proximity, built up over years, is an advantage over new competitors wishing to gain a foothold in these markets.

However, the technological changes in the market for transport telematics are more challenging and have greater relevance to the issue of competition. Our customers, the transport companies, require assistance and solutions from us when it comes to digitisation, big data and Industry 4.0. These are major challenges that we must master. On the other hand, we are also seeing a greater readiness as a result to look more closely at our products – that is our opportunity.

To take advantage of this opportunity, in 2016 we stepped up our research and development work and strengthened our hand with acquisitions in areas of future growth. We are currently involved in pioneering research projects concerned among other things with the interoperability of transport systems, cost-effective charging infrastructure for electromobility, the integration of autonomous driving buses and the security of control systems.

By making acquisitions in the business of smart ticketing we became the leading provider in Germany and the United States in 2016 – in a business area with high growth rates. Furthermore, with our new subsidiary, inola, we successfully opened up a high-growth area of business in the optimisation of logistical processes also beyond public transport.

2017 will be a key year, with a range of technological and economic challenges that offer an unusual number of opportunities.

We are good to go!



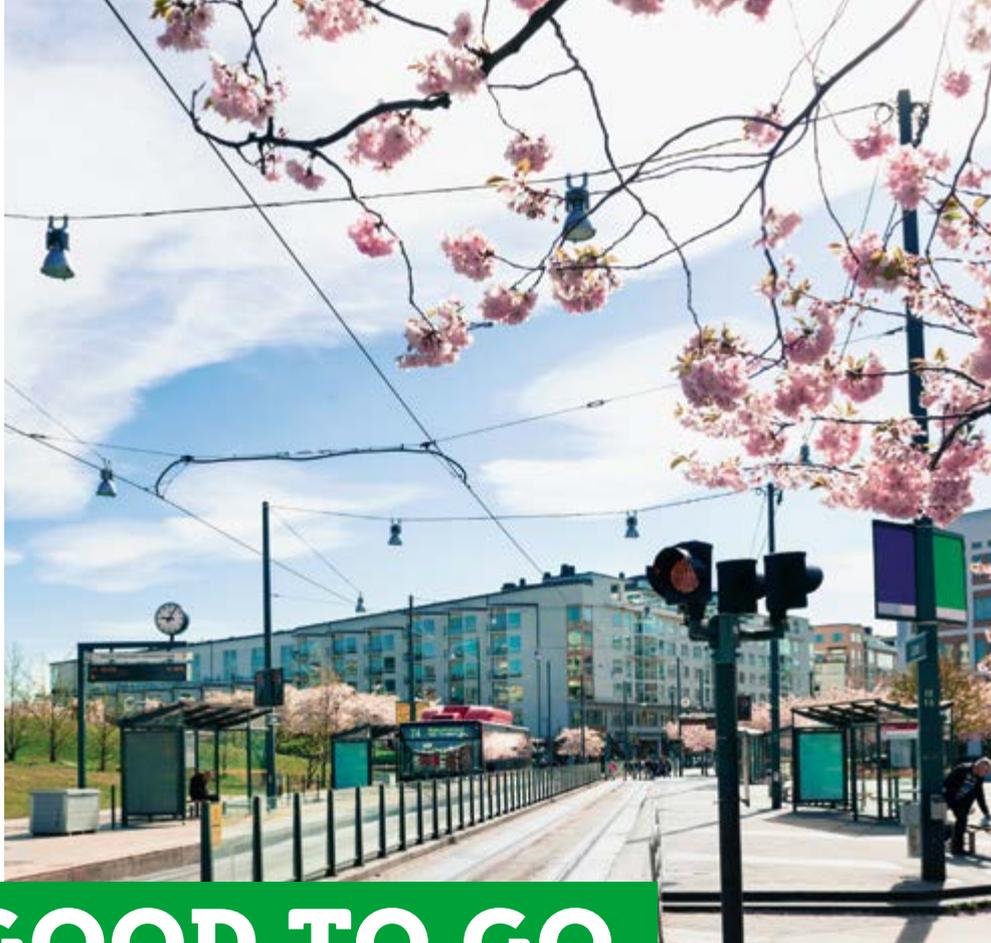
Dr. Gottfried Greschner, CEO
init innovation in traffic systems SE



**“Digitisation,
big data and
Industry 4.0 –
these are major
challenges that
we must master.”**

*Read more in the Combined
Management Report **PAGE 36***

*More on the background on
the Opportunities and risks report
PAGE 54*



GOOD TO GO



With a great deal of innovative spirit, successful projects in international markets, and a thoroughly sustainable way of thinking, in the 2016 financial year init once again asserted its role as a pioneer – placing the company in a better position for the future than ever before

9

Innovative ticketing systems from init revolutionise the ticket purchase



Cover page DEPARTURELive app: Mobile applications and devices have an impact on ever more areas of our lives and daily work experience. init develops optimal solutions for passengers and transport providers



20

Current research projects at a glance

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anyplace, anytime

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Business Update



BUSINESS UPDATE

The right course has been set in many areas of the company for shaping the future of mobility. In a series of interviews, the members of init's Managing Board talk about the key subjects that drive the company

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major ticketing contracts were won in 2016

Pioneering ticketing solutions

Innovative payment systems such as ID-based ticketing from init are key to conveniently purchasing the right ticket – and therefore essential for easy access to public transport services.

> 3,000

vehicles will be equipped





INNOVATIVE TICKETING – anyplace, anytime

In many places, buying a ticket is still something of a barrier in public transport. However, init offers innovative solutions that can greatly simplify the entire ticketing process.

People today are more mobile than ever before. The desire for full mobility is aligned with the necessity to use environmentally-friendly modes of transport. Public transport plays a very important role in this regard. It not only offers travel options beyond individual transport, but is also a sustainable and convenient alternative for commuters and occasional passengers – and its appeal only continues to grow. Modern e-ticketing solutions are making an essential contribution to this development. Public transport passengers want one thing above all else: they wish to arrive at their destination on time and be able to buy the right ticket, even if they are not familiar with the particular local public transport network.

More service and comfort in public transport

The new ID or account-based ticketing system from init effectively improves the

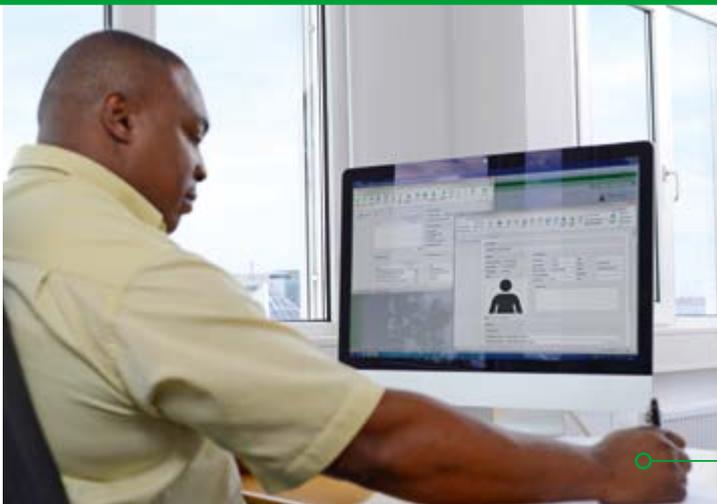
quality of service for ticket purchases. In this kind of system, all customer data and payment information as well as the entire fare structure are stored in the background system only. The users identify themselves using their customer card, for example, on which only their clear ID is now stored. The ID is allocated to an account and this is where the current credit balance and purchased products are stored. When buying a ticket or topping up the card, a request is sent to the background system, which then immediately verifies the process and performs the transaction in real time. Fast mobile networks ensure that the verification process at the ticket terminal never takes longer than half a second. Customers can therefore enter the transport vehicle without delay and do not need to deal with the fare system. The background system automatically deducts the lowest fare price for the journey.

In use around the globe

🇺🇸 Various transport companies in the US have already placed their trust in ticketing solutions from init. Among them is the Tampa metropolitan area, where an account-based fare management system is currently being installed. Customers in the city of Tampa and surrounding region will be able to manage their own account and pay via an app.

🇺🇸 init is also moving forward with an exceptional project in the US State of Hawaii: the company is implementing an ID/account-based ticketing system in the state capital, Honolulu. This will enable passengers to use the entire public transport network in the city with just one smartcard.

🇫🇮 In the metropolitan area of Turku in Finland, an innovative and highly flexible fare management system has been successfully introduced by init in just two years. It sets new standards for the whole of Northern Europe. The new system went into operation in 2016 and is now being expanded with an Intermodal Transport Control System (ITCS).



Data processing in real time with MOBILEvario

The high-performance, multi-client capable back office system MOBILEvario is the core intelligence of the ID/account-based ticketing system. In real-time, it stores and processes all data, and handles the revenue processes. Through anonymised passenger data, transport companies can promptly recognise usage trends and adapt their services accordingly.

As the init background system has open programming interfaces and the exchange with the sales devices is restricted to an ID, it is possible to incorporate many different sales channels, including apps, online portals and third-party systems, in a flexible way. As a result, transport companies can more easily offer their passengers many different options for buying their tickets. ID-based ticketing systems also support the particularly customer-friendly open payment: for this,

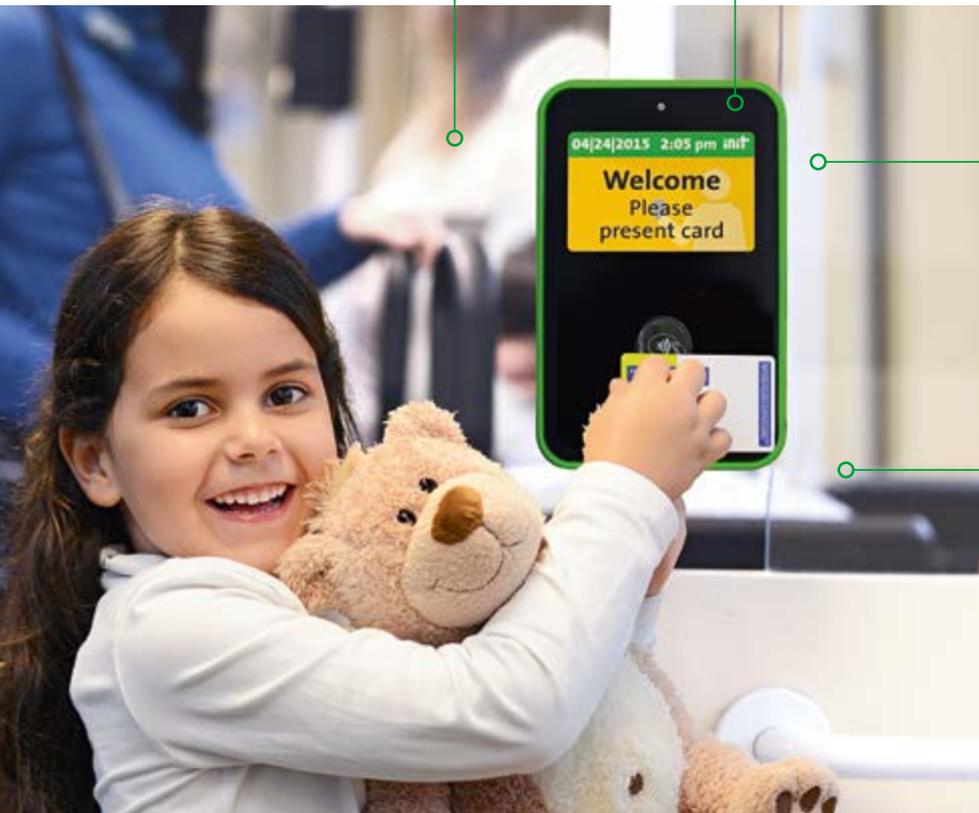
customers use a medium they already possess and which can also transmit their ID, such as credit cards and smartphones.

init's ID-based ticketing also simplifies processes in intermodal and interoperable systems. In the course of this mobility trend, transport services and sales systems are being linked together even more effectively. As a result, customers can use trains, buses and hire cycles with just one payment process –

500

buses in Hawaii will be equipped with passenger terminals

With ID/account-based ticketing, init is defining a new trend, which will make public transport even more comfortable and efficient.



5

ID/account-based ticketing systems make init the innovation leader

Quick and easy ticketing

The passenger terminal PROXmobil3 allows ticket purchases to be convenient and intuitive. It supports various international standards, including the VDV core application, ITSO and Calypso, as well as EMV credit card-based applications and ID-based systems. The latest generation of electronic ticket validators are exceedingly compact and further reduce transaction times with an even more powerful computer platform.

a major improvement in convenience for everyone who uses public transport.

Ticketing innovations really pay off

init's innovative ticketing systems also offer major benefits to transport companies: in ID-based ticketing, any transaction can be accessed in real time by all those involved at any point. Any changes to fares also immediately come into force across all sales channels and for all end devices. This can be

advantageous when fare prices need to be adjusted within just a few hours, on account of a particulate matter alert, for example. Ambitious transport companies wishing to exploit the full potential of modern ticketing systems can benefit from an accessible and cost-effective system, which will help make public transport the top choice for ever more people in the future. —



International challenges

With the conversion into an SE, init has adopted a new legal form. By doing so, the company is further emphasising its clear international focus.

Over the past few years, init has steadily developed into a global player generating around two-thirds of its income outside of Germany. The products offered by init are reaching an ever-wider audience and have been introduced worldwide. By operating subsidiaries in various countries around the globe, init has established a local presence in its key markets and an improved understanding of the local requirements. This allows them to develop customized solutions for each client and to manage implementation on site.

INIT SE IN NUMBERS

- ▶ 702 employees
- ▶ 625 national and international customers
- ▶ Locations in Germany, France, Switzerland, Austria, United Kingdom, Finland, Canada, the US, the UAE, Singapore and Australia

Shareholders reaffirmed this international focus during the 2016 Annual General Meeting: they approved the transformation of the company from an AG under German law into a European society (Societas Europaea; SE). This step marks a logical continuation of the successful internationalisation strategy and expresses init's identity as a globally active organisation. Further advantages of this move to a supranational legal form include improved opportunities in the European market and greater acceptance among international shareholders. It serves as an optimum basis for further expansion. —



Business UPDATE

THE FUTURE OF MOBILITY

INTERVIEW Dr. Gottfried Greschner, CEO; Dr. Jürgen Greschner, CSO; Joachim Becker, COO; Matthias Kühn, COO and Bernhard Smolka, CFO

2016 was a year full of far-reaching changes. What was the most important development at init for you?

DR. GOTTFRIED GRESCHNER: The most important change for us was that at a single stroke we became the leading provider for e-ticketing in the US. We were awarded major contracts in this area of business, such as the ones in Tampa, Florida and Honolulu, Hawaii. Another important development in this connection, of course, was that after two weak years we also returned to an outstanding level of incoming orders in 2016. In addition, we strengthened our hand

in the e-ticketing business through the acquisition of a 26 per cent stake in Bytemark, a provider of ticketing apps for smartphones with whom we have had a longstanding working relationship in the US, and through the complete acquisition of HanseCom Public Transport Ticketing Solutions GmbH. HanseCom manages a large part of the fares for German public transport services and has numerous customers in the area of mobile phone ticketing. This area grew by 40 per cent last year. We are hoping for considerable international growth, too, in this respect.

There were some far-reaching political changes in 2016, particularly in the US. Suddenly protectionism is back on the agenda and a worry for many. How do you see these changes in relation to init?

DR. GOTTFRIED GRESCHNER: init has been producing in the US for years because “Buy America” has always applied there. We do not see anything changing in this regard with the new administration. In fact, we may be able to improve our prospects, since providers that do not currently produce in the US to the extent we do, might face difficulties.

Issues like digitisation, big data and Industry 4.0 have shaped public debate this year. How have you felt this in your business?

DR. GOTTFRIED GRESCHNER: All at once we have seen a much greater readiness on the part of our customers to take on board new solutions. For that reason we have also stepped up our research efforts considerably. For instance, we are taking part in a research project concerned with electromobility. Our job in this regard is to optimise planning for transport providers in real time so that buses can be charged efficiently and do not end up stranded somewhere. Another issue is the automatic recognition of and reaction to security critical incidents at stops and in vehicles.

In many markets digitisation is bringing new competitors into play. Is this a trend you see in the market for transport telematics?

DR. GOTTFRIED GRESCHNER: Of course there are new, small-scale providers that are trying to gain a foothold in this market. We have responded to this by expanding our range of products and services accordingly. For instance, we have accommodated a need on the part of our customers to award contracts for technical operations or parts thereof to partners like init. We are already doing this in Luxembourg and we expect to be doing the same in several other cities around the world in the near future. This is an exciting trend because the scale of the work over a number of years means that the order volume for the original investment is actually often exceeded. We have adapted our internal structures with this line of business in mind and we have created a department out of two teams which primarily operates the hotline for our customers but also ensures the smooth operation and maintenance of the systems. This, I believe, is the right way to guarantee an optimal service on the part of and for our customers.

Looking ahead over the next few years, what is the most important technological development for you?

DR. GOTTFRIED GRESCHNER: Digitisation. Previously we had to persuade our customers that digital solutions would benefit them. Nowadays, customers are asking us for them and in particular they want to simplify their IT environment. Here is an example: A customer currently has ticket machines from a competitor, the control system comes from init, while the customer bought its ticketing system and an app for it from someone else. Data must be fed to all

At init, you set your course for the integration of data – also via different transport systems – at an early stage. Was that also one of the motivations for your acquisitions?

In 2016 you invested a great deal in the development of new technologies. That impacted on your margin. How do you see things proceeding in this regard?

That does place a fair amount of hope in the future. How do you see the performance of init's share price against this backdrop?

these systems. That is a lot of effort. We have always offered integrated solutions in this area. There needs to be a centralised data hub that feeds data to all systems and that they can all use in real time. This is the only way to ensure that all data are consistent. That is the key to enabling transport companies to be more competitive in the future. And we are well set up in this area. In Germany, in the US and in the UK we have already carried out major projects and others are in progress. This means that we are in a very good position for further growth, and we seek to be here the leading provider.

DR. GOTTFRIED GRESCHNER: Yes, in this way we were able to enhance our product range in a focused way. Nowadays, an integrated solution also includes ticketing systems, or what are called ID-based systems, with which other ordering and payment systems can be connected up. We can even imagine integrating all the different payment systems for mobility in a city. This begins with the use of an autonomous bus or car sharing as the feeder, moves on via the tram and finishes with the hiring of a bicycle. All of this can be planned, optimised and charged accordingly using our system.

DR. GOTTFRIED GRESCHNER: In 2017, too, the margin can definitely not be as good as it has been in the past in view of increased research expenditure and the adoption of new technologies. However, the margin remains appropriate. I expect that with a considerable increase in revenues in 2018, it will also be possible to return to a better margin. The high level of investment will then pay off.

DR. GOTTFRIED GRESCHNER: I am disappointed with how the share price has performed in comparison with our competitors. There is much more imagination in the US market. A major group to which a competitor in the US belongs, for instance, has a P/E ratio of over 60. It is not clear to me why the P/E ratio of init innovation in traffic systems SE should be so much lower. —

DR.-ING. GOTTFRIED GRESCHNER

- ▶ *Chairman of the Managing Board (CEO)*
- ▶ *Born 1946*
- ▶ *Managing Board member since 2001*

Vita

- ▶ Studies in electrical engineering at the University of Stuttgart. Research work in the field of fleet management systems as an academic assistant at the University of Karlsruhe.
- ▶ 1983 Doctorate at the University of Karlsruhe to gain qualification of Dr.-Ing. (Doctor of Engineering).
- ▶ 1983 Founder of INIT GmbH, Karlsruhe.
- ▶ 1983 Managing Director at INIT GmbH, Karlsruhe.

Awards

- ▶ 1989 innovation award from the federal state of Baden-Wuerttemberg "Dr. Rudolf Eberle Preis".
- ▶ 2002 "Entrepreneur of the Year", awarded by Ernst&Young.
- ▶ 2014 Special Career Service Award as part of the "Talent in Mobility Awards 2014" in Paris.



INTERNATIONAL focus

init operates worldwide and is always close to clients through subsidiaries and branch offices. In this interview, CSO Dr. Jürgen Greschner talks about the international orientation of the company.

DIPL.-KFM. DR. JÜRGEN GRESCHNER

- ▶ *Managing Board member, Sales (CSO)*
- ▶ *Deputy Chief Executive Officer*
- ▶ *Born 1961*
- ▶ *Managing Board member since 2004*

Vita

- ▶ Studies in technically oriented business management at the University of Stuttgart. Project manager in a special research area at the Deutsche Forschungsgemeinschaft (DFG – German Research Foundation).
- ▶ 1996, Doctorate to gain qualification of Dr. rer. pol. (Doctor in Economic and Social Science) at the University of Stuttgart.
- ▶ 1996, Commercial Director at INIT GmbH, Karlsruhe.
- ▶ 1999, Founder of INIT Innovations in Transportation Inc., Chesapeake/ VA, US.
- ▶ 1999–2004, CEO of Innovations in Transportation Inc., Chesapeake/ VA, US.
- ▶ 2004, Managing Director at INIT GmbH, Karlsruhe.



Dr. Greschner, what is init's internationalisation strategy?

DR. JÜRGEN GRESCHNER: We will continue to establish init as a global market leader of integrated IT solutions for public transport. We focus on markets in which public transport has already reached a certain level of development. In countries where the purchase of bus fleets still has top priority, the market is not yet ready for our high technology. Our international success has been earned gradually over recent years: between 1999 and 2004, we initially developed our presence in North America and have since systematically been able to tap into further markets.

Which projects has init been working on over the past year?

DR. JÜRGEN GRESCHNER: Our projects abroad are currently particularly exciting, such as those in Honolulu, Montreal, Portland and Tampa. In these cities there is an especially strong demand for innovative ticketing solutions and for real-time and fleet management systems. In the UK, we were awarded a contract by National Express West Midlands, which is one of the leading

40%

of init's business takes place in North America, PAGE 46

In 2017, init will move into new headquarters in the US. What do you expect to gain from this investment?

init regularly has a booth at specialist trade fairs around the world. How important are these for the company?

Where do you see the greatest potential for further growth in the coming years?

public transport companies in the country. Our ID-based ticketing system went fully operational for the first time in Turku, Finland. In addition, we further expanded a major public transport project in Luxembourg in 2016. Under a follow-up contract, the trams will now be incorporated into the successful mlive system. Interesting to note, the project in Luxembourg is unique because this is the first time the VDV core application has been used as an original national standard outside Germany. It is also pleasing that init continues to do so well in our home market of Germany. For example, our solutions have once again impressed the Frankfurt am Main transport operator, VGF, which has been our client for many years. Beyond technological equipment, we will be delivering services to VGF in the area of technical operations.

DR. JÜRGEN GRESCHNER: First, by relocating our North American headquarters to a larger facility, we are emphasising the fact that this has been a core market for us with long-term growth prospects for almost two decades. init has put down strong roots in this region, which currently accounts for around 40 per cent of all business. Second, we made the decision to bring our US subsidiaries, and therefore all development, production, sales and administration together under one roof. Chesapeake is of course not a random location choice, as this is where the success story of init in the US began. We also have an excellent network in the Hampton Roads region, as well as a great working relationship with regional business development allies.

DR. JÜRGEN GRESCHNER: Trade fairs and conferences on mobility are extremely important for us. This is reflected by the fact that we take part in more than 60 events each year. Theoretically, you could meet an init expert every week at an event somewhere in the world. We enjoy being involved in the international exchange of knowledge and experience and are consistently establishing new contacts. For this reason, major trade fairs like the InnoTrans in Berlin, the IT-TRANS in Karlsruhe and the UITP Global Public Transport Summit, which will be in Montreal this year, are always a great platform for initiating new mobility projects.

DR. JÜRGEN GRESCHNER: At the moment we are doing particularly well in the UK and the US, as the numerous tenders and follow-up contracts we have been awarded demonstrate. However, I think that we will achieve further successes in all regions that are of relevance for init. Thanks to our comprehensive market experience, we know that it can often require a great deal of money and dedication, with it sometimes taking years to get from initial contact to first contract. It is extremely important that we speak the language of our clients and are able to respond to their individual needs in the best-possible way. This is also our approach in the Asia-Pacific region, where there are still many opportunities for init to expand.



INNOVATIVE spirit

init is shaping the future of public transport with pioneering innovations. A conversation with Joachim Becker and Matthias Kühn.

Joachim Becker, you have been Chief Operating Officer at init for more than 15 years, while you, Matthias Kühn, have held the same position since April 2016. What do you find particularly fascinating about your roles?

init is a leader of innovation for ticketing and telematics in public transport. What new developments had the greatest impact in 2016?

JOACHIM BECKER: I especially enjoy the great variety of the tasks. We are dealing with new technologies and exploring how they can be effectively used in public transport.

MATTHIAS KÜHN: I agree, it is the variety which really fascinates me. My responsibilities include hardware and software development in the area of telematic devices, the back-office system for ticketing, and installation planning – these are all very different topics. My teams and I are confronted with new challenges almost every day and work together with our clients to find the appropriate solutions.

MATTHIAS KÜHN: In the hardware sector, we introduced our new combined ticket printer and on-board computer. The EVENDpc2 now features a high-performance processor and an improved touch screen display with higher resolution. In addition, we have further developed our Voice-over-Cellular (VoC) solution. It facilitates cost-effective communication between the vehicle and the control centre through mobile telecommunication systems. This is more challenging than it sounds, because vehicles are constantly on the move and have to cope with different bandwidths.

