ANNUAL REPORT 2020

init

EBIT in EUR m

+20.9 %

19.6
2020

16.2
2019

Revenues in EUR m

+15.5 %

180.7
2020

2019
156.5

GROUP KEY FIGURES

Equity in EUR m

2020
90.5

85.5
2019

Operative cash flow in EUR m

+16 %

24.4
2020

21.1
2019

Incoming orders in EUR m

2020 154.6

2019 160.2

Order backlog in EUR m

2020
125.8

2019
151.8

CONTENT

Letter from the CEO	4
Managing Board of init SE	6
Report of the Supervisory Board	7
Supervisory Board of init SE	12
Statement on Corporate Governance Puruant to Section 289F (2) HGB and Principle 22 DCDK 2020	13
init share	22
Combined Management Report	24
Consolidated Financial Statements	60
Notes	67
Audit Option	127
Imprint	138
Five-year Financial Summary	139
Financial Calendar 2020	140

Dr. Gottfried Greschner, CEO

LETTER FROM THE CEO

Dear shareholders,

In view of the coronavirus crisis and all its negative implications, a look back at 2020 is naturally rather critical. All of us, as part of the init family, have been severely affected by the restrictions. A few of us were even infected with coronavirus, although luckily only with mild symptoms in most cases. Families with children in particular, were hit hard by the pandemic, as nurseries and schools were closed, which in turn meant that working from home became extremely challenging. Nevertheless, compared with other companies, we were able to continue working efficiently. As CEO, I am very happy to see that our employees have demonstrated exemplary commitment and great determination. We worked as a team and mastered many new challenges, and this spirit is also reflected in the motto of this year's abridged report #INITtogether. I would like to thank everyone for this great achievement.

Therefore, despite all the general adversities that companies have had to face around the world, we can also present a successful result for 2020. The init group comfortably accomplished its growth targets for revenues and earnings. Revenues increased by over 15 per cent to around EUR 181m, a new record. Operating earnings (EBIT), which is one of our key performance indicators, increased by around 20 per cent to significantly above EUR 19m, thus reaching the upper end of our target corridor. Earnings per share, the key parameter for the distribution to our shareholders, improved from EUR 1.13 to EUR 1.50 and the init share gained a total of

46 per cent in value in 2020. Indeed, the share price continued to rise in 2021, reaching a historical high of EUR 41.20.

We are extremely satisfied with these results, especially considering that our customers, the public transport companies, were hit hard by the lockdowns, sustaining a massive drop in passenger numbers.

init's digital innovations support public transport companies in numerous ways. This applies to smart ticketing solutions for which we are the market leader in Germany and the US with high growth rates, as well as for MOBILEguide, a passenger control system which is both an online solution as well as being used on railway platforms, and MOBILE-ITCS nextGen, a next generation innovative control system which uses artificial intelligence to increase efficiency in transport operations and enhance the travel experience.

We also see major market opportunities for our modular, web-based and scalable control system, an ITCS smart (Intermodal Transport Control System), which is tailored in particular to the needs of private fleet operators. What makes it special is that whilst maintaining sophisticated functionality, it offers public transport companies the advantage of lower investment costs for a standard version. The customer has the option to rent or lease the solution over a longer period which allows us to reach new customer groups and secure a predictable source of revenue in the long term.

We also expect new opportunities in the rail sector for our MOBILE-ITCSrail solution that has been designed for rail systems. During 2020, we worked intensively on this development. Our first customer, Albtalverkehrsgesellschaft (AVG), will put this system into operation this year. AVG belongs to Karlsruhe Stadtbahn, which operates a rail network of over 500 km.

2021 will continue to be a year of transition due to the repercussions of the coronavirus crisis. However, growth trends for init have in fact improved, because the coronavirus crisis has given digitalisation an extra boost. Examples include passenger counting solutions which allow passengers to book vehicles that have sufficient available seating, easing passenger flows at stations and accelerating the introduction of contactless ticketing systems. As governments worldwide continue to push for the green transformation of the transport sector, the demand for digital solutions increases, for example in the development of electromobility and connecting mobility services in a single platform (Mobility as a Service, MaaS). init also developed the booking platform for the innovative mobility platform regiomove, in Karlsruhe.

Promising tenders and contracts can be expected in all these fields from which we in turn hope to generate further growth. Based on a cautious business plan, which also takes into account coronavirus related setbacks, we are forecasting stable growth for the current year. However, from 2022 onwards it should be possible to again reach our continuous annual growth target of 15 per cent on average.

We are continuing to work despite the effects of coronavirus to further strengthen the trust that you, our shareholders and the stock market, have placed in our sustainable growth prospects.

Sincerely yours,

Dr. Gottfried Greschner, CEO

MANAGING BOARD OF INIT SE

**Dr.-Ing.
Gottfried Greschner**

Chief Executive Officer (CEO)

Born 1946

Vita
- Since 1983 Managing Director at INIT GmbH
- Since 2001 Chief Executive Officer (CEO)

Task Area
- Business Development
- Strategy
- Production
- Purchasing

**Dipl.-Kfm. Dr.
Jürgen Greschner**

Chief Sales Officer (CSO) and Deputy Chief Executive Officer

Born 1961

Vita
- Since 2004 Managing Director at INIT GmbH
- Since 2004 Chief Sales Officer (CSO)
- Since 2015 Deputy Chief Executive Officer

Task Area
- Sales and Marketing
- Human Resources
- Legal Management
- Research and Technology
- Projects and System Design
- Support and Operations

**B.A.
Jennifer Bodenseh**

Chief Financial Officer (CFO)

Born 1986

Vita
- Since 2018 Chief Financial Officer (CFO)

Task Area
- Financial Services
- Controlling and Logistics
- Risk Management
- M&A
- Investor Relations
- Compliance
- Data Protection
- Quality Management

**Dipl.-Ing. (FH)
Matthias Kühn**

Chief Operating Officer (COO)

Born 1973

Vita
- Since 2015 Managing Director at INIT GmbH
- Since 2016 Chief Operating Officer (COO)

Task Area
- Back-Office Ticketing
- Telematic Devices
- Maintenance and Installation
- Real-Time Systems
- Back-Office Operations
- Mobility as a Service
- IT

The curriculum vitae of each Managing Board member, containing detailed information, you will find on the website under Investor Relations / Corporate Governance.

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

The coronavirus pandemic had an impact on everyone's existence, economies and social life. For many people and companies the past year was a year of crisis, unprecedented since World War II. Our group was also confronted by major challenges in 2020. It is therefore all the more remarkable that we, as the Supervisory Board, can look back at a financial year with record revenues, a very satisfactory result and an all-time high share price. We are proud of the commitment our employees have demonstrated.

The init group managed to hit its targets spot on even in a year of general crisis. Despite the coronavirus-related restrictions, we were successful in meeting our budget in terms of revenues and earnings. Especially in these difficult times, this is a proof of product quality, the power to create value, but also of excellent teamwork at all levels of the group.

With great determination, high commitment and extraordinary flexibility our employees mastered the new challenges as they arose. I would like to thank you for this on behalf of the Supervisory Board.

The Managing Board and Supervisory Board, with their different responsibilities, also worked together to safely steer init through the coronavirus-related upheavals and the consequences of the lockdown.

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

Due to the size of both the group and the size of the Supervisory Board (four members), the Supervisory Board did not form any committees. At its final meeting, the Supervisory Board performed a self-evaluation of its efficiency in 2020. This review focused on organisational issues, information for the Supervisory Board, personnel matters and how the members of the Supervisory Board perceived their role. The Supervisory Board participated in training measures on their own initiative and with init's support.

The Chairman of the Supervisory Board and, for certain issues, the other members of the Supervisory Board, were constantly in close contact with the Managing Board throughout the financial year. In addition, transactions relevant to reporting were disclosed on an ad hoc basis. Between meetings, the Chairman of the Supervisory Board informed the members of the Supervisory Board in a timely manner, orally and in writing, of any discussions with the Managing Board and its reports. Where statutory provisions or the articles of incorporation required the approval of the Supervisory Board for measures to be taken, these were always deliberated at the appropriate time and presented for a resolution.

Meetings of the Supervisory Board:

Meetings are convened at least once a quarter. In 2020 a total of four Supervisory Board meetings took place. All Supervisory Board members were present at three meetings. One Supervisory Board member participated by phone in one of the meetings which was a video conference due to the coronavirus pandemic.

The Supervisory Board also met three times without the Managing Board. One Supervisory Board member participated by video conference in one of the three meetings.

In the reporting year, the Chairman of the Supervisory Board had two discussions with the works council on topics that are of significant relevance for the personnel.

Based on the reports by the Managing Board, the following areas were discussed regularly in the meetings of the Supervisory Board: the economic situation including business and liquidity planning, incoming orders, order backlog, potential risks, compliance issues, legal disputes, key business transactions, projects of particular importance, acquisitions, medium-term and long-term corporate strategy including organizational issues as well as human resources planning and development. The key points included the emerging market changes and the COVID-19 risks; particularly the effects on the result of operations and financial position as well as the resulting need for action.

There was also a special focus on the following topics in the 2020 financial year:

- Foundation of the company regiomove GmbH, Karlsruhe by the subsidiary INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH, Karlsruhe
- Acquisition of DResearch Fahrzeugelektronik Group, Berlin by the second-tier subsidiary iris-GmbH infrared & intelligent sensors, Berlin, and approval of the assumption of joint and several liability of init innovation in traffic systems SE for the loan taken out by iris-GmbH infrared & intelligent sensors to finance the acquisition
- Status of the integration of subsidiaries HanseCom Public Transport Ticketing Solutions GmbH, Hamburg, iris-GmbH infrared & intelligent sensors, Berlin, DResearch Fahrzeugelektronik Gruppe, Berlin in the init group
- Approval of the merger of the two subsidiaries of init innovation in traffic systems SE initplan GmbH and initperdis GmbH
- Approval of the assumption of joint and several liability of init innovation in traffic systems SE for the loan taken out by INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH to finance the remaining 25.5 per cent of the shares in iris-GmbH infrared & intelligent sensors
- Commencement of business processes and refining of the concept for new ERP software
- Change to the schedule of responsibilities for the Managing Board
- Discussion of the 2019 annual and consolidated financial statements as well as of the dependent company report and the non-financial group report with the involvement of the auditor

- Adoption of the 2019 annual financial statements, approval of the 2019 consolidated financial statements, release of the 2019 non-financial group report as well as discussion of the proposal by the Managing Board for the appropriation of profits
- Auditor proposal 2020
- The quarterly statements and the 2020 half-year financial report
- Adoption of the proposals for resolutions for the agenda for the 2020 Annual General Meeting (virtual) and of the report of the Supervisory Board for 2019
- Examination of the relationship between Managing Board salaries and staff pay
- Approval of the proposal for a resolution on the Managing Board share-based bonus
- Amendments to the stock corporation law (ARUG II) and the German Corporate Governance Code
- Approval of the Declaration of Compliance with the German Corporate Governance Code as amended 16 December 2019
- Deliberations on changing the auditor
- Efficiency review of the Supervisory Board
- Approval of non-audit services of the auditor
- Presentation of MOBILE-ITCS nextGen
- Presentation of current ticketing systems
- Approval for the acquisition of land in Chesapeake, Virginia, USA by the subsidiary GO-1, LCC, Chesapeake, USA.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AS WELL AS OF THE COMBINED MANAGEMENT REPORT

The annual financial statements and the combined management report of init innovation in traffic systems SE as of 31 December 2020 were prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements dated 31 December 2020 were prepared according to Section 315a HGB on the basis of the International Financial Reporting Standards (IFRS) as adopted by the EU.

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

The annual financial statements, combined management report and consolidated financial statements as well as the independent auditor's reports and audit reports were discussed in detail with the Managing Board and the auditor at the Supervisory Board meeting on 23 March 2021. The auditors responsible reported on the significant audit findings, in particular also on the key audit matters. For init SE, these were the first time consolidation of the DResearch Fahrzeugelektronik Group, the revenues from contstruction contracts and the measurement of inventories for the init group as well as the measurement of shares in affiliated companies for the annual financial statement of init SE. In addition, the auditor reported on the internal control and risk management system in relation to the financial reporting process, on services rendered in addition to the audit and on its independence as defined in legal regulations.

Detailed answers were given to questions raised by the members of the Supervisory Board. Based on this evidence and its own examination, the Supervisory Board came to the conclusion that the audit methodology used was reasonable and appropriate and that the figures and computations contained in the financial statements had been adequately tested and were consistent. No objections were raised. We therefore agree with the results of the audit. The annual financial statements of init innovation in traffic systems SE prepared by the Managing Board and the consolidated financial statements of the init group were approved; the annual financial statements of init innovation in traffic systems SE were therefore adopted.

The Managing Board has presented its proposal to the Supervisory Board for the appropriation of profits. Under the proposal, the following appropriation of the retained earnings of init SE of EUR 23,644,582.08 will be recommended at the Annual General Meeting on 19 May 2021 distribution of a sum total of 55 cents per dividend-bearing no-par value share. The remaining amount is to be carried forward. The Supervisory Board endorsed this proposal.

Ernst & Young GmbH Wirtschaftsprüfungs-gesellschaft, Stuttgart, as the auditor, also audited the report on the relationships with affiliated companies ("dependent company report") prepared by the Managing Board in accordance with Section 312 AktG ["Aktiengesetz": German Stock Corporation Act]. The auditor issued the following auditor's report concerning the result:

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

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

The Supervisory Board acknowledged the Managing Board's dependent company report and the results of the audit of the report by the auditor, examined both reports and discussed the results of both with the Managing Board and the auditor. The Supervisory Board endorsed the results of the audit of the dependent company report by the auditor. After the final results of the discussions and its own examination of the dependent company report, the Supervisory Board is of the opinion that the Managing Board's findings are appropriate and it therefore raises no objections to the Managing Board's declaration at the end of the report.

The Supervisory Board also adopted the report of the Supervisory Board at its meeting on 23 March 2021.

CORPORATE GOVERNANCE CODE

The Supervisory Board actively implemented and monitored compliance with the German Corporate Governance Code. On 8 December 2020 the Managing Board and the Supervisory Board jointly issued an updated Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 AktG and made it permanently available to shareholders on the company's website.

Pursuant to Principle 22 of the German Corporate Governance Code, the Managing Board and the Supervisory Board report on corporate governance at init in the declaration of corporate governance in this annual report.

Should any changes be made to this Declaration of Compliance with the Corporate Governance Code during the financial year, the Supervisory Board together with the Managing Board will immediately update this information and make it available to all shareholders on the website of init.

NON-FINANCIAL GROUP REPORT

No changes were made to the main processes of the non-financial group report 2020 compared with the previous year. In cases of doubt, an external consultant supported us in an advisory capacity. The Supervisory Board reviewed the non-financial group report 2020, which was prepared in accordance with Section 315b HGB, according to Section 171 (1) AktG. It came to the conclusion that the report fulfils the current requirements and therefore did not raise any objections. The non-financial group report is available on the init SE website in the section Financial Reports.

The Supervisory Board would like to thank all employees and the Managing Board for their personal contribution in financial year 2020. Our thanks also go to our shareholders, customers and business partners for the trust they have placed in us.

Karlsruhe, March 2021

For the Supervisory Board

Dipl.-Kfm. Hans-Joachim Rühlig

Chairman

SUPERVISORY BOARD OF INIT SE

Dipl.-Kfm. Hans-Joachim Rühlig

Chairman

About

- Born 1948
- Ostfildern, Germany
- Independent Management Consultant
- Independent Financial Expert (§ 100 para 5 AktG)

Vita

- Supervisory Board Member since 2011
- Chairman since 2014
- Elected until AGM 2022
- Independent within the meaning of CGK C6

- Managing Board Member of Stiftung Bauwesen, Stuttgart/Germany
- Former Managing Board Member of Ed. Züblin AG, Stuttgart, Germany

Other Boards

- Member of the Advisory of DResearch Fahrzeugelektronik GmbH, Berlin, Germany

Dipl.-Ing. Ulrich Sieg

Deputy Chairman

About

- Born 1949
- Jork, Germany
- Consulting Engineer specialised in Public Transport

Vita

- Supervisory Board Member since 2014
- Deputy Chairman since 2016
- Elected until AGM 2022
- Independent within the meaning of CGK C6

- Former Deputy Chief Executive Officer and Managing Board Member of Hamburger Hochbahn AG, Germany

Other Boards

- Member of the Supervisory Board of SECURITAS Holding GmbH, Dusseldorf, Germany
- Member of the Advisory of HanseCom Public Transport Ticketing Solutions GmbH, Hamburg, Germany

Dipl.-Ing. (FH) Christina Greschner

Member

About

- Born 1977
- Karlsruhe, Germany
- M.A. Family Entrepreneurship

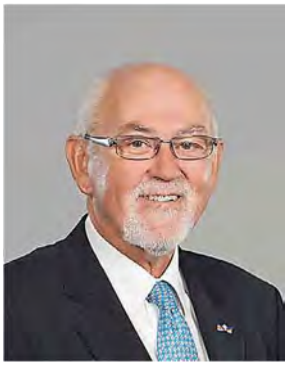
Vita

- Supervisory Board Member since 2019
- Elected until AGM 2022
- Not independent within the meaning of CGK C6

- Since 2007 various management position with the init group
- Extensive knowledge of the init group
- International experience

Other Boards

None



Drs. Hans Rat

Member

About

- Born 1945
- Schoonhoven, Netherlands
- Honory Secretary General of UITP

Vita

- Supervisory Board Member since 2012
- Elected until AGM 2022
- Independent within the meaning of CGK C6

- Former Secretary General of the International Association of Public Transport UITP
- Managing Director of Beaux Jardins B.V., Schoonhoven, Netherlands

Other Boards

None

STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289F (2) HGB AND PRINCIPLE 22 DCGK 2020

In this statement on corporate governance (Corporate Governance Report), init reports on the principles and practice of corporate governance. It contains the Declaration of Compliance with the German Corporate Governance Code, information on corporate governance practices, the description of the working methods of the Managing Board and the Supervisory Board as well as significant corporate governance structures.

With the Declaration of Compliance with the German Corporate Governance Code and the statement on corporate governance, init aims to provide a transparent and comprehensible picture of the principles of responsible and sound management ("corporate governance") applicable in Germany and of how they are put into practice at init, thus strengthening the shareholders' trust in the company.

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 8 December 2020. The Declaration below relates to the Code version of 16 December 2019, which was published in the Federal Official Gazette on 20 March 2020. 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:

B. Composition of the Managing Board

B.5. An age limit should be specified for the members of the Managing Board

The Managing Board should have a diverse age structure. No specific targets regarding the age of individual or all members of the Managing Board were stipulated, as this would restrict the Supervisory Board in selecting suitable Managing Board members. init operates in a market that requires flexibility, special expertise and many years of experience.

C. Composition of the Supervisory Board

I General requirements

C.2. An age limit should be specified for the members of the Supervisory Board

The persons intended to be elected to the Supervisory Board should provide assurance, based on their professional expertise, skills and experience, their integrity, their ethical conduct, independence and personality that they can responsibly carry out the duties of a Supervisory Board member in a leading international technology firm for the mobility sector. init's Supervisory Board is convinced that a strict general restriction on membership on the Supervisory Board which does not consider the respective Supervisory Board member individually, is not an appropriate method to further improve and professionalise the work of the Supervisory Board. The company's interests in searching for suitable candidates is better served by a flexible composition of the Supervisory Board with different terms of office and experience and practical consideration of a diverse age structure. Finally, the company has been published the terms of office of each Supervisory Board member for some time, thus enabling the shareholders to decide for themselves about the individual suitability of the reelection of a member of the Supervisory Board.

D. Work methods of the Supervisory Board

II Cooperation within the Supervisory Board and with the Managing Board

Principle 14 Supervisory Board Committees

An audit committee and a nomination committee have not been formed. The specific conditions do not exist and init considers this impractical due to the size of both the company and the Supervisory Board (four members).

G. Remuneration of the Managing Board and Supervisory Board

I Remuneration of the Managing Board

The contracts of init SE's Managing Board members have been concluded for three years and end as of 31 March 2022. The remuneration system of the Managing Board will be presented for resolution to the Annual General Meeting 2021. Therefore, the recommendations can only be applied for new or extended appointments.

II Remuneration of the Supervisory Board

The remuneration of the Supervisory Board members should appropriately take into account the larger amount of time required of the Chairperson and the Deputy Chairperson of the Supervisory Board and the Chairperson and committee members

The larger amount of time required of the Chairperson of the Supervisory Board was appropriately taken into account for the remuneration. The larger amount of time required does not apply to the Deputy Chairperson of the init Supervisory Board. No committees were formed due to the size of the Supervisory Board.

STATEMENT ON CORPORATE GOVERNANCE

Managing 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.

The Managing Board of init currently has four members who together bear responsibility for corporate management. As the central task of corporate management, it develops the strategic orientation of the company, ensures that the risks of business activities are handled responsibly by means of a suitable internal control and risk management system and ensures that legal requirements and internal guidelines are observed within the company (compliance). It also decides on the appointment of management positions and sets targets for the percentage of women in the two management levels below the Managing Board. Diversity aspects are taken into account in the selection process, but the focus is on the professional and personal qualifications of the individual persons.

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

Supervisory Board

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

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

In addition, the Supervisory Board is responsible for appointing members of the Management Board, determining their number in accordance with legal and statutory requirements and setting the target figure for the proportion of women on the Management Board.

Together with the Managing Board, the Supervisory Board ensures that there is long-term succession planning. When assessing the candidates for a Managing Board position, their technical qualification for the area of special responsibility they are going to manage, proven leadership skills, prior performance as well as knowledge of the market and the company from the Supervisory Board's perspective constitute the basic eligibility criteria. As part of the assessment, the Supervisory Board also takes into account the personality that would complement the panel of the Managing Board in the best possible way (diversity). Diversity as an eligibility criteria for the Supervisory Board particularly means diverse complementary profiles, professional and personal experience, also international experience, as well as an appropriate gender representation. As part of its decision the Supervisory Board also considers the following aspects:

- The members of the Managing Board should have many years of management experience and should have experience in a broad range of professions as far as possible
- At least one member of the Managing Board should have international management experience
- At least one member of the Managing Board should have a technical education
- At least one member of the Managing Board should have an education in business studies
- The Managing Board in its entirety should have many years of experience in the areas of development, production, sales, finance and personnel management
- The Supervisory Board has set a target for the percentage of women in the Managing Board This is explained in one of the sections below

According to the Supervisory Board's assessment, the composition of the Managing Board as of 31 December 2020 corresponds to the specified diversity policy. The diverse professional, educational and personal experience of the Managing Board members complement each other.

The Managing Board should have a diverse age structure. No specific targets regarding the age of individual or all members of the Managing Board were stipulated, as this would restrict the Supervisory Board in selecting suitable Managing Board members. init operates in a market that requires flexibility, special expertise and many years of experience.

At init, the Supervisory Board is solely composed of shareholder representatives and, in accordance with the articles of incorporation, of four persons. These are appointed for three years. The Supervisory Board endeavours in its entirety to provide a competence profile that ensures that the Managing Board of init is supervised competently and given informed advice. Each member of the Supervisory Board also ensures that he or she has sufficient time to perform his or her duties. With the exception of one member of the Supervisory Board, other members of the Supervisory Board do not have any business or personal relationship to the Managing Board of init SE or a controlling shareholder. Therefore, the Supervisory Board of init can be considered to be independent.

The persons intended to be elected to the Supervisory Board should provide assurance, based on their professional expertise, skills and experience, their integrity, their ethical conduct, independence and personality that they can responsibly carry out the duties of a supervisory board member in a leading international technology firm for the mobility sector. init's Supervisory Board is convinced that a strict general restriction on membership on the Supervisory Board which does not consider the respective Supervisory Board member individually, is not an appropriate method to further improve and professionalise the work of the Supervisory Board. The company's interests in searching for suitable candidates is better served by a flexible composition of the Supervisory Board with different terms of office and experience and practical consideration of a diverse age structure. Finally, the company has been published the terms of office of each Supervisory Board member for some time, thus enabling the shareholders to decide for themselves about the individual suitability of the reelection of a member of the Supervisory Board.

When appointing members to the Supervisory Board, potential conflicts of interest, the number of members of the Supervisory Board and diversity are likewise adequately taken into consideration. In the election proposals to the Annual General Meeting, the personal and business relationships of every candidate with the company, the governing bodies of the company and any shareholders with a material interest in the company are disclosed. A detailed CV is enclosed with every candidate proposal. Because of the size of both the company and of the Supervisory Board of init, no Supervisory Board committees have hitherto been established. However, the Supervisory Board has developed a competence profile for the body as a whole, which is also taken into account for proposals to the Annual General Meeting and has been published on the website of the company.

The Supervisory Board has laid down rules of procedure, which are also available on the website of the company, and convenes 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 Chairperson. The Chairperson of the Supervisory Board draws up a written record of resolutions passed outside meetings.

The Supervisory Board members participate in training measures on their own initiative and with init's support. Besides, it regularly conducts a board evaluation in the form of self-evaluation using a detailed guide. The focus is particularly on organisation, provision of information, personnel matters and how the members of the Supervisory Board perceived their role.

Details about the activities of the Supervisory Board and their independence as well as their CVs are provided in the "Report of the Supervisory Board" section of this Annual Report.

Cooperation within the Supervisory Board and with the Managing Board

The Supervisory Board and Managing Board of init work closely together for the benefit of the company. They neither pursue personal interests in their decisions nor exploit for themselves business opportunities to which the company is entitled. The Managing Board members are subject to comprehensive non-competition arrangements.

The dual board system is a basic principle of German company law, the European legal provisions and the statutes. It assigns executive management to the Managing Board and supervision to the Supervisory Board. Both boards are obliged to ensure the continued existence of the company and sustained value creation by the company in accordance with the principles of a social market economy. These principles demand legality as well as ethically based and responsible conduct.

The Managing Board regularly provides the Supervisory Board with timely and comprehensive information on all relevant issues of corporate governance, in particular the strategy, planning, business performance, the risk situation, the risk management and compliance.

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

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

Annual General Meeting and rights of shareholders

At the Annual General Meeting, shareholders exercise their rights, in particular their right to information, and use their voting rights. The Annual General Meeting decides on all matters assigned to it by law, particularly the appropriation of profits, the discharge of the Managing Board and the Supervisory Board, the election of members of the Supervisory Board and the auditor. It also decides in its advisory nature on the approval of the remuneration system for the Managing Board presented by the Supervisory Board, on the specific remuneration of the Supervisory Board and by way of a recommendation on the approval of the remuneration report for the preceding financial year.

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. However, there are indications that the next Annual General Meeting will also be a virtual meeting of shareholders with restricted attendance rights. Shareholders can exercise their voting rights at the Annual General Meeting either in person, through a duly authorised representative, or by a proxy of init, subject to instructions. Each share carries one vote. To enable shareholders to prepare for the Annual General Meeting, the invitation, agenda and other information about the Annual General Meeting are available on the company's website. The voting results are also published on the website directly after the Annual General Meeting. The invitation to the Annual General Meeting will be sent to the shareholders in Germany and other countries electronically via their custodian banks.

The Annual General Meeting of init is generally held within the first six months of the financial year. The Chairperson of the Supervisory Board chairs the Annual General Meeting and determines the order of the agenda items and the type and form of voting. The Chairperson is empowered to place appropriate restriction on the right to ask questions and to speak for the entire Annual General Meeting, for individual agenda items and/or for individual speakers.

Transparency as a basic principle of communication

Consistent, comprehensive and timely information is a fundamental principle at init. For that reason, shareholders, investors, analysts, journalists and interested members of the public are informed transparently and without delay about the performance of the company in the respective financial year by means of press releases, capital market information, annual reports, half-year financial reports and quarterly statements in German and English.

The annual and consolidated financial statements are disclosed within 90 days of the end of the financial year, the mandatory interim financial information is made publicly accessible within 45 days of the end of the reporting period.

The Supervisory Board and the Managing Board report on corporate governance in the statement on corporate governance. The statements of the past five years are also accessible on the website.

At the time these documents are published, all the information also becomes available on the company's website and can be accessed there at any time. Furthermore, the Investor Relations team maintains a regular dialogue with capital market participants. In addition, shareholders and the public can find information about the organisational structure of init and about the members of the Managing Board and Supervisory Board on the website. The website includes a financial calendar covering all key dates.

