Annual Report 2017 / 2018

Vision Competence for Digital Transformation

- Group Management Report
- Report of the Supervisory Board
- Corporate Governance Declaration incl. Declaration of Conformity with the GCGC

2017 / 2018

Group Management Report ISRA VISION AG

Financial Year 2017 / 2018

1 Fundamental information about the Group

1.1 Business model

ISRA VISION – a Machine Vision 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 and 3D Precision Metrology.

On the one hand, the range of services includes application-specific standard products. With these products, ISRA addresses very demanding applications based on modular hardware and software, e. g. for automated optical quality assurance in the glass, paper, printing, solar, plastics, high performance materials and metal industries, or for the flexible automation of industrial robots for precise assembly or gripping processes in addition to inline measurement and quality control in automotive production. The application-specific standard products are marketed by way of industry-specific key account management and long-term cooperations with the global market leaders of the respective sectors.

On the other hand, ISRA offers a growing portfolio of generic standard products, which are designed for wider use on various target markets. These standard products bundle technological expertise and are characterized by easy integration and operability. Examples include bin picking – the automated emptying of bulk containers with the help of robots – or the high precision measurement of the shape and surface of various components with reflecting surfaces. Sales here are aimed at distributors, integrators and OEMs.

In addition, ISRA offers general production analytics software tools for the optimization of production, which are marketed as a supplement to both application-specific and generic products. With these software modules, ISRA enables users in all customer industries to centrally aggregate production data, to prepare for different issues and decisions and thus sustainably optimize efficiency and productivity of the customer's entire production process.

Innovative solutions for smart production

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 one of the essential requirements for enhancing efficiency and flexibility in production. ISRA's solutions combine scientific know-how of optics, lighting technology, measurement technology, physics, image processing and classification algorithms with a system architecture adapted to the processes and requirements of its customer industries. Combined with the ability to process and analyze large volumes of quality and production data, and the networking of sensors and IT systems, ISRA is able to develop innovative, comprehensive solutions for smart production in line with INDUSTRIE 4.0 and to market them in the various customer industries.

Today's ISRA applications primarily concentrate on the industrial automation of production and the automation of quality assurance of intermediate and end products that are supplied to large, promising mega markets such as energy, health care, food, mobility and information technology. In the Industrial Automation segment, ISRA primarily addresses companies with automatable processes such as those in automotive and electronic production, and other industries with similar processes. In the Surface Vision segment, the customers primarily come from the glass, solar, plastic web and innovative high performance materials, print, paper, security paper and metal industry. In newer areas, ISRA also serves customers in specialized industries such as semiconductor manufacturing.

Group, subsidiaries and branch locations

ISRA currently has more than 25 locations in all relevant industrialized countries, making it one of the most broadly positioned suppliers of the Machine Vision industry. ISRA guarantees the efficiency of its global service network and reliable support for global customers at all its worldwide locations through this strong international presence.

Germany

ISRA is represented throughout Germany. The Group's headquarters are located in Darmstadt. The departments of Finance, Marketing and Purchasing are concentrated at this location. Darmstadt is also home to the central development department. All development work within the Group is planned and coordinated from here. The Industrial Automation segment, in which ISRA develops optical solutions for robot automation and inline measurement for the automotive industry among others, in addition to further applications and products for production automation and 3D measuring technology, is also controlled from Darmstadt. The development and marketing of generic standard products for smart production automation in the areas of "Touch & Automate" and "Touch & Inspect" are also based in Darmstadt. Furthermore, the Company serves customers from the print industry in the Surface Vision segment with a team based in Darmstadt. These activities are supported by the Karlsruhe location. The Group's hardware development team is also represented at the Darmstadt and Karlsruhe locations.