JOACHIM BECKER: One trend that really started to take off in 2016 was account-based ticketing. This means that instead of a ticket, passengers only use an ID in the shape of a smart card, a credit card or a barcode. In the area

of operations control we have integrated an interface with a switch operating systems into our control system, and established a central management platform for cross-media and inter-company passenger information.

What progress has been made in app development?

JOACHIM BECKER: With DEPARTURESlive, init has been offering smartphone users an advanced mobility app for many years and this also became available for Android devices last year.

MATTHIAS KÜHN: I often use DEPARTURESlive myself. Here in Karlsruhe region it allows me to see up-to-date live departure times when I am waiting at a stop. It is very handy. If someone is not familiar with the area, the app can also help guide them to the closest stop.

JOACHIM BECKER: There is still great potential for our app through regular updates and further collaboration with transport companies. Along with this, we are of course also developing other intelligent app solutions for our clients. With the acquisition of HanseCom and a stake in Bytemark in 2016, we have expanded our portfolio to cover our target markets.

What is your vision for the future of public transport?

MATTHIAS KÜHN: Our vision at init is "Simplicity for transport companies and passengers". In future, passengers will no longer have to think about zones and fares. They will be able to book and pay for different modes of transport – bus, train, hire bicycles, car sharing and on-demand transport – in one process and reach their destinations more quickly. For transport companies, passenger numbers will continue to grow and new business models will emerge. ID-based ticketing will provide the technological foundation for this pleasing development.

JOACHIM BECKER: Of course, nobody knows what public transport will be like in 20 years. Personally, I believe in the success of the sharing economy. Passengers can rent individual or space in multi-seat "cabins" according to their needs and will consequently use their own vehicles less often. In the medium term, we are focussing on the topics of accessibility, electromobility and autonomous driving – the future has already begun in this area and init is at the cutting edge of this development. We are involved in various research and pilot projects and are working hard to ensure our systems evolve to meet the ever-changing demands. —

**DIPL.-INFORM.
JOACHIM BECKER**

- ▶ *Managing Board member, Central Telematics and IT (COO)*
- ▶ *Born 1956*
- ▶ *Managing Board member since 2001*

Vita

- ▶ *Studies in information technology at the Institute of Technology in Karlsruhe.*
- ▶ *1983, start working as software developer at INIT GmbH.*
- ▶ *1989 Head of Division "Technical Operating".*
- ▶ *1996 Managing Director at INIT GmbH, Karlsruhe and Head of Division "Operations Control".*

**DIPL.-ING. (FH)
MATTHIAS KÜHN**

- ▶ *Managing Board member, Telematics Devices and Ticketing (COO)*
- ▶ *Born 1973*
- ▶ *Managing Board Member since 2016*

Vita

- ▶ *Studied communications engineering at Hochschule Karlsruhe.*
- ▶ *2001, start working as software developer for on-board computers and ticketing systems at INIT GmbH.*
- ▶ *2006, team leader "on-board computers and ticketing systems".*
- ▶ *Since 2014 Head of Division "Mobile Telematic and Electronic Fare Collection Systems".*
- ▶ *Since 2015 Managing Director at INIT GmbH, Karlsruhe.*

SUSTAINABLE approach

Bernhard Smolka, CFO, talks about sustainability at init and the corporate philosophy.



**DIPL.-KFM.
BERNHARD SMOLKA**

- ▶ *Managing Board member, Finance (CFO)*
- ▶ *Born 1961*
- ▶ *Managing Board member since 2001*

Vita

- ▶ *Studies in business management at the University of Mannheim.*
- ▶ *1989–2000, investment controlling at Gebrüder Kötterling Kunststoffwerke GmbH, Pirmasens. Head of the department responsible for group accounting, controlling and finance. Member of the extended management team.*
- ▶ *2000, project manager at M&A Consultants AG, Mannheim.*

Bernhard Smolka, how important is the topic of sustainability at init?

BERNHARD SMOLKA: We encourage sustainable ideas and actions in a wide variety of areas. The more people that use buses and trains, the better it is for our goals as a society. Against this backdrop we are contributing to more environmentally friendly mobility by making public transport more efficient and appealing. Internally, we also encourage our staff to switch to public transport when they attend meetings in the local area by providing them with a company card for the Karlsruhe public transport network.

What else does the company do for its workforce?

BERNHARD SMOLKA: Employee satisfaction is extremely important to us. We cultivate an active dialogue with our staff and conduct an anonymous employee survey every two years. We take the results very seriously and they form the foundation of future optimisation measures, be it in the structuring of the workplace or expectations in terms of sports offerings. We want our employees to be happy and healthy. The fact that we have won notable employer competitions in recent years, such as recently the “Best Place to Work” award in the US, shows that we have been successful with our measures. Although init is developing in a dynamic way, we are remaining true to our special corporate culture: we work with flat hierarchies and foster an informal and open way of communicating with each other. At init, employees can take responsibility and share their ideas with the company.

In what other areas is init engaged?

BERNHARD SMOLKA: With 146 solar panels and a very good ecobalance overall, our headquarters truly embody the sustainable outlook of init. Of course, we have also continued with our social activities over the past year: aside from the various smaller donations to sports and culture, we contributed two greater sums to the Engineers Without Borders Karlsruhe Institute of Technology and the Diakonische Werk in Karlsruhe. We fully intend to carry on with these wide-ranging commitments in future. —

AGE OF APPS



DEPARTURES*live*

The DEPARTURES*live* app for iOS and Android offers reliable passenger information in real time and integrated augmented reality features.



COPILOT*app*

The COPILOT*app* enables the efficient management of on-demand transport in vehicles without on-board computers. Drivers receive any information about the route, timetable status and expected passenger numbers.



COPILOT*go*

Since 2016, COPILOT*go* has made the ITCS on-board computer functionality available on a Windows tablet. The app is therefore perfect for vehicles that do not have on-board computers, like in ad hoc replacement services.



MOBILE*modi*

MOBILE*modi* is an app for mobile dispatching, which enables traffic managers at any time to access ITCS information and maintain an overview of the traffic situation.

Mobile devices are being used ever more frequently in public transport. init develops mobile apps for all target groups, be it passengers or transport company staff.

Good to go

for innovations



init

The world of **INNOVATIONS**

True to the motto “innovation in traffic systems”, init has been making public transport faster, more efficient and more appealing for more than 30 years. The company regularly participates in research projects

to help shape the future of mobility and to develop products with a view to meeting the demands of customers and passengers.



European Bus System of the Future

Regarding the matter of how public transport can be run in a more efficient way and gain in appeal, the topic of interoperability will play a key role. For example, standardised communication protocols will enable seamless communication between components from different manufacturers.

Within the research project **EBSF_2** ("European Bus System of the Future"), the insights and results of the initial project will now be further developed in order to be put into actual operation. Overall, init is contributing its expertise in two of 13 demonstration projects.



Fully accessible public transport by 2022 is the promise for the future that German transport companies have made to their customers. As well it is a necessity expected from the Public Transport Act. Between 2015 and 2016, the EU-backed **aim4it** research project gave intensive consideration to the question of how future travel assistance systems can take into account the needs of individuals with special mobility requirements. With the involvement of init, numerous innovative approaches were developed. This shall contribute to provide all social groups with unrestricted access to public transport in the future.

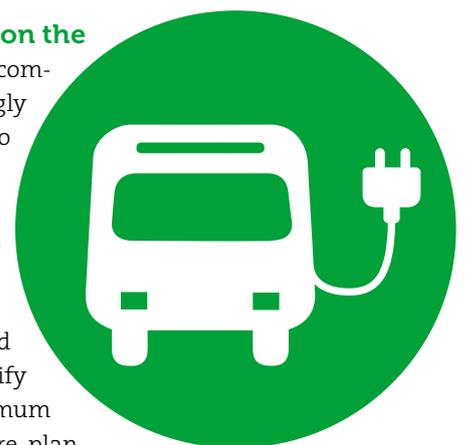
see section Research and Development, Page 42

BY TAKING PART IN A NUMBER OF RESEARCH PROJECTS, WE HELP TO SHAPE THE MOBILITY TRENDS OF THE FUTURE.

*Joachim Becker,
Chief Operating Officer of init SE*

Electromobility is on the agenda:

Transport companies will increasingly transition their fleets to electric buses in the coming years. In this context, the **MENDEL** research project, funded by the Federal Ministry for Economic Affairs and Energy, aims to identify the basis for an optimum charging infrastructure, planning and operation. The objective of the project is to reduce investment and operational costs through optimised vehicle deployment, improved infrastructure planning or other methods. Together with numerous cooperation partners, init began work on the MENDEL project at the start of 2016.



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

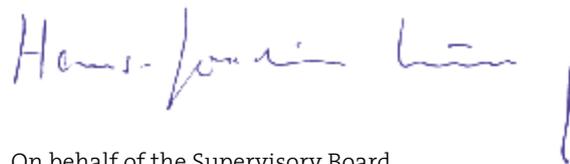
The Supervisory Board actively implemented and monitored compliance with the German Corporate Governance Code. In this context, the amendments to the German Corporate Governance Code of 5 May 2015 were taken into consideration. On 6 December 2016 the Managing Board and the Supervisory Board jointly issued 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

CORPORATE-GOVERNANCE- Report

Irrespective of the resolution adopted by the Annual General Meeting on 21 July 2016 to convert init AG into a listed European Company (Societas Europea, SE) with its registered office in Germany, init SE remains subject to German company law and to the principles of responsible and sound management (“corporate governance”) applicable in Germany.

In this report, init aims to provide a transparent and comprehensible picture of the rules applicable in Germany and of how they are internalised at init.

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 German listed stock corporations. 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.

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 6 December 2016 (when the company was still init AG). The Declaration below relates to the Code version of 5 May 2015, which was published in the Federal Official Gazette on 12 June 2015. 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

- ▶ The D&O insurance does not provide for an excess payable by members of the Supervisory Board of init AG (item 3.8 para. 3 of the Code).

init AG 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.

83 days

*after the end of the financial year
the AR 2015 was available to the public*

Managing Board

- ▶ A quantitative limit on the variable compensation elements is defined as follows (item 4.2.3 para. 2 of the Code).

The variable compensation in cash is limited to 33.3 per cent of the base salary. In addition, there is a stock bonus, which is limited to a maximum number of shares.

- ▶ The individualised disclosure of the remuneration for the Managing Board can be omitted if the Annual General Meeting decides so by a three-quarters majority (item 4.2.4 of the Code).

The Annual General Meeting 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.

- ▶ An age limit is not specified for members of the Managing Board (item 5.1.2 para. 2 of the Code).

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

6 months

The Annual General Meeting of init SE is generally held within the first six months of the financial year

Supervisory Board

- ▶ 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).

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

- ▶ 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).

In 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. Following the conversion to init SE, 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, remain unchanged. Below we set out the responsibilities of and interaction between the different governing bodies.

Managing Board determines corporate objectives and strategic direction, reports to the Supervisory Board

The Managing Board is the management body of the listed European Company (Societas Europaea, 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 (“compliance”).

The Managing Board of init currently has five members, who together bear responsibility for overall business management. As a central part of managing the company, the Managing Board sets down the corporate goals and strategic direction of init, decides on questions of principle relating to business policy and determines the internal organisation of the company. It decides on appointments to management posts, with due consideration for diversity. More detailed rules are contained in particular in the rules of procedure of the Managing Board approved by the Supervisory Board.

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

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

Supervisory Board appoints, monitors and advises the Managing Board

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

The Supervisory Board has laid down rules of procedure for itself and makes its decisions through resolutions that are adopted by a simple majority of the members of the Supervisory Board taking part in the vote.

The Supervisory Board of init comprises three members in accordance with the articles of incorporation, who bring additional expertise to advising and monitoring the company’s management thanks to their many years of experience in executive roles and their specialist knowledge. Due consideration is likewise given to diversity in making appointments to the Supervisory Board. Because of the size of both the company and of the Supervisory

Board of init, no Supervisory Board committees have hitherto been established. In their own estimation, the Supervisory Board members consider themselves to be independent within the meaning of item 5.4.2 of the Code.

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

The Supervisory Board convenes in regular meetings at least once a quarter and, unless otherwise stipulated, adopts decisions based on a simple majority of the votes cast. A resolution of the Supervisory Board adopted in writing by means of fax or e-mail, by telephone or using electronic means of communication or a combination of the above-mentioned means of communication is permitted in accordance with the articles of incorporation of init. Precise details on the form in which resolutions are adopted are determined by the Chairman. The Chairman of the Supervisory Board draws up a written record of resolutions that are not adopted in meetings.

Further details about the work of the Supervisory Board are provided in the “REPORT OF THE SUPERVISORY BOARD” section of this Annual Report (on pages 22 to 26).

Working principles of the Managing Board and Supervisory Board

The Managing Board and Supervisory Board of init work together closely for the good of the company and its shareholders. This dual board system is a basic principle of German company law. It assigns executive management to the Managing Board and supervision to the Supervisory Board. The two boards are strictly segregated in terms of both membership and areas of responsibility. Both boards are obliged to take care 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.

The Managing Board provides the Supervisory Board with timely and comprehensive information on all relevant issues of company management, business performance, the risk situation, risk management and compliance and agrees the company’s strategic direction with the Supervisory Board.

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

Annual General Meeting and rights of shareholders

At the Annual General Meeting, shareholders exercise their rights, in particular their right to information, and use their voting rights. The meeting decides on all matters assigned to it by law, such as the election of members of the Supervisory Board, the discharge of the Managing Board, 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 website. The voting results are also published on the website directly after the Annual General Meeting.

The Annual General Meeting of init SE is generally held within the first six months of the financial year. The Annual General Meeting is chaired by the Chairman of the Supervisory Board. He or she determines the order of the agenda items and the type and form of voting. The Chairman 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 are 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 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 website and can be accessed there at any time. Furthermore, the company's 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. This objective is also served by the ethical guidelines of init, which are available to employees as important guidance for the manner in which the company's vision and mission are put into action. As a basis for everything the company does, they create trust, credibility and transparency and serve to prevent infringements against legal requirements. 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. This is a key factor in the success of the company. The init ethical guidelines are published on the website at www.initse.com.

Accounting and auditing

The annual financial statements and the combined management report of init are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared according to Section 315a HGB on the basis of 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 approved and 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 21 July 2016, the Annual General Meeting of init resolved to elect Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor and group auditor for the 2016 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

In total, the members of the Managing Board directly or indirectly hold 3,887,490 shares in the company as of 31 December 2016, which equates to 38.7 per cent of the shares. The Supervisory Board of init does not hold any shares.

An individualised disclosure of the shares held by the members of the Managing Board is included in the notes to the consolidated financial statements.

Members of the Managing Board and of the Supervisory Board and persons closely associated with them are legally obliged, pursuant to Article 19 of Regulation (EU) No 596 / 2014 of the European Parliament and of the Council on market abuse (market abuse regulation), to reveal any transactions conducted on their own account relating to securities of the company if the total amount of the transactions conducted by the member and / or persons closely associated with him or her within a calendar year reach or exceed a total of EUR 5,000.

The transactions notified to init in the last financial year were duly published without delay. A list of the manager transactions notified in the 2016 financial year is available at www.unternehmensregister.de.

Remuneration of the Managing Board and Supervisory Board

The remuneration report is part of the combined management report and is published in this Annual Report starting on page 66.

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

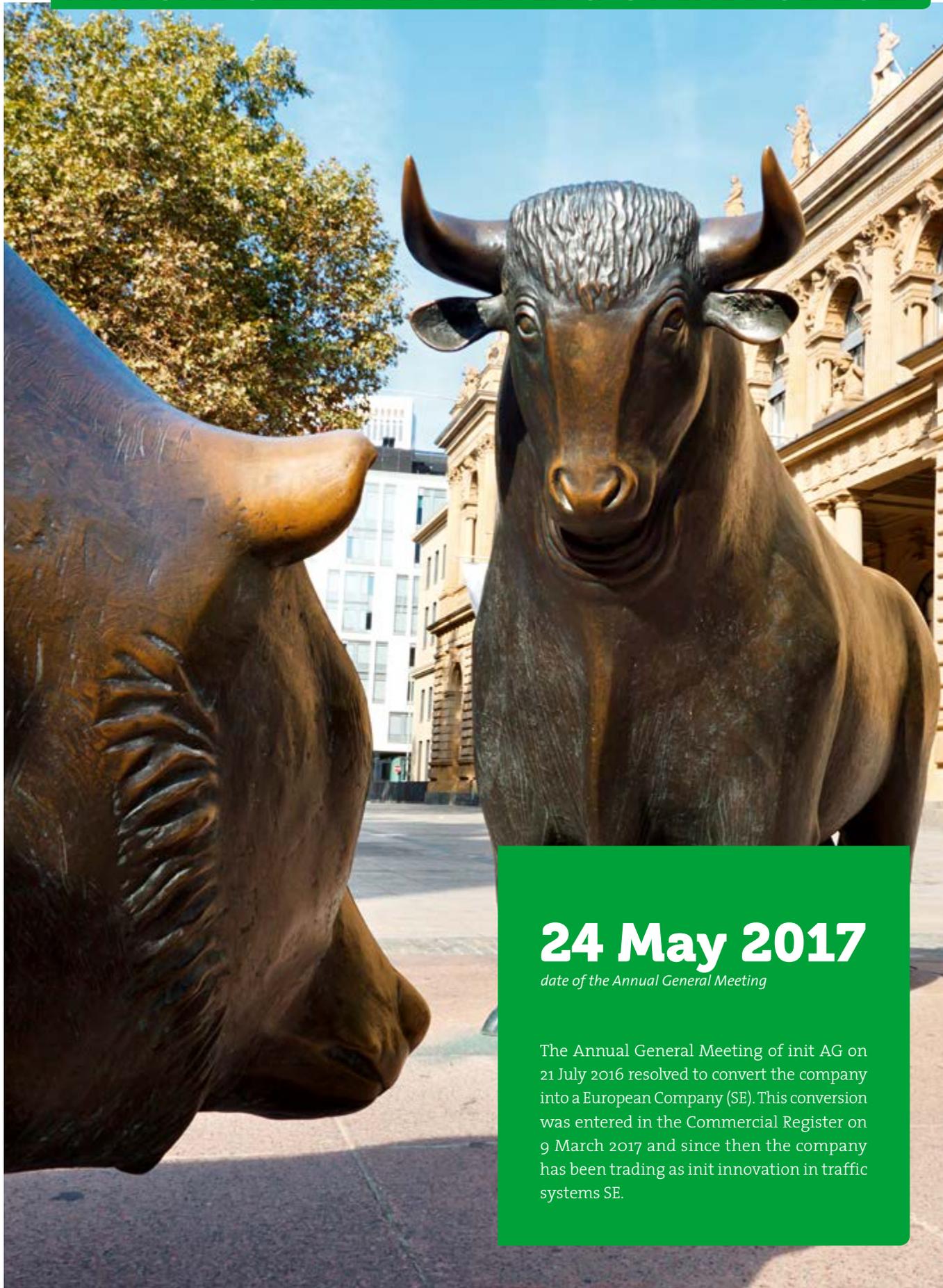
Women are not currently represented on the Managing Board or the Supervisory Board of init, which means setting a target of zero is legally possible. With regard to the sought-after representation of women at all management levels, no representation of women on the Managing Board is possible up to 30 June 2017. Unfortunately, it was not possible to attract suitable female candidates for the new elections at the last Annual General Meeting. However, the Supervisory Board will make it a focal point of its activity, for periods after 30 June 2017 to set targets for female representation on the Managing Board and Supervisory Board and to identify suitable female candidates for future appointments.

The proportion of women at the first management level below the Managing Board is currently 100 per cent. The Managing Board will therefore strive to ensure that the proportion of women does not fall below 30 per cent by 30 June 2017. At the second management level below the Managing Board, the proportion of women is likewise currently 100 per cent. Here too, therefore, the Managing Board will strive to ensure that the proportion of women does not fall below 30 per cent by 30 June 2017. This target was set in order to ensure sufficient flexibility in appointing suitable persons.

100%

The proportion of women at the first and second management level below the Managing Board

ANNUAL GENERAL MEETING OF INIT SE 2017



24 May 2017

date of the Annual General Meeting

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.

Investor RELATIONS

init enhances its attractiveness to international investors as a European stock listed company

In 2016 the capital markets were driven by new crises and experienced a great deal of turbulence. Events initially deemed improbable by the experts, such as Brexit, the rejection of constitutional reform in Italy and the election of Donald Trump as the new US president, triggered some erratic price movements on the equity markets. Positive impetus was provided by the expansionary monetary policy of the central banks, particularly the European Central Bank. This meant that European shares (measured according to the Euro Stoxx index) and the shares included in the German technology index TecDAX recorded slight losses over the year as a whole. The German DAX share index achieved an overall gain of around 7 per cent.

init shares (ISIN DE0005759807) mainly moved in line with general market trends over the reporting period. Thus, with increasing uncertainty on the stock markets, init shares reached their low for the year in mid-February at EUR 12.60. The Managing Board of init used this weak phase to purchase some of its own stock, exercising the

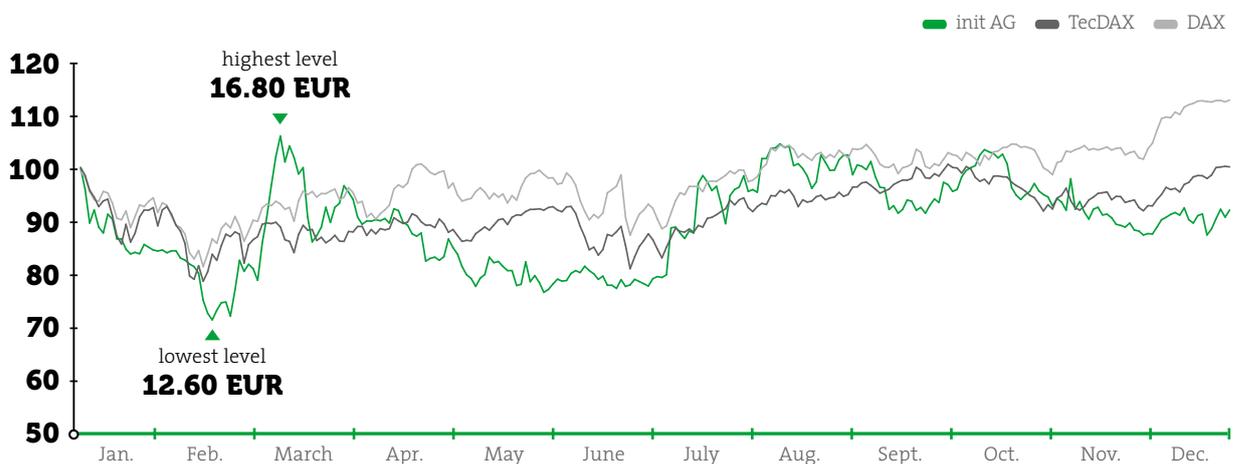
authorisation granted to it by the Annual General Meeting of 13 May 2015. Between 21 January and 4 February 2016, it acquired a total of 50,000 init shares at an average price of EUR 14.01. Between 16 February and 31 March 2016, a further 50,000 shares were to be repurchased at a maximum price of EUR 12.98 per share via the stock market. However, the share price then rose sharply, peaking at EUR 16.80, which meant that this resolution was not fully realised. Thus, a total of 25,253 further shares were acquired at an average price of EUR 12.63.

EUR 16.80

peak value of the init share price
in 2016

Performance of the init share (01/01 – 31/12/2016)

(indexed)



In the second half of the year, driven by positive news such as the acquisition of iris-GmbH, of HanseCom Public Transport Ticketing Solutions GmbH and of a stake in Bytemark Inc. – init shares recorded a better performance than other technology stocks (TecDAX). Following the US presidential election in November and at the end of the year init shares then returned to a weaker trajectory.

Liquidity in shares increases

With a market capitalisation of around EUR 150 million, init is one of the 60 leading technology stocks on the German Stock Exchange. In terms of stock market turnover it was 51st in the index ranking for the TecDAX at the year-end. The average daily trading volume rose to over 10,861 shares, a good 50 per cent higher than in the previous year. This meant that one of the objectives of our investor relations work – to achieve greater liquidity in init shares – was achieved in the reporting period. To this end, and in order to make clear how attractive init shares are at the current price level, a roadshow was held for national and international investors and a number of individual discussions and conference calls were conducted. init also engaged with capital market participants at conferences and through the German Equity Forum.

This contributed to a predominantly positive assessment of init shares by analysts at present. Five analysts currently keep a regular eye on init shares, three of whom class the shares as “buy”, and two as “neutral”. Their price targets range from EUR 16.90 to EUR 24.

init becomes a Societas Europaea (SE) – Annual General Meeting resolves to convert

Stock corporations that are among the global players like init are increasingly changing their legal form to become a Societas Europaea, or SE for short. As such, init, like other companies, wishes in future to take advantage of the solid international reputation of this legal form in order better to utilise market opportunities and ultimately to enhance its attractiveness to investors.

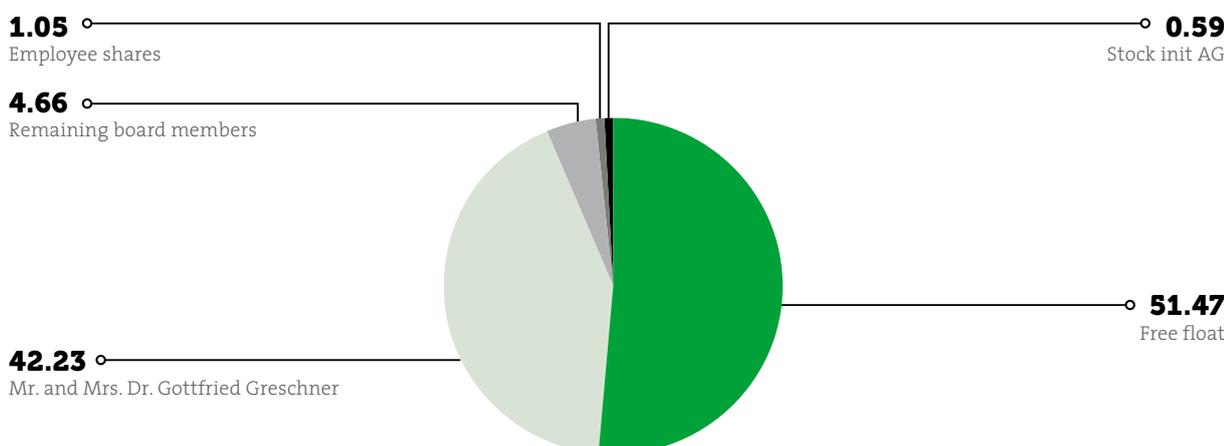
These arguments also convinced init shareholders at the Annual General Meeting of 21 July 2016, who subsequently voted with an overwhelming majority in favour of the plan and of the new articles of incorporation. For init shareholders there is no change: company structures, equity interests and the division of responsibilities between the Annual General Meeting, Managing Board and Supervisory Board will remain unchanged. The members of the Supervisory Board and Managing Board will remain in office following the conversion, while Karlsruhe as the group headquarters in the centre of Europe will remain the company’s registered office.

10,861 shares

were traded on average daily – a good 50% higher than in the previous year

Shareholder structure as of 31/12/2016

(in %)



Dividend policy between distribution and strengthening the balance sheet

It remains one of the top priorities for the Managing Board of init to achieve a balance between having a shareholder-friendly dividend policy and strengthening the company's balance sheet as the basis for future growth. In the fiscal year 2016, the balance sheet profit of init AG increased against the previous year to EUR 18.0 million (2015: EUR 12.9m). The Managing Board and the Supervisory Board of init therefore propose to distribute a dividend for 2016 of EUR 0.22 (prior year: EUR 0.20) per dividend-bearing share. This is intended to set a signal on the growth prospects of the company, but also strengthen the company substance for future investments.

The decision on this is to be taken by the Annual General Meeting of init shareholders, which is planned to take place on 24 May 2017 in the Convention Centre in Karlsruhe.

Stable shareholder structure through anchor investors and funds

Sustainable development of a business guided by long-term goals is based on a stable shareholder structure. At init, this structure has been characterised for years by a set of anchor investors and funds. Since the company's IPO in July 2001, the existing shareholders have been holding more than 50 per cent.

In addition, leading German and European funds are among the long-standing shareholders. Their shares are part of the free float. At 51.47 per cent, the free float is little changed against the previous year.

Basic share information

Exchange	Frankfurt Stock Exchange
Index/Segment	PrimeStandard, Regulated Market
Class	no-par bearer shares (at EUR 1 each)
ISIN	DE 0005759807
WKN	575 980
Code	IXX
Designated sponsors	Commerzbank AG / Oddo Seydler Bank AG
Capital stock today	10,040,000 no-par bearer shares

Stock exchange rates – 2016

High (in EUR)	16.80
Low (in EUR)	12.60
Start price on 02 January 2016 (in EUR)	16.15
Closing price on 30 December 2016 (in EUR)	14.93
Market capitalisation as of 30 December 2016 (in EUR million)	149.9
Average daily trading volume (in shares)*	10,861
Dividend per common share (in EUR)**	0.22
Earnings per share (in EUR)	0.87

* all German stock exchanges

** proposal to the next Annual General Meeting

(source Bloomberg)

51.47%

Free float in 2016
(previous year 52.56%)

Combined MANAGEMENT REPORT

init innovation in traffic systems AG, Karlsruhe

37 companies

The public transport systems in Luxembourg are to be connected in the areas of telematics and ticketing. A total of 37 companies use a shared ITCS in order to provide passengers with precise real-time information and to ensure connections. Tickets can be purchased intermodally.



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GROUP PRINCIPLES

Group Business Model

Organisational structure of the group

The init group (hereinafter also referred to as init AG or init) is the world-leading provider of integrated planning, dispatching, telematics and ticketing solutions for buses and trains. For more than 30 years, init has been supporting transport companies in making public transport more attractive, faster, more punctual and efficient.

In a complete value-added chain, init develops, produces, integrates, installs and maintains software and hardware products for the planning, management and optimisation of transport companies to help them meet their daily requirements.

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

Moreover, these measures reduce carbon dioxide emissions that are harmful to the climate, lessen environmental damage and conserve resources. 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 product range was extended further during the reporting period with the acquisition of iris-GmbH infrared & intelligent sensors in Berlin, HanseCom Public Transport Ticketing Solutions GmbH in Hamburg, the establishment of the new company inola GmbH in Pasching, Austria and the stake in Bytemark Inc., New York, USA.

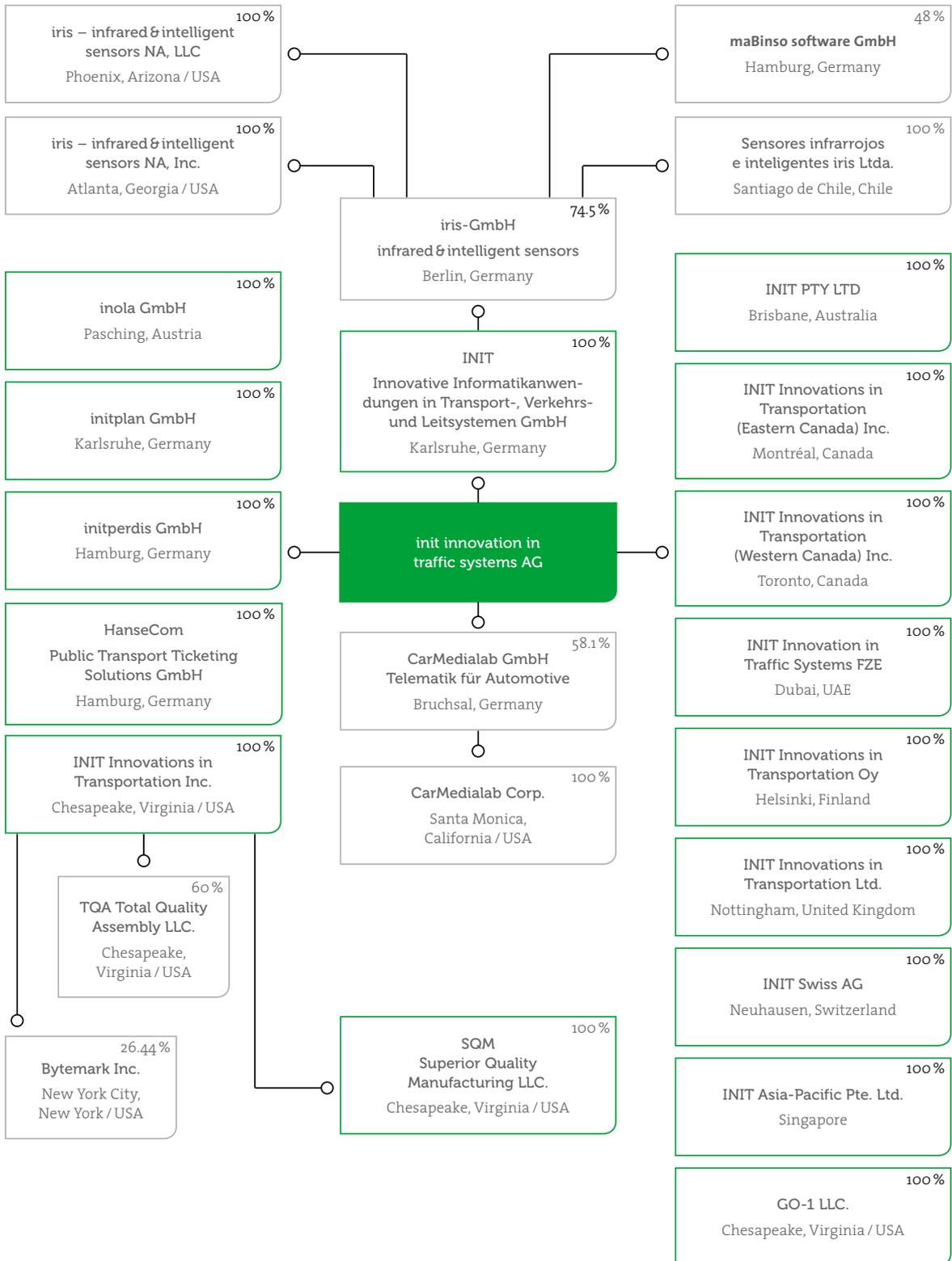
As of 7 July 2016, INIT GmbH acquired a further 25.5 per cent of iris-GmbH infrared & intelligent sensors in Berlin, thus increasing its total share to 74.5 per cent. An option was also concluded to acquire the remaining

25.5 per cent in June 2020. iris-GmbH, which develops, produces and supplies sensor components and products for automatic passenger counting for integration into various systems, was fully consolidated in the consolidated financial statements of init AG from the third quarter.

Furthermore, iris-GmbH has three subsidiaries, based in Atlanta (Georgia / USA), Phoenix (Arizona / USA) and in Santiago de Chile (Chile), which handle sales and service in their respective areas. iris-GmbH also has a 48 per cent investment in maBinso software GmbH in Hamburg.

The company inola GmbH was founded in Pasching (near Linz / Austria) with effect from 12 July 2016. The company develops optimisation solutions for the planning, on-demand transport and the logistics sector that are capable of being used both within the init group and sold to third parties. The software developed by inola provides optimal results for decisive issues for the optimisation. inola GmbH acquired Arelion GmbH's optimisation technology in December 2016. Its Advanced Optimisation Core (AOC) is a technology for quantitative optimisation and forms the new basis for the inola products in the planning sphere. AOC has already been a part of the MOBILE-PLAN solution in the init group since 2013, where it is used for the integrated service and roster scheduling for buses and trains.

With effect from 1 September 2016, INIT Innovations in Transportation, Inc. based in Chesapeake (USA) acquired a 26.44 percentage share in Bytemark Inc., New York. Bytemark is the leading provider of mobile phone ticketing solutions for transport companies in North America. It also has offices in the UK, India and Australia. The two companies have already worked together on various major projects involving transport companies in North America and now want to continue their collaboration on a global basis. In this field, Bytemark possesses a proprietary, patent-protected technology base and has currently filed additional patent applications. The stake in Bytemark Inc. is consolidated at equity on init group's balance sheet.



50 transport companies

are already supported by the software developed by HanseCom

In addition, HanseCom Public Transport Ticketing Solutions GmbH in Hamburg has been part of the init group since 1 October 2016. HanseCom is a leading provider of sales and customer management systems for public transport in Germany. The software developed by HanseCom supports more than 50 transport companies in the management, invoicing and evaluation of subscriptions, and ticket sales, as well as prosecuting fare evaders. It can be easily integrated in other products through numerous interfaces, such as for example, init's MOBILEvario system. HanseCom has also concluded mobile phone ticketing agreements with more than 40 transport companies, thus covering around 35 per cent of federal territory.

The Annual General Meeting of init AG on 21 July 2016 resolved to convert the company into a European Company (Societas Europaea – SE). The conversion into an SE creates a legal form that is recognised throughout Europe for the group holding company based in Germany. This forms the basis for further international expansion. init AG will retain its registered office and head office in Karlsruhe, Germany even after the change to SE. The conversion is concluded once it is registered in the Commercial Register.

This year the init group management report was combined again with the management report of init innovation in traffic systems Aktiengesellschaft, Karlsruhe (init AG) pursuant to Section 315 (3) HGB (German Commercial Code) in connection with Section 298 (2) HGB. The management report is therefore hereinafter referred to as the combined management report. The annual financial statements of init AG, which are drawn up in line with the provisions of the HGB, and the combined management report are simultaneously published in the online edition of the German Federal Gazette (Bundesanzeiger).

Business processes

The value-added chain in the init group essentially includes the development, production management, quality assurance, implementation, servicing and maintenance of integrated hardware and software solutions for all key tasks within transportation companies. Hardware manufacturing is 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 through the test series all the way to serial production.

In order to meet the “Buy America” requirements in the US business, init runs two production operations in the USA. The company Superior Quality Manufacturing, LLC., Chesapeake, Virginia / USA (“SQM”) assembles various devices from the init product family and acts as a contract manufacturer of INIT Innovative Informatik-anwendungen in Transport-, Verkehrs- und Leitsystemen GmbH, Karlsruhe (INIT GmbH). 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 our top management priorities to optimise production processes and reduce manufacturing costs while maintaining quality demands at a consistently high level. In order to keep production costs as low as possible, init concentrates on core development competences.

There are no dependencies on individual manufacturers or service providers. This allows init to switch suppliers quickly should a business partners 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 realised numerous projects for more than 400 international customers during a corporate history that spans more than 30 years. To this end, init operates a global network of subsidiaries that deliver local support for projects and look after customers.

The most significant operative units with a total of approximately 564 employees are located at the Karlsruhe, Berlin and Hamburg sites, where software and hardware are developed and new technologies implemented. In addition, the group's strategy is defined at the Karlsruhe location. The biggest group companies outside Germany are in North America, with a total of 73 employees, and in Dubai, United Arab Emirates, with 13 employees.

564 employees

work at the most significant operative units in Karlsruhe, Berlin and Hamburg

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

init AG holds a 58.1 per cent stake in CarMedialab GmbH, Bruchsal ("CML"). CML develops on-board units (intelligent broadcasting and telematics units) for vehicles, plus the associated software, and operates back-end systems as a telematics service provider. Key services include telediagnosis and smart charging of electric vehicles. In addition, CML works with init on the MOBILE-ECO² platform. This platform provides public transport with vehicle monitoring and supports economical driving. init has an option to acquire additional shares in CML.

init's modular product concept allows both an individual combination of single modules and integration with other systems via standardised interfaces. As a result, init stands out from its competitors due to a more comprehensive, efficient and flexible product offering. This range covers all operative tasks within transport companies: from planning and dispatching, through operations management and passenger information and electronic fare management, to the analysis and optimisation of operations.

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 fifty thousand vehicles around the world.

External influencing factors

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

Population growth, increasing urbanisation and impending traffic gridlock are leading to growing public transport passenger numbers. Willingness to expand public transport is therefore growing in many countries and regions. In order to cope with the rapidly growing demand for mobility and simultaneously avoid pollution, billions must be invested in intelligent traffic systems. Another current trend is hardware substitution and software modernisation of ageing telematics systems.

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

Corporate control, objectives and strategy

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

The corporate **control** of init group is managed via annual planning for revenues, earnings before interest and taxes (EBIT) and incoming orders, which are reviewed on a rolling basis using plan / actual analyses. The insights revealed by these analyses are then used to prepare forecasts and develop an action plan if necessary.

Incoming orders is an important parameter from which future revenues and results are derived.

Sustainable, profitable growth is the overarching **objective** of corporate policy.

Financial objectives

The init group's strategic objective is to continue increasing its revenues with integrated systems over the next few years. With the large number of existing and anticipated tenders, as well as the acquisitions made, significant growth should lead to higher revenue growth in 2017 again. We are aiming for a long-term average growth target of 10 per cent. Most of the growth beyond 2017 is to be achieved by organic means.

Revenue in 2017 is expected to come to roughly EUR 120m. On the other hand, the EBIT is not expected to grow but rather to decline by EUR 5m to 7m in 2017. This is due to the price-sensitive tenders of the last two years, which led to significantly lower margins in the projects. Better margins are meanwhile being achieved on current tenders, so that the EBIT margin is expected to rise again from 2018.

EUR 120m

Revenue in 2017 is expected to come to roughly EUR 120m

Non-financial objectives

Customer satisfaction

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

A customer survey is carried out annually to check that these objectives are being met. During the reporting period our customers gave us an average rating of "good" (previous year: "good"). Although the average rating improved again over the previous year, we still scope for further improvement here.

400 employees

took part in internal and external training measures in 2016

Employee qualification and know-how

Well trained and entrepreneurial employees are the key to business success. For this reason, it is part of init's corporate philosophy to ensure that every individual receives training, continuing professional development and a share in the company's success. Around 400 employees took part in internal and external training measures in 2016.

Some 65 per cent of init's permanent employees have a university degree, particularly in the fields of information technology, e-technology, HF technology, physics, mathematics and industrial engineering. init maintains very close contact with the Karlsruhe Institute of Technology (KIT) and the 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 this connection, we provide students with practical work in part-time positions and supervise theses at bachelor and master degree level as well as dissertations.

New employees in the subsidiaries are sent on training visits at the group's headquarters in Germany to ensure they can also meet the customers' high demands on our technology locally. Conversely, employees from Germany also spend several weeks a year at the 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 technical advantage for forward-looking transport companies to make their services more attractive, more efficient and faster.

Significant factors are:

- ▶ Innovation: using the know-how that we have gathered over many years and with our great dedication to development, we convert new technologies into practical applications.
- ▶ Thinking in systems: deployed autonomously or built into systems – our modular total solutions offer a maximum degree of flexibility during planning and operation.
- ▶ Investment security: when it comes to technologies, interfaces and software, we are guided by international standards that will continue to hold true tomorrow. In many cases, init has itself set standards through customised, tailored solutions.
- ▶ Customer proximity: init is where its customers are. This applies to our sites just as much as to our thinking and actions. Customers thus become partners whom we join to get things moving, and with whom we create new offerings in long-standing partnerships.
- ▶ Internationality: init has been in the market for more than 30 years, with more than 25 of these internationally. Our active participation in pioneering projects on four continents today ensures contact with ultra-modern development standards and a focus on international solutions. This is technology transfer that takes our customers forward and thus secures init a unique competitive position.

Research and Development

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

Some 300 init hardware and software developers worked at the Karlsruhe, Braunschweig, Bruchsal and Hamburg sites in the 2016 financial year, and since the third quarter also in Berlin and Pasching on new products and product concepts and on further developing existing products. In addition, numerous new customised software developments and interfaces were realised.

EUR 5.0m

*were spent on the basic development
of new products*

The init group spent a total of EUR 5.0m in 2016 (previous year: EUR 4.1m) on the basic development of new products independently of customers. This is 4.6 per cent (previous year: 3.9 per cent) of revenue.

In addition, the group accomplished customer-funded, project-based new and further developments adding up to around four times that amount again. As in the previous year, no development costs were capitalised.

init is currently involved in several research projects:

InREAKT aims to automate the identification of safety-critical situations and emergencies in public transport through the use of a combined video and sound detection system and transfer to an event management system in the transport company's control centre. The project was concluded successfully in 2016.

The EU-funded research project aim4it was also concluded; it developed a public transport system that provides unrestricted access for passengers with special mobility requirements.

In the MENDEL research project, optimisation algorithms in different areas are being used in the introduction of electric mobility to lay the foundation for providing a cost-efficient charging infrastructure for the planning and implementation of public transport. This takes into account the special requirements of electric buses and, at the same time, ensures a uniform load in the energy grid. The conditions are therefore met within the scope of the project whereby with init's product range, it is planned to integrate electric buses with all their specific requirements in the operation control system.

The EBSF_2 European research project is concerned primarily with proving that the interoperability of different manufacturers' systems can be guaranteed with the help of European standards. init focuses here primarily on air interface between the vehicle and head office, as well as the interfaces within the vehicle.

The Austrian INK 2016 project is further developing the interfaces between the vehicle and a customer's mobile device developed in the aim4it project and is implementing them with Bluetooth.

As regards further development, init is participating in other projects and activities for 2017. These include the ongoing standardisation of communication interfaces, the topic of intermodality, changes to public transport due to automated vehicles and laying the foundation for far-reaching dispatching assistance, to name but a few. Besides increasing the transport companies' operating efficiency, one of our driving forces is enhancing the attractiveness of public transport in the eye of the passengers.

ECONOMIC REPORT

General economic and sector-specific conditions

At 3.1 per cent in 2016, global economic growth was at its weakest since the outbreak of the global economic crisis in 2008 / 2009. This was ascertained by the International Monetary Fund (IMF) in its January 2017 World Economic Outlook. General economic development was defined by highly conflicting trends and new uncertainties. This forced the leading economic research institutes to revise their estimates for economic growth on several occasions.

Growth in the advanced economies remained at a stable low level of around 1.6 per cent in 2016. Although momentum eased in the emerging markets, growth was still significantly higher at 4.1 per cent. China, India and the ASEAN countries were the leaders here, with growth of 6.7, 6.6 and 4.8 per cent respectively.

However, the decision taken in the referendum for the UK to leave the European Union (Brexit) and the related negative consequences for the EU states and the UK put a dampener on expectations for the future. Existing risk were heightened by new political uncertainties, such as the failure of the Italian government to implement important reforms, which, together with resurfacing nationalism in Europe, has triggered fears about the breakup of the EU, as well as the surprising election of Donald Trump as US president. This is why all economic experts were and are very reserved with regard to their global economic outlook for 2017 and 2018.

Supported by the indicators from the big economic areas of the US, China, Europe and Japan, that were still surprisingly positive in the second half of 2016, the IMF expects a moderate pace of economic growth of 3.4 per cent for 2017 and 3.6 per cent for 2018, but at the same time warns about a broader spectrum of risks.

Much depends on the policies of the new US government. The economic recovery in the USA in the second half of 2016 was supported more than expected initially

by inventories and rising exports. This positive trend was reinforced by announcements made by the new US president of his intentions to create more growth and employment by increasing public spending on and investment in the infrastructure. On the other hand, his statements regarding a protectionist foreign trade policy and a reduction in the USA's international exposure could incur negative economic consequences. Nevertheless, the IMF raised its growth forecast for the US economy to 2.3 per cent (2017) and to 2.5 per cent (2018). At the same time, however, it stressed that it could not make a qualified statement until there is more clearly formulated US government policy.

This uncertainty also overshadows the expectations of the performance of other economic areas, especially as Trump's government has already issued several strong statements about restructuring trade relations with China and the EU. Assuming fiscal policy in the USA will have a stimulating effect, a "soft" Brexit and no major disruptions to the international trade relations, the IMF expects the growth momentum in the advanced economies to increase by 1.9 and 2.0 per cent respectively in 2017 and 2018.

The forecast for the euro area, which is init's most important sales market alongside North America, remains stable at 1.6 per cent. The estimates for Germany were raised by 0.1 percentage points to 1.5 per cent. This reflects the robust status of the German economy on the one hand and the effects already of the changing currency relations, especially vis-à-vis the US dollar, which favoured the euro and therefore the competitive edge of German enterprises.

The UK, which is another important market for init, performed much better than predicted by the experts, with growth of 2.0 per cent in 2016. However, the fallout from Brexit signals a downturn, so that economic output is expected to increase by only 1.5 per cent (2017) and 1.4 per cent (2018).

According to the IMF, the countries in the Asia-Pacific region are likely to post the highest growth rates this year and the next, with India replacing China as the fastest growing economy. While growth of more than 7 per cent is predicted for India, growth in China is expected to weaken to 6 per cent by 2018. Growth in the ASEAN states, which also represent potential future markets for init solutions, is expected to accelerate to over 5 per cent.

Economic growth, especially in highly populous economies requires and at the same time promotes the corresponding investments in infrastructure, particularly in transport. Urbanisation is a global megatrend that rapidly increases the demands placed on public transport systems. More than half of the world's population now lives in metropolitan areas (referred to as mega cities, mega regions or mega corridors). In industrialised countries, urban cores (such as London, Paris or even Munich) increasingly spread into their surrounding areas and assimilate more and more suburbs. In the fast-growing emerging markets, particularly China, India and Southeast Asia, new urban agglomerations are always emerging. More than 1,000 cities worldwide with more than 500,000 inhabitants are facing mobility problems that can only be solved by expanding public transport in an intelligent way. Mobility solutions such as those offered and facilitated by init, are therefore at the forefront of the investment programmes.

1,000 cities

worldwide with more than 500,000 inhabitants are facing mobility problems

In addition, the necessary measures worldwide to reduce particulate matter and greenhouse gases now constitute ecological growth drivers for the transport telematics market. The big cities around the world are outgrowing their transport systems – and therefore contribute increasingly to global warming, according to a study recently published by the New York Institute for

Transportation and Development Policy (ITDP). Investments in expanding the climate-friendly public transport systems were therefore a key element of the programmes adopted at the UN climate change conference held in Marrakesh in 2016. 195 countries have meanwhile committed to drastically reducing greenhouse gas emissions by 2050. Countries such as the UK, Canada, the USA and Germany – which are init's key sales markets – are the leaders here and have approved the corresponding "climate protection plans". They want to make a significant contribution to climate protection by making considerable funds available for developing public transport. Greater emphasis is placed on promoting new technological developments for buses and trains, and for further networking the transport services.

195 countries

have meanwhile committed to drastically reducing greenhouse gas emissions by 2050.

The intelligent, multi-modal networking of different passenger transport providers, such as those already realised successfully by init in collaboration with transport companies, is a central component of these investment programmes. The potential is digitisation, especially the new developments in real-time data communication between vehicles or between vehicles and infrastructures, will lead to a most efficient utilisation of the transport infrastructure in future and hence towards conserving resources and the climate.

They will also change people's mobility patterns completely. For example, special service providers can create individual packages for customers using apps, which tie in the transport facilities into a complete, optimum travel chain, regardless of the choice of transport. Better, individual offers will not only lead to increased mobility overall but will also facilitate greater utilisation of public transport services.

The experts also believe that the massively propagated "autonomous driving" will have a positive effect on public transport in areas other than the sparsely populated regions. Automated small electro-buses will be able to service many regional routes in the future with low demand for transport in a more flexible and customer-friendly manner than is the case today. This concerns in particular routes that are not used much outside of commuter traffic. Sharing offers or autonomous electric buses will then frequently assume the role of individual feeder function to mobility hubs such as train stations.

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, and various means of transport. Transport management and information systems such as those developed, produced and implemented by init thus make a significant contribution to improving the quality of life and climate protection.

We are therefore seeing double-digit growth rates in demand worldwide. Intermodal (individual, local and long distance integrated) planning and monitoring systems are likely to have the strongest growth. Intermodal transport control systems that can react to disruptions or accidents immediately and adequately, or that can make them predictable and therefore preventable with special analysis tools will drive growth. This is the focus of the InREAKT project, in which init is a main participant and which has now been successfully completed.

Other growth areas are automatic passenger counting and – in response to the growing use of apps on smartphones – smart ticketing. North America is the region with the largest share of government programmes and tenders for this. The USA pursues the most ambitious investment programme in this area, even after the change of government. More attention will likely be given to the motto "America first" in the future. This is one of the reasons why it makes sense for init to have taken

a stake in Bytemark Inc., New York in 2016. Bytemark is the leading provider of mobile phone ticketing solutions for transport companies in North America and has already worked together with our INIT US subsidiary on various big projects.

All of these industry-specific conditions point towards long-term opportunities for init. However, the investment behaviour in particular of the transport companies will determine whether they can be used. Their appetite for investment depends on the one hand on the access to public funds and on political choices on the other. Growing uncertainties and new risks for future development, such as those that occurred in 2016 in Europe and North America in particular, could also have a depressing effect here.

Business performance

The distribution of revenues for the init group is determined by the capital investment behaviour of transport providers. It is therefore traditionally uneven over the course of the financial year: the first quarter is usually the weakest and the fourth the strongest. This was once more confirmed in the financial year just ended.

The first quarter, with revenues of around EUR 19.4m (previous year: EUR 23.6m), was in line with our projections despite the decline against the previous year.

In the second quarter the init group's business performance continued to reflect the previous year's moderate order book position, though there were signs of growth potential in e-ticketing and in the European and North American markets. Overall, the group generated revenues of EUR 22.4m (Q2 2015: EUR 23.6m). Revenues for the first six months of 2016 were down year on year at EUR 41.8m (previous year: EUR 47.1m) but remained within the target range.

In the third quarter revenues for the group as a whole remained in line with projections, with the first-time full consolidation of iris-GmbH having a positive effect. Revenues for the quarter were up EUR 1.6m year on year at EUR 27.7m while EBIT, at EUR 4.9m, was well above the previous year's figure (EUR 2.4m). However, the latter derived from a one-off effect from the upward revaluation of the previous interests in iris-GmbH in the amount of EUR 4.7m.

In the fourth quarter of 2016 the init group achieved revenues of EUR 39.1m (previous year: EUR 32.1m) and operating earnings before interest and taxes (EBIT) of EUR 4.8m (previous year: EUR 4.7m). Incoming orders in the fourth quarter totalled EUR 23.9m (previous year: EUR 10.8m) and amounted to EUR 128.7m for the year as a whole. This was in excess of our revised projection of EUR 120m.

Asset, financial and earnings position

Earnings position

For the year as a whole, the init group achieved a new **revenue record** of EUR 108.6m (previous year: EUR 105.3m) and was thus in line with the forecast figure, revised in August, of around EUR 106m. The original projection envisaged revenue of EUR 100m. This corresponds to growth of 3.1 per cent, substantially lower than long-term average growth. However, in view of the large number of tenders, we are confident of returning to higher growth rates from 2017. The return on revenues for the group was 8.0 per cent (previous year: 7.2 per cent).

EUR 108.6 m

*the init group achieved
a new revenue record in fiscal year 2016*

A share of 61.5 per cent of total revenue was generated outside Germany (previous year: 73.6 per cent). However, the strongest market in the reporting period was Germany, not North America as in previous years. In Germany revenue rose to EUR 41.8m (previous year: EUR 27.8m), which was attributable to a number of large-scale projects and to the interests acquired in HanseCom and iris. Revenues in North America were almost the same as in Germany at EUR 41.0m (previous year: EUR 51.8m).

In the other countries (Australia and UAE) a decline in revenues was recorded compared with the previous year. Here, revenues fell from EUR 4.3m in 2015 to EUR 3.8m in 2016 because of lower order volumes.

In Europe (excluding Germany) revenues rose slightly to EUR 22.0m (previous year: EUR 21.3m). Essentially this was due to the good progress made in completing ongoing major projects in Luxembourg, France and Finland.

Despite increased revenues, **EBIT**, at EUR 11.6m, was only slightly up on the previous year (EUR 10.8m). It should be noted that this earnings figure includes a one-off effect of around EUR 4.7m from the upward revaluation of the previous interests in iris-GmbH. The decline in operating earnings (excluding the one-off effect) was the result principally of higher personnel expenses and narrower margins. The narrower margins were caused mainly by project delays and by price-sensitive tenders for new projects with lower contribution margins. EBIT was slightly below our revised projection of around EUR 12m, partly owing to the acquisition of **HanseCom** in October. The original projection envisaged EBIT of around EUR 8m. The EBIT margin stood at 10.7 per cent (previous year: 10.2 per cent).

Gross profit decreased by EUR 0.5m to EUR 31.3m (previous year: EUR 31.8m), which corresponds to a reduction of approximately 1.8 per cent (previous year: reduction of around 13 per cent). The cost of revenue rose mainly as a result of increases in personnel expenses. The additional personnel expenses were principally due to a higher headcount in the original group and to acquisitions.

Accordingly, sales and administration expenses rose to EUR 21.6m (previous year: EUR 17.7m), with the main increases resulting from personnel expenses at EUR 3.0m and advertising costs at EUR 0.5m.

Other operating income remained constant at EUR 1.9m and derived in the main from rental income, public grants, income from value adjustments on receivables and benefits in kind. The **foreign currency gains** of EUR 1.1m (previous year: foreign currency losses of EUR 1.6m) were chiefly comprised of positive effects from the balance of unrealised gains and unrealised losses from the valuation of receivables and payables in foreign currencies. Realised exchange rate gains and losses and the net result of currency hedging had a countervailing effect.

Net interest income (balance of interest income and interest expenses) totalled EUR -497k (previous year: EUR -538k) and resulted principally from the property financing in Karlsruhe, the share of interest on the pension provisions and the euro loans taken out over the year.

At EUR 8.7m, **net profit** was up slightly on the previous year (previous year: EUR 7.6m). This included a one-off effect of EUR 4.7m from the upward revaluation of the previous interests in iris-GmbH. That led to earnings per share of EUR 0.87 (previous year: EUR 0.75). At 21.8 per cent (previous year: 25.8 per cent) the tax rate was below the previous year's because of the tax-neutral upward revaluation of iris-GmbH. Return on equity stood at 11.4 per cent (previous year: 10.6 per cent) and return on total capital at 4.7 per cent (previous year: 5.2 per cent).

Total comprehensive income fell from EUR 11.7m in 2015 to EUR 8.4m in 2016. The decline resulted chiefly from lower unrealised foreign currency gains of EUR 1.1m (previous year: gains of EUR 2.7m) and higher actuarial losses of EUR 1.5m (previous year: gains of EUR 1.3m) because of the reduction in the interest rate used to calculate pension provisions from 2.53 per cent to 1.80 per cent. For further details, please refer to our statement of comprehensive income.

Incoming orders

Incoming orders exceeded our expectations and were well above the previous year's level in the 2016 financial year. This was the result both of a higher volume of tenders and of more contracts once again being awarded in our favour. The Managing Board had originally projected incoming orders of EUR 110m in 2016. In July, this forecast was increased to EUR 120m owing to the inclusion of iris-GmbH in the consolidated financial statements. Overall, incoming orders, at EUR 128.7m (previous year: EUR 67.2m), reached their second-highest level in the company's history. Around 51.5 per cent of orders were generated in the North American market. Of the other incoming orders, 19.4 per cent were from Germany, 25.8 per cent from Europe and 3.3 per cent from other countries.

EUR 128.7 m

Incoming orders reached their second-highest level in the company's history

In 2016, as in the previous year, a number of new orders in the single-digit million range were received and an increasing number of ticketing orders was recorded. In addition, several large-scale orders were received in 2016.

In North America, incoming orders totalled in excess of USD 70m, of which more than USD 30m was accounted for by a project on the part of the Honolulu Authority for Rapid Transportation (HART), which looks after public transport on the Hawaiian island of Oahu. A contract was awarded to init for the delivery and operation of a multimodal fare management system. A total of more than 550 vehicles will be fitted with init technology. Another large order for more than USD 10m was placed with init by the Hillsborough Area Regional Transit Authority, the leading procurement agency of the Regional Working Group (RWG) in Tampa, Florida. The commission awarded to init was for the installation of a region-wide e-ticketing and fare management system. A total of around 600 vehicles are to be suitably equipped. The transport provider The Rapid tasked init with implementing an e-ticketing system in the Grand Rapids metropolitan area. The value of the order is more than USD 3m.

In Germany incoming orders totalled EUR 24.9m. Orders were received for a number of relatively small and medium-sized projects. Of particular note is the new ticketing system in Frankfurt am Main. From April 2018 all 350 buses run by the five transport companies that operate the city's bus services on behalf of the local public transport company traffiQ will use the new central ticketing system of the infrastructure and sales service provider VGF. In addition to the central MOBILEvario software, in terms of hardware each bus will be equipped with an EVENDpc and a PROXmobil2 reader. The order is worth several million euros. Meanwhile in Emden, the public transport provider Stadtverkehr Emden GmbH is purchasing an integrated ITCS and fare management system from init. In addition, in the vehicles the on-board computer with integrated ticket printer

EVENDpc2 will be installed, and will control the IBIS-Wagenbus devices present in the vehicle. Furthermore, all buses will be equipped with the passenger display system PIDvisio to improve the information provided to passengers. In terms of e-ticketing, init will replace the existing magnetic card system with contactless card technology. In introducing MOBILE-ITCS, Stadtverkehr Emden GmbH attaches particular importance to managing on-demand shared taxi provision. For the transport provider Bodensee-Oberschwaben Verkehrsverbundgesellschaft mbH (BODO), init is putting in place an e-ticketing system for more than 200 buses. These will be equipped with EVENDpc2 and PROXmobil2. In addition, init will provide the MOBILEvario central background system for fare management and the allocation of revenue.

EUR 33.2 m

Incoming orders in Europe totalled EUR 33.2m

Incoming orders in Europe totalled EUR 33.2m and were driven by new projects as well as follow-up orders and follow-on work. In the United Kingdom, National Express West Midlands (NXWM) commissioned init with the provision of a ticketing system. The contract encompasses the installation of on-board computers with integrated ticket printers in 1,600 buses and the provision of a hosted background system. In addition to rapid ITSO card-based transactions, the solution enables the use of bank cards for contactless ticket payments using the EMV standard (Mastercard, Visa). The National Express Group is not only the leading public transport company in the UK, it also operates bus and rail lines in continental Europe, North Africa and the Middle East. In Luxembourg, the ITCS and fare management system installed by init will be extended to the tram system currently under construction, Luxtram. Initially, the stops on the first section to be built will be fitted with stationary VENDstation ticket machines. At these, passengers will be able to buy electronic or traditional paper tickets and pay either in cash or by credit card. Once a ticket has been bought, the passenger will validate it when

boarding the tram. For this purpose the trams will be equipped with PROXmobil2 ticket terminals. Ruter AS in Oslo, an existing customer, itself placed follow-up orders worth more than EUR 2m. The system put in place years ago in Oslo by init will be expanded to include additional vehicle equipment.

In other countries, incoming orders were constant at a low level and totalled EUR 4.2m. These mainly involved the extension of maintenance contracts and relatively small new orders. In the region around Christchurch, Canterbury, New Zealand, init will set up a CICO (check-in / check-out) system for more than 200 buses.

EUR 111.4 m

The order backlog at the year-end amounted to EUR 111.4m

The order backlog at the year-end amounted to EUR 111.4m (previous year: EUR 81m). The order backlog covers roughly 70 per cent of the projection for 2017.

Internationally, our market is still characterised by a large number of new tenders. Our long-term customer relationships with over 400 business partners around the world secure a stable business base for init, as they normally lead to follow-up orders and maintenance contracts. We booked incoming orders of more than EUR 37m in 2016 as a result of additional deliveries, maintenance contracts and order extensions alone.

For 2017 we expect incoming orders for the group of between EUR 120m and EUR 130m.

Multi-period overview of the earnings position

Financial year EUR m	2011	2012	2013	2014	2015	2016
Revenues	88.7	97.3	100.1	103.0	105.3	108.6
Gross profit	36.3	34.0	37.5	36.6	31.8	31.3
EBIT	20.4	17.3	17.7	18.7	10.8	11.6
Net profit	15.1	10.9	12.1	12.1	7.6	8.7

Financial position

The init group's financial position can be described as solid in the 2016 financial year.

Capital structure

Liabilities to banks as of 31 December 2016 amounted to EUR 35.3m (previous year: EUR 19.6m) and mainly related to real estate and acquisition financing as well as short-term euro loans taken out to stabilise liquidity which had been prompted by delayed payment receipts and payment schedules requiring a high level of pre-financing. Non-current liabilities resulted from real estate financing for Kaeppelestrasse 4, 4a, 8 / 8a and 10 totalling EUR 5.5m (previous year: EUR 6.7m), real estate financing for the new facility in the United States amounting to EUR 2.8m and acquisition financing of EUR 7.3m.

The Kaeppelestrasse 4 property was financed by a bank loan of EUR 1.2m. The remaining debt on this loan is EUR 0.7m. After refinancing in 2017 the loan is being repaid through instalments of EUR 101k per year. The interest rate in future will be 0.9 per cent with a term and a fixed interest rate period of seven years.

The properties at Kaeppelestrasse 8 / 8a and 10 were financed in the amount of EUR 3.0m at a variable rate based on one-month Euribor. The interest rate as of 31 December 2016 was 0.8 per cent. The repayment on the loan is EUR 150k per annum.

The new development at Kaeppelestrasse 4a is financed by a loan of EUR 6.5m based on three-month Euribor. The interest rate including margin as of 31 December 2016 was 0.41 per cent. The repayment on the loan is EUR 963k per annum.

Loans are expressed in euros and are fully mortgage-backed.

Overall, non-current liabilities increased by EUR 12.6m. This was attributable in particular to acquisition financing (EUR 7.3m), the rise in pension provisions (EUR 1.1m) and the increase in other liabilities because of the option agreement for purchase of the remaining interests in iris-GmbH (EUR 3.3m).

Current liabilities increased from EUR 54.3m to EUR 77.2m. This change was made up of an increase in bank loans of EUR 6.8m, an increase in accounts payable from PoC in the amount of EUR 4.0m, an increase in trade accounts payable of EUR 5.7m and an increase in provisions of EUR 2.8m. In addition, income tax liabilities rose by EUR 2.0m while other liabilities were up by EUR 1.4m chiefly because of larger liabilities towards employees (employee profit-sharing plan).

The group's debt-equity ratio (debt capital / equity capital *100) was 143.1 per cent (previous year: 104 per cent) and thus rose significantly owing to the effects cited above.

EUR 14.5 m

invested the init group in 2016

Investments

The investments amounting to EUR 14.5m (previous year: EUR 8.9m) were chiefly comprised of the new facility in the United States and the acquisitions effected as well as capital expenditure to replace and expand existing assets.

With effect from 1 September 2016 INIT Chesapeake acquired a 26.44 per cent stake in Bytemark Inc. (New York, United States). This interest provides good opportunities for ticketing solutions to achieve faster market penetration among transport companies and in other sectors in North America as well as additional competitive advantages in international tenders.

As of 1 October 2016 init AG acquired full ownership of HanseCom Public Ticketing Solutions GmbH. We likewise see better market penetration for ticketing solutions from this investment. In addition, the acquisition brought with it numerous new customers.

As of 1 July 2016 INIT GmbH increased its interest in iris-GmbH from 49 per cent to 74.5 per cent. iris-GmbH is a global specialist in sensor systems for the automatic counting of passengers. The company will continue operating independently in its own market segment and supply both init and other companies with its sensor technology, which is currently superior to its competitors.

Liquidity

Operating cash flow amounted to EUR 13.2m (previous year: EUR 11.5m) and was therefore about 14.8 per cent above the previous year's figure. This was attributable in particular to the increase in trade accounts payable and accounts payable from PoC. Countervailing effects derived principally from the fall in deferred tax liabilities and the increase in actuarial losses from pension provisions.

EUR 13.2 m

Operating cash flow of the init group

Net working capital (= current assets less liquid funds less trade accounts payable) came to EUR 70.1m (previous year: EUR 72.4m). Cash flow from investing activities amounted to EUR -16.1m (previous year: EUR -8.3m) and related mainly to investments in tangible fixed assets and in the new facility in the United States and cash paid out for the acquisition of subsidiaries and interests.

Cash flow from financing activities totalled EUR 12.4m (previous year: EUR 1.5m) and was mainly attributable to the utilisation of euro loans, real estate loans in the United States and acquisition financing. These were offset by the dividend payment, the purchase of own shares and the repayment of non-current and current bank liabilities.

Liquid funds, including securities that can be sold in the short term, came to EUR 24.0m at the end of December 2016 (previous year: EUR 14.1m). The increase was attributable to the utilisation of euro loans. The euro loans had to be utilised owing to delays in incoming payments for large-scale projects and payment schedules leading to high levels of prefinancing.

Asset position

The init group's asset position may likewise be described as solid in the 2016 financial year.

The balance sheet total had risen as of 31 December 2016 by approximately EUR 40.9m compared with the previous year and amounted to EUR 185.9m (previous year: EUR 145.1m). In addition to the acquisitions effected, this was due to the financing of the new facility in the United States, increased liquid funds and a rise in bank loans. Trade accounts receivable and future receivables from production orders increased in total by EUR 1.5m. Inventories rose by approximately EUR 4.3m because of an increase in stock on hand. Equity had risen to EUR 76.5m at the year-end (previous year: EUR 71.2m) and was therefore about 7.5 per cent above the previous year's figure. Equity ratio stood at 41.1 per cent (previous year: 49.1 per cent) and was below the previous year's figure on account of the rise in debt financing and increased liabilities and provisions.

Multi-period overview of the financial and asset position of the init group

Financial year EUR m	2011	2012	2013	2014	2015	2016
Equity	56.9	57.8	62.1	67.8	71.2	76.5
Debt capital	52.9	52.7	56.2	61.0	73.9	109.4
Cash	23.5	20.3	25.4	9.2	14.0	23.9
Balance sheet total	109.8	110.5	118.3	128.8	145.1	185.9
Operating cash flow	17.4	11.3	11.4	0.5	11.5	13.2

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

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

Earnings position

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

The revenues of init AG pursuant to the German Accounting Directive Implementation Act (BilRUG) amounted to EUR 7,499k (previous year: BilRUG EUR 7,426k) and were generated largely through services provided for INIT GmbH, initplan and INIT Nottingham and through rental income. Earnings before taxes amounted to EUR 12,442k (previous year: EUR 6,830k). Because of profit / loss transfer agreements, earnings before taxes include the earnings of INIT GmbH and initplan. Owing to lower earnings at INIT GmbH, the projection for earnings before taxes was missed by around EUR 1.3m.

Performance of init AG pursuant to the German Commercial Code

General information

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

Asset and financial position

Other financial indicators of relevance to init AG are liquidity and the equity ratio, and these are discussed in the following. On the balance sheet date, liquid funds including securities totalled EUR 643k (previous year: EUR 336k). The change in liquid funds resulted chiefly from cash paid out in repayments and interest on existing loans for real estate financing and the settlement of liabilities. In contrast, the profit transfer from INIT GmbH had a positive effect on liquid funds. The liquid funds and existing credit lines, which can be used jointly with INIT GmbH, are sufficient to meet all payment obligations arising in the 2017 financial year.

The assets mainly comprise financial assets, land and buildings, and liquid funds. A list of financial assets can be found in the notes.

The balance sheet total of init AG amounted to EUR 56,796k (previous year: EUR 52,350k) while the equity ratio was 69.4 per cent (previous year: 65.9 per cent).

The earnings, asset and financial position of init AG can be regarded as solid.

Non-financial performance indicators

The annual average number of employees at init AG was 44 (previous year: 40). Of these, 25 on average were full-time staff (previous year: 21).

In total, employees took part in 59 internal and external continuing training measures in 2016.

Opportunities and risks for future performance

Here reference is made to the relevant section for the group (Forecast, opportunities and risks).

Internal control and risk management system pertaining 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

Stagnating revenues of EUR 6.0m were forecast for 2016. With revenues of EUR 5.8m (before the adjustments according to BilRUG), the figure was slightly below the forecast. In addition, earnings before taxes amounting to EUR 14–16m (of which INIT GmbH: EUR 13–15m) were projected. Because earnings at INIT GmbH (EUR 11.4m) failed to meet the projection, due to negative impacts by unpredictable valuation effects from the US dollar in the amount of EUR 3.2 million, earnings at init AG were likewise less than projected.

The performance of init AG is largely dependent on the performance of its operating subsidiaries. The largest of these, INIT GmbH, is expected to generate earnings before taxes of around EUR 4–6m in 2017. On this basis, init AG is projecting a result before taxes and interest of EUR 5–8m. These projections do not include profit distributions from subsidiaries.

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 affiliated companies ("dependent company report"), which is then verified by the company's auditors. The dependent company report prepared by the Managing Board closes with the following declaration:

"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 affiliated companies ("dependent company report"), and that the company suffered no adverse effects as a result of measures and acts either undertaken or omitted."

Principles and objectives of financial management

Securing the liquidity of the init group has top priority. In addition, we aim to maintain and optimise the group's financing capabilities. Financial risks, particularly currency risks, are reduced by the use of financial instruments. To spread risk, init holds its financial resources in more than five different currencies. The group also holds 25kg of gold as a liquidity reserve. The init group is classed by its main banks as investment grade.

Personnel

In order to complete ongoing projects on time and secure continued growth, init moderately increased its workforce in the original init group in 2016. The main staff increases resulted from the full consolidation of iris-GmbH and the acquisition of HanseCom. With this added capacity, init is well equipped to handle its order backlog and the positive order trend expected, so that only minor additions to the workforce will be needed in 2017 as well.

Employee profit-sharing

init's business success depends to a large degree on the employees who drive it forward with their experience and motivation. The Managing Board therefore decided on 7 July 2016 to allow employees to participate in the company's revenues, depending on its operating results. The target set was exceeded, which means that a profit-sharing cash payment of EUR 2,500 per employee will be made for the 2016 financial year. In addition, 50 shares in the company per employee were transferred under an asset-sharing plan (there may be deviations from this rule for individual subsidiaries). These shares are subject to a lock-up period of two years and were issued to staff in December.

702 employees

*were employed by the init group
in average*

Employee figures

The average annual total of staff employed by the init group was 702 (previous year: 519) including temporary workers, research assistants and diploma candidates. This includes 90 part-time employees.

In addition, 22 employees were pursuing apprenticeships as IT specialists, IT systems electrical engineers, warehousing specialists, industrial clerks or office clerks or graduated from the University of Cooperative Education in electrical engineering, mechatronics, information technology, industrial engineering and business studies.

Social benefits and family support

It is absolutely essential to retain our employees' expertise within the company in order to sustain its success. In addition to a number of fringe benefits, e.g. covering the cost of daycare at location Karlsruhe, we also offer our personnel flexible working hours so that family and working life can be reconciled. init has already won a number of awards for being a family-friendly company. A further priority in our company is the health of employees. We therefore regularly organise health check-ups in collaboration with health insurance companies, bear the costs of flu vaccinations, and have taken out additional travel health insurance for every employee.

Ethical guidelines

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

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

General statement on the economic situation

The Managing Board regards business performance in 2016 as satisfactory overall. Incoming orders, at EUR 128.7m, were well in excess of the projected total of EUR 110m. Revenues and EBIT were largely in line with our revised forecast (revenues of around EUR 106m and EBIT of about EUR 12m), though EBIT included a one-off effect of around EUR 4.7m from the acquisition of interests in iris-GmbH. A further effect resulted from the narrowing of margins in the various projects. The lower margins were essentially due to project delays and expenses incurred by new developments in ongoing projects. In addition, revenues now mainly reflect orders received in 2014 and 2015. Because of low tender volumes in these years and fierce competition as a result, these

orders had to be accepted at low prices and narrower margins. With the existing order backlog of EUR 111.4m, the basis for the 2017 financial year has been set. The init group's stable earnings performance in the 2016 financial year means the company has a solid financing structure and will be able to finance most of its growth targets in 2017. Operating cash flow stands at EUR 13.2m. With the contracts recently awarded in the ticketing business and the strategic investments made in HanseCom and Bytemark, we are well equipped in the future to meet increasing requirements in ticketing and ticketing management.

EVENTS AFTER THE REPORTING DATE

Events of special note that had a significant effect on the asset, earnings and financial position of the company didn't occur after the reporting date. For further significant events after the balance sheet date, please refer to the subsequent events report in the notes to the separate financial statements of init AG and the consolidated financial statements, 37.

FORECAST, OPPORTUNITIES AND RISKS

If goals are to be achieved, events, developments and actions are required. However, not all the factors that influence these are known, which means that assumptions have to be made in forecasting future performance. Where factors might have a negative effect on the achievement of goals, this constitutes a risk. Positive effects give rise to an opportunity.

Outlook

Rarely since the company was founded in 1983 have global economic influences on the business of the init group been as difficult to gauge as they are for 2017 and the next few years. The decision on the part of the people of the UK to exit the European Union and the associated negative consequences of Brexit, the resurgence of protectionist tendencies and not least the new US government have significantly widened the spectrum of risks.

Furthermore a new wave of technological change has also swept over the markets for init products. This opens up opportunities for innovative solutions while creating risks in the shape of new competitors. In addition to the ever present issue of the digitisation of business processes, other main issues are innovations in electromobility, the networking of transport systems, the security of data communications and self-driving vehicles in public transport.

Digitisation, especially the new developments in real-time data communication between vehicles or between vehicles and infrastructures, will lead to more efficient utilisation of the transport infrastructure in future while also completely altering people's behaviour in terms of mobility. Better, more individual provision will not only lead to increased mobility overall but will facilitate greater utilisation of public transport services as well. The experts also believe that self-driving vehicles, which are currently being heavily promoted, will have a positive effect on public transport.

This will place new customer demands on init systems, up to and including the provision of technical and management services for transport companies. However, the associated need for greater investment – which

tends to be a growth driver for init's business – will also lead to demands in terms of assuming financing functions, which – together with increased competition from service providers new to the sector – will impact negatively on margins.

Thus, our expectations for the business performance of the init group in 2017 are shaped by a number of factors, positive and negative. One factor is that an acceleration in revenue growth, in mobile phone ticketing in particular, can be expected as a result of the new orders received in 2016 and the acquisitions made. Secondly, a negative effect on earnings can be expected from the fact that in 2017 it will mainly be the projects initiated in 2014 and 2015 – generally with low margins in the face of fierce price competition – that will be completed, while at the same time – likewise mainly because of acquisitions – rising personnel and interest expenses will be recorded. A third factor, and one that is still difficult to gauge, is increased global economic risks, and principally the so far unpredictable policies of the new US government with the consequences for international companies such as init.

Against this backdrop, the Managing Board of init innovation in traffic systems AG in its overall view currently anticipates slight revenue growth in the order of roughly EUR 120m. On the other hand, in all probability operating earnings before interest and taxes (EBIT) will decline in 2017 compared to 2016 and will be in the order of between EUR 5m and EUR 7m, before rising sharply from 2018 with work being completed on projects with better margins.

EUR 130 m

The target range for incoming orders in 2017 is between EUR 120m and EUR 130m

A significant indicator of future performance is incoming orders. In 2016 init recorded the second-highest level of incoming orders in its history at EUR 128.7m. With a current order backlog of EUR 111.4m, we have a solid basis for further growth. The target range for incoming orders in 2017 is between EUR 120m and EUR 130m with a view to securing ongoing positive business performance.

Actual results may 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 increase in current tenders and the timing of incoming orders.

One growth driver in 2017 and beyond will be mobile phone ticketing or smart ticketing. In this field, init strengthened its hand in 2016 with two acquisitions. North America is the region with the largest share of government programmes and tenders for this. The US is pursuing the most ambitious investment programme in this area, even after the change of government. Another area of growth is automatic passenger counting.

Urbanisation is a global megatrend that is also rapidly increasing the demands placed on public transport systems and the demand for transport telematics. More than 1,000 cities worldwide with more than 500,000 inhabitants are facing mobility problems that can only be solved by expanding public transport in an intelligent way. Mobility solutions such as those offered and facilitated by init are therefore at the forefront of the investment programmes.

In addition, the necessary measures worldwide to reduce particulate matter and greenhouse gases now constitute ecological growth drivers for the transport telematics market. Investments in expanding climate-friendly public transport systems were therefore a key element of the programmes adopted at the UN climate change conference held in Marrakesh in 2016. Countries such as the United Kingdom, Canada, the United States and Germany – init's main markets – are leading the way in this and seek to make an important contribution to climate protection through the provision among other things of considerable funding for the development of public transport.

The intelligent, multimodal networking of different passenger transport providers, such as those already realised successfully by init in collaboration with transport companies around the world, is a central component of these investment programmes. Demand for these systems is growing worldwide. Intermodal (individual, local and long distance integrated) planning and monitoring systems are likely to have the strongest growth. Intermodal transport control systems that can react to disruptions or accidents immediately and adequately or that can make them predictable and therefore preventable with special analysis tools will drive growth.

In all these areas init has already decisively set course for the future through forward-looking investments and by participating in pioneering research projects.

We therefore regard ourselves as being well equipped, even in a fierce competitive environment, to maintain our position on a lasting basis as the world-leading provider of planning, dispatching, telematics and ticketing solutions for buses and railways and to continue to pursue a stable growth path.

Furthermore, we aim in future to enhance customer satisfaction as a parameter of success, advancing beyond the “good” rating we have already achieved.

Risk management system (RMS)

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

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

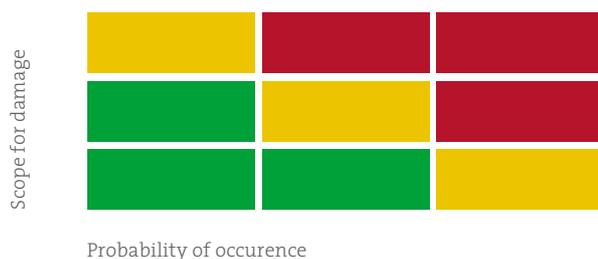
The aim of an RMS is not to avoid all risks but to manage identified risks. After all, to realise one’s vision and take advantage of the resulting opportunities, risks must be entered into. It is a matter of weighing up these risks. We understand risk to mean any negative deviation from our projected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

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

	Probability of occurrence in %	Scope for damage in EUR k
low	0 < probability of occurrence ≤ 33	< 100
moderate	33 < probability of occurrence ≤ 66	100 to 500
high	66 < probability of occurrence ≤ 100	> 500

The results are regularly reported to the Managing Board, with the frequency of reporting determined by the risk group.

Risk classes



Risk class (RK)

■ low ■ moderate ■ high

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

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

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

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

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

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

The primary objective of init AG's internal accounting-related control and risk management system is to secure the regularity of financial reporting, i.e. to make sure that the consolidated financial statements and combined management report comply with all relevant 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 Institut der Wirtschaftsprüfer (IDW) in Deutschland e.V. (Institute of Public Auditors) in Düsseldorf, Germany, on the internal control system pertaining to the financial reporting process and the risk management system. According to this definition, an internal control system is understood to

mean the principles, processes and measures introduced by the management of a company which are focused on the organisational implementation of decisions passed by the management to ensure:

- ▶ the efficiency and cost-effectiveness of operations (this includes the protection of assets including the prevention and identification of economic impairment),
- ▶ the truth and reliability of internal and external accounting, and
- ▶ compliance with the legal requirements relevant to the company.

The risk management system comprises the totality of 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's financial reporting process.

The closing information reported by init AG and its subsidiaries, which itself is based on 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 closing information of the subsidiaries. In the case of subjects requiring special expertise, we sometimes call on external providers for assistance, e.g. to value pension liabilities. The consolidated financial statements are then prepared on the basis of the reported closing information. The consolidated financial statements are prepared with the help of certified consolidation software. In addition, the necessary steps are taken under 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 laid down in a manual and in organisation 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 essential 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 its results at management level in regular board meetings.
- ▶ Preventive control measures for the Group's accounting and finance and in operating and performance-related corporate processes that generate essential information for the preparation of the consolidated financial statements including the combined management report, including a separation of functions and pre-defined authorisation processes in relevant areas.
- ▶ Uniform accounting is primarily ensured through a Group accounting manual.
- ▶ Accounting data are regularly spot checked for completeness and accuracy.
- ▶ The subsidiaries provide the parent company with monthly reports on their business trend and submit monthly accounts. Ongoing projects are reported on a quarterly basis. 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 also implemented a risk management system for the Group-wide financial accounting process which includes measures to identify and assess material risks along with appropriate risk-reducing measures to ensure adequacy 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 asset, financial and earnings position.

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

External and industry risks

Economic risks (RC: moderate)

As an internationally operating company, init is subject to the cyclical trends of the global economy and to the specific economic circumstances of the countries in which its individual projects are implemented. The government debt crises and resulting public spending cuts thus also pose a potential risk to init's business development. In addition, political conflicts such as those in the Middle East and south-western Asia could have a sustained impact on the further business development of the init Group, provided they affect the financing of transport projects. The extent to which increased political uncertainty regarding the future of the EU and / or increasing economic protectionism in some leading industrialised countries will impact the global economy is still difficult to estimate at this time.

General market risks (RC: moderate)

Market risks are fundamentally shaped by the development of the global economy. The market for transport services, in which init's customers are primarily involved, is strongly dependent on the political will to improve infrastructure and the funds made available for it. Delays and the postponement or cancellation of publicly funded investment projects and development funding due to a poor budgetary position can therefore adversely affect the init Group's growth. Based on our current assessment and if and when the most recent political declarations of intent are implemented, although many of init's key markets should still see increased state investment. Government subsidies could, however, be considerably reduced in the future to combat sovereign debt. Our customers' financing options could deteriorate as a consequence, with the result that intentions to buy our products and services could change, be postponed or even be cancelled. Prices could also fall significantly as a result of the unfavourable market situation.

On the other hand, a number of government aid programmes have been implemented in the industrialised nations to counteract this crisis and stimulate economic activity through investments worth billions. The infrastructure sector in particular, which includes local public transport, is a focal point of these investments. This will bring with it additional business opportunities for init.

Competitors (including players from outside the industry) continuously try to break into the market on the basis of price and thus gain market shares at init's expense. However, in most cases these new competitors only remain in the market for a short period of time, as they are unable to meet the technological and customer-specific demands adequately due to a lack of experience and technology. Owing to the increase in the number of competitors, however, init is faced with the risk of decreasing prices and margins as well as the loss of tenders.

Hosting and operating business (RC: moderate)

Customers are increasingly demanding not only the realisation of a project but services related to hosting and the operating business. In addition to server support and data backup, this also includes special analyses for customers and even the operation of ticket vending machines (cash and ticket handling) and expanded

services in the area of maintenance and repairs. Hosting and the operating business can result in high claims for compensation from customers if the promised services cannot be provided or there is an interference or interruption in operations.

Risks arising from the procurement market (RC: low)

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

Currently, init has no claims against it on grounds of product defects or based on warranty which have had a considerable impact on the asset, financial and earnings position of the Group. Future claims, however, cannot be completely ruled out, since init is also dependent on its suppliers and sub-contractors in terms of quality, schedule effectiveness and price.

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

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

Risk category	Probability of occurrence	Degree
Economic risks	moderate	moderate
General market risks	moderate	moderate
Hosting	moderate	moderate
Risks from the procurement market	low	moderate
Risks resulting from legal and political framework conditions	moderate	moderate

Company-specific risks

Technology risks (RC: moderate)

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

Project risks (RC: high)

A crucial success factor for the init Group is project management. For each major project, init implements a project plan for constant progress monitoring. A controlling system enables the company to identify any deviations from the specified time and costs, the deliveries and the hours worked and, in cases of deviations from the target, initiate the appropriate countermeasures. Calculations, the order situation and the project progress are regularly examined for the purpose of a target / performance analysis.

In a few major projects, complex development requirements resulted in additional cost and therefore a reduction in the margin, which was in turn directly reflected in the result. This risk remains a factor in future.

IT risks (RC: low)

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

In the init Group, electronic data are secured on multiple bands and stored for years. The bands are stored in various locations – including off of the init premises. Nevertheless, it cannot be fully ruled out that data may be lost or can no longer be reconstructed. However, we rate this risk as low.

Cybercrime has also skyrocketed within the context of globalisation and digitisation. More and more frequently, weaknesses in software and devices are being exploited in order to attack IT systems. init has a multi-level security solution with scan engines for e-mail and Internet traffic from various manufacturers. In principle, init encrypts e-mail, WLAN connections and hard drives in laptops. Antivirus and patching solutions are managed centrally. Furthermore, the company carries out active directory administration including access rights management. Third-party computers and smartphones cannot access the init network. Data exchange platforms are not permitted on the init network; init has its own solution for a CITRIX ShareFile. Based on these far-reaching measures, we rate the risk as low.

Despite all measures, there is a residual risk that the technology does not recognise all threats as such. For this reason, all IT users in the init Group are made aware of potential and / or existing threats within the scope of a special orientation event for new employees and updates with monthly, company-wide meetings. Multiple firewalls have been installed and an access control system is in place to protect against hacking. The hard drives of init devices are encrypted in case a mobile device is lost and smartphones can be erased by remote access. However, the init Group currently rates the residual risk from user behaviour and the expected costs of an unimpeded outbreak, e.g. a cryptotrojan, incurred as the result of a work stoppage and recovery times as very high.

Despite all the measures taken, cyber risks cannot be fully ruled out. Potential losses are covered by the corresponding cyber risk insurance policies. As a result, the IT risks overall can be assessed as low.

Human resources risks (RC: low)

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

Apart from unforeseeable technical and customer-specific difficulties, timely completion of projects also depends on the availability of sufficiently qualified personnel. Because of the situation on the German labour market, it has become considerably more difficult to recruit qualified workers than in recent years. init takes account of this by operating a long-term personnel policy which includes the involvement of employees in the success of the company.

Nevertheless, the possibility cannot be ruled out that experts or key individuals will leave the company or that vacancies cannot be filled with appropriately qualified staff. In the event of a pandemic, a sufficient number of home offices are available to ensure that the majority of init's employees are able to access the company's servers using secure VPN connections and perform necessary work from home. The company pays a share of the employees' Internet costs at location Karlsruhe.

Investment risks (RC: high)

init made a number of investments in 2016 in order to secure the long-term economic success of the Group, achieve our strategic objectives and exploit existing opportunities in the market. Because this included some investments in companies that are in a weak economic position or in start-ups, the risk of making a bad investment in individual cases is high and, in addition to losses that must be borne, could also result in corresponding write-downs and the loss of returned funds.

Risk category	Probability of occurrence	Degree
Technology risks	low	high
Project risks	high	high
IT risks	low	moderate
Human resources risks	low	moderate
Investment risks	high	high

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 accounts receivable, currency reserves and liabilities, and therefore profit as well. init meets these foreign exchange risks with active exchange rate management, making use of forward exchange dealings and foreign currency options. Since init also tries to keep its options open here and focus on active currency management, losses cannot be ruled out. Owing to our risk policy, however, we consider this risk of loss to be minimal. A sensitivity analysis on this subject is provided in Note 30.

Interest change risk (RC: low)

Variable-rate loans were taken out to finance construction and an acquisition to expand the head office in Karlsruhe. The interest change risk arising from the two variable-rate loans to finance the properties at Kaeppelestrasse 4a, 8 / 8a and 10 currently has no significant influence on our asset, financial and earnings position.

Default risk (RC: moderate)

The Group concludes transactions exclusively with recognised, creditworthy third parties. All customers requesting credit-based transactions with the Group are subjected to credit checks. In addition, accounts receivable are constantly monitored. Recognisable risks of default are taken into account as value adjustments. In view of the latest economic developments, the high levels of public debt in the USA and Europe and the potential impact of measures to consolidate public budgets, considerable uncertainty is attached to our assessments of the general economic situation and of our market. In addition to the threat of insolvency in individual countries, there is also a high risk of bad debt losses. While a large number of init's customers are state-subsidised or public transport companies, it is still not unlikely that we will face bad debt losses in the future.

There are currently no significant clusters of default risks within the Group, with the exception of the accounts receivable from Dubai. Our general contractor from the first Dubai project failed to pass on payments of approximately EUR 2m by the end customer to us. init took the matter to a court of arbitration to defend its claim. The ruling in the arbitration proceedings went in init's favour. Currently the arbitration award is being examined by the court for issuing an enforceable copy. The risk remains that these receivables will not be recovered, or only partially recovered. The risk of non-recovery has been calculated in with appropriate value adjustment.

Prefinancing (RC: moderate)

In addition, contractually established payment terms could change to our disadvantage, with the result that we could encounter cash flow predictability risks and liquidity risks. In the past, an increasing number of payment plans for large-scale projects needed to be accepted that required a large degree of prefinancing.

Risks related to pensions (RC: high)

Prior to 1997, init made direct commitments to employees. There are a total of 40 direct pension commitments, which were reinsured through life insurance policies. As it currently stands, the reinsurance policies only cover part of the pension obligations. In addition, between 2001 and 2016 there was a defined contribution plan, which will result in significantly higher contributions in future due to the current interest rate situation. The system was converted to contribution commitments as at 1 January 2017 in order to eliminate this risk for future contracts.

Risk category	Probability of occurrence	Degree
Exchange rate risk	moderate	moderate
Interest change risk	low	moderate
Default risk	moderate	moderate
Prefinancing	moderate	moderate
Pension-related risks	moderate	high

Legal and fiscal risks**Legal risks (RC: low)**

Within the scope of their usual business activities, init AG and its subsidiaries are currently only faced with very few legal disputes. These proceedings are overseen by in-house lawyers. We do not believe that the outcome of any currently pending proceedings 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 regulations and tax audits. In the individual companies, multiple years have not yet been conclusively assessed for tax. Because of the differing interpretations, in particular of cross-border matters, by the treasuries in the various jurisdictions, negative consequences for the asset, financial and earnings situation cannot be excluded.

Risk category	Probability of occurrence	Degree
Legal risks	low	moderate
Fiscal risks	moderate	moderate

Opportunities

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

A new offering requested by an increasing number of customers is the assumption of parts of or the entire technical operation, including system maintenance. This is currently already being adopted by Luxembourg and several other countries around the world are expected to do the same in the near future. This is associated with sales potential that could exceed the scope of the original investment volume over the course of multiple 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 level of complexity can be reduced with the help of an integrated solution that feeds all systems in real time and ensures the consistency of all data. init is one of the providers of choice in this regard because we have already executed major projects in Germany, the USA and the UK, with others in the pipeline.

Smart cities will in future have transport systems that are coordinated in a way that allows people to reach

their destinations efficiently and in an environmentally friendly way, using the corresponding real-time information and communication systems, and 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 enhances the performance of public transport services and creates new demand potential for init.

Today, an integrated solution includes “smart” ticketing systems in particular. In view of this, we expanded our product spectrum in a targeted manner in 2016 by investing in Bytemark and acquiring HanseCom. Together with Bytemark, init is the leading provider of mobile phone ticketing solutions for transport companies in North America. The two companies have already worked together on a wide range of major projects in North America and now want to continue their collaboration on a global basis. HanseCom currently manages more than 50 per cent of the fares for all public transport services in Germany and has numerous customers in the area of mobile phone ticketing. In future, this area will present great opportunities for the company to also generate considerable international growth.

50%

The acquired subsidiary HanseCom currently manages more than 50 per cent of the fares for all public transport services in Germany

ID-based systems (e.g. credit cards) open up a new field of e-ticketing that can 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.

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

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.

The topic of electromobility is closely related to autonomous driving. But beyond that, it also points to other transport systems and power grids via interfaces. Here, too, init software can become more widespread in future. In the MENDEL research project, optimisation algorithms in different areas are currently being used in the introduction of electric mobility to lay the foundation for providing a cost-efficient charging infrastructure for the planning and implementation of public transport that also takes into account a uniform load in the energy grid. The on-board units (intelligent broadcasting and telematics units) for cars and the corresponding software for tediagnosis and smart charging developed by the subsidiary CarMedialab are already being used in electric vehicles. The promotion of electric vehicle sales should create further sales opportunities for these.

Intermodal transport control systems that can immediately react to disruptions or accidents in an appropriate manner, or that can even make them predictable using special analysis tools and therefore preventable, can accelerate init’s growth in future. This is the focus of the InREAKT project, in which init is a main participant and which has now been successfully completed.

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

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

This is true in particular in 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.

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

inola's inclusion in the init Group also offers multiple opportunities for tapping new market potential. The experience garnered by init over the course of 30 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 at init than currently expected.

Overall risk assessment

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

Group Risk Management consolidates the described information 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. Furthermore, 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, the overall risk situation of the init Group has not changed significantly compared to the previous year. There are currently no identifiable risks that could individually or in combination with other risks jeopardise the survival of the Group. In view of the fact that there continue to be considerable general economic and industry-specific risks, 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 asset, financial and earnings position and what continues to be a predominantly positive business outlook.

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

BASIC FEATURES OF THE REMUNERATION SYSTEM IN ACCORDANCE WITH SECTION 315 (2) NO. 4 OF THE GERMAN COMMERCIAL CODE (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 AG – including in their capacity as managing directors of subsidiaries – provides for the following:

1. A fixed salary component payable on a pro rata basis in 13 monthly instalments. The fixed component of the Board members' salaries in 2016 totalled EUR 1,584k (previous year: EUR 1,355k).
2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee shares and applicable as a percentage from an operating profit before taxes of EUR 5m upwards. The management bonus is limited to 25 per cent of the total compensation package excluding the restricted shares under item 3. The variable component of the Board members' salaries in 2016 totalled EUR 157k (previous year: EUR 124k).
3. An additional management bonus for 2016 in the form 750 / 1,500 shares, if consolidated earnings before taxes and after deduction of all management bonuses exceed EUR 5m. Furthermore, an additional management bonus will be granted in the form of 50 / 100 shares for each EUR 1m of profit that exceeds the EUR 5m level, up to a maximum of EUR 10m. Beyond that, an additional management bonus will be granted in the form of 100 / 200 shares for each EUR 1m of profit that exceeds the EUR 10m level, up to a maximum of EUR 15m. Likewise, an additional management bonus will be granted in the form of 150 / 300 shares for each EUR 1m of profit that exceeds the EUR 15m level. The number of shares is limited to 6,000 / 12,000. These shares are subject to a vesting period of five years. The income tax on the non-cash benefit of the share transfer is borne by the company. The fair value of this remuneration including income tax payable on it totalled EUR 208k for the fiscal year just ended (previous year: EUR 296k).
4. Based on the aforementioned remuneration system, remuneration of EUR 60k was paid to a former Board member who was also Managing Director of INIT GmbH until the end of March 2016 (previous year: EUR 257k).
5. Pension commitments exist for two of the five members of the Managing Board as well as for the Board member who resigned in 2014. The increase in the pension accruals (DBO) for these three persons was EUR 502k in 2016 (previous year: reduction of EUR 190k). The increase is the result of a reduction in the calculatory interest rate.
6. A defined contribution plan instead of a direct pension commitment exists for three members of the Managing Board. The expenses for this amounted to EUR 13k in 2016 (previous year: EUR 10k).
7. An additional defined contribution plan exists for four members of the Managing Board. In 2016, expenditure for this item amounted to EUR 89k (previous year: EUR 76k).

In compliance with Section 315a (1) of the German Commercial Code (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 Annual General Meeting on 21 July 2016 resolved to do.

No benefits payable to members leaving the Managing Board have been agreed. However, a termination bonus may be specified in an individual termination agreement. This was not the case in 2016.

Remuneration system for the Supervisory Board

The applicable salaries of the Supervisory Board were decided at the shareholders' meeting of 24 May 2011, based on a proposal put forward by the Managing Board and the Supervisory Board. The articles of incorporation of init innovation in traffic systems AG were amended accordingly.

In addition to the reimbursement of expenditure, the annual salary of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals EUR 18k p.a. for the members and EUR 36k p.a. for the Chairman. The variable component depends in equal amounts on the share price and the net profit before tax. The variable salary is limited to 200 per cent of the fixed salary and is calculated using the following formula:

$$V = ((0.5 * \text{price} / 10 + 0.5 * \text{net profit before tax} / 10\text{m}) - 1) * \text{fixed component}$$

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

The following is a breakdown of the remuneration of the Supervisory Board in the 2016 financial year:

Name	Fixed component in EURk	Variable component in EURk
Hans-Joachim Rühlig	36	10
Ulrich Sieg	18	5
Drs. Hans Rat	18	5

REPORTING IN ACCORDANCE WITH SECTION 315 (4) HGB

Particulars of shareholders' equity

init AG has a 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 3,420,000 shares in init AG. This is approximately 34.06 per cent of the capital stock. init AG held a total of 59,665 treasury shares as at 31 December 2016 (as at 31 December 2015: 22,402 shares).

There are no shares with special rights.

No voting control exists for shares held by employees.

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

Conditional capital

The company's capital stock will be increased by up to 5,000,000 Euro 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 own shares are not used to satisfy these rights. The new shares will participate in the profit from the beginning of the financial year in which they are created; if legally permissible, and notwithstanding this and Section 60 (2) of the German Stock Corporate Act (AktG), the Managing Board may determine the profit share of new shares, even for a financial year that has already ended, with the approval of the Supervisory Board.

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

Statutory requirements and provisions of the articles 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 legal control of Sections 133 and 179 AktG.

Authority of the Managing Board to issue and repurchase stock

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

The resolution passed at the annual shareholders' meeting on 13 May 2015 authorised the company to purchase treasury stock.

CORPORATE MANAGEMENT DECLARATION

With regard to the required declaration by the management, please refer to the version in the Corporate Governance Report in the 2016 Annual Report which is available on the Internet at http://www.initag.de/en/investor_relations/corporate_governance.php.

RESPONSIBILITY STATEMENT BY THE LEGAL REPRESENTATIVES

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group status report which is summarised with the status report of init AG, and 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 in the remaining months of the financial year.

Karlsruhe, 17 March 2017

The Managing Board



Dr. Gottfried Greschner



Dr. Jürgen Greschner



Joachim Becker



Matthias Kühn



Bernhard Smolka

Consolidated FINANCIAL STATEMENTS

init innovation in traffic systems AG, Karlsruhe (IFRS)

350 buses

In Frankfurt, init is providing a modern ticketing system for public transport. To this end, new ticket printers, the on-board computer EVENDpc2 and the passenger terminal PROXmobil2 are being installed in 350 buses.



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Consolidated INCOME STATEMENT

for 2016 (IFRS)

EUR 'ooo	Notes No.	01/01 to 31/12/2016	01/01 to 31/12/2015
Revenues	4, 35	108,635	105,293
Cost of sales	5	-77,382	-73,454
Gross profit		31,253	31,839
Sales and marketing expenses		-13,139	-10,890
General administrative expense		-8,427	-6,820
Research and development expenses	6, 21	-5,027	-4,066
Other operating income	7	1,885	1,855
Other operating expenses		-445	-200
Foreign currency gains and losses	8	1,080	-1,646
Income from associated companies	22	-245	684
Holding gain (acquisition iris-GmbH)		4,689	0
Earnings before interest and taxes (EBIT)		11,624	10,756
Interest income		45	30
Interest expenses		-542	-568
Earnings before taxes (EBT)		11,127	10,218
Income taxes	9, 23	-2,421	-2,641
Net profit		8,706	7,577
thereof attributable to equity holders of parent company		8,683	7,482
thereof non-controlling interests		23	95
Earnings and diluted earnings per share in EUR	11	0.87	0.75

Consolidated Statement of COMPREHENSIVE INCOME

for 2016 (IFRS)

EUR 'ooo	01/01 to 31/12/2016	01/01 to 31/12/2015
Net profit	8,706	7,577
Items to be reclassified to the income statement:		
Net gains (+)/ net losses (-) on currency translation	1,144	2,743
Items not to be reclassified to the income statement:		
Actuarial losses on defined benefit obligations for pensions	-1,453	1,343
Total Other comprehensive income	-309	4,086
Total comprehensive income	8,397	11,663
Thereof attributable to equity holders of the parent company	8,374	11,568
Thereof non-controlling interests	23	95

Consolidated BALANCE SHEET

as of 31 December 2016 (IFRS)

Assets

EUR 'ooo	Notes No.	31/12/2016	31/12/2015
Current assets			
Cash and cash equivalents	14, 31	23,920	14,038
Marketable securities and bonds	15, 31	30	30
Trade accounts receivable	16, 31	25,908	23,467
Future receivables from production orders (Percentage of completion method)	16, 31	38,180	39,158
Receivables from related companies	34	120	0
Inventories	17	27,006	22,718
Income tax receivable		1,870	100
Other current assets	18	2,522	2,473
Current assets, total		119,556	101,984
Non-current assets			
Property, plant and equipment	19	31,742	21,240
Investment property	20	1,323	6,086
Goodwill	21	9,325	4,388
Other intangible assets	21	10,599	1,457
Interests in associated companies	22	5,453	2,341
Deferred tax assets	23	5,357	5,273
Other non-current assets	24	2,590	2,313
Non-current assets, total		66,389	43,098
Assets, total		185,945	145,082

Liabilities and shareholders' equity

EUR 'ooo	Notes No.	31/12/2016	31/12/2015
Current liabilities			
Bank loans	25, 31	19,669	12,884
Trade accounts payable	25, 31	16,641	10,968
Accounts payable from "Percentage of completion method"	16, 25	8,053	4,023
Accounts payable due to related parties	25, 34	0	5
Advance payments received	25	806	525
Income tax payable	25	3,514	1,560
Provisions	27	13,134	10,337
Other current liabilities	26	15,411	14,032
Current liabilities, total		77,228	54,334
Non-current liabilities			
Bank loans	25, 31	15,680	6,717
Deferred tax liabilities	23	4,519	5,143
Pensions accrued and similar obligations	28	8,637	7,496
Other non-current liabilities	26	3,382	212
Non-current liabilities, total		32,218	19,568
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	29	10,040	10,040
Additional paid-in capital	29	5,642	5,809
Treasury stock	29	-889	-436
Surplus reserves and consolidated unappropriated profit		58,507	52,281
Other reserves	29	3,017	3,327
		76,317	71,021
Non-controlling interests		182	159
Shareholders' equity, total		76,499	71,180
Liabilities and shareholders' equity, total		185,945	145,082

Consolidated Statement of CHANGES IN EQUITY

as of 31 December 2016 (IFRS)

EUR 'ooo	Notes No.	Attributable to equity holders of		
		29	29	29
		Subscribed capital	Additional paid-in capital	Treasury stock
Status as of 31/12/2014		10,040	5,947	-353
Net profit				
Other comprehensive income				
Total comprehensive income				
Dividend paid out				
Share-based payments			-138	928
Acquisition of treasury stock				-1,011
Status as of 31/12/2015		10,040	5,809	-436
Status as of 31/12/2015		10,040	5,809	-436
Net profit				
Other comprehensive income				
Total comprehensive income				
Dividend paid out				
Share-based payments			-167	566
Acquisition of subsidiaries				
Acquisition of treasury stock				-1,019
Status as of 31/12/2016		10,040	5,642	-889

Consolidated Financial Statements

the parent company						Non-controlling interests	Shareholders' equity total
29	28	Other reserves					
Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Securities marked to market	Total			
52,831	-2,575	1,817	-1	67,706	64	67,770	
7,482				7,482	95	7,577	
	1,343	2,743		4,086		4,086	
7,482	1,343	2,743		11,568	95	11,663	
-8,032				-8,032		-8,032	
				790		790	
				-1,011		-1,011	
52,281	-1,232	4,560	-1	71,021	159	71,180	
52,281	-1,232	4,560	-1	71,021	159	71,180	
8,683				8,683	23	8,706	
	-1,454	1,144		-310		-310	
8,683	-1,454	1,144		8,373	23	8,396	
-2,183				-2,183		-2,183	
				399		399	
-274				-274		-274	
				-1,019		-1,019	
58,507	-2,686	5,704	-1	76,317	182	76,499	

Consolidated CASH FLOW STATEMENT

for 2016 (IFRS)

EUR 'ooo	01/01 to 31/12/2016	01/01 to 31/12/2015
Cash flow from operating activities		
Net income	8,706	7,577
Holding gain (acquisition iris-GmbH)	-4,689	0
Depreciation	4,055	3,361
Gains on the disposal of fixed assets	-113	-53
Change in provisions and accruals	-394	1,318
Change in inventories	-107	-2,943
Change in trade accounts receivable and future receivables from production orders	3,258	739
Change in other assets, not provided by / used in investing or financing activities	-1,313	-894
Change in trade accounts payable	2,363	74
Change in advanced payments received and liabilities from PoC method	3,908	823
Change in other liabilities, not provided by / used in investing or financing activities	1,205	1,001
Amount of other non-cash income and expenses	-3,697	475
Net cash from operating activities	13,182	11,478
Cash flow from investing activities		
Payments received on disposal of tangible fixed assets	708	225
Investments in property, plant, equipment and other intangible assets	-7,940	-8,684
Investment property	-14	0
Investment for acquisition of assets of LC Consultant SARL	0	-251
Investment in subsidiaries less acquired cash	-3,254	0
Inflows from associated companies and loans receivable	-5,557	366
Net cash flows used in investing activities	-16,057	-8,344
Cash flow from financing activities		
Dividend paid out	-2,183	-8,032
Cash payments for the purchase of treasury stock	-1,019	-1,011
Payments received from bank loans incurred	22,068	11,685
Redemption of bank loans	-6,456	-1,184
Net cash flows used in financing activities	12,410	1,458
Net effects of currency translation and consolidation changes in cash and cash equivalents	347	233
Increase in cash and cash equivalents	9,882	4,825
Cash and cash equivalents at the beginning of the period	14,038	9,213
Cash and cash equivalents at the end of the period	23,920	14,038

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

NOTES 2016

init innovation in traffic systems AG, Karlsruhe

Honolulu, Hawaii opted for an ID-based ticketing system from init. Soon, passengers will be able to use the city's entire public transport network with just one smart card.



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Audit Opinion

1. Information about init

init innovation in traffic systems AG, Kaeppelestrasse 4–10 Karlsruhe, Germany (“init AG”) was established on 18 August 2000 as the holding company of the init group and is entered in the Commercial Register of the Mannheim District Court (Germany) under HRB 109120. The init group is an internationally operating system supplier of transportation telematics (telecommunications and information technology, globally also called Intelligent Transportation Systems – ITS). init AG is a listed company, ISIN DE0005759807, and has been in the regulated market (Prime Standard) since 1 January 2003.

Following the entry in the Commercial Register on 9 March 2017, the conversion of init innovation in traffic systems AG, which was resolved at the Annual General Meeting on 21 July 2016, to init innovation in traffic systems SE (HRB 727217) was implemented.

2. Accounting principles

The consolidated financial statements and the comparative prior-year figures were prepared in compliance with the International Financial Reporting Standards (IFRS). The consolidated financial statements of init AG and its subsidiaries are consistent with the IFRS applicable in the EU. The consolidated financial statements comply with the requirements of § 315a 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.

For the sake of clarity individual items of the consolidated balance sheet and the income statement have been combined; these are shown and explained separately in the notes. The income statement was prepared using the function of expense method.

In principle, the accounting policies and measurement methods applied are consistent with the methods applied in the previous year.

The following standards are applicable for the first time in the financial year 2016; however, there is no impact on the financial position, performance and cash flows of the init group.

Standard	Title
Amendment to IFRS 11	Joint arrangements – Accounting for acquisitions of interests
Amendment to IAS 19	Defined benefit plans: Employee contributions
Amendments to IAS 16 and IAS 41	Bearer plants
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendment to IAS 1	Disclosure initiative
Amendment to IAS 27	Equity method in separate financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Annual improvements IFRS (2010–2012 cycle)	
Annual improvements IFRS (2012–2014 cycle)	

EU endorsement received:

The IASB has published the following standards, which have already been introduced into European law in the context of a comitology procedure, but which were not yet mandatory for the 2016 financial year. The group did not opt to early adopt these standards.

Standard	Title	Application
Amendment to IFRS 9	Financial instruments	July 2014
IFRS 15	Revenue from Contracts with Customers	January 2018

The examination of the effects of the new regulations contained in IFRS 9 was recently commenced. It is expected that the effects will have been assessed by mid-2017.

IFRS 15: After an analysis of the current contracts, init does not expect any material effects on the net assets, financial position and results of operations due to the mainly long-term projects and the fact that revenue is already recognised over time.

However, since each project contract is created according to the customer, each new contract must be checked for the criteria in the future. It cannot be ruled out that future contracts will have to be accounted for differently in accordance with IFRS 15.

The group has not early adopted this standard. The scope of the disclosures in the notes is expected to increase significantly (effective for annual periods beginning on or after 1 January 2018).

EU endorsement outstanding:

The IASB has published the following list of standards and interpretations whose application was not yet mandatory during the 2016 financial year. These standards and interpretations have not yet been adopted into EU law and were not applied by the group.

Standard	Title	Publication by IASB
IFRS 14	Regulatory deferrals	January 2014
IFRS 16	Leases	January 2016
Amendments to IFRS 10 and IAS 28	Sales or contributions of assets between an investor and its associate / joint venture	September 2014
Amendment to IAS 12	Recognition of deferred tax assets for unrealised losses	January 2016
Amendments to IAS 7	Cash flow statement	January 2016
Amendments to IFRS 2	Share based payment	July 2016
Amendments to IFRS 4	Insurance Contracts	September 2016
Interpretation to IFRIC 22	Foreign currency transaction and prepaid consideration	December 2016
Amendments to IAS 40	Transfer of investment property	December 2016
Improvements to IFRS (2014-2016)		December 2016

The impact of the application of IFRS 16 is currently under review (effective for annual periods beginning on or after 1 January 2019). It is currently assumed that a slight increase in the balance sheet total (average single-digit million range) will result primarily through the leases for buildings and mainly related parties.

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

3. Accounting policies and consolidation principles

Basis of consolidation

Name	Registered office	Share as of 31/12/2016	Share as of 31/12/2015
Fully consolidated companies			
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH ("INIT GmbH") ¹⁾	Karlsruhe, Germany	100 %	100 %
INIT Innovations in Transportation Inc. ("INIT Chesapeake")	Chesapeake / Virginia, USA	100 %	100 %
INIT Innovations in Transportation (Eastern Canada) Inc./INIT Innovations en Transport (Canada Est) Inc. ("INIT Montreal")	Montreal, Canada	100 %	100 %
INIT Innovations in Transportation (Western Canada) Inc. ("INIT Toronto")	Toronto, Canada	100 %	100 %
INIT PTY LTD ("INIT Brisbane")	Brisbane / Queensland, Australia	100 %	100 %
Init Innovation in Traffic Systems FZE ("INIT Dubai")	Dubai, United Arab Emirates	100 %	100 %
initplan GmbH ("initplan") ¹⁾	Karlsruhe, Germany	100 %	100 %
INIT Innovations in Transportation Oy ("INIT Helsinki")	Helsinki, Finland	100 %	100 %
INIT Innovations in Transportation Limited ("INIT Nottingham")	Nottingham, UK	100 %	100 %
INIT Swiss AG ("INIT Neuhausen")	Neuhausen, Switzerland	100 %	100 %
initperdis GmbH ("initperdis")	Hamburg, Germany	100 %	100 %
INIT Asia-Pacific Pte. Ltd. ("INIT Singapore")	Singapore	100 %	100 %
CarMedialab GmbH ("CML")	Bruchsal, Germany	58.1 %	58.1 %
CarMedialab Corp. ("CML Corp.")	Santa Monica / California, USA	58.1 %	58.1 %
TQA Total Quality Assembly LLC ("TQA")	Chesapeake / Virginia, USA	60 %	60 %
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake / Virginia, USA	100 %	100 %
GO-1 LLC ("GO-1")	Chesapeake / Virginia, USA	100 %	100 %
iris-GmbH infrared & intelligent sensors ("iris")	Berlin, Germany	74.5 % ⁴⁾	43 % ²⁾
iris – infrared & intelligent sensores NA, Inc. ("iris Atlanta")	Atlanta / Georgia, USA	74.5 % ⁴⁾	—
iris – infrared & intelligent sensores NA, LLC ("iris Phoenix") ³⁾	Phoenix / Arizona, USA	74.5 %	—
Sensores infrarrojos e inteligentes iris ltda. ("iris Santiago") ³⁾	Las Condes / Santiago de Chile, Chile	74.5 %	—
inola GmbH ("inola")	Pasching, Austria	100 %	—
HanseCom Public Transport Ticketing Solutions GmbH ("HanseCom")	Hamburg, Germany	100 %	—

Name	Registered office	Share as of 31 / 12 / 2016	Share as of 31 / 12 / 2015
Assoziierte Unternehmen (at-equity)			
maBinso software GmbH ("maBinso")	Hamburg, Germany	35.8 %	—
Bytemark Inc, ("Bytemark")	New York, USA	26.44 %	—

- 1) total exempted pursuant to Section 264 Paragraph 3 of the German Commercial Code (HGB)
- 2) as of 31 / 12 / 2015 consolidated using the equity method
- 3) company is not consolidated due to its minor importance
- 4) due to the put option described in the business combinations section, the economic participation rate is 100 per cent

Company formations in 2016 and 2015

The company inola GmbH was founded in Pasching (near Linz / Austria) with effect from 12 July 2016. The company develops optimisation solutions capable of being used both within the init group and sold to third parties. Share capital of EUR 35k was paid in on 13 July 2016.

On 23 September 2015, init AG established the subsidiary GO-1 LLC in Chesapeake / VA in the US. The purpose of this company is to set up and lease premises for the operational US subsidiaries (INIT Chesapeake, TQA and SQM). Share capital of USD 10k was paid in on 20 November 2015.

Business combinations in 2016 and 2015

HanseCom Public Transport Ticketing Solutions GmbH, Hamburg

Effective 1 October 2016, init AG took over 100 per cent of HanseCom's public transport ticketing solutions GmbH, Hamburg, the leading provider of sales and customer management systems for local public transport in Germany.

With this strategic investment, the init group is expanding its strong position in a dynamically growing submarket and is thus steadily strengthening its solution competence for up-to-date ticketing. In addition, init will also acquire a number of new key accounts in Germany and Austria through the acquisition.

The fair value of the identifiable assets and liabilities of HanseCom are as follows from the provisional purchase price allocation as of the acquisition date 1 October 2016:

EUR '000	
Assets	
Cash and cash equivalents	74
Receivables and other assets	651
Inventories	926
Tangible assets	33
Intangible assets (customer base / technology)	2,124
Total	3,808

EUR '000	
Liabilities:	
Payables	1,808
Provisions	2,524
Deferred tax liabilities	19
Total	4,351
Fair value of net assets	-543
Goodwill from company acquisition	717
Total consideration for business combination	174

In particular, the measurement of intangible assets and provisions is based on estimates. These are currently under review as part of the integration of HanseCom into the init Group.

The total consideration for the acquisition amounts to EUR 174k, of which EUR 74k stems from the compensation for the cash received and the compensation for the net assets received.

The goodwill in the separate financial statements is tax deductible.

The fair value of trade receivables is EUR 339k. This corresponds to the gross contributions of the contractual claims. We assume that all receivables are fully collectible.

HanseCom's revenues from the date of acquisition to 31 December 2016 amounted to EUR 918k, the net loss for the period amounted to EUR 296k. HanseCom emerged from an asset deal on 1 May 2016. Had the company been purchased at this time, HanseCom would have generated revenues of EUR 2,664k and a loss of EUR 796k for the init group.

The goodwill of EUR 717k is covered by expected additional business from the portfolio expansion, as an integrated solution for SAP-based systems can now be offered.

Cash payment due to company acquisition:

EUR '000	
Cash acquired with the subsidiary	74
Purchase price (included in cash flow from investing activities)	174
Actual cash payment due to company acquisition	100

iris-GmbH infrared & intelligent sensors (iris-GmbH), Berlin

With effect from 29 January 2016, INIT GmbH acquired a further 6 per cent investment, and on 7 July 2016 another 25.5 per cent investment in iris-GmbH infrared & intelligent sensors (iris-GmbH) in Berlin (IFRS 3). At the time of acquisition, this was an increase in the at-equity investment. Effective 7 July 2016, additional shares of 25.5 per cent were acquired (IFRS 3, date of the acquisition of control 8 July 2016). iris-GmbH is a developer and manufacturer of sensor components and products for automatic passenger counting. The company develops, produces and supplies optoelectronic sensors for integration into various systems.

iris-GmbH in Berlin has three subsidiaries, based in Atlanta (Georgia / US), Phoenix (Arizona / US) and in Santiago de Chile (Chile), which handle sales and service in their respective areas. iris-GmbH also has a 48 per cent investment in maBinso software GmbH in Hamburg. As of 1 July 2016 maBinso's profit is included in the consolidated financial statements at equity.

Until 29 January 2016, INIT GmbH had 43 per cent of the shares in this company and 49 per cent by 7 July 2016. With the purchase of a further 25.5 per cent with effect from 7 July 2016, the investment now amounts to 74.5 per cent. The agreed purchase price for the 6.0 per cent investment was EUR 762k, and EUR 4,500k for the acquisition of the 25.5 per cent investment. In addition, a two-sided option was agreed to take over the remaining 25.5 per cent of the shares in June 2020. Under certain conditions, the holder of the shares has the right to sell his shares to the init group in the period from 1 June 2020 to 30 June 2020. Insofar as this right is not required or if the prerequisites were not fulfilled, the init group is entitled to acquire these shares for EUR 5,000k.

The 43 and 49 per cent investments had previously been consolidated at equity. From the moment at which control was assumed on 8 July 2016, iris-GmbH was fully consolidated based on the put-call option, whereby the income statement of iris-GmbH was included for half a year from 1 July 2016 onwards. The net profit for the year was included at equity for 49 per cent in the consolidated financial statements for the first half of 2016, and is shown in the income statement under "Income from associated companies".

The holding was acquired for strategic reasons. iris-GmbH, a global specialist in sensor systems for the automatic counting of passengers, operates in a growth market. iris-GmbH will continue operating independently in its own market segment and supply both init and other companies with its sensor technology, which is currently superior to that of its competitors.

The fair values of the identifiable assets and liabilities of iris-GmbH including its subsidiaries at the acquisition date (7 July 2016) break down as follows:

EUR '000	
Assets	
Cash and cash equivalents	2,103
Receivables and other assets	2,966
Inventories	2,966
Tangible assets	1,244
Intangible assets (customer base / technology)	7,698
Other intangible assets	118
Shareholdings (equity interests)	72
Financial assets	2
Total	17,169

EUR '000	
Liabilities	
Payables	1,805
Provisions	1,627
Deferred tax liabilities	2,386
Total	5,818
Fair value of net assets	11,351
Goodwill from company acquisition	4,219
Total consideration for business combination achieved in stages	15,570

The useful life of the intangible assets is between 3 and 15 years.

Based on the purchase price for the last 25,5 per cent of the shares of EUR 4,500k and taking into account the allocation of equity capital from the acquisition in January 2016 of EUR 317k, the value of the old shares amounted to EUR 8,039k.

The put option was taken into account based on an exercise price of EUR 4,000k, an interest rate of 4,55 per cent and a maturity of 4 years with a present value of EUR 3,348k for the consideration paid. The non-controlling interests are reported in other non-current liabilities.

The fair value of accounts receivable is EUR 2,930k. This corresponds to the gross amounts of the contractual receivables. We expect all receivables to be recoverable.

The carrying amount (at equity) of the previous 49 per cent investment at the acquisition date amounted to EUR 3,350k (including prorated result in 2016). In connection with the acquisition of the additional investment, the fair value of the previous investment was redetermined. The revaluation was carried out as described above. The gain of EUR 4,689k resulting from the revaluation was recognised through profit or loss under "Holding gain (acquisition iris-GmbH)" in the consolidated income statement.

iris-GmbH's revenue from the acquisition date until 31 December 2016 amounted to EUR 7,262k and the net profit for the same period EUR 198k. If the company had been acquired at the beginning of 2016, iris-GmbH would have generated revenues of EUR 13,440k and a profit of EUR 753k for the init group.

The goodwill of EUR 4,219k includes the value of expected synergies in the areas of procurement and sales, which was not recognised separately. The goodwill recognised in the balance sheet is not expected to be tax-deductible.

Cash payment due to company acquisition:

EUR '000	
Cash acquired with the subsidiary	2,103
Purchase price (included in cash flow from investing activities)	4,500
Actual cash payment due to company acquisition	2,397

Business operations of LC Consultant SARL, Saint Cloud, France

With effect as of 1 October 2015 initperdis acquired the business operations of LC Consultant SARL, Saint Cloud in France, for a purchase price of EUR 251k. LC Consultant was a French company that has developed and maintained a rostering and dispatching software for public transport companies, called Webus, for over 10 years. Through the acquisition of the customer base init can strengthen its market presence in the French market.

As part of the purchase price allocation no other assets and liabilities other than the customer base were identified. The fair value at the acquisition date corresponds to the purchase price. Therefore no goodwill was incurred.

The customer base is included in the balance sheet under "Other intangible assets" and is amortised over a term of 5 years (note 21). The expenses (2015: EUR 13k) are included in the consolidated income statement under "Cost of sales".

Incidental acquisition costs total EUR 44k and are included in the consolidated income statement 2015 under "Administrative expenses".

Revenues and EBIT of the business operations of LC Consultant, both for the entire 2015 financial year and since the date of acquisition, are of secondary importance for the init group.

Cash outflow on the acquisition:

EUR '000	
Transaction costs (included in cash flow from operating activities)	44
Cash acquired	0
Purchase price (included in cash flows from investing activities)	251
Net cash outflow on acquisition	295

Consolidation method

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

Business combinations are reported using the acquisition method. The acquisition costs for the company acquired are measured on the basis of the transferred consideration stated at acquisition date fair value. Any costs incurred in the context of the business combination are reported as expenses and recognised as administrative expenses. For a business combination achieved in stages, the equity share previously held by the buyer in the acquired company is redetermined at its acquisition date fair value and recorded through profit or loss.

The agreed contingent consideration is reported at the acquisition date fair value. In agreement with IAS 39, 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 IAS 39, it is measured in agreement with the relevant IFRS.

The 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 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 the 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.

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

Currency translation

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

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 the assets and liabilities reported on the balance sheet, the specification of contingent liabilities as on 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 production orders

Assumptions and estimates are required for the accounting and measurement of future receivables from production orders. There are uncertainties regarding the degree of completion. This is dependent on the assumptions for future hours, material expenses and possible order extensions.

Goodwill

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

Pensions and other post-employment benefits

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

Development costs

Development costs are capitalised as per the accounting principles and measurement methods presented. To calculate the values to be capitalised, corporate management must make assumptions on the amount of cash flow expected in 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).

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

Realisation of income

Income is realised if it is probable that the economic benefit will flow to the corporation and the amount of income can be measured with reliability. In addition, the following recognition criteria must be met to allow income to be realised:

Income from system contracts is recorded using the Percentage-of-Completion method. The percentage of completion of orders in progress and not yet invoiced at the reporting date is determined using the cost-to-cost method.