Compliance and Ethical Guidelines

The Managing Board is obliged to ensure compliance with legal provisions and internal guidelines and to work towards ensuring compliance therewith by group companies. In addition to compliance with laws set down by legislators, it is important above all to anchor ethically and morally sound behaviour in the company's corporate culture.

As a result, compliance is an essential component of init's corporate values. With the rules of conduct that apply across the group, init wants to protect employees and companies as well as clients, business partners and capital market participants. The Ethical Guidelines of init 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. This is a key factor in the success of the company.

In the Ethical Guidelines applicable to init, there are specific rules on matters such as combating corruption and bribery, granting and accepting benefits, on the documentation of business transactions as well as on the comprehensive, truthful and compliant passing on of information to employees, shareholders, the capital market, the media and other interest groups. The Ethical Guidelines form the binding code of conduct for the entire init group and apply without exception to all employees – across teams, hierarchy levels, countries and all individual companies within our group.

The Ethical Guidelines are publicly accessible on init's website in German, English and French. Employees receive the Guidelines already at the application stage or at the latest when they join the company. All employees are informed about init's Ethical Guidelines at least once a year, through communication via the Intranet, email or in meetings. The employees of group companies confirm that they have received and acknowledged the information. Moreover, init's Managing Board maintains an active exchange with the management of all the consolidated companies.

The Ethical Guidelines were revised in the reporting year. The contents were restructured and updated as well as allocated to the topics colleagues and employees, business environment, knowledge and information, social and community context and anti-corruption. Furthermore, for each of these topics a recommended action was formulated for the employees. The revised Guidelines were explained to all employees in an employee meeting (in an online meeting due to the coronavirus pandemic) and made available to all group companies.

Once a year, the Managing Board members meet with the managing directors of the group companies. At this annual management meeting, management is again made aware of the topic "combating corruption and bribery" in particular, and the Code of Conduct, in order to establish it at the group companies and among the company's own employees.

On the Managing Board of init SE, the CFO is responsible for compliance. The respective management as well as legal departments within the group coordinate compliance topics locally. Our flat hierarchies enable quick response to compliance (alleged) cases. In addition, a risk matrix with compliance-related topics was drawn up as part of risk management in the year under review. This is reviewed and updated annually in order to evaluate new topics, identify the need for action and derive measures for compliance with any laws and regulations.

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

We require and encourage the reporting of all processes that indicate a criminal offence or a systematic breach of laws or internal rules. To this end, an online whistleblower system was created in 2018 which enables employees as well as customers, business partners and third parties to report improper conduct, either anonymously or not anonymously. The system immediately forwards every report to the Legal department or the Managing Board, where it is reviewed and processed. In addition init has developed a manual which defines the internal processes, their documentation and the systematic processing of notifications. The company's preventive and control measures also include the dual control principle, which is set out for the companies in a set of signature rules.

Accounting and auditing

The auditor supports the Supervisory Board in monitoring the management of the company, in particular in auditing the accounting and monitoring the accounting-related control and risk management systems. The auditor's report informs the capital market about the correctness of the accounting.

The annual financial statements and the combined management report of init are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared according to Section 315a HGB based on the International Financial Reporting Standards (IFRS) as adopted by the EU.

Following their preparation by the Managing Board, the annual and consolidated financial statements are audited by the auditor as well as adopted by the Supervisory Board. Within the scope of the audit, the auditor immediately advises the Chairperson of the Supervisory Board of all key issues and events significant for his tasks which may arise during the audit. Moreover, he is informed if, during the performance of the audit, any facts are identified that indicate an inaccuracy in the Declaration of Compliance with the Corporate Governance Code issued by the Managing Board and Supervisory Board. The Supervisory Board monitors the independence of the auditor and regularly assesses the quality of the audit.

On 26 June 2020, the Annual General Meeting of init passed a resolution to elect Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor and group auditor for the 2020 financial year, as proposed by the Supervisory Board. The individual auditors responsible at Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft are Mr. Werling (since the consolidated financial statements 31.12.2016) and Mr. Derosa (since the consolidated financial statements 31.12.2020). There is a regular change of auditors within the audit company after seven years.

Remuneration of the Managing Board and Supervisory Board

The Supervisory Board decides on a transparent and comprehensible system for the remuneration of the Managing Board members and on its basis determines the specific remuneration of the individual Managing Board members. In an advisory capacity, the Annual General Meeting 2021, and at least every four years thereafter, will approve the remuneration system presented by the Supervisory Board.

The contracts of init SE's Managing Board members have been concluded for three years and end as of 31 March 2022. The remuneration systems of the Managing Board will be presented for the first time for resolution to the init Annual

General Meeting on 19 May 2021. Therefore, the recommendations of the Corporate Governance Code can only be applied for new or extensions of appointment.

The members of the Supervisory Board receive remuneration that is appropriate to their tasks and the status of the company. It is stipulated by resolution of the Annual General Meeting. The larger amount of time required of the Chairperson of the Supervisory Board was appropriately taken into account for the remuneration. The Deputy Chairperson of the init Supervisory Board does not require a larger amount of time. No committees were formed due to the size of the Supervisory Board.

In an advisory capacity, the Annual General Meeting 2021, and at least every four years thereafter, will also generally approve the remuneration system for the Supervisory Board.

The Managing Board and Supervisory Board prepare an annual remuneration report in accordance with the legal requirements. This is part of the combined management report. The Annual General Meeting will pass a resolution on the approval of the remuneration report for the preceding financial year for the first time from 2022 and every four years thereafter in the form of a recommendation.

Equal participation of women and men in management positions

The proportion of women in the Managing Board and Supervisory Board of init still stands at 25 per cent.

The proportion of women in the first management level below the Managing Board still stands at 50 per cent. Due to the restructuring in the group in 2020 and 2021, the proportion of women in the second management level increased slightly to 43 per cent. The Managing Board will strive to ensure that the proportion of women does not fall below 30 per cent at the first and second management levels below the Managing Board by 30 June 2022. This target was set in order to ensure sufficient flexibility in appointing suitable persons.

For the Managing Board	For the Supervisory Board
Dr. Gottfried Greschner	Hans-Joachim Rühlig
CEO	Chairman

STABLE WINNER IN A HISTORICAL CRISIS

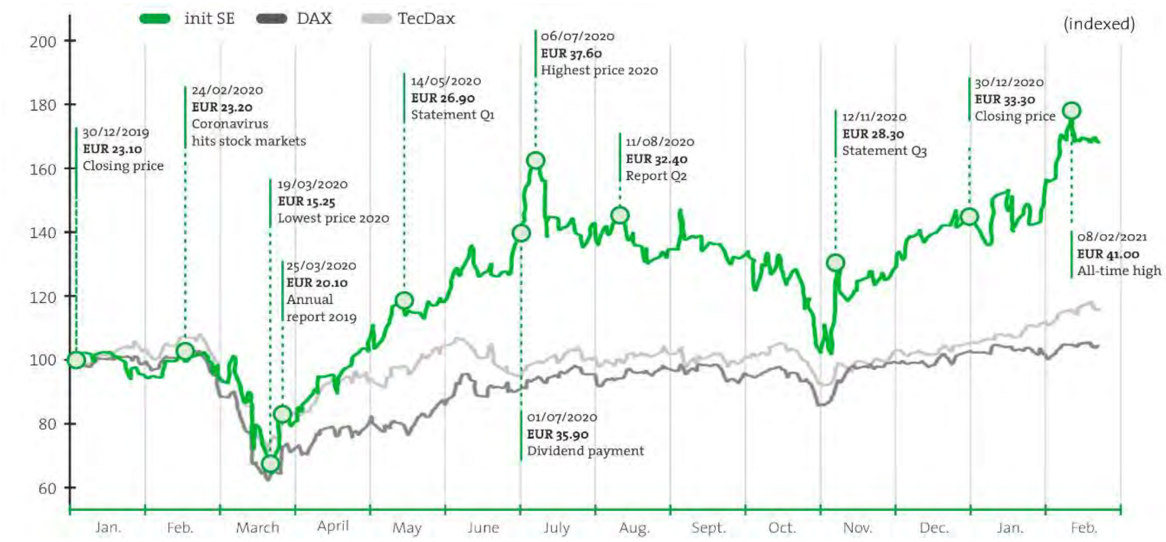
2020 will go down in history as a year of exceptional crisis. This is also true for the capital markets worldwide. Never before in history was there a year on the stock markets in which prices plummeted so fast and steeply across the board – and recovered again by the end of the year, at least in the relevant industrialised countries. Particularly the technology stocks such as init, whose business model is digitisation, benefited in these circumstances as stable winners.

The global stock markets started the year with great optimism. However, the outbreak of the coronavirus triggered substantial price losses in March. As a result of the pandemic and the lockdown measures associated with it, many indexes lost up to 40 per cent within just four weeks.

However, the expectations of a fast economic recovery grew as the number of acute infections dropped and coronavirus-related restrictions were lifted. Accommodated by worldwide expansive monetary policy this resulted in a flow of large amounts of capital on the stock exchanges. By late autumn, the relevant share indexes had recovered their losses again. Although the second lockdown triggered another setback, a cheerful sentiment was apparent by year-end and after that. The German index DAX gained almost 4 per cent for the year, the index of leading technology shares (TecDAX) gained over 7 per cent.

The init share (ISIN DE0005759807) showed a stable performance in this volatile environment. Supported by sound business figures and intact long-term growth perspectives, its price peaked several times. After a low of EUR 15.25 due to the shock caused by the coronavirus pandemic in March, the Managing Board gave a clear signal through the share buyback, which was welcomed by more investors. The init share thus gained significantly and reached an all-time high of EUR 37.60 at the beginning of July. This was followed by profit taking, with share prices around the EUR 25 mark at the end of October. The init share then was again on the buy lists and increased to EUR 33.30 at the end of the year, thus closing the turbulent year 2020 having gained over 41 per cent.

Following the first positive company reports, this upswing continued in the new 2021 financial year and the init share exceeded the EUR 40 mark for the first time. Currently, analysts see a price potential of up to EUR 49.



0,55

EUR dividend

proposal to the AGM 2021

SHARE BUYBACK PROGRAMME WELCOMED

The share buyback programme, which was approved by the Managing Board with the authorisation granted by the Annual General Meeting and implemented in a targeted manner, was received very positively. Accordingly, the company initially acquired a total of 51,613 treasury shares at a weighted average price of EUR 19.49 (excluding incidental expenses) in the period from 18 March 2020 through 12 May 2020. A further 25,140 treasury shares at a weighted average price of EUR 32.71 (excluding incidental expenses) were acquired in the period from 28 July 2020 through 18 August 2020. The acquisition took place via the stock exchange (XETRA). The total number of shares repurchased corresponds to a 0.76 per cent share of the capital stock of init innovation in traffic systems SE.

VIRTUAL ANNUAL GENERAL MEETING WELL RECEIVED

The first virtual Annual General Meeting on 26 June 2020 was also received positively. This was evident not only in the unchanged high "attendance rate" of the capital stock represented, but also in the voting results. Thus the appropriation of the retained earnings with a dividend distribution of EUR 0.40 (previous year: EUR 0.12) per dividend-bearing no-par value share was approved with a vote of 99.98 per cent.

This year's Annual General Meeting on 19 May 2021 will also take place as a virtual event. A dividend of EUR 0.55 will be proposed to the Annual General Meeting.

DIGITISATION OF INVESTOR RELATIONS

The coronavirus crisis also shaped the work of Investor Relations in the reporting period. The second Investor Day in June originally planned as an onsite event could not take place. All other investor road shows as well as capital market conferences were conducted as digital events. Participation in the Equity Forum of the German stock exchange in November was virtual as was the press and analyst conference on the 2019 financial figures at the end of March.

Capital market based figures	FY 2020	FY 2019
High (EUR)	37.60	23.80
Low (EUR)	15.25	12.15
Start price (EUR)	23.90	13.80
Closing price (EUR)	33.30	23.10
Market capitalisation (EURm)	334.3	231.9
Average daily trading volume (shares)*	9,150	8,014
Dividend per common share (EUR)	**0.55	0.40
Earnings per share (EUR)	1.50	1.13

*all German stock exchanges
**proposal to the next AGM
(source Bloomberg)

Shareholder structure as of 31 December 2020	per cent
Dr. Gottfried Greschner (directly and indirectly held, parties related to him)	42.03
Corporate bodies	4.69
Employee shares (locked up)	0.50
Treasury shares init SE	1.09
Free float	51.69

COMBINED MANAGEMENT REPORT

init innovation in traffic systems SE, Karlsruhe

Group principles	25
Economic Report	32
Forecast, Opportunities and Risks	43
Basic Features of the Remu-neration System in accordance with Section 315a (2) HGB	55
Reporting in Accordance with Section 315a (1) HGB	57
Corporate Management Declaration	59
Responsibility Statement by the Legal Representatives	59

GROUP PRINCIPLES

Group Business Model

Organisational structure of the group

The init group (hereinafter also referred to as init SE or init) is one of the few providers of integrated planning, dispatching, telematics and ticketing solutions for buses and trains. Since 1983, init has been supporting transport companies in making public transport more attractive, more productive, more punctual and more efficient.

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

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

With the help of our products, CO_2 emissions that are harmful to the climate and environmental damage are reduced and resources conserved. init's system solutions can put transport companies in a better position to meet society's growing mobility requirements and assert themselves in a competitive environment characterised by rationalisation and liberalisation.

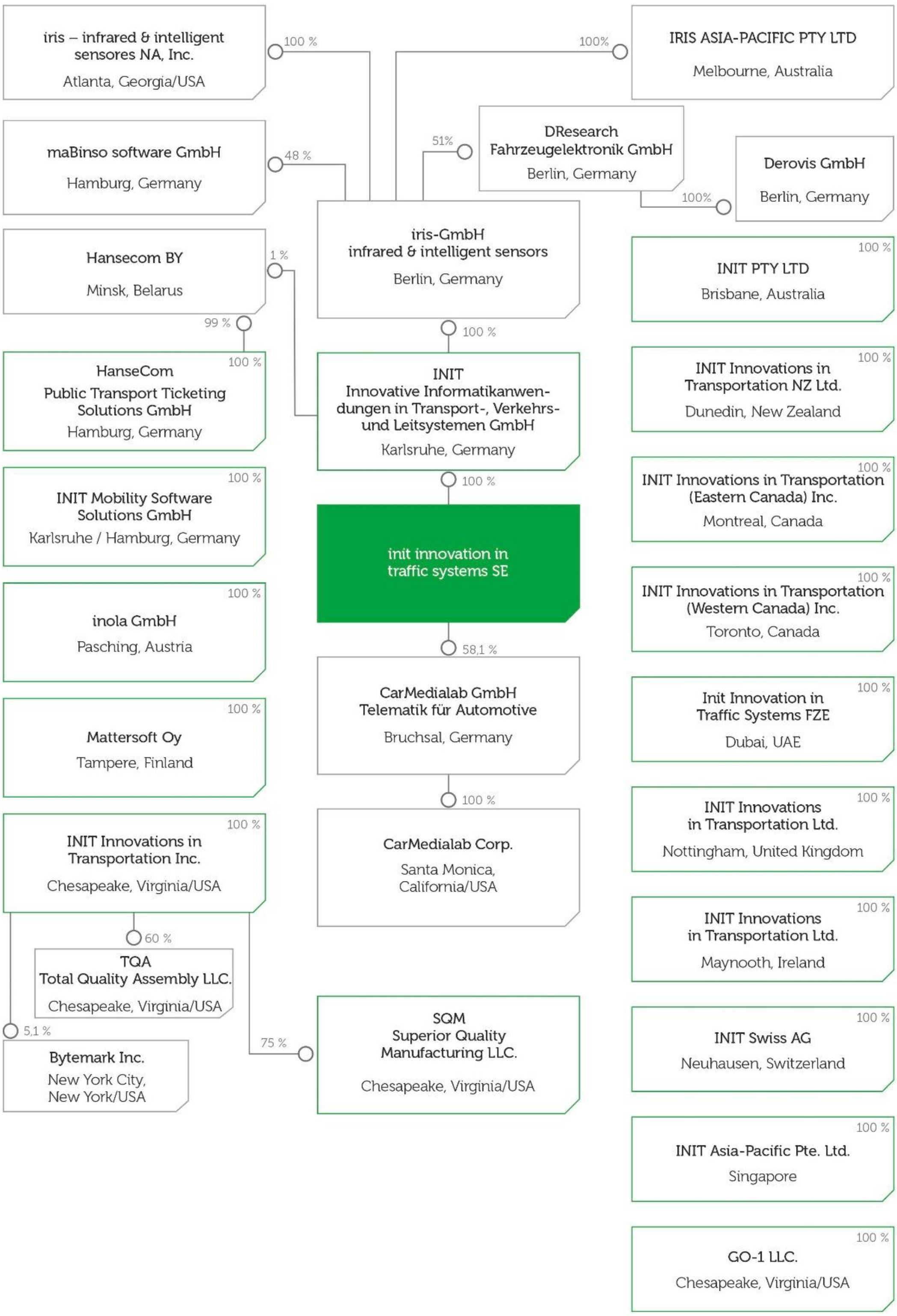
The init group has grown sustainably and continuously. Branch offices around the world guarantee customer proximity and in-depth understanding of local market requirements.

On 24 April 2020, iris-GmbH, Berlin, retroactively – as of 1 January 2020 – acquired a 51 per cent stake in the DResearch Fahrzeugelektronik Group (DVS/DFE). The acquisition of the shares will take place in 2 tranches. The first tranche of 51 per cent of the shares was acquired on 24 April 2020. As of this date, control has been transferred to the group and DVS/DFE has been fully consolidated. The second tranche of the remaining shares amounting to 49 per cent will be acquired by init with effect from 1 January 2022. As a result of the purchase of the remaining shares, init has determined that no non-controlling shares are to be recognized in the consolidated financial statements as of 31 December 2020 for the second tranche, as economic ownership of this was already transferred to init upon acquisition of the first tranche. The DResearch Fahrzeugelektronik Group, consisting of DResearch Fahrzeugelektronik GmbH, Berlin (DFE) as the development and production entity, and Derovis GmbH (DVS), as the marketing and sales entity for electronic on-board vehicle systems, is active in the growth market of video recording and transmission systems for public transport. In this field, DFE and DVS – both of which, like iris-GmbH, are based in Berlin – already occupy a leading position. Additional information is provided in Note 3 of the consolidated financial statements.

In July 2020, init acquired the remaining 25.5 per cent of the shares in iris-GmbH, Berlin, thus increasing its stake to 100 per cent.

Retroactively as of 1 January 2021, initplan GmbH (Karlsruhe) and initperdis GmbH (Hamburg), both wholly owned subsidiaries of the init group, were merged. When the merger becomes effective, the company name will be changed to INIT Mobility Software Solutions GmbH. This will allow a better utilisation of development and sales resources, so that the requirements of transport companies can be addressed faster. The entry in the commercial register had not been made prior to preparation of the Annual Report 2020.

The init group management report was combined with the management report of init innovation in traffic systems SE, Karlsruhe (“init SE”) pursuant to Section 315 (5) of the German Commercial Code (HGB) in conjunction with Section 298 (2) HGB. The management report is therefore hereinafter referred to as the combined management report. The annual financial statements of init SE, which are prepared in line with the provisions of the HGB, and the combined management report are published simultaneously with the consolidated financial statements in the online edition of the German Federal Gazette (Bundesanzeiger).


iris – infrared & intelligent sensores NA, Inc.
Atlanta, Georgia/USA
100 %
IRIS ASIA-PACIFIC PTY LTD
Melbourne, Australia
100%
maBinso software GmbH
Hamburg, Germany
48 %
DResearch Fahrzeugelektronik GmbH
Berlin, Germany
51%
Derovis GmbH
Berlin, Germany
100%
Hansecom BY
Minsk, Belarus
1 %
99 %
iris-GmbH infrared & intelligent sensors
Berlin, Germany
100 %
INIT PTY LTD
Brisbane, Australia
100 %
HanseCom Public Transport Ticketing Solutions GmbH
Hamburg, Germany
100 %
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH
Karlsruhe, Germany
100 %
INIT Innovations in Transportation NZ Ltd.
Dunedin, New Zealand
100 %
INIT Mobility Software Solutions GmbH
Karlsruhe / Hamburg, Germany
100 %
init innovation in traffic systems SE
INIT Innovations in Transportation (Eastern Canada) Inc.
Montreal, Canada
100 %
inola GmbH
Pasching, Austria
100 %
INIT Innovations in Transportation (Western Canada) Inc.
Toronto, Canada
100 %
58,1 %
CarMedialab GmbH Telematik für Automotive
Bruchsal, Germany
Mattersoft Oy
Tampere, Finland
100 %
Init Innovation in Traffic Systems FZE
Dubai, UAE
100 %
100 %
CarMedialab Corp.
Santa Monica, California/USA
INIT Innovations in Transportation Inc.
Chesapeake, Virginia/USA
100 %
INIT Innovations in Transportation Ltd.
Nottingham, United Kingdom
100 %
60 %
TQA Total Quality Assembly LLC.
Chesapeake, Virginia/USA
INIT Innovations in Transportation Ltd.
Maynooth, Ireland
100 %
5,1 %
Bytemark Inc.
New York City, New York/USA
75 %
SQM Superior Quality Manufacturing LLC.
Chesapeake, Virginia/USA
INIT Swiss AG
Neuhausen, Switzerland
100 %
INIT Asia-Pacific Pte. Ltd.
Singapore
100 %
GO-1 LLC.
Chesapeake, Virginia/USA
100 %

Business processes

The value-added chain in the init group essentially includes the development, production management, quality assurance, implementation, servicing as well as maintenance and operation of integrated hardware and software solutions for all key tasks within transportation companies. Hardware manufacturing is mainly outsourced to qualified producers who work closely as subcontractors with our init engineers. The quality we require is assured by having our own staff assist in each stage of the production process, from prototyping to the test series right through to serial production.

Among other things in order to meet the "Buy America"–requirements in the US business, init also runs two production operations in the US. The company Superior Quality Manufacturing LLC., Chesapeake, Virginia, USA (SQM) produces various devices from the init product range. With Total Quality Assembly LLC., Chesapeake, Virginia/US (TQA), init has built up a cable production operation in partnership with a supplier.

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

init takes care when selecting producers or service providers to ensure that no dependencies arise in the case of high-quality standards. This generally allows init to switch suppliers quickly should a business partner be unavailable. This was successfully demonstrated during the coronavirus pandemic. Despite supply constraints at some producers, init was thus able to maintain its ability to supply to customers at all times.

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 700 domestic and international transportation companies during a corporate history that spans more than 37 years. On top of this project system business, many other customers are added through the supplier business. 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 in Germany with a total of 755 employees are located at the Karlsruhe, Berlin and Hamburg sites, where software and hardware are developed and new technologies implemented. The group's strategy is defined at the Karlsruhe location. The biggest group companies outside Germany are in North America, with a total of 138 employees, in Dubai (United Arab Emirates) with 18 employees and in the UK with 11 employees.

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

init has thus assumed a leading position in the market for planning, dispatching, telematics and ticketing solutions in public transport. init systems currently manage fleets comprising more than one hundred thousand vehicles around the world.

External influencing factors

User-friendly ticketing systems, reliable passenger information and fast transport links help transport companies to enhance the attractiveness and efficiency of their passenger services. Especially during pandemics, hygiene and distancing concepts are indispensable for higher acceptance and use of public transport. Environmental issues such as the reduction of CO_2 and particulate matter emissions remain relevant for public transport.

Population growth, increasing urbanisation and the volume of individual traffic are leading to growing public transport passenger numbers. In Germany, the Federal Administrative Court declared bans on certain diesel vehicles to be legitimate. Further investments will be made in the expansion of public transport based on the resolutions of the climate protection programme. Starting from 2021 these investments will be raised to one billion euros and a further increase to two billion euros is planned for 2025. From 2026 onwards, this amount will increase by 1.8 per cent annually. The German Federal Government wants to make public transport more attractive and increase the number of public transport passengers further. In order to cope with the soaring demand for mobility and simultaneously avoid pollution, billions must be invested in intelligent traffic systems. Another current trend is hardware substitution and software modernisation of ageing telematics systems.

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

Corporate control, objectives and strategy

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

The corporate **control** of the init group is managed via annual planning of revenues and earnings before interest and taxes (EBIT), which are reviewed on a regular basis using variance analyses. Revenues and EBIT are thus considered to be the key performance indicators in accordance with the German Accounting Standard No. 20 (GAS 20). The insights revealed by these analyses are then used to prepare updated forecasts and develop corrective measures if necessary. Due to strong end-of-period fluctuations and increasing general economic forecast uncertainty, incoming orders are no longer considered to be a performance indicator of relevance for control purposes. Accordingly, a short-term forecast for incoming orders has not been made for financial year 2021.

The overarching **objective** of the corporate policy is sustainable, profitable growth while simultaneously ensuring solvency at all times.

Financial objectives

The init group's strategic objective is to continue increasing its revenues significantly with integrated systems, innovations and fields of application over the next few years. In financial year 2020, revenues were increased by 15.5 per cent to EUR 180.7m. This is in line with the long-term annual average growth rates that we strive to achieve.

Profitability of the init group is also a significant objective which we measure on the basis of the EBIT margin. The EBIT margin is the ratio of EBIT to revenues. In financial year 2020, the EBIT margin increased to 10.9 per cent (previous year: 10.4 per cent). This corresponds to our target of a minimum margin of 10 per cent.

In the current year, this was already supported by the implementation of a new ERP system which was installed with the objective of creating highest-possible internal transparency, thus contributing towards improving the internal processes and significantly increasing efficiency. To achieve this, we performed a process analysis involving all our business units in order to identify the potential to increase our performance and the future growth of the init group.

Non-financial objectives

Customer satisfaction

In addition to financial performance indicators, customer satisfaction is one of the important non-financial performance indicators for init. We achieve this through trust-based collaboration with our business partners coupled with strict compliance with our quality principles: the technological edge, cost-effectiveness and reliability of our products and systems. More than 37 years of experience have given us a deep understanding of our customers' requirements, enabling us to successfully implement our personalised customer solutions. We also set great store by delivery reliability from the customer's perspective and a commitment to service. We have set down the principles of our daily business dealings in our ethical guidelines. A customer survey is carried out annually to check that the objective of customer satisfaction is being met. Customer satisfaction as an indicator is not relevant for the corporate control of the init group.

Employee qualification and know-how

Our employees are the key to our success. This has also been demonstrated successfully during the coronavirus pandemic. Highly-qualified employees with great commitment are the key to business success. For this reason, it is part of init's corporate philosophy to ensure that every individual receives training, continuing professional development and a share in the company's success. Numerous measures were offered for company-specific qualification, for example staff training at external service providers, in-house training, webinars, podcasts, digital learning as well as visiting trade fairs and conventions. The vast majority of these training activities were carried out virtually due to developments in 2020. More than 5,500 training hours were completed in internal and external training measures in 2020.

Some 75 per cent of init's permanent employees have a university degree, particularly in the fields of information technology, electrotechnology, HF technology, physics, mathematics, industrial engineering, information technology, applied computer science, international business and business studies. init maintains very close contact with Karlsruhe Institute of Technology (KIT) and universities of applied sciences in the Karlsruhe area in order to keep track of the latest technological developments and to identify technical changes early on. In connection with this, we provide students with practical work in part-time positions and supervise theses, at bachelors and masters degree levels, for example.

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

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

Group non-financial statement

Implementation of Directive 2014/95/EU of the EU (Reporting obligation for non-financial information) in German law requires capital market-oriented companies in Germany to publish annual reports related to environmental protection, social responsibility and treatment of employees, respect for human rights as well as combating corruption and bribery from financial year 2017 onwards. For financial year 2020, init has submitted a group non-financial statement in accordance with Sections 289b, 289c, 315b, 315c HGB, which will be published simultaneously with the annual report in a separate group non-financial report on init's website at: https://www.initse.com/ende/investors/financial-reports.

Research and Development

The research and development department is an important element of the init group to further improve our competitiveness. On the one hand, technical innovations and developments on the market have to be observed in order to turn these into our own innovative products at an early stage. On the other hand, the challenge lies in bringing technical innovations onto the market at the right time. The high level of training of our employees in research and development combined with collaboration with universities and research institutes ensures that we can react quickly to new technological developments.

In financial year 2020 some 500 init hardware and software developers at the Karlsruhe, Braunschweig, Bruchsal, Berlin, Hamburg, Maynooth, Pasching, Tampere and Seattle sites were working on new products and product concepts as well as on further developing existing products. In addition, numerous new customised software developments and interfaces were realised.

In 2020, the init group spent a total of EUR 11.0m (previous year: EUR 10.4m) on the basic development of new products and the enhancement of existing ones independent from customers. This is equivalent to 6.1 per cent of revenues (previous year: 6.7 per cent). Customer-funded new and further developments were also accomplished as part of projects, which add up to around three times that amount. As in the previous year, no development costs were capitalised.

EUR 11.0 m

was spent on the basic development of new products in 2020.

In order to be able to provide answers and solutions to the future requirements of customers at an early stage, init continues to participate with its own research team in research and funded projects with a wide range of focal points.

The iQMobility project was thus successfully concluded at the end of June 2020. init partnered with Scania AB (publ), Sweden, to develop standardised interfaces which will allow the integration of autonomous controlled vehicles into the existing public transport in the future. By being part of this project which started back in 2017, init was able to acquire experience with autonomous vehicles very early on.

The German-French research project called U-THREAT was also started in 2017 and was brought to a successful conclusion in October 2020. The work package managed by init resulted in innovative algorithms which can generate automatic suggestions for rail replacement services and diversions. These new programme modules will in future add more functions and automation to init's planning and control systems.

The regiomove flagship project aims to drive forward mobility in the entire Karlsruhe Technology region by integrating as many mobility services as possible in the spirit of Mobility-as-a-Service (MaaS) into a central booking and payment platform. With the launch of the app that goes with the project in November 2020, the research project that started in 2017 successfully transitioned from research to operation.

In the period from June to October 2020, init participated in the SDIKA project to develop a concept and raise acceptance for a secure digital identity for various citizen services. The focus here is on digital sovereignty and interoperability so that people and organisations can choose from various options to control their own data. SDIKA forms the foundation for further planned research activities in the area of ID solutions.

In autumn 2020 init officially joined the SPEAKER research project as associate partner. In a consortium with reputed partners from all business areas, a German-made B2B voice assistant platform will emerge from this project. init will test and demonstrate the SPEAKER platform's suitability for industry-specific cases in public transport.

Furthermore, the use of palm vein patterns as an identification feature for various applications is being driven forward within the init group. In the past year, the focus was on reliability and speed of identification.

Following the grant of the patent in the US in 2019, development work on MOBILEguide was started in 2020. MOBILEguide informs both the passengers and the traffic operators about occupancy rates. This enables safer and more comfortable travel as well as reduces the time for boarding and alighting. Transport operators can save millions through this and make optimum use of the existing rail infrastructure. It is, however, not limited to rail systems. The information about the occupancy rate of individual trips and route sections can help achieve more uniform utilisation in buses as well. This can also help in ensuring optimum hygiene and distancing regulations in public transport.

ECONOMIC REPORT

General economic and sector-specific conditions

2020 will go down in history as a year of exceptional crisis. Besides health risks and social upheaval, the coronavirus pandemic triggered the worst economic collapse for almost 100 years. For the first time in history, all world regions were hit by a recession at the same time.

However, once the containment strategy and particularly the expansive fiscal and monetary support measures started to take effect, the economy rebounded surprisingly strongly again in the second half of the year. Though around the end of the reporting period this was again thwarted by the second wave of infections and the associated extension of the lockdown.

In the latest assessment of the World Economic Outlook (WEO) from January 2021, which analyses the most important economic developments and trends worldwide, the International Monetary Fund (IMF) comes to the conclusion that overall global growth contraction in 2020 was 3.5 per cent, that is 0.9 percentage points better than the IMP had itself still been projecting in the autumn.

Depending on the spread of the coronavirus and the level of restriction imposed to contain the virus result in a varied picture across countries. For advanced economies, the IMF estimates a contraction in economic output of 4.9 per cent. The spread ranges from a contraction of 3.4 per cent in the US to -11.1 per cent in Spain. The IMF still expects the euro area to collapse by 7.2 per cent, although before the third quarter of 2020 it had projected a double-digit contraction. For Canada and the UK, two other key markets for init products, the economic experts calculated negative growth of -5.5 to -10 per cent. For Germany, the IMF estimates a decline of 5.4 per cent in 2020, although the GDP here increased by 8.5 per cent in the third quarter alone, after collapsing 9.8 per cent in the previous quarter.

According to the IMF, the only country among the relevant economic areas with a positive growth rate was China with growth of 2.3 per cent in 2020, despite losing momentum (previous year: growth of +6.0 per cent). With an economic contraction of 1.1 and 3.2 per cent, emerging and developing countries in Asia and the Middle East have so far got off lightly in the global economic crisis.

Just like in Germany after the containment of the first wave of infections, an upswing started almost everywhere: the euro area, Australia, India, Japan. South Korea, New Zealand, Turkey and the US recorded high, often double-digit growth rates. The economic experts took this occasion to revise their forecasts upwards for the 'recovery year' 2021.

According to the IMF, the global economy is projected to grow by 5.5 per cent in 2021 and again by 4.2 per cent in 2022. The economic output in the advanced economies is also projected to register stronger growth, by 4.3 and 3.1 per cent. Particularly in the USA, where the new government has announced a new support package, growth rates are even projected to hit 5.1 and 2.5 per cent. Growth in the euro area is projected at 4.2 per cent in 2021 and 3.6 per cent in 2022. The recovery in the UK is expected to be stronger at 4.5 and 5.0 per cent. Growth rates of 3.6 and 4.1 are projected for Canada.

The forecast is even more positive for the emerging markets and developing economies in Asia, and for China in particular. Here the projected growth rates stand at 5.2 to 8.1 per cent in 2021 and 6.0 and 5.6 per cent in 2022.

For Germany, the IMF is projecting growth of 3.5 per cent in 2021 and 3.1 per cent in 2022, although other economic experts are more pessimistic.

The experts are unanimous in their opinion that all countries, especially Europe and the US, should continue with their support programmes for the economy until the situation normalises. The central banks should also continue with their expansive monetary policy of low interest rates to maintain the momentum in economic recovery. There is also an urgent need for closer global cooperation with trade facilitation measures. The change in the government in the US offers new opportunities in this context.

All experts assume that vaccination programmes will be able to stop further waves of infection and avoid further lockdowns. However, currently it cannot be reliably estimated when the 'herd immunity' will be reached and to what extent new mutant viruses will lead to setbacks. The IMF and other economic experts thus concede that their forecasts have never before been subject to this level of uncertainly.

Should there be new waves of infection accompanied by further lockdowns, it may substantially affect the global economic development and make it necessary to revise all forecasts.

Sector-specific developments

In 2020, the coronavirus pandemic posed unprecedented challenges to the operators of public transport. Entirely new priorities arose from the outbreak of the coronavirus pandemic for public transport operators who had just been focusing on the expansion and modification of their systems to emobility or plans to upgrade their transport networks. In view of the hygiene measures required for the containment of the pandemic, additional resources had to be utilised, while at the same time the number of passengers declined significantly.

Before the pandemic, demand in public transport increased by 4 to 6 per cent year on year. Then came the restrictions and the number of passengers plummeted by up to 80 per cent. The end of the first lockdown was followed by an increase in demand from May to September to around 80 per cent of the pre-pandemic level. According to the annual assessment of the VDV ["Verband Deutscher Verkehrunternehmen: Association of German Transport Companies"], the number of passenger across Germany decreased by an average of 30 to 40 per cent following the second lockdown.

Nevertheless, a comprehensive transport service had to be maintained to support the economic areas relevant for the basic infrastructure – at a similar cost. Declining revenues from passenger fares and a lower, inefficient vehicle occupancy meant losses running into millions for the transport companies.

However, the governments in all advanced economies are aware of the importance of the public transport systems for the functioning of economic and healthcare systems in the coronavirus crisis and have announced that they will compensate for the deficits. The rescue package approved by the Federal Government and the state governments in Germany thus has until now preserved the operators of public transport from permanent economic damage. Up to EUR 5b has been made available so far. The new government in the US has even established a COVID emergency fund to the tune of US dollar 30b for public transport.

Nevertheless, the transport companies must look for new solutions to limit the economic damage, regain passengers and ensure the health and safety of their employees and passengers equally. Therefore, the crisis does not only entail risks, but it also offers the opportunity to drive forward the green transformation of the transport sector that had been initiated prior to the crisis, and implement new technologies.

Thus the transport operators now have a higher willingness born out of necessity to accelerate digitalisation. New solutions are also required to maintain the hygiene and distancing regulations in public transport. To avoid overcrowding in buses and trams, transport companies must manage the occupancy rates in their vehicles actively and in real time. This requires an integrated solution such as the Intermodal Transport Control System MOBILE-ITCS offered by init. The occupancy rates of vehicles are calculated by an onboard computer using passenger count sensors and transmitted to the control centre after every stop. Thus dispatchers can see the utilisation of a bus or tram in real time. They can then respond immediately, for example when a vehicle exceeds the desired occupancy rate, by blocking the vehicle for further boarding or deploying another vehicle.

The information about occupancy rates can also be made available to downstream systems for passenger information: for example via smartphone apps or displays on the platform. Based on this information, the passengers can decide themselves which bus or tram they want to take.

Transport companies also benefit in the medium term from the information about occupancy rates. The exact knowledge of utilisation helps in balancing supply and demand and adapting intervals accordingly. This need-based control of buses helps in an efficient use of routes even when the number of passengers is decreasing. init solutions for contactless payments directly increase the safety of passengers and drivers.

These quick possibilities to respond to the challenges of the coronavirus crisis are increasingly shaping the investment policy of transport companies. However, the basic growth factors for our industry are still intact.

2021, the European Year of Rail, is designed to mark the beginning of the green transformation of the transport sector and, independent of the requirements of the coronavirus pandemic, provide new momentum for modernisation, digitalisation and expansion of transport systems. With its Sustainable and Smart Mobility Strategy presented in December 2020, a paradigm shift was initiated in the EU. Investments should be used such that they support in realising both objectives – limiting the climate change and containment of the coronavirus pandemic – and strengthen public transport in the process.

As it is difficult and takes a long time to build a network, the efficient use of existing systems and multimodal connectivity of all modes of transport on one "mobility platform" are gaining more significance. How such a platform can look like is shown by the regiomove project in Karlsruhe, which in future will connect all the existing mobility offers, from rental bikes to bus and tram connections, with each other via a central portal. regiomove is a worldwide flagship project for the "Mobility as a Service" trend (MaaS).

The use of zero-emission vehicles and electric buses in public transport is now also increasingly the focus of politics and transport companies. The "Clean Vehicles Directive" defines obligatory targets for public procurement of zero and low emission vehicles in every EU country for the period until 2030. This is expected to result in higher investments for an effective infrastructure for vehicles with alternative drive systems. The EU Commission has announced that it will support the expansion of an infrastructure for alternative fuels and the use of charging and filling infrastructures for buses in order to help the public transport sector achieve the targets of the directive – 45 per cent for the procurement of low and zero emission buses in public transport by the end of 2025 and 65 per cent for the period by the end of 2030.

Electromobilty experts are keenly looking at Bergen, the second biggest city in Norway, where the second largest fleet of electric vehicles for the public transport in Northern Europe is currently being set up. This places completely new demands on operational control and requires, above all, optimised charging management. For this purpose the operator has chosen the technology of init innovation in traffic systems SE and its subsidiaries CarMedialab and Mattersoft.

Developments such as these and new technological innovations such as "autonomous driving" promote demand for platform solutions and efficient system architecture like that already offered by init – with the possibility to integrate new partners and their data smoothly and quickly.

For intermodal use of transport systems, particular significance will be attached to the simple and easy purchase of tickets by passengers (smart ticketing) and to the settlement of cash flows between the cooperating transport companies. This requires uniform, secure booking and payment with simultaneous optimisation of the related sales processes and costs. This requires an efficient background system that includes tariff management, revenue sharing, simple integration of third-party systems and various identification media (credit cards, smart cards) as well as the setting up of a multimodal mobility platform.

Smart ticketing systems are a key component of init's product range. The software of init subsidiary HanseCom is already managing the fare revenues for the largest public transport operators in the German-speaking countries, for example in Berlin, Hamburg, Munich and Vienna. The smartphone app of HanseCom Public Transport Ticketing Solutions GmbH, Hamburg, is available with the name "Handyticket für Deutschland" in the app stores. Smart ticketing registered high growth internationally as well, for example via the introduction of an account-based fare management system. Here, init has meanwhile reached a leading position, particularly in North America.

In addition to system maintenance, another offering requested by an increasing number of init customers is the assumption of the technical operation of the systems supplied. Similar promising earnings prospects for init are related to European research projects such as Aim4it, a project that is developing a public transport system that provides barrier-free accessibility for passengers with special mobility requirements.

The European Commission's new Sustainable and Smart Mobility strategy recognises more than ever the significance of public transport for daily, local mobility. Furthermore, investments in public transport have a multiplier effect on local business, which exceeds five times the original investment. This positive role played by public transport is therefore to be supported more strongly at the European level.

An improved, sustainable city and local mobility requires investment in the infrastructure, resources, digitalisation as well as in research and innovation. The International Association of Public Transport (UITP) has therefore expressly requested the European Commission to invest in the public transport sector and allocate further funds as part of the "Connecting Europe Facility". There is a lack of attractive alternatives to private cars in suburbs and rural areas. Here the EU Commission strives to improve the public transport infrastructure by supporting investments for sustainable mobility. The details still need to be worked out, however, it has already been decided that this will lead to investments in a triple-digit billion range at the European level. In Germany alone an estimated EUR 10 to 12b in annual financing is thought to be needed.

Oriented towards the European example, other industrialised countries also want to commit to similar programmes. For example, the US government has announced that it will invest a trillion dollar figure to fight climate change and will promote the expansion of the transport infrastructure in particular.

Business performance

Distribution of revenues in the init group traditionally depends on the investment behaviour of the public transport companies. They are spread unevenly over the financial year, with the first quarter as a rule being the weakest and the fourth quarter being the strongest in terms of revenues.

Revenues of EUR 40.3m (Q1 2019: EUR 35.3m) were generated in the first quarter of 2020. Revenues were thus around 14 per cent above the previous-year figure and were in line with our expectations.

The positive business development continued into the second quarter of 2020. The group generated overall revenues of EUR 41.1m (Q2 2019: EUR 41.7m). Revenues for the first six months increased to EUR 81.4m and were around 6 per cent above the previous-year figure of EUR 77.1m, of which an amount of EUR 3.0m was attributable to the DResearch Fahrzeugelektronik Group (DVS/DFE).

Revenues of EUR 49.6m (Q3 2019: EUR 35.8m) were generated in the third quarter of 2020. Thus revenues in the first nine months of 2020 stood at EUR 130.9m and around 16 per cent above the previous-year figure (Q3 2019: EUR 112.8m); of which EUR 7.2m was attributable to the DResearch Fahrzeugelektronik Group (DVS/DFE).

In the fourth quarter of 2020, the init group generated revenues of EUR 49.7m (Q4 2019: EUR 43.7m). Thus making it the strongest quarter in the current financial year, of which EUR 3.4m was attributable to the DResearch Fahrzeugelektronik Group (DVS/DFE).

Net assets, financial position and results of operations

Results of operations

For the year as a whole, the init group reported a new **revenue record** at EUR 180.7m (previous year:

EUR 156.5m) and thus achieved the budget target of EUR 180m. This translates into growth of EUR 24.2m or 15.5 per cent compared to the previous year, thus exceeding the long-term average. EUR 10.6m of the growth in revenues is attributable to the new acquisition of the DResearch Fahrzeugelektronik Group (DVS/DFE). Accordingly, 6.8 per cent of the growth in revenues in 2020 was generated by the DResearch Fahrzeugelektronik Group (DVS/DFE).

At EUR 19.6m, earnings before interest and taxes (**EBIT**) is in line with our expectations for financial year 2020 (previous year: EUR 16.2m). init was able to achieve its targets for the reporting year despite the coronavirus pandemic. The share of the DResearch Fahrzeugelektronik Group (DVS/DFE) in group EBIT amounts to EUR 1.7m.

The EBIT margin in the group in financial year 2020 increased further to 10.9 per cent (previous year: 10.4 per cent). Excluding the new acquisition DResearch Fahrzeugelektronik Group (DVS/DFE), the EBIT margin in the group for financial year 2020 would have been 10.5 per cent, which would still have been slightly above the previous-year figure.

A share of 73.8 per cent of total revenue was generated outside Germany (previous year: 71.6 per cent). North America remains the strongest market, where revenues increased significantly and amounted to EUR 75.8m (previous year: EUR 55.7m). The main contribution here was made by the projects for fare management systems in San Diego, CA Seattle, WA and Los Angeles, CA.

Revenues in Germany also increased year on year. At EUR 47.3m, revenues here are above the previous-year figure (previous year: EUR 44.4m). EUR 4.4m of the increase is attributable to the recent acquisition of the DResearch Fahrzeugelektronik Group (DVS/DFE).

A year-on-year increase was also recorded in the other countries (United Arab Emirates, Australia and New Zealand), where revenues increased to EUR 19.9m (previous year: EUR 18.5m).

At EUR 37.7m, revenues in Europe (excluding Germany) were slightly below the previous-year level (previous year: EUR 37.9m).

EUR 180.7 m

The init group achieves a new revenue record in financial year 2020.

Gross profit rose to EUR 62.2m (previous year: EUR 53.2m). The gross margin comes to 34.4 per cent and is therefore slightly above the previous-year level (previous year: 34.0 per cent). Gross profit excluding the newly acquired DResearch Fahrzeugelektronik Group (DVS/DFE) also increased to EUR 58.9m. The adjusted gross margin amounts to 34.7 per cent.

The sales and marketing expenses increased year on year to EUR 18.0m (previous year: EUR 16.7m). The major share of the increase is attributable to the new acquisition of the DResearch Fahrzeugelektronik Group (DVS/DFE) as of 1 April 2020.

The general administrative expenses increased year on year by EUR 3.5m to EUR 16.8m. This is attributable both to the newly acquired DResearch Fahrzeugelektronik Group (DVS/DFE), and also to IRIS ASIA-PACIFIC PTY LTD and Hansecom BY, further subsidiaries founded at the end of financial year 2019.

At EUR 3.3m **other operating income** is at the previous-year level (previous year: EUR 3.4m). This mainly includes rental income, public subsidies, cash received from value adjustments on receivables and benefits in kind.

The **foreign currency gains** of EUR 0.0m (previous year: EUR 0.7m) chiefly comprise unrealised gains and unrealised losses from the measurement of receivables and liabilities in foreign currencies. The net results of currency hedging transactions are in addition to this.

Net interest income (balance of interest income and interest expense) totalled EUR -0.9m (previous year: EUR -1,0m) and resulted mainly from the property financing at the locations in Karlsruhe, the share of interest on the pension provisions, the purchase for the remaining shares of iris GmbH, the purchase of the shares of DResearch Fahrzeugelektronik Group (DVS/DFE), the financing of the new ERP system and the euro loans taken out during the year.

At EUR 14.9m, the **consolidated net profit** increased by EUR 3.6m compared to the previous year (previous year: EUR 11.3m), mainly due to the increase in revenues and the sound earnings generated by the DResearch Fahrzeugelektronik Group (DVS/DFE). Earnings per share amounted to EUR 1.50 (previous year: EUR 1.13). At 20.2 per cent the tax rate is below the previous-year level (previous year: 25.6 per cent). The higher tax rate in the previous year was due to the non-deductible impairment of the shares in Bytemark Inc., USA.

Total comprehensive income increased from EUR 10.7m in 2019 to EUR 10.9m in 2020. This increase mainly stems from the positive development of the consolidated net profit in financial year 2020. This is offset by high unrealised foreign currency losses of EUR 3.6m (previous year: EUR 0.4m). Please refer to the comprehensive income statement for more information on the development.

Incoming orders

Incoming orders are not in line with our expectations for financial year 2020. The incoming orders forecast for 2020 were primarily postponed due to the coronavirus pandemic. The budget target for 2020 was EUR 180 - 190m. As also communicated in an ad hoc announcement on 30 December 2020, we had to revise our forecast for incoming orders for financial year 2020 to EUR 150-155m. The init group generated incoming orders totaling EUR 154.6m (previous year: EUR 160.2m), of which EUR 10.1m is attributable to the DResearch Fahrzeugelektronik Group (DVS/DFE). It is expected that the postponed projects can be recorded as incoming orders in the first six months of 2021.

EUR 154.6 m

Incoming orders at year-end amounted to EUR 154.6m.

28.8 per cent of orders were generated in the North American market. Of the other incoming orders, 39.0 per cent stemmed from Germany, 24.7 per cent from Europe and 7.5 per cent from other countries.

Incoming orders in North America came to approximately USD 54.7m. This comprises numerous smaller and mid-sized projects as well as additions to the account-based fare management system in San Diego, CA and Spokane, WA. Compared to the previous year, incoming orders for North America decreased in 2020; which is primarily attributable to the current coronavirus pandemic.

The decrease in North America was compensated to some extent by the increase in incoming orders particularly in Germany.

At EUR 38.2m, incoming orders in Europe were slightly above the previous-year level and were characterised by numerous smaller and mid-sized new projects.

In Germany, incoming orders increased from EUR 43.6m in 2019 to EUR 60.3m in the reporting year. The increase mainly relates to the orders of the DResearch Fahrzeugelektronik Group (DVS/DFE) of EUR 10.1m. Orders were received for a large number of smaller and medium-sized projects. The order volume lies in the single-digit million euro range.

In the other countries, incoming orders decreased year on year to EUR 11.6m (previous year: EUR 16.3m), where most of the upcoming projects were postponed due to the coronavirus pandemic.

EUR 125.8 m

Order backlog at year-end amounted to EUR 125.8m.

The order backlog at year-end amounted to EUR 125.8m (previous year: EUR 151.8m). We expect that approximately 70 per cent of revenues in 2021 will result from processing this order backlog.

Our market is still characterised by a large number of new international tenders. Our long-term customer relationships secure a stable business base for init, as they normally lead to follow-up orders and maintenance and service contracts. We recorded incoming orders of more than EUR 60m in 2020 as a result of additional deliveries, maintenance contracts and order extensions alone.

Financial position

As in the previous year, the init group's financial position in financial year 2020 can still be described as solid.

Capital structure

Liabilities to banks as of 31 December 2020 amounted to EUR 37.5m (previous year: EUR 30.1m) and mainly relate to real estate and acquisition financing, financing of the new ERP system, the purchase of the shares in the DResearch Fahrzeugelektronik Group (DVS/DFE), the purchase of the remaining shares in iris-GmbH as well as euro loans taken out to increase financial flexibility. Project delays may lead to delayed payments because the milestones are accepted by the customer at a later date. The non-current portion results from the real estate financing of Kaeppelestrasse 4, 8, 8a and 10 of EUR 1.4m (previous year: EUR 1.7m). Furthermore, there are long-term loans for acquisition financing of EUR 8.4m (previous year: EUR 1.3m), long-term investment loans of EUR 4.0m (previous year: EUR 2.0m) as well as another long-term loan of EUR 6.2m (previous year: EUR 10,0m) The loans have different dates of maturity until 2026.

Overall, non-current liabilities according to the consolidated balance sheet increased by EUR -24.6m to EUR 61.9m. Part of this relates to the long-term loans mentioned above. Provisions increased to EUR 14.2m (previous year: EUR 12.4m) and mainly relate to pensions and warranties. Non-current liabilities increased by EUR 8.1m due to the acquisition of the DResearch Fahrzeugelektronik Group (DVS/DFE). Lease liabilities increased to EUR 13.9m, mainly due to the newly rented office space of iris-GmbH and the lease contracts of DResearch Fahrzeugelektronik Group. Deferred tax liabilities increased to EUR 5.8m (previous year: EUR 2.6m).

Short-term liabilities according to the consolidated balance sheet decreased to EUR 74.1m compared to the previous year (previous year: EUR 77.6m). This change primarily comprises a decrease of EUR 1.2m to EUR 15.2m in contract liabilities from POC and a decrease of EUR 2.0m to EUR 1.0m in income tax liabilities. This was offset by a slight increase to EUR 3.2m in current lease liabilities (previous year: EUR 2.5m). Other liabilities and trade accounts payable also decreased by EUR 2.5m.

The group's static debt-equity ratio (debt capital divided by equity multiplied by 100) is 41.4 per cent (previous year: 35.2 per cent) and thus decreased further owing to the effects cited above. The dynamic debt-equity ratio (net debt capital divided by EBITDA) is 0.6 (previous year: 0.6).

Investments

The investments amounting to EUR 7.2m (previous year: EUR 5.7m) comprise replace and expand assets as well as the acquisition of the new ERP system.

Liquidity

Operating cash flow amounted to EUR 24.4m (previous year: EUR 21.1m) and was therefore significantly above the previous-year figure. This is particularly attributable to the strong consolidated net profit and the sharp reduction of receivables. The build-up of inventories had the opposite effect.

Net working capital (current assets less current liabilities) came to EUR 41.1m (previous year: EUR 37.8m). Cash flow from investing activities amounted to EUR -14.6m (previous year: EUR -5.6m) and mainly relates to the purchase of shares in DResearch Fahrzeugelektronik Group (DVS/DFE) and the acquisition of the remaining shares in iris-GmbH, Berlin. Investments were also made for the new ERP system and to replace and expand assets.

Cash flow from financing activities amounts to EUR -2.8m (previous year: EUR -10.1m) and mainly results from the utilisation of long-term loans. This is counterbalanced by the distribution of dividends and the repayment of short and long-term loans.

Cash and cash equivalents, including securities that can be sold in the short term, came to EUR 32.2m at the end of December 2020 (previous year: EUR 26.2m).

Net assets

The init group's net assets may likewise be described as solid in financial year 2020.

Total assets increased compared to the previous year and amount to EUR 226.6m as of 31 December 2020 (previous year: EUR 200.4m). The main reason being the increase in the balance sheet items due to the acquisition of the DResearch Fahrzeugelektronik Group (DVS/DFE). This mainly affected goodwill (EUR 3.5m), intangible assets relating to the customer base and licenses (EUR 10.3m), non-current liabilities (EUR 8.1m) and current liabilities (EUR 1.5m). Refer to Note 3 of the consolidated financial statements for further details. Equity at year-end increased to EUR 90.5m (previous year: EUR 85.5m). Due to the increase in total assets, the equity ratio fell to 40.0 per cent below the 42.7 per cent of the previous year.

Performance of init SE pursuant to HGB

General information

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

init SE is the management holding company of the init group and, as such, does not carry out any operating activities. It manages the operating companies of the group financially and is responsible for strategic planning and risk management. Additionally, init SE handles tasks in the areas of accounting, controlling, project management, legal and human resources of INIT GmbH, initplan GmbH, INIT Nottingham, INIT Montreal and INIT Maynooth.

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

Results of operations

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

Revenues of init SE amounted to EUR 8.5m (previous year: EUR 7.8m) and were generated largely through services provided for INIT GmbH, initplan GmbH, INIT Nottingham and INIT Montreal as well as through rental income. Earnings before taxes amounted to EUR 3.6m (previous year: EUR 2.2m) and was therefore above our projection of around EUR 1m. Earnings before taxes includes income from investments of EUR 4.3m. EUR 3.0m of this relates to the subsidiary Init Innovation in Traffic Systems FZE, EUR 0.7m to INIT Innovations in Transportation Inc., EUR 0.5m to Mattersoft Oy, and EUR 0.1m to initperdis GmbH. Moreover, it contains the profit transfer of INIT GmbH of EUR 0.6m and expenses from loss absorption of initplan GmbH of EUR 8k.

Net assets and financial position

Other financial ratios of relevance to init SE are liquidity and the equity ratio, and these are discussed in the following. As of the reporting date, cash and cash equivalents including securities totalled EUR 0.2m (previous year: EUR 0.1m). The change in liquid funds resulted chiefly from cash paid out in repayments and interest for real estate financing, distribution of dividends and the settlement of income taxes. By contrast, the profit transfers from subsidiaries had a positive effect on cash and cash equivalents. The cash and cash equivalents and existing credit lines, which can be used jointly with INIT GmbH, are sufficient to meet all existing payment obligations.

The assets mainly comprise financial assets, land and buildings, receivables from associated companies and other assets. A list of financial assets can be found in the notes.

Total assets of init SE amounted to EUR 56.1m (previous year: EUR 55.3m), while the equity ratio was 77.6 per cent and declined compared to financial year 2019 (previous year: 83.1 per cent). The decrease is attributable to the share buyback programme.

The net assets, financial position and results of operations of init SE can still be regarded as solid.

Non-financial performance indicators

The annual average number of employees of init SE was 59 (previous year: 52). Of these, 34 on average were full-time staff (previous year: 27).

In total, employees took part in 34 internal and external continuing training measures in 2020.

Opportunities and risks of future development

Please refer to the relevant section (Forecast, opportunities and risks) for the group, as the opportunities and risks of the company are closely related to those of the group due to its holding function.

Internal control and risk management system in relation to the financial reporting process

Here, reference is made to the relevant section for the group (Internal control and risk management system pertaining to the group financial reporting process).

Expected business development and outlook

For financial year 2021, we expect revenues to reach the level seen in financial year 2020.

The development of init SE largely depends on the performance of its operating subsidiaries. The largest of these, INIT GmbH, is expected to generate positive earnings in the range between EUR 0.5 and EUR 1.0m. On this basis, init SE is projecting EBIT of EUR 2m.

Closing statement to the dependent company report

Under Section 312 of the German Stock Corporation Act (AktG), the Managing Board is required to prepare a report on the company’s relationships with its affiliates (“dependent company report”), which was audited by the company’s auditors. The dependent company report prepared by the Managing Board closes with the following statement:

“We hereby declare that, according to the circumstances known to us at the time when the legal transactions and measures were undertaken, the company received a commensurate consideration in the financial year under review for all the transactions and measures listed in the report on our relationships with affiliates (“dependent company report”) and that the company suffered no adverse effects as a result of measures and acts either undertaken or omitted.”

Principles and objectives of financial management

Securing the long-term liquidity of the init group has top priority. This requires a liquidity-oriented corporate policy and a steady alignment of all corporate processes aimed at improving the liquidity and earnings. Financial risks, particularly interest risks and currency risks, are reduced by the use of derivative hedging instruments. For maintaining financial flexibility, the init group has sufficiently high lines of credit, which have only been partially used.

Employees

To strengthen continuous growth of the init group and complete ongoing customer projects on time, the workforce was again enlarged significantly in financial year 2020. An increase in the workforce will also be necessary in financial year 2021 to manage customer projects and support continuous growth. In particular, we will thus strengthen our development capacity to meet the challenges in the ticketing business, digitalisation, autonomous driving and electromobility.

Employee figures

Overall, the init group had 1,009 employees as an annual average (previous year: 866) including temporary workers, research assistants and students writing their theses. This includes 162 part-time employees (previous year: 125). One share of the increase in workforce is attributable to the acquisition of the DResearch Fahrzeugelektronik Group (DVS/DFE) with 61 employees as of 1 April 2020.

In addition, 31 employees were pursuing apprenticeships as IT specialists, IT systems electrical engineers, warehousing specialists, industrial clerks or office clerks or were studying electrical engineering, mechatronics, information technology, industrial engineering or business studies at universities of cooperative education.

Social benefits and family support

The success of init’s business essentially depends on the know-how and motivation of our employees. For this reason, the support and well-being of our employees is our top priority. Absolutely essential in this context is the work-life-balance of our employees: our contribution includes a number of modern working methods and voluntary benefits, for example, flexible working time, remote working where possible, subsidies for childcare and insurance. We also offer our employees a wide range of internal sporting and cultural activities. We also support, among other things, events and organisations, for example, DAS FEST, Baden TV, Kammertheater Karlsruhe as well as Autokino Karlsruhe, ViDia Christliche Kliniken, Hikkaduwa Verein e.V., Kinderschutzbund Karlsruhe, University of Applied Sciences, Karlsruhe (degree course traffic management), Cyber Champions Award of Cyberforum Karlsruhe, Indoor Meeting, Karlsruhe Sport Club and our neighbours, TSV Rintheim.

Ethical guidelines

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

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

Overall picture of the economic situation

Despite the coronavirus pandemic, the Managing Board regards the business performance in 2020 as very positive. At EUR 180.7m, revenues are within our projected range of between EUR 180 to EUR 190m. EBIT at EUR 19.6m is also within our projected target corridor of EUR 18 - 20m. The targeted incoming orders of EUR 180 - 190m could not be reached due to the postponements in the reporting year caused by the coronavirus pandemic. Incoming orders in the financial year at EUR 154.6m were below the previous-year figure of EUR 160.2m. The new acquisition of the DResearch Fahrzeugelektronik Group (DVS/DFE) had already been taken into account for all forecasts. The contribution to revenues of the newly acquired DResearch Fahrzeugelektronik Group (DVS/DFE) amounted to EUR 10.6m in financial year 2020, the EBIT contribution amounted to EUR 1.7m.

A good foundation has been laid for financial year 2021 with the existing order backlog of EUR 125.8m as of 31 December 2020. The init group's positive earnings performance in financial year 2020 means the company has a solid financial position to be able to finance its earnings targets in 2021.

In 2020, operating cash flow amounted to EUR 24.4m, which translates into a significant increase compared to the previous year (EUR 21.1m). Based on our order backlog, we expect the operating cash flow for financial year 2021 to be at the same level as in financial year 2020. We would like to share our success with our shareholders fairly and therefore intend to distribute dividends as in the past. The Managing Board proposes a dividend of 55 cents per share for financial year 2020. We are looking forward to financial year 2021 with optimism and confidence.

FORECAST, OPPORTUNITIES AND RISKS

The achievement of our business objectives depends on certain events, developments or the implementation of actions and strategies as planned. Assumptions must be made for these and other factors in forecasting future performance. Where factors both known and unknown have negative effects on the achievement of goals, this constitutes a risk. Positive effects give rise to opportunities.

Outlook

According to the unanimous opinion of economic experts, global economic development will return to positive territory in 2021 and the years thereafter after the historic watershed in 2020. However, this upward trend in the respective countries depends heavily on whether they will be able to contain the coronavirus pandemic and cushion the economic consequences through government measures. Should there be new waves of infection accompanied by further lockdowns, it may substantially affect the global economic development and make it necessary to revise all forecasts. Therefore, all the forecasts by economic experts and also the business forecasts by companies are subject to an unprecedented degree of uncertainty. Depending on the development of the coronavirus crisis, another recession cannot be ruled out either.

As seen in the past year, init customers, the operators of public transport, automotive manufacturers and mobility service providers are not only dependent on the general economy and the development in the number of passengers, but particularly on the support they receive from the governments and subsidies for investments. In some cases, awarding of tenders was also postponed due to the coronavirus crisis.

The Managing Board considers that the sustainable growth trends for init are still intact. Governments worldwide continue to push for the green transformation of the transport sector, generally leading to rising demand for digital solutions, for example for promoting electromobility and autonomous driving in public transport, networking of mobility services on a central platform and smart ticketing solutions.

As explained in the opportunities report, there is additional growth potential in the medium term resulting from further product innovations and new business fields. However, these must first be documented in the project tenders.

While there were hardly any tenders for comprehensive control systems in the past year, we expect the number of these tenders to increase again in future.

This trend is not yet expected to be reflected in revenues and earnings in 2021. Therefore, the Managing Board expects that independent of the economic recovery, 2021 will still be a year of transition for init due to the after-effects of the coronavirus crisis before growth regains momentum in 2022.

In our assessment, currently it is not foreseeable whether the coronavirus pandemic can actually be combated successfully and contained in 2021. Therefore – despite the sustainable growth trends – the investment propensity of public transport operators and companies cannot be predicted with the necessary certainty to derive growth impulses.

The Managing Board therefore abides by its cautious budget strategy and for the time being is forecasting a stable business performance for the current year. Initially we are therefore planning revenues and EBIT on the basis of the budget for financial year 2020 (revenues around EUR 180m; EBIT between EUR 18m and EUR 20m). However, starting from 2022, init should again return to its sustainable growth trajectory of around 15 per cent annual average growth.

In accordance with the German Accounting Standard No. 20 (GAS 20), the init group uses revenues and earnings before interest and taxes (EBIT) as the key performance indicators. Accordingly, a forecast for these operative performance indicators is made on an ongoing basis. Due to strong end-of-period fluctuations and increasing general economic forecast uncertainty, incoming orders are no longer considered to be a performance indicator of relevance for control purposes. Accordingly, a short-term forecast for incoming orders has not been made for financial year 2021.

Risk management system (RMS)

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

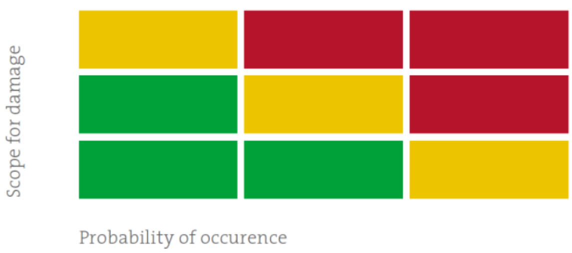
The aim of a risk management system (RMS) is not to avoid all risks but to manage identified risks. After all, to realise one's plan and take advantage of the resulting opportunities, risks must be entered into. It is a matter of weighing up these risks. We understand risk to mean any negative deviation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

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

	Probability of occurrence (%)	Scope for damage EUR m
low	0 < probability of occurrence ≤ 33	< 0.5
moderate	33 < probability of occurrence ≤ 66	0.5 to 2
high	66 < probability of occurrence ≤ 100	> 2

The results are regularly reported to the Managing Board. The frequency of reporting depends on the particular risk group.

Risk classes



Risk class (RK)

low moderate high

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

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

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

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

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

The primary objective of init SE's internal accounting-related control and risk management system is to ensure the compliance of the financial reporting, that is to make sure that the consolidated financial statements and combined management report comply with all relevant statutory rules and regulations.

The internal control and risk management system pertaining to the financial reporting process is not defined by law. We understand internal control and risk management to be a comprehensive system and follow the definitions provided by the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V.": Institute of Public Auditors in Germany] in 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 appropriateness and reliability of the internal and external financial reporting
- compliance with the legislation applicable to the company

The risk management system comprises all organisational regulations and measures established to identify and handle risks relating to the business activities of the company.

The following structures and processes have been implemented in the group with regard to the financial reporting processes of our consolidated companies:

The Managing Board has overall responsibility for the internal control and risk management system pertaining to the group financial reporting process.

The financial reporting by init SE and its subsidiaries, which itself is based on the entries made in the various entities, forms the underlying data base for the preparation of the consolidated financial statements. The parent company in Karlsruhe, the subsidiary concerned or external regional accounting companies are responsible for preparing the financial statements information of the subsidiaries. In the case of subjects requiring special expertise, we sometimes call on external providers for assistance, for example to measure pension liabilities. The consolidated financial statements are then prepared on the basis of the information reported by the subsidiaries. The consolidated financial statements are prepared with the help of certified consolidation software. In addition, the necessary steps are taken in accordance with the dual control principle.

The principles, the operational and organisational structure and the processes of the accounting-related internal control and risk management system are set out in a manual and in organisational instructions. These are reviewed and revised regularly in line with current external and internal developments.

With respect to the financial reporting processes of our consolidated companies and the group's financial reporting process, we consider features of the internal control and risk management system material which may significantly affect the group accounting and the overall view presented by the consolidated financial statements including the combined management report. These include the following elements in particular:

- Identification of key areas of risk and control relevant to the financial reporting process.
- Controls designed to monitor the financial reporting process and reporting on its results to the Managing Board in regular board meetings.
- Preventive control measures for the group's accounting and finance and in operating and performance-related corporate processes that generate material information for the preparation of the consolidated financial statements including the combined management report; this includes a separation of functions and predefined authorisation processes in relevant areas.
- Uniform accounting is primarily ensured through a group accounting manual.
- Accounting data is regularly spot checked for completeness and accuracy.
- The subsidiaries provide the parent company with monthly reports on their business development and submit monthly financial statements. Monthly reports are presented for ongoing projects as well. Major foreign companies in the group are visited once or twice a year. Particular focus is placed here on a discussion of special issues and an examination of these companies' figures and projects. Due to the coronavirus crisis in the reporting year, on-site visits were replaced with video teleconferencing.
- Measures exist to ensure proper IT-based processing of accounting-related facts and figures.

The group has further implemented a risk management system pertaining to the group financial reporting process that includes measures to identify and assess material risks as well as the corresponding risk-mitigating measures in order to ensure compliance of the consolidated financial statements.

Risks

A global technology-oriented company such as init is faced with a number of risks that could affect its net assets, financial position and results of operations.

Below, the risks are broken down into and described in risk categories that may have a considerable impact on the net assets, financial position and results of operations of the init group.

The reporting is based on individual risk assessments of the areas of business planning, procurement, human resources, sales, project management, IT, financial risks and legal and fiscal risks. The potential for as yet unknown risks or risks that are considered negligible today to also impact the net assets, financial position and results of operations cannot be fully ruled out.

Business planning risks

Risks from developing new markets (RC: moderate)

Entering into new markets entails different risks, particularly regarding economic, social, technological, ecological and legal conditions. The costs for overcoming the entry barriers and hedging risks may have a significant impact on the financial position of the company. Analysis of the potential market and market entry analyses are performed to minimise these risks, by also involving external experts.

Risks from founding new entities (RC: moderate)

For the sustained economic success of our group, the achievement of our strategic goals and the exploitation of existing market opportunities, we as a company are present in many countries with our own entities. Just like developing new markets, founding and integrating new entities entails a series of risks. To minimise these risks, we always perform a comprehensive legal and economic review. Skilled and trustworthy personnel are as important as installing a comprehensive reporting structure. Regular communication, on-site visits, reviews and group policies (e.g., dual control principle) help us to detect irregularities and implement measures for a successful integration.

Risk category	Probability of occurrence	Scope for damage
Risk from developing new markets	low	high
Risks from founding new entities	low	high
Risks from irregularities in company	moderate	moderate

Sales risks

Business environment and competition (RC: moderate)

New competitors are entering the market due to new societal megatrends and developments in mobility. Owing to the increase in the number of competitors, init is faced with the risk of decreasing prices and margins as well as the loss of tenders. Continuous enhancements of systems and new innovations are required to maintain our competitive edge. Maintenance of our network and strengthening the business with our regular customers help us to reinforce our position.

Market development and trends (RC: low)

New societal topics such as urbanisation, climate-neutrality or smart cities as well as new mobility topics such as digitalsation, autonomous driving or electromobility require permanent monitoring of market development and trends and demand openness towards new requirements and needs of the society and transport companies. Through our sales, marketing, development and research activities, we ensure that we address the new trends and developments at an early stage to allow us to exploit opportunities resulting from them. Suggestions and wishes of our customers are incorporated in our development activities.

Industry and customers (RC: low)

Our customers are public and private transport companies as well as companies from the supply industry. Public transport companies are dependent on public investments and subsidies. On the one hand, this reduces the risk of bad debts; on the other, delays, postponements and cancellations, e.g., due to a poor government financial situation, can diminish market potential and lead to dependency on individual customers. We deem this risk to be low due to our comprehensive sales activities (new customer acquisition, tapping new potential in Germany and other countries and expansion of the performance spectrum).

Hosting and operating business (RC: low)

Customers are increasingly demanding not only the realisation of a project but also services related to hosting and the operating business. In addition to server support and data backup, this also includes special analyses for customers and even the operation of ticket vending machines (cash and ticket handling) and extended services in the area of maintenance and services. Hosting and the operating business can result in high claims for compensation from customers if the promised services cannot be provided or there is a disruption or interruption in operations. This risk can be minimised by selecting suitable equipment and service partners, regular support and maintenance of the systems as well as through central monitoring by the system support.

Risk category	Probability of occurrence	Scope for damage
Environment and competition	moderate	moderate
Market development and trends	low	low
Industry and customers	low	moderate
Hosting and operating business	moderate	low

Procurement risks

Quality risks (RC: moderate)

Vehicles and plants of our customers can only be equipped successfully if the necessary hardware is made available at the right time and in the right quantity and quality. Delays in delivery or poor quality or hidden faults may require cost-intensive rectifications or replacements that will negatively affect margins. Therefore, quality control is conducted on the supplier’s premises, upon receipt of goods, during installation of hardware in the project and delivery dates are monitored by our procurement department.

Risks arising from the procurement market (RC: moderate)

Further risks from the procurement market include fluctuations in cost of materials and a slight increase in discontinuation of components. We counter both these risks by concluding master agreements, maintaining sufficient inventories and obsolescence management. Sufficient inventories are maintained to ensure supply capability. Risks arising from changes in standards and regulations regarding our components are minimised through timely tests and long-term planning.

Although currently there have been no significant delays in delivery and product defects or warranty claims against init which have a considerable impact on the net assets, financial position and results of operations of the group, future claims cannot be completely ruled out. Due to the current spread of the coronavirus, higher risks of delays in delivery at our suppliers cannot be precluded.

Risk category	Probability of occurrence	Scope for damage
Quality risks	low	moderate
Fluctuations in cost of materials	moderate	moderate
Discontinuation of parts	moderate	low

Human resources risks

Lack of applicants/skilled labour (RC: moderate)

The experience, individual expertise and professional competence and qualifications of the employees are the key to the success of the init group. The labour market situation in Germany and particularly in the technology region of Karlsruhe remains very difficult. There are challenges in recruiting qualified personnel and in keeping them in the company in the long term. init counters personnel risks by operating a long-term personnel policy, intensifying the measures for personnel development and various additional benefits.

Risks from the loss of (key) personnel (RC: moderate)

The loss of key personnel can have a significant impact on ongoing customers projects and contracts. To support our employees and their families, we offer various programmes related to health management such as free health check-ups. By making stand-in arrangements we keep the impact on projects and contracts low.

Pandemic (RC: moderate)

Due to the current development related to the spread of the coronavirus, there is an elevated health risk for our employees and their families. We have made all possible arrangements and safeguards to counter this risk and follow the recommendations of the Robert-Koch-Institute.

Risk category	Probability of occurrence	Scope for damage
Lack of applicants/skilled labour	low	moderate
Loss of key personnel	moderate	moderate
Pandemic	moderate	low

Project risks

Project risks (RC: high)

A crucial success factor for the init group is project management. For each major project, init implements a project plan for constant progress monitoring. Project risks are analysed regularly by controlling in cooperation with the project lead and project contact persons. The projects are analysed in terms of financial aspects as well as in terms of suppliers, development, contract and other significant risks to initiate corresponding countermeasures. Costings, order situation and project progress are regularly examined for the purpose of a variance analysis. Currently two projects are classified as critical and appropriate measures to improve the situation have already been implemented.

Further project risks arise from the coronavirus pandemic, particularly from the restrictions on contact and travel. To ensure the safety of our employees and our customers' employees, appointments were conducted via video teleconferencing. Additional hygiene concepts have to be prepared and complied with for appointments requiring physical attendance. Flexibility in planning is still indispensable due to the dynamic changes in the pandemic containment measures. These requirements result in a higher planning effort and an elevated planning risk for init, which may lead to delays in projects.

IT risks

IT risks related to data security (RC: low)

For an IT company, the securing of electronic data is of the utmost importance.

In the init group, electronic data are secured in multiple ways and stored locally for many years. We have an efficient IT infrastructure that we modernise permanently to minimise downtime risks. Nevertheless, it cannot be fully ruled out that data may be lost or can no longer be reconstructed. However, based on these extensive and far-reaching measures, we rate the risk as low.

Cybercrime has also skyrocketed within the context of globalisation and digitisation. Both the Federal Office for the Protection of the Constitution and security experts in the industry are warning against the rising cyber attacks worldwide. Vulnerabilities in software and hardware are being exploited more frequently to attack IT systems. init uses multilevel security mechanisms particularly in the areas of authentication, access rights and encryption. A key focal point is early identification of deviations from our company guidelines with regard to information security management, which is performed by a combination of automatic as well as manual reviews. This process is DIN EN ISO 9001 certified. In the course of a special introductory event, new employees in the init group are made aware of the possible risks. Furthermore, information for all employees is available in our internal knowledge management. Additionally, in 2021 init will try to obtain further information security certifications, for example, certification according to ISO27001.

IT risks related to GDPR (RC: moderate)

The European General Data Protection Regulation (GDPR) has been mandatory since 25 May 2018. init had already implemented measures to meet these more stringent requirements, for example by appointing a data protection officer. To determine whether data protection and data security system comply with the legal data protection requirements and fulfill the GDPR requirements, the data protection officer performs regular reviews and reports to the Managing Board, if necessary. Besides, the data protection officer initiates training measures and is available as an advisor to the employees. The data protection officer is also named as external contact person on the init website and can be contacted directly. There is a regular exchange of information on current data protection topics.

Considering the increasingly complex and stricter data protection laws, we consider this risk to be moderate.

IT risks related to user behaviour (RC: high)

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

Risk category	Probability of occurrence	Scope for damage
IT risks related to data security	low	low
IT risks related to GDPR	moderate	moderate
IT risks related to user behaviour	moderate	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 receivables, currency reserves and liabilities and therefore consolidated earnings as well. init counters these foreign exchange risks with active exchange rate management. Forward exchange transactions and options may be used. Since init also tries to remain open to opportunities and focus on active currency management, possible ensuing losses cannot be ruled out. Despite our active currency risk policy, we assess the exchange rate risk to be moderate. A sensitivity analysis on this subject is provided in note 31 of the notes to the consolidated financial statements.

Interest risk (RC: low)

The loans taken out to finance construction and to expand the head office in Karlsruhe are mostly fixed-rate loans. The interest risk arising from the short-term, variable-rate loans currently has no significant influence on our net assets, financial position and results of operations at present.

Credit risk (RC: low)

The group concludes transactions exclusively with recognised, creditworthy third parties. All customers requesting credit-based transactions with the group are subjected to credit checks. The majority of init customers are public or state-subsidised transport companies.

The group also practices active receivables management. Deliveries are made in accordance with contractually agreed payment terms and in some cases against a guarantee. Discernible risks of default are taken into account through specific bad debt allowances.

Based on our measures and past experience, we assess this risk to be low.

Loan risk (RC: low)

Long-term loans of EUR 8.2m are subject to minimum capital requirements. A dynamic debt-equity ratio may not be exceeded. As of the reporting date, two contracts have been arranged in the group subject to minimum requirements. A dynamic debt-equity ratio of 3.5 has been applied for a loan with an outstanding balance of EUR 7.9m as of the reporting date. For another loan with an outstanding balance of EUR 0.3m, a dynamic debt-equity ratio of 2.5 has been applied as of the reporting date. If the requirements are exceeded, the loans may be called in immediately in each case. We estimate the probability of occurrence to be low due to the close monitoring and planning of this key figure.

Prefinancing (RC: moderate)

In addition, contractually established payment terms could change over time to our disadvantage, with the result that we could encounter cash flow predictability risks and liquidity risks.

Risk from the coronavirus crisis (RC: moderate)

So far, we have felt only a few effects of the crisis on our business activities. The effects include the postponement of incoming orders by our customers into the subsequent year. However, there were no negative effects on our revenues and earnings planning. Our management regularly discusses the development of the crisis and reviews any possible effects on our planning. The safety of our employees has top priority. We implement the new regulations in a timely manner and also always comply with the recommendations of the RKI.

Risks related to pensions (RC: moderate)

According to the information of the external administration of INIT entities located in Karlsruhe (init SE, INIT GmbH and initplan GmbH) for company pension plan, there are the following risks: prior to 1997, init made direct pension commitments to employees. There are a total of 37 direct pension commitments, which were partially reinsured through life insurance policies. Pension provisions have been recognized for the non-funded portion of commitments. The recognition of provisions is an adequate corporate financing instrument.

The VeK Unterstützungskassenversorgung covered by plan assets (defined benefit obligation) was closed as of 31 December 2016 for new joinees and replaced by a defined contribution benefit obligation at the APM Allianz welfare fund. The m/n-tel quotient was calculated for the pension entitlements of employees who were in the waiting period for the welfare fund pension at the VeK. As far as legally possible, compensation is being provided for the pension entitlements. Pension provisions were formed for claims that cannot be compensated.

Risk category	Probability of occurrence	Scope for damage
Exchange rate risk	moderate	moderate
Interest rate risk	low	low
Credit risk	low	low
Loan risk	low	high
Prefinancing	moderate	moderate
Risk from the coronavirus crisis	low	high
Pension-related risks	moderate	low

Legal and fiscal risks

Legal risks (RC: low)

Within the scope of their usual business activities, init SE and its subsidiaries are currently only faced with very few legal disputes. These proceedings are overseen by in-house lawyers. We do not believe that the outcome of any proceedings currently pending will have a significant negative impact on our business activities. Nevertheless, asserted claims and legal disputes are naturally associated with uncertainty, which makes it difficult to reliably estimate their financial impact and which is why the current assessment may change at any time.

Fiscal risks (RC: moderate)

The init group operates in various countries around the world and is therefore subject to countless legal and tax regulations. In the individual companies, multiple years have not yet been finally assessed for tax. Because of differing interpretations, particularly of cross-border matters, by the tax authorities in various jurisdictions, negative consequences for the net asset, financial position and results of operations cannot be precluded. Due to our increasing globalisation, we consider this risk to be moderate.

Risk category	Probability of occurrence	Scope for damage
Legal risks	low	moderate
Fiscal risks	moderate	moderate

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 above, there are unforeseeable events that may disrupt production and business processes, such as natural disasters, political instability, pandemics or terror attacks. For this reason, contingency plans have been developed to ensure that business operations can resume, preventive measures have been established and, wherever possible, insurance has been obtained.

Group risk management consolidates the information described about risks and opportunities from the individual organisational units in order to obtain an overall picture. The overall situation with regard to the group's risks is derived from the individual risks described.

As one of the fundamental principles of entrepreneurial behaviour, init takes particular care to ensure that legal and ethical regulations are observed. In addition, the init group has a web-based whistleblower system that enables customers, employees, suppliers and third parties to report non-compliant conduct, particularly violations against applicable law. At the same time, ensuring that sensitive data is handled securely is a prerequisite for maintaining business relationships with customers and suppliers in a trusting, cooperative environment.

In this context, individual risks and the overall risk situation of the init group have not changed significantly compared to the previous year. There are currently no identifiable risks that could, either individually or in combination with other risks, jeopardise the continuation of the group as a going concern. The possibility of setbacks on the path towards sustained realisation of growth and profitability targets cannot be fully excluded.

From today's perspective, the aforementioned risks do not prevent the init group from achieving or even exceeding the respective goals and plans, in particular considering the solid net assets, financial position and results of operations and regarding the positive business outlook.

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

Opportunities

After the Corona infection waves have been contained and as vaccination progresses, economic researchers expect 2021 to be a "year of recovery". According to the IMF, the global economy is now projected to grow by 5.5 per cent this year and by another 4.2 per cent in 2022. The economic output in the advanced economies is also projected to register stronger growth, by 4.3 and 3.1 per cent. Particularly in the USA, where the new government has announced a new support package, growth rates are even projected to hit 5.1 and 2.5 per cent. Growth in the euro area is projected at +4.2 per cent in 2021 and +3.6 per cent in 2022. The recovery in the UK is expected to be stronger at +4.5 and 5.0 per cent. Growth rates of 3.6 and 4.1 are projected for Canada. For Germany, the IMF in 2021 is projecting growth of 3.5 per cent (2021) and 3.1 per cent (2022).

The experts are unanimous in their opinion that all countries, especially Europe and the US, should continue with their support programmes for the economy. The governments in all advanced economies are aware of the importance of the public transport systems and have announced that they will offset the deficits resulting from the decrease in the number of passenger due to the coronavirus pandemic. Up to EUR 5b have already been made available in Germany alone. The new government in the US has even established a COVID emergency fund to the tune of USD 30b for the public transport. Further support packages have been announced.

In addition to these "emergency measures", particularly the advanced economies sense the opportunity to drive forward the green transformation of the transport sector that has already been initiated to protect the environment and to reduce the CO_2 emissions. 2021 should therefore mark the beginning of the green transformation of the transport sector and provide new momentum for modernisation, digitalisation and expansion of transport systems. With its Sustainable and Smart Mobility Strategy presented in December 2020, a paradigm shift was initiated in the EU. Investments should be used to support both the goal of limiting the climate change and the containment of the coronavirus pandemic while at the same time strengthening public transport.

Although the public transport operators and regional authorities are currently dependent on financing through public funds, they are extremely keen to invest in the digitalisation of their processes. New solutions are also increasingly required to maintain the hygiene and distancing regulations in public transport. Possibilities to respond quickly to the challenges of the coronavirus crisis, as enabled by init solutions, are increasingly shaping the investment policy of public transport operators and opening up new opportunities.

The European Commission's Sustainable and Smart Mobility Strategy emphasises the significance of public transport for daily, local mobility. Furthermore, investments in public transport have a multiplier effect on local business, which exceeds five times the original investment. This positive role played by public transport should therefore be supported more strongly at the European level, which will result in an increasing number of tenders in which init can also participate.

The International Association of Public Transport (UITP) has expressly requested the European Commission to allocate further funds as part of the "Connecting Europe Facility". The details still need to be worked out, however, it has already been decided that this will lead to investments in a triple-digit billion range at the European level.

Oriented towards the European example, other industrialised countries also want to commit to similar programmes. For example, the US government has announced that it will invest a billion dollar figure to fight climate change and will promote the expansion of the transport infrastructure in particular.

As it takes a long time to build a network, the efficient use of existing systems and multimodal connectivity of all modes of transport on one "mobility platform" are gaining in significance. What such a booking and payment platform can look like is shown by the regiomove project in Karlsruhe, which connects many of the existing mobility offers, from rental bikes to bus and tram connections, with each other via a central portal. regiomove is a worldwide flagship project for the "Mobility as a Service" (MaaS) trend. The launch of the related smartphone app in November 2020 was a significant milestone. Based on the positive experience in this project, further tenders may follow in this area which could in turn lead to additional growth impetus for init.

For intermodal use of transport systems, particular significance will be attached to the simple and easy purchase of tickets by passengers (smart ticketing) and to the settlement of cash flows between the cooperating transport companies. This requires uniform, secure booking and payment with simultaneous optimisation of the related sales processes and costs. This requires an efficient background system that includes tariff management, revenue sharing, simple integration of third-party systems and various identification media (credit cards, smart cards) as well as the setting up of a multimodal mobility platform. Systems such as the MOBILE-ITCS nextGen by init are required for this purpose, an innovative control system that also improves efficiency in public transport through machine learning processes and artificial intelligence.

The Managing Board also sees major market opportunities for ITCS light, a modular, web-based and scalable control system which is tailored to the needs of private fleet operators. What makes it special is that whilst maintaining sophisticated functionality, it offers public transport companies the advantage of lower investment costs for a standard functionality. The customer has the option to rent or lease the solution over a longer period.

Smart ticketing systems are a key component of mobility platforms. Smart ticketing registered high growth internationally as well, for example via the introduction of an account-based fare management system. In this area, init has now reached a leading position particularly in Germany and North America. Similarly, other countries will also invest in modern ticketing systems and thus open further growth opportunities for init.

The use of zero-emission vehicles and electric vehicles in public transport is also increasingly in the focus of politicians and transport companies. The "Clean Vehicles Directive" defines obligatory targets for public procurement of zero- and low-emission vehicles in every EU country for the period 2030. This is expected to result in higher investments for an effective infrastructure for vehicles with alternative drive systems. The EU Commission has announced that it will support the expansion of an infrastructure for alternative fuels and the use of charging and filling infrastructures for buses in order to help the public transport sector achieve its targets or the directive – 45 per cent for the procurement of low- and zero- emission buses in public transport until the end of 2025 and 65 per cent for the period until the end of 2030.

Electromobilty experts are keenly looking at Bergen, the second biggest city in Norway, where the second largest fleet of electric vehicles for the public transport in Northern Europe has been set up. This places completely new demands on operational control and requires, above all, optimised charging management. The operator relies on the leading technology in this sector, which init provides in cooperation with its subsidiaries CarMedialab and Mattersoft.

Developments such as these and new technological innovations such as "autonomous driving" promote demand for platform solutions and efficient system architecture like that already offered by init – with the possibility to integrate new partners and their data smoothly and quickly. In the iQMobility project init partnered with Scania and developed standardised interfaces to integrate fully automated vehicles into the existing public transport control systems. A rapid expansion of e-mobility and autonomous driving can further facilitate the growth of init in the coming years.

This also applies to MOBILEguide, a passenger control system that provides information on the platforms and via a smartphone app about the expected number of free seats in the train cars. It enables comfortable and safe travel, reduces the trains' waiting times at stations, reduces energy consumptions and optimises the utilisation of the existing infrastructure.

Promising earnings prospects in the long-term are also offered by digital innovations, which are currently being tested in international research projects. For example Aim4it, a project that will develop a public transport system that provides barrier-free accessibility for passengers with special mobility requirements. From this project init developed the solution ASSISTIVEtravel, which was tested successfully in Singapore and awarded by the UITP. It makes it considerably easier for for mobility, visually or hearing-impaired passengers to use public transport. As initiatives for inclusiveness in public transport progress, demand for this init solution can also increase strongly.

As one of the leading international providers of integrated solutions for planning, dispatching, telematics and ticketing for buses and trains, init is increasingly transforming from a technology service provider to a service partner of transport companies, also taking over customer service for them. This segment is growing strongly and secures high customer loyalty with contract terms of of more than ten years.

BASIC FEATURES OF THE REMUNERATION SYSTEM IN ACCORDANCE WITH SECTION 315A (2) HGB

Remuneration system for the Managing Board

The salaries for members of the Managing Board are set by the Supervisory Board. The remuneration of the Managing Board is determined by the size of the company, its economic and financial situation, the amount and structure of remuneration at comparable companies as well as its relationship to the salaries paid to staff. The salary system for Managing Board members at init innovation in traffic systems SE – including in their capacity as

Managing Directors of subsidiaries – provides for the following:

1. A fixed salary component payable on a pro rata basis in 12 monthly instalments. The fixed component of the Board members' salaries in 2020 totalled EUR 1,394k (previous year: EUR 1,475k).

2. A variable component linked to the consolidated earnings before taxes and after deduction of all management bonuses and employee participation which takes effect on a percentage base from a threshold of consolidated earnings before taxes of EUR 8m. The management bonus is limited to 25 per cent of the total compensation package excluding the share bonuses under item 3. The variable component of the Managing Board members' salaries in 2020 totalled EUR 240k (previous year: EUR 192k).

3. Another management bonus for 2020 in the form of 750/1,500 shares, provided the consolidated net profit exceeds EUR 8m before taxes and after deducting all management bonuses. Furthermore, for each EUR 1m of profit that exceeds the amount of EUR 8m up to EUR 15m, another 150/300 shares are granted as a bonus. Further, for each EUR 1m of profit that exceeds the amount of EUR 15m, another 250/500 shares are granted as bonus. The number of shares is limited to 10,000/20,000. These shares are subject to a vesting period of five years. The income tax on the non-cash benefit of the share transfer is borne by the company. The fair value of this remuneration including income tax payable on it totalled EUR 1,136k for the past financial year (previous year: EUR 525k).

4. Based on the aforementioned remuneration system, with reference to 2-3 of this report, variable remuneration of EUR 0k (previous year: EUR 33k) was paid to members of the Managing Board who retired in 2020 and then continued as Managing Directors of INIT GmbH.

5. Pension commitments exist for one of the four members of the Managing Board as well as for two former members. The increase in pension provisions (DBO) for these three persons was EUR 212k in 2020 (previous year: EUR 262k). The increase is the result of a reduction in the discount rate used.

6. Instead of a direct pension commitment, there are defined contribution pension plans for three members of the Managing Board and for two former member of the Managing Board. The expenses for this amounted to EUR 27k in 2020 (previous year: EUR 27k).

7. An additional defined contribution plan exists for three members of the Managing Board as well for one former member of the Managing Board. The expenses for this amounted to EUR 122k in 2020 (previous year: EUR 113k).

In compliance with Section 285 No. 9a Sentences 5 to 8 HGB, Section 315a (1) HGB and Section 314 (1) no. 6a sentences 5 to 8 HGB, the individualised disclosure of the Managing Board members' salaries can be suppressed for a period of 5 years (Section 314 (3) Sentence 1 and Section 286 (5) Sentence 1 HGB), and a corresponding resolution was passed at the Annual General Meeting on 21 July 2016.

No benefits payable to members leaving the Managing Board have been agreed. However, a termination bonus may be specified in an individual termination agreement. No termination bonus was paid in 2020 and in the previous year.

Remuneration system for the Supervisory Board

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

In addition to the reimbursement of expenditure, the annual remuneration of members of the Supervisory Board comprises a fixed and a variable component. The fixed component totals EUR 25k p.a. for the members and EUR 50k p.a. for the Chairperson. The variable component depends in equal parts of 50 per cent on the share price and of 50 per cent on EBIT. The variable component is only granted if EBIT reaches a minimum of EUR 8m. The variable component is limited to 200 per cent of the fixed component and is calculated using the following formula:

V= ((0.5 x share price/EUR 8 + 0.5 x EBIT/EUR 8m) -1) x fixed component

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

The following is a breakdown of the remuneration of the Supervisory Board in financial year 2020:

Name	Fixed component in EUR k	Variable component in EUR k
Hans-Joachim Rühlig	50	96
Ulrich Sieg	25	48
Christina Greschner	25	48
Drs. Hans Rat	25	48

REPORTING IN ACCORDANCE WITH SECTION 315A (1) HGB

Information on shareholders' equity

init SE has capital stock of EUR 10,040,000, divided into 10,040,000 no-par bearer shares with an imputed share in the capital stock of EUR 1 per share. The shares have been issued and fully paid up. For the rights and obligations related to the shares, please refer to Sections 118 et seq. of the German Stock Corporation Act (AktG).

The Managing Board is not aware of any restrictions relating to the voting rights or the transfer of shares.

Dr. Gottfried Greschner, Karlsruhe, directly or indirectly holds 3,389,100 shares in init SE. This is around 33.7 per cent of the capital stock. As of 31 December 2020, init SE held a total of 109,365 treasury shares (31 December 2019: 36,934).

There are no shares with special rights.

No voting control exists for shares held by employees.

Please refer to Note 43 in the notes to the consolidated financial statements for notifications pursuant to Section 33 (1) of the German Securities Trading Act (WpHG).

Conditional capital

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

The new shares will be issued at the option or conversion price (issuing price of the share) set pursuant to the authorisation of 21 July 2016 (2016 authorisation). The conditional capital increase will only be carried out provided the holders of warrants from warrant bonds or convertible bonds issued or guaranteed by 20 July 2021 by the company or companies in which it directly or indirectly holds a majority interest pursuant to the authorisation of 21 July 2016 exercise their option or conversion rights or meet their corresponding option or conversion obligations or the company exercises its substitution right and other forms of performance are not selected and insofar as its treasury shares are not used to satisfy these rights. The new shares will participate in the profit from the beginning of the financial year in which they are created; if legally permissible, and notwithstanding this and Section 60 (2) of the German Stock Corporate Act (AktG), the Managing Board may determine the profit share of new shares, even for a financial year that has already ended, with the approval of the Supervisory Board.

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

Authorised capital

On 15 May 2019, the company's Annual General Meeting adopted a resolution according to which the Managing Board is authorised in the period until 15 May 2024, with the approval of the Supervisory Board, to increase the capital stock of the company once or several times up to 1,004,000.00 by issuing new voting or non-voting no-par value bearer shares ("Authorised capital 2019"). Capital increases may be effected against cash or non-cash contribution. The Managing Board is also authorised, subject to the approval of the Supervisory Board, to exclude shareholders' statutory subscription rights particularly in the following cases:

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

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

Statutory requirements and provisions of the articles of incorporation on the appointment and dismissal of members of the Managing Board and on amendments to the articles of incorporation

For the appointment and dismissal of members of the Managing Board, please refer to Sections 84, 85 of the German Stock Corporation Act (AktG). Amendments to the articles of incorporation are subject to the statutory provisions of Sections 133 and 179 AktG.

Authority of the Managing Board to issue and repurchase stock

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

Based on a resolution passed at the Annual General Meeting of 13 May 2015 and 26 June 2020, the company was authorised to purchase treasury shares.

CORPORATE MANAGEMENT DECLARATION

With regard to the required declaration by the management, please refer to the Corporate Governance Report in this Annual Report which is also available on the Internet at: https://www.initse.com under the tab Investor Relations – Corporate Governance.

RESPONSIBILITY STATEMENT BY THE LEGAL REPRESENTATIVES

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

Karlsruhe, 19 March 2021

The Managing Board

Dr. Gottfried Greschner   Dr. Jürgen Greschner

Jennifer Bodenseh   Matthias Kühn

CONSOLIDATED FINANCIAL STATEMENTS

init innovation in traffic systems SE, Karlsruhe (IFRS)

Consolidated Income Statement	61
Consolidated Statement of Comprehensive Income	61
Consolidated Balance Sheet	62
Consolidated Statement of Changes in Equity	64
Consolidated Cash Flow Statement	66

CONSOLIDATED INCOME STATEMENT

for the financial year 2020 (IFRS)

EUR '000	Notes no.	01/01/ to 31/12/2020	01/01 to 31/12/2019
Revenues	4, 36	180,668	156,464
Cost of sales	5	-118,501	-103,226
Gross profit		62,167	**53,238**
Sales and marketing expenses		-17,986	-16,709
General administrative expenses		-16,823	-13,328
Research and development expenses	6, 21	-10,964	-10,440
Other operating income	7	3,329	3,355
Other operating expenses		-289	-176
Foreign currency gains and losses	8	28	673
Expenses and income from associated companies	22	180	-373
Earnings before interest and taxes (EBIT)		19,642	**16,240**
Interest income		93	102
Interest expenses		-999	-1,104
Earnings before taxes (EBT)		18,736	**15,238**
Income taxes	9, 23	-3,793	-3,903
Net profit		14,943	**11,335**
thereof attributable to equity holders of parent company		14,924	11,332
thereof non-controlling interests		19	3
Earnings and diluted earnings per share in EUR	11	1.50	1.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year 2020 (IFRS)

EUR '000	01/01 to 31/12/2020	01/01 to 31/12/2019
Net profit	14,943	**11,335**
Items to be reclassified to the income statement:		
Net gains (+) / net losses (–) on currency translation	-3,552	389
Items not to be reclassified to the income statement:		
Actuarial losses on defined benefit obligations for pensions after taxes	-444	-986
Total other comprehensive income	-3,996	**-597**
Total comprehensive income	10,946	**10,738**
thereof attributable to equity holders of the parent company	10,927	10,735
thereof non-controlling interests	19	3

CONSOLIDATED BALANCE SHEET

as of 31 December 2020 (IFRS)

Assets

EUR '000	Notes no.	31/12/2020	31/12/2019
Current assets			
Cash and cash equivalents	14, 32	32,211	26,174
Marketable securities and bonds	15, 32	40	37
Trade accounts receivable	16, 32	38,650	43,025
Contract assets	16, 32	22,174	22,099
Receivables from related parties	35	174	52
Inventories	17	32,626	27,783
Income tax receivable		966	810
Other current assets	18	3,207	3,734
Current assets, total		130,048	**123,714**
Non-current assets			
Property, plant and equipment	19	57,363	50,805
Investment property	20	1,401	1,480
Goodwill	21	12,488	9,035
Other intangible assets	21	18,582	8,765
Interests in associated companies	22	570	390
Deferred tax assets	23	3,102	3,017
Other non-current assets	24	3,091	3,192
Non-current assets, total		96,597	**76,684**
Assets, total		**226,645**	**200,398**

Liabilities and shareholders' equity

EUR '000	Notes no.	31/12/2020	31/12/2019
Current liabilities			
Bank loans	25, 32	17,480	17,842
Trade accounts payable	25, 32	7,541	8,560
Contract liabilities	16, 25	15,246	16,435
Advance payments received	25	1,360	747
Income tax payable	25	1,011	3,040
Provisions	28	11,627	10,263
Other current liabilities	25, 26	19,924	20,697
Current liabilities, total		74,189	**77,584**
Non-current liabilities			
Bank loans	25, 32	19,979	12,228
Deferred tax liabilities	23	5,793	2,619
Pensions accrued and similar obligations	29	11,767	11,149
Provisions	28	2,439	1,204
Lease liabilities	27	13,896	10,067
Other non-current liabilities	26	8,060	0
Non-current liabilities, total		61,934	**37,267**
Shareholders' equity			
Attributable to equity holders of the parent company			
Subscribed capital	30	10,040	10,040
Additional paid-in capital	30	6,619	5,688
Treasury shares	30	-2,384	-582
Surplus reserves and consolidated unappropriated profit	30	80,327	70,505
Other reserves	30	-4,268	-272
		90,334	**85,379**
Non-controlling interests		188	168
Shareholders' equity, total		90,522	**85,547**
Liabilities and shareholders' equity, total		**226,645**	**200,398**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as of 31 December 2020 (IFRS)

	Attributable to equity holders of			
Notes no.	30	30	30	
EUR '000	Subscribed capital	Additional paid-in capital	Treasury shares	
Status as of 31/12/2018	**10,040**	**5,262**	**-510**	
Net profit				
Other comprehensive income				
Total comprehensive income				
Dividend paid out				
Share-based payments		427	128	
Acquisition of treasury shares			-201	
Rounding		-1	1	
Status as of 31/12/2019	**10,040**	**5,688**	**-582**	
Status as of 31/12/2019	**10,040**	**5,688**	**-582**	
Net profit				
Other comprehensive income				
Total comprehensive income				
Dividend paid out				
Share-based payments		931	442	
Acquisition of subsidiaries				
Acquisition of treasury shares			-2,244	
Rounding				
Status as of 31/12/2020	**10,040**	**6,619**	**-2,384**	

	the parent company					Non-controlling interests	Shareholders' equity total
	30	29	Other reserves				
	Surplus reserves and consolidated unappropriated profit	Difference from pension valuation	Difference from currency translation	Securities marked to market	Total		
	60,479	**-2,816**	**3,143**	**-1**	**75,597**	**165**	**75,762**
	11,332				11,332	3	11,335
		-986	389		-597		-597
	11,332	-986	389		10,735	3	10,738
	-1,287				-1,287		-1,287
	-20				535		535
					-201		-201
	1		-1				
	70,505	**-3,802**	**3,531**	**-1**	**85,379**	**168**	**85,547**
	70,505	**-3,802**	**3,531**	**-1**	**85,379**	**168**	**85,547**
	14,924				14,924	19	14,943
		-444	-3,552		-3,996		-3,996
	14,924	-444	-3,552		10,928	19	10,947
	-4,085				-4,085		-4,085
	-17				1,356		1,356
	-1,000				-1,000		-1,000
					-2,244		-2,244
						1	1
	80,327	**-4,246**	**-21**	**-1**	**90,334**	**188**	**90,522**

CONSOLIDATED CASH FLOW STATEMENT

for the financial year 2020 (IFRS)

EUR '000	**01/01/ to 31/12/2020**	01/01/ to 31/12/2019
Cash flow from operating activities:		
Net income	14,943	11,335
Amortisation and depreciation	9,249	7,213
Gains or losses on the disposal of fixed assets	-30	-65
Change in provisions and accruals	2,747	2,360
Change in inventories	-4,122	357
Change in trade accounts receivable and contract assets	1,716	-11,538
Change in other assets, not provided by / used in investing or financing activities	529	324
Change in trade accounts payable	-658	-1,511
Change in advanced payments received and contract liabilities	176	9,556
Change in other liabilities, not provided by / used in investing or financing activities	-995	4,038
Amount of other non-cash income and expenses	882	-937
Adjustment IFRS 15 retrospective modified	0	0
Net cash from operating activities	24,437	21,132
Cash flow from investing activities:		
Payments received on disposal of property, plant and equipment	284	96
Investments in property, plant, equipment and other intangible assets	-7,152	-5,652
Investment property	0	0
Investment in subsidiaries less acquired cash	-7,766	0
Net cash flows used in investing activities	-14,634	-5,556
Cash flow from financing activities:		
Dividend paid out	-4,030	-1,328
Cash payments for the purchase of treasury shares	-2,244	-200
Payments received from bank loans incurred	18,899	8,534
Redemption of bank loans	-11,511	-14,297
Change in current and non-current lease liabilities	-3,916	-2,849
Net cash flows used in financing activities	-2,802	-10,140
Net effects of currency translation and consolidation changes in cash and cash equivalents	-964	118
Changes in cash and cash equivalents	6,037	5,554
Cash and cash equivalents at the beginning of the period	26,174	20,620
Cash and cash equivalents at the end of the period	32,211	26,174

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

NOTES

init innovation in traffic systems SE, Karlsruhe

Notes on the Consolidated Income Statement	85
Notes on the Consolidated Balance Sheet	91
Other Disclosures	120

1. Information about init

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

2. Accounting principles

The consolidated financial statements and the comparative previous-year figures were prepared in compliance with the International Financial Reporting Standards (IFRSs). The consolidated financial statements of init SE and its subsidiaries are consistent with the IFRSs applicable in the EU. The consolidated financial statements comply with the requirements of Section 315e HGB [“Handelsgesetzbuch”: German Commercial Code].

The consolidated financial statements were prepared in euro. Unless otherwise indicated, all figures are rounded to a full thousand (EUR k / EUR '000).

The financial year of all included companies ends on 31 December.

The income statement was prepared using the function of expense method.

The consolidated financial statements have been prepared under the historical cost convention. This does not apply to derivative financial instruments and securities and bonds measured at fair value.

The accounting policies and measurement methods are consistent with those applied in the previous year.

The following standards are applicable for the first time in the financial year 2020; however, there is no impact on the financial position, performance and cash flows of the init group:

Standard	Title
IFRS 9, IAS 39 and IFRS 7	Reform of Refinancing Rates (phase 1)
IAS 1	Presentation of Financial Statements, Definition of Materiality
IAS 8	Definition of Materiality
IFRS 3	Definition of a Business

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 2020 financial year. The group did not opt to early adopt these standards.

Standard	Title	Application
IFRS 16	Leases Covid 19- Related Rent Concessions	June 2020

EU endorsement outstanding:

The IASB has published the following list of standards and interpretations whose application was not yet mandatory during the 2020 financial year. These standards and interpretations have not yet been endorsed into EU law and were not applied by the group.

Standard	Title	Publication by IASB
IFRS 17	Insurance Contracts	May 2017
Amendments to IAS 1	Definition of Materiality	January 2020
Annual Improvements Cycle 2018-2020		
IFRS 3	Reference to the Conceptual Framework	March 2018
IAS 37	Onerous Contracts — Cost of Fulfilling a Contract	May 2020
IFRS 4	Insurance Contracts: Extension of the Transition Period to IFRS 9	May 2020
IAS 16	Proceeds before Intended Use	May 2020
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Reform of Refinancing Rates (phase 2)	August 2020
IAS 1	Presentation of Financial Statements: Classification of Liabilities and Disclosures on Accounting Policies	February 2021
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors Definition of Accounting Estimates	February 2021

The standards and interpretations listed above will be applied when they take effect within the European Union. There are no plans to early adopt the new standards in the init group. init does not expect this to have any significant effect on the financial position, net assets and results of operations.

3. Accounting policies and consolidation principles

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 setup for legal or constructive liabilities vis-à-vis third parties. Non-current provisions are discounted.

Basis of consolidation

The consolidated financial statements comprise the financial statements of init SE and its subsidiaries as at 31 December 2020. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if, and only if, the group has:

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

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

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

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

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

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

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

Name	Registered office	Share as of 31/12/2020	Share as of 31/12/2019
Fully consolidated companies			
INIT Innovative Informatikanwendungen in Transport-, Verkehrs- und Leitsystemen GmbH ("INIT GmbH")[1)]	Karlsruhe, Germany	100.0%	100.0%
INIT Innovations in Transportation Inc. ("INIT Chesapeake")	Chesapeake/Virginia, USA	100.0%	100.0%
INIT Innovations in Transportation (Eastern Canada) Inc. / INIT Innovations en Transport (Canada Est) Inc. ("INIT Montreal")	Montreal, Canada	100.0%	100.0%
INIT Innovations in Transportation (Western Canada) Inc. ("INIT Toronto")	Toronto, Canada	100.0%	100.0%
INIT PTY LTD ("INIT Brisbane")	Brisbane / Queensland, Australia	100.0%	100.0%
Init Innovation in Traffic Systems FZE ("INIT Dubai")	Dubai, United Arab Emirates	100.0%	100.0%
initplan GmbH ("initplan")[1)]	Karlsruhe, Germany	100.0%	100.0%
INIT Innovations in Transportation Ltd. ("INIT Nottingham")	Nottingham, UK	100.0%	100.0%
INIT Swiss AG ("INIT Neuhausen")	Neuhausen, Switzerland	100.0%	100.0%
initperdis GmbH ("initperdis")	Hamburg, Germany	100.0%	100.0%
INIT Asia-Pacific Pte. Ltd. ("INIT Singapore")	Singapore	100.0%	100.0%
CarMedialab GmbH ("CML")	Bruchsal, Germany	58.1%	58.1%
CarMedialab Corp. ("CML Corp.")	Santa Monica / California, USA	58.1%	58.1%
TQA Total Quality Assembly LLC ("TQA")	Chesapeake / Virginia USA	60.0%	60.0%
SQM Superior Quality Manufacturing LLC ("SQM")	Chesapeake / Virginia USA	75.0%	75.0%
GO-1 LLC ("GO-1")	Chesapeake / Virginia USA	100.0%	100.0%
iris-GmbH infrared & intelligent sensors ("iris")	Berlin, Germany	100.0%	74.5%
iris – infrared & intelligent sensores NA, Inc. ("iris Atlanta")	Atlanta / Georgia, USA	100.0%	74.5%
inola GmbH ("inola")	Pasching, Austria	100.0%	100.0%
HanseCom Public Transport Ticketing Solutions GmbH ("HanseCom")	Hamburg, Germany	100.0%	100.0%
INIT innovation in transportations NZ Limited ("INIT Dunedin")	Dunedin, New Zealand	100.0%	100.0%
Mattersoft Oy ("Mattersoft")	Tampere, Finland	100.0%	100.0%
INIT Innovations in Transportations Ltd ("INIT Maynooth")	Maynooth, Ireland	100.0%	100.0%
IRIS ASIA-PACIFIC PTY LTD ("iris Melbourne")	Melbourne, Australia	100.0%	74.5%
Hansecom BY ("Hansecom Minsk")	Minsk, Belarus	100.0%	100.0%
Derovis GmbH ("Derovis")	Berlin, Germany	51.0%	-
DResearch Fahrzeugelektronik GmbH ("DResearch")	Berlin, Germany	51.0%	-

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

Name	Registered office	Share as of 31/12/2020	Share as of 31/12/2019
Associated companies (at equity)			
maBinso software GmbH ("maBinso")	Hamburg, Germany	48.0%	35.8%
Bytemark Inc. ("Bytemark")	New York, USA	5.1%	5.1%

On 24 April 2020, iris-GmbH infared & intelligent sensors, Berlin (iris-GmbH), acquired 51 per cent of the shares in DResearch Fahrzeugelektronik Group (DVS/DFE). The DResearch Fahrzeugelektronik Group, consisting of DResearch Fahrzeugelektronik (DFE) as the development and production unit and Derovis GmbH (DVS) as the marketing and sales unit for electronic on-board vehicle systems, is active in the growth market of video recording and transmission systems in public transport. The remaining 49 per cent of the shares will be acquired with effect as of 1 January 2022.

In July, init acquired the remaining 25.5 per cent of the shares in iris-GmbH, Berlin.

Company formations in 2020 and 2019

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

On 26 December 2019, HanseCom and INIT GmbH founded a subsidiary Hansecom BY in Minsk, Belarus. The main objective of Hansecom Minsk is to provide app development services on site and thus access the capacities in Belarus. The equity capital of 50 TBYN was paid in during 2020.

Business combinations in 2020 and 2019

DResearch Fahrzeugelektronik Group, Berlin

With the company purchase agreement of 24 April 2020, iris-GmbH or the group acquires 100 % of the shares in DResearch Fahrzeugelektronik Group (DVS/DFE). The shares will be acquired in two tranches.

The first tranche amounting to 51 per cent of the shares was acquired on 24 April 2020. From this date, control is transferred to the group and DVS/DFE is fully consolidated.

The second tranche for the remaining shares amounting to 49 per cent will be acquired by init with effect as of 1 January 2022.

Due to the purchase of the remaining shares, init has determined that no non-controlling interests are to be recognised in the consolidated financial statements as of 31 December 2020 for the second tranche, as economic ownership of this was already transferred to init upon acquisition of the first tranche.

The DResearch Fahrzeugelektronik Group, consisting of DResearch Fahrzeugelektronik (DFE) as a development and production unit and Derovis GmbH (DVS), Berlin as a marketing and sales unit of electronic on-board vehicle systems, is active in the growth market of video recording and transmission systems in public transport. In this field, DFE and DVS, both based in Berlin like iris-GmbH, already occupy a leading position.

For this assessment, init has made a significant judgement based on facts and circumstances to ensure that the effect of the purchase via the second tranche as part of the step acquisition is appropriately taken into account in the consolidated financial statements as of 31 December 2020.

As part of this assessment, init has reviewed whether the general conditions of the transaction grant a present right to income associated with the ownership interest subject to the subsequent acquisition of the shares. In this case, the shares of the second tranche would be accounted for as if they had been acquired by the group together with the first tranche.

Indicators of the existence of a present right of the acquirer to receive the income associated with the ownership interest that is subject to subsequent acquisition are pricing, voting rights, dividend rights and the issue of a call option.

The purchase price should be structured in such a way that it is fixed or determinable to the extent that it does not correspond to the fair value of the shares (or an amount that corresponds to the fair value). Consequently, the fluctuations in the fair value of the shares to be acquired are attributable to the acquirer. The amount of the purchase price for the second tranche is determined by the contractual provisions in the company purchase agreement and is payable to the seller in four instalments on specified dates. The first, third and fourth instalments of the purchase price payment are subject to an earn-out clause, which may result in init having to pay an amount in addition to the fixed base price to the seller. In the opinion of the group management, this amount is not subject to any significant fluctuations or significant future judgements. The first purchase price payment is due in the short term and is recognised under current other financial liabilities in the amount of EUR 1,410k as of 31 December 2020. The second to fourth instalments are due on 31 December 2021 in the amount of EUR 1,568k, on 17 January 2022 in the amount of EUR 4,974k and on 31 December 2022 in the amount of EUR 1,518k. init has recognised non-current other financial liabilities totalling EUR 8,060k as of 31 December 2020. Against this background, init has determined that the purchase price for the second tranche is essentially fixed or determinable. init is essentially attributable to fluctuations in the fair value of the shares to be acquired.

A further indicator is the restriction of voting rights and the entitlement to dividends associated with the ownership interest that are subject to the subsequent acquisition. This restriction can be given, for example, by the parent company being able to prevent distributions to the non-controlling interests (by gaining control) or by the exercise price for the payment of dividends to the non-controlling interests being reduced. The company purchase agreement stipulates that all profits for financial years 2019, 2020 and 2021 will be retained. The profits of financial year 2022 and distributable but undistributed profits of earlier financial years are solely attributable to the purchaser. Consequently, in this respect there is a restriction on the voting rights and dividend entitlements associated with the ownership interest, which are subject to the subsequent acquisition.

The company purchase agreement stipulates that init will acquire the remaining shares amounting to 49 per cent (second tranche) at the purchase price described above as of 1 January 2022.

Against this background, init has accounted for the step acquisition as if 100 per cent of the shares had been acquired as of 24 April 2020, and no shares are recognised for non-controlling interests in the consolidated financial statements as of 31 December 2020. The acquired goodwill is therefore recognised in full. Similarly, the liabilities relating to the acquisition of the second tranche are recognised accordingly in the consolidated financial statements as of 31 December 2020.

After all value-determining facts and circumstances were known for the DResearch Fahrzeugelektronik Group, the purchase price allocation was completed in the second quarter of 2020. As of the acquisition date 24 April 2020, the fair values of the identifiable assets and liabilities of the DResearch Fahrzeugelektronik Group are as follows:

EUR '000	
Assets	
Cash and cash equivalents	2,234
Receivables and other assets	2,292
Inventories	1,753
Property, plant and equipment	1,151
Intangible assets (customer base / technology)	10,326
Total	**17,756**

EUR '000	
Liabilities	
Payables	1,337
Provisions	2,252
Deferred tax liabilities	3,151
Total	**6,740**
Fair value of net assets and liabilities	11,016
Goodwill	3,454
Total consideration for business combination	**14,470**

The total consideration for the acquisition amounts to EUR 14,470k, of whichEUR 2,234k stems from the compensation for the cash received. The purchase price of EUR 5,000k already paid was paid in cash. This is also intended for future purchase price payments.

The fair value of trade receivables amounts to EUR 2,093k. This corresponds to the gross amounts of the contractual receivables. We assume that all receivables are fully recoverable.

The acquired customer base was measured using the multi-period-excess earnings method and recognised in the amount of EUR 7,375k. The useful life is 9 years.

The acquired licenses were measured using the relief-from-royalty method and recognised in the amount of EUR 2,788k. The useful life is 8 years.

The goodwill of EUR 3,454k is covered by expected additional business from the portfolio expansion, as the product range of the init group will be extended in particular to include video recording and transmission systems in local public transport.

In 2020, revenues of EUR 10,601k and earnings before taxes of EUR 1,229k were included in the consolidated financial statements for the DResearch Fahrzeugelektronik Group. If the DResearch Fahrzeugelektronik Group had been included in the consolidated financial statements as of 1 January 2020, consolidated earnings and revenue would have been EUR 452k and EUR 3,527k higher respectively.

Cash outflow due to business combination:

EUR '000	
Purchase price (included in cash flow from investing activities)	14,470
Cash acquired with the subsidiary	2,234
Actual cash paid due to company acquisition	2,766
Actual cash paid still outstanding as a result of the business combination	9,470

Consolidation methods

The annual financial statements of the fully consolidated companies are prepared according to the standard accounting and measurement principles of the group in line with the IFRSs 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 accounted for using the purchase method. The acquisition costs of a business combination are calculated on the basis of transferred consideration and measured at fair value at the time of acquisition. Costs incurred as a result of the business combination are recorded as expenses and reported in administrative expenses. In step acquisitions, the previously held equity by the acquirer is remeasured at fair value at the date of acquisition and the resulting gain or loss is recognised through profit and loss.

The agreed contingent consideration is reported at fair value at the acquisition date. In agreement with IFRS 9, subsequent changes to the fair value of a contingent consideration constituting an asset or liability are reported through profit or loss or in other comprehensive income. A contingent consideration classed as equity is not revalued. Its subsequent payment is reported in the shareholders' equity. Where a contingent consideration does not fall within the scope of IFRS 9, it is measured in agreement with the relevant IFRS.

Capital is consolidated by offsetting the acquisition cost against the group share in the revalued shareholders' equity of the consolidated subsidiaries at the time when control was acquired. The recognisable assets, liabilities and contingent claims and liabilities of the subsidiaries are recognised at their full market value irrespective of the amount of the non-controlling interests. Intangible assets are reported separately from the goodwill if they are separable from the company or result from a contractual right or other right. All positive differences (goodwill) arising from the initial consolidation are capitalised and subjected to an impairment test in line with IFRS 3 "Business Combinations" / IAS 36 "Impairment of Assets". Negative differences are recognised through profit or loss immediately after acquisition. In case of de-consolidations, the remaining carrying amounts of the credit differences are taken into account proportionally when calculating the disposal result. Measurement using the equity method is based on the same principles, with goodwill being reported in the investments.

Receivables and payables as well as 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 SE are prepared in their functional currency according to IAS 21 "The Effects of Changes in Foreign Exchange Rates". The functional currency of INIT Chesapeake, TQA, INIT Montreal, INIT Toronto, INIT Brisbane, INIT Dubai, INIT Nottingham, SQM, INIT Neuhausen, CML Corp., INIT Singapore, GO-1, iris Atlanta, INIT Dunedin and iris Melbourne corresponds to their 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 historical exchange rate. Items of the consolidated income statement are converted taking as basis the average currency exchange rate of the year. The resulting conversion differences are shown cumulatively in a separate item in the shareholders' equity (other reserves).

Transactions in a currency other than the functional currency are converted with the exchange rate on the date of the transaction. Any resulting currency conversion differences are recognised through profit or loss.

Estimates and assumptions

To a certain degree, the preparation of the consolidated financial statements requires estimates and assumptions to be made by the Managing Board that affect the amount of assets and liabilities reported on the balance sheet, the specification of contingent liabilities as of the reporting date, and the presentation of income and expenditure during the reporting period. The actual amounts may deviate from these estimates. There was no material impact on estimates and assumptions due to the coronavirus on the consolidated financial statements for financial year 2020.

The most important forward-looking assumptions and any other significant sources of uncertainty in the estimations that exist on the reporting date which could give rise to the risk of having to adjust the carrying amounts of assets and liabilities in the next financial year are explained below.

Future receivables from contract assets

Assumptions and estimates are required for the accounting and measurement of future receivables from contract assets. There are uncertainties regarding the degree of completion. This is dependent on the assumptions for future hours, material expenses and possible order extensions. For further information please refer to note 16.

Goodwill

Goodwill is examined for impairment at least once a year or when facts or changes in circumstances indicate that the carrying value may have decreased. This test requires the estimation of the recoverable amount to be higher than the value in use or the net realisable amount of the cash-generating units to which the goodwill is allocated. To this end, corporate management must estimate the foreseeable future cash flows of the cash-generating units and, in addition, must also select an appropriate discount rate in order to calculate the present value of these cash flows. For further information, please refer to note 21.

As the group as a whole represents a cash-generating unit, goodwill and licenses with indefinite useful lives acquired in business combinations are allocated to this unit as a whole for the purpose of impairment testing.

Pensions and other post-employment benefits

The expenditure from defined benefit plans is calculated using actuarial methods, made on the basis of assumptions relating to discount rates, future wage and salary increases, mortality and future pension increases. Due to the long-term nature of these plans, such assumptions are subject to significant uncertainties. For further information, please refer to note 29.

Development costs

Development costs are capitalised as per the accounting principles and measurement methods presented. In order to calculate the values to be capitalised, corporate management must make assumptions on the amount of cash flow expected in the future from assets, on the interest rates to be applied and on the timeframe for the influx of expected future cash flows generated by assets. Research and development costs are expensed as incurred. In certain cases, development costs are capitalised (please refer to the explanations on other intangible assets in note 21).

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

Inventories

Inventories are required to be stated at the lower of value of acquisition or production cost and the net realisable value in accordance with IAS 2.9. In order to secure the lowest of both values, init determines inventories by means of experience and evaluation of the markdown from previous projects. Alongside this standardised approach, init carries out a case-by-case review of the inventories. Typical reasons for a markdown of the inventories are faulty products or technical obsolescence. Goods as well as work in process and finished products are combined in one position. The devaluation was calculated on a portfolio basis and taken into account to reduce profit. Please refer note 17 for further information on inventories.

Right-of-use assets and lease liabilities

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

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

Especially contracts for office buildings include extension and termination options with potentially significant impact. Extension and termination options are taken into account once their exercise is seen predominantly likely. At the moment a termination option of leased office buildings within the group is not taken into account as it is not seen as likely. Refer to note 19 for further information on the right-of-use assets and to note 27 for lease liabilities.

Revenue recognition

init develops, manufactures, integrates, installs, maintains and operates software and hardware for transportation companies and provides related services. Revenues from contracts with customers are recognised in terms of time and period, when the power of disposition of goods or services is transferred to the customer. The amount that the group is expected to receive in exchange for these goods or services is recognised as consideration. Project orders as well as support and maintenance were identified as significant sources of revenue . In the project business, the main performance obligations include the delivery and set-up of a complete system including the associated software and hardware components as well as necessary development services. In the project business the performance assessment is input-related (cost-to-cost-method). The group has come to the conclusion that revenues from delivery and set-up of an entire system must be recognised over a period of time, as the customer benefits from the group's performance and consumes it at the same time. The fact that another company would not have to redo the installation services the group has delivered so far, proves the service benefits for the customer so far and that the customer uses the service of the group while the group delivers it. The group has concluded that the input-based methodology is best suited to determine the progress of installation services since there is a direct link between the group's work (hours worked and material processed) and the transfer of the service to the customer. Revenues are recognised in the group based on hours worked and the hardware components in relation to total expected hours worked and hardware components for completion of service. Revenues are recognised over time. Individual dependencies between single contracts may exist, e.g., project contracts with maintenance and support agreements concluded at the same time. Maintenance is provided after successful completion of the project; hence diverse contract combinations are given. Revenues for maintenance and support contracts are recognised over time. Revenues for non project related delivery of software and hardware are realised at the point in time of transfer of risk.

Contract terms with individual customers are considered in order to determine the transaction price, therefore, it is assumed that contractually promised goods and services are transferred to the customer and the contract will not be terminated, extended or changed. The transaction price is the consideration the group receives in exchange for transferring the promised goods or services.

Generally speaking, no variable consideration exists in the init group. However, penalties are often included in the project contract terms. These penalties are weighted based on past probabilities and reduce revenue. In our experience the probability therefore is very low.

As a general rule, no financing components exist in the init group. Taking into account the practical expedient provided in IFRS 15, the init-group does not adjust the amount of promised consideration for the significant financing component since the agreed milestones within a project are usually less than a year apart. The difference between performance of service and payment is settled within a year. Maintenance contracts usually have a term of up to five years and are paid quarterly or yearly.

For individual contracts the init-group offers service-type warranties which contain extended guarantees. Those are individually separable and are recognised in line with maintenance services. One group company offers the statutory warranty for the repair of defects. These assurance-type warranties are recognised according to IAS 37 in provisions, contingent liabilities and contingent assets. Details of the accounting methods for provisions for warranties can be found in the note 28 “Provisions”.

According to IFRS 15, additional costs for the initiation of a contract and certain contract fulfilment costs have to be recognised as an asset. No direct costs of a contract initiation were incurred or capitalised in the init group. Travel expenses and salary of sales employees were recognised as expenses.

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

Income from operating leases for investment property is reported in other operating income and spread evenly over the entire term of the lease and reported under other operating income. For more information, please refer to note 20.

Interest income is realised when interest has accrued.

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

Public subsidies and European Union subsidies

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

Financial instruments and other financial assets

The market value was used to determine the fair value of listed securities and bonds. The fair value of the derivative financial instruments and loans was calculated by discounting expected future cash flows using prevailing market interest rates. Due to the short maturities of cash and cash equivalents, trade receivables, other assets, trade accounts payable and other liabilities, it is assumed that the fair values correspond to the carrying amounts.

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

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

Cash and cash equivalents

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

Securities and bonds

Securities are allocated to category "At fair value through other comprehensive income. Following their initial recognition, these are reported at their fair value (exchange or market price), with gains or losses recognised as a separate item in the shareholders' equity.

Trade accounts receivable and contract assets

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. A receivable is recognised when there is an unconditional right to consideration from the customer (i.e. maturity occurs automatically through the passage of time). After initial recognition, receivables are measured at amortised cost less any impairment losses. For trade receivables and contract assets, init applies a simplified method to calculate expected credit losses. Therefore, init does not track changes in credit risk, but instead records an allowance for credit losses at each reporting date based on the overall maturity ECL. The group has prepared an allowance matrix based on its past experience of credit losses, adjusted for forward-looking factors specific to the borrower and the economic environment. Likewise, impairment losses are also recognised on contract assets if penalties are foreseeable or indications of default by the borrower can be identified. Other gains and losses are recognised in profit or loss when the receivables are derecognised or impaired. Contract assets represent the balance of costs incurred plus the results of unbilled projects and advance invoices issued.

Derivative financial instruments and hedge accounting

The group uses derivative financial instruments such as forward exchange contracts, currency options and swap transactions to hedge against interest change and currency risks. These derivative financial instruments are reported at their fair value at the time of conclusion of the contract and, in the following periods, are measured at their fair value. Derivative financial instruments are reported as assets if their fair value is positive and as liabilities if their fair value is negative.

Gains or losses from changes in the current prices of derivative financial instruments that do not meet the hedge accounting criteria are immediately recognised through profit or loss. In contrast, the adjustment of order values to the current prices on the reporting dates for projects invoiced in a foreign currency always has a counter-effect on the revenue recognition.

The fair value of forward exchange contracts is determined with reference to the current forward exchange rates for contracts with similar maturity structures.

Hedge accounting is currently not applied by the group.

Inventories

Inventories are measured at their acquisition or production costs on the reporting date at the time of their addition. The lower value out of acquisition or production costs and net selling price is recorded on the balance sheet date. If the net selling price of inventories previously written off has increased, their value is raised appropriately up to the maximum of their acquisition or production costs. The production costs comprise both direct costs and the manufacturing and material overheads incurred in production, any depreciation and other production-related expenses. Borrowing costs are reported as an expense in the period in which the debts were accrued. Impairment losses are recognised where necessary.

Property, plant and equipment

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

The average useful lives are as follows:

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

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

Right-of-use assets

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

Depending on their asset class, the depreciation periods apply for the right-of-use assets:

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

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

Investment property

The land and buildings that serve to generate rental income from third parties is treated as investment property. The value is determined using the cost method. The depreciation of the financial investments follows the straight-line method over a useful life and is realised over a period of 25 to 50 years.

Group as lessor

Leases of the group where all the opportunities and risks inherent in the property are not substantially transferred to the lessee, are classified as operating leases. No finance leases for the group as lessor exist.

Other intangible assets

Other intangible assets include customer base and licenses.

Purchased intangible assets are measured at acquisition cost and amortised using the straight-line method over their useful life of three to ten years.

In accordance with IAS 38 “Intangible Assets”, the company capitalises software development costs that accrue once it has been proven that the software is intended for own use or for sale and generates future economic benefit, that the resources required for completion of the asset are available, that the costs attributable to the development can be determined reliably, and the software has become technically feasible. Based on the product development process, software is deemed technically feasible upon completion of the detailed program and product design. Prior to this, the corresponding costs are recorded as periodic expenses. Once technical feasibility has been achieved, the corresponding costs are capitalised until the software is marketed and offered for sale. No software development costs were capitalised in 2020 as the conditions therefor 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. Depreciation and amortisation commence at the time of sale to the customer. Furthermore, capitalised software development costs are checked for impairment of value if events or changes have occurred which suggest that the net book value of an asset could have decreased.

Interests in associated companies

The interests in associated companies comprise investments in companies accounted for at equity. On acquisition, these are measured at acquisition costs. Subsequent measurement takes into account the pro rata results of the company, the profit distributions effected and any impairments to be recognised on the investment rate. If there is objective evidence that the net investment in the associated company is impaired, it is tested as a whole for impairment in accordance with IAS 36. If the recoverable amount is less than the amortised carrying amount of the net investment, it is written down to the recoverable amount.

Impairment of non-monetary assets

Long-lived non-monetary and intangible assets are checked for impairment if events or changes have occurred which suggest that the carrying amount of an asset can no longer be realised. Goodwill is tested for impairment once a year or if events or changes have occurred which suggest that the carrying amount of an asset can no longer be realised. Where the facts and circumstances indicate that an impairment of value has occurred, the carrying amounts of the assets are compared with their prospective future income. For goodwill, this comparison takes place for the group as a whole, as the group consists of only one cash-generating unit. If necessary, the assets are written down to lower of cost or market.

Deferred tax assets and deferred tax liabilities

The company determines its deferred income taxes using the balance sheet approach. Accordingly, deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 as income taxes to account for the tax consequences of differences between the balance sheet measurements of assets and liabilities and the corresponding tax assessment bases, as well as for the future utilisation of unused tax losses. The deferred tax assets and deferred tax liabilities are calculated on the basis of the prevailing tax rates for the taxable profit in the year in which the differences are expected to be reversed. The effect of changes in the tax rates on deferred tax assets and deferred tax liabilities is accounted for in the period in which the amendment of the law takes effect. An income tax rate of 31.0 per cent was taken as the basis. Deferred tax assets for the unused tax losses carried forward of a subsidiary are recorded to the extent that taxable income is likely to be available for these, so that the loss carried forward can actually be used. The company calculates deferred tax liabilities on the difference between proportionate equity of a subsidiary in the consolidated balance sheet and the carrying amount of the investment in the tax balance sheet of the group (outside basis differences) if realisation is probable. The company can individually choose the timing of the profit distribution of subsidiaries or reinvestment and therefore recognises deferred taxes only on outside-basis-differences when distribution is planned or foreseeable.

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

Other long-term assets

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

Financial liabilities

Financial liabilities are carried at amortised cost.

Lease liabilities (short- and long-term)

init as lessee

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

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

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

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

Pensions accrued and similar obligations

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

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

NOTES ON THE CONSOLIDATED INCOME STATEMENT

4. Revenues

Revenues are composed of the following amounts:

EUR '000	**2020**	2019
Revenues resulting from the application of the POC method and delivery projects	126,927	99,538
Revenues from maintenance contracts	32,167	31,980
Revenues from additional and replacement deliveries	21,574	24,946
Total	**180,668**	**156,464**

In the item “Revenues resulting from the application of the POC method and delivery projects”, an amount of EUR 37,607k (previous year: EUR 24,124k) stems from revenues of delivery projects. This increase is mainly the result of sales from the acquisitions made in 2020.

5. Cost of sales

Cost of sales is composed as follows:

EUR '000	2020	2019
Cost of materials and purchased services	57,258	48,202
Personnel expenses	43,515	37,722
Depreciation and amortisation	6,193	4,924
Rental expenses	1,781	1,538
Travel and entertainment costs	1,007	2,667
Valuation adjustments on inventories	224	115
Valuation adjustments on trade accounts receivables	515	960
Other	8,009	7,098
Total	**118,502**	**103,226**

As in the previous year, the vehicle costs as well as repair and maintenance expenses are included in the item “Other”. On the other hand, it includes income from the reversal of provisions of EUR 913k (previous year: EUR 656k).

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	2020	2019
Software	9,330	8,137
Hardware	1,634	2,303
Total	**10,964**	**10,440**

The slight year-on-year increase in research and development costs is partly due to the acquisitions made in 2020.

7. Other operating income

Other operating income primarily includes allocated benefits in kind and rental income. Additionally, EUR 665k (previous year: EUR 528k) results from public subsidies and subsidies from the European Union. Income from operating leases amounted to EUR 285k (previous year: EUR 322k).

8. Foreign currency gains and losses

EUR '000	2020	2019
Balance of unrealised currency gains / losses	-4,410	1,287
Balance of realised currency gains / losses	3,775	-709
Currency gains / losses from consolidation transactions	663	95
Total	**28**	**673**

Realized and unrealized gains and losses stem almost exclusively from effects resulting from USD and CAD positions.

9. Income tax

EUR '000	2020	2019
Current income tax	3,726	4,314
Deferred income tax	68	-411
Total	**3,793**	**3,903**

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

EUR '000	2020	2019
Profit before income tax	18,737	15,238
Theoretical income tax expenditure at 31.0%	5,808	4,724
Tax rate differences for foreign subsidiaries	-1,409	-857
Tax effect of non-deductible / taxed expenses / income	-471	65
Tax effects of tax-free increases in net worth	0	0
Taxes unrelated to accounting period	-62	-78
Tax effects from results of associated companies	56	88
Other	-129	-39
Effective income tax expenditure	**3,793**	**3,903**
Effective tax expenditure in %	**20.2**	25.6

The tax rate in 2020 is below the previous year and below the theoretical tax rate of 31.0 per cent. This is mainly due to the earnings of companies with lower tax rates.

The reconciliation of the deferred tax assets and deferred tax liabilities to the deferred taxes reported in the consolidated income statement is presented below:

EUR '000	2020	2019
Changes to deferred tax assets	86	-775
Changes to deferred tax liabilities	-3,174	41
Offset and recognised in equity	-138	444
Addition from initial consolidation recognised directly in equity	3,151	0
Currency adjustments	143	-121
Deferred tax expense (+) / income (-)	**68**	**-411**

The change of deferred tax liabilities includes the addition of deferred taxes from the purchase price allocation of DResearch.

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

10. Net gains and losses from financial instruments

Net gains from the other financial assets and liabilities are as follows:

Interest expense and income:

EUR '000	2020	2019
Financial assets at amortised cost	93	102
Financial liabilities recognised at cost	-692	-726
Interest expenses for pensions	-107	-190
Others	-42	-70
Interest expense from leases	-157	-118
Total	**-905**	**-1,002**

Currency effects:

EUR '000	2020	2019
Financial assets at amortised cost	4,417	-1,176
Financial liabilities at amortised cost	284	-1
Financial assets and liabilities reported at fair value through profit or loss	-451	518
Total	**4,250**	**-659**

In addition to impairments and reversals of impairments, the net gains from the loans and receivables also include foreign currency effects.

The net gains and losses from the financial assets and liabilities reported at their fair value through profit or loss essentially include the results from changes in market value.

Further information on impairments can be found in note 16.

11. Earnings per share

Earnings per share are calculated by dividing the consolidated net profit due to the shareholders of the parent company by the weighted number of shares outstanding (subscribed capital less treasury shares). Since init SE had not issued any stock options by the reporting dates, there were no diluted earnings per share.

	2020	2019
Net profit (shareholders of the parent company) in EUR '000	14,943	11,335
Weighted average number of shares outstanding	9,957,103	10,005,661
Basic earnings per share in EUR	1.50	1.13

12. Paid and proposed dividends

EUR '000	2020	2019
Ordinary dividends declared and paid during the financial year	3,982	1,200
Ordinary dividends proposed at the shareholders' meeting for approval (on 31 December, not reported as liability) Dividend for 2020: 55 cents per share (2019: 40 cents per share)	5,461	4,003

13. Personnel expenses

Personnel expenses totalled EUR 78,144k (previous year: EUR 67,776k).

The acquisition of the DResearch Group resulted in an increase of EUR 3,006k.

Cost of sales includes the following amounts:

EUR '000	2020	2019
Wages and salaries	36,065	30,905
Social security contributions	5,912	4,980
Pension costs	1,075	1,628
Share-based payment expense	464	209

Sales and marketing expenses include the following amounts:

EUR '000	2020	2019
Wages and salaries	10,568	9,573
Social security contributions	1,516	1,283
Pension costs	301	362
Share-based payment expense	275	133

General administrative expenses include the following amounts:

EUR '000	2020	2019
Wages and salaries	9,395	6,938
Social security contributions	1,175	979
Pension costs	265	263
Share-based payment expense	175	85

Research and development expenses include the following amounts:

EUR '000	2020	2019
Wages and salaries	8,957	8,512
Social security contributions	1,684	1,570
Pension costs	319	358

NOTES ON THE CONSOLIDATED BALANCE SHEET

14. Cash and cash equivalents

EUR '000	Fair values 2020	Fair values 2019
Cash in banks (current accounts)	25,972	24,438
Short-term deposits (fixed-term deposits/call money)	6,239	1,736
Total	**32,211**	**26,174**

15. Marketable securities and bonds

This item refers to marketable securities and bonds with a total fair value of EUR 40k (previous year: EUR 37k). As a permanent impairment in value is assumed, the fair value (market value on the reporting date) of the securities and bonds was decreased through profit and loss by EUR 3k (previous year: increased by EUR 9k).

16. Trade accounts receivable and contract assets

EUR '000	2020	2019
Gross trade receivables	43,353	47,627
Less cumulative value adjustments	-4,703	-4,602
Subtotal	38,650	**43,025**
Contract assets	22,174	22,099
Total	**60,824**	**65,124**

The value adjustments for trade accounts receivable developed as follows:

EUR '000	2020	2019
As of 01/01	4,602	3,642
Addition	963	1,004
Unused amounts reversed	-611	-106
Currency effects	-287	62
Increase through acquisition subsidiaries	35	0
As of 31/12	**4,703**	**4,602**

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”.

The past due trade accounts receivable amount to EUR 19.3m (previous year: EUR 17.0m), whereby the projects in Dubai account for EUR 3.2m of this amount (previous year: EUR 3.1m). Of the past due trade accounts receivable in Dubai, around EUR 3.2m (previous year: EUR 3.1m) 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. init has carried out various enforcement measures in Dubai and Kuwait that have not been successful to date. There is therefore a high probability that these receivables will default.

For contract assets, value-impairing factors which may primarily result from changes in contractual values are continuously considered in concurrent project calculations.

At the reporting date, there were no indications to suggest that debtors of the trade receivables and contract assets which were not subject to value impairment would not meet their financial obligations.

Production orders

The production orders valued on the reporting date using the percentage of completion method but not yet completed are as follows:

EUR '000	2020	2019
Costs accrued plus profits from projects not yet invoiced	241,624	225,712
Less payments received	-234,696	-220,048
Balance	**6,928**	**5,664**
Of which: contract asset	22,174	22,099
Of which: contract liabilities	15,246	16,435

17. Inventories

EUR '000	2020	2019
Raw materials and supplies	3,391	1,694
Goods and work in process and finished products	29,235	25,482
Advance payments to suppliers	0	607
Total	**32,626**	**27,783**

Goods as well as work in process and finished products are combined in one item due to the production circumstances. The impairment loss was calculated on a flat-rate basis and recognised in profit or loss.

18. Other current assets

EUR '000	2020	2019
Derivative financial instruments	288	28
Prepaid expenses	852	907
Other tax refund claims	886	1,324
Cost to obtain a contract	59	435
Cost to fulfil a contract	224	359
Due from personnel	305	354
Other	593	327
Total	**3,207**	**3,734**

On the reporting date, there were no indications to suggest that the value of the other assets was impaired.

The tax refund claims are mainly input tax refund claims against European countries inside and outside the EU as well as North America.

The items “Cost to obtain a contract” and the “Cost to fulfil a contract” were depreciated according to the stage of completion of the respective contract.

19. Property, plant and equipment

EUR '000	Land and buildings	Plant and machinery	Other equipment	Right of use	Assets under construction
Acquisition and production costs					
As of 01/01/2020	34,856	4,760	12,369	15,033	1,363
Additions in current financial year	882	892	2,262	8,526	1,498
Disposals in current financial year	89	113	679	1,205	229
Reclassification in current financial year	3,141	-344	751	0	-3,525
Currency differences	-1,056	-178	-374	-282	0
Acquisition of subsidiaries	1	134	120	0	897
As of 31/12/2020	37,735	5,151	14,449	22,072	4
Depreciation					
As of 01/01/2020	4,558	2,759	7,726	2,532	0
Additions in current financial year	797	640	2,294	3,365	0
Disposals in current financial year	89	112	656	1,205	0
Reclassification in current financial year	0	0	-24	0	0
Currency differences	-88	-131	-247	-70	0
As of 31/12/2020	5,178	3,156	9,093	4,622	0
Carrying amount as of 31/12/2020	**32,557**	**1,995**	**5,356**	**17,450**	**4**

EUR '000	Land and buildings	Plant and machinery	Other equipment	Right of use	Assets under construction
Acquisition and production costs					
As of 01/01/2019	34,107	3,823	10,012	0	0
Additions in current financial year	76	1,077	2,747	15,046	1,363
Disposals in current financial year	3	183	509	0	0
Reclassification in current financial year	427	0	0	0	0
Currency differences	249	43	119	-13	0
Acquisition of subsidiaries	0	0	0	0	0
As of 31/12/2019	34,856	4,760	12,369	15,033	1,363
Depreciation					
As of 01/01/2019	3,633	2,332	6,334	0	0
Additions in current financial year	880	556	1,793	2,532	0
Disposals in current financial year	0	155	484	0	0
Reclassification in current financial year	33	0	0	0	0
Currency differences	13	26	83	0	0
As of 31/12/2019	4,558	2,759	7,726	2,532	0
Carrying amount as of 31/12/2019	**30,297**	**2,001**	**4,643**	**12,501**	**1,363**

The property, plant and equipment essentially concern the administration buildings at Kaeppelestrasse 4 and 4a in Karlsruhe, the building in Chesapeake, USA, as well as office equipment and technical equipment. Depreciation follows the straight-line method over the average useful life of the asset. Scheduled depreciation in 2020 totalled EUR 7,096k (previous year: EUR 5,760k) and is included in the consolidated income statement under “Cost of sales”, “Sales and marketing expenses” and “General administrative expenses”. The individual figures can be found in note 21.

Currently there are no restrictions on the right of disposal. The loans for financing the two administration buildings are fully secured by land charges in the amount of EUR 1.7m (previous year: EUR 2.8m).

EUR 8,526k of the additions relate to the capitalization of leases in accordance with IFRS 16. EUR 7,491 k of these relate to office buildings and EUR 821k to motor vehicles. The remaining additions to rights of use came from the small IT equipment and miscellaneous asset classes. Depreciation of rights of use in the 2020 financial year amounted to EUR 1,759k from the office buildings asset class, a further EUR 355k came from motor vehicles, and the remainder from small IT equipment and miscellaneous.

The advance payments of EUR 383k from fiscal year 2019 included in property, plant and equipment have been reclassified as an addition to the capitalization of rights of use, as the use and therefore capitalization in 2020 was based on the use of the building.

Right-of-use assets

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

EUR '000	Office buildings	Vehicles	IT-equipment	Other	Total
At 1 January 2020	11,511	754	96	140	12,501
Additions during the year	7,491	821	143	71	8,526
Disposals during the year	-865	-242	-31	-68	-1,206
Depreciation expense	-1,759	-355	-27	-20	-2,161
Currency differences	-204	0	-11	5	-210
At 31 December 2020	16,174	978	170	128	17,450

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

Right-of-use assets consist mainly of rented office buildings. The right-of-use asset of the office building Kaeppelestrasse 6 of init SE in Karlsruhe amounts to EUR 2.975k at the year-end 2020. The additions to the rights of use are made up of the offices of iris-GmbH, Berlin, newly occupied in 2020 amounting to EUR 3,816k, by the offices of the new acquisition DResearch Fahrzeugelektronik Group (DVS/DFE) amounting to EUR 2,783k, and by the exercise of renewal options of some buildings.

20.Investment property

EUR '000	2020	2019
Acquisition costs as of 01/01	1,603	2,024
Additions in financial year	0	0
Changes in property, plant and equipment in financial year	0	-427
Currency differences	-24	6
Acquisition costs as of 31/12	1,579	1,603
Depreciation as of 01/01	123	126
Additions in financial year	57	30
Reclassifications in property, plant and equipment in financial year	0	-33
Currency differences	-2	0
Depreciation as of 31/12	178	123
Carrying amount as of 31/12	**1,401**	**1,480**

Composition of earnings from investment property during the reporting period:

EUR '000	2020	2019
Rental income from investment property	285	322
Direct operating expenses* used to generate rental income	21	16

* including maintenance and repairs

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

The investment property is measured at amortised cost plus incidental costs and recognised on the balance sheet at a carrying amount of EUR 1.4m (previous year: EUR 1.5m). The buildings are depreciated on a straight-line basis over a useful life of 50 years or 27.5 years.

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

The fair value at the end of the reporting period approximates the carrying amount and is determined using the discounted cash flow method. The fair value was determined using the discounted cash flow method. The measurement of investment property is dependent upon the assumptions used to calculate future cash flows. Changes in the interest rate, the expected price developments and market conditions affect the future cash flows and, in consequence, the amount of the fair values. The valuation was done internally because of the principle of materiality and the expected immaterial difference between fair value and carrying amount.

The operation, maintenance and care of the land and buildings are handled by the tenants, who also bear the related costs.

21. Goodwill and other intangible assets

EUR '000	Goodwill	Internally generated software	Licences and others
Acquisition and production costs			
As of 01/01/2020	9,035	8,483	18,690
Additions in current financial year	0	0	1,618
Disposals in current financial year	0	0	49
Acquisition of subsidiaries	3,453	0	10,326
Currency differences	0	0	-4
As of 31/12/2020	12,488	8,483	30,580
Amortisation			
As of 01/01/2020	0	8,483	9,925
Additions in current financial year	0	0	2,123
Disposals in current financial year	0	0	49
Currency differences	0	0	-1
As of 31/12/2020	0	8,483	11,998
Carrying amount as of 31/12/2020	**12,488**	**0**	**18,582**

EUR '000	Goodwill	Internally generated software	Licences and others
Acquisition and production costs			
As of 01/01/2019	9,035	8,483	18,356
Additions in current financial year	0	0	389
Disposals in current financial year	0	0	55
As of 31/12/2019	9,035	8,483	18,690
Amortisation			
As of 01/01/2019	0	8,483	8,584
Additions in current financial year	0	0	1,396
Disposals in current financial year	0	0	55
As of 31/12/2019	0	8,483	9,925
Carrying amount as of 31/12/2019	**9,035**	**0**	**8,765**

The scheduled depreciation for items of property, plant and equipment and amortisation other intangible assets totalled EUR 9,214k (previous year: EUR 7,191k) and is included in the consolidated income statement under "Cost of sales" (EUR 6,193k), "Sales and marketing expenses" (EUR 1,744k) and "General administrative expenses" (EUR 1,277k). Of the scheduled depreciation and amortisation in the previous year, EUR 2,532k is attributable to the rights of use to be recognised for the first time in 2019 in accordance with IFRS 16.

Impairment test of goodwill

So far, no impairment of goodwill was necessary.

The recoverable amount of the cash-generating unit is determined on the basis of the calculation of the economic benefit of using cash flow projections based on budgetary accounting approved by the Managing Board for a period of three years. Steady cash flows were shown for the following period. The interest rate applied for the discounting is 12.0 per cent before taxes (previous year: 8.2 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

The global pandemic regarding COVID-19 does not have a significant impact on the above-mentioned figures.

Revenues: Revenues are planned on the basis of the order backlog, the open and announced tenders, offers made and past experience. Significantly increasing revenues (+15 per cent) are expected.

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

Discount rate: The discount rate reflects the estimate of the company management with regard to the risks relating to the cash-generating unit. An interest rate of 8.3 per cent (previous year: 6.5 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

In order to assess the recoverability of goodwill, the group performs sensitivity analyses in the course of the impairment test. In doing so, assumptions considered possible, such as an increase in the interest rate, a reduction in planned sales, and a reduction in the planned free cash flow of the cash-generating unit, are taken into account for each planning year. In no scenario considered possible would the recoverable amount of the cash-generating unit fall below the carrying amount.

Other intangible assets

Customer base, licences and others:

The licences include external software costs as well as programming and consulting of EUR 1,988k (previous year: EUR 678k). The scheduled amortisation amounts to EUR 468k (previous year: EUR 539k) and is included in the consolidated income statement item “Cost of sales”.

The capitalised technology and the capitalised customer base from the takeover of iris-GmbH in 2016 amounted to EUR 5,389k (previous year: EUR 5,902k). Scheduled amortisation amounts to EUR 513k (previous year: EUR 513k) and is included in the income statement item “Cost of sales”.

The capitalized customer base from the acquisition of HanseCom in 2016 amounts to EUR 1,013k (previous year: EUR 1,151k). Depreciation and amortisation amounted to EUR 138k (previous year: EUR 214k) and are included in the "Cost of revenues" item in the income statement.

The capitalised technology and the capitalised customer base from the takeover of Mattersoft in 2018 amounted to EUR 905k (previous year: EUR 1,034k). Scheduled amortisation amounts to EUR 129k (previous year: EUR 129k) and is included in the income statement item “Cost of sales”.

The capitalized technology and the capitalised customer base from the takeover of the DResearch Group in 2020 amount to EUR 9,287k (previous year: EUR 0k). Scheduled amortisation amounts to EUR 875k (previous year: EUR 0k) and is included in the income statement items "Cost of sales" (EUR 199k), "Sales and marketing expenses" (EUR 640k) and "General administrative expenses" (EUR 36k). Furthermore, licenses amounting to EUR 163k were taken over.

22. Interests in associated companies

The associated company maBinso software GmbH, Hamburg, is not publicly listed. The business of maBinso is the creation, sale and operation of software as well as the related consulting for public transport. The net profit corresponds to the comprehensive income and amounted to EUR 452k (previous year: EUR 351k). In 2020, the pro-rata result for init group amounted to EUR 217k. No distribution was made in the 2020 financial year. Amortisation of investments in associated companies was not required.

The associated company Bytemark is not publicly listed. The purpose of the company is the creation of mobile ticketing solutions for transport companies. Revenues for the financial year 2020 totalled USD 1,050k. The earnings before tax for the full year 2020 is USD -2,775k. The net profit corresponds to the total result and amounts to USD -2,777k (previous year: USD -3,066k). The pro-rata result of the init group for 2020 is EUR 0k (previous year: EUR -301k). No distribution was made in the financial year 2020. In financial year 2019, we wrote off our stake in Bytemark completely. The change since the previous year of USD -650k consists of the amount of USD 337k and the write-down of USD 313k. The current and non-current assets amount to USD 3,249k. This corresponds to total assets. Together current and non-current liabilities total USD 5,038k.

23. Deferred taxes

The deferred tax assets and liabilities are as follows:

EUR '000	2020	2019
Deferred tax assets		
Receivables	89	171
Inventories	1,888	1,600
Other assets	742	487
Provisions	597	497
Pensions accrued and similar obligations	2,194	1,988
Total deferred tax assets	**5,510**	**4,743**
Deferred tax liabilities		
Contract asset	1,997	1,696
Other assets	902	243
Property, plant and equipment	469	203
Goodwill	2,893	14
Other intangible assets	1,761	2,120
Other liabilities	178	69
Total deferred tax liabilities	**8,200**	**4,345**

As of 31 December 2020, the unused tax losses carried forward came to EUR 2,160k (previous year: EUR 2,590k). These unused tax losses would have resulted in deferred tax assets of EUR 665k (previous year: EUR 798k). For the planning horizon, it is unsure whether it will be possible to offset these unused tax losses against future tax payments. In general, tax losses can be used indefinitely. The above mentioned amount includes tax losses of subsidiaries based in Canada of EUR 59k (previous year: EUR 1,930k). Canadian tax losses can be used for 20 years before they expire. Additionally, tax losses regarding the German tax group were not considered when recognizing deferred tax assets. Due to uncertainties of recoverability, among other things owing to the reference of the tax loss carryforwards to the core area of the company's activities. These tax losses may therefore recur in the future. Accordingly, these tax loss carryforwards have not been taken into account in the calculation of deferred taxes for reasons of materiality.

As of 31 December 20120, 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 around EUR 53m (previous year: EUR 44.5m).

In the reporting period deferred tax assets and deferred tax liabilities of EUR 2,121k were netted out.

24. Other non-current assets

EUR '000	2020	2019
Asset value of pension liability insurance	1,355	1,307
Security deposits*	425	397
Gold stock	1,248	1,091
Other*	63	397
Total	**3,091**	**3,192**

* Non-current financial assets

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

No non-current financial assets are overdue.

25. Liabilities

	31/12/2020			31/12/2019		
		Remaining term			Remaining term	
EUR '000	Total	< 1 year	> 5 years	Total	< 1 year	>5 years
Bank loans (short- and long-term)	37,459	17,480	760	30,070	17,842	1,655
Trade accounts payable	7,541	7,541	0	8,560	8,560	0
Contract liabilities	15,246	15,246	0	16,435	16,435	0
Advance payments received	1,360	1,360	0	747	747	0
Income tax liabilities	1,010	1,010	0	3,040	3,040	0
Other liabilities (short-term)	19,923	19,923	0	20,696	20,696	0

In 2020, almost 80 per cent of the contract liabilities from the previous year of EUR 16,435k were recognised in revenues in 2020.

Terms relating to the above financial liabilities:

The bank loans of EUR 37,459k (previous year: EUR 30,071k) relate to long-term loans of EUR 1,373k (previous year: EUR 1,732k) for financing the buildings at Kaeppelestrasse 4, 8 / 8a and 10 which are fully secured by a land charge and the resulting current share of EUR 359k (previous year: EUR 1,081k). In addition, there are loans for acquisition financing of EUR 11,345k (previous year: EUR 3,345k), investment loans of EUR 5,410k (previous year: EUR 1,998k) as well as a long-term loan of EUR 7,915k (previous year: EUR 9,583k). There are also euro loans amounting to EUR 11,054k (previous year: EUR 12,332k).

The long-term loan of EUR 7,915k is subject to minimum capital requirements. A dynamic debt equity ratio of 3.5 must not be surpassed. For loans of EUR 2,294k a dynamic debt equity ratio of 2.5 must not be surpassed. If the covenants are exceeded, the loan falls due immediately for repayment. Due to the close monitoring and planning of this key figure, as well as the current liabilities and EBITDA, init does not expect to exceed this figure in the future.

The following credit and guarantee lines exist:

EUR '000		Overall line	Of which, cash line	Of which, guarantee	Cash or guarantee
Banks	**2020**	91,924	4,824	42,500	44,600
Credit insurance companies	**2020**	17,000	0	17,000	0
Bond line for USA and Canada	**2020**	60,738	0	0	0
Banks	2019	92,279	4,179	46,500	41,600
Credit insurance companies	2019	17,000	0	17,000	0
Bond line for USA and Canada	2019	75,655	0	0	0

The credit and guarantee lines are sufficient to finance the further growth of the company. On 31 December 2020, the drawdown of the cash line totalled EUR 11,054k (previous year: EUR 12,332k), that of the guarantee lines EUR 13,771k (previous year: EUR 25,646k), and that of the bond line EUR 60,738k (previous year: EUR 75,655k).

No interest is charged on the trade accounts payable.

For the terms and conditions relating to the accounts payable to related parties, please refer to note 35.

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

26. Other liabilities (non-current and current)

	31/12/2020			31/12/2019		
		Remaining term			Remaining term	
EUR '000	**Total**	< 1 year	> 1 years	Total	< 1 year	> 1 years
Tax liabilities	2,628	2,628	0	2,390	2,390	0
Due to personnel	7,186	7,186	0	7,034	7,034	0
Derivative financial instruments	11	11	0	39	39	0
Social security liabilities	359	359	0	305	305	0
Liabilities for services not invoiced by subcontractors	424	424	0	22	22	0
Liabilities from option contracts	0	0	0	4,000	4,000	0
Lease liabilities	17,100	3,204	13,896	12,554	2,487	10,067
Sundry	14,171	6,111	8,060	4,420	4,420	0
Total	**41,879**	**33,819**	**21,956**	**30,764**	**20,697**	**10,067**

The "Sundry" item mainly contains deferred revenues from prepaid warranty contracts of EUR 3,270k (previous year: EUR 3,017k) as well as a long-term financial liability for the payments of the purchase price for the acquisition of the DResearch Group of EUR 8,060k (previous year: EUR 0k). The associated current share is included in the current financial liabilities. There are no other liabilities with a residual term of more than five years.

The "Sundry" item includes current financial liabilities of EUR 2,841k (previous year: EUR 1,401k).

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

The maturities of the lease liabilities are as follows:

EUR '000	Office buildings	Vehicles	IT equipment	Other	Total
Within 1 year	2,450	563	58	133	3,204
More than 1 and up to 5 years	8,646	624	379	45	9,694
More than 5 years	4,202	0	0	0	4,202

The annual obligations from rental agreements of init amount to EUR 2,450k of which EUR 578k are attributable to the rental of the office building in Karlsruhe (contract term until 2026). No obligations are imposed on the lessee upon conclusion of these leasing agreements.

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

EUR '000	2020
At 1 January 2020	12,554
Additions	7,398
Interest increase	275
Payments	-3,127
At 31 December 2020	17,100
thereof short-term	3,204
thereof long-term	13,896

EUR '000	2019
At 1 January 2019	8,772
Additions	6,513
Interest increase	118
Payments	-2,849
At 31 December 2019	12,554
thereof short-term	2,487
thereof long-term	10,067

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

EUR '000	2020	2019
Depreciation expense during the year	2,160	2,532
Interest expense	157	118
Expense relating to short-term leases	150	155
Expense relating to low-value leases	24	26
Total amount recognised in profit or loss	2,491	2,831

28. Provisions

EUR '000	As of 01/01/2020	Currency differences	Utilised	Unused amounts reversed	Addition	Acquisition subsidiaries	As of 31/12/2020
Provisions for warranties	3,883	159	444	268	1,305	562	4,879
Provisions for unrealised costs	5,478	226	0	1,521	796	0	4,527
Provisions for anticipated losses related to projects	1,497	40	-37	0	772	0	2,266
Other provisions	609	5	509	218	2,177	341	2,395
Total	**11,467**	**430**	**916**	**2,007**	**5,050**	**903**	**14,067**

Additions for other provisions mainly refer to an addition for a "coronavirus bonus".

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

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

29. Pensions accrued and similar obligations

For the employees of init SE, INIT GmbH, initplan and initperdis there are both defined benefit plans and defined contribution plans. The liabilities include obligations from current pensions and for pension entitlements of future retirees. The defined benefit obligations 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 after departing the Managing Board of init SE and after departing as Managing Director of subsidiaries). Risks of inherent in 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)	0.54 (1.00)
Biometric basis	Klaus Heubeck's "Richttafeln G" (mortality tables) of 2018
Pension trend in per cent (previous year)	4.00 (4.00)
Employee turnover in per cent (previous year)	0.00 (0.00)

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

EUR '000	**2020**	2019
(Defined benefit obligation (DBO) at the beginning of the year	11,564	9,907
Service cost	101	94
Interest cost	114	180
Actuarial gains (–) / losses (+)	643	1,430
Pension payments	-227	-47
DBO at the end of the year	12,195	**11,564**
Plan assets	-428	-415
Pensions accrued	11,767	**11,149**

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

EUR '000	**2020**	2019
Fair value of the plan assets at 01/01	415	402
Interest income from plan assets	4	3
Financial actuarial gains (+) / losses (-)	-1	-1
Contributions to plan assets by the group	10	11
Fair value of the plan assets at 31/12	**428**	**415**

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

EUR '000	2020	2019
Service cost	101	94
Interest cost	114	180
Expenses for pension payments	**215**	**274**

In the consolidated income statement, the service cost is included in the “cost of sales” (EUR 79k), the “sales and marketing expenses” (EUR 14k) and the “general administrative expenses” (EUR 7k), and the interest paid is reported in the item of the same name.

EUR '000	2020	2019
Cumulated amount of the actuarial gains included in the shareholders’ equity, after deducting deferred taxes	-4,246	-3,802

EUR '000	2020	2019
Defined benefit obligation (DBO) at 31/12	12,195	11,563
Experience adjustments	-265	85

The pension provisions attributable to persons in key management positions totalled EUR 5,110k (previous year: EUR 4,866k). Of this, an amount of EUR 744k (previous year: EUR 693k) pertains to two former Managing Board members.

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
2020	-1,283	415	222	-1,202
2019	-1,261	557	205	-998

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 186k (previous year: EUR 173k) have been entered into in order to compensate risks. A further EUR 242k (previous year: EUR 242k) has been deposited on a pledged bank account. Due to the small amount involved, the excess obligations are financed from current cash flows.

Future cash flows

Expected pension payments (EUR '000):

2021	2022	2023	2024	2025	2026-2030
312	353	364	382	400	2,150

Previous year

2020	2021	2022	2023	2024	2025-2029
286	308	348	365	378	2,110

The weighted average maturity of the DBO of the defined benefit plans is 16 years (previous year: 16 years).

Defined contribution plans

In the 2002 financial year, init changed its pension plan regulations for new commitments. Accordingly, the company no longer makes any new, direct commitments. The amount recorded as expenses for contribution-based plans totalled EUR 1,015k (previous year: EUR 857k), of which EUR 176k (previous year: EUR 167k) is allocated to persons in key management positions.

30. Shareholders' equity

Capital stock

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

Shares outstanding:

	2020	2019
As of 01/01	10,003,066	10,010,857
Acquisition of treasury shares	-96,753	-15,164
Issue of shares to Managing Board, managing directors and key personnel	19,298	7,373
Issue of shares to employees	5,024	0
As of 31/12	**9,930,635**	**10,003,066**

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

Managing Board	Number of shares	Supervisory Board	Number of shares
Dr. Gottfried Greschner, CEO*	3,389,100	Hans-Joachim Rühlig	0
Dr. Jürgen Greschner, CSO	88,500	Ulrich Sieg	0
Jennifer Bodenseh, CFO	3,686	Christina Greschner	371,523
Matthias Kühn, COO	7,380	Drs. Hans Rat	0

* 3,345,000 of which are held by Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe. Dr. Gottfried Greschner holds a 74.2 per cent stake in this company.

Concerning the information provided pursuant to Section 26 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] we refer to note 43.

Conditional capital

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

Authorized capital

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

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

Additional paid-in capital

The additional paid-in capital on 31 December 2020 amounted to EUR 6,619k, 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 shares in 2007, the additional paid-in capital increased by EUR 514k. In the period from 2005 to 2019 an amount of EUR 2,033k was transferred to additional paid-in capital as part of the recognised expenses from the share-based payments (see note 37). In 2020, an amount of EUR 931k was transferred.

Treasury shares

The treasury shares as of 1 January 2020 totalled 36,934 shares. Based on a resolution passed at the Annual General Meetings of 13 May 2015 and 26 June 2020, the company is authorised to purchase treasury shares. On 4 March 2020 a decision was made to repurchase up to 20,000 shares. 20,000 shares were repurchased from 5 March to 17 March 2020 at an average price of EUR 20.18. On 17 March 2020 another decision was made to repurchase up to 70,000 shares. 51,613 shares were repurchased from 18 March to 30 April 2020 at an average price of EUR 19.49. Additionally on 28 July 2020 a decision was made to repurchase up to 25,140 shares. 25,140 shares were repurchased from 28 July to 18 August 2020 at an average price of EUR 32.71.

In connection with the stock ownership plan, 19,298 shares were transferred to board members and managing directors with a vesting period of five years during which shares cannot be resold and 5,024 shares with a vesting period of two years were transferred to employees during which shares cannot be resold either. 19,675 shares of the total 24,322 transferred shares were sold to subsidiaries for transfer to their employees (refer to note 37). On 31 December 2020, there were 109,365 treasury shares.

The company's treasury shares were measured at acquisition cost at EUR 2,384k (previous year: EUR 582k) and openly deducted from the equity capital. The total of 109,365 shares as of 31 December 2020 correspond to an imputed share of EUR 109,365 (1.09 per cent) of the capital stock. The shares were repurchased at an average price of EUR 21.81 per share. The treasury shares were 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 80,327k (previous year: EUR 70,505k) include the retained earnings of init SE and results of init SE and the consolidated subsidiaries generated since group affiliation.

Other reserves

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

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

Marking securities to market: Changes in the fair value of available-for-sale financial instruments are recognised in this reserve.

Capital management

The objective of capital management is to ensure financial flexibility for long-term business continuity and to secure strategic activities. Here, the init group focuses on securing liquidity, limiting the financial risks and maintaining the high equity ratio. The group has shown a consistently high equity ratio in the last few years. At the annual shareholders' meeting 2016, a resolution to create conditional capital of EUR 5,000,000 was passed. In addition, a resolution of the Annual General Meeting of 15 May 2019 created authorised capital of up to EUR 1,004,000.

31. Objectives and methods of financial risk management

The main financial instruments used by the company – with the exception of derivative financial instruments – include cash, securities, trade accounts receivables and loans. The purpose of the securities and bonds is the investment of funds of the group. The group has a number of other financial assets and liabilities, including trade accounts receivable and payable, which accrue directly within the scope of its business activities.

Furthermore, the group also acquires derivative financial instruments. These predominantly include forward exchange transactions and currency options. The purpose of these derivative financial instruments is the management of currency risks resulting from the business activities of the group.

The group has always pursued the policy of refraining from dealings in financial instruments and foreign currencies. However, since init also tries to keep its options open with regard to hedging currency risks, it may incur currency losses.

In addition, init holds 25kg of gold. The value of gold is subject to fluctuations as it is marked to market on the reporting date. The changes in value are reported in the income statement. There were no changes to the objectives or methods of financial risk management.

The main risks of the group in regard to financial instruments include foreign currency risks and risks of default. Corporate management regularly reviews and monitors each of these risks, which are described more specified in the following.

Foreign currency risk

Due to foreign revenues, the change in exchange rates constitutes a substantial risk. To hedge the foreign currency risk, the group uses forward exchange transactions for project business transactions. The hedges must be in the same currency as the underlying secured transaction. The group usually only enters into hedging transactions once a firm commitment has been made.

IFRS 7 provides that disclosures of market risks require sensitivity analyses that show the effects of hypothetical changes in risk variables on the operating result and equity. init is primarily exposed to a currency risk. The effects are determined by relating the hypothetical changes in the risk variables to the amount of financial assets and liabilities at the reporting date.

If the value of the euro relative to the foreign currencies relevant for init on 31 December 2020 had appreciated by 10 per cent, the operating result would have been EUR 850k less. The resulting appreciation of forward exchange transactions would have totalled EUR 1,440k. As a counter-effect, it would also have resulted in expenses of EUR 2,290k owing to cash in banks, trade accounts receivable and liabilities in foreign currency. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2020 had depreciated by 10 per cent, the operating result would have been EUR 1,080k higher. This breaks down as follows: EUR 1,719k relates to forward exchange transactions, compensated for by appreciation of cash in banks, trade accounts receivable and liabilities in foreign currency of EUR 2,799k.

If the value of the euro relative to the foreign currencies relevant for init on 31 December 2019 had appreciated by 10 per cent, the operating result would have been EUR 556k less. The resulting appreciation of forward exchange transactions would have totalled EUR 309k. As a counter-effect, it would also have resulted in expenses of EUR 865k owing to cash in banks, trade accounts receivable and liabilities in foreign currency. If, however, the value of the euro relative to all foreign currencies relevant for init on 31 December 2019 had depreciated by 10 per cent, the operating result would have been EUR 680k higher. This breaks down as follows: EUR 378k relates to forward exchange transactions, compensated for by appreciation of cash in banks, trade accounts receivable and liabilities in foreign currency of EUR 1,058k.

Risk of default

The group does not have any material risk of default concentrations. 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 trade accounts receivable are checked once a fortnight for receipt of payment and if necessary dunned. Bad debts for the 2020 financial year totalled EUR 0k (previous year EUR 0k).

All customers requesting transactions with the init group based on credit are subject to a credit investigation. Since the group concludes transactions only with recognised, creditworthy third parties, collateral is not considered to be necessary as it is not customary in our business environment.

The other financial assets of the group, which comprise cash, financial assets available for sale and specific derivative financial instruments, involve a maximum risk of default equivalent to the carrying amount of the respective instruments in case of default of the contracting party.

Interest change risk

The interest change risk to which the group is exposed to mainly results from short term euro loans. Further risks can arise from interest rate changes for financial assets. At present an increase in interest rates of 0.5 per cent up or down would not have any significant impact on the net assets, financial position and results of operations of the init group, due to the small size of such transactions.

Liquidity risk

As of 31 December 2020, the financial liabilities of the group had the following maturities. The particulars are based on contractual, non-discounted payments plus agreed or anticipated interest expenses (cash flows).

In order to curb liquidity risks, the liquidity of the init group is controlled by the corporate headquarters. The main aim is to ensure a minimum liquidity of each company to ensure solvency at all times. Our current projects provide the largest source of liquidity. In addition to these current revenues, the init group secures the liquidity risk through appropriate lines of credit that can be drawn as needed. Please refer to note 27.

As on 31 December 2020, the future cash flows from the financial liabilities were as follows:

EUR '000	Carrying amount	2021	2022	2023-2025	> 2025
Non-derivative financial liabilities					
Other financial liabilities	55,906	28,220	6,821	20,106	759
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	11	11	0	0	0
Derivative financial assets	-288	-288	0	0	0
Total		**-277**	**0**	**0**	**0**

The derivative financial liabilities and assets result in payments totalling EUR 15,746k and payments receivable totalling EUR 16,024k.

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

EUR '000	Carrying amount	2020	2021	2021-2023	> 2023
Non-derivative financial liabilities					
Other financial liabilities	40,020	27,562	4,144	6,659	1,655
Derivative financial liabilities and assets without a hedging relationship					
Derivative financial liabilities	39	39	0	0	0
Derivative financial assets	-28	-28	0	0	0
Total		**11**	**0**	**0**	**0**

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

As on 31 December 2020, the cash flows from lease liabilities were as follows:

EUR '000	Carrying amount	2021	2022-2025	> 2025
Lease liabilities				
not yet started leases	0	0	0	0
Lease liabilities	17,100	3,204	9,694	4,202
thereof according to contract duration	0	196	64	97
thereof possible extension options	0	9	1,417	1,002

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

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

32. Explanatory notes on the financial instruments

Classification and fair values

The following table presents the carrying amounts of the financial instruments of the group reported in the balance sheet on 31 December 2020 compared to 31 December 2019 and shows their classification in appropriate measurement categories according to IFRS 9:

	2020	2019
ASSETS		
Financial assets at amortised cost	**94,106**	**91,987**
Cash and cash equivalents	32,211	26,174
Trade accounts receivable	38,650	43,025
Accounts receivable due from related parties	174	52
Contract assets	22,174	22,099
Other financial assets (current)	897	637
Financial assets at fair value through other comprehensive income	**40**	**37**
Marketable securities and bonds	40	37
Financial assets at fair value through profit or loss	**288**	**28**
Derivative financial assets	288	28
LIABILITIES		
Financial liabilities recognised at amortised cost	**55,901**	**44,032**
Bank loans (current and non-current)	37,459	30,071
Trade accounts payable	7,541	8,560
Other liabilities (current)	2,841	5,401
Other liabilities (non-current)	8,060	0
Financial liabilities at fair value through profit or loss	**11**	**39**
Derivative financial instruments	11	39

Hierarchy of fair values to IFRS 13

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

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

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

Level 3: Inputs are 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 31/12/2020	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Derivative financial assets	288	0	288	0
Financial assets available for sale				
Marketable securities and bond issues	40	40	0	0
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	11	0	11	0

Evaluation of the fair value of all investment property is carried out on level 3.

For further information regarding “Assets for which fair values are disclosed / Investment property” please refer to note 20.

EUR '000	Fair value as of 31/12/2019	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Derivative financial assets	28	0	28	0
Financial assets available for sale				
Marketable securities and bond issues	37	37	0	0
Financial liabilities at fair value through profit or loss				
Marketable securities and bond issues	39	0	39	0

Over the course of the reporting periods which ended 31 December 2020 and 31 December 2019, there were neither reclassifications between the fair value categories of Level 1 and Level 2 nor any reclassifications into or out of the fair value category of Level 3.

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

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

Hedging transactions

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

	Nominal value		Market values	
EUR '000	**31/12/2020**	31/12/2019	**31/12/2020**	31/12/2019
Forward exchange transactions (Sale) in USD	15,746	2,252	278	28
Forward exchange transactions (Sale) in GBP	0	1,135	0	-39

33. Contingencies and other liabilities

Contingent liabilities

Contingent liabilities in the amount of EUR 373k from a legal dispute that existed in the previous year no longer exist in the current financial year. Due to unsolved technical specifications there is currently a contingent liability of EUR 171k (previous year: EUR 184k).

No other contingent liabilities existed on 31 December 2020.

Legal disputes

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

To hedge against risks arising from such disputes, the relevant group companies have set up appropriate provisions in their balance sheets where the dispute concerns an event before the reporting date and where a liability is likely, and its amount can be determined with sufficient accuracy. Please refer to note 28.

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

OTHER DISCLOSURES

34. Additional notes on the cash flow statement

The cash flow from operating activities includes proceeds from interest amounting to EUR 86k (previous year: EUR 98k) and interest payments amounting to EUR -395k (previous year: EUR -317k).

The cash outflows due to leases amounted to EUR 3,184k (previous year: EUR 4.343k), of which EUR 418k (previous year: EUR 131k) are attributable to the cash flow from operating activities and prepayments for a right-of-use asset amounting to EUR 5,792k (previous year: EUR 1,363k) to the cash flow from investing activities, another EUR -3,027k (previous year: EUR 2,849k) to the cash flow from financing activities.

The cash flows for investments in property, plant and equipment mainly relate to maintenance of capacities and expansion investments. The rest of cash flow from investing activities relate mainly to acquisitions of subsidiaries.

As in the previous year there were no inflows from dividend distributions. The outflow for dividends on init shares totalled EUR 3,982k (previous year: EUR 1,200k).

35. Related party transactions

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

	Associated companies		Other related parties and persons	
EUR '000	**31/12/2020**	31/12/2019	**31/12/2020**	31/12/2019
Trade accounts receivable and other income	2,558	250	0	0
Trade accounts payable and other expenses	325	130	575	574
Receivables at 31/12	174	277	0	0
Payables at 31/12	0	14	0	0

Associated companies

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

Other related party transactions

init SE rents an office building in Kaeppelestrasse 6 in Karlsruhe with 67.39 per cent from Dr. Gottfried Greschner GmbH & Co. Vermögens-Verwaltungs KG, Karlsruhe and with 32.61 per cent from Eila Greschner. The monthly rent payments are approximately EUR 46k (total annual rent: EUR 547k). The rent is contractually fixed until 30 June 2026. Total payments of EUR 8k (previous year: EUR 9k) made to family members of Board members were recognised under personnel expenses.

Terms and conditions of business transactions with related parties and persons

Sales to, and purchases from, related parties and persons are made under generally accepted market terms. There are no guarantees at all for accounts receivable or payable in regard to related parties and persons. The group did not accrue any cumulative value adjustments for accounts receivable from related parties and persons for the financial year to 31 December 2020 (previous year: EUR 0k).

Remuneration of persons in key management positions

The members of the Managing Board of init SE and the managing directors of INIT GmbH are considered to be persons in key management positions. For details on their remuneration, please refer to note 40.

36. Geographical Information

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

Revenues 01/01 to 31/12

EUR '000	2020	%	2019	%
Germany	47,298	26.2	44,426	28.4
Rest of Europe	37,674	20.8	37,906	24.2
North America	75,793	42.0	55,673	35.6
Other countries (Australia, UAE)	19,903	11.0	18,459	11.8
Group total	**180,668**	**100.0**	**156,464**	**100.0**

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

Non-current assets 31/12

EUR '000	2020	%	2019	%
Germany	61,497	78.9	43,426	72.7
Rest of Europe	2,147	2.8	680	1.1
North America	13,653	17.5	14,990	25.1
Other countries (Australia, UAE)	619	0.8	622	1.0
Group total	**77,916**	**100.0**	**59,718**	**100.0**

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

37. Share-based renumeration

Employee shares

In 2020 and 2019, there was no share-based remuneration for employees.

Equity-settled management bonuses

A further bonus for 2020 in the form of 750 or 1,500 shares will be granted to the Managing Board, if EBIT exceeds EUR 8m after deduction of all bonuses. In addition, for every EUR 1m profit of the amount exceeding EUR 8m up to an amount of EUR 15m further 150 or 300 shares as a bonus. Likewise, for every EUR 1m euros of profit in excess of EUR 15m 250 and 500 shares were granted as a bonus. The number of shares is limited to 10,000 and 20,000 Shares restricted. In the previous year, the Managing Board was entitled to a further bonus in the form of 750 and 1,500 shares EUR 5m before taxes and after deduction of all bonuses. In addition, for each EUR 1m of profit in excess of EUR 5m, up to an amount of 10m, a further 50 or 100 shares were granted as bonuses. In addition, a profit of EUR 1m of the amount exceeding EUR 10m up to an amount of EUR 15m, a further 100 or 200 shares is granted as a bonus. Likewise, for every 1 million euros of profit in excess of EUR 15m, further 150 and 300 shares respectively were granted as a bonus. The shares are subject to a lock-up period of five years and cannot be sold during this period. The income tax on the pecuniary advantage of the share transfer is borne by the company. No legal claim may be made to payment of this bonus in the form of shares, even where paid in previous years. The bonus is revised and agreed each year by the Supervisory Board.

In addition, managing directors of subsidiaries of the company are paid an equity settled bonus, the amount of which depends on the level EBIT. A total of 19,298 shares (previous year: 7,373) 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 2020, the valuation was based on 26,400 shares (previous year: 18,275). At the time of approval, the fair value based on the market price of the equity instruments issued amounted to EUR 598k

(EUR 32.70 per share) (previous year: EUR 301k) for the Managing Board and EUR 315k (EUR 38.90 per share) (previous year: EUR 126k) for key personnel; these amounts were recorded as expenses in 2020.

38. Subsequent events

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

39. Employees, Managing Board and Supervisory Board

Employees

The annual average number of employees was as follows:

	2020	2019
Employees Germany	784	680
Employees rest of Europe	52	40
Employees North America	138	123
Employees other countries	35	23
Total	**1,009**	**866**

Due to acquisition of the DResearch Group in 2020 the headcount increased by 60.

Managing Board

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

Dr. Gottfried Greschner, Karlsruhe, Germany	Chief Executive Officer
Dr. Jürgen Greschner, Pfinztal, Germany	Chief Sales Officer (Deputy Chairman)
Jennifer Bodenseh, Landau, Germany	Chief Financial Officer
Matthias Kühn, Karlsruhe, Germany	Chief Operating Officer

Dr. Gottfried Greschner is a member of the foundation board of Majolika-Stiftung für Kunst- und Kulturförderung, Karlsruhe.

Supervisory Board

The members of the Supervisory Board of init SE are:

Dipl.-Kfm. Hans-Joachim Rühlig, Ostfildern, Germany, Chairman	Former Financial Managing Director of Ed. Züblin AG, Stuttgart, Independent financial expert within the meaning of Section 100 (5) AktG Member of Supervisory Board of foundation building industry, Stuttgart Member Advisory Board of DResearch Fahrzeugelektronik GmbH, Berlin
Dipl.-Ing. Ulrich Sieg, Jork, Germany, Deputy Chairman	Consulting engineer specialising in public transportation, Member of Supervisory Board of SECURITAS Holding GmbH, Duesseldorf, Germany Member Advisory Board of HanseCom Public Transport Ticketing Solutions GmbH, Hamburg, Germany
Dipl.-Ing. (FH), M.A. Christina Greschner Karlsruhe, Member	Currently on parental leave
Drs. Hans Rat, Schoonhoven, The Netherlands, Member	Honorary Secretary General of UITP, Managing Director of Beaux Jardins B.V., Schoonhoven, The Netherlands

40. Disclosure of the compensation of key management personnel

The members of the Managing Board received total remuneration of EUR 2,761k (previous year: EUR 2,225k). This total includes fixed salaries of EUR 1,395k (previous year: EUR 1,475k), variable remuneration in the form of management bonuses of EUR 240k (previous year: EUR 204k), and EUR 1,126k (previous year: EUR 546k) in the form of shares, including the income tax payable for them. The managing directors of INIT GmbH, who are not members of the Managing Board of init SE, received total remuneration of EUR 1,049k (previous year: EUR 976k). This total includes fixed salaries of EUR 929k (previous year EUR 881k), variable remuneration in the form of management bonuses of EUR 0k (previous year: EUR 38k) and EUR 120k (previous year: EUR 57k) in the form of shares. This amount includes EUR 317k for two former members of the Supervisory Board. In compliance with Section 315a (1) HGB in conjunction with Section 314 (1) no. 6a sentences 5 to 8 HGB, the individualised disclosure of the Managing Board members' salaries can be withheld for a period of five years (Section 314 (2) sentence 2 in conjunction with Section 286 (5) HGB), which the Annual General Meeting on 21 July 2016 resolved to do.

The total remuneration of the Supervisory Board members for 2020 amounted to EUR 364k (previous year: EUR 236k). This includes a variable share of EUR 239k (previous year: EUR 121k) and is distributed as follows:

EUR '000	Fixed	Variable
Dipl.-Kfm. Hans-Joachim Rühlig	50	96
Dipl.-Ing. Ulrich Sieg	25	48
Dipl.-Ing. (FH), M.A. Christina Greschner	25	48
Drs. Hans Rat	25	48

In the 2020 financial year, the members of the Supervisory Board received EUR 0k (previous year: EUR 0k) for consulting activities.

41. Auditor

The auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, received compensation for audits of EUR 333k (previous year: EUR 287k), which was recorded as expenses. Expenditure for tax consulting services amounted to EUR 70k (previous year: EUR 22k). Other appraisal services incurred costs of EUR 0k (previous year: EUR 0k), and other services, of EUR 8k (previous year: EUR 16k).

42. Declaration of compliance with the German Corporate Governance Code

The declaration of compliance for init SE was made by the Managing Board and the Supervisory Board on 8 December 2020, and was made available to the shareholders on our website at https://www.initse.com/ende/investors/corporate-governance.html

43. Notifications under Section 26 (1) WpHG

For the year 2020, no notifications of changes in the voting rights of init SE pursuant to Section 33 et seq. WpHG.

On 26 May 2020, Midlin MV, Maarsbergen, the Netherlands informed us according to Section 33 (1) WpHG that its voting rights via shares in init innovation in traffic systems SE, Karlsruhe, Germany, fell short of the 3 per cent threshold of the voting rights on 20 May 2020 and on that day amounted to 2.94 per cent (this corresponds to 295,217 voting rights).

Teslin Capital Management BV, Maarsbergen, the Netherlands informed us on 26 May 2020, according to Section 33 (1) WpHG that its voting rights via shares in init innovation in traffic systems SE, Karlsruhe, Germany, held via Midlin NV, Maarsbergen, the Netherlands, fell short of the 3 per cent threshold of the voting rights on 20 May 2020 and on that day amounted to 2.94 per cent (this corresponds to 295,217 voting rights).

Union Investment Luxembourg S.A, Luxembourg, informed us on 23 December 2020, according to Section 33 (1) WpHG that its voting rights via shares in init innovation in traffic systems SE, Karlsruhe, Germany, fell short of the 3 per cent threshold of the voting rights on 21 December 2020 and on that day amounted to 3 per cent (this corresponds to 301,278 voting rights).

44. Approval of consolidated financial statement

At the Management Board meetings on 8 March and 10 March 2021, the consolidated financial statements and the combined management report of init SE as of 31 December 2020 issued by the Managing Board were approved for submission to the Supervisory Board.

Karlsruhe, 19 March 2021

The Managing Board

Dr. Gottfried Greschner

Dr. Jürgen Greschner

Jennifer Bodenseh

Matthias Kühn

AUDIT OPTION

"Independent auditor's report

To init innovation in traffic systems SE, Karlsruhe

Opinions

We have audited the consolidated financial statements of init innovation in traffic systems SE, Karlsruhe, and its subsidiaries (the "group"), which comprise the consolidated income statement, the consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2020, the consolidated balance sheet as of 31 December 2020, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2020, and the notes to the consolidated financial statements, including the recognition and measurement principles presented therein. In addition, we have audited the group management report, which is combined with the management report of init innovation in traffic systems SE for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance, which is published on the website stated in the group management report and is part of the group management report. We have also not audited the content of the disclosures which are not typical of management reports contained in section "Responsibility Statement by the Legal Representatives" of the group management report. This relates to any information whose disclosure in the group management report is not required pursuant to Sections 315, 315a or Sections 315b to 315d HGB ["Handelsgesetzbuch": German Commercial Code].

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020, and

- the accompanying group management report as a whole provides an appropriate view of the group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the declaration on corporate governance and the content of the abovementioned section "Responsibility Statement by the Legal Representatives" of the group management report.

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

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

1. First-time consolidation of the DResearch Fahrzeugelektronik Group

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

By agreement dated 28 April 2020, init SE acquired 51 per cent of the shares in the group of DResearch Fahrzeugelektronik GmbH, Berlin and Derovis GmbH, Berlin, indirectly via its wholly owned subsidiary iris-GmbH infrared & intelligent sensors, Berlin. The remaining 49 per cent of the shares will be acquired as of 1 January 2022. Pursuant to IFRS 3, the acquisition was treated as a business combination and accounted for using the acquisition method. For the purchase price allocation, the identifiable assets acquired and liabilities assumed of the acquired entity were measured at fair values. Due to the estimation uncertainty involved in the measurement of assets and liabilities in connection with purchase price allocation, especially against the background of the COVID-19 pandemic, as well as due to the overall material effects of the acquisition on the net assets, financial position and results of operations of the init group, we determined this to be a key audit matter.

Auditor’s response

During our audit of the acquisition of the group of DResearch Fahrzeugelektronik GmbH, Berlin and Derovis GmbH, Berlin, at first we inspected and verified the contractual agreements, and reconciled the purchase price paid as consideration for the acquired business operations with the documents made available to us. Building on this, we then assessed the acquisition statement of financial position at fair values at the date of first-time consolidation. Among other things, we assessed the measurements underlying the models and the measurement parameters and assumptions applied for appropriateness, also against the background of the effects of the COVID-19 pandemic. In light of the special aspects involved in the determination of fair values in connection with the purchase price allocation, we consulted with our valuation specialists. In addition to this, we verified the calculation of the difference from acquisition accounting. Furthermore, we assessed the disclosures in the notes to the financial statements required in accordance with IFRS 3. Overall, we were satisfied that the accounting treatment of this acquisition was appropriate and the estimates and assumptions made by the executive directors are plausible and adequately explained.

Our audit procedures did not lead to any reservations relating to the first-time consolidation of the DResearch Fahrzeugelektronik Group.

Reference to related disclosures

For information on the first-time consolidation, please refer to the disclosures under Section 3 “Accounting policies and consolidation principles” of the notes to the financial statements.

2. Revenues from construction contracts

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

The init group mainly generates its revenues from project development work for local public transport suppliers. These projects are generally long-term construction contracts; income from these contracts is recognized based on the effective progress (revenue recognition over time) of the respective performance obligations. The percentage of completion of unfinished and incomplete performance obligations as of the reporting date is calculated using the cost-to-cost method. We defined this subject matter as a key audit matter for our audit because the application of the revenue recognition over time method requires judgment by management related to the performance obligations identified in contracts, remaining total contract costs and total contract revenues. Changes in these judgments may lead to a significant increase or decrease in revenues and in net profit or loss for the period. Regarding revenue recognition, there is also a risk of error or infringement, whether due to fraud or error, when determining the achievement of performance targets and forecasts.

Auditor’s response

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

Our audit procedures included reviewing significant contracts and analyzing the identified performance obligations. The audit also included reviewing whether the progress of the project with regard to the contract values and the share of the costs incurred was determined correctly. For this purpose, we particularly reviewed the allocation of costs regarding the amount and the related project using orders, evidence of performance as well as supplier invoices. We also examined samples of costs reported by every employee involved on a project by reconciling the incurred hours with the recorded hours and obtained an understanding of the hourly rates used for the calculation for individual employee groups. Furthermore, we tested the recognized future costs for plausibility and assessed the budget history to draw conclusions regarding reliability of the future cost estimates. We obtained explanations and evidence from the project managers for significant deviations from previous-year assumptions for costs recorded in the reporting period. We assessed the compliance of the accounting and measurement principles applied by init innovation in traffic systems SE for the recognition of revenues with the IFRS framework and the relevant IFRSs standards. With regard to further application of IFRS 15, we examined the processes implemented by init innovation in traffic systems SE for determining the necessary disclosures in the notes to the financial statements.

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

In addition, we assessed the disclosures on revenue recognition required by IFRS 15 made in the notes to the consolidated financial statements of init innovation in traffic systems SE.

Our audit procedures did not lead to any reservations relating to the accounting treatment of revenues from construction contracts.

Reference to related disclosures

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

3. Measurement of inventories

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

The init group procures a significant amount of hardware for processing construction contracts. To safeguard long-term supply to customers, the init group procures and stores significant inventories beyond hose needed to process the construction contract, particularly for hardware components. Due to the high level of customization and the general technical development, the majority of these hardware components can only be used as spare parts for past contracts. These are recognized at the lower of cost or net realizable value. To ensure the measurement of inventories at the lower of these values, the company determined the expected net realizable values, as far as they can be estimated taking into account the current price development against the background of the COVID-19 pandemic, with the help of age-specific percentage allowances that are based on experience and evaluations of past projects. The determination of the allowances applied is based on assumptions from past experience and is therefore subject to judgement by the executive directors of the company.

Auditor's response

Taking into account the fact that there is an elevated risk of misstatements in the accounting due to the estimates and assumptions being made, we examined the valuation processes implemented by the init group and verified the allowances used. For this purpose, also against the background of the COVID-19 pandemic, we discussed the expected sales or processing periods for significant inventories with project managers, checked the procedure of past projects for consistency with the assumed sales or processing periods, thus reviewing the appropriateness of the allowances on a sample basis. In addition, we recalculated the system-based implementation of the impairments calculated using the defined allowances on a sample basis. To mitigate the inherent audit risk of this audit field, we ensured a group-wide consistent audit by issuing corresponding instructions to the component auditors.

Our audit procedures did not lead to any reservations relating to the measurement of inventories.

Reference to related disclosures

Further disclosures on the measurement of inventories are to be found in section "Estimates and assumptions" and "Inventories" section of Section 3 "Accounting policies and consolidation principles" and in Section 5 "Costs of sales" in the notes to the income statement as well as in Section 17 "Inventories" in the notes to the statement of financial position in the notes to the consolidated financial statements of the company.

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board according to Section 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act] as well as for their CVs. The executive directors and the Supervisory Board are responsible for the declaration pursuant to Section 161 AktG on the German Corporate Governance Code, which is part of the declaration on corporate governance. In all other respects, the executive directors are responsible for the other information. The other information comprises the statement on corporate governance published on the website stated in the group management report and the abovementioned disclosures which are not typical of management reports contained in section "Responsibility Statement by the Legal Representatives" of the group management report. The other information also comprises the non-financial report, of which we received a version prior to issuing this auditor's report. Furthermore, the other information comprises additional parts to be included in the annual report, of which we obtained a version prior to issuing this auditor's report, in particular:

- Letter from the CEO;
- Managing Board of init SE;

- Report of the Supervisory Board;
- Supervisory Board of init SE;
- Statement on corporate governance pursuant to Section 289f (2) HGB and Principle 22 GCGC 2020 and
- init share.
- Multi-period overview of the group key figures (IFRS)

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

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

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

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

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

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Report on the assurance in accordance with Section 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

Opinion

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file INIT SE_KA+KLB_ESEF 31122020.zip and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file in accordance with Section 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for quality control systems set forth in IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms" (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Section 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and the audited group management report as well as other documents to be published to the operator of the *Bundesanzeiger* [German Federal Gazette].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group auditor's responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on 26 June 2020. We were engaged by the Supervisory Board on 2 November 2020. We have been the auditor of init innovation in traffic systems SE without interruption since financial year 2001.

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

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

- Voluntary audit of annual financial statements,
- Tax advisory as well as
- Review of interim financial statements.

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

Stuttgart, March 22 2021

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Werling	Derosa
Wirtschaftsprüfer	Wirtschaftsprüfer

IMPRINT

Contact:

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

P.O. Box 3380
D-76019 Karlsruhe

Tel. +49.721.6100.0
Fax +49.721.6100.399

info@initse.com
www.initse.com

Text:

init
info@initse.com

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

Picture credits:
Uwe Sülflohn

Illustration title/envelope:
www.istockphoto.com

Print:
Stober GmbH
Druckerei und Verlag
Eggenstein

FIVE-YEAR FINANCIAL SUMMARY

of the init group (IFRS)

EUR ‘000	**2020**	2019	2018	2017	2016
Balance Sheet (31/12)					
Balance sheet total	226,645	200,398	168,461	176,805	185,132
Shareholders’ equity	90,522	85,547	75,762	73,309	76,401
Subscribed capital	10,040	10,040	10,040	10,040	10,040
Equity ration (in %)	40.0	42.7	45.0	41.5	41.3
Debt capital	136,123	114,851	92,699	103,496	108,731
Non-current assets	96,597	76,684	62,109	64,191	65,576
Non-current assets	130,048	123,714	106,352	112,614	119,556
Cash	32,211	26,174	20,620	19,763	23,920
Income Statement (01/01–31/12)					
Revenues	180,668	156,464	135,711	130,554	108,635
Gross profit	62,167	53,238	45,979	42,662	31,294
EBIT	19,642	16,240	6,372	8,563	11,665
EBITDA	28,891	23,453	10,942	12,763	15,722
Consolidated net profit	14,943	11,335	2,439	3,644	8,609
Earnings per share (in EUR)	1.50	1.13	0.24	0.37	0.86
Dividend (in EUR)	0.55*	0.40	0.12	0.22	0.22
Cashflow					
Cash flow from operating activities	24,437	21,132	12,809	2,051	13,182
Share					
Issue price (in EUR)	5.10	5.10	5.10	5.10	5.10
Peak share price (in EUR)	37.60	23.80	22.00	20.47	16.80
Bottom share price (in EUR)	15.25	12.15	13.80	13.51	12.60

* dividend to be proposed to the AGM 2021

FINANCIAL CALENDAR 2021

Q1

25 March

Publication Annual Report 2020
Press and Analyst Conference (virtual)

Q2

11 May

Publication Quarterly Statement 1/2021

19 May

Annual General Meeting 2021 (virtual)

Q3

11 August

Publication Half-Year Financial Report 2021

Q4

10 November

Publication Quarterly Statement 3/2021

22/23 November

Equity Forum (one-on-one meetings)