The Mainz site specializes in production analytics tools and 3D quality software for car body construction in the automotive industry. The Erlangen site complements the portfolio in the Industrial Automation segment with its products from the field of 3D metrology. 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, plastic web, innovative high performance materials and security paper or print is concentrated at the Herten site. In addition, Herten manages the central production for all areas. Employees at the Bielefeld site are developing the Surface Vision system for security paper. The Aachen location serves customers from the metal and paper industries. Here ISRA is developing a full portfolio of inspection solutions for the entire production of steel, aluminum and other metals, which enables quality assurance from the raw material to the finished coil. The Company also markets products for paper web inspection and for web break monitoring here.

The Munich, Constance and Berlin teams are responsible for activities in the photovoltaics and solar thermal energy industries. 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 new business field of wafer inspection for electronic assemblies is also managed by these locations.

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

Europe

The two UK sites in Hampshire and London and the teams in Lyon (France), Rovereto (Italy) and Barcelona (Spain), address customers in almost all of ISRA's target industries. The site in Istanbul (Turkey) serves as a development location and a basis for the Turkish market, and as a springboard to the Middle East. The Russian market for inspection solutions is served by ISRA from its Moscow office.

America

ISRA is represented in the North American market with two locations. All Surface Vision activities have been brought together under one roof in Berkeley Lake (Georgia), USA. The entire automotive business of the Industrial Automation segment is coordinated from Bloomfield Hills (Michigan), USA. São Paulo (Brazil) is responsible for the South American area. The focus here is on sales, service and engineering for customers from the automotive, metal, plastic web, print and paper industry.

Asia

In Asia, ISRA is represented in the two segments of Industrial Automation and Surface Vision in Shanghai (China). Glass industry business is managed at the Tianjin site. Activities in the glass, solar, metal, plastic web and print industry are supported by the Taiwan office. The activities in Mumbai and Calcutta (India) are also targeting customers in the glass, metal, plastics and print industry. In Seoul (Korea) and Tokyo (Japan), ISRA serves not only customers in the current target industries, but is also expanding its business with regional industrial centers, e. g. for optical films or lithium-ion batteries.

1.2 Objectives and strategies

Even after exceeding the revenue goal of 150 million euros in the past financial year, ISRA's strategy continues to be directed at sustainably expanding its market position and increasing revenues – while optimizing costs and cash flow at the same time – to the mark of 200 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 road map for new products and applications that are continuously adapted to customer needs and market requirements in order to further increase the return on investment of customers.

Additionally, the multi-branch strategy is an important factor to continue the course of the double-digit percentage growth. 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 mega 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 200 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 for more than 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 targets calculated 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 main key performance indicators are revenues, gross margin (gross profit to revenue), EBITDA, EBIT and EBT.

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 revenue, which is continually adapted based on the sales forecasts, serves as leading target achievement indicator.

[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.

1.4 Research and Development as generator 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, 22.7 million euros were invested for this purpose, 1% more than in the previous year (22.5 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 more 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, advanced 3D point cloud technology, the integration of embedded technologies and production analytics software tools were at the center of development activities.

INDUSTRIE 4.0 stands for the trend towards ongoing significant increases in efficiency and flexibility through further automation in industrial production. The comprehensive integration of sensors and the networking of machinery, both across the different hierarchy levels within a company and along the entire value chain, is intended to enable the intelligent evaluation and use of the resulting data. In this way, processes can be automated, causes for production errors and process deviations identified, and processes sustainably optimized.

The vision of INDUSTRIE 4.0 thus offers enormous potentials for integrated and connective robot guidance and inspection technology. ISRA addresses these market options in a targeted manner with the two “Touch & Automate” and “Touch & Inspect” portfolios. They represent a new sensor generation with embedded technologies and high connectivity that is entirely aligned to the production of the future and the requirements of the “smart factory”.

In combination with production analytics software tools, the information generated can be used for continuous process optimization. To actively support the enhancement of industrial production, the development priorities are supplemented with issues such as artificial intelligence, high-end classification and deep learning.

In the Industrial Automation segment, ISRA concentrates particularly on 3D applications for Robot Vision, inline measurement technology and precision metrology. The product families for efficient bin picking, 3D metrology and high precision 3D surface measurement, among others, were expanded. