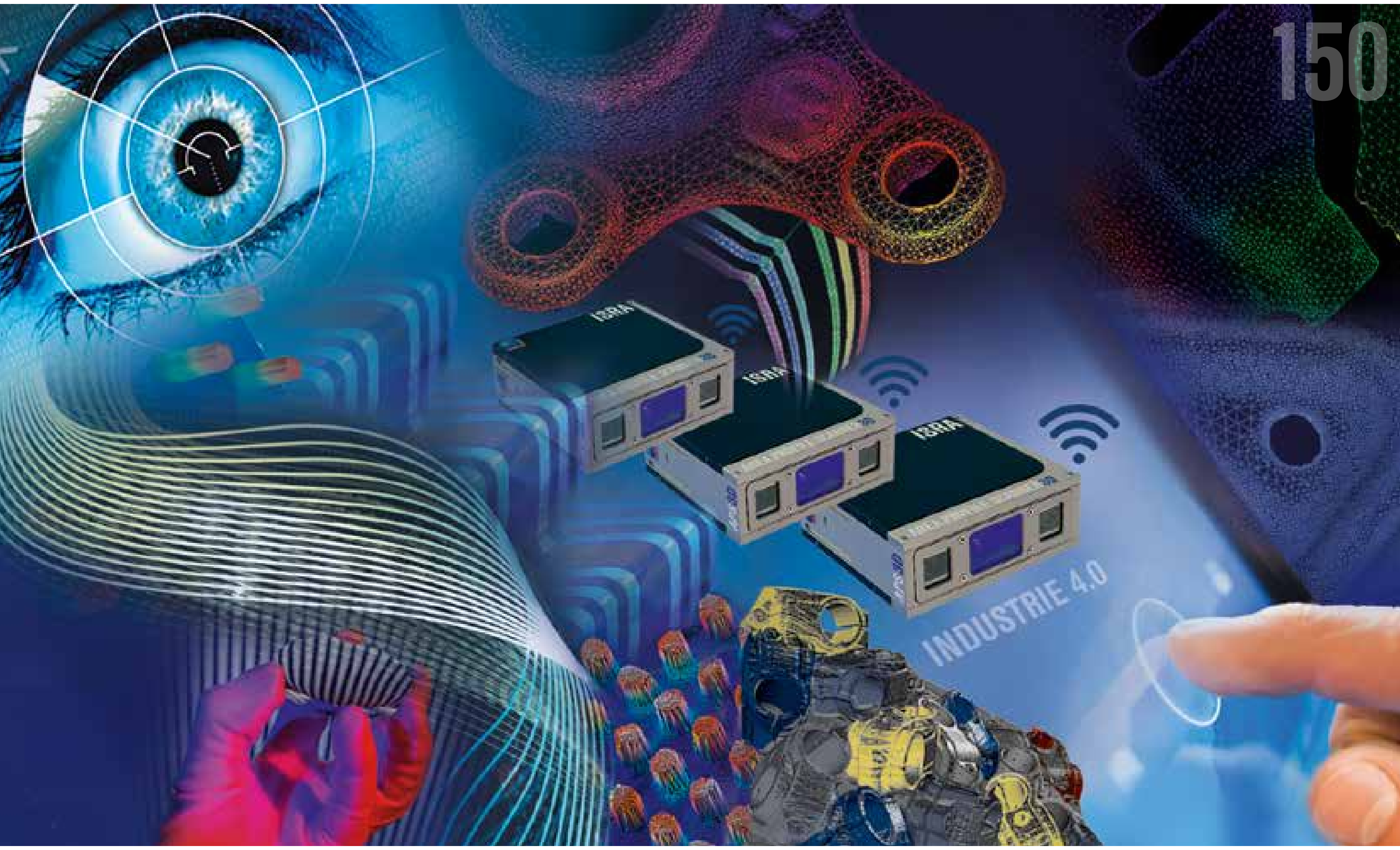
Annual Report 2015 / 2016

Touching the Future of Vision Automation



Selected Key Figures

Pro forma consolidated total operating revenue EBITDA-EBIT Statement*

(in €k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Net sales	128,815	112,235
Capitalized work	13,506	11,999
Total output	142,321	124,235
Cost of materials	28,983	25,082
Cost of labor excluding depreciation	26,500	23,874
Cost of production excluding depreciation	55,483	48,956
Gross profit	86,838	75,278
Research and development total	21,063	18,928
Sales and Marketing costs	24,665	20,576
Administration	4,818	4,462
Sales and Administration costs excluding depreciation	29,483	25,038
Other revenues	1,388	1,096
EBITDA	37,680	32,409
Depreciation and amortization	12,089	9,849
Total costs	62,635	53,815
EBIT	25,591	22,560
Interest income	41	35
Interest expenses	-477	-757
Financing result	-436	-722
EBT	25,155	21,838
Income taxes	7,398	7,059
Consolidated net profit	17,757	14,779
Of which accounted to non-controlling shareholders	201	-42
Of which accounted to shareholders of ISRA VISION AG	17,556	14,821
Earnings per share in €	4.01	3.39
Shares issued	4,379,295	4,371,041

* This pro forma presentation is an additional presentation based on the comprehensive presentation given in previous years and therefore not part of the IFRS consolidated financial statements. These are not IFRS key operating numbers. Please see explanation on page 33.

Selected financial data

(in €k/%)	Sept. 30, 2016	Sept. 30, 2015	Percentage change in %
ROCE (Return on Capital Employed)	13%	13%	
Equity Ratio	60%	56%	
Cash-Flow from operating activities	34,305	12,173	182%
Fund assets September, 30	16,919	15,161	12%
Earnings per share in €	4.01	3.39	18%
Dividend per share in €	0.48*	0.41	17%
Equity per share in €	36.38	33.06	10%
Shares issued	4,379,295	4,371,041	0%
No of employees (annual average)	629	607	4%

* Subject to the agreement of the General meeting

Annual Report 2015 / 2016

- Group Management Report 4
- Report of the Supervisory Board 25
- Corporate Governance Declaration incl. Declaration of Conformity with the GCGC 29
- Consolidated Financial Statements (IFRS) 34

Group Management Report ISRA VISION AG

Financial Year 2015/2016

1 Fundamental information about the Group

1.1 Business model

ISRA VISION – a global company

ISRA VISION AG, including all of its subsidiaries (ISRA), is one of the world market leaders for surface inspection systems. Furthermore, it is among the globally leading providers for image processing systems, specializing in the field of 3D Machine Vision, particularly for 3D Robot Vision.

Focusing on different industries with innovative solutions

The company's core competencies are solutions for automating production processes and quality assurance based on intelligent Machine Vision systems. Machine Vision is a key technology in the field of seeing systems that imitates the human eye and is therefore an essential requirement for enhancing efficiency and flexibility in production, particularly with regard to Industry 4.0.

ISRA's solutions combine a scientific know-how of optics, lighting technology, measurement technology, physics, image processing and classification algorithms with a system design adapted to the processes and requirements of its customer industries. Today's ISRA applications primarily concentrate on the automation of production and quality assurance of goods and products that are supplied to large, promising markets such as energy, healthcare, food, mobility and information technology. Amongst the customers are predominantly renowned global players of the respective industry that are distributed onto two segments. In the area of Industrial Automation, ISRA addresses first and foremost customers from the automotive industry and, complementarily, from other industries; in the Surface Vision segment customers mainly stem from the glass, solar, plastics, print, paper, security paper and metal industry.

Group, subsidiaries and branch locations

With more than 25 locations, ISRA is close to the customer at any location worldwide and ensures an optimal service and support.

Germany

ISRA is represented throughout Germany. ISRA VISION AG in Darmstadt is the headquarters for the Group. The departments of Finance, Marketing and Purchasing are concentrated at this location. The Industrial Automation division, with the automotive industry as its primary focus, is also managed from Darmstadt. The activities for developing and marketing the ready-to-use product lines for smart production automation on the basis of 3D Machine Vision also fall into this segment. Furthermore, the Surface Vision segment, which operates out of the Darmstadt location, provides services for customers in the printing industry. These activities are supported by Vision Experts GmbH in Karlsruhe. The Group's hardware development team is also represented at the Darmstadt and Karlsruhe locations.

Mainz-based Metronom Automation GmbH (Metronom) is a specialist in the area of 3D quality software for car body construction in the automotive industry. 3D-Shape GmbH in Erlangen with its products from the 3D measurement technology sector supplements the portfolio of ISRA VISION AG in the Industrial Automation segment. In addition, the location with its experienced technical experts and specialized three-dimensional measurement methods supports the further development of products for other target industries in the Surface Vision segment.

The Surface Inspection business for glass, plastics and security paper is concentrated in ISRA SURFACE VISION GmbH, Herten. In addition, Herten manages the central production for all areas. ISRA VISION LASOR GmbH, Bielefeld, develops the Surface Vision systems for security paper. ISRA VISION PARSYTEC AG in Aachen is focused on the metal and paper industry.

GP Solar GmbH with headquarters in Munich and an operating facility in Constance, together with GP Inspect GmbH in Munich and ISRA VISION Graphikon GmbH with headquarters in Berlin, are responsible for the activities in the photovoltaics and solar thermal energy industry. The portfolio includes solutions for the inspection of silicon-based wafers, solar cells and modules as well as for the inspection of modules based on thin-film technology and test devices for lab equipment in the solar industry. The launch of activities in wafer inspection for electronic assemblies is also overseen by these locations.

Outside of Germany, ISRA has subsidiaries and branch locations in all regions essential to its operating activity.

Europe

ISRA VISION PARSYTEC Ltd. in Hampshire, United Kingdom, concentrates on business with customers from the metal and paper industry, ISRA VISION Ltd. in London, United Kingdom, serves customers from the remaining ISRA target markets. The 75 % interest in ISRA VISION VISTEK A.S., Istanbul, Turkey, serves as a development location and as a springboard to the Turkish market, as well as both the Near and Middle East. ISRA VISION LLC in Moscow, Russia, serves the Russian market with inspection solutions. ISRA VISION Finland Oy, Helsinki, Finland, does not operate in the market.

America

ISRA VISION SYSTEMS Inc., Bloomfield Hills / Michigan), USA, runs the entire North American automotive business of the Industrial Automation division. All Surface Vision activities in North America were brought together under one roof at ISRA SURFACE VISION Inc., Berkeley Lake (Georgia), USA. ISRA VISION PARSYTEC Inc. was also successfully integrated into this unit. ISRA VISION COMÉRCIO, SERVIÇOS, IMPORTAÇÃO E EXPORTAÇÃO LTDA located in São Paulo, Brazil, is responsible for the South American market. It provides sales, service and engineering for customers primarily from the automotive, metal, plastics, printing and paper industry.

Asia

In Asia, ISRA is represented in the two segments Industrial Automation and Surface Vision with ISRA VISION (Shanghai) Co. Ltd., Shanghai, China. A branch of the Shanghai location is the Glass Center in Tianjin. Activities in the glass, solar, metal, plastics and printing industry are supported by the Taiwan office, which is part of ISRA SURFACE VISION GmbH. The activities in Mumbai and Calcutta, India, are concentrated in ISRA VISION INDIA Private Limited and are also targeting customers in the glass, metal, plastics and printing industry. The two companies ISRA VISION Korea Co. Ltd. in Seoul, South Korea, and ISRA VISION JAPAN Co. Ltd. in Tokyo, Japan, are additional important locations.

1.2 Objectives and strategies

Even after reaching the revenue goal of 100 million euros, ISRA's strategy continues to be directed at sustainably expanding its market position and to increase revenues – while optimizing costs and cash flow at the same time – to the mark of 150 million euros in the medium term. For this purpose, the focus will remain directed on the application of Machine Vision as core competence of the Company.

Continuous growth

Innovations remain essential drivers of the organic growth. As a technologically leading company in the area of Machine Vision, research and development have the highest priority for ISRA. The investments in R&D are the cornerstone for innovative products that enable new applications and solutions for customers all over the world. This creates the prerequisite for future profitable growth. For this reason, Management concentrates on a sustainable innovation roadmap for new products and applications that is continuously adapted to customer needs and market requirements in order to further increase the return on investment of customers.

Additionally, the multibranch strategy is an important factor to continue the course of the double-digit percentage growth. In the process, the Company does not only diversify itself via the two application fields Surface Inspection and Production Automation, but also via different customer industries in the strategic markets energy, health, food, transportation and information in different geographic regions. The 2008 / 2009 economic crisis has already shown that the broad strategic positioning made ISRA more robust and independent to economic and regional fluctuations. Consequently, projects for developing new customer industries, geographic regions or application fields will continue to be examined and implemented in case of a chance of success.

Optimization of cash flow and margins

By using economies of scale in all areas and efficiency increases in production, Management sees optimization and growth potentials for cash flow as well as margins. To prepare the organization to a continued revenue growth beyond 100 million euros, the Management concentrates on measures for increasing the cost efficiency for internal processes. In production, the activities for making processes leaner and for reducing lead times are being continued. In the same way, the cost optimization of products and applications is a fundamental part of ISRA's R&D strategy. The long-term goal for the gross margin is at least at 60 %. In addition, a focus remains on optimizing cash management.

Targeted acquisitions for expanding the portfolio

Besides organic growth, external growth through acquisitions of suitable companies is another important part of the long-term strategy. A meaningful expansion of the technology and product portfolio, an increase of the market shares, the development of new markets and an effective integration are at the center of the audits for the target companies in advance of an acquisition.

1.3 Internal management system

The economic planning and control of the Group is done centrally via the predefined targets specified by the Executive Board that are coordinated in the strategy process with the segments and functional units. Based on these specifications, a constant review of the business development takes place with the help of continually updated assessments of the control ratios and performance indicators. The implementation of the strategic goals, and measures for counteraction in case of deviations from the plan are being initiated for this review.

The company's key performance indicators stem from the consolidated total output EBITDA / EBIT statement.[1] They provide an industry-specific view of the company's efficiency and profitability. The most important key performance indicators are the revenues, the gross margin (gross profit to total output), EBITDA, EBIT and EBT as well as the corresponding margins, each with respect to total output.

ISRA is a market-oriented company, and the forecasts of sales are an additional foundation for the corporate management. The forecasts are created continually by the sales division. Based on this foundation, decisions are made about the further personnel requirements in the area of marketing, sales, service, production and engineering. The estimated quarterly and annual revenues report, which is continually adapted based on the sales forecasts, serves as leading target achievement indicator.

1.4 Research and development as catalyst for growth strategy

Research and development are an important foundation for innovations and, therefore, the prerequisite for future growth of ISRA. For the ability to expand product offerings for existing and new customers and to develop new applications for potential markets, ISRA continuously invests in research and development. In the year under review, 21.1 million euros were invested for this purpose, 11 % more than in the previous year (18.9 million euros).[2]

In the past financial year, the company once again successfully introduced a variety of new products and applications to the market. These include new products that offer customers a higher return on investment as well as cost-effective solutions tailored specifically for markets in Eastern Europe, Asia and Latin America. Regular customers were offered optimized products and solutions for existing and future production lines. At Group level, advances were made in strategic developments such as in the field of intelligent, high-resolution sensor technology and data analysis, which are used in a variety of customer applications.

In the Industrial Automation segment, ISRA concentrates particularly on 3D applications for Robot Vision and inline measurement technology. The R&D activities focus, among other things, on increasing the integrated intelligence and miniaturization of sensor systems as well as the preparation for modern communication channels. In addition, the sensor portfolio is successively expanded and, together with application-oriented database software, used for high-end solutions in the automotive industry. Many of these sensors also serve as an extension of the ready-to-use product line for smart production automation.

In the Surface Vision segment, the existing products for the metal, glass and plastic film inspection with their successful market presence underwent further development. Among other things, the focus is on the increase in resolution and inspection speed, the integration of intelligent sensors as well as the further modularization of the architecture for cost and performance-adaptive systems. At the same time, the application portfolio was expanded based on existing technologies for the purpose of growth and diversification of revenues. On top of that, highly integrated systems with local autonomous intelligence are developed further combined with quality databases and a networked architecture into high-end systems for global key accounts.

[1] The consolidated total output EBITDA / EBIT statement is a supplementary representation in the style of the previous years and, as such, not a component for the ISRA consolidated financial statements.

[2] Explanations about activated developments are located in the section Results of operations of the Report on economic operations.

2 Report on economic position

2.1 Macroeconomic and sector-specific environment

According to the economic reports by banks and economic research institutes[3] published as of the end of 2016, the global economy bottomed out in the course of 2016. While the positive but still moderate development continued in the developed countries, the economy returned to positive territory in many emerging countries in the second half of the year. Depending on the source, the year 2016 resulted in an overall growth of 2.8 % to 3.1 % which could again be slightly below the growth of the previous year. The key factors influencing the development of the global economy include the ongoing low interest rate policy in Europe and Japan, the expansive economic policy in China and the low price level for commodities.

Contradictory signals from the regions

As main sales markets of ISRA, the development in Germany, North America and China is of particular interest for the Company's course of business. The growth assessment in these three countries turns out to be mixed. With an increase in GDP of 1.8 %, Germany saw slight growth compared to the previous year, though this was driven in particular by dominant consumer demand and additional public sector consumption. Industrial production and exports, on the other hand, were weaker. The US economy performed very positively after a highly cautious first six months, and will achieve GDP growth of 1.6 % for the year as a whole. However, developments in the US were also influenced by persistently weak corporate investment. Because of the measures taken by the government with respect to financial policy and public investments, China could confirm the government's expansion targets with a growth rate of almost 6.7 %.

Positive development in the sector

Machine Vision is a key technology that is applied in nearly all industries. The sector profits from an increasing degree of automation in industrial production, along with continuous, fully automated optimization of productivity and production quality. Machine Vision also occupies an important role in securing sustainability in automated manufacturing processes since it supports companies in saving resources and minimizing environmental pollution.

Competition structures of the industry are marked by a high level of fragmentation in the form of many providers with relatively low market share. The majority of companies are smaller niche suppliers with few employees operating mainly locally or oriented towards specific customer applications. However, the pace of consolidation within the industry is accelerating.

For the year 2016, the German Engineering Federation VDMA expects that the German industry sales of the image processing industry will grow by approximately 8 % compared to 2015. Stimulus resulted in particular from significantly stronger demand from the Americas and Asia (up 14 % and 15 % respectively), while lower growth of 5 % was reported for revenues in Europe. The increase in European industry revenues was also around 8 %.[4] The AIA industry association anticipates a decrease in revenues for the North American image processing industry of around 3 % in the first nine months of 2015 as a result of a cyclical decline in the first and second quarters of the year. This is due to weaker business for application-specific Machine Vision systems (down 3 %) and components (down 2 %), while smart cameras posted growth of 10 %.[5] No statements for the year 2016 are available for the Asian region to date.

2.2 Course of business, net assets, financial position and results of operations

In the 2015 / 2016 financial year, ISRA once again reached the forecasted annual target and concluded the financial year with a strong fourth quarter. After reaching the revenue goal of 100 + in the 2013 / 2014 financial year, the company is still benefiting from the expected economies of scale and underscores its robust strategic positioning with a revenue growth of 15 % to 128.8 million euros (previous year: 112.2 million euros).

Besides organic growth, external growth through acquisitions of suitable companies is another important part of the long-term strategy. In the past financial year, Vision Experts GmbH, located in Karlsruhe, has been fully integrated in the Group. With the acquisition, ISRA significantly expanded the product portfolio as well as the customer base in the area of inspecting print products. Additional synergies will be leveraged by the consolidation of the ISRA location in Karlsruhe with Vision Experts.

Both company segments decisively contributed to reaching the annual target. Revenues in the Industrial Automation segment, whose customer base includes manufacturers from the international automotive industry in particular – and a number of premium German automotive manufacturers with global operations – and leading companies in other industries, increased by a further 17 % to 31.1 million euros, again outperforming the high level of the previous year (previous year: 26.6 million euros). The successful participation at the internationally largest trade fair for industrial automation, „AUTOMATICA", had an extremely positive effect on demand. Automotive industry customers in particular placed additional orders after the trade fair. This is added by a growing number of orders for optical systems for 3D measurement. This development is confirmed by a major strategic order for high-precision 3D surface measurement systems.

[3] cf., for example: Institute for the World Economy, Weltkonjunktur im Winter 2016; Berenberg Bank, Makroausblick November 2016; Commerzbank, Woche im Fokus – Ausblick 2017: Das Jahr der Politik.

[4] cf. VDMA: Industrial image processing shows strong growth; press release dated November 8, 2016 and VDMA: European image processing – On course for growth; presentation dated November 8, 2016 and VDMA: Record revenues for "seeing machines" from Germany; press release dated August 25, 2016.

[5] cf. AIA: North American machine vision market contracts in first nine months of 2016. Third quarter shows improvement, indicating growth ahead; press release dated December 6, 2016.

The Surface Vision segment shows a growth of 14 %, which represents a revenue increase to 97.7 million euros (previous year: 85.6 million euros). The plastics business continues to profit strongly from the expansion of the application portfolio to a variety of new materials, which also enables the use in high-end products, such as battery film, carbon-fiber-reinforced plastics (CFRP) or non-woven materials. The order entries for the inspection of solar wafers, cells and modules also increased strongly, particularly in China and other Asian countries. The wafer inspection area for the semiconductor industry remains to stay at the center of the development of the business; the expansion of the application portfolio with existing ISRA technologies thereby marks the strategic focus.

The positive order situation for printing inspection solutions continues with a double-digit growth and also profits from the most recent portfolio extensions which were presented to an international audience at the world's largest industry trade fair for print media, „DRUPA". New inspection solutions for metal surfaces, accompanied by targeted measures in marketing and sales, strengthen the activities in the metal industry. In the paper unit, the company concentrates, next to several sales-generating measures, also on fast-growing market segments, such as the packaging industry. With modular high-end systems for the inspection of security paper, the company examines new sales potential in high security printing.

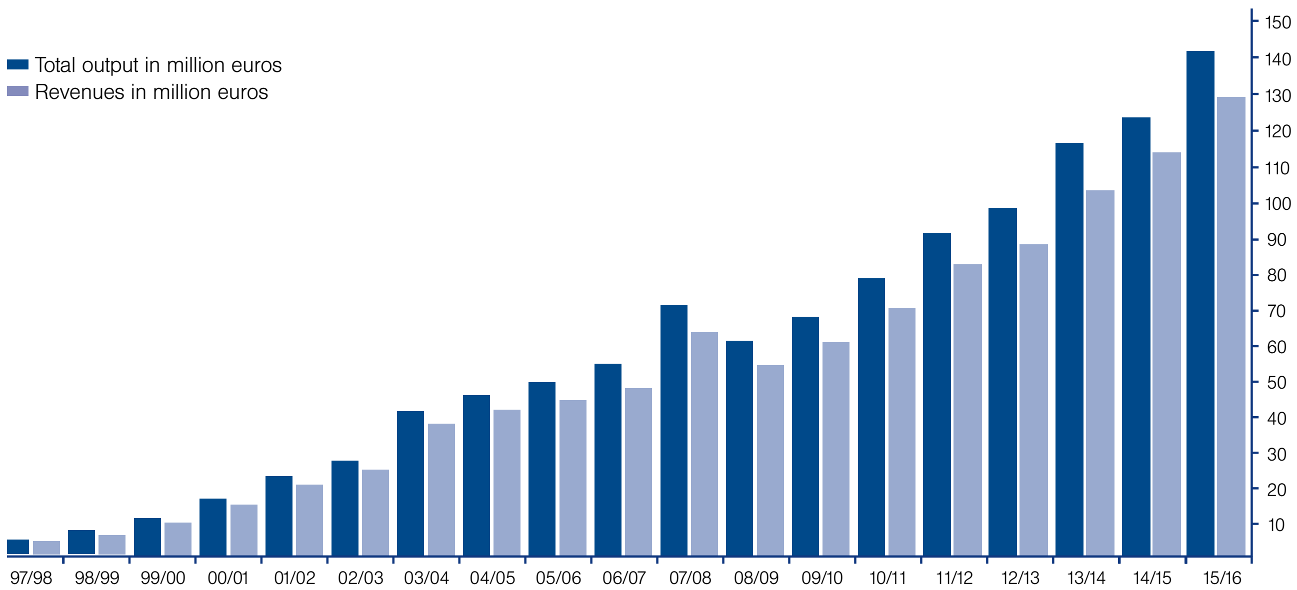
The business with customers from the glass industry continues to be driven by quality assurance solutions for float glass production as well as the comprehensive product portfolio for the inspection of display glass. ISRA received a major order for quality assurance for glass products during the year. This contract has a total volume of several million euros. The customer company, a global player in the glass industry, is automating and networking quality control with its new inspection systems in flat glass production. As part of this contract ISRA is also implementing the innovative quality and yield management system „EPROMI" (Enterprise PROduction Management Intelligence) for the central management of production data – as it has previously done in projects for steel industry customers. Quality information collected during inspection is analyzed by this framework software architecture so that it can be utilized in the optimization of production processes. Thanks to this users are already benefiting from intelligently networked production.

The new major order confirms ISRA's offering strategy: With a combination of leading optical inspection technologies and the „EPROMI" data analysis software, the company is offering its customers forward-looking solutions for production optimization and sustainable value added. Moreover, the service business remains a strategical focus of the management. In order to increase customer proximity worldwide, ISRA is investing in the expansion of the service portfolio at all locations. With that, it is planned to successively increase the overall double-digit contribution to revenue.

2.2.1 Results of operations

Continuing growth

ISRA increased revenues in the 2015 / 2016 financial year by approximately 15 % to 128.8 million euros (previous year: 112.2 million euros). New and replacement investments in the various target industries of ISRA have strong influence over the order backlog and subsequently attainable revenues. The order backlog of approx. 85 million euros gross (as of January 6, 2017; previous year: approx. 85 million euros gross) represents a good foundation for the current financial year.



Consolidated total output EBITDA / EBIT statement [6]

As a result of increased revenues, the total output rose to 142.3 million euros in the 2015 / 2016 financial year, which is 15% more than in the previous year (124.2 million euros). The capitalized work rose at a slower rate by 13% to 13.5 million euros (previous year: 12.0 million euros). The cost share of the production was reduced further as a result of the ongoing optimization of products and production processes to 55.5 million euros in the year under review (previous year: 49.0 million euros). Rounded up, it still amounts to 39% of total operating revenue. This led to a gross profit margin of 61% (previous year: 61%), even higher than the long-term target. With respect to revenues, the margin amounted to 67% (previous year: 67%).

(in €k)	Oct. 01, 2015 - Sep. 30, 2016		Oct. 01, 2014 - Sep. 30, 2015	
Net sales	128,815	91%	112,235	90%
Capitalized work	13,506	9%	11,999	10%
Total output	142,321	100%	124,235	100%
Cost of materials	28,983	20%	25,082	20%
Cost of labor excluding depreciation	26,500	19%	23,874	19%
Cost of production excluding depreciation	55,483	39%	48,956	39%
Gross profit	86,838	61%	75,278	61%
Research and development total	21,063	15%	18,928	15%
Sales and Marketing	24,665	17%	20,576	17%
Administration	4,818	3%	4,462	4%
Sales and Administration excluding depreciation and amortization	29,483	21%	25,038	20%
Other revenues	1,388	1%	1,096	1%
EBITDA	37,680	26%	32,409	26%
Depreciation and amortization	12,089	8%	9,849	8%
Total costs	62,635	44%	53,815	43%
EBIT	25,591	18%	22,560	18%
Interest income	41	0%	35	0%
Interest expenses	-477	0%	-757	-1%
EBT	25,155	18%	21,838	18%
Income taxes	7,398	5%	7,059	6%
Consolidated net profit	17,757	12%	14,779	12%
Of which accounted to non-controlling shareholders	201	0%	-42	0%
Of which accounted to shareholders of ISRA VISION AG	17,556	12%	14,821	12%

Sales, Marketing, Administration and R&D

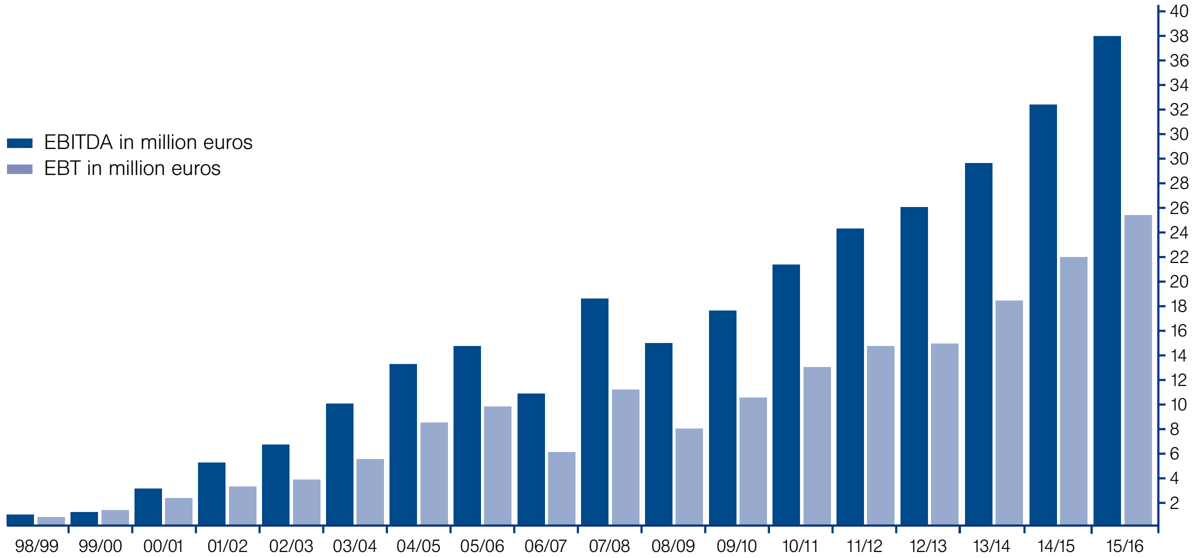
Expenditures for Sales and Marketing amounted to 24.7 million euros in the reporting period (previous year: 20.6 million euros). In the context of the continued innovation and marketing offensive, these expenditures rose by 20% compared to the previous year. In line with planning, administrative expenses expressed as a percentage of total operating revenue were reduced to around 3% at 4.8 million euros (previous year: 4% at 4.5 million euros) as a result of synergy effects. The company's R&D expenditure amounted to 21.1 million euros in the period under review (previous year: 18.9 million euros). This corresponds to an increase of 11%. 13.5 million euros of it were invested in developing new products that are soon to be launched on the market (previous year: 12.0 million euros). These amounts were capitalized in accordance with IAS 38.

Positive development of margins

ISRA's EBITDA increased overproportionally to revenues by 16% to 37.7 million euros (previous year: 32.4 million euros) on the basis of the outlined cost development. This resulted in a margin based on total output in the amount of 26% (previous year: 26%). The depreciation and amortization in the year under review increased by approximately 23% to a total of 12.1 million euros (previous year: 9.8 million euros). 10.8 million euros (previous year: 8.4 million euros) of this figure was attributed to depreciation and amortization for capitalized work of the previous years and the year under review as well as software and licenses. The remaining depreciation and amortization decreased by 6% to 1.3 million

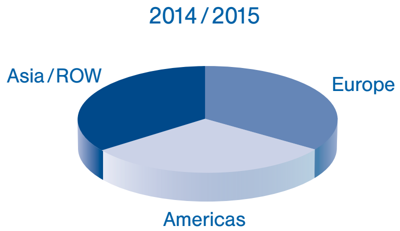
[6] This pro forma presentation is an additional presentation based on the previous years and therefore not part of the ISRA consolidated financial statements.

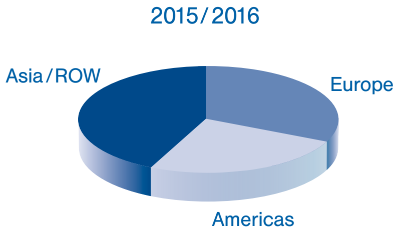
euros (previous year: 1.4 million euros). As a result, ISRA obtained an EBIT (Earnings Before Interest and Taxes) in the amount of 25.6 million euros in the year under review. That represents an increase of 13% compared to the previous year with 22.6 million euros. The financial result developed from minus 0.7 million euros in the previous year to minus 0.4 million euros as a result of the repayment of financial liabilities to banks. ISRA increased earnings before taxes (EBT) by 15% to 25.2 million euros (previous year: 21.8 million euros). Referenced to total output, it corresponds to a margin of 18%, referenced to revenues 20% (previous year: 18% and 19% respectively). Tax expenditures amounted to 7.4 million euros (previous year: 7.1 million euros). ISRA achieved consolidated Group earnings attributable to the shareholders of ISRA VISION AG of 17.6 million euros. This translates to an increase of 18% compared to the previous year (14.8 million euros). Based on the weighted average number of shares outstanding[7] of 4,379,295 (previous year: 4,371,041), earnings per share amounted to 4.01 euros (previous year: 3.39 euros).



Development in segments and regions

In the Industrial Automation segment, in which the sales activities are directed primarily to the automotive industry, the revenues in the current reporting period were increased by 17% to 31.1 million euros (previous year: 26.6 million euros). EBIT rose by 16% to 6.2 million euros (previous year: 5.3 million euros), and the EBIT margin was up accordingly at 18% of total operating revenue (previous year: 19%). Revenues in the Surface Vision segment climbed to 97.7 million euros (previous year: 85.6 million euros), a significant increase of 14%. EBIT rose by 13% to 19.4 million euros (previous year: 17.2 million euros), and the EBIT margin was up accordingly at 18% of total operating revenue (previous year: 18%).





The broad regional positioning and diversification across various markets was once again confirmed as a successful strategy in the 2015/2016 financial year. With more than 25 locations worldwide, ISRA ranks as one of the globally most broadly positioned providers in its industry. The strongest growth was seen – in some cases against the general downward economic trend – on the Asian markets, which increased Asia's share in total revenues to more than 40% as a result of high demand in China, Korea and Taiwan in particular. After a good first half of the year, revenues in Europe continued to develop positively with double-digit growth rates in incoming orders. The Americas region made a high contribution to earnings similar to that in the previous year.

2.2.2 Financial position

The top priority of financial management is to ensure a sufficient liquidity of the Company. For this reason, the liquidity reserves are managed in a way that ensures that payment obligations can be met on time. Group financing is coordinated centrally through the parent company in Darmstadt, ISRA VISION AG. Liquidity is safeguarded through in-depth financial planning. An important task of the future continues to be the systematic optimization of the working capital, i.e., increasing the operative cash flow while simultaneously reducing the net debt.

[7] The number of shares is the weighted average of externally owned shares during a financial year and does not include the shares repurchased by the company.

Capital structure

In the 2015/2016 financial year, total assets of the ISRA Group increased by 7.5 million euros to 263.8 million euros (previous year: 256.3 million euros). On the liabilities side of the consolidated balance sheet, the trade payables increased by 0.6 million euros to 12.4 million euros (previous year: 11.8 million euros). Current liabilities to banks were down by 14.1 million euros at 36.0 million euros (previous year: 50.1 million euros) thanks to operating cash flow. The remaining financial liabilities increased by 0.9 million euros to 11.9 million euros (previous year: 11.0 million euros). Income tax liabilities rose to 3.5 million euros (previous year: 1.0 million euros) as a result of the positive tax results of the regional companies. The short-term provisions amounted to 1.6 million euros (previous year: 1.6 million euros).

Under non-current liabilities, deferred tax liabilities climbed by 1.3 million euros to 33.2 million euros (previous year: 31.9 million euros) as a result of differences to the tax accounts. Non-current provisions in the form of pension provisions rose from 3.1 million euros to 4.1 million euros, due in part to the lower interest rate. As in the previous year, there were no non-current liabilities to banks.

At the end of the 2015/2016 financial year, the equity ratio amounted to 60 % (previous year: 56 %). The use of off-balance-sheet financial instruments plays a minor role at ISRA. Merely business assets with a short useful life and without reference to core competence are provided for business operations in the context of leasing operations.

Capital expenditures

In the year under review, ISRA invested 0.9 million euros in tangible assets (previous year: 1.1 million euros). The investments in intangible assets rose to 14.8 million euros (previous year: 13.3 million euros). Almost all of them are capitalized development costs. In the period under review, investments in long-term assets for the segments Industrial Automation and Surface Vision amounted to 2.7 and 13.2 million euros, respectively (previous year: 2.5 and 15.6 million euros).

ISRA carries on to continuously invest in new products and the development of new applications and markets in order to increase revenues. The current operative cash flow forms the basis for financing the organic growth. The planned investments for the different customer industries of the operative business are made from these resources, too. In the case of acquisitions, additional financing demand may occur depending on volume, whereby smaller acquisitions could be financed through operative cash flow.

Liquidity

As of the reporting date of September 30, 2016, ISRA generated an operative cash flow of 34.3 million euros (previous year: 12.2 million euros). Trade receivables and other assets rose only slightly by 0.3 million euros (previous year: 18.5 million euros). Operating cash flow was largely accounted for by depreciation and amortization of 12.1 million euros (previous year: 9.8 million euros), income tax payments of 2.5 million euros (previous year: 4.2 million euros), the increase in trade payables and other liabilities of 6.5 million euros (previous year: 4.5 million euros), the increase in inventories of 3.0 million euros (previous year: 2.2 million euros) and changes in deferred tax assets and liabilities of 2.4 million euros (previous year: 6.5 million euros), which result almost equally from an increase in deferred tax liabilities and a reduction in deferred tax assets.

Cash flow from investment activities amounts to a total of minus 15.6 million euros (previous year: minus 16.6 million euros) and is essentially based on investments in intangible assets. The cash flow from financing activities of minus 16.4 million euros (previous year: 7.9 million euros) is due in particular to the repayment of financial liabilities of 14.1 million euros (previous year: 3.6 million euros). The profit distribution of 1.8 million euros (previous year: 1.7 million euros) results from the dividend of 0.41 euros per share (previous year: 0.39 euros). Taking into account the changes in value due to exchange rate effects of minus 0.5 million euros (previous year: 0.5 million euros), cash and cash equivalents rose by a total of 1.8 million euros (previous year: 3.9 million euros) to 16.9 million euros (previous year: 15.2 million euros) as of September 30, 2016.

A positive availability of financial means is given group-wide. ISRA has access to unutilized cash credit facilities of 17.1 million euros and unutilized bank guarantees of 9.1 million euros. With the positive operative cash flow as well as existing cash, cash equivalents and available credit lines, ISRA disposes of a solid capital base for future growth. Interest risks from previous acquisitions are explained in sections 5.5 and 7.

2.2.3 Net assets

On the assets side, ISRA showed cash and cash equivalents in the amount of 16.9 million euros (previous year: 15.2 million euros) on the balance sheet day of September 30, 2016. 55 % of the total assets were short-term assets (previous year: 55 %). Trade receivables rose slightly to 88.5 million euros (previous year: 86.8 million euros). Revenues from unfinished orders amounted to 49.9 million euros (previous year: 54.7 million euros), based on the percentage-of-completion method.

Long-term assets amounted to 118.5 million euros (previous year: 116.1 million euros). Due to the continuing positive development in both operating segments, the goodwill impairment test did not call for any need for correction. Other intangible assets rose by 4.0 million euros to 70.7 million euros (previous year: 66.7 million euros), primarily as a result of the rise in own work capitalized as internally generated intangible assets, from 52.9 million euros to 58.0 million euros.

Tax losses carried forward for ISRA totaled 6.1 million euros as of September 30, 2016 (previous year: 8.8 million euros). Deferred tax assets were recognized for tax losses carried forward in the amount of 6.1 million euros.

2.2.4 Non-financial key performance indicators and sustainability

ISRA VISION AG is a globally operating company whose market environment is characterized by increasingly higher dynamics and complexity. This requires sustainable business processes that distinguish themselves by responsible handling with economic, ecological and social resources. Besides efficient, value-oriented corporate governance, the non-financial key performance indicators and sustainability aspects presented below carry an important share of the continual success of ISRA.

Customer benefit

For products and solutions from ISRA, the benefit to customers is at the center of attention. Important indicators are the return on investment and the amortization time of investments. Continuous research and development work increases the efficiency of ISRA solutions and continually reduces the costs of the systems. This results in short amortization times which is often only a few months and allows customers to make budget-independent investments. Resulting low total costs of ownership contribute to a higher operating margin.

Ecological and social benefit

Machine Vision also occupies an important role with respect to a sustainable development in industrial production since it supports companies in saving resources and minimizing environmental pollution. ISRA offers solutions that address not only the economic customer benefit, but also the ecological and social dimension of sustainability. The systems provide customers with support, e. g. for complex assembly and testing processes in the automotive industry, which otherwise would be dependent on physical, non-ergonomically strenuous activities without ISRA's automation solutions. The applications reduce physical stress, thereby benefiting employees working in production. In the Surface Vision segment, the automated surface inspection enables customers in the glass, solar, plastics, print, paper, security paper and metal industry to uncover any quality defects directly in the manufacturing process. As a result, it is possible to initiate countermeasures early, which reduce production waste and undesired further refinement and processing of defective products.

High level of innovation

A high level of innovation, based on innovations and new technologies that are both market-oriented and future-oriented, is an important pillar of further strategic development and essential for the profitable growth of the ISRA Group. Based on the needs of customers, the Company attaches great importance to continually improving its technology position. In the year under review, ISRA successfully placed a large number of product innovations in the different application sectors on the market. Furthermore, ISRA was honored as a finalist in the Hesse Champion Competition and took second place as a Hidden Champion, both in the Innovation category.

The continuous goal is to develop new applications and open up related earnings potentials and sales markets, to expand the technological advantage in order to create market entry barriers for competitors, and to shorten the time to market. For this purpose, ISRA uses innovation roadmaps to ensure early identification of future requirements of the market and the acquisition and utilization of required technologies.

Knowledge of the markets

Given a business activity of more than 30 years by ISRA and its predecessor companies, the Company has gained a position of trust with customers. As such, ISRA has a sound knowledge of the customer processes in the framework of production and is capable of continuously aligning its products with the requirements and needs of customers. Focusing on individual industries and close contact with customers secure the required technology transfer to offer the products which the customer needs, today and in the future. A clear indicator for knowledge of the markets is customer loyalty which manifests itself in many years of trustworthy business relationships.

One important goal in the area of market expertise is further increasing market penetration and market share. This also includes transferring the know-how to solutions for customers in industries that have not been supplied until now and expansion into additional geographical markets. To support this process, positions in sales and product management are regularly filled with experienced personnel from relevant target industries and regions.

Customer proximity

Products sold by ISRA are generally used in systems that are manufacturing around the clock. For this reason, local presence and short response times in service are of great importance to customers. As a result, ISRA manages a worldwide infrastructure and is represented in essential local markets with its own sales and service personnel. This allows the Company to respond in the best possible way to regionally specific requirements and to offer an optimal service for the operation of its systems.

Today, ISRA is already one of the best globalized companies for Machine Vision. The established infrastructure and the international team will continue to play an important role in the future in the support of global customers who are largely market leaders themselves in their respective industries. To secure and intensify the customer proximity, emerging markets are quickly developed and, if the need arises, supported locally by ISRA's own subsidiaries or operating facilities. Local access to the Mexican market was established in the period under review. The initial setup of sales was advanced in a targeted way at the new location in Querétaro. Similarly, new potentials in the Near East will be developed with the re-established market activities in Iran with the new location in Tehran and a local sales team. These activities shall be continued in the current financial year. For further development of the South American markets, the Company is also examining new expansion opportunities in neighboring countries next to the location in Brazil. There are also plans to consider options in Southeast Asia.

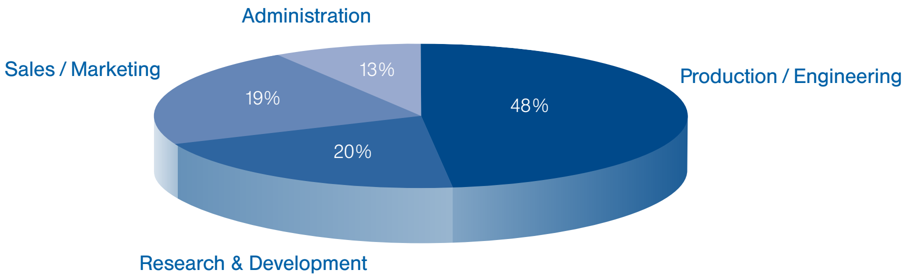
Efficiency of business processes

ISRA continuously works on improving the efficiency of the business processes. Continued cost reduction measures have already resulted in sustained productivity gains. Part of the fundamental management tasks is to continuously and critically check the efficiency in production as well as research and development and to ensure lean processes. Furthermore, the Company has established additional programs which, for example, are continuously probing and optimizing the cost structures and workflow management in the Administration.

Personnel development and securing specialists

Employees with skills and personal qualities are an essential prerequisite for the success of ISRA. To ensure an always adequate staffing and personnel development, continuous investments are made in the Human Resource Management.

In the 2015 / 2016 financial year, the ISRA Group employed an average of 600 people worldwide (previous year: 571). 633 people were employed as of September 30, 2016. The majority is working at locations in Germany (66 %). Europe (without Germany) accounted for 6 %, North and South America for 10 % and Asia for 18 % of the employees.



Of the staff employed worldwide as of September 30, 2016, 48 % worked in production and engineering and approximately 20 % in research and development (R&D). Another 19 % of ISRA employees worked in Sales and Marketing and 13 % in Administration.

ISRA already pays special attention to well-trained technical personnel with social and interdisciplinary competencies in its international employee recruitment process. This is manifested in the large percentage of employees with an academic degree.

Cooperation with universities and technical colleges enables ISRA to gain qualified young academics. ISRA continuously expands these cooperations and develops them further. The Machine Vision Prize, which was awarded for the first time in 2011, together with the TU Darmstadt will provide targeted support for the scientific establishment of industrial image processing in academic education with the goal to inspire young talents for this innovative industry sector at an early stage. Similar cooperations could be established by the successive introduction of the Machine Vision Prize at the RWTH Aachen and in Turkey. In addition, ISRA also acts as a vocational training company and introduces young employees to different tasks in the technical and commercial business divisions.

To expand the personal qualifications of existing employees even further, the Company supports its employees on a regular basis using internal education as well as through targeted external measures for individual positions. Human Resource Management continuously accompanies employees and supports them to expand their skills according to their assignments and to motivate them to take on responsibilities. This allows ISRA to secure the long-term company success and to create secure, high-quality jobs.

Management competencies

The high degree of innovation of products and markets as well as the ambitious growth objectives of ISRA demand a high degree of competency at the Management level. In this context, ISRA was again able to significantly reinforce the well-established Management which is closely tied to the Company with selective, target-oriented employment. In this connection, the appointment of the internationally experienced manager Shlomo Amir deserves special emphasis. Until the end of 2013 Shlomo Amir was the CEO of Advanced Vision Technology Ltd. (AVT), a leading provider of quality assurance for printed products and a competitor of ISRA.

Besides the aspiring organic growth, a special challenge for Management is the acquisition and integration of companies in order to be able to expand market shares and develop new markets. In the framework of the successful acquisitions of recent years, ISRA was already able to demonstrate its extensive knowledge in the area of mergers & acquisitions. In his work for ISRA, Shlomo Amir will work closely with the company’s founder and CEO, Enis Ersü, to coordinate the company’s external and strategic growth activities.

Social commitment

As a successful globally operating company, ISRA VISION bears social responsibility. Social commitment is important to ISRA and centrally anchored in its corporate mission. A matter of special concern lies in supporting the development and education of children and adolescents, e.g. in the form of monetary donations, but also through the personal commitment on part of the Management. In accordance with the global orientation of the Company, the charitable efforts also cover various projects all over the world. In view of the current geopolitical development and the refugee crisis, ISRA increasingly directed its attention to help in this area and provided support in the form of monetary contributions as well as non-financial engagement.

2.2.5 Assessment of the course of business

ISRA Management assesses the closing financial year as another successful year. The Company confirmed the growth forecast, as it has in the preceding fifteen trading years with the exception of the global economic crisis of 2008, and increased revenues to 128.8 million euros and the consolidated net profit to 17.6 million euros. This plus of 15% and 18%, respectively, shows that the course of business is not necessarily coupled with the general economic development or the economic situation in the industry sector. The earnings per share after taxes increased to 4.01 euros, a plus of 18%. This provides a good basis for the company to continue its sustainable dividend strategy (previous year: 0.41 euros per share). The forecasted stability of the margins was reached. The gross margin as well as the EBITDA and the EBT margin could even be increased to a minor degree. Among other things, this increase results from possibilities for efficiency increase in Purchasing, Production, Sales and Administration that were made possible by reaching the revenue goal of 100 million euros. In the end, ISRA continued its profitable growth with a double-digit EBT growth of 15% and an EBT margin to total output of 18% in spite of challenges in individual regions and industries. The growth in both segments with at least stable margins also confirmed the segment forecast.

Non-financial performance indicators also contributed to the positive business development. Among other things, Sales and Marketing were expanded in the 2015/2016 financial year and operating areas were optimized by new processes and infrastructure in conjunction with intensive training. Strengthening the employee base was implemented through timely, targeted hiring, e.g. in the Management team and for Sales, as well as extensive training programs for promoting individual potentials. Proof of ISRA’s strong culture of innovation can be found in its awards at the Hidden Champions and Hesse Champions competitions, both in the Innovation category.

Based on the described net assets, financial position, and results of operations, the Management's overall assessment of the economic position of the Group is positive. The intensive efforts in cash management result in an improved operative cash flow. In combination with the good equity capital position of the Company, it results in a high degree of independence for ISRA which allows it to continue on the growth course it has embarked upon.

3 Report on post-balance sheet date events

After the conclusion of the 2015/2016 financial year, no significant events of special importance occurred for the consolidated financial statements of ISRA.

4 Report on expected developments

Among other things, ISRA's forecasts are based on statements by economic research institutes and banks on the development of the global economy.[8] According to their forecasts published in December 2016, they are predicting a slight increase in growth rates in 2017 as compared to 2016. The institutes and banks also state that actual economic performance in the coming years will be largely dependent on the actual policy implemented by the new US government, the further development of monetary policy in the US and euro area and the repercussions of Brexit. Assuming that the implementation of OPEC's planned production limits does not have a significant impact on economic performance, global economic growth of around 3% is expected for 2017, though ISRA's management is more cautiously projecting growth of around 2.5%.

Framework conditions in Germany, China and the United States

For ISRA's principal markets, however, economists envision different perspectives. Based on the consistently high level of private consumer spending, government spending and a strong construction industry, Germany will achieve economic growth of 1.3% to 2.0%, though this will be held back by the weakness in branches of industry such as mechanical engineering and chemicals. For the US, the new government could have either positive repercussions thanks to tax cuts and spending programs or a negative effect due to new trade barriers. In conjunction with the anticipated interest rate hikes by the US Fed and the good employment situation, growth in the US is expected to be slightly above the previous year's level at 2.0% to 2.5%. Regarding China, it is currently unclear how the Chinese government will continue to promote the recovery of economic expansion by means of monetary and fiscal policy. If the measures taken to date – some of which are impeding the goal of a restructuring of the Chinese economy – are scaled back, this could cause a further decline in growth.

Image processing industry anticipating dynamic development

According to VDMA forecasting, industrial image processing in Germany and Europe is expected to achieve growth of 8% in 2016, thus matching the growth forecast of at least 7%. On the basis of this high level of revenues, a dynamic performance by the industry is also expected in 2017 in light of a global trend towards automation and digitization in production, i.e. Industry 4.0. The biggest growth drivers are China, Korea and Japan for the electronics and automotive sectors, the US based on investment in all sectors and Europe due to its need to catch up on modernization in particular.[9] The US industry association AIA is also assuming that – after the temporary, cyclical decline of the market until the first half of 2016 – conditions will be positive again for the industry.[10] Specific forecasts for the Asian market are not currently available.

Revenues of "100+" million euros as the basis for additional profitable growth

In the 2015/2016 financial year, ISRA has once again met its growth forecasts and remains on its course of long-term growth. On the one hand, the market shares in the relevant industries were consistently expanded, even market leadership in some of them was gained – on the other hand, the successive hiring of employees at more than 25 locations throughout the world represents an investment in the global expansion of the Company. By passing the mark of 100 million euros in revenues with the 2013/2014 financial year, the critical mass for additional growth was also reached in the different regions. As a result, ISRA is one of the best globalized companies worldwide in the corresponding target markets. These assets – infrastructure and international team – will also be important in the future for the support of global customers. The sustained expansion of market shares in different customer industries, the independence of individual markets and regions as well as the diversification render the Company robust, even during weak economic periods. With the revenue milestone of 100 million euros, a size has been reached to realize scale effects and synergies as a catalyst for profitable growth.

As the basis for further organic growth, ISRA carries on to continuously invest in new products and the development of new applications and markets in order to increase revenues. For this reason, Management concentrates on the innovation roadmap that is continuously adapted to customer needs and market requirements. The continuous expansion of the Customer Support and Service Centers as well as the intelligent yield management software „EPROMI" for efficiency and productivity increase can contribute more and more to the revenue development. A coordinated marketing offensive as well as the reinforcement of the international service and sales teams form the basis for the success of the innovations on the market.

ISRA with growth opportunities in both segments

The Company assumes a positive market environment and a lasting demand for the two segments Industrial Automation and Surface Vision. In the Industrial Automation segment, growth is largely being driven by the sharp rise in revenues with leading international automotive manufacturers. These are showing consistently high interest in innovative solutions using 3D technologies in the production line and in complex applications such as paint inspection for vehicles. In addition, the growing market for Industry 4.0 applications is opening up additional revenue potential for the easy-to-use product lines for smart production automation.

[8] cf., for example: Institute for the World Economy, Weltkonjunktur im Winter 2016; Berenberg Bank, Makroausblick November 2016; Commerzbank, Woche im Fokus – Ausblick 2017: Das Jahr der Politik.

[9] cf., VDMA: Industrial image processing shows strong growth; press release dated November 8, 2016 and VDMA: European image processing – On course for growth; presentation dated November 8, 2016.

[10] cf. AIA: North American machine vision market contracts in first nine months of 2016. Third quarter shows improvement, indicating growth ahead; press release dated December 6, 2016.

In the Surface Vision segment, the expansion of the portfolio for customers in the glass industry has already generated new revenue stimulus that will continue at the beginning of the new 2016/2017 financial year. In the solar industry, the high level of interest in solutions for quality assurance for new types of cell design is stoking demand on the Asian markets in particular, including Korea, China and Taiwan. Similarly, the business with customers from the plastics industry also shows persistent order entry dynamics and contributes strongly to the overall result, also supported by product extensions for inspecting optical film properties. After a more restraint development in the last half-year, innovations in the area of three-dimensional quality inspection, along with intensive marketing and sales activities, should drive the revenues in the metal industry going forward. After the successful strengthening of the management, the print division is strategically well positioned and continues to profit from the strong demand for the expanded portfolio of solutions for print products. In the paper industry, the business prospects are developing positively after intensified sales activities. In the specialty paper unit, the strategic focus for future growth remains on expanding the portfolio for applications in high security printing. After receiving its first orders in Europe, the new semiconductor division is still strongly in the market launch phase, another follow-up order for the first customer will soon be ready for delivery to Asia.

ISRA's service revenues accounted for more than 13% of total revenues in the past financial year. Management is planning to significantly increase this share with a proactive service strategy and the expansion of the portfolio. In addition, the development of new potential in the area of Industry 4.0 is to be advanced with a focus on a new product generation of smart factory automation sensors. Together with the ongoing development of the „EPROMI“ software tool for production management, these activities form the basis for future revenue potential.

In order to realize the planned growth, the worldwide sales activities and the regional presence are further intensified. For the coming months, the Company plans with another positive course of business on the Asian markets. In Europe, Management sees an increasing demand of individual strategic countries in the next quarters. The demand from the Americas was successfully supported by extensive measures in Sales and Marketing as of the end of the past financial year. These measures will continue undiminished until further notice.

The regional expansion and the strengthening of international locations remain an important part of the Company strategy. After establishing market access in Mexico and Iran in the past financial year, further revenue potential will be generated at these locations in the years ahead. In addition, a further strengthening of the core European and American market is planned. For further development of the South American markets, the Company is also examining new expansion opportunities in neighboring countries next to the location in Brazil. The same applies to the Southeast Asian economic area.

Strategic acquisitions possible

Besides organic growth, external growth through acquisitions of suitable companies remains an important part of the long-term strategy in the future. After the successful integration of Vision Experts, the Management is intensively monitoring and analyzing new acquisition targets that will strategically strengthen ISRA. Of particular interest are target companies that are expected to meaningfully expand the technology and product portfolio, to increase the market shares, to develop new markets as well as to offer an efficient integration. For some projects, the Company is at an advanced stage and, upon positive outcome of the analyses, plans on concluding an additional acquisition in the current financial year.

The company is pursuing its growth targets through the targeted expansion of the core business – in particular driven by a strong, future-oriented innovation pipeline – as well as acquisitions. In the focus of the acquisition activities are target companies that will sustainably advance ISRA's technology leadership, market position or expansion to new markets. The company analyzes possible takeover targets on an ongoing basis and plans to conclude a project for the 2016/2017 financial year if the results of due diligence are positive.

Continuation of growth path forecasted

With the order backlog again at a high level of currently more than 85 million euros gross (as of January 6, 2017; previous year: 85 million euros, gross), ISRA has had a good start to the new financial year. In this context, the different regions and target industries develop inconsistently. In particular, the company is countering weaker economic developments, such as in South America or the steel industry, with an intensification of the marketing measures and sales activities plus innovations that support the growth strategy. Assuming that the new government in the US, Brexit and the outcome of the elections forthcoming in several major European countries and China's policy decisions do not have an unexpected impact on economic performance, ISRA's management is planning further revenue growth in 2016/2017, probably in the low double-digits but at least in the high single-digits, and the expansion of profitability both in the Group and the two segments. A further optimization of the EBITDA, EBIT and EBT margins is anticipated, while at least maintaining the current high level.

Against the background of organic and acquisition-based growth, ISRA is systematically preparing to reach the mid-term planned revenue dimension of 150 million euros. The financial situation of the ISRA Group is solid. A high equity ratio, the operative cash flow, the liquid funds and the available credit lines of financial partners form a reliable foundation for the continued positive development beyond the current financial year up into the year 2018. Management will continue to focus on the optimization of operating productivity and the continuous improvement of cash flow and working capital. ISRA will release a detailed outlook for the current financial year in February 2017. ISRA intends to continue its sustainable dividend policy with a distribution similar to the previous year's for the 2015 / 2016 financial year.

5 Report on opportunities and risks

Business activities go hand in hand with risks. A company's success is characterized by successful opportunities exceeding the downside risks in all important decisions after detailed considerations. Owing to the global positioning of ISRA and the growing number of markets, locations and employees, it is increasingly more demanding to promptly procure, distribute and process detailed information. For this reason, ISRA uses a qualified risk management system, whose outline is based on ISO 31000 and which is described in a risk management manual that is accessible to all employees.

5.1 Opportunity and risk management

The risk management system of ISRA is operated centrally by departments that are reporting directly to the Executive Board. It is continuously examined in line with the insights from previous years, new legal requirements and changes according to the German Corporate Governance Code and adjusted if necessary. The goal is to be able to recognize, analyze and evaluate the essential chances and risks for the business development of ISRA early and as complete as possible, and to initiate the required measures on this basis.

For this purpose, the superior risk management process consisting of risk identification, analysis and evaluation is subjected to different functional and risk areas on a regular basis, e.g. in the context of the strategic planning and the annual financial statements. For risks that are assessed as decisive and that cannot easily be borne by the Company, control measures are defined. For risks that occur more on a strategic or Administrative level and that can be intercepted using individual measures, measures for risk avoidance, reduction or transfer are initiated. This includes, for example, measures for limiting interest rate risks or a proactive Human Resource Management for controlling personnel risks. For risks and opportunities that occur situationally from the operative business or outside of the Company, ISRA institutionalized various instruments and processes that enable continuous monitoring of the risk development and quickly present changes of the risk situation. For this reason, a group-wide reporting and messaging system as well as continuous oral and written queries by the risk management officer inform about the current risk situation of the Group. Depending on the type and effect of the risk, the Executive Board is informed ad hoc or periodically via direct communication.

In accordance with the current assessment by the Management, the risks and opportunities presented below are essential for the further development of the Company. Under consideration of the existing control and management measures, neither one of the individual risks is seen as a threat to the existence of the Group, nor a composite effect threatening the existence of the Group upon simultaneous occurrence of several individual risks.

5.2 Market risks and opportunities

General business environment and industry-specific risks

The regional and industry-specific target markets of the Company will develop with different dynamics. It remains to be seen in the weeks and months ahead to what extent demand for ISRA systems on the global automation markets remains at its customary level in view of the uncertainty in conjunction with, for example, Brexit and the political situation in the US. For this purpose, ISRA continues to maintain the risk management system which has already been intensified since the last economic crisis.

Reporting intervals have been significantly shortened to allow risks to be detected early on. This is why quarterly reports have been changed to a monthly cycle, and monthly reports to a bi-weekly interval. These stringent controls will also be kept in place in the current financial year. They pertain to all of the Company's key performance indicators such as revenue forecasts, liquidity planning, as well as receivables and production capacity planning. Thus, customers and markets are being monitored with much closer scrutiny. New customers in particular will be subject to a stricter credit check. The measures implemented to boost productivity and efficiencies will be continued.

If the economic trend should turn negatively for the longer term in the course of the year 2017, it could negatively impact the economic situation of the customers and therefore the demand for products offered by ISRA. This could result in corresponding risks to revenue and profits. For this reason, the Management has simulated different risk scenarios in order to be prepared accordingly. Simulations have been performed, especially with regard to delays / drops in orders, bad debts, overdue incoming payments, and delays in the commissioning of systems.

Developing new applications, technologies and regional markets

In general, the strategic alignment of ISRA provides it with extensive opportunities. The customer industries have been selected so that they are directly associated with at least one of the expanding energy, healthcare, food, mobility or information technology markets. The constant increase of the world population and the resulting increase in demand marked out a permanent growth on these markets. The accompanying, increasing demand in the ISRA customer industries offers ISRA opportunities for future revenue growth. Additional potentials can be found in the development of innovative, new products and the development of new technologies as well as additional regional markets.

ISRA plans to open up additional industries in the future using existing and new technologies and products. The overall market for Machine Vision amounts to approximately 7 billion euros in all types of different application areas. A multitude of possible customer issues and applications that can be solved with Machine Vision has not yet been completely identified and filled. As a result, it provides extensive opportunities, but also risks, for the industry and the ISRA Group. Business Development is responsible for the strategic development of new markets and monitoring of existing markets. The monitoring of existing sales regions and industries, market studies on emerging new markets and industry sectors as well as regular reports to upper management guarantee an early identification of new sales potentials.

The development of new applications and technologies implies, in particular, that the Company succeeds in building the special application know-how required for new target markets, successfully developing corresponding products and introducing them to the market. Successes in product development, especially for new application areas, cannot be predicted with any certainty. Hence, it cannot be ruled out that new products may result in technical application problems or that products in the new target markets are not at all, not fast enough or not sufficiently accepted. To avoid risks that could have negative effects on net assets, financial position and results of operations, Management successfully concentrates on core competency areas and direct cooperations with customers concerning new applications.

In addition, ISRA intends to develop additional geographic markets in the future with own locations. ISRA strengthens its local presence in this way, thereby optimizing its access to new customers in the addressed industries of the regions. The success of such an expansion depends on a large number of factors and is accompanied by uncertainties. The continued internationalization could be associated with risks on these new markets. If these risks should become a reality, in whole or in part, and the Company should not succeed in developing these new geographic markets, it could lead to a negative impact on the results of operations, financial position, and net assets. In the growth regions Russia and Brazil, ISRA has already founded its own subsidiaries for the structural reinforcement of market activities. The office in São Paulo, Brazil, serves the plastics, paper, printing, metal and automotive industries. The subsidiary in Moscow serves the Russian market and the neighboring states of the CIS. In this way, ISRA is creating a strong base in emerging countries to be able to profit from market opportunities that accompany the increased use of automation technologies in industrial production in these regions. At the present time, substantial opportunities are emerging in Mexico and Indonesia as well as their neighboring countries. For this reason, an intensive examination of these opportunities and consideration of any risks in establishing own local ISRA locations is being carried out.

Continuous innovations for quick technological change

The core technology of ISRA is Machine Vision technology for the industry, i.e. the use of electronic image generation, image processing and image analysis technologies in the inspection and control of processes in the manufacturing industry. The basis of this technology is the combination of specialized knowledge of basic and application technology in the fields of robotics and image processing, as well as process knowledge, with software technology in marketable standard hardware and software components. These technologies and its according industry standards are characterized by a continuous further development. Thus, the requirements on intelligent Machine Vision systems in the area of automating production processes and quality assurance systems are also subject to quick change. Therefore, the software solutions developed by ISRA based on these technologies and standards require continuous further development.

For this reason, the success of ISRA depends on the ability to continuously improve its current products and to develop or acquire new products and technologies to keep step with the constantly changing technological developments and industry standards so that it can meet the constantly changing requirements of customers. This requires the use of significant personnel and financial resources in the research and development area. ISRA's success depends on its capability to timely develop and bring into the market new or improved products that conform to changes in technology and meet customer demands. Technological progress by one or several competitors of the Company or new future market players in this field can cause current or future products of the Company to lose their competitiveness or become outdated. If the Company should develop or acquire technological improvements too late or not at all or adjust its products too late to the technological change or not at all, it would negatively impact net assets, financial position and results of operations at a significant level.

The previous success of ISRA shows that the Company has been strategically and operationally capable of applying the corresponding research and development investments in a targeted way, recognize risks timely and initiate required countermeasures early.

Competition

The Company is competing with a series of providers of Machine Vision systems in all business areas. It is possible that competitors, who have been forced onto the defensive, may temporarily attempt a challenging price strategy in order to conquer market shares. Furthermore, it cannot be ruled out that additional providers will be entering the market for the different industries in the future. At present, several companies produce complete solutions for high-end applications that are similar to the ISRA products. These manufacturers have access to technologies that allow their products to be adapted in a relatively short time and comparatively little effort for use on the target markets of ISRA, e.g. in the automotive, plastics and glass industries. Hence, it cannot be ruled out that these companies, in particular, will become direct competitors of ISRA. In the Surface Vision segment, it is also possible that such competitors, who have been offering only systems for checking homogeneous surfaces, e.g. of steel strip or paper, will also be offering systems for the significantly more demanding structure and texture inspection.

The Company must assert itself successfully against current and future competition – including in the target countries – which will be increasing. As such, one essential goal of the Management is that ISRA further expands strategic competitive advantages and the barriers for competitors looking to enter the market. This applies to research and development as well as to customer relationships and customer satisfaction. To achieve this, ISRA will continue to invest, particularly in sales and customer support.

Dependency on specific customers

In all business areas, ISRA is primarily addressing the leading companies of the respective target market (key accounts and OEM customers). As such, many customers are global players. In the future, the strategy of the Company will continue to be directed at retaining and gaining primarily global companies of the respective target market as customers. Consequently, the loss of one of these customers and any reactions of other customers could decisively impact the net assets, financial position and results of operations of the Company. ISRA's rigorous goal is to set up a revenue structure that is independent of this risk by assigning no more than a 5% share of the total revenues to a single customer outside of the ISRA Group. In the past financial year, Management has successfully implemented this goal.

5.3 Operational risks

Risks from project business

ISRA achieves part of its revenues in the project business with individual customers. For this purpose, fixed prices are partially agreed on for a defined scope of services and a fixed completion date. In many cases, meeting the agreements is subject to uncertainties, especially with respect to the complexity of customer-specific projects. Furthermore, errors cannot be ruled out in the planning, calculation, controlling and execution of these projects. If errors during the planning, incorrect calculations, defective or late executions should occur in projects, such projects cannot be executed with a profit or at cost or they could lead to loss of reputation. This could have a significant negative impact on the net assets, financial position and results of operations of ISRA. Management is working to counteract these risks through intensive and rigorous controlling of quotations and project costs.

Liability risks

Software developed or used by ISRA as well as products or services provided may be defective. This can negatively impact the market acceptance of the products and services offered by ISRA in addition to the actual liability risk. Due to market conditions it cannot always be ruled out that the contracts concluded with customers do not contain any provisions that would limit the possible liability for defective products or services. Although no liability claims have been filed against the companies of the ISRA Group due to defective products or services until now, it cannot be ruled out that ISRA will not be exposed to such a risk in the future.

5.4 Administrative-organizational risks and opportunities

Dependency on qualified personnel in key positions

ISRA's success depends, among other things, on qualified executive boards, managers and employees below the level of the executive board and management. Key positions are located particularly in research and development and in sales. Loss of managers or employees in key positions could negatively impact ISRA's net assets, financial position and results of operations. Management meets these risks with suitable measures. Human Resource Management will continue to strategically build up the future and succession planning in the coming years.

Management of growth

The Company intends to continue its global expansion in Germany and also abroad using internal growth as well as strategic alliances, legal mergers and acquisitions of companies or parts of companies. Organic growth and acquisitions under a continuously close focus on the core competence in Machine Vision provide the opportunity to utilize economies of scale due to a disproportionately low development of costs as well as increase profitability and efficiency in the Company. Expenditures for research and development can lead to innovations that can be applied in different target industries. It is no longer necessary to separately undertake each development for individual, segmented industries. To be able to realize these opportunities, it requires hiring suitable managers and employees, selecting strategic partners and legal merger or acquisition candidates as well as procuring the required financial means. Furthermore, it requires meaningful expansion of suitable organizational structures, particularly in accounting, planning, controlling and human resources divisions. The past has shown that the Management knows the growth opportunities and risks and, among other things, has successfully managed them through forward-thinking planning and efficient cost controlling.

Mergers and acquisitions as well as strategic alliances are also associated with significant integration risks. In particular, this includes the risk that the Company cannot retain the personnel of the newly acquired companies or parts of companies and cannot integrate the business relations in the ISRA Group. Until now, Management has sufficiently considered such risks of acquisitions. The last acquisitions of ISRA are good examples of successful integrations.

Protection of intellectual property

The protection of intellectual property, particularly know-how and software, is very important to ISRA. In setting up and protecting its rights to intellectual property, the Company systematically utilizes registering trademarks and patents as well as confidentiality agreements and other contractual agreements about the use of intellectual property for the products and services of ISRA. These mechanisms offer the chance of expanding the technological edge over the competition so that existing sales potentials can be protected. But trademarks and patents can offer only limited protection, particularly in the case of software solutions. Furthermore, failures to take required measures for the protection of rights to intellectual property can significantly affect the competitiveness as well as the net assets, financial position and results of operations. Besides, there is the risk that the current or future patent, trademark and copyrights of ISRA or its other rights to intellectual property can be contested, declared null and void or circumvented. In addition, third parties can develop similar products and services without violating rights to intellectual property of ISRA. Despite ISRA‘s endeavors to protect its rights to intellectual property, it cannot be ruled out that competitors copy or use products or services from ISRA and, as a result, affect the net assets, financial position and results of operations. To counter these risks, the innovation speed is kept high in the Company to be able to maintain a technological advantage over the competition at all times.

Information risks

For ISRA, information technology is an integral component, not only for the provision of internal services and Administration, but also in the products and applications that are delivered to the customer industries. The net assets, financial position and results of operations of ISRA greatly depend on applications and infrastructure to be operational and available. For this reason, ISRA protects itself against unauthorized data access, data manipulations and data losses. Various instruments, such as redundantly designed IT systems, backup procedures, anti-virus and access protection as well as encryption systems are utilized here. The effectiveness of the measures is continually being checked. The occurrence of individual risk cases with an effect on the net assets, financial position and results of operations of ISRA cannot be ruled out completely.

5.5 Financial risks and opportunities

Market assessment risks

Among other things, capitalized work as well as goodwill from the acquisitions of the preceding years enter into the consolidated balance sheet. The capitalized work reflects investments in market-near product developments that represent a large potential for the coming years and are intended to ensure additional revenue growth. The Company values reflect special technological know-how and patents as assets that can be used to expand the product portfolio, gain market shares or develop new markets.

Both items form an interaction with the business development and the market success and, as such, are accompanied by uncertainty. To reduce these market assessment risks, the recoverability and the underlying approaches are checked with regular impairment tests. If recoverability differences should occur, extraordinary depreciations have to be posted.

Interest risks and follow-up financing risks

The liability items of the ISRA consolidated balance sheet contain bank liabilities. Such instruments are employed exclusively to hedge existing loans and not for speculative purposes. Change in the future interest rate level can lead to additional cash flow fluctuations for variable interest liabilities. In case of extreme changes of the general interest rate level, they can lead to further risks. The same applies to any necessary follow-up financing.

5.6 Other risks

General legal and economic risks

The opportunities and risks described can have a significant impact on the net sales and results of operations of the Group. These are the risks that have been identified and are considered to be significant. In addition, ISRA is exposed to general legal and economic risks in countries where particular Group companies operate. This does not preclude the existence of other risks not yet realized as important by management, nor does it preclude the possibility of these risks are being underestimated.

As a listed stock corporation, ISRA is subject to various regulatory risks. In this context, risks from the regulation of the commercial and accounting law, the stock corporation law as well as international standards must be mentioned which could have an effect on the net assets, financial position and results of operations in the future.

6 Internal control system and risk management system relevant for the consolidated financial reporting process

The risk management of ISRA also covers the Group accounting process. The goal of the accounting process-based internal control system is to ensure the regularity and reliability of Group accounting (Group accounting, consolidated financial statements and Group Management report) through the implementation of appropriate and effective regulations and controls. For this purpose, central organization and control as well as local responsibility of individual partial processes are interconnected.

The control and risk management system entails all the measures, structures and processes with the objective of a prompt, uniform and correct accounting recording of business activities and transactions. In the process, it is ensured that the legal standards, accounting regulations and internal control guidelines are being followed. They are binding for all companies included in the consolidated financial statements. Among other things, completeness of the financial reporting, the same balance sheet and valuation standards throughout the Group, authorization and access rules of IT accounting systems, as well as the proper, complete elimination of transactions within the Group are checked. In addition, manual samples for the plausibility check of the completeness and correctness of data and calculations at all Group levels are also performed outside of software systems. Using a group-wide standardized monthly reporting allows recognizing plan-actual variances during the year. All individual financial statements of Group companies that are entered in the Group consolidation are subject to the audit of the ISRA auditor.

By employing qualified personnel in controlling, in financial accounting and in Group accounting as well as through continuous sampling-based control of received and forwarded accounting data for completeness and correctness, ISRA ensures rigorous adherence to the national and international accounting regulations in individual and consolidated financial statements.

Standard software (Axapta) is predominantly used for essential accounting processes in the Group. Integrated plausibility checks take on the primary control function. The software systems used are protected against unauthorized access.

Group companies create the annual financial statements at the respective locations according to local law. They are set up by local management in larger companies. After transmitting the annual financial statements to the Group headquarters, they are checked for completeness of financial reporting and adherence to the same balance sheet and valuation standards throughout the Group by Group accounting. After this check, the annual financial statements are reconciled and then consolidated according to the general Group principles and the IFRS regulations. During the consolidation, an additional check of the individual annual financial statements takes place. This multi-tier check system of annual financial statements ensures that the statutory and Group stipulations are followed and, concurrently, ensures the quality of the annual financial statements.

7 Risk reporting relating to the use of financial instruments

The use of financial instruments is regulated by internal guidelines in the context of risk management. These guidelines are setting limits for underlying transactions, defining authorization procedures, excluding the use of derivatives for speculative purposes, minimizing credit risks, regulating internal reporting and segregation of functions. Hedging transactions are undertaken exclusively via the Group's central finance department for the purposes of hedging against fluctuations in market interest rates.

The risks from the use of financial instruments are essentially the result of liquidity risks, counterparty credit risks, creditworthiness risks, interest risks and cash flow fluctuation risks, currency and price fluctuation risks as well as acquisition financing risks.

Liquidity risks

To guarantee ISRA's ability to pay and be financially flexible at all times, a liquidity reserve in the form of credit lines and cash is being held in reserve. Until now, credit lines and cash flows have secured sufficient reserves at all times. The Company will continue to maintain the credit lines required for this purpose with a volume adjusted to the respective operative business.

Default risks

In all areas of its business, ISRA has customer relationships with many large enterprises. These companies are chiefly multinationals in the automotive, glass, paper, security paper, printing, plastics, metal, solar and automation industries. The Company strategy is to minimize dependency on individual customers and to successively increase the number of new customers. In the year under review, none of the customers accounted for a share of revenues exceeding 5% of the Group's total revenues. While the increased acquisition of new customers will also increase the risk of individual failures, the relevance of a single case will be reduced in this way. Specific failure risks should be reduced through prior analyses of new customers.

Creditworthiness risks

The majority of ISRA customers shows a high degree of creditworthiness. Splitting the overall receivable into smaller amounts (e.g. payable prior to work being conducted, during system installation and after commissioning) works against a total loss of receivables. The insolvency risk of multinational customers is regarded to be low. Nevertheless, this risk must be monitored very closely. Expansion of the business to new countries throughout the world can further increase this risk. In the past financial year, the level of bad debt was less than 1% of the revenue and thus in line with the average of the past few years.

Interest risks and cash flow fluctuation risks

To counter the risks associated with interest rates and cash flow fluctuations, interest rate hedging instruments are finalized for variable interest rate bank loans. In managing interest risks, ISRA limits itself to instruments commonly used on the market. Such instruments are employed exclusively to hedge existing loans and not for speculative purposes. Change in the future interest rate level can lead to additional cash flow fluctuations for variable-interest liabilities. In case of extreme changes of the general interest rate level, they can lead to further risks. Additional explanations are listed in the appendix.

Currency and price fluctuation risks

In general, customer orders are processed in euro. ISRA products are offered in national currencies only in the United States and in China. Management regularly adjusts sales calculations to changes in the exchange rates in order to minimize currency risks. Furthermore, fundamental risks exist towards local providers and the competitors from the dollar region if the dollar exchange rate were to change significantly. These risks can partially be reduced through production sites in China and the United States. Currency risks in purchasing goods are mainly US dollar risks at the present time that are secured through long-term contracts. This risk is limited, however, because the Administrative and sales costs in the USA are also in dollars.

Acquisition risks

The Company intends to continue its global expansion, not only through internal growth, but also by means of strategic alliances, legal mergers and the acquisition of companies or parts of companies. With the acquisitions of the past few years, ISRA has demonstrated its ability to also integrate large companies successfully, thus making a considerable contribution to the growth of both revenue and profit. The acquisitions made in previous years have been partially financed through a long-term loan at a variable interest rate. ISRA bears the risk of changes in the interest rate. Because of the current development in the capital markets and because of the expected cash flow, Management considers this type of financing to be optimal at this time. There is, however, still the possibility that acquired companies will not immediately earn back interest expenses through their operative business. At this time, Management estimates the probability to be low.

8 Remuneration report

The members of the Executive and Supervisory Boards are remunerated in appropriate proportion to their tasks and responsibilities. Performance- based remuneration of Executive Board members reflects the corporate philosophy on management remuneration within the entire ISRA Group. Members of the Executive Board and other managers within the Company receive remuneration consisting of both fixed and variable components.

The structure of the remuneration system for the Executive Board is determined by the Supervisory Board. Criteria used to assess appropriateness of remuneration include the tasks of the respective Executive Board member, his personal performance, the performance of the entire Executive Board, as well as the Company's economic position, success and future prospects – all in comparison to the relevant peer group.

The remuneration of Executive Board members comprises short-term components as well as long-term incentives. The short-term components contain non-performance-based and performance-based elements. Non-performance-based components involve fixed remuneration, payments in kind and other types of benefits. The non-performance-oriented, fixed base remuneration is paid monthly as a salary and is reviewed on a yearly basis. Executive Board members also receive other benefits, such as allowances for health insurance and benefits in kind that primarily involve the use of a company car. As performance-based element, payments to the members of the Executive Board include variable components which may amount to up to 50% of basic pay. They are defined anew every year by the Supervisory Board based on objectives that generally are also based on the development of revenues, EBITDA and EBIT. To create a lasting remuneration system, the remuneration for the members of the Executive Board includes a performance-based component based on the development of the Company over a period of three years. For previous years, the particular amounts of the performance-based remuneration with long-term relevance have been paid in the financial year 2015/2016.

The members of the Supervisory Board receive adequate remuneration for their membership on the Supervisory Board every full financial year; this remuneration is determined by the General Meeting and is payable after the end of the financial year. The Chairman receives double the amount; the vice chairman receives 1.5 times the amount. Supervisory Board members who have not belonged to the Board for a full financial year are remunerated based on the duration of their membership on the Supervisory Board. The members of the Supervisory Board will be reimbursed for all expenses and for the value-added tax that they must pay on their remuneration and expenses.

9 Takeover-related disclosures

Disclosures in accordance with § 289 Section 4 and § 315 Section 4 of the German Commercial Code (HGB)

As of the balance sheet date, the Company's share capital totaled 4,381,240.00 euros. This was associated with 4,381,240 shares of bearer common stock with a par value of one euro. Each share conveys one vote. It is not permitted to securitize the shares. The information required acc. to § 315 Section 4 Clause 1 of the German Commercial Code (HGB) is listed in the Group appendix.

EVWB GmbH & Co. KG (majority shareholder and CEO Enis Ersü), headquartered in Darmstadt, Germany, held an interest of more than 10% of ISRA VISION AG as of the end of the reporting period.

Pursuant to §§ 84, 85 of the German Stock Corporation Act (AktG) in conjunction with § 6 of the Company's Articles of Association, the Executive Board is appointed and dismissed by the Supervisory Board. According to § 19 of the Articles of Association, changes to the Articles of Association must be ratified at the annual General Meeting through a simple majority of the share capital entitled to vote that is represented at the adoption of the resolution. According to § 179 of the German Stock Corporation Act (AktG), changes to the Articles of Association that pertain to the objective of the Company must be ratified at the annual General Meeting through at least a three-fourths majority of the share capital entitled to vote that is represented at the adoption of the resolution. Pursuant to § 15 of the Articles of Association, the Supervisory Board of the Company is furthermore authorized to make modifications to the Company's Articles of Association that concern its wording.

The General Meeting held on March 17, 2015 adopted a resolution amending the Articles of Association. This amendment authorizes the Executive Board, with approval from the Supervisory Board, to increase the share capital until March 16, 2020, once only or on multiple occasions by issuing new unit shares against cash or non-cash contributions, up to a maximum amount of 2,190,620.00 euros (authorized capital). The subscription rights of shareholders is also served with an indirect subscription right in accordance with § 186 Section 5 Clause 1 of the German Stock Corporation Act. The Executive Board is authorized, with the agreement of the Supervisory Board, to exclude the statutory subscription rights of shareholders

- for fractional amounts,
- insofar as it is necessary to grant the bearers and/or holders of conversion rights and/or option rights or the debtors of conversion obligations from bonds, issued by the Company directly or through a Group company on the basis of the authorization resolved under item 9 of the agenda, a subscription right to new shares equal to the number that they would be entitled to after exercise of the conversion rights and/or option rights or when performing their conversion obligations,
- to secure shares in return for contributions of fixed assets, in particular in the context of mergers with other companies or the purchase of other companies, parts of companies or of an interest in other companies,
- if the capital increase takes place by means of an equity contribution and the issued value is not, at the time of the final determination of the issued value by the Executive Board, significantly less than the share price of the shares of a similar nature and scope which are already quoted on the stock markets, when judged in terms of the provisions of §§ 203 Sections 1 and 2, 186 Section 3 Clause 4 of the German Stock Corporation Act (AktG) and the amount of the share capital attributable to the shares issued under exclusion of the statutory subscription rights according to § 186 Section 3 Clause 4 does not exceed 438,124.00 euros or – if this amount is less – 10% of the existing base capital at the time of the issue of the new shares. Realization of stocks must be charged against this 10% limitation of base capital if they come into effect due to authorization under shareholder exception from subscription according to § 71 Section 1 No. 8 of the German Stock Corporation Act (AktG) in conjunction with § 186 Section 3 Clause 4 of the German Stock Corporation Act (AktG). In addition, stocks used to service bonds under warrant and/or conversion right fall under the 10% limitation of share capital if the bond was issued under shareholder exception from subscription due to authorization according to § 186 Section 3 Clause 4 of the German Stock Corporation Act.

Subject to agreement by the Supervisory Board, the Executive Board is authorized to determine the further details of implementing the increase in capital stock from the authorized capital.

On the basis of a resolution passed by the General Meeting on March 17, 2015, share capital has been conditionally increased by up to 2.090.620,00 euros by issuing up to 2.090.620 no-par value bearer shares (conditional capital II). The conditional capital increase may only be carried out to the extent that the holder or creditor (jointly: holder) of convertible or negotiable option bonds, issued up to March 16, 2020 on the basis of the authorization given to the Executive Board by the Annual General Meeting on March 17, 2015, makes use of this conversion right or option right, or to the extent that the holders, who are obliged to make the conversion fulfill their obligation to undertake the conversion and that no other means of performance are applied in these cases. The new shares shall be issued at the option or conversion price to be determined in accordance with the aforementioned authorization resolution. The new shares will begin participating in company profits as of the start of the financial year in which they are created (by exercising option / conversion rights and / or fulfilling option / conversion obligations).

Under a resolution passed by the General Meeting held on March 17, 2015, the Executive Board of ISRA VISION AG has been authorized to acquire its own shares until March 16, 2020, complying with the principle of equal treatment (§ 53a of the German Stock Corporation Act (AktG)). They are authorized to acquire up to 10 % of the recorded base capital at the time of the adoption of the resolution, under the provision that the shares which are purchased in accordance with this authorization, when added to the other shares in the Company which the Company has already purchased and still possesses or which have to be allocated to it pursuant to § 71a and following of the German Stock Corporation Act (AktG), do not represent more than 10 % of the base capital of the Company. In addition, the requirements of § 71 Section 2 Clauses 2 and 3 of the German Stock Corporation Act (AktG) must be observed. Purchases may not be undertaken for the purpose of trading in own shares. This authorization may be implemented in full or in parts. Purchases may be undertaken within the period covered by the authorization up to the point where the maximum purchase volume has been reached by partial purchases on various purchasing dates. Purchases may also be undertaken by subsidiary enterprises of the Company in the context of § 17 of the German Stock Corporation Act (AktG) or on its / their behalf by third parties.

10 Corporate governance declaration

The corporate governance declaration is publicly accessible via the website of ISRA VISION AG (www.isravision.com/corporategovernance).

Darmstadt, January 17, 2017

The Executive Board

Report of the Supervisory Board

for the 2015/2016 Financial Year

Members of the Supervisory Board

The Supervisory Board currently consisted of the members Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairman), Dr. Wolfgang Witz (Deputy Chairman), Ms. Susanne Wiegand, Stefan Müller, Falko Schling and Prof. Dr. rer. nat. Dipl.-Ing. Hennig Tolle.

Cooperation between Executive Board and Supervisory Board

As in previous years, the Supervisory Board also exercised its legal and statutory responsibilities in the 2015/2016 financial year with the utmost care. The collaboration with the Executive Board was characterized by an intensive and trustful dialogue. The Executive Board regularly and comprehensively informed the Supervisory Board about the status quo of the Company and business activities, both verbally and in writing. The Supervisory Board discussed the reports of the Executive Board in depth and requested supplementary information and explanations whenever necessary. The Supervisory Board continuously monitored the activities of the Executive Board based on this reporting and provided comprehensive advice in the management and strategic development of the Company. A catalog written by the Supervisory Board lists the types of business transactions whose execution requires the Executive Board to obtain the approval of the Supervisory Board. The Supervisory Board approved the business transactions submitted for approval by the Executive Board.

Criteria for monitoring the Executive Board by the Supervisory Board included particularly the legal, compliance, effectiveness and efficiency areas of group-wide management by the Executive Board. Subjects and scope of reporting by the Executive Board fulfilled the requirements established by the law, the principles of Corporate Governance and the Supervisory Board. Specifically, the chairperson of the Supervisory Board has kept in regular contact with the Executive Board, and primarily with its chairperson to discuss questions concerning strategy, acquisitions, planning, business development, expansion of management personnel, risk situation, risk management and the compliance of ISRA VISION AG and the Group.

The Supervisory Board was always involved in decisions of essential importance at an early stage. The chairperson of the Supervisory Board was always informed without delay by the chairperson of the Executive Board about significant events that were of essential importance for the assessment of the situation and development as well as the management of the Company.

In particular, the Supervisory Board passed the following resolutions in the past financial year:

December 09, 2015

- Passing of a resolution on the Declaration of Conformity to the Corporate Governance Code according to § 161 of the German Stock Corporation Law (AktG)

January 21, 2016

- Authorizing, respectively approving the individual and consolidated financial statements of ISRA VISION AG for the 2014/2015 financial year
- Adoption of the resolution proposal by the Supervisory Board to the General Meeting concerning the use of the net profit of the 2014/2015 financial year
- Approval of the agenda for the 2016 General Meeting as well as adoption of other resolution proposals of the Supervisory Board to the General Meeting
- Adoption of the Report of the Supervisory Board for the 2014/2015 financial year
- Appointment of Mr. Lars Brickenkamp as member of the Executive Board

March 29, 2016

- Appointment of Mr. Shlomo Amir as member of the Executive Board (in circulation procedure)

August 23, 2016

- Approval of the termination agreement with Mr. Lars Brickenkamp as member of the Executive Board (in circulation procedure)

September 06, 2016

- Approval of the budget for the 2016/2017 financial year
- Approval of the construction projects in Darmstadt and Herten

Summary of key points in consultations by the Supervisory Board

The key points in consultations by the Supervisory Board in all sessions in the period under review were:

- Strategy, planning and business development
- Revenue development as well as the assets, revenue and financial position
- Investments and acquisitions
- Risk situation, risk management and compliance
- International development of the markets for industrial image processing – especially under consideration of the global situation –, as well as
- Expansion opportunities and risks for ISRA VISION AG and the Group in Europe, Asia, Russia, and South America

Meetings of the Supervisory Board

The Supervisory Board convened four meetings on a regular basis by personal attendance in the 2015 / 2016 financial year. The following topics were deliberated in detail and decided upon:

Meeting on December 09, 2015

the meeting on December 09, 2015, the preliminary financial statements for 2014 / 2015 were explained and discussed. Furthermore, the Executive Board gave an overview of the first quarter of 2015 / 2016 and an outlook for the entire 2015 / 2016 financial year. The Supervisory Board discussed the draft agenda items presented by the Executive Board for the General Meeting on March 23, 2015 and approved them. Furthermore, the Declaration of Conformity to the Corporate Governance Code was discussed, deviations in the Declaration of Compliances were recorded and the declaration was adopted. The Executive Board informed the Supervisory Board about possible acquisition projects.

Meeting on January 21, 2016

In the Supervisory Board meeting on January 21, 2016, the Audit Committee reported on its meetings of December 09, 2015 and of January 21, 2016. The annual financial statement, the consolidated financial statements, the management report for ISRA VISION AG and the Group for the 2014 / 2015 financial year as well as the proposal by the Executive Board for the use of the net profit for the year were assessed in detail by the Supervisory Board and reviewed. This meeting was attended by the chairperson of the Executive Board as well as the auditor – in person of the two financial auditors certifying the auditor's report. Questions from Supervisory Board members were answered at length and individual facts were discussed in detail. Following the final result of the Supervisory Board's examination, it was concluded that no objections were noted. The annual financial statements and management reports for the 2014 / 2015 financial year submitted for the Company and the Group by the Executive Board were subsequently approved by the Supervisory Board. The annual financial statement of the Company was thus approved.

In accordance with the recommendation from the Audit Committee, the Supervisory Board also approved the Executive Board's suggestion for the allocation of the net profit for the year after a detailed discussion.

The Supervisory Board subsequently discussed the organization and sequence of the General Meeting and gave its approval for the agenda as well as decided on the suggestions to the General Meeting for the respective agenda items. Furthermore, the Supervisory Board decided on the report of the Supervisory Board to the General Meeting at the time.

In addition, the Executive Board presented the concept for the 2014 / 2015 financial report to the Supervisory Board. The overview of the first quarter of the 2015 / 2016 financial year and the forecast until September 30, 2016 were explained and discussed.

In the meeting on January 21, 2016, the Supervisory Board furthermore decided on appointing Mr. Lars Brickenkamp as new member of the Executive Board.

Meeting on May 26, 2016

In the Supervisory Board meeting on May 26, 2016, the Executive Board reported in depth about the second quarter of 2015 / 2016, gave a preview of the third quarter as well as an outlook on the entire 2015 / 2016 financial year, whereby the Supervisory Board acknowledged and approved the planning and forecasts of the Executive Board. Besides, the Executive Board gave an explanation on current acquisition projects.

Meeting on September 06, 2016

the Supervisory Board meeting on September 06, 2016, the Executive Board informed the Supervisory Board about the third quarter of 2015 / 2016 and presented a preview of the fourth quarter of 2015 / 2016. The Supervisory Board discussed the budget proposed and explained by the Executive Board in depth, including a discussion of the situation in the individual customer industries. The Supervisory Board determined the annual timetable for the financial year 2016 / 2017. The Executive Board informed the Supervisory Board in detail about the status of various acquisition considerations. Furthermore, the Supervisory Board discussed the mid-term strategic company planning. In addition, the Supervisory Board was informed that the hiring of additional qualified personnel was planned to further strengthen important sectors for the aspiring growth.

Activities of committees

The Supervisory Board set up two committees, the Audit Committee and the Main Committee.

The Audit Committee is especially addressing questions concerning accounting, risk management and compliance, the required independence of the auditor, issuing the audit assignment, determining the audit areas of concentration and the remuneration agreement. The Main Committee especially deals with the requirements for the employment contracts of the Executive Boards and prepares the adoption of a resolution of the Supervisory Board about the remuneration system of the Executive Board.

In the 2015 / 2016 financial year, the Audit Committee held two meetings, the Main Committee one meeting.

In its meeting on December 09, 2015, the Audit Committee dealt with questions concerning the audit. In its meeting on January 21, 2016, it examined the audit documents for the 2014 / 2015 financial year as well as the proposal by the Executive Board for the use of the net profit of this financial year and presented its recommendations to the entire Supervisory Board regarding this proposal. The Audit Committee submitted its recommendation concerning the nomination for the auditor election to the entire Supervisory Board, and it also dealt extensively with the risk management and compliance.

In its meeting on January 28, 2016, the Main Committee analyzed and discussed all important information concerning the compensation of the Executive Board, particularly with respect to the function of incentives of individual remuneration components, and presented it to the entire Supervisory Board. After extensive consideration, the Supervisory Board decided on the determination of the remuneration of Executive Board members and the decisive parameters in this context in circulation procedure.

Corporate Governance and Declaration of Conformity

In the 2015 / 2016 financial year, the Supervisory Board has dealt in depth with questions concerning Corporate Governance and the German Corporate Governance Code. On December 06, 2016, the Supervisory Board passed a resolution on the Declaration of conformity in accordance with § 161 of the German Stock Corporation Law (AktG) on the German Corporate Governance Code as published on May 05, 2015. In December 2016, the Supervisory Board decided on the new Declaration of Conformity. This declaration is reflected in the Declaration on Corporate Governance and, similar to the preceding declarations, permanently accessible on the website of the Company. No conflicts of interest occurred on the Supervisory Board in the course of the 2015 / 2016 financial year. No Supervisory Board member attended less than half of the meetings.

Audit of the annual financial statement and consolidated financial statement for the 2015 / 2016 financial year

The annual financial statements were prepared in line with the regulations of the German Commercial Code (HGB) and the consolidated financial statements in line with the International Financial Reporting Standards (IFRS), in the version applicable in the EU, as well as the applicable commercial regulations in accordance with § 315a of the German Commercial Code (HGB). The management report and the Group management report of ISRA VISION AG for the 2015 / 2016 financial year were also found to be acceptable. The PKF Deutschland GmbH financial auditing company from Frankfurt am Main (PKF), commissioned through the General Meeting on March 23, 2016, and authorized in writing by the Supervisory Board on March 31, 2016, performed the audit and granted each an unqualified audit certificate.

Before the Supervisory Board suggested PKF as financial auditor to the General Meeting, PKF certified to the Chairman of the Supervisory Board and the Audit Committee that no circumstances existed that could affect the independence as auditor or confirm any doubts concerning their independence. In this process, PKF also explained the scope of other services that were provided to the Company in the previous financial year or have contractually been arranged for the following year. The Supervisory Board agreed with PKF that, among other things, PKF should inform the Supervisory Board and record in the audit report if facts were to be determined during the execution of the audit of annual financial statements that would result in an incorrect statement by the Executive Board and Supervisory Board concerning the GCGC.

The aforementioned financial statement documents, the auditor‘s reports and the suggestion of the Executive Board concerning the allocation of net profit for the year, were submitted to the members of the Supervisory Board in a timely manner. For the preparation of the audit and handling of these documents, the Auditing Committee of the Supervisory Board discussed the named financial statement documents and audit reports of the auditor in the full Supervisory Board in its meeting on December 06, 2016.

In the meeting of the Audit Committee and in the subsequent accounts review meeting of the full Supervisory Board on January 17, 2017, the Executive Board explained each of the listed financial statement documents as well as its proposal for the use of the net profit for the year. In addition, questions from the members of the Audit Committee and the Supervisory Board were answered by the Executive Board.

Following the explanation by the Executive Board under consideration of the audit results of PKF, the Audit Committee and the Supervisory Board examined the financial statement documents. The auditor present in the meeting of the Audit Committee and in the accounts review meeting of the Supervisory Board – in person of the two financial auditors certifying the auditor‘s report – reported in depth about the audit and the audit results and explained the audit report. The priorities of the audit by the Audit Committee and the Supervisory Board were: consistency of approach and valuation, inter-company settlements, valuation of investments as well as percentage of completion and impairment test of inventories in line with IAS 36. In the context of the reporting in the meeting of the Audit Committee and the accounts review meeting of the Supervisory Board on January 17, 2017, the auditor also reported that his audit of the internal control and risk management system with reference to the accounting process did not identify any significant weaknesses. The auditor was questioned in depth by the Audit Committee as well as the Supervisory Board about the audit results and about type and scope of the audit activity. Furthermore, the Audit Committee reported to the Supervisory Board about its own audit of the accounting, its discussions with the Executive Board and the auditor as well as its monitoring of the accounting process. The committee also reported that it dealt with the effectiveness of the internal control management system, the risk management system and the internal revision system of ISRA VISION AG and the Group in the context of its monitoring function and verified its effectiveness. On the basis of that report, the Supervisory Board also assumed that these systems are effective.

The committee also informed the whole Supervisory Board about its instruction by PKF that no circumstances were present that would give an indication to their bias, and about the services that were performed by PKF outside of its audit. The committee additionally reported about its monitoring of the auditor‘s independence under consideration of the services rendered external to the audit and its assessment that the auditor has the requisite independence. Based on this committee‘s report, the Supervisory Board also came to this conclusion.

The Audit Committee and the Supervisory Board could be satisfied that the audit by PKF had been properly performed. In particular, they came to the conclusion that the audit reports – and the audit itself – met the statutory requirements. Based on the report and the recommendation of the Audit Committee, the Supervisory Board subsequently granted its approval to the result of the audit, and since there were no objections to be raised after the concluding result of their own audit, it approved the annual financial statement, the consolidated financial statements as well as the management report and the Group management report (including the declaration by the Executive Board about the corporate governance in accordance with § 289a of the German Commercial Code, HGB) for the 2015 / 2016 financial year. The annual financial statement of the company has thus been approved.

In its assessment of the position of the Company and the Group, the Supervisory Board agreed with the estimation of the Executive Board in its management reports. After in-depth examination, which included a discussion with the auditor, particularly in terms of the dividend policy, liquidity of the ISRA Group and shareholders‘ interests, the Supervisory Board joined the suggestion explained by the Executive Board concerning the allocation of the net profit for the year.

The Supervisory Board thanks the Executive Board, as well as all employees of ISRA and its Group companies for their personal efforts and successful work in the past 2015/2016 financial year.

Darmstadt, January 17, 2017

Chairman of the Supervisory Board

Corporate Governance Declaration

Disclosures according to § 289a of the German Commercial Code (HGB)

The Corporate Governance Declaration according to § 289a of the German Commercial Code (HGB) contains the Declaration of Conformity according to § 161 of the German Stock Corporation Act (AktG), the relevant information on corporate governance practices, which are applied beyond the statutory requirements, and a description of the working method of Executive Board and Supervisory Board as well as the composition and working method of the Supervisory Board committees.

Declaration of Conformity acc. to § 161 of the German Stock Corporation Act (AktG)

The German Corporate Governance Code represents legal regulations for managing and monitoring publicly listed German companies and contains internationally and nationally recognized standards of good and responsible corporate governance.

Prior to the enactment of the German Corporate Governance Code, ISRA had already satisfied the high demands and now underscores its orientation towards these standards and shareholder interests with the Declaration of Compliance

Declaration of Conformity to the Corporate Governance Code according to § 161 of the German Stock Corporation Act (AktG)

Executive Board and Supervisory Board of ISRA VISION AG hereby declare in accordance with § 161 of the German Stock Corporation Act (AktG) that the recommendations of the government commission, aside from the exceptions listed below, on the German Corporate Governance Code (GCGC) in the version dated June 24, 2014, have been fulfilled, and that henceforth the recommendations in the version dated May 05, 2015 will be fulfilled as well. The following recommendations were not or not completely fulfilled:

Item 3.8 Section 3 GCGC

D&O insurance policies for members of the supervisory board do not provide for a deductible. The Executive Board and the Supervisory Board do not take the view that the responsibility with which the members of the Supervisory Board perform their tasks will be improved through such a deductible. Rather, there is a risk that the agreement to share costs would conflict with the aspirations of ISRA VISION AG to recruit highly qualified persons for the Supervisory Board.

Items 4.1.5 Clause 1 and 5.1.2 Section 1 Clause 2 GCGC

ISRA VISION AG is a cosmopolitan, value-oriented company. At ISRA VISION AG and its subsidiaries, all persons have equal opportunities. Pursuant to the Basic Law of the Federal Republic of Germany, ISRA does not discriminate against or favor any person because of gender, origin, race, language, country of origin and background, conviction, religious or political views. In the interest of the Company, filling management positions and appointing persons as Executive Board members is based exclusively on the qualification of the respective person for the management position or the Executive Board position. For this reason, Executive Board and Supervisory Board have determined targets for the share of women which are in accordance with the current regulations in force. Additional quota or other objectives that would place a general restriction on the selection of suitable persons are not planned for the filling of management positions or Executive Board positions due to the aforementioned reasons.

Item 4.2.3 Section 2 Clause 6 GCGC

The service contracts of the Executive Board members were already concluded before announcing the new edition of the Codex dated May 13, 2013, with which the current valid recommendation in item 4.2.3. Section 2 Clause 6 GCGC was introduced. The service contracts contain maximum limits with respect to the variable remuneration components, but do not show any amount-based maximum limits for the entire remuneration, including the fringe benefits. Nevertheless, a change of the existing service contracts of the Executive Board members is not being planned. Because limiting the variable remuneration components provides sufficient assurance that the overall remuneration will also remain within reasonable limits.

Item 4.2.3 Section 4 GCGC

The service contracts of the Executive Board members of ISRA VISION AG do not contain any severance caps because the amount of a possible severance is subject to a termination agreement to be concluded at the end of the Executive Board activity and, therefore, dependent upon an agreement with the member of the Executive Board. ISRA VISION AG is also convinced that the Supervisory Board will sufficiently represent the interests of the Company without such a clause in negotiations with a retiring Executive Board member and will not grant any excessive severances.

Item 4.2.5 Section 3 GCGC

According to item 4.2.5 section 3 GCGC, the compensation report of the Executive Board for financial years starting after December 31, 2013 shall include certain information and shall be presented in form of model tables. At ISRA VISION, the compensation of the Executive Board is disclosed according to the legal provisions. The ISRA VISON AG is convinced that the compensation of the Executive Board can be disclosed to the shareholders in a clear and comprehensive way even without the complex and detailed breakdown and without the use of rigid model tables.

Item 5.2 Section 2 GCGC

The chairperson of the Audit Committee will be selected specifically based on his or her special experience and knowledge in the application of accounting principles and internal control mechanisms. Against this background, it is not ruled out that the chairperson of the Supervisory Board is also elected to be the chairperson of the Audit Committee – as it is currently the case.

Item 5.3.3 GCGC

The ISRA VISION AG Supervisory Board consists of six members. Because of the low number of members, it was deemed unnecessary to form a nomination committee. However, this does not affect the efficiency of the Supervisory Board's work.

Item 5.4.1 Sections 2 and 3 GCGC

The goal of filling the positions of the Supervisory Board of ISRA VISION AG is that overall its members have the requisite knowledge, skills and professional experience for the proper care of their assignments. In the process, the Supervisory Board will also ensure its sufficient independence. However, the Supervisory Board must make its decision insofar as the best suitable candidate is concerned from its perspective whenever a new election is waiting. The Supervisory Board – in agreement with the Executive Board – does not consider it to be pertinent if it is bound by abstract objectives formulated in advance with respect to its selection of a candidate, instead of being able to freely decide on the persons available in their specific decision scenario which it deems to be best suited for the position. For this reason, the Supervisory Board does not name specific objectives as provided by item 5.4.1 Section 2 GCGC, nor will it determine an age limit for the members of the Supervisory Board or a regular limit of length of membership to the Supervisory Board as recommended by item 5.4.1. Section 2 Clause 1 as of May 05, 2015. Consequently, such objectives will also not be taken into account for the nominations directed at the responsible election bodies and no report will be given about them and the state of their implementation.

Item 5.4.6 Section 1 Clause 2 GCGC

Remuneration of Supervisory Board members applies to the positions of Chairperson and Vice Chairperson. Given the size of the committees, the size of the Company and the level of Supervisory Board remuneration, it was not deemed appropriate to provide additional remuneration for committee chairs or members.

Item 5.4.6 Section 3 GCGC

Payments to the members of the Supervisory Board are recorded in the consolidated financial statements. In this manner, the requirements for information to which the shareholders are entitled will be fulfilled both appropriately and adequately. For this reason, there is no provision for publishing individual details concerning the remuneration of the Supervisory Board members.

Item 6.1 Section 1 Clause 2 GCGC

The Executive Board of ISRA VISION AG treats all shareholders, based on the same conditions, equally. This is especially true with regard to critical information about the Company's performance. Many individual topics are explained by means of regular investor / analyst presentations using charts. These charts are never relevant to current market prices, however, and are not published on the Internet since they contain proprietary information.

Item 7.1.2 Clause 2 GCGC

The Supervisory Board regularly discusses the quarterly and half-year figures with the Executive Board. In terms of lean processes, half-year or quarterly figures are not being discussed again with the Executive Board after the completion of the reports.

Item 7.1.2 Clause 4 GCGC

The Company observes the current statutory requirements and publishes the Company's consolidated financial statements within 4 months of the end of the financial year. (Interim reports are published within 2 months of the end of the reporting period.) Regular publication within the time frame recommended by the Corporate Governance Code would require an increase in the size of the internal accounting structure and would thus entail significantly higher costs. This would not be compatible with the goal of maintaining lean management structures.

Relevant information on corporate governance practices that are applied beyond the statutory requirements

Corporate governance through value-oriented management

An essential factor for a company's success is its management. ISRA has always placed great importance on responsible, value-oriented, effective corporate governance. For this purpose, ISRA orients itself, among other things, towards the relevant legal regulations for managing and monitoring publicly listed German companies and towards internationally and nationally recognized standards of good corporate governance (German Corporate Governance Code – accessible on the Internet under www.corporate-governance-code.de). The Executive Board and the Supervisory Board are particularly committed to a responsible and long-term value-enhanced corporate governance.

Managing risk effectively

Doing business as an entrepreneur means running risks. Effective management of these risks will determine the success of a company. ISRA's risk management system ensures that these risks will be handled in a responsible manner. It is especially designed to promptly recognize, evaluate and manage risks. The risk management system is continually readjusted in line with the insights gained from previous years, new legal requirements and changes according to the German Corporate Governance Code. In the management report, the Executive Board reports in detail about risks and future trends.

Description of the working method of Executive Board and Supervisory Board

The Executive Board manages transactions responsibly and self-reliantly

At ISRA, good corporate governance means first and foremost a constructive, trusting cooperation between the Executive Board and the Supervisory Board with the goal of corporate governance targeted towards value enhancement. The Executive Board develops the Company's strategic orientation in conjunction with the Supervisory Board, leading the ISRA Group responsibly and self-reliantly. The bylaws for the Executive Board govern the allocation of rights and duties on the Executive Board and define transactions and procedures which the Supervisory Board must follow.

The chairperson of the Executive Board, Mr. Enis Ersü, coordinates the Executive Board as well as the corporate governance with respect to the overall goals and plans of the Executive Board. Mr. Hans Jürgen Christ and Mr. Shlomo Amir are responsible for sales and strategical operations, Mr. Werner Rothermel for production and engineering, Dr.-Ing. Johannes Giet for research and development and Mr. Andreas Gerecke for Operations. The statutory retirement age for executive boards was set to 70 years.

In September 2015, the Executive Board of ISRA VISION AG has, compliant with Section 76 para. 4 of the German Stock Corporation Act (AktG), determined a target figure of 5 percent for the share of women in the first management level below the Executive board by June 30, 2017. Due to the flat hierarchical structure of the company, the target figure refers to one management level below the Executive Board.

The Supervisory Board monitors and advises the Executive Board

The Supervisory Board appoints the members of the Executive Board and advises the Executive Board with respect to the management of the Company. It monitors and checks the Executive Board in its activity. The bylaws regulate all administrative and organizational matters. The chairperson of the Supervisory Board reports about this committee's work in a separate Supervisory Board report.

The chairperson of the Supervisory Board coordinates the work on the Supervisory Board, chairs its meetings, and externally represents the interests of the Supervisory Board. The chairperson of the Supervisory Board keeps in regular contact with the Executive Board including in between meetings of the Supervisory Board, particularly with its chairperson, and discusses questions concerning strategy, planning, business development, risk situation, risk management and the compliance of the Company. The chairperson of the Executive Board informs the chairperson of the Supervisory Board without delay about important events that are of essential importance for the assessment of the situation and development as well as the management of the Company.

The Supervisory Board of ISRA VISION AG has, compliant with Section 111 para. 5 of the German Stock Corporation Act (AktG) and under consideration of the current contract situations, determined a target figure of 16,67 percent for the share of women in the Supervisory Board and of 0 percent for the share of women in the Executive Board by June 30, 2017.

Cooperation of Executive Board and Supervisory Board

Executive Board and Supervisory Board work closely together for the best of the Company and keep in regular contact. In the process, the Executive Board reports to the Supervisory Board on a regular basis, timely and extensively in written and verbal form, particularly about all questions relevant to the Company concerning strategy, planning, business development, risk situation, risk management and the compliance.

Avoiding conflicts of interest

Conflicts of interest of members of the Executive Board or Supervisory Board are immediately disclosed to the Supervisory Board. The acceptance of activities by members of the Executive Board that are not part of the scope the Executive Board mandate, are subject to the approval of the Supervisory Board.

Working method and composition of the committees of the Executive Board and the Supervisory Board

To increase efficiency, the Supervisory Board has formed two committees

Audit Committee

The Audit Committee consists of two members of the Supervisory Board:

- Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairperson of the Audit Committee)
- Ms. Susanne Wiegand

The Audit Committee deals primarily with monitoring the accounting process, effectiveness of the internal control system and the internal revision system, the audit, particularly the independence of the auditor, additional services provided by the auditor, granting the auditing contract to the auditor, determining focal points of the audit and fee agreement as well as the compliance.

Main Committee

The Main Committee consists of two members of the Supervisory Board:

- Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairperson of the Main Committee)
- Dr. Wolfgang Witz

The Main Committee especially handles the requirements for the employment contracts of the Executive Boards and prepares the adoption of a resolution of the Supervisory Board using the remuneration system of the Executive Board.

The committees regularly report to the Supervisory Board about the work of the committees. The chairperson of the Audit Committee has special knowledge and experience in the area of financial reporting, auditing and internal control methods. The chairperson is not a former member of the Executive Board of the Company whose appointment ended less than two years ago.

The Supervisory Board performs an efficiency check on a regular basis.

Reassuring and Expanding Trust

Through open information and transparent decision structures, the management aims to validate and further encourage the trust of its customers, employees, business partners, shareholders and the public. The Company communicates information regularly in an open, proactive manner. Price-sensitive information is communicated without delay using ad hoc announcements. All obligatory announcements, corporate reports, essential notifications and press releases are promptly published on the ISRA Internet home page. This assures equal dissemination of information to all shareholders.

The Executive Board

Shareholding structure

Members of the Executive and Supervisory Boards are holding the following numbers of shares:

Executive Board	No. of shares as per Sept. 30, 2016	Supervisory Board	No. of shares as per Sept. 30, 2016
E. Ersü	1,094,000*	Dr.-Ing. h. c. H. J. Wiedenhues	0
H. J. Christ	60	Dr. W. Witz	0
Shlomo Amir	0	Prof. Dr. rer. nat. Dipl.-Ing. H. Tolle	3,174
Dr.-Ing. J. Giet	0	S. Müller	0
A. Gerecke	0	S. Wiegand	0
W. Rothermel	0	F. Schling	0

* Mr. Ersü holds the voting rights allocated to him via the following companies which he himself controls: EVWB GmbH & Co. KG, EVWB GmbH. Each of these companies, in turn, holds at least 3% of the voting rights in ISRA VISION AG

Pro forma consolidated total operating revenue EBITDA-EBIT Statement*

ISRA VISION AG voluntarily publishes a consolidated total operating revenue EBITDA-EBIT statement typical for the industry oriented to the cost-summary method. The key differences between the cost of sales method and the pro forma consolidated total operating revenue/EBITDA-EBIT calculation are as follows: Profit margins increase because they are now associated with net sales instead of total output (net sales plus capitalized work). Capitalized work no longer appears in the cost of sales method and is assigned to the R&D functional area. Depreciation and amortization is now spread over the relevant functional areas. The EBIT earnings and the EBT earnings of the pro forma total output EBITDA-EBIT statement do not deviate from the consolidated income statement, which corresponds to IFRS.

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Net sales	128,815	112,235
Capitalized work	13,506	11,999
Total output	142,321	124,235
Cost of materials	28,983	25,082
Cost of labor excluding depreciation	26,500	23,874
Cost of production excluding depreciation	55,483	48,956
Gross profit	86,838	75,278
Research and development total	21,063	18,928
Sales and Marketing costs	24,665	20,576
Administration	4,818	4,462
Sales and Administration costs excluding depreciation	29,483	25,038
Other revenues	1,388	1,096
EBITDA	37,680	32,409
Depreciation and amortization	12,089	9,849
Total costs	62,635	53,815
EBIT	25,591	22,560
Interest income	41	35
Interest expenses	-477	-757
Financing result	-436	-722
EBT	25,155	21,838
Income taxes	7,398	7,059
Consolidated net profit	17,757	14,779
Of which accounted to non-controlling shareholders	201	-42
Of which accounted to shareholders of ISRA VISION AG	17,556	14,821
Earnings per share in €	4.01	3.39
Shares issued	4,379,295	4,371,041

* This pro forma presentation is an additional presentation based on the comprehensive presentation given in previous years and therefore not part of the IFRS consolidated financial statements. These are not IFRS key operating numbers.

- Consolidated Financial Statements (IFRS)

2015 / 2016

Consolidated Income Statement

(IFRS)

(in €k)	Explanation	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Net sales		128,815	112,235
Cost of sales	2	56,113	49,650
Gross operating result (gross profit)		72,703	62,585
Research and development		18,151	15,206
Total costs		21,063	18,928
Depreciation and amortization	12	10,758	8,428
Grants		- 164	- 151
Capitalized work	12	- 13,506	- 11,999
Sales and Marketing costs	3	25,251	21,173
Administration	4	4,933	4,592
Sales and Administration costs		30,184	25,765
Other revenues	6	1,224	945
Interest income		41	35
Interest expenses		- 477	- 757
Financing result		- 436	- 722
Earnings before taxes (EBT)		25,155	21,838
Income taxes	7	7,398	7,059
Consolidated net profit		17,757	14,779
Of which accounted to shareholders of ISRA VISION AG		17,556	14,821
Of which accounted to non-controlling shareholders		201	- 42
Earnings per share in € (diluted / undiluted)		4.01	3.39
Shares issued		4,379,295	4,371,041

Consolidated Statements of Comprehensive Income

(in €k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Consolidated net profit	17,757	14,779
Amounts that may subsequently be reclassified to the income statement		
Changes to the currency exchange variationen	- 694	1,567
Amounts not reclassifiable to the income statement		
Changes to actuarial profits and losses from performance-based retirement benefits	- 525	143
Tax effect	162	- 44
Total of earnings and expenditures recorded directly in the equity capital	- 1,057	1,666
Overall group earnings	16,700	16,445
Of which accounted to shareholders of ISRA VISION AG	16,499	16,487
Of which accounted to non-controlling shareholders	201	- 42

Consolidated Group Balance Sheet

(in € k)	Explanation	Sept. 30, 2016	Sept. 30, 2015
ASSETS			
Assets			
Short-term assets			
Inventories	9	33,726	30,703
Trade receivables	8	88,520	86,838
Cash and cash equivalents	23	16,919	15,056
Financial assets	10	2,706	3,585
Other receivables	11	1,645	2,453
Income tax receivables		1,845	1,534
Total short-term assets		**145,362**	**140,169**
Long-term assets			
Intangible assets	12	109,563	105,614
Tangible assets	13	5,700	6,199
Cash and cash equivalents	23	0	105
Financial assets	10	1,194	1,168
Deferred tax claims	19	1,997	3,038
Total long-term assets		**118,454**	**116,124**
Total assets		**263,816**	**256,293**
EQUITY AND LIABILITIES			
Short-term liabilities			
Trade payables	15	12,422	11,799
Financial liabilities to banks	14	35,954	50,103
Other financial liabilities	17	11,921	10,979
Other accruals	16	1,568	1,624
Income tax liabilities		3,487	1,028
Other liabilities	18	1,741	1,258
Total short-term liabilities		**67,094**	**76,791**
Long-term liabilities			
Deferred tax liabilities	19	33,249	31,913
Pension provisions	20	4,134	3,090
Total long-term liabilities		**37,383**	**35,003**
Total liabilities		**104,478**	**111,794**
Equity	21		
Issued capital		4,381	4,381
Capital reserves		38,800	38,623
Own shares		-159	83
Other comprehensive income		1,833	2,890
Profit brought forward		95,432	82,406
Net profit accounted to the shareholders of ISRA VISION AG		17,556	14,821
Share of equity capital held by ISRA VISION AG shareholders		**157,843**	**143,204**
Equity capital accounted to non-controlling shareholders		1,495	1,294
Total equity		**159,338**	**144,498**
Total equity and liabilities		**263,816**	**256,293**

Consolidated Cash Flow Statement

(in € k)	Explanation	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Consolidated net profit		**17,757**	**14,779**
Income tax payments		-2,498	-4,160
Changes in deferred tax assets and liabilities		2,377	6,476
Changes in accruals		989	637
Depreciation and amortization		12,089	9,849
Changes in inventories		-3,023	-2,245
Changes in trade receivables and other assets		-332	-18,455
Changes in trade payables and other liabilities		6,478	4,526
Financial result		436	722
Other non-cash changes		32	45
Cash flow from operating activities		**34,305**	**12,173**
Payments for investments in tangible assets		-889	-1,104
Payments for investments in intangible assets		-14,754	-13,344
Company acquisition	23	0	-2,192
Cash flow from investment activities		**-15,643**	**-16,640**
Payments to company owners through acquisition of own shares		-159	-790
Dividend payouts		-1,795	-1,705
Deposits from sales of own shares		93	1,036
Deposits from the assumption of financial liabilities		0	13,654
Repayments of financial liabilities		-14,149	-3,550
Interest income		41	35
Interest expenses		-477	-757
Cash flow from financing activities		**-16,446**	**7,922**
Exchange rate-based value changes of the financial resources		-458	466
Change of financial resources		**1,758**	**3,922**

The change in own shares was presented using the gross method.

Consolidated Statement of Changes in Equity

for the period October 01, 2015 to September 30, 2016

(in € k)	Issued capital	Capital reserves	Own shares	Other not-income-affecting changes of equity	Profit brought forward	Net profit by shares of other inves-tors	Equity of share-holders of ISRA VISION	Accoun-ted to non-cont-rolling share-holders	Equity
As of Sept. 30, 2015	4,381	38,623	83	2,890	82,406	14,821	143,204	1,294	144,498
Profit brought forward					14,821	- 14,821	0		0
Own shares purchased			- 159				- 159		- 159
Own shares sold		177	- 83				93		93
Payout					- 1,795		- 1,795		- 1,795
Changes in shares of non-controlling shareholders							0		0
Overall earnings				- 1,057		17,556	16,499	201	16,700
Actuarial profits / losses				- 363			- 363		- 363
Currency ex-change variations				- 694			- 694		- 694
As of Sept. 30, 2016	4,381	38,800	-159	1,833	95,432	17,556	157,843	1,495	159,338

Consolidated Statement of Changes in Equity

for the period October 01, 2014 to September 30, 2015

(in € k)	Issued capital	Capital reserves	Own shares	Other not-income-affecting changes of equity	Profit brought forward	Net profit by shares of other inves-tors	Equity of share-holders of ISRA VISION	Accoun-ted to non-cont-rolling share-holders	Equity
As of Sept. 30, 2014	4,381	38,623	- 162	1,224	71,111	12,999	128,176	1,338	129,514
Profit brought forward					12,999	- 12,999	0		0
Own shares purchased			- 790				- 790		- 790
Own shares sold			1,036				1,036		1,036
Payout					- 1,705		- 1,705		- 1,705
Changes in shares of non-controlling shareholders							0		0
Overall earnings				1,666		14,821	16,487	- 42	16,445
Actuarial profits/ losses				99			99		99
Currency ex-change variations				1,567			1,567		1,567
As of Sept. 30, 2015	4,381	38,623	83	2,890	82,406	14,821	143,204	1,294	144,498

The change in own shares was presented using the gross method.

Notes to the Consolidated Financial Statements as of September 30, 2016

1. General

ISRA VISION AG, Darmstadt (hereinafter “ISRA” or “Company”) was established on September 23, 1997 and entered in the commercial register of the Local Court of Darmstadt under the name ISRA VISION SYSTEMS AG and the registration number HRB 6820 on September 25, 1997. ISRA shares were first listed on the Frankfurt Stock Exchange on April 20, 2000. A resolution to change the Company name from ISRA VISION SYSTEMS AG to ISRA VISION AG was adopted at the general meeting of March 28, 2006, and was entered into the commercial register on November 15, 2006. The Company’s head office is located in Darmstadt. The financial year runs from October 1 to September 30. For the companies ISRA VISION (Shanghai) Co. Ltd., ISRA VISION VISTEK A.S., ISRA VISION COMÉRCIO, SERVIÇOS, IMPORTAÇÃO E EXPORTAÇÃO LTDA, ISRA VISION LLC and ISRA VISION INDIA Private Limited that are included in the consolidated financial statements, the financial year deviates from the calendar year of ISRA VISION AG. An interim balance sheet is being prepared for these companies for the purposes of the consolidated financial statements.

The purpose of the Company is to develop, market, employ, distribute and sell products, systems, equipment, and services in the areas of Machine Vision, automation, software and Robot Technology.

The consolidated financial statements of ISRA VISION AG were prepared in line with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) regarding how these are applied in accordance with Regulation No. 1606/2002 of the European Parliament and in accordance with the European Council‘s ruling on applying international accounting standards in the European Union. Since all IFRS applied by ISRA VISION AG have been adopted by the European Commission for application in the EU, the consolidated financial statements of ISRA VISION AG also correspond to the IFRS published by the IASB. For this reason, the term IFRS is henceforth being used by standard.

The consolidated financial statements are prepared in euro. The group of companies included in consolidation has not changed since the previous year. Minority interests held by other shareholders are stated according to their respective pro-rata share of the subsidiary’s net assets. The consolidation incorporates 25 subsidiaries.

2. Accounting methodes

Unless otherwise indicated, all figures are rounded off to thousands of euros (€ k) in the consolidated financial statements.

Individual items of the consolidated balance sheet and the income statement have been combined to improve the clarity of presentation. Their explanations are listed in the appendix. The income statement is structured according to the cost of sales method.

New or changed accounting standards applied for the first time

In the 2015/2016 financial year, the following new or changed standards and interpretations had to be applied for the first time that have no material impact on the net assets, financial position and results of operations of the ISRA Group:

- In December 2013, the IASB published “Annual Improvements to IFRSs 2011- 2013 Cycle”, which amended four standards. These amendments were essentially clarifications.
- In May 2013, the IASB published IFRIC Interpretation 21 “Levies”. This basically concerns the issue of when a liability must be reported for a levy imposed by the public sector. The IFRIC clarifies that the obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. By contrast, the “economic compulsion” to perform the activity in question in line with the going concern principle is expressly not an obligating event. The new regulations were endorsed in European law by the European Union in June 2014.
- The changes to IAS 19 dated November 21, 2013, facilitate the balancing of employee contributions or contributions made by third parties for performance-based pension plans in certain cases.

Published, but not yet applied, new or changed accounting standards

In addition, IASB or IFRIC also published the following new or changed standards and interpretations, which do not yet have to be applied in the 2015/2016 financial year and whose adoption by the European Union was partially still pending as of the balance sheet date:

- IFRS 9 dated November 12, 2009, last changed on July 24, 2014, contains regulations for the classification and assessment of financial instruments, for balancing value impairments of financial instruments as well as for balancing hedging relations as successor standard to IAS 39. This standard will have to be applied to the ISRA Group for the first time in the 2018/2019 financial year. An adoption by the European Union took place on November 22, 2016.

- IFRS 14 dated January 30, 2014, grants first-time adopters of IFRS a facilitation to the extent that they may continue accounting previously recognized regulatory deferral account balances from a price regulation. This standard is not relevant to companies that are already accounting according to IFRS.
- The changes of IFRS 11 dated May 6, 2014, specify the balancing of the acquisition of a share in a joint operation that represents a business operation in accordance with IFRS 3, in such a way that the acquirer has to apply all principles from IFRS 3 and other relevant standards, provided that they do not conflict with the guidelines of IFRS 11. The changes will have to be applied to the ISRA Group for the first time in the 2016 / 2017 financial year.
- The changes of IAS 16 and IAS 38 dated May 12, 2014, supplement the previous regulations concerning permissible depreciation and amortization methods for intangible assets and tangible assets and have to be applied by the ISRA Group for the first time in the 2016 / 2017 financial year.
- May 2014, the IASB published the standard IFRS 15, Revenue from Contracts with Customers. Based on the new standard, the recognition of revenues must reflect the transfer of the promised goods or services to the customer, with the amount that corresponds to the respective consideration which the company expects to receive in exchange for these goods or services. IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenue, as well as the pertinent interpretations. The realization concept of IFRS 15 comprises individual regulations that consider the specific characteristics of the order manufacturing and, in principle, allow a revenue realization according to the performance progress. Differences in the realization criteria can be identified with respect to the specific arrangement. The interpretation of the regulations of IFRS 15 with regard to the recognition of revenues over a period of time is discussed in the current literature as well as the accounting practice. IFRS 15 is to be applied for the first time for financial years beginning on or after January 1, Early application is permitted. In addition, the IASB published a clarification on the standard in April 2016. A full assessment of the effects of applying IFRS 15 is currently not possible at all.
- The changes of IAS 27 dated August 12, 2014, specify the applicability of the equity method in individual financial statements in accordance with IFRS and are not relevant to the consolidated financial statement of ISRA.
- The changes of IFRS 10 and IAS 28 dated September 11, 2014, specify the treatment of transactions between an investor and an associated company or a joint venture. As such, the scope of the profit recognition depends on whether the assets gained or lost constitute a business or not.
- The “Annual Improvements to IFRSs 2012 - 2014 Cycle” dated September 25, 2014, contain minor changes to four standards that have to be applied for the ISRA Group for the first time in the 2016 / 2017 financial year. This will not have a material impact on the net assets, financial position and results of operations as presented in the consolidated financial statements.
- The changes of IAS 1 dated December 18, 2014, contain clarifications with respect to representation, form and scope of relevant financial statements and have to be applied by the ISRA Group for the first time in the 2016 / 2017 financial year. This will not have a material impact on the net assets, financial position and results of operations as presented in the consolidated financial statements.
- The changes of IFRS 10, IFRS 12 and IAS 28 dated December 18, 2014, apply to facts that were the result in conjunction with the application of the consolidation exception for investment companies. An adoption by the European Union is still pending. The amendments, which are effective for the first time in the 2016 / 2017 financial year, are not relevant to the ISRA Group.
- IFRS 16, a new standard on accounting for leases, was issued on January 13, 2016. The standard provides a single lessee accounting model that dispenses with the distinction between operating and finance leases, with the result that most leases will have to be recognized in the statement of financial position in the future. In doing so, the lessee will recognize a liability for future payment obligations and, at the same time, capitalize the underlying right-of-use asset. During the term of the lease, the liability is written down according to financial principles and the right-of-use asset is amortized. Other new regulations concern sale and leaseback transactions. IFRS 16 will result in a moderate increase in total assets for the ISRA Group. The asset side of the statement of financial position will be affected by the right-of-use assets to be capitalized under non-current assets. The payment obligations to be recognized will lead to increases in current and non-current financial liabilities. In the income statement, EBITDA will increase slightly as, instead of lease expenses, amortization on right-of-use assets and the interest expense will be recognized in the future. IFRS 16 replaces IAS 17 and the associated interpretations, and is effective for the ISRA Group for the first time in the 2019 / 2020 financial year. An adoption by the European Union is still pending.
- The amendments to IAS 12 of January 19, 2016 clarify the recognition of deferred tax assets for unrealized losses in connection with the measurement of debt instruments at fair value. The changes will have to be applied to the ISRA Group for the first time in the 2017 / 2018 financial year. An adoption by the European Union is still pending.
- The changes of IAS 7 dated January 29, 2016 result in extended disclosures on changes in financial liabilities and have to be applied by the ISRA Group for the first time in the 2017 / 2018 financial year. An adoption by the European Union is still pending.

- The amendments to IFRS 2 published on June 20, 2016 clarify the classification and measurement of share-based payment transactions. This will have to be applied to the ISRA Group for the first time in the 2018 / 2019 financial year.
- The final version of IFRS 9 Financial Instruments as a complete standard contains all previously published regulations and has combined these with the new regulations on the recognition of impairment losses and limited amendments on the classification and measurement of financial assets. ISRA has not yet concluded its detailed analysis of IFRS 9, but its first-time adoption is not expected to have a material impact on the financial statements. The new provisions on the classification of financial assets depending on the business model that exists for them can give rise to changes in measurement and reporting in some cases. As a result of the new provisions on impairment, expected losses will be recognized in profit or loss earlier in some cases. In some hedge accounting cases, more components can be included in the hedged risk in the future, which will slightly increase the degree of effectiveness. This will have to be applied to the ISRA Group for the first time in the 2018 / 2019 financial year.

(a) Discretionary decisions

When preparing the consolidated financial statements, the management of ISRA VISION AG made estimates and assumptions which had an impact on the amounts of the figures presented in the consolidated financial statements and the disclosures in the notes.

Employer pension plans

The amount of benefits is evaluated based on actuarial calculations. They are based on extensive assumptions, e.g. discount rate, mortality rate and future pension increases.

Accounting for business combinationsn

During the initial consolidation of companies in the consolidated financial statements, company values are generally disclosed. In this context, all identifiable assets, liabilities and contingent liabilities are recorded at fair values at the date of acquisition. For this purpose, determining the fair value represents an estimate. The fair values are largely determined by assessment methods that require forecasting expected future cash flows. The assessment technique as well as the forecast depend on assumptions made by the management.

Impairment of goodwill

The management reviews at least once a year whether a decrease in value of recognized goodwill has occurred. In this context, the attainable amount of the cash generating unit must be determined. This determination also requires forecasts for expected future cash flows and assumptions concerning their discounting. The management considers the assumptions and estimates made to be appropriate. However, due to unforeseen events, the assumptions made by management may not occur or may be different which could lead to a decrease in value.

Impairment of assets

For each balance sheet date, the group must estimate whether indications exist that could point to an impairment of assets. If such an indication exists, the recoverable amount of the asset is estimated. This estimate requires forecasts for expected future cash flows and assumptions concerning their discounting as well as future sales prices. The management considers the assumptions and estimates made to be appropriate. However, due to unforeseen events, the assumptions made by management may not occur or may be different which could lead to a decrease in value.

Realization of sales of production orders

ISRA VISION AG generates the essential part of its revenues from production orders that are recorded based on the percentage of completion method. This method requires an assessment of the degree of completion, it is the relation of actually worked hours to actual hours worked plus expected total hours since the share of revenues to be realized is based on them. In this context, significant effects are exercised by the assessment of total contract costs, the costs that could still be incurred until completion, the total of the contract revenues as well as other contract risks. The procedures for determining this assessment are constantly being reviewed.

Taxes on income and earnings

ISRA VISION AG and its group companies operate in many countries which are naturally subject to different fiscal framework conditions. Determining the tax liabilities and deferred taxes is subject to the assessment of certain facts that could be interpreted differently by local tax authorities which could affect the actual amount of tax liabilities in the group.

For every balance sheet date, the management assesses the realizability of future tax advantages with regard to the balancing of deferred tax assets. This assessment requires estimating the probability of future taxable income to occur. Effects on the recoverability of deferred tax assets can occur if the estimated tax income is not being realized as planned or if pertinent deviating changes of the tax legislation occur.

(b) Estimates and assumptions in the application of accounting principles

The preparation of consolidated financial statements requires assumptions and estimates that have an effect on the measurement of the amount of assets and liabilities in the consolidated balance sheet or on the recognition of expenditures and income in the income statement as well as consolidated statements of comprehensive income. The actual figures may deviate from the amounts presented. Essentially, assumptions and estimates concern the assessment of tangible assets and intangible assets, particularly the verification of the recoverability of goodwill, the valuation of inventories, the assessment of the realizability of receivables and deferred tax assets as well as the valuation of accruals.

In particular, the assessment of assets, tangible assets and intangible assets requires an estimate of expected useful life. Verifying the recoverability is based on future-oriented assumptions about expected cash flows and discount rates. A large number of factors can affect them, causing the actual cash flows to deviate significantly from the underlying future cash flows. This applies particularly to the goodwill impairment test.

Self-created intangible assets are capitalized in accordance with IAS 38 during the development phase upon meeting certain requirements. This includes the technical realizability, the intention of completing the developed intangible asset, the ability to use it or to dispose of it, as well as the substantiation how the asset will be generating an anticipated future economic benefit. Estimates are primarily based on the decision with respect to future utilization or the assumption of the future sale as well as future benefits resulting from it.

Value adjustments on receivables are formed on the basis of age distribution and on historical data concerning the delinquencies that occurred in the past.

Deferred tax assets are recorded if the use of the future tax advantages appears to be predominantly probable. Estimates with respect to the future tax earning situation of the concerning companies, which may deviate from the actual future earnings, are employed for assessing the usability of the losses carried forward.

To evaluate the pension obligations, ISRA utilizes actuarial calculations from experts to estimate the effects of future developments on the expenditures and income to be recognized from these plans as well as obligations and claims. Among other things, the calculations are based on assumptions about the accounting interest rate, increases to salaries and pensions as well as biometric probabilities.

The application and evaluation of provisions as well as the determination of contingent liabilities are also greatly influenced by estimates of the management.

(c) Consolidation

In addition to ISRA's individual financial statements, the consolidated financial statements include the individual financial statements of the subsidiaries, which were also prepared in line with the provisions of the IFRSs. As a rule, the date of initial consolidation is the date on which ISRA gained the controlling interest. Until the date of their sale, companies are included in the consolidated financial statements. During the initial consolidation, the assets and liabilities are valued at their fair value on the purchase date insofar as they qualify for recognition under IFRS 3. Goodwill is determined as the difference between the (full) revalued net assets on the one hand and the amount of consideration provided plus the fair value of interests formerly held in the acquisition object. Transactions between consolidated companies are eliminated during consolidation.

(d) Associated companies

An associate is a company on which ISRA VISION AG has a significant influence, but which is not controlled or jointly controlled by ISRA VISION AG. A significant influence is assumed, among other things, if ISRA VISION AG directly or indirectly holds 20% or more of votes.

Shares in associates are accounted for according to the equity method. As such, shares in associates are initially carried at their purchase costs. For the following balance sheet dates, ISRA VISION AG carries forward the amount initially recognized according to its share of overall earnings of the associate. Distributions received from associates reduce the carrying amount.

Essential unrealized interim results from transactions with associates are eliminated on a pro-rata basis of the interest.

The carrying amount of an associate is compared with its recoverable amount in conjunction with impairment tests. If the carrying amount exceeds the recoverable amount, ISRA VISION AG recognizes a decrease in value on the recoverable amount.

At present, ISRA VISION AG does not hold any shares in associated companies.

(e) Foreign currency conversion

The national currencies of the consolidated companies are their functional currencies. The reporting currency is the euro. The individual financial statements of the companies included in the group with a functional currency other than the euro are converted into euros for inclusion in the consolidated financial statements. Assets and liabilities are converted using the mean exchange rate on the balance sheet date. Items of the income statement are converted at the average exchange rate. Equity capital is converted using historical exchange rates. Currency differences from conversion are recorded as equity so that they will not affect the net profit for the period and are only realized (pro rata) when the relevant financial interest is (partially) disposed.

Foreign currency entries in the individual financial statements are converted into the functional currency of the consolidated companies during the year in which they occur. Currency-based gains or losses have been entered at the exchange rate at the time of acquisition and converted at the exchange rate on the balance sheet date in the income statement.

The currencies for the ISRA Group, US dollar and Renminbi, were converted at the following exchange rates:

	Closing rate Sept. 30, 2016	Average rate Oct. 01, 2015 - Sept. 30, 2016
1 EUR = USD	1.1161	1.1106
1 EUR = CNY	7.4463	7.2569

(f) Realization of sales and other revenue

Revenues from the sale of goods (e.g. spare parts) are recorded at the point of time at which the significant chances and risks of ownership are transferred to the buyer and the amount of realizable revenues can be determined reliably. Revenues from services are recorded as soon as the services have been provided. Revenues are not recorded if significant risks exist concerning the receipt of consideration. Revenues are recorded less any reductions such as bonuses, cash discounts or rebates. Revenues from production orders are recorded on the basis of the percentage of completion method, whereby the revenues are recorded according to their production state (see also (a) General accounting methods).

Percentage of completion method (POC) for the assessment of customer-specific production orders according to IAS 11.

According to IAS 11, revenues and corresponding profits may be realized according to the percentage of completion method – insofar as the requisite conditions have been fulfilled. The degree of completion is determined according to the status of the performance. To determine the degree of completion, the contract processing progress is calculated as a ratio between the expenditures incurred during the financial year and the overall expenditures to be expected.

If POC value (cost of orders, consisting of material costs and hours, and profit / loss) in exceptional cases exceed advance payments, they will be listed in the form of production orders on the assets side as „future receivables from production orders“ accruing from deliveries and services provided. If advance payments exceed POC value, they will be listed on the liability side as „liability from production orders“ under the liabilities from goods and services.

(g) Capitalized work, research costs as well as company and product advertising

Expenses for in-house product development according to IAS 38.

In accordance with IAS 38, expenditures for product development are capitalized subject to defined preconditions and depreciated over the normal useful operating life. The conditions for capitalization were examined and found to be fulfilled.

The developments finished in the course of the year were depreciated pro rata over time from the moment of completion. Non-completed development work is written off only from the time of its completion. The scheduled depreciation and amortization is carried out on a linear basis over the course of a useful life, generally six years. ISRA VISION AG records the corresponding depreciation and amortization under research and development in the consolidated income statement (see also Notes, part 12). The retention of carrying amount is ensured by a continuous process of monitoring and support of development projects. Each year, the retention of carrying amount for capitalized balance sheet items is verified by means of a comparison with the present value of future cash flows associated with a development project (impairment test). Insofar as capitalized carrying amounts are found to exceed the present value, a corresponding adjustment is immediately made to reflect the value impairment.

Research costs

Research is the search for new insights, which use is intended to develop new products and processes as well as improving existing ones. Costs arising in this context are carried as expenses at the time of being incurred.

The costs of corporate and product-related advertising are recorded as expenses at the time of being incurred.

(h) Goodwill, impairment test, software and other intangible assets

The impairment of balanced goodwill is reviewed at least once a year in the context of the impairment test. Impairment tests are also conducted if there is any indication of a decrease in value.

For business divisions representing the segments, the value in use is determined using DCF models and then applied as the basis for the impairment tests.

Based on the internal monitoring by the Executive Board and the internal reporting structures of ISRA VISION AG, the cash-generating units in the context of the goodwill impairment test represent the reporting segments in accordance with IFRS 8.

The intangible assets identified when purchasing a company are subject to scheduled depreciation over their envisaged useful life or at most until the right expires.

Software that has been acquired by purchase is capitalized and written off over an estimated useful life of four years. Other intangible assets that have been acquired by purchase are carried at their acquisition cost and are subject to planned depreciation over their envisaged useful life or at most until the respective right expires.

(i) Cash and cash equivalents

The financial resources in the cash flow statement comprise checks, cash and credit balances at banks.

(j) Trade receivables and other financial assets

Trade receivables and other financial assets are carried at the present value of future cash flow. Possible bad debts are taken into account by way of individual allowances. Other assets include travel expenses advanced to employees, lease down payments, rent deposits, pension plan re-insurance claims, as well as other assets. Contracted work requiring expenditure on engineering, installation and start-up is evaluated by the "percentage of completion method and recorded in the balance sheet as trade receivables. The carrying amounts of trade receivables and other financial assets on the balance sheet date are nearly the same as their respective fair value.

(k) Inventories

These items are valued at cost of inventories or at the lower market price on the balance sheet date. Elements of production expenses are direct material costs, direct costs of conversion, overheads for materials and production and depreciation of equipment. Financing and Sales and Marketing costs are not included in the manufacturing costs. An average cost method is used to determine the manufacturing costs.

(l) Tangible assets

Plant and office equipment are carried on the balance sheet at their acquisition or production cost less planned depreciation. The repair and maintenance costs are carried as an expense at the time at which they are incurred. Planned depreciation is performed using the straight-line method over the expected useful life of the respective assets.

Assets subject to wear and tear are written off over the useful life listed below:

	Expected useful life
Plant	4 years
Office equipment/furnishings	3-10 years
Buildings	40 years

(m) Value impairments

For each balance sheet date, the group examines the carrying amounts of intangible assets and tangible assets as to whether indications exist that a decrease in value may have occurred. In this case, the amount recoverable of the respective asset is determined to establish the scope of value adjustment that may have to be performed. The amount recoverable corresponds to the fair value less the costs of disposal or the value in use; the higher value is authoritative. The value in use corresponds to the present value of the expected cash flows. An interest rate before taxes that corresponds to the market conditions is used as the discount rate. If no amount recoverable can be established for an individual asset, the amount recoverable for the lowest identifiable group of assets (cash-generating unit) is determined to which the corresponding asset can be allocated.

Company values resulting from company acquisitions are allocated to the identifiable groups of assets (cash-generating units) that are intended to draw a benefit from the synergies of the acquisition. Such groups represent the lowest reporting level in the group at which company values are monitored by the management for internal control purposes. The amount recoverable of a cash-generating unit containing a company value is examined every year on September 30 for recoverability and additionally if indications of a possible decrease in value exist at other times.

If the amount recoverable of an asset is less than the carrying amount, an immediate value adjustment of the asset affecting earnings is recognized.

In the case of value adjustments in conjunction with cash-generating units that contain a company value, existing company values are reduced first. If the value adjustment need exceeds the carrying amount of the Company value, the difference is generally distributed proportionally to the remaining long-term assets of the cash-generating units.

If a value impairment has been performed and a higher amount recoverable of the asset or cash-generating unit is obtained at a later time, a reversal of an impairment loss up to the maximum amount of the amount recoverable is carried out. The reversal of an impairment loss is limited to the continued carrying amount which would have resulted in the past without the value adjustment. The write-up is reported as affecting earnings. Reversals of an impairment loss of previous value adjustments to company values are not allowed.

(n) Trade payables and other financial liabilities

Trade payables and other financial liabilities are valued with the continued purchase costs using the effective interest method. Since these are exclusively non-interest bearing short-term items, the continued acquisition costs regularly correspond to the cost of repayment and nearly to the fair value of the balance sheet date.

(o) Financial liabilities

For the year under review, financial liabilities existed towards the following credit institutions: Baden-Württembergische Bank AG, Commerzbank AG (formerly Dresdner Bank AG), Deutsche Postbank AG, Norddeutsche Landesbank -Girozentrale- (Nord / LB) and DZ Bank AG. They are valued at the continued purchase costs using the effective interest method.

(p) Employer pension plans in accordance with IAS 19

The evaluation of employer pension plans in accordance with IAS 19 is carried out in line with the projected unit credit method allowing for future increases to salary and pensions (IAS 19). Actuarial profits and losses are accounted for immediately neutral in their effects in the consolidated statements of comprehensive income. Interest costs are contained in the financial result.

(q) Other accruals

Provisions are formed for liabilities recorded on the balance sheet date which will most likely lead to an outflow of economic resources and whose amount can be reliably determined. Their assessment is based on the best possible estimate for the amount that reflects the most likely outflow of resources.

(r) Deferred taxes

The formation of deferred taxes follows the balance sheet-oriented liabilities method. According to this method, deferred taxes are assessed for temporary differences existing on the balance sheet date between the IFRS carrying amount and the tax value of assets and liabilities. In addition, ISRA VISION AG forms deferred tax assets for tax losses carried forward that can probably be used.

Deferred taxes are assessed in the amount of the reduced or additional tax burden which is likely to arise if the temporary differences are reduced or the tax losses carried forward are utilized. The Company and its subsidiaries are legally independent units and their registered offices are not at the same location. This means that the parent company and its subsidiaries are subject to different fiscal jurisdictions. The individual tax situations of the various companies are authoritative for the tax deferral. This applies particularly to the tax rate applied. Netting out of deferred tax assets and liabilities is only possible within the same fiscal jurisdiction and if the company is legally entitled to the settlement of corresponding current tax assets and liabilities.

(s) Other taxes

Other taxes solely comprise motor vehicle tax – this is shown under Other operating expenses.

(t) Government grants

Government grants awarded for the compensation of specific expenditures of the Company are recorded by ISRA VISION AG in so far as income as the respective expenditures arise. They are recorded in the income statement under other revenue. In the event of grants being awarded for investments, the grant is accounted for as a liability and amortized affecting earnings over the envisaged useful life of the capital goods.

(u) Financial instruments

Financial instruments are contracts that simultaneously create financial assets for one company and financial liabilities for another company or that create an equity instrument. When first applied, the financial instrument is classified according to the financial substance of the contractual agreement and according to the definitions for financial assets, financial liabilities and equity instruments.

In particular, financial assets contain cash as well as loans granted and receivables.

Financial liabilities regularly necessitate that cash or other financial assets be devoted to them. Financial liabilities, in particular, include liabilities from goods and services, bank liabilities and derivative financial liabilities.

A financial asset or a financial liability is created on the consolidated balance sheet if ISRA becomes a party to the respective financial instrument. The initial accounting of the settlement date is relevant for purchases and sales typical in the market; this is the day on which the asset is delivered by or to ISRA.

When they are first recorded, financial assets will be evaluated based on their fair value. The subsequent valuation will be based on the classification of the asset into one of four categories: (a) financial assets that will be evaluated based on their fair value in the income statement, (b) financial investments that are held until their final maturity, (c) loans and receivables, or (d) financial assets that are available for realization.

For the first application of financial assets, ISRA has decided not to designate those financial assets being assessed for their fair value as relating to the income statement.

Loans and receivables as well as financial investments held until their final maturity are valued at the continued purchase costs based on amortized costs using the effective interest method. For each balance sheet date, ISRA VISION AG examines whether substantial indicators exist for a decrease in value. A possible impairment loss is determined as the difference between the financial asset's carrying amount and the present value of the future cash flow expected from it. Impairment losses are recorded as affecting profit in the income statement under the Other operating expenses item.

Impairment losses are recorded in a value adjustment account. ISRA depreciates the asset when the loss is certain.

Financial assets held for commercial purposes are evaluated on the basis of their fair value. Any profit or loss resulting from the subsequent valuation are recorded directly in the consolidated financial statements with effect on the income statement.

Financial assets available for realization are assessed at the time of inclusion on the basis of their fair value. The profits and losses resulting from the subsequent valuation from the assessment at the fair value are recorded in the equity capital with no effect on the income statement, except for the value impairments, profits and losses from the currency variations. Upon write-off, the profit or loss previously recorded in equity is reclassified and adopted into the period result.

When first applied, original financial liabilities are assessed on the basis of their fair value. The subsequent valuation is carried out with the continued purchase costs using the effective interest method.

ISRA uses derivative financial instruments exclusively to hedge against risks from interest-rate fluctuations.

Derivative financial statements are first recorded at current market value, which is also used for subsequent reporting.

When accounting for the cash flow hedge, the effective part of the change to the fair value of the hedging instrument is initially recorded in equity without affecting the income statement. A reclassification of these amounts is carried out in so far as the hedged cash flows are recorded in the income statement as expenditure or revenue. The ineffective part of the value change of the hedging instrument must be recorded as immediately affecting profit. ISRA VISION did not perform any hedging relation as fair value hedge.

(v) Accounting for leases

As of the balance sheet date, leases exist solely in the form of operating leases. Since the primary financial risks and opportunities fall on the lessor under these contracts, ISRA VISION does neither record the leasing objects as assets nor the leasing obligations associated with them as financial liabilities. Instead, the leasing installments have been expensed in the income statement as incurred linearly across duration of the lease.

3. Release of the consolidated financial statements

The consolidated financial statements were released for publication by the Executive Board on January 13, 2017.

Explanatory Notes

1. Segment reporting

In accordance with IFRS 8, the identification of reporting segments is based on the Management approach. The valuation principles for segment reporting are based on the IFRS utilized in the consolidated financial statements. ISRA assesses the performances of the segments based on the EBIT, which is being reported to the Executive Board as a measure of earnings. The segment investments include the additions to the intangible assets and tangible assets. A representation of the segment debts was omitted since they are not relevant to Group Management and reporting.

The segment definition is based on the corporate structure's focus on a market-oriented organization. The reporting segments reflect the business divisions which sell specific products in particular markets. The operative segments reflect the reporting structure of ISRA VISION AG. In accordance with the internal reporting structures, the business segments correspond to the reporting segments.

The types of products that represent the foundation of the net sales of the segments are as follows:

- INDUSTRIAL AUTOMATION
  The target markets of this division are primarily the automotive industry, machine tool manufacturers, the automation industry, general industry, plant and system manufacturers as well as the OEM markets in which ISRA products are integrated into customers' products as OEM systems. In these cases, ISRA applies the entire range of its technologies, utilizing surface inspection products in addition to the primary products from Robot Vision and Quality Vision.

- SURFACE VISION
  This business division concentrates on surface inspection technology. This primarily concerns web materials which are checked for defects during the production process. The main focus is on flat glass, solar, foil, nonwovens, metal, paper and printing industries.

(in € k)	Industrial Automation		Surface Vision		Total	
	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Net sales	31,128	26,590	97,687	85,645	128,815	112,235
EBIT	6,216	5,345	19,376	17,215	25,591	22,560
Financing result					-436	-722
Income taxes					7,398	7,059
Consolidated net profit					17,757	14,779

There was no interdivisional revenue. There were no earnings from associated companies.

(in € k)	Industrial Automation		Surface Vision		Total	
	as of Sept. 30, 2016	as of Sept. 30, 2015	as of Sept. 30, 2016	as of Sept. 30, 2015	as of Sept. 30, 2016	as of Sept. 30, 2015
Investments in long-term assets in year under review	2,661	2,465	13,178	15,624	15,839	18,090
At-equity investments	0	0	0	0	0	0
Value impairment						
Goodwill	0	0	0	0	0	0
Depreciation and amortization						
Other intangible assets	1,801	1,613	8,907	6,851	10,708	8,464
Tangible assets	165	201	1,216	1,184	1,381	1,385
Assets	60,775	60,955	203,041	195,338	263,816	256,293

Regional representation of net sales

(in € k)	Germany		Europe		America		Asia, ROW*	
	Oct. 01, 15 - Sept. 30, 16	Oct. 01, 14 - Sept. 30, 15	Oct. 01, 15 - Sept. 30, 16	Oct. 01, 14 - Sept. 30, 15	Oct. 01, 15 - Sept. 30, 16	Oct. 01, 14 - Sept. 30, 15	Oct. 01, 15 - Sept. 30, 16	Oct. 01, 14 - Sept. 30, 15
Net sales	21,440	24,943	26,733	21,401	24,875	23,216	55,766	42,675

* ROW = Rest of the World

In the following countries, ISRA VISION AG achieves more than 10 % of its total sales: Germany (€ 21,440k), China (€ 29,827k), US (€ 21,565k).

Regional representation of assets situation

(in € k)	Germany		Europe		America		Asia, ROW*		Total	
	as of Sept. 30, 2016	as of Sept. 30, 2015	as of Sept. 30, 2016	as of Sept. 30, 2015	as of Sept. 30, 2016	as of Sept. 30, 2015	as of Sept. 30, 2016	as of Sept. 30, 2015	as of Sept. 30, 2016	as of Sept. 30, 2015
ASSETS										
Intangible assets and tangible assets	112,532	108,870	1,105	1,186	1,452	1,528	174	228	115,263	111,813

* ROW = Rest of the World

2. Cost of sales

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Material	- 28,983	- 25,082
Personnel	- 27,130	- 24,568
Total	**- 56,113**	**- 49,650**

The cost of sales increased by € 6,463k, a smaller increase than the one in revenues. The cost of labor includes depreciation and amortization in the amount of € 630k (previous year: € 693k).

3. Cost of Sales and Marketing

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Sales	- 25,251	- 21,173

Due to increased sales activities, the cost of Sales and Marketing increased by € 4,078k (previous year: € 1,616k). The cost of Sales and Marketing includes depreciation and amortization in the amount of € 586k (previous year: € 598k).

4. Administrative costs

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Administration	- 4,933	- 4,592

The Administrative costs rose by € 341 k (previous year: T€ - 272). The Administrative costs include depreciation and amortization in the amount of € 114k (previous year: € 130k).

5. Total depreciation / amortization

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Amortization of intangible assets	- 10,708	- 8,464
Depreciation of tangible assets	- 1,381	- 1,385
Total according to inventory of assets	**- 12,089**	**- 9,849**

Of the depreciation and amortization of intangible assets, € 8,455k (previous year: € 6,237k) is accounted for by capitalized developments that are depreciated over a period of six years after completion.

6. Other revenues

Other revenues consist of the following items:

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Freight proceeds	272	52
Revenues from exchange rate differences	613	325
Revenues from insurance indemnifications	25	46
Other operating revenues	313	521
Subtotal	1,224	945
Grants (in R&D)	164	151
Total	1,388	1,096

No unfulfilled conditions or potential liabilities existed with respect to grants.

7. Income taxes

The tax expenses shown in the income statement are attributable to Germany and foreign countries as well as to current tax expenses and deferred tax expenses as follows:

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Taxes on current earnings		
Germany	3,019	939
Other countries	1,969	379
	4,987	1,318
Deferred tax expenditure		
Germany	3,051	5,090
Other countries	-639	651
	2,411	5,741
Total	7,398	7,059

The tax charges based on the tax rate applicable to ISRA as a parent company and the actual tax charges of the Group can be reconciled as follows:

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Earnings before taxes	25,155	21,838
Expected income tax expenditure	7,768	6,744
Effect from foreign income tax rates	-33	- 192
Tax losses with no deferred taxes	38	195
Consolidation-based and other effects	-375	312
Stated income tax expenditure	7,398	7,059

In the 2015/2016 financial year, the corporate tax rate totaled 15.0%, plus the German reunification tax of 5.5% of corporate tax. This resulted in an effective corporate tax rate of 15.83%. Taking into account the local business taxes – which amounted to 15.05% weighted – this resulted in an overall tax rate of approximately 30.88% (previous year: 30.88%).

The taxes in the individual financial statements of ISRA VISION LLC, ISRA VISION SYSTEMS Inc., ISRA SURFACE VISION Inc. and ISRA VISION PARSYTEC Inc. were determined at a tax rate of 38.0%. A tax rate of 20.0% was applied to ISRA VISION Ltd. and ISRA VISION PARSYTEC Ltd. For ISRA VISION (Shanghai) Co. Ltd. a 25.0% tax rate was applied. A uniform tax rate of 31.41% was applied for the German PARSYTEC Group. A tax rate of 20.0% was applied for the Finnish company ISRA VISION Finland Oy.

8. Receivables

(in € k)	Sept. 30, 2016	Sept. 30, 2015
Trade receivables of domestic group companies	30,097	24,758
Trade receivables of foreign group companies	8,553	7,389
Receivables from unfinished orders valuated acc. to the percentage of completion method	49,870	54,692
Balance sheet value	**88,520**	**86,838**

Costs of additional recognized profits and minus recognized losses up to the balance sheet date amounted to € 56,611k (previous year: € 60,588k). Partial billings in the amount of € 6,741k (previous year: € 5,897k) have been deducted from the receivables from unfinished orders evaluated on the percentage of completion basis. The contract revenues recognized in the period based on the percentage of completion method amount to € 119,690k (previous year: € 104,866k).

The value adjustments on receivables performed as follows:

(in € k)	2015/2016	2014/2015
Value adjustments as of October 1	1,717	1,059
Usage	564	89
Liquidation	163	126
Allocation	971	824
Exchange rate differences	-6	49
Value adjustments as of September 30	1,956	1,717

The devaluations for receivables disclosed as other revenues were made exclusively on a case-by-case basis. The check of the receivables disclosed on the balance sheet date did not result in any other recognizable risks for the Company's receivables.

The receivables are structured according to maturity dates as follows:

(in € k)				Of which not value-adjusted as of the reporting date but overdue (for one of the periods below)			
Receivables	Balance sheet value	Of which not overdue or value-adjusted as of the reporting date	Net value of value-adjusted receivables	< 31 days	31-60 days	61-90 days	> 90 days
as per Sept. 30, 2016	88,520	76,931	1,009	1,618	1,098	1,060	6,803
as per Sept. 30, 2015	86,838	73,330	447	3,929	1,097	822	7,214

With regard to overdue but non-value-impaired receivables, there are no indications that the debtors will not ultimately fulfill their payment obligations.

9. Inventories

The inventory includes:

(in € k)	Sept. 30, 2016	Sept. 30, 2015
Raw materials, ancillary resources and supplies	11,576	10,209
Work in progress	16,897	14,466
Finished products	5,254	6,029
Balance sheet value	**33,726**	**30,703**

In the 2015/2016 financial year, impairment losses on inventories amounted to € 176k (previous year: € 158k).

10. Financial assets

This category comprises the following short-term and long-term financial assets:

(in € k)	Sept. 30, 2016 Short-term	Long-term	Sept. 30, 2015 Short-term	Long-term
Loans and other receivables from employees	289	0	371	0
Insurance claims	0	1,105	0	1,097
Rental deposits	0	89	0	71
Miscellaneous	2,417	0	3,214	0
Balance sheet value	**2,706**	**1,194**	**3,585**	**1,168**

The long-term insurance claims arise from re-insurance policies.

11. Other receivables

This category comprises the following short-term and long-term receivables:

(in € k)	Sept. 30, 2016 Short-term	Long-term	Sept. 30, 2015 Short-term	Long-term
Advance payments	926	0	801	0
Sales tax receivables	719	0	1,653	0
Balance sheet value	**1,645**	**0**	**2,453**	**0**

12. Intangible assets

Intangible assets include:

(in € k)	Goodwill	Software, licenses	Capitalized work	Total
Procurement and production costs				
October 01, 2015	**41,007**	**32,442**	**92,415**	**165,863**
Additions	132	1,171	13,584	14,886
Additions from acquisitions	0	0	0	0
Disposals	3	2,114	15,869	17,986
Reclassifications	0	0	0	0
Currency exchange variations	- 190	- 1	1	- 190
September 30, 2016	**40,945**	**31,498**	**90,130**	**162,573**
Depreciation and amortization				
October 01, 2015	**2,074**	**18,612**	**39,563**	**60,249**
Additions	0	2,252	8,315	10,567
Additions from acquisitions	0	0	0	0
Disposals	3	2,076	15,869	17,948
Reclassifications	0	0	0	0
Value impairment	0	0	140	140
Reversal of impairment loss	0	0	0	0
Currency exchange variations	1	-1	1	1
September 30, 2016	**2,072**	**18,788**	**32,150**	**53,010**
Balance sheet value of intangible assets				
October 01, 2015	**38,932**	**13,830**	**52,851**	**105,614**
September 30, 2016	**38,873**	**12,710**	**57,980**	**109,563**

(in € k)	Goodwill	Software, licenses	Capitalized work	Total
Procurement and production costs				
October 01, 2014	40,540	29,097	80,334	149,972
Additions	0	1,292	12,052	13,344
Additions from acquisitions	211	2,822	0	3,033
Disposals	0	621	0	621
Reclassifications	0	0	0	0
Currency exchange variations	255	- 148	28	135
September 30, 2015	41,007	32,442	92,415	165,863
Depreciation and amortization				
October 01, 2014	2,041	16,589	33,298	51,928
Additions	0	2,227	5,799	8,026
Additions from acquisitions	0	0	0	0
Disposals	0	184	0	184
Reclassifications	0	0	0	0
Value impairment	0	0	438	438
Reversal of impairment loss	0	0	0	0
Currency exchange variations	33	- 20	28	41
September 30, 2015	2,074	18,612	39,563	60,249
Balance sheet value of intangible assets				
October 01, 2014	38,499	12,508	47,036	98,043
September 30, 2015	38,932	13,830	52,851	105,614

The purchased software, the license costs and the intangible assets purchased as acquisitions, in so far as these were identifiable when the purchase price was allocated, are shown under software and licenses.

The cumulative depreciations on the capitalized developments come in at a total of € 32,150k (previous year: 39,563k), € 8,455k of which relates to amortization in the year under review (previous year: € 6,237k). Capitalized developments have been value impaired by € 140k (previous year € 438k), because the value in use would be negative as the recoverable amount.

The goodwill impairment test is conducted on the basis of the cash-generating units (CGU) by comparing the amount recoverable with the carrying amount, where the amount recoverable is based on the value in use.

The value in use has been calculated using a discounted cash flow method, which is subject to the following premises:

- Cash lows depend on the Management's current planning for a period of five years. Significant planning assumptions have been made regarding sales growth, working capital quote and EBIT margin. Management bases its planning on historical data as well as external market studies.
- For the periods going beyond the planning, growth rates of 1.5 % (previous year: 1.5 %) have been assumed.
- A weighted average cost of capital before taxes (WACC) of 8.28 % was assumed (previous year: 8.07 %).

The impairment tests for the goodwill have not resulted in the need for a goodwill impairment. If the underlying working capital quote had been higher by 2 percentage points for the goodwill impairment tests of the cash-generating units, it would have resulted in no value impairment. If the underlying revenue growth rates had been lower by 3 percentage points for the goodwill impairment tests of the cash-generating units, it would have resulted in no value impairment. If the underlying EBIT quotes had been lower by 1 percentage point for the goodwill impairment tests of the cash-generating units, it would have resulted in no value impairment.

The goodwill by segments is derived as follows:

(in €k)	Sept. 30, 2016	Sept. 30, 2015
Goodwill Industrial Automation	5,931	5,929
Goodwill Surface Vision	32,942	33,004
Goodwill	**38,873**	**38,932**

ISRA VISION AG records the provision for depreciation for intangible assets in the positions of cost of sales, research and development, and sales and general Administrative costs, according to the use of the intangible asset.

As of September 30, 2016, there were no contractual obligations to acquire intangible assets (as in the previous year).

13. Tangible assets

Total tangible assets include:

(in €k)	Land and buildings	Technical equipment	Office equipment	Fixed assets under construction	Total
Procurement and production costs					
October 01, 2015	2,673	5,733	8,835	306	17,548
Additions	64	136	753	0	953
Additions from acquisitions	0	0	0	0	0
Disposals	0	1,085	2,428	0	3,513
Reclassifications	0	0	69	-69	0
Currency exchange variations	5	0	-27	-3	-24
September 30, 2016	2,742	4,784	7,202	235	14,963
Depreciation and amortization					
October 01, 2015	457	4,020	6,721	151	11,349
Additions	54	522	804	0	1,381
Additions from acquisitions	0	0	0	0	0
Disposals	0	1,073	2,372	0	3,445
Reclassifications	0	0	0	0	0
Value impairment	0	0	0	0	0
Reversal of impairment loss	0	0	0	0	0
Currency exchange variations	1	0	-20	-3	-21
September 30, 2016	513	3,469	5,134	148	9,264
Balance sheet value of tangible assets					
October 01, 2015	2,216	1,714	2,114	155	6,199
September 30, 2016	2,229	1,316	2,068	87	5,700

As of September 30, 2016, there were no contractual obligations to acquire tangible assets (as in the previous year).

(in € k)	Land and buildings	Technical equipment	Office equipment	Fixed assets under construction	Total
Procurement and production costs					
October 01, 2014	**1,978**	**5,488**	**8,414**	**281**	**16,161**
Additions	543	251	833	20	1,647
Additions from acquisitions	0	0	65	0	65
Disposals	0	4	529	0	533
Reclassifications	0	0	0	0	0
Currency exchange variations	152	-2	53	5	208
September 30, 2015	**2,673**	**5,733**	**8,835**	**306**	**17,548**
Depreciation and amortization					
October 01, 2014	**362**	**3,502**	**6,285**	**146**	**10,295**
Additions	59	523	803	0	1,385
Additions from acquisitions	0	0	32	0	32
Disposals	0	4	473	0	477
Reclassifications	0	0	0	0	0
Value impairment	0	0	0	0	0
Reversal of impairment loss	0	0	0	0	0
Currency exchange variations	36	-1	74	5	114
September 30, 2015	**457**	**4,020**	**6,721**	**151**	**11,349**
Balance sheet value of tangible assets					
October 01, 2014	**1,616**	**1,985**	**2,129**	**135**	**5,865**
September 30, 2015	**2,216**	**1,714**	**2,114**	**155**	**6,199**

14. Financial liabilities to banks

As of the balance sheet date, ISRA had long-term bank liabilities of € 0k (previous year: € 0k).

The short-term bank liabilities total € 35,954k (previous year: € 50,103k).

The weighted average interest rate over the 2015/2016 financial year for bank liabilities amounts to 0.75%.

Liquidity risks

The following tables present the contractually stipulated (undiscounted) cash flows of the interest and repayments of the financial liabilities that fall within the scope of IFRS 7:

2015/2016 (in € k)	Balance sheet value	Cash flows 2016/2017		Cash flows 2017/2018		Cash flows from 2017/2018	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Liabilities to banks	35,954	27	35,954	0	0	0	0
Trade payables	12,422		12,422				
Financial liabilities	11,921		11,921				
Other liabilities	1,741		1,741				

2014/2015 (in € k)	Balance sheet value	Cash flows 2015/2016		Cash flows 2016/2017		Cash flows from 2016/2017	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Liabilities to banks	50,103	21	50,103	0	0	0	0
Trade payables	11,799		11,799				
Financial liabilities	10,979		10,979				
Other liabilities	1,258		1,258				

All liabilities as of the balance sheet date of September 30, 2016, and for which payments were contractually stipulated, were included. An acceptance of new liabilities was not taken into account. The variable interest rate payments associated with financial instruments were calculated on the basis of an average interest rate for financial year 2015/2016.

The future cash outflow expected from the financial liabilities will be covered by the operative business, receivables and the lines of credit available.

15. Trade payables

Trade payables total € 12,422k (previous year: € 11,799k). The liabilities are being paid off regularly, taking full advantage of discount terms offered. The liabilities are free of interest and payable within a year.

16. Other accruals

Other accruals include the following items:

(in € k)	Oct. 01, 2015	Additions	Usage	Liquidation	Change from currency variations	Sept. 30, 2016	Of which due in the next financial year
Warranties	306	292	63	0	-2	533	533
Contribution for severely disabled persons/Pension Insurance Association	72	40	69	0	0	43	43
Other accruals	1,245	364	600	3	-14	992	992
Balance sheet value	**1,623**	**696**	**732**	**3**	**-16**	**1,568**	**1,568**

The other accruals also contain accruals for outstanding work, leave and work on annual financial statements.

17. Other financial liabilities

(in € k)	Sept. 30, 2016	Sept. 30, 2015
Wages/salaries, performance bonuses, related social insurance contributions and remaining holiday entitlements	7,340	6,405
Other liabilities	4,581	4,574
Balance sheet value	**11,921**	**10,979**

In relation to advance payments from customers associated with maintenance contracts, a liability has been introduced to cover the remaining period of the contracts. These other liabilities will be amortized over the remaining period of the contracts.

18. Other liabilities

(in € k)	Sept. 30, 2016	Sept. 30, 2015
Advance payments received	1,741	1,258
Balance sheet value	**1,741**	**1,258**

19. Deferred tax assets / deferred tax liabilities

The calculation of the deferred taxes is based on average profit tax rates of 30.41% (previous year: 30.41 %) for Germany and 38% (previous year: 38%) for the United States. The deferred tax assets result primarily from existing tax losses carried forward from the German subsidiaries. The deferred taxes are distributed as follows to the balance sheet items:

(in € k)	Sept. 30, 2016	Sept. 30, 2015
Intangible assets	16,634	15,338
Inventories	-4,348	-3,735
Receivables, POC	17,819	19,029
Other items	3,144	1,281
Deferred tax liabilities	**33,249**	**31,913**
Losses carried forward	1,870	2,672
Pension provisions	399	244
Other accruals	407	378
Other items	-679	-256
Deferred tax assets	**1,997**	**3,038**

The deferred tax assets realized after more than 12 months amount to € 1,045k (previous year: € 2,131k). The deferred tax liabilities realized after more than 12 months amount to € 11,921k (previous year: € 18,175k). The change in the balance of the deferred taxes amounts to € 2.7 million (previous year: € 6.5 million)

Tax losses carried forward totaled € 6.1 million as of September 30, 2016 (previous year: € 8.8 million). For all tax losses carried forward deferred tax assets were set aside. The Executive Board has assessed the usability of the losses carried forward based on corporate planning for 2017 - 2021.

Permanently valid losses carried forward amount to € 5.9 million. Within 20 years, € 0.2 million in losses carried forward will expire

20. Pension provisions

The accruals for obligations to employees according to the Company pensions plan have been evaluated on the basis of the projected unit credit method (current one-off premium payment procedure) in accordance with IAS 19. In the process, the defined benefit obligation (DBO) and the current service cost are calculated precisely for each beneficiary according to the respective single commitment. The pension obligations were calculated using the mortality tables published by Dr. Heubeck in 2005.

The pension liabilities arise from pension obligations of ISRA VISION LASOR GmbH based on a pension scheme terminated as of July 31, 2004 of FELDMÜHLE Aktiengesellschaft as well as ISRA VISION PARSYTEC AG and ISRA PARSYTEC GmbH on the basis of formal individual commitments.

The pension plans from the terminated pension scheme consisted of a base amount and increments calculated based on the number of years of service to be taken into account. Based on individual commitments, former senior executives were granted pension commitments in form of proportional fixed monthly pensions upon reaching the age limit or survivor's benefits.

In the consolidated balance sheet, pension obligations were combined based on similar agreements and are explained together accordingly.

The retirement benefits overall include 37 eligible persons, 8 of them retirees, 11 active employees and 18 former employees. Since no new benefits can be earned, the risk of the Company results exclusively from the development of the interest rates, the expected age of retirement as well as the life expectancy of eligible persons.

Determining the obligations as per September 30, 2016, is based on independent actuarial opinions by experts for company pension schemes.

The assessments for ISRA VISION LASOR GmbH are based on the following assumptions: discount rate 1.52% (previous year: 2.64%), projected pension increase 1.70% p.a. (previous year: 1.70%).

For ISRA VISION PARSYTEC AG and ISRA PARSYTEC GmbH, the following assumptions were made: discount rate 1.52% (previous year: 2.64%), projected pension increase 1.70% p.a. (previous year: 1.70%).

The “Reference Guidelines 2005 G” from Dr. Klaus Heubeck were used as calculation bases. The fluctuation was assessed with 0% since the obligations to active employees were exclusively unchallengeable claims that are based on fully earned entitlement.

The cash values of performance-based pension obligations developed as follows during the 2015/2016 financial year:

(in €k)	2015/2016	2014/2015
Cash value of defined benefit obligations at start of financial year	3,090	2,888
Actuarial (profits) losses	526	-143
Interest costs	80	81
Past service costs	-	341
Pension payments	-73	-77
Total at end of financial year	**3,623**	**3,090**

Interest costs and past service costs due to plan adjustments are contained in the financial result of the respective financial year.

The actuarial profits and losses are presented neutral in their effects in equity adjusted by the earnings tax effect. The total amount of the actuarial profits/losses of the financial year falls to changes in financial assumptions.

A change of the essential actuarial assumptions by half a percentage point each as of the balance sheet date would result in the following changes of the cash value of the performance-based obligation:

(Sensitivity of DBO in €k, as per Sept. 30, 2016, € 3,623k)	Sept. 30, 2016	Sept. 30, 2015
Interest rate +0.5%	-254	-208
Interest rate - 0.5%	284	231
Pension increases (projected pension increase) +0.5%	174	131
Pension increases (projected pension increase) -0.5%	-159	-126

The following pension payments to eligible persons are expected for the next years.

(Expected pension payments in €k)	
Financial Year 2016/2017	110
Financial Year 2017/2018	112
Financial Year 2018/2019	127
Financial Year 2019/2020	129
Financial Year 2020/2021	130
Financial Year 2021/2022 - 2025/2026	786

Due to legal requirements in South Korea, there is a provision for pension-related obligations on the basis of a pension plan for severance payments. The commitment in South Korea represents a statutory obligation to make a one-off payment in the event of the termination of the employment relationship by way of a retirement pension and in the case of termination. The amount of the provision-financed obligation is based on the average monthly salary per year of employment and length of service. In total, the obligation amounted to T€ 511 on 30 September 2016.

In the 2015/2016 financial year, € 2,305k (previous year: € 2,157k) were recorded as incurred as contribution-oriented pension provisions to the statutory pension insurance.

21. Equity

a) Share capital

As of the balance sheet date, the Company's share capital totaled € 4,381,240.00. Shares of bearer common stock each have a par value of one euro.

Capital developed as follows during the current financial year:

The capital amounts to € 4,381,240.00 as of the balance sheet date (previous year: € 4,381,240.00).

The Company holds 3,000 own shares (previous year: 1,758 shares).

In addition, the General Meeting held on March 17, 2015 resolved an amendment to the Articles of Association. This amendment authorizes the Executive Board to increase the Company's share capital until March 16, 2020, once only or on multiple occasions by issuing new no-par value shares against cash or non-cash contributions, up to a maximum amount of € 2,190,620.00 **(authorized capital)**. With the agreement of the Supervisory Board, the Executive Board is authorized to exclude the statutory subscription rights of shareholders

- for fractional amounts,
- insofar as it is necessary to grant the bearers and / or holders of conversion rights and / or option rights or the debtors of conversion obligations from bonds, issued by the Company directly or through a Group Company on the basis of the authorization resolved under item 9 of the agenda, a subscription right to new shares equal to the number that they would be entitled to after exercise of the conversion rights and / or option rights or when performing their conversion obligations,
- to secure shares in return for contributions of fixed assets, in particular in the context of mergers with other companies or the purchase of other companies, parts of companies or of an interest in other companies,
- if the capital increase takes place by means of an equity contribution and the issued value is not, at the time of the final determination of the issued value by the Executive Board, significantly less than the share price of the shares of a similar nature and scope which are already quoted on the stock markets, when judged in terms of the provisions of § 203 Sections 1 and 2, 186 Section 3 Clause 4 of the German Stock Corporation Act (AktG) and the amount of the share capital attributable to the shares issued under exclusion of the statutory subscription rights according to § 186 Section 3 Clause 4 does not exceed € 438,124.00 or – if this amount is less – 10 % of the registered share capital at the time of the issue of the new shares. Realization of stocks must be charged against this 10 % limitation of base capital if they come into effect due to authorization under shareholder exception from subscription according to § 71 Section 1 No. 8 of the German Stock Corporation Act (AktG) in conjunction with § 186 Section Clause 4 of the German Stock Corporation Act (AktG). In addition, stocks used to service bonds under warrant and / or conversion right fall under the 10 % limitation of share capital if the bond was issued under shareholder exception from subscription due to authorization according to § 186 Section 3 Clause 4 of the German Stock Corporation Act.

Subject to agreement by the Supervisory Board, the Executive Board is authorized to determine the further details of implementing the increase in capital stock from the authorized capital.

On the basis of a resolution passed by the General Meeting on March 17, 2015, share capital has been conditionally increased by up to € 2,090,620.00 by issuing up to 2,090,620 no-par value bearer shares **(conditional capital II)**. The conditional capital increase may only be carried out to the extent that the holder or creditor (jointly: holder) of convertible or negotiable option bonds, issued up to March 16, 2020 on the basis of the authorization given to the Executive Board by the Annual General Meeting on March 17, 2015, makes use of this conversion right or option right, or to the extent that the holders, who are obliged to make the conversion fulfill their obligation to undertake the conversion and that no other means of performance are applied in these cases. The issue price of the new shares will be based on the specific option / conversion price in accordance with the above authorization resolution. The new shares will begin participating in company profits as of the start of the financial year in which they are created (by exercising option / conversion rights and / or fulfilling option / conversion obligations).

Under a resolution passed by the General Meeting held on March 17, 2015, the Executive Board of ISRA VISION AG has been authorized to acquire its own shares until March 16, 2020, complying with the principle of equal treatment (§ 53a of the German Stock Corporation Act (AktG)). They are authorized to acquire up to 10 % of the recorded base capital at the time of the adoption of the resolution, under the provision that the shares which are purchased in accordance with this authorization, when added to the other shares in the Company which the Company has already purchased and still possesses or which have to be allocated to it pursuant to § 71a and following of the German Stock Corporation Act (AktG), do not represent more than 10 % of the base capital of the Company. In addition, the requirements of § 71 Section 2 Clauses 2 and 3 of the German Stock Corporation Act (AktG) must be observed. Purchases may not be undertaken for the purpose of trading in own shares. This authorization may be implemented in full or in parts. Purchases may be undertaken within the period covered by the authorization up to the point where the maximum purchase volume has been reached by partial purchases on various purchasing dates. Purchases may also be undertaken by subsidiary enterprises of the Company in the context of § 17 of the German Stock Corporation Act (AktG) or on its / their behalf by third parties.

b) Capital reserve

The capital reserve primarily contains share premiums from the initial public offering and capital increases; expenditures from corporate actions were also charged to the capital reserve.

Capital reserves rose to € 38,800k as of September 30, 2016 (previous year: € 38,623k) owing to changes in own shares.

c) Own shares

The purchase costs of own shares changed from € 83 to € - 159k.

d) Equity capital accounted to non-controlling shareholders

In addition to ISRA VISION AG, other non-controlling shareholders have an interest in the subsidiaries ISRA VISION PARSYTEC AG and ISRA VISION VISTEK A.S. Their share of the net assets of the respective subsidiary is recorded in the item designated accordingly in Group equity.

Below the influence of other shareholders in these subsidiaries is presented as of September 30, 2016:

(in € k)	Share in voting rights	Result of non-controlling shareholders in 2015 / 2016	Accumulated non-controlling shares as of Sept. 30, 2016
ISRA VISION PARSYTEC AG	96.07 %	91	1,224
ISRA VISION VISTEK A.S.	75.00 %	110	271

The disclosures for the previous year are as follows:

(in € k)	Share in voting rights	Result of non-controlling shareholders in 2014 / 2015	Accumulated non-controlling shares as of Sept. 30, 2015
ISRA VISION PARSYTEC AG	96.07 %	62	1,134
ISRA VISION VISTEK A.S.	75.00 %	- 104	160

In the following the financial information of the subsidiaries is summarized:

(in € k)	Assets as of Sept. 30, 2016		Liabilities as of Sept. 30, 2016	
	Short-term	Long-term	Short-term	Long-term
ISRA VISION PARSYTEC AG	25,875	14,732	- 1,427	5,573
ISRA VISION VISTEK A.S.	1,259	1,104	843	0

(in € k)	Assets as of Sept. 30, 2015		Liabilities as of Sept. 30, 2015	
	Short-term	Long-term	Short-term	Long-term
ISRA VISION PARSYTEC AG	24,386	14,616	- 1,053	5,609
ISRA VISION VISTEK A.S.	485	1,184	828	0

e) Currency exchange variations

The currency exchange variations in the equity capital serve to record the differences that result from the currency conversions in the financial statements of foreign subsidiaries. The balancing items for currency exchange variations decreased in the 2015 / 2016 financial year from € 3,338k to € 2,644k.

f) Dividend

In the 2015 / 2016 financial year, ISRA paid out dividends for the 2014 / 2015 financial year in the amount of € 1,795k. This corresponds to a dividend of € 0.41 per share.

22. Contingent liabilities and other financial liabilities

These liabilities relate to mid-term and long-term leases of buildings and rentals of motor vehicles, the telephone system as well as of office fittings. The resulting liabilities are as follows:

Expenditures during the year (in € k)	Year under review	Previous year
2016 to 2021 (previous year: 2015 to 2020)	5,471	5,595
After Sep. 30, 2021 (previous year: after Sep. 30, 2020)	1,563	264
Expenditures in year under review	3,872	2,990

There were no liabilities from investment projects already started on the balance sheet date.

The leasing contract on the building for ISRA SURFACE VISION GmbH in Herten includes a purchasing right in favor of ISRA SURFACE VISION GmbH.

Future minimum leasing payments due to non-terminating operate-lease contracts (in € k)	Year under review	Previous year
Up to one year	312	249
More than one year and up to five years	1,248	580
More than five years	1,430	0

The basis for the definition of the conditional leasing payments is the leasing of the building for its use as a production site and as the new SURFACE VISION headquarters in Herten. 2,407 sqm of office space, a 924 sqm production hall and parking spaces have been leased. The lease began on February 1, 2006 and expires after 10 years; it has been extended just April 30, 2026. Measures that increase the costs of the lease or overheads may only be carried out with the approval of ISRA SURFACE VISION GmbH. The stipulated lease has increased because of the actual construction costs, which have exceeded the planned construction costs due to changes that ISRA made to the plans.

Rent expenditures in the 2015/2016 financial year from the operate lease relationship totaled € 240k (previous year: € 240k).

23. Observations on consolidated cash flow statement

The cash and cash equivalents comprise cash in hand and bank deposits available at short notice. An amount totaling € 0k (previous year: € 105k) is deposited as a security.

Short-term liquid funds total € 16,919k (previous year: € 15,056k). Long-term liquid funds total € 0k (previous year: € 105k).

24. Transactions with affiliated companies or related parties

In a lease dated August 12, 1998 the Company leased administration, storage, and development premises at the Company's registered office in Darmstadt from ISRA Bau-Mitarbeiter-Beteiligungsgesellschaft GbR, Darmstadt. Two members of the Executive Board of ISRA VISION AG are partners of this GbR (civil law partnership). The addendum to the lease dated October 01, 2012 has a fixed initial term of ten years – it may not be terminated during this period. The monthly rent amounts to € 10,200.26 plus a lump-sum for ancillary costs of € 805.29. The terms and provisions of the rental agreement were negotiated at arm's length. As of the balance sheet date, liabilities to ISRA Bau-Mitarbeiter-Beteiligungsgesellschaft GbR amounted to € 0k (previous year: € 0k). In the year under review, rental expenditure for GbR amounted to € 132k (previous year: € 132k).

Future minimum leasing payments due to non-terminating operate-lease contracts (in € k)	Year under review	Previous year
Up to one year	132	132
More than one year and up to five years	528	528
More than five years	132	264

25. Classes of financial assets/liabilities and reconciliation statement

The classes of financial assets and liabilities correspond to the balance sheet items as follows:

(in € k)	Category acc. to IAS 39	Carrying amount Sept. 30, 2016	Consolidated balance sheet valuation acc. to IAS 39			Carrying amount Sept. 30, 2015	Consolidated balance sheet valuation acc. to IAS 39		
			Fair value	Continued purchase costs	Fair value without affecting profit/loss		Fair value	Continued purchase costs	Fair value without affecting profit/loss
Assets									
Cash and cash equivalents	Loans and receivables	16,919	0	16,919	0	15,161	0	15,161	0
Trade receivables	Loans and receivables	88,520	0	88,520	0	86,838	0	86,838	0
Other assets	Loans and receivables	5,545	0	5,545	0	7,206	0	7,206	0
Of which aggregated to valuation categories acc. to IAS 39									
Loans and receivables		110,984	0	110,984	0	109,205	0	109,205	0
Equity and liabilities									
Trade payables	financial liabilities valued at continued purchase costs	12,422	0	12,422	0	11,799	0	11,799	0
Liabilities to banks	financial liabilities valued at continued purchase costs	35,954	0	35,954	0	50,103	0	50,103	0
Other liabilities	financial liabilities valued at continued purchase costs	11,921	0	11,921	0	10,979	0	10,979	0
Of which aggregated to valuation categories acc. to IAS 39									
financial liabilities valued at continued purchase costs		60,297	0	60,297	0	72,881	0	72,881	0

The cash and cash equivalents, the trade receivables/trade payables and other receivables/payables primarily have a short maturity. Their carrying amounts as of the balance sheet date of September 30, 2016, are therefore nearly the same as their current fair value. The carrying amount of the bank liabilities is the same as their fair value since the revaluation of future interest payments will generally not significantly affect the fair value of the liability with regard to bank liabilities that have a variable interest rate.

26. Net profit / net loss

The net results of the financial instruments according to analysis categories are as follows:

(in € k)	From interests and dividends	From the subsequent valuation At fair Value	Currency conversion	Value adjustment	From disposal	Net result 2015 / 2016	2014 / 2015
Loans and receivables	- 20	0	1,156	- 808	- 123	205	- 101
Liabilities balanced for continued purchase costs	- 383	0	859	0	0	476	103

27. Personnel

During the 2015 / 2016 financial year, the number of employees averaged 629 (previous year: 607).

	Year under review	Previous year
Employees	590	562
Temporary help	39	44
Total	**629**	**607**

Cost of labor:

(in € k)	Oct. 01, 2015 - Sept. 30, 2016	Oct. 01, 2014 - Sept. 30, 2015
Wages and salaries	- 39,746	- 35,513
Social security expenses, expenses for pension benefits	- 6,000	- 5,457
Total	**- 45,746**	**- 40,970**

28. Information on capital management

The capital management essentially considers cash and cash equivalents (€ 16,919k) as well as financial liabilities to banks (see 14) and equity capital (see 21).

The primary objective of capital management is to guarantee liquidity at any time. The Group's financing and liquidity is safeguarded centrally through in-depth financial planning.

29. Earnings per share

The earnings per share calculated according to IAS 33 is based on the division of the consolidated net profit attributable to the parent company of € 17,556k (previous year: € 14,821 k) by the 4,379,295 shares (previous year: 4,371,041 shares on average circulating during the financial year).

There is no difference between the diluted and undiluted earnings per share.

	Number of shares in circulation
September 30, 2015	4,379,482
Own shares purchased	3,000
Shares issued	
Own shares sold	1,758
September 30, 2016	4,378,240

30 Notifications in accordance with § 21 Section 1 and Section 1a of the German Securities Trading Act (WpHG)

ISRA VISION AG has been notified of the existence of shareholdings in accordance with § 21 Section 1 or Section 1a of the German Securities Trading Act (Wertpapierhandelsgesetz). The contents of the notifications are contained in the notes to the individual financial statements.

31 Declaration of conformity to the German Corporate Governance Code

As the only company currently publicly listed in Germany that is included in the consolidated annual financial statements, ISRA VISION AG has submitted the Declaration of Conformity prescribed by § 161 of the German Stock Corporation Act (AktG) and has made it accessible to shareholders under www.isravision.com/entsprechenserklaerungen in the Investor Relations area.

32 Auditors' fees

The following fees have been accrued in the ISRA Group for auditing services and additional services by the auditor (PKF) and other companies of the worldwide association of PKF rendered in the 2015 / 2016 financial year:

(in € k)	Year under review	Previous year
Audit of annual financial statements	200	195
Other certification and valuation services	24	80
- for previous years	0	0
Tax advisory services	37	33
Other services	68	14
Total	**329**	**322**

33 Risk Management

Principles of risk Management

In terms of its business, ISRA is subject to market risks, in particular currency, interest, liquidity and credit risks. The objective of risk Management is to counter these risks by taking active measures and limiting them as far as possible.

Currency risks

The currency risks primarily result from investments and operational activities.

A 10 % increase in the EUR / USD exchange rate would lead to the results being reduced by € - 628k (previous year: € - 957k). A 10 % decrease in the EUR / USD exchange rate would lead to the results being increased by € 768k (previous year: € 1,170k). Equity would lead to a change of € - 434k and € 531k, respectively.

For ISRA VISION, a strong dollar has sales-promoting effects, negative effects can be expected only from a disproportionately strong euro. In this case, currency hedging must be performed.

Currencies other than the USD do not play a significant role for ISRA.

The currency sensitivity analysis is subject to the following assumptions:

The currency sensitivity analysis on the reporting date of September 30, 2016 based on the foreign currency receivables and payables may be considered representative for the entire financial year.

Interest risks

Interest risks result from original financial instruments with variable or fixed interest rates if they are assessed at their fair value. Accordingly, interest change risks as defined in IFRS 7 do not therefore affect any financial instruments with fixed interest that are valued with amortized costs.

ISRA VISION AG is subject to interest risks only in the euro zone. The overwhelming number of bank liabilities is designed to bear interest at a variable rate.

An interest sensitivity analysis using interest rates from 2015 / 2016 yields the following results:

If the market interest level as of September 30, 2016 had been 100 base points higher (lower), the result before taxes would have been € 359k (€ 0k) lower (higher) (previous year: € 265k, € 0k). The equity capital would have dropped (risen) by € 250k (€ 0k) (previous year: € 183k, € 0k).

The interest sensitivity analysis is subject to the following assumptions:

The bank liabilities existing as of the reporting date of September 30, 2016, may be considered representative for the entire financial year. The analysis only involves original financial instruments that bear variable interest.

Liquidity risks

Among other things, liquidity risks result from financial bank liabilities (item 14). Additional liquidity risks result from the contingent liabilities and other financial liabilities (item 22), the trade payables (item 15) and the other financial liabilities (item 17).

Price risks

There were no significant price risks as of the balance sheet date.

Credit risks

ISRA conducts business with creditworthy third parties only. The majority of the customer structure consists of multinational companies with a high level of creditworthiness. By splitting the total receivables into various sub-areas and due to constant monitoring of the inventory of receivables, there is no significant non-payment risk. The maximum non-payment risk is limited to the declared carrying amount. There are no significant concentrations of non-payment risks. Due to the customer structure, there is similarly no risk concentration. For other financial assets, such as cash and cash equivalents, the maximum credit risk matches the carrying amount of these instruments if the contracting party fails to pay.

The maximum default risk to be reported is determined by the carrying amounts of the financial assets and the existing financial guarantees and amounts to € 3,900k (previous year: € 4,753k).

The non-payment risk will be accommodated by specific allowances for bad debts and commercial credit insurance.

Financing risks

The loans granted by banks are subject to contractually agreed terms and key operating numbers. These key operating numbers are verified each quarter (based on the quarterly results published on the Internet) as well as on each balance sheet date (based on the results published in the consolidated financial statements). Insofar as the agreed terms are found to have been breached, the creditors have the right to demand immediate repayment of their claims.

34. Payments to the members of Executive and Supervisory Board

The remuneration of Executive Board members comprises short-term components as well as long-term incentives. The short-term components comprise performance-based and non-performance-based elements. Non-performance-based components involve fixed remuneration, payments in kind and other types of benefits. Executive Board members also receive other benefits, such as allowances for health insurance and benefits in kind that primarily involve the use of a company car. As a performance-based element, payments to the members of the Executive Board include variable components which may amount to as much as 50% of basic pay. The non-performance-based fixed remuneration and the performance-based remuneration are revised annually by the Supervisory Board on the basis of objectives. To create a lasting remuneration system, a performance-based remuneration based on the development of the Company over a period of three years is intended for members of the Executive Board. For the Chairperson of the Executive Board and the founder of the Company, a special settlement in the event of removal, dismissal or non-renewal of the contract in the amount of 3 times the annual remuneration, as in the previous year, is intended due to his 30-year long affiliation.

In the 2015/2016 financial year, the non-performance-based parts of the remunerations total € 260k for Mr. Christ (previous year: € 240k), for Mr. Ersü € 495k (previous year: € 475k), for Mr. Amir € 50k (previous year: € 0k), for Dr.-Ing. Giet € 230k (previous year: € 220k), for Mr. Gerecke € 295k (previous year: € 190k), for Mr. Rothermel € 170k (previous year: € 170k) and for Mr. Brickenkamp € 157k (previous year: € 0k). The benefits in kind and allowances, which included the use of a company car and allowances for health insurance, amounted to € 27k for Mr. Christ (previous year: € 27k), € 28k for Mr. Ersü (previous year: € 29k), € 6k for Mr. Amir (previous year: € 0k), € 22k for Dr.-Ing. Giet (previous year: € 22k), € 11k for Mr. Gerecke (previous year: € 8k), € 22k for Mr. Rothermel (previous year: € 22k) and € 1k for Mr. Brickenkamp (previous year: € 0k). Mr. Brickenkamp received a severance payment in the amount of € 72k. At the time of completing the audit, the Steering Committee of the Supervisory Board has not yet finally determined the amount of variable remuneration for financial year 2015/2016. The following amounts are an indication for the expected level of the performance-based remuneration, in particular for Mr. Christ € 85k (previous year: € 78k), € 140k for Mr. Ersü (previous year: € 160k), € 10k for Mr. Amir (previous year: € 0k), € 35k for Dr.-Ing. Giet (previous year: € 30k), € 45k for Mr. Gerecke (previous year: € 35k) and € 25k for Mr. Rothermel (previous year: € 20k). The variable performance-based remunerations with long-term incentive total € 28k for Mr. Christ (previous year: € 28k), € 35k for Mr. Ersü (previous year: € 35k), € 15k for Dr.-Ing. Giet (previous year: € 15k), € 10k for Mr. Gerecke (previous year: € 10k) and € 10k for Mr. Rothermel (previous year: € 10k). This resulted overall in the following expected non-performance-based and performance-based remunerations for Mr. Christ € 373k (previous year: € 345k), for Mr. Ersü € 670k (previous year: € 670k), for Mr. Amir € 60k (previous year: € 0k), for Dr.-Ing. Giet € 280k (previous year: € 265k), for Mr. Gerecke € 350k (previous year: € 235k), for Mr. Rothermel € 205k (previous year: € 200k) and for Mr. Brickenkamp € 229k (previous year: € 0k). The remuneration of the Executive Board totaled € 2,284k (previous year: € 1,823k). The total renumeration of the former members of the Executive Board amounts to € 230k (previous year: € 0k). For previous years, the particular amounts of the performance-based remuneration with long-term relevance have been paid in the financial year 2015/2016.

For the members of the Executive board, a D&O insurance exists that meets the statutory requirements regarding the excess of the directors under the VorstAG.

The payments to the members of the Supervisory Board for their activities totaled € 100k (previous year: € 109k). No option rights have been granted to members of the Supervisory Board. The Chairperson of the Executive Board received a loan in the amount of € 200k (previous year: € 200k) in November 2010 for an investment object. The investment object serves as hedging. The interest rate is based on EONIA plus margin in accordance with the refinancing of the Company. The loan, which is paid off at the end of the term, has a repayment period of three years and is automatically extended by one year.

Supervisory Board

Dr.-Ing. h. c. Heribert J. Wiedenhues, Lahnstein, Deputy Chairperson of the Supervisory Board of Fischer Computertechnik AG, Radolfzell / Lake Constance; Member of the Administrative Board of PM – International AG, Luxembourg; Member of the Advisory Committee of Deurotech Group GmbH, Langenfeld; Chairperson of the Board of Trustees of Peter Böttger - Stiftung, Montabaur; ISRA Chairperson of the Supervisory Board since September 2007

Dr. Wolfgang Witz, Freiburg im Breisgau; Attorney at Law and Partner of the law firm Baas, Overlack, Witz, Mannheim; Chairperson of the Advisory Committee of Troester GmbH & Co. KG, Hannover; Deputy Chairperson of the Advisory Committee of TET Systems GmbH & Co. KG, Heidelberg; Deputy Chairperson of the ISRA Supervisory Board since February 2000

Prof. Dr. rer. nat. Dipl.-Ing. Dr. Henning Tolle, Professor Emeritus, Rossdorf; former Chairperson of the ISRA Supervisory Board from February 2000 to September 2007

Mr. Falko Schling, Frankfurt, Managing Director of bonotos Kältetechnik GmbH, Katzenelnbogen; Member of the Supervisory Board of PMG-Holding GmbH Füssen; Managing Director of KKM GmbH, Katzenelnbogen; Member of the ISRA Supervisory Board since March 2008

Mr. Stefan Müller, Königsbrunn, former Managing Director of KUKA Roboter GmbH; Member of the ISRA Supervisory Board since July 2007

Ms. Susanne Wiegand, Schönaich; Member of the Executive Committee of Privinvest Holding SAL, Beirut / Lebanon; Managing Director of German Naval Yards Holdings GmbH, Rendsburg; of Nobiskrug GmbH, Rendsburg; of German Naval Yards Kiel GmbH, Kiel and of Lindenau Werft GmbH, Kiel as well as Member of the Executive Board of Verband für Schiffbau und Meerestechnik e.V.; Member of the ISRA Supervisory Board since March 2015

Executive Board

Mr. Enis Ersü, Graduate Engineer, Darmstadt (Chairperson)
Mr. Hans Jürgen Christ, Graduate Engineer, Ober-Ramstadt (Deputy Chairperson)
Mr. Shlomo Amir, MBA, Kochav-Ya'ir, Israel (Deputy Chairperson) since August 2016
Mr. Dr.-Ing. Johannes Giet, Graduate Engineer, Eggenstein
Mr. Andreas Gerecke, Graduate Engineer, Hagen
Mr. Werner Rothermel, Graduate Engineer, Alsbach-Hähnlein
Mr. Lars Brickenkamp, Graduate Engineer, Neu-Anspach, from March 2016 till September 2016

Darmstadt, January 17, 2017

ISRA VISION AG
The Executive Board

List of shareholdings of subsidiaries as of September 30, 2016

	Name and domicile of the Company	Shareholding (in %)	Indirect investment via affiliate (no.)
Parent company			
ISRA VISION AG, Darmstadt, Germany			
Overview of affiliated companies			
1.	ISRA VISION SYSTEMS Inc., Bloomfield Hills / Michigan, USA	100	
2.	ISRA SURFACE VISION GmbH, Herten, Germany	100	
3.	ISRA VISION LASOR GmbH, Bielefeld, Germany	100	
4.	ISRA SURFACE VISION Inc., Berkeley Lake / Georgia, USA	100	3.
5.	ISRA VISION (Shanghai) Co. Ltd., Shanghai, China [a]	100	
6.	ISRA VISION Ltd., London, United Kingdom	100	
7.	ISRA VISION PARSYTEC AG, Aachen, Germany	96,07	
	ISRA PARSYTEC GmbH, Aachen, Germany	96,07	7.
	ISRA VISION JAPAN Co. Ltd., Tokyo, Japan	96,07	7.
	ISRA VISION Korea Co. Ltd., Seoul, South Korea	96,07	7.
	ISRA VISION PARSYTEC Inc., Berkeley Lake / Georgia, USA	96,07	7.
	ISRA VISION PARSYTEC Ltd., Hampshire, United Kingdom	96,07	7.
8.	metronom Automation GmbH, Mainz, Germany	100	
9.	ISRA VISION Graphikon GmbH, Berlin, Germany	100	
10.	ISRA VISION GmbH, Darmstadt, Germany	100	
11.	ISRA VISION INDIA Private Limited, Mumbai, India [a]	100	
12.	ISRA VISION Finland Oy, Helsinki, Finland	100	
13.	3D-Shape GmbH, Erlangen, Germany	100	
14.	ISRA VISION COMÉRICO, SERVIÇOS, IMPORTAÇÃO E EXPORTAÇÃO LTDA., São Paulo, Brazil [a]	100	
15.	ISRA VISION LLC, Moscow, Russia [a]	100	
16.	GP Solar GmbH, Neuried, Germany	100	
17.	GP Inspect GmbH, Neuried, Germany	100	16.
18.	ISRA VISION VISTEK A.S., Istanbul, Turkey [a]	75	
19.	Vision Experts GmbH, Karlsruhe, Germany	100	

[a] Has a different balance sheet date than the parent.

The following companies exercised exemption under § 264 Section 3 German Commercial Code (HGB): ISRA SURFACE VISION GmbH, ISRA VISION LASOR GmbH, metronom Automation GmbH and ISRA VISION GmbH

Reproduction of the Auditor's Report

We have audited the consolidated financial statements – comprising the consolidated balance sheet, the consolidated statements of comprehensive income, the consolidated cash flow statement, consolidated statement of changes in equity and notes, as well as the management report, prepared by ISRA VISION AG, Darmstadt, for the financial year from October 1, 2015 to September 30, 2016. The preparation of the consolidated financial statements and the management report in accordance with IFRS, as it is to be applied in the EU, and supplementary according to the accounting principles of § 315a Paragraph 1 of the German Commercial Code (HGB) as well as additional regulations by the articles of incorporation is the responsibility of the Company's legal representatives. Our responsibility is to express an opinion about the consolidated financial statements and the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards and regulations require that we plan and perform the audit in such a manner, that inaccuracies and violations which have a material impact on the presentation of the status of the Group with respect to its assets and its financial and profit situation, as given by the consolidated financial statements prepared under consideration of the principles of accounting to be applied, can be detected with sufficient certainty.

Knowledge of the business activities and the economic and legal environment of the Group and expectations concerning possible errors are taken into account in the determination of the audit procedures.

The effectiveness of the internal system for the control of accounting principles, and the evidence supporting disclosures in the consolidated financial statements and the management report are mostly examined on a test basis within the framework of the audit. The audit includes the assessment of the annual financial statements of the companies incorporated in the consolidated statement, of the composition of the companies included in the consolidated statement, of the accounting principles used and of significant estimates made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and the management report. We believe that our audit provides a reasonable basis for our assessment.

Our audit has not led to any reservations.

Due to our assessment based on the results of our audit, the consolidated financial statements are in accordance with IFRS, as it is to be applied in the EU, and supplementary according to the accounting principles of § 315a Paragraph 1 of the German Commercial Code (HGB) as well as additional regulations by the articles of incorporation, and, considering these rules, provides a suitable understanding of the Group's actual assets and its financial and profit situation. The management report complies with the consolidated financial statements, gives a true and fair view of the Group's situation and describes chances and risks of its future development appropriately.

Frankfurt am Main, January 17, 2017

PKF Deutschland GmbH
Financial Auditing Company

D. Hanxleden	K. Münch
Financial Auditor	Financial Auditor

Declaration of the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report of the Group includes a fair view 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.

Darmstadt, January 17, 2017

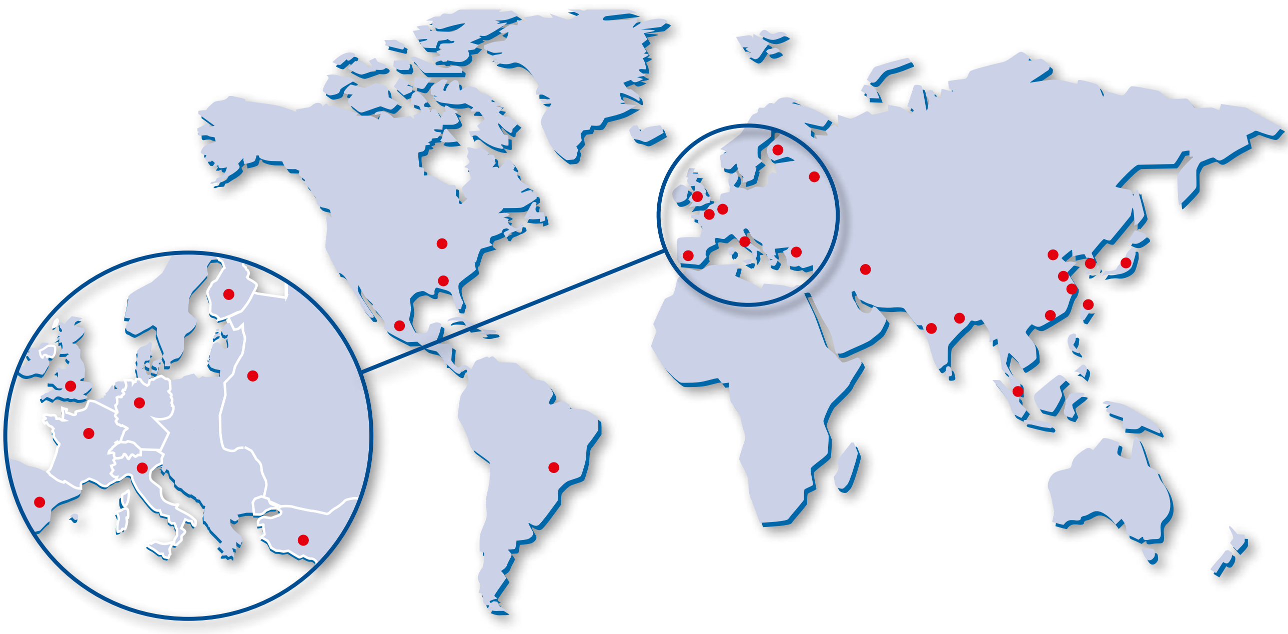
The Executive Board

Forward-looking statements

This Annual Report contains forward-looking statements based on assumptions and estimations by the Management Board of ISRA VISION AG. Even though the Management Board is of the opinion that these assumptions and estimations are realistic, the actual future development and results may deviate substantially from these forward-looking statements due to various factors, such as changes in the macro-economic situation, in the exchange rates, in the interest rates, and in the Machine Vision industry.

ISRA VISION AG gives no warranty and does not assume liability for any damages in case the future development and the projected results do not correspond with the forward-looking statements contained in this Annual Report. ISRA VISION does not intend, and does not assume any obligation, to update the forward-looking statements contained in this Annual Report to reflect events or developments that have occurred after this Annual Report was published.

The English version is a translation of the original German version; in the event of variances, the German version shall take precedence over the English translation.



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