Income from product sales is realised upon transfer of the key risks and opportunities to the customer. Where the installation at the customer's place of business is an important prerequisite for the commissioning, the revenues are not realised until the installation has been completed.

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

Interest income is realised where interest has accrued.

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

Public subsidies and European Union subsidies

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

Cash and cash equivalents

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

Financial instruments and other financial assets

Financial assets as defined by IAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial assets reported at their fair value and recognised as income or expenses, as loans and receivables, as held-to-maturity investments, or as available-for-sale financial assets. On initial recognition of the financial assets, these are reported at their fair value. Financial investments other than those reported at their fair value and recognised as income or expenses are also taken into account with transaction costs attributable directly to the acquisition of the asset. The group specifies the classification of its financial assets on initial recognition and is required to review the allocation at the end of each financial year, where permissible and appropriate.

Regular way purchases and sales of financial assets are reported on the trade day, i.e. the day on which the company has made a firm commitment to purchase the asset. Regular way purchases and sales are purchases and sales of financial assets which prescribe the provision of the assets within a period specified by market regulations or conventions.

The fair value of financial investments traded in organised markets is determined using the current price (buying rate) quoted on the reporting date. The fair value of financial investments without an active market is determined using valuation methods. These valuation methods include the use of recent business transactions between competent and independent business partners willing to enter into a contract, the comparison with the fair value of another, basically identical, financial instrument, the analysis of discounted cash flows, and the use of other valuation models.

Securities and bonds

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

Trade accounts receivable and future receivables from production orders

Receivables are non-derivative financial assets with fixed or estimable payments not listed in an active market. After initial inclusion, the receivables are reported at amortised cost less any impairment losses. Impairment losses on trade receivables are recognized if they are substantially overdue. Likewise, as in the case of future claims from production orders, value adjustments are made if penalties are foreseen or other indications for a default of the debtor are to be recognized. Other profits and losses are entered in the operating result of the accounting period if the receivables are derecognised or impaired. The future receivables from production orders 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 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.

The group currently abstains from presenting this as hedge accounting because it does not meet the requirements, and takes changes in market values relating to forward exchange transactions into account in the net earnings.

Inventories

Inventories are measured at their acquisition and production costs or the lower net sales price realisable on the reporting date at the time of their addition. If the net selling price of inventories previously written down has increased, their value is increased appropriately. 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.

Tangible assets

Tangible assets 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:

EUR 'ooo	
Buildings	25–50 years
Plant and machinery	3–5 years
Factory and office equipment	3–10 years

Investment property

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

Group as lessor:

Leases under which all the opportunities and risks inherent in the property are not substantially transferred by the group to the lessee are classified as operating leases.

Other intangible assets

Purchased intangible assets are valued 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 was capitalised in 2016 and in 2015 because the conditions were not met.

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

Interests in associated companies

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

Impairment of assets

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

Deferred tax assets and deferred tax liabilities

The company determines its deferred income taxes using the balance sheet approach. Accordingly, deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 “Income Taxes” to account for the tax consequences of differences between the balance sheet valuations 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. The income tax rate taken as the basis was 31.0 per cent. Deferred tax assets for the unused tax losses carried forward of a subsidiary are recorded to the extent that taxable income is likely to be available for these, so that the loss carried forward can actually be used.

Other non-current assets

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

Liabilities

Liabilities are carried at amortised cost.

Pensions accrued and similar obligations

The 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.

Provisions

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

NOTES ON THE CONSOLIDATED INCOME STATEMENT

4. Revenues

Revenues are composed of the following amounts:

EUR 'ooo	2016	2015
Revenues resulting from the application of the percentage of completion method	71,380	73,268
Revenues from maintenance contracts	20,086	16,484
Revenues from additional and replacement deliveries	17,169	15,541
Total revenues	108,635	105,293

5. Cost of sales

Cost of sales is composed as follows:

EUR 'ooo	2016	2015
Cost of materials and purchased services	38,070	37,577
Personnel expenses	26,604	21,977
Depreciation and amortisation	3,034	2,547
Rental expenses	2,822	2,501
Travel and entertainment costs	2,171	1,855
Valuation adjustments on inventories	123	164
Valuation adjustments on accounts receivables	75	92
Other	4,483	6,741
Total	77,382	73,454

The increase in personnel expenses mainly results from the acquisition of the new subsidiaries. As in the previous year, the car costs as well as repair and maintenance expenses are also included in the position Other. On the other hand, other cost of sales includes income from the reversal of provisions of EUR 1,160k.

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	2016	2015
Software	3,913	2,882
Hardware	1,114	1,184
Total	5,027	4,066

7. Other operating income

Other operating income primarily includes allocated benefits in kind and rental income. In 2015 renovation and reconstruction measures for a new tenant at Kaeppelestrasse 8 / 8a and 10 in Karlsruhe in the amount of EUR 480k were included. Additionally, EUR 220k (previous year: EUR 181k) results from public subsidies and subsidies from the European Union. The income from operating leases for the investment properties at Kaeppelestrasse 8 / 8a and 10 amounted to EUR 313k (previous year: EUR 288k).

8. Foreign currency gains and losses

EUR '000	2016	2015
Balance of unrealised currency gains / losses	3,829	810
Balance of realised currency gains / losses	-2,996	-2,915
Currency gains / losses from consolidation transactions	247	459
Total	1,080	-1,646

9. Income tax

EUR '000	2016	2015
Current income tax	5,930	5,235
Deferred income tax	-3,509	-2,594
Total	2,421	2,641

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

EUR 'ooo	2016	2015
Profit before income tax	11,127	10,218
Theoretical income tax expenditure at 31.0%	3,449	3,168
Tax rate differences for foreign subsidiaries	312	202
Tax effect of non-deductible / taxed expenses / income	68	-86
Tax effects of tax-free increases in net worth	0	6
Taxes unrelated to accounting period	-333	-557
Tax effects from results of associated companies	-76	-212
Tax-neutral revaluation of iris-GmbH	-1,453	0
Other	454	120
Effective income tax expenditure	2,421	2,641
Effective tax expenditure in %	21.8	25.9

As a consequence of the tax-neutral holding gain (acquisition iris-GmbH), the tax rate, at around 21.8 per cent, is significantly lower than in the previous year.

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

EUR 'ooo	2016	2015
Changes to deferred tax assets	-84	-2,416
Changes to deferred tax liabilities	-624	-822
Offset and recognised in equity	-551	561
Currency adjustments	136	83
Tax-neutral holding gain (acquisition iris-GmbH)	-2,386	0
Deferred tax expense (+) / income (-)	-3,509	-2,594

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

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 'ooo	2016	2015
Loans and receivables	45	30
Financial liabilities recognised at cost	-321	-207
Total	-276	-177

Currency effects:

EUR '000	2016	2015
Loans and receivables	-3,508	-2,338
Financial assets available for sale	4	-3
Financial liabilities recognised at cost	-12	-59
Financial assets and liabilities reported at fair value through profit or loss	192	161
Total	-3,324	-2,239

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.

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 AG had not issued any stock options by the reporting dates, there was no diluted earnings per share to be calculated.

	2016	2015
Net profit (shareholders of the parent company) in EUR '000	8,706	7,577
Weighted average number of shares outstanding	9,964,091	10,028,934
Undiluted earnings per share in EUR	0.87	0.75

12. Paid and proposed dividends

EUR '000	2016	2015
Ordinary dividends declared and paid during the financial year	1,991	8,032
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2016: 22 cents per share (2015: 20 cents per share)	2,200	2,004

13. Personnel expenses

Personnel expenses totalled EUR 45,325k (previous year: EUR 36,812k).

Cost of sales includes the following amounts:

EUR '000	2016
Wages and salaries	21,490
Social security contributions	4,277
Pension costs	641
Share-based payment expense	267

Sales and marketing expenses include the following amounts:

EUR '000	2016
Wages and salaries	7,338
Social security contributions	844
Pension costs	161
Share-based payment expense	87

General administrative expenses include the following amounts:

EUR '000	2016
Wages and salaries	4,311
Social security contributions	668
Pension costs	157
Share-based payment expense	57

Research and development expenses include the following amounts:

EUR '000	2016
Wages and salaries	5,027

NOTES ON THE CONSOLIDATED BALANCE SHEET

14. Cash and cash equivalents

EUR '000	Fair values 2016	Fair values 2015
Cash in banks (current accounts)	21,073	13,985
Short-term deposits (fixed-term deposits / call money)	2,847	53
Total	23,920	14,038

15. Marketable securities and bonds

This item refers to marketable securities and bonds with a total fair value of EUR 30k (previous year: EUR 30k). Due to the assumption of a permanent impairment, the fair value (market value on the reporting date) of the securities and bond issues was reduced by EUR 4k (previous year: EUR 3k), and this impairment was recognised as an expense.

16. Trade accounts receivable and future receivables from production orders

EUR '000	2016	2015
Gross trade receivables	28,992	26,199
Less cumulative value adjustments	-3,084	-2,732
Subtotal	25,908	23,467
Future receivables from production orders	38,180	39,158
Total	64,088	62,625

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2016	2015
As of 01 / 01	2,732	2,409
Addition	387	502
Utilised	-99	-9
Unused amounts reversed	-353	-403
Currency effects	84	233
Increase through acquisition subsidiaries	333	0
As of 31 / 12	3,084	2,732

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

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

EUR 'ooo	2016	2015
Carrying amount	64,088	62,625
Adjusted gross receivables	4,888	3,790
Neither past due nor impaired	55,272	55,476
Past due but not impaired		
< 30 days	1,971	3,804
30–60 days	945	1,013
60–90 days	91	287
90–180 days	399	115
> 180 days	522	872

The past due accounts receivable amount to EUR 8.8m (previous year: EUR 9.9m), whereby the projects in Dubai account for EUR 3.2m of this amount (previous year: EUR 3.7m). Of the past due accounts receivable in Dubai, around EUR 2.3m (previous year: EUR 2.2m) was written down. The general contractor for the first Dubai project did not pass payments from the end customer worth AED 12.1m on to us. Arbitration was decided in favour of init and an official copy of the judgment for Dubai was obtained. The enforcement measures in Dubai were not successful. Subsequently, the relevant applications for the recognition and enforcement of the arbitration in Dubai were filed before the Kuwait court. However, there is still the risk of default on these claims.

For future receivables from production orders value-impairing factors are continuously being considered in concurrent project calculations.

At the reporting date, there were no indications to suggest that the debtors of the receivables 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 invoiced are as follows:

EUR '000	2016	2015
Costs accrued plus profits from projects not yet invoiced	236,360	234,772
Less payments received	-206,233	-199,637
Balance	30,127	35,135
Of which: future receivables from production orders	38,180	39,158
Of which: liabilities from percentage of completion (see liabilities)	8,053	4,023

17. Inventories

EUR '000	2016	2015
Raw materials and supplies	1,597	1,386
Goods (valued at costs of conversion)	19,934	18,271
Deposits paid	5,475	3,061
Total	27,006	22,718

18. Other current assets

EUR '000	2016	2015
Derivative financial instruments	220	6
Prepaid expenses	569	727
Other tax refund claims	725	853
Due from personnel	505	137
Other	503	750
Total	2,522	2,473

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.

19. Property, plant and equipment

EUR '000	Land and buildings	Plant and machinery	Other equipment	Assets under construction
Acquisition and production costs				
As of 01 / 01 / 2016	17,940	2,036	9,458	273
Additions in current financial year	1,426	203	1,667	3,908
Disposals in current financial year	383	10	1,423	0
Reclassification in current financial year	5,002	0	0	0
Currency differences	120	78	40	201
Acquisition of subsidiaries	546	498	242	0
As of 31 / 12 / 2016	24,651	2,805	9,904	4,382
Depreciation				
As of 01 / 01 / 2016	1,544	911	6,012	0
Additions in current financial year	534	310	1,607	0
Disposals in current financial year	36	0	1,210	0
Reclassification in current financial year	293	0	0	0
Currency differences	12	44	21	0
As of 31 / 12 / 2016	2,347	1,265	6,388	0
Carrying amount as of 31 / 12 / 2016	22,304	1,540	3,516	4,382

EUR '000	Land and buildings	Plant and machinery	Other equipment	Assets under construction
Acquisition and production costs				
As of 01 / 01 / 2015	4,806	1,776	8,963	7,457
Additions in current financial year	894	77	2,483	4,960
Disposals in current financial year	3	2	2,203	0
Reclassification in current financial year	12,144	-15	15	-12,144
Currency differences	99	200	200	0
As of 31 / 12 / 2015	17,940	2,036	9,458	273
Depreciation				
As of 01 / 01 / 2015	1,180	638	6,150	0
Additions in current financial year	333	212	1,756	0
Disposals in current financial year	3	1	2,047	0
Reclassification in current financial year	0	-9	9	0
Currency differences	34	71	144	0
As of 31 / 12 / 2015	1,544	911	6,012	0
Carrying amount as of 31 / 12 / 2015	16,396	1,125	3,446	273

The tangible fixed assets essentially concern the administration buildings at Kaeppelestrasse 4 and 4a in Karlsruhe, the building under construction in Chesapeake, USA, as well as office equipment and technical equipment. The depreciation follows the straight-line method over the average useful life of the asset. The scheduled depreciation in 2016 totalled EUR 2,451k (previous year: EUR 2,301k) and is included in the consolidated income statement under “Cost of sales”, “Sales and marketing expenses” and “General administrative expense”.

Following a change of use resulting from owner-occupation, the property at Kaeppelestraße 10 was reclassified from “Investment property” to “Land and buildings” within tangible fixed assets with effect from 1 October 2016. This entailed the reclassification of EUR 5,002k in acquisition costs.

In 2015 the administration building at Kaeppelestrasse 4a was completed and reclassified from “assets under construction” in “land and buildings”. The scheduled depreciation was carried out for the first time in the second half of 2015.

The assets under construction mainly include prepayments for the new building in Chesapeake, USA.

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 6.7m (previous year: EUR 7.7m).

20. Investment property

EUR '000	2016	2015
Acquisition costs as of 01 / 01	6,377	6,377
Additions in financial year	14	0
Changes to tangible assets in financial year	-5,002	0
Acquisition costs as of 31 / 12	1,389	6,377
Depreciation as of 01 / 01	291	203
Additions in financial year	68	88
Changes to tangible assets in financial year	-293	0
Depreciation as of 31 / 12	66	291
Carrying amount as of 31 / 12	1,323	6,086

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

EUR '000	2016	2015
Rental income from investment property	313	288
Direct operating expenses * used to generate rental income	59	97

* including maintenance and repairs

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

Until 31 December 2015 the land and property not operated for commercial purposes within the meaning of IAS 40 "Investment Property" concerned the neighbouring properties Kaeppelestrasse 8, 8a and 10 in Karlsruhe acquired in 2012. The Kaeppelestrasse 10 property was reclassified on 1 October 2016, as a result of a change in its use. Acquisition costs of EUR 5,002k were reclassified.

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

The investment property is valued at amortised cost plus incidental costs and recognised on the balance sheet at a carrying amount of EUR 1.3m (previous year: EUR 6.1m). The buildings are depreciated on a straight-line basis over a useful life of 50 years.

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 valuation 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 value. 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. In 2016, in addition to scheduled depreciation, no brokering fees (previous year: EUR 10k) were recorded.

21. Goodwill and other intangible assets

EUR '000	Goodwill	Internally generated software	Licences and others
Acquisition and production costs			
As of 01 / 01 / 2016	4,388	8,483	6,032
Additions in current financial year	4,219	0	8,434
Disposals in current financial year	0	0	42
Acquisition of subsidiaries	718	0	2,242
Currency differences	0	0	4
As of 31 / 12 / 2016	9,325	8,483	16,670
Depreciation			
As of 01 / 01 / 2016	0	8,483	4,575
Additions in current financial year	0	0	1,534
Disposals in current financial year	0	0	42
Currency differences	0	0	4
As of 31 / 12 / 2016	0	8,483	6,071
Carrying amount as of 31 / 12 / 2016	9,325	0	10,599

EUR 'ooo	Goodwill	Internally generated software	Licences and others
Acquisition and production costs			
As of 01 / 01 / 2015	4,388	9,102	5,807
Additions in current financial year	0	0	521
Disposals in current financial year	0	619	310
Currency differences	0	0	14
As of 31 / 12 / 2015	4,388	8,483	6,032
Depreciation			
As of 01 / 01 / 2015	0	9,102	3,882
Additions in current financial year	0	0	973
Disposals in current financial year	0	619	295
Currency differences	0	0	15
As of 31 / 12 / 2015	0	8,483	4,575
Carrying amount as of 31 / 12 / 2015	4,388	0	1,457

The scheduled depreciation for tangible fixed assets, goodwill and other intangible assets in 2016 totalled EUR 3,985k (previous year: EUR 3,286k) and is included in the consolidated income statement under "Cost of sales" (EUR 3,034k), "Sales and marketing expenses" (EUR 364k) and "General administrative expense" (EUR 587k).

Impairment test of goodwill

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

So far no impairment of goodwill was necessary.

The recoverable amount of the cash-generating unit is determined on the basis of the calculation of the economic benefit of using cash flow projections based on budgetary accounting approved by the Managing Board for a period of three years. Steady cash flows were shown for the following period. The interest rate applied for the discounting is 8.04 per cent before taxes (previous year: 8.77 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.

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 5.55 per cent (previous year: 6.05 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 1.1 percentage points, the fair value of the cash-generating unit would equal the book value.

A reduction in planned revenues and free cash flows by around 2.6 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 31,979k.

Other intangible assets

Internally generated software:

In the previous year a disposal of internally generated software was recorded in the amount of EUR 619k. This relates to three products which were replaced by new technologies.

Licences and others:

The licences include external software costs as well as programming and consulting of EUR 983k (previous year: EUR 1,219k). The scheduled amortisation amounts to EUR 489k (previous year: 960k) and is included in the consolidated income statement under "Cost of sales". The capitalised customer base created by the acquisition of the assets of LC Consultant SARL in 2015 amounts to EUR 188k (previous year: EUR 238k). The scheduled amortisation amounts to EUR 50k (previous year: EUR 13k) and is included in the consolidated income statement under "Cost of sales".

The capitalised technology and the capitalised customer base from the takeover of iris-GmbH in 2016 amounted to EUR 7,442k (previous year: EUR ok). Scheduled depreciation amounts to EUR 257k (previous year: EUR ok) and is included in the income statement item "Cost of sales".

The capitalised customer base from the takeover of HanseCom in 2016 amounts to EUR 1,986k (previous year: EUR ok). Scheduled depreciation amounts to EUR 85k (previous year: EUR ok) and is included in the income statement item "Cost of sales".

22. Interests in associated companies

The associated company maBinso software GmbH, Hamburg, is not publicly listed. The business of maBinso is the creation, sale and operation of software as well as the related consulting for public transport. The earnings before taxes amounted to EUR 53k. The net profit corresponds to the comprehensive income and amounted to EUR 53k (previous year: EUR 66k). In 2016, the pro-rata result for init group amounted to EUR 13k. No distribution was made in the 2016 financial year. Depreciation of investments in associated companies was not required.

By acquiring 26.44 per cent of the shares in Bytemark Inc., New York, USA ("Bytemark") by INIT Chesapeake on 1 September 2016, the company is included at-equity in the consolidated financial statements at the acquisition date.

The associated company Bytemark is not publicly listed. The purpose of the company is the creation of mobile ticketing solutions for transport companies. Sales for the 2016 financial year totaled USD 1,972k. The profit before tax for the full year 2016 is USD -5,752k. The after-tax result corresponds to the total result and amounts to USD -5,758k. The pro rata result of the init group for 2016 is EUR -504k. No distribution was made in the 2016 financial year. There was no depreciation on the shares in the associated company. The current and non-current assets amount to USD 1,914k. This corresponds to the total assets. Together current and non-current liabilities total USD 1,106k.

23. Deferred taxes

The deferred tax assets and liabilities are as follows:

EUR 'ooo	2016	2015
Deferred tax assets		
Receivables	264	0
Inventories	2,309	2,194
Other assets	2	4
Provisions	1,258	1,089
Pensions accrued and similar obligations	1,524	1,986
Total deferred tax assets	5,357	5,273
Deferred tax liabilities		
Future receivables from production orders	595	4,379
Tangible fixed assets	493	499
Goodwill	30	45
Other intangible assets	2,307	211
Other liabilities	1,026	9
Derivatives	68	0
Total deferred tax liabilities	4,519	5,143

No deferred tax assets were recognised in 2015 and 2016 for previously unused tax losses carried forward. On 31 December 2016, the unused tax loss carried forward was EUR 418k (previous year: EUR 468k).

On 31 December 2016, there were no deferred tax liabilities on retained earnings of subsidiaries on the grounds that appropriate distributions are not planned for the foreseeable future. If such distributions were made, the tax burden would be insignificant for the group. The temporary differences in connection with shares in subsidiaries totalled EUR 28.9m (previous year: EUR 25.2m).

24. Other non-current assets

EUR 'ooo	2016	2015
Asset value of pension liability insurance	1,171	1,100
Security deposits*	318	347
Loans*	5	16
Gold stock	867	787
Other*	229	63
Total	2,590	2,313

* Non-current financial assets

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

All non-current financial assets are not overdue.

25. Liabilities

EUR 'ooo	31/12/2016			31/12/2015		
	Total	Remaining term		Total	Remaining term	
		< 1 year	> 5 years		< 1 year	> 5 years
Bank loans	35,349	19,669	1,852	19,601	12,884	2,223
Trade accounts payable	16,641	16,641	0	10,968	10,968	0
Accounts payable from percentage of completion	8,053	8,053	0	4,023	4,023	0
Accounts payable to related parties	0	0	0	5	5	0
Advance payments received	806	806	0	525	525	0
Income tax liabilities	3,514	3,514	0	1,560	1,560	0
Other liabilities	15,411	15,411	0	14,244	14,032	0

Terms relating to the above financial liabilities:

The bank loans of EUR 35,349k (previous year: EUR 19,601k) relate to long-term loans of EUR 5,503k (previous year: EUR 6,717k) for financing the buildings at Kaeppelestrasse 4, 4a, 8 / 8a and 10 which are fully secured by a land charge and the resultant short-term share of EUR 1,214k (previous year: EUR 1,184k). In addition, there are loans for acquisition financing of EUR 9,345k (previous year: EUR 0k) as well as a loan of EUR 2,782k (previous year: EUR 0k) for the new building in the USA. They also include euro loans amounting to EUR 16,444k (previous year: EUR 11,700k) as well as other bank loans of EUR 61k.

The following credit and guarantee lines exist:

EUR 'ooo		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	2016	100,052	5,796	59,056	35,200
Credit insurance companies	2016	21,857	0	21,857	0
Bond line for USA and Canada	2016	89,214	0	0	0
Banks	2015	81,468	2,862	55,500	23,106
Credit insurance companies	2015	22,045	0	22,045	0
Bond line for USA and Canada	2015	68,642	0	0	0

The credit and guarantee lines are essentially sufficient to finance the further growth of the company. On 31 December 2016, the cash line drawdown totalled EUR 16,455k (previous year: EUR 11,500k), the guarantee lines EUR 36,073k (previous year: EUR 43,664k), and the bond line EUR 83,456k (previous year: EUR 51,518k).

No interest is charged on the trade accounts payable.

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

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

26. Other liabilities (non-current and current)

EUR 'ooo	31/12/2016			31/12/2015		
	Total	Remaining term		Total	Remaining term	
		< 1 year	> 1 years		< 1 year	> 1 years
Tax liabilities	2,058	2,058	0	2,012	2,012	0
Due to personnel	5,304	5,304	0	3,166	3,166	0
Derivative financial instruments	476	476	0	571	571	0
Social security liabilities	232	232	0	137	137	0
Future liabilities for services not invoiced by subcontractors	4,011	4,011	0	5,262	5,262	0
Liability from option contract	3,348	0	3,348	0	0	0
Sundry	3,364	3,330	34	3,096	2,884	212
Total	18,793	15,411	3,382	14,244	14,032	212

The position "Sundry" mainly contain deferred revenues from warranty contracts of EUR 1,982k (previous year: EUR 883k). There are no other liabilities with a residual term of more than 5 years.

The Sundry item includes current financial liabilities of EUR 1,348k. In addition, the liabilities from the option contract as well as other non-current financial liabilities amounting to EUR 3,382k are included.

27. Provisions

EUR 'ooo	As of 1/1/2016	Currency differences	Utilised	Unused amounts reversed	Addition	Acquisition of subsidi- aries	As of 31/12/2016
Provisions for warranties	4,622	32	25	1,357	284	758	4,314
Provisions for unrealised costs	4,563	141	937	6	422	2,317	6,500
Provisions for anticipated losses related to projects	805	0	325	139	806	204	1,351
Other provisions	347	8	887	2	631	872	969
Total	10,337	181	2,174	1,504	2,143	4,151	13,134

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. The reversal of the warranty provision in the current financial year is due to a change in the percentage applied.

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

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

28. Pensions accrued and similar obligations

For the employees of init AG, 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. Pension liabilities are calculated using the projected unit credit method. These pension commitments grant employees an old-age pension (independent of salary) after attaining the age of 63 (Dr. Gottfried Greschner 65). 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)	1.80 (2.53)
Biometric basis	Klaus Heubeck's "Richttafeln G" (Actuarial Tables) of 2005
Pension trend	4.00 (4.00)
Employee turnover	0.00 (0.00)

The values of the commitments were calculated as on the individual reporting dates based on personnel data as on the respective reporting dates.

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

EUR 'ooo	2016	2015
Pensions accrued at the beginning of the year (Defined Benefit Obligation – DBO)	7,864	8,419
Service cost	97	99
Interest cost	197	163
Financial actuarial gains (-)/losses (+)	902	-783
Pension payments	-44	-34
Pensions accrued (DBO) at the end of the year	9,016	7,864
Plan assets	-378	-368
Pensions accrued	8,637	7,496

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

EUR 'ooo	2016	2015
Fair value of the plan assets on 1 / 1	368	116
Interest income from plan assets	3	10
Financial actuarial gains (+)/losses (-)	-1	1
Contributions to plan assets by the group	8	241
Fair value of the plan assets on 31 / 12	378	368

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

EUR '000	2016	2015
Service cost	97	99
Interest cost	197	163
Expenses for pension payments	294	262

In the consolidated income statement, the service cost is included in the cost of sales (EUR 73k), the sales and marketing expenses (EUR 13k) and the general administrative expense (EUR 11k), and the interest paid is reported in the item of the same name.

EUR '000	2016	2015
Cumulated amount of the financial actuarial gains included in the shareholders' equity, after deducting deferred taxes	-2,686	-1,232

EUR '000	2016	2015
Defined benefit obligation (DBO) on 31 / 12	9,016	7,864
Experience adjustments	103	-31

The pension provisions attributable to persons in key management positions totalled EUR 4,417k (previous year: EUR 3,916k). Of this, an amount of EUR 215k (previous year: EUR 180k) pertains to a former Board member.

EUR '000	2012	2013	2014	2015	2016
DBO	6,499	6,098	8,419	7,864	9,016

Sensitivities of the principal actuarial assumptions:

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

Implications for the DBO	+0.5% actuarial interest rate	-0.5% actuarial interest rate	+1 year life expectancy	-1 year life expectancy
2016	-712	805	429	-423
2015	-610	689	342	-340

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 136k (previous year: EUR 126k) have been entered into 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.

Future cash flows

Expected pension payments (EUR'000):

2017	2018	2019	2020	2021	2022–2026
221	229	246	264	285	1,765

The weighted average maturity of the DBO of the defined benefit plans is 17 years (previous year: 17 years).

Defined contribution plans

In the 2002 financial year, init changed its pension scheme regulations for new commitments. Accordingly, the company will no longer make any new, direct commitments. The amount recorded as expenses for contribution-based plans totalled EUR 621k (previous year: EUR 456k), of which EUR 105k (previous year: EUR 91k) is allocated to persons in key management positions.

29. Shareholders' equity

Capital stock

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

Shares outstanding:

	2016	2015
As of 01 / 01	10,017,598	10,023,096
Acquisition of treasury stock	-75,253	-50,000
Issue of stock to Managing Board, managing directors and key personnel	18,141	26,428
Issue of stock to employees	19,849	18,074
As of 31 / 12	9,980,335	10,017,598

Shares of init AG held by members of the Managing Board and the Supervisory Board as of 31 December 2016:

Managing Board	Number of shares	Supervisory Board	Number of shares
Dr. Gottfried Greschner, CEO *	3,420,000	Hans-Joachim Rühlig	0
Dr. Jürgen Greschner, CSO	88,800	Ulrich Sieg	0
Joachim Becker, COO	348,283	Drs. Hans Rat	0
Matthias Kühn, COO	2,621		
Bernhard Smolka, CFO	27,786		

* 3,390,000 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 § 26 para 1 WpHG we refer to note 42.

Conditional capital

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

Additional paid-in capital

The additional paid-in capital on 31 December 2016 amounted to EUR 5,642k, 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 2,154k was transferred from 2005 to 2015 as part of the recognised expenses from the share-based payments (see note 36). In 2016 an amount of EUR 167k was released.

Treasury stock

The treasury stock as of 1 January 2016 totalled 22,402 shares. Based on a resolution passed at the shareholders' meeting of 13 May 2015, the company is authorised to purchase treasury shares. On 20 January 2016 a decision was made to repurchase up to 50,000 shares. 50,000 shares were repurchased from 21 January to 4 February at an average price of EUR 14.01. On 16 February 2016 another decision was made to repurchase up to 50,000 shares up to 31 March 2016. 25,253 shares were repurchased from 17 February to 31 March at an average price of EUR 12.63.

As part of an employee stock ownership plan, shares of init AG were offered to the employees of init group as profit sharing. 19,849 shares were transferred to employees in December 2016. Within the scope of the incentive scheme for members of the Managing Board, managing directors and key personnel in the first half year of 2016, a total of 14,750 shares were transferred and then in the third quarter 2016 3,391 shares with a vesting period of five years. 33,013 shares of the total 37,990 shares transferred were sold to subsidiaries for transfer to their employees. On 31 December 2016, there were consequently 59,665 treasury shares.

The company's treasury stock was valued at acquisition cost at EUR 889k (previous year: EUR 436k) and openly deducted from the equity capital. The total of 59,665 shares as of 31 December 2016 corresponds to an imputed share of EUR 59,665 (0.59 per cent) of the capital stock. The shares were repurchased at an average price of EUR 14.91 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 58,507k (previous year: EUR 52,281k) include the retained earnings of init AG and results of init AG and the consolidated subsidiaries generated since group affiliation.

Other reserves

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

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

Market valuation of securities: Changes in the fair value of available-for-sale financial instruments are recognised in this reserve.

Capital management

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

30. Objectives and methods of financial risk management

The main financial instruments used by the company – with the exception of derivative financial instruments – include cash, securities, trade accounts receivables and loans. The purpose of the securities and bonds is the investment of the 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 enters into 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. However, since init also tries to keep its options open with regard to exchange rate development, it may incur losses.

In addition, init holds 25kg of gold to minimise the euro risk. Its value 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. The Management regularly reviews and monitors each of these risks, which are described in the following.

Foreign currency risk

Due to foreign revenues, the change in the exchange rates constitutes a substantial risk. To eliminate this rate change risk, the group uses forward exchange transactions for all major business transactions if payment follows much later than the firm purchase or sale commitment. 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 the 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 2016 had appreciated by 10 per cent, the operating result would have been EUR 6k less. The resulting appreciation of forward exchange transactions would have totalled EUR 791k. As a counter-effect, it would also have resulted in expenses of EUR 785k owing to cash in banks, accounts receivable and liabilities. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2016 had depreciated by 10 per cent, the operating result would have been EUR 12k higher. This breaks down as follows: EUR 971k relates to forward exchange transactions, compensated for by appreciation of cash in banks, accounts receivable and liabilities of EUR 959k.

If the value of the euro relative to the foreign currencies relevant for init on 31 December 2015 had appreciated by 10 per cent, the operating result would have been EUR 1,181k less. The resulting appreciation of forward exchange transactions would have totalled EUR 1,325k. As a counter-effect, it would also have resulted in expenses of EUR 2,506k owing to cash in banks, accounts receivable and liabilities. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2015 had depreciated by 10 per cent, the operating result would have been EUR 1,169k higher. This breaks down as follows: EUR 1,337k relates to forward exchange transactions, compensated for by appreciation of cash in banks, accounts receivable and liabilities of EUR 2,506k.

Risk of default

The group does not have any material risk of default concentrations with the exception of the receivables from the first Dubai project, for which an appropriate provision for risks was set up. This is due, on the one hand, to the fact that over 90 per cent of the orders are publicly subsidised and, on the other, to the fact that the orders are usually paid on account or billed with reference to predefined milestones. Furthermore, the accounts receivable are checked and if necessary dunned every fortnight for receipt of payment. Allowance for individual receivables is recognised when it is probable that the invoices issued will not be satisfied. The write-off a receivable against the already recognised impairment will be executed, when all possibilities for collecting the receivables are exhausted and these are considered to be uncollectible. The losses of receivables outstanding for the 2016 financial year totalled EUR 99k (previous year EUR 9k).

All customers requesting transactions with the init group based on credit are subjected 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 to the amount of the book value 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 mainly relates to the variable interest rate borrowings to finance the properties at Kaeppelestrasse 4a, 8 / 8a and 10 in Karlsruhe and to 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

On 31 December 2016, 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.

EUR 'ooo	Carrying amount	2017	2018	2019 -2021	>2021
Non-derivative financial liabilities					
Other financial liabilities	36,691	33,309	34	4,000	0
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	476	476	0	0	0
Derivative financial assets	-220	-220	0	0	0
Total		33,565	34	4,000	0

The derivative financial liabilities and assets result in payments totalling EUR 18,954k and payments receivable totalling EUR 18,698k.

As on 31 December 2015, the future cash flows from the financial liabilities were as follows:

EUR 'ooo	Carrying amount	2016	2017	2018 -2020	>2020
Non-derivative financial liabilities					
Other financial liabilities	33,201	25,967	1,462	3,476	2,386
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	571	571	0	0	0
Total	-6	-6	0	0	0
Total		26,532	1,462	3,476	2,386

The derivative financial liabilities and assets result in payments totalling EUR 13,223k and payments receivable totalling EUR 12,658k.

31. Explanatory notes on the financial instruments

Classification and fair values

The following table states the carrying amounts of the financial instruments of the group reported in the balance sheet on 31 December 2016 compared to 31 December 2015 and shows their classification in appropriate measurement categories according to IAS 39.

	2016	2015
ASSETS		
Loans and receivables	89,639	77,761
Cash and cash equivalents	23,920	14,038
Trade accounts receivable	25,908	23,467
Accounts receivable due to related parties	120	0
Future receivables from production orders	38,180	39,158
Other financial assets (current)	959	817
Other financial assets (non-current)	552	245
Financial assets available for sale	30	30
Marketable securities and bonds	30	30
Financial assets reported at fair value through profit or loss	220	6
Derivative financial assets	220	6
LIABILITIES		
Financial liabilities recognised at cost	56,720	33,201
Bank loans (current and non-current)	35,349	19,601
Trade accounts payable	16,641	10,968
Accounts payable due to related parties	0	5
Other liabilities (current)	1,348	2,429
Other liabilities (non-current)	3,382	198
Financial liabilities reported at fair value through profit or loss	476	571
Derivative financial instruments	476	571

The fair value of the listed securities and bond issues (available for sale) was determined using their respective market value. The fair value of the derivative financial instruments and the loans was calculated by discounting the expected future cash flow using the prevailing market interest rates. Given the short maturities of the cash and cash equivalents, trade accounts receivable, other assets, trade accounts payable, and other liabilities, it is assumed that their fair value is equal to the carrying amount.

Hierarchy of fair values to IFRS 13

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

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

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

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

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

EUR '000	Fair value as of 31/12/2016	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Investment property	1,363			1,363
Financial assets reported at fair value through profit or loss				
Derivative financial assets	220		220	
Financial assets available for sale				
Marketable securities and bond issues	30	30		
Financial liabilities reported at fair value through profit or loss				
Derivative financial instruments	476		476	

The reduction in “Assets for which fair values are disclosed / Investment property” results from the change in the use of a property in the financial year 2016. Please refer to note 20 for further information.

EUR 'ooo	Fair value as of 31/12/2015	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Investment property	6,075			6,075
Financial assets reported at fair value through profit or loss				
Derivative financial assets	6		6	
Financial assets available for sale				
Marketable securities and bond issues	30	30		
Financial liabilities reported at fair value through profit or loss				
Derivative financial instruments	571		571	

In the reporting period ending 31 December 2016 and the reporting period ending 31 December 2015, there were neither reclassifications between the fair value categories of Level 1 and Level 2 nor any reclassifications into or out of the fair value category of Level 3.

Through a review of the classification (based on the lowest level input that is significant to the fair value measurement as a whole) of the acquired assets and liabilities is determined whether transfers between the levels have occurred at the end of each reporting period.

The measurement of fair value at Level 2 in the current financial year and the prior year is as follows: derivative financial instruments are determined by discounting the expected future cash flows over the remaining term of the contract at the closing rate.

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

Hedging transactions

The derivative financial instruments used to hedge future cash flows relate exclusively to foreign exchange risks in regard to the expected monies received predominantly in Arabian dirham, US dollars, Canadian dollars and Great Britain pound sterling from firm commitments. The following derivative financial instruments were concluded:

EUR 'ooo	Nominal value		Market values	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Forward exchange transactions (Sale) in USD	11,798	12,285	-465	-530
Forward exchange transactions (Sale) in GBP	1,571	373	117	-35
Forward exchange transactions (Purchase) in CAD	5,329	0	92	0

32. Contingencies and other liabilities

Operating lease liabilities – group as lessor

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

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

EUR 'ooo	2016	2015
Up to one year	302	275
Longer than one year and up to five years	1,179	680
Total	1,481	955

Operating leases

The group has entered into leasing agreements for vehicles and other business and operating equipment. These leases have an average term of between three and four years and do not include extension options. The annual rental liabilities of the init group totalled EUR 2,169k, of which EUR 547k is attributable to the renting of the office building in Karlsruhe (lease expires 2026). No obligations were imposed on the lessee upon conclusion of these leasing agreements. The expenses of operating leases in the current financial year amount to EUR 2.5m (previous year: EUR 2.2m). The future minimum payments under these agreements extend to the year 2026 and amount to:

EUR 'ooo	31 / 12 / 2016	31 / 12 / 2015
< 1 year	2,763	2,351
1 – 5 years	3,456	3,070
> 5 years	2,737	3,832
Total	8,956	9,253

Contingent liabilities

If a lawsuit is lost contingent liabilities of EUR 335k will be incurred. The probability of the defect is estimated as low.

There were no further contingent liabilities on 31 December 2016.

Legal disputes

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

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

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

OTHER DISCLOSURES

33. Additional notes on the cash flow statement

The following incoming and outgoing payments are included in the cash flow from operating activities:

EUR 'ooo	2016	2015
Interest expenses	-321	-207
Interest income	33	30
Income tax payments	-4,363	-4,818
Income tax receipts	820	23

The cash flows for investments in tangible fixed assets mainly relate to advance payments for the new building in the USA, the maintenance of capacities and expansion investments.

Inflows from dividend distributions amounted to EUR 559k (previous year: EUR 366k). Outflow for dividends on init shares totalled EUR 1,991k (previous year: EUR 8,032k).

34. Related party transactions

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

EUR 'ooo	Associated companies		Other related parties and persons	
	2016	2015	2016	2015
Trade accounts receivable and other income	88	0	0	286
Trade accounts payable and other expenses	564	2,713	572	874
Receivables on 31 / 12	120	0	0	341
Payables on 31 / 12	0	5	0	372

Associated companies

Amounts owed by associated companies result from a loan to 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.

The amounts due to associated companies in the previous year relate to trade accounts payable due to iris and have a remaining maturity of less than one year. The amounts are shown in the balance sheet under current liabilities.

Other related party transactions

init AG 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 8k (previous year: EUR 30k) made to family members of a Board member 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 2016 (previous year: EUR ok).

Remuneration of persons in key management positions

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

35. Geographical Information

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

Revenues 01 / 01 to 31 / 12

EUR 'ooo	2016	%	2015	%
Germany	41,772	38.5	27,832	26.4
Rest of Europe	22,034	20.3	21,344	20.3
North America	40,997	37.7	51,773	49.2
Other countries (Australia, UAE)	3,832	3.5	4,344	4.1
Group total	108,635	100.0	105,293	100.0

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

Non-current assets 31 / 12

EUR 'ooo	2016	%	2015	%
Germany	35,162	71.6	28,288	90.9
Rest of Europe	694	1.4	404	1.3
North America	12,946	26.4	2,267	7.3
Other countries (Australia, UAE)	315	0.6	165	0.5
Group total	49,117	100.0	31,124	100.0

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

36. Share-based remuneration

Employee shares

Based on the resolution of the Managing Board of 9 May 2016, published on 4 July 2016 (previous year: 4 May 2015), shares of the company were offered as a form of profit sharing (for certain subsidiaries this regulation could be different). In December 2016, the employees entitled to subscribe (excluding e.g. the Managing Board, temporary staff and trainees) each received 50 shares (December 2015: 50 shares) at a price of EUR 14.30 (December 2015: EUR 14.56) per share at the time of the issuance. The profit-sharing scheme was granted on a pro-rata basis to part-time employees and employees who have been with the company less than one year. To qualify, employees needed to be in permanent employment as of 31 December 2016. The shares are subject to a vesting period of two years from the time of transfer. A total of 19,849 shares were transferred (previous year: 18,074).

At the date of publication of the Managing Board resolution, the fair value based on the market price of the equity instruments issued was EUR 261k (previous year: EUR 430k). This amount was recorded in 2016 as expenses.

Equity-settled management bonuses

A further management bonus for the year 2016 in the form of 750 or 1,500 shares consolidated earnings exceeding EUR 5m before taxes and after deduction of bonuses. In addition, for each EUR 1m profit in excess of EUR 5m up to an amount of EUR 10m additionally 50 or 100 shares are granted as a bonus. In addition, a further 100 or 200 shares are granted as bonuses for a sum of EUR 1m profit in excess of EUR 10m. In the same way, a further 150 or 300 shares are granted as bonuses for EUR 1m profit in excess of EUR 15m. These shares are subject to a vesting period of five years. The income tax on the financial benefit relating to the share transfer is borne by the company. No legal claim may be made to payment of this bonus in the form of shares, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board.

In addition, key personnel and the managing directors of subsidiaries of the company are paid an equity-settled bonus, the amount of which depends on the level of incoming orders and revenues. A total of 18,141 shares (previous year: 26,428) with a vesting period of five years were granted to the managing directors and to key personnel. The taxes relating to the share transfer are borne by the group.

On 31 December 2016, the valuation was based on 21,913 shares. At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 110k (EUR 14.33 per share) for the Managing Board and EUR 220k (EUR 15.45 per share) for key personnel; these amounts were recorded as expenses in 2016.

37. Subsequent events

On 24 February 2017 it was announced that Mr. Bernhard Smolka will hand over his position to Dr. Herbert Bäsch after the Annual General Meeting 2017 and will withdraw the Managing Board as of 30 June 2017. Dr. Bäsch will join the Managing Board of init SE starting on 1 May 2017. There were no further events after the reporting date that had any significant effect on the net assets, financial position and results of operations of the init group.

38. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

EUR 'ooo	2016	2015
Employees Germany	580	405
Employees rest of Europe	14	9
Employees North America	91	87
Employees other countries	17	18
Total	702	519

Managing Board

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

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
Matthias Kühn, Karlsruhe, Germany (since 27 May 2016)	Chief Operating Officer / Telematics Devices and Ticketing
Bernhard Smolka, Mannheim, Germany	Chief Financial Officer

Dr. Gottfried Greschner is also a member of the advisory board of Stadtmarketing Karlsruhe GmbH, Karlsruhe as well as a member of the foundation board of Majolika-Stiftung für Kunst- und Kulturförderung, Karlsruhe.

Supervisory Board

The members of the Supervisory Board of init AG are:

Dipl.-Kfm. Hans-Joachim Rühlig, Ostfildern, Germany, Chairman	Former Financial Managing Director of Ed. Züblin AG, Stuttgart, member of Supervisory Board of CG Gruppe AG, Berlin, Germany
Dipl.-Ing. Ulrich Sieg, Jork, Germany, Deputy Chairman	Consulting engineer specialising in public transportation, Member of Supervisory Board of SECURITAS Holding GmbH, Duesseldorf, Germany
Drs. Hans Rat, Schoonhoven, The Netherlands, Member	Managing Director of Beaux Jardins B.V., Schoonhoven, The Netherlands

39. Particulars of board member salaries

The members of the Managing Board received total remuneration of EUR 1,949k in the 2016 financial year (previous year: EUR 1,775k). This total includes fixed salaries of EUR 1,584k (previous year: EUR 1,335k), variable remuneration in the form of management bonuses of EUR 157k (previous year: EUR 124k), and EUR 208k (previous year: EUR 296k) 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 AG, received total remuneration of EUR 387k (previous year: EUR 691k). This total includes fixed salaries of EUR 364k (previous year EUR 655k), variable remuneration in the form of management bonuses of EUR 0k (previous year: EUR 0k) and EUR 23k (previous year: EUR 36k) in the form of shares. EUR 60k (previous year: EUR 257k) of the total of EUR 387k applied to a former board member of init AG. In compliance with section 315a (1) HGB (German Commercial Code) 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 2016 amounted to EUR 92k (previous year: EUR 116k). This includes a variable share of EUR 20k (previous year: EUR 44k) and is distributed as follows:

EUR 'ooo	Fix	Variabel
Dipl.-Kfm. Hans-Joachim Rühlig	36	10
Dipl.-Ing. Ulrich Sieg	18	5
Drs. Hans Rat	18	5

In the 2016 financial year, the members of the Supervisory Board received EUR 0k (previous year: EUR 0k) for consulting activities.

40. Auditing firm

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, received compensation for audits of EUR 169k (previous year: EUR 169k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 1k (previous year: EUR 14k). Other appraisal services incurred costs of EUR 0k (previous year: EUR 2k), and other services, of EUR 47k (previous year: EUR 14k).

41. Declaration of compliance with the German Corporate Governance Code

The declaration of compliance for init AG was made by the Managing Board and the Supervisory Board on 6 December 2016, and was made available to the shareholders on our website at http://www.initag.de/en/investor_relations/corporate_governance.php.

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

On 27 January 2016 and with a correction on 18 March 2016, BNP Paribas Investment Partners Belgium S.A., Brussels, Belgium has informed us according to section 21 (1) WpHG that via shares its voting rights on init innovation in traffic systems AG, Karlsruhe, Germany, fell below the 3 per cent threshold of the voting rights on 21 January 2016 and on that day amounted to 2.99 per cent (this corresponds to 300,313 voting rights). On 27 January 2016 and with a correction on 18 March 2016, BNP Paribas Investment Partners UK Ltd, London, United Kingdom has informed us according to section 21 (1) WpHG that via shares its voting rights on init innovation in traffic systems AG, Karlsruhe, Germany, fell below the 3 per cent threshold of the voting rights on 21 January 2016 and on that day amounted to 2.99 per cent (this corresponds to 300,313 voting rights). 2.99 per cent of voting rights (this corresponds to 300,313 voting rights) are attributed to the company in accordance with section 22 WpHG.

On 27 January 2016 and with a correction on 18 March 2016, BNP Paribas Investment Partners S.A., Paris, France has informed us according to section 21 (1) WpHG that via shares its voting rights on init innovation in traffic systems AG, Karlsruhe, Germany, fell below the 3 per cent threshold of the voting rights on 21 January 2016 and on that day amounted to 2.99 per cent (this corresponds to 300,313 voting rights). 2.99 per cent of voting rights (this corresponds to 300,313 voting rights) are attributed to the company in accordance with section 22 WpHG.

43. Approval of consolidated financial statements

In the board meeting on 6 March 2017, the consolidated financial statements and the combined management report of init AG drawn up by the Managing Board, were approved for forwarding to the Supervisory Board.

Karlsruhe, 17 March 2017

The Managing Board



Dr. Gottfried Greschner



Dr. Jürgen Greschner



Joachim Becker



Matthias Kühn



Bernhard Smolka

AUDIT OPINION

This is a translation from German language. The audit opinion issued in German language refers to the consolidated financial statements and the combined management report originally prepared in German language and not to the English translation of the consolidated financial statements and group management report. We have issued the following opinion on the consolidated financial statements and the combined management report:

“We have audited the consolidated financial statements prepared by the the init innovation in traffic systems Aktiengesellschaft, Karlsruhe, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the combined management report for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: “German Commercial Code”] and supplementary provisions of articles of incorporation and bylaws are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and supplementary articles of incorporation and bylaws and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.”

Stuttgart, March 20, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werling Kresin
Wirtschaftsprüfer Wirtschaftsprüfer

IMPRINT

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Five-year financial SUMMARY

of the init group (IFRS)

EUR 'ooo	2016	2015	2014	2013	2012
Balance Sheet (31/12)					
Balance sheet total	185,945	145,082	128,774	118,313	110,452
Shareholders' equity	76,499	71,180	67,770	62,092	57,757
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ration (in %)	41.1	49.1	52.6	52.5	52.3
Return on equity (in %)	11.4	10.6	17.8	19.4	18.8
Non-current assets	66,389	43,098	34,537	28,198	27,603
Current assets	119,556	101,984	94,237	90,115	82,849
Income Statement (01/01–31/12)					
Revenues	108,635	105,293	102,993	100,120	97,297
Gross profit	31,253	31,839	36,581	37,456	34,006
EBIT	11,624	10,756	18,685	17,725	17,318
EBITDA	15,678	14,117	21,690	20,501	19,895
Consolidated net profit	8,706	7,577	12,067	12,068	10,872
Earnings per share (in EUR)	0.87	0.75	1.20	1.21	1.11
Dividend (in EUR)	0.22 *	0.20	0.80	0.80	0.80
Cash Flow					
Cash flow from operating activities	13,182	11,478	502	11,435	11,332
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	16.80	27.99	25.80	26.89	25.70
Bottom share price (in EUR)	12.60	14.08	18.50	21.15	13.60

* dividend to be proposed to the AGM 2017

Financial Calendar

2017

Q1

29 **March**

Publication of 2016 annual report
and press/analyst conference

Q2

12 **May**

Publication
Quarterly Statement 1/2017

24 **May**

Annual General Meeting 2017,
Congress Centre Karlsruhe

Q3

11 **August**

Publication
Half-Year Financial Report 2017

Q4

10 **November**

Publication
Quarterly Statement 3/2017

27–29 **November**

Equity Forum
in Frankfurt am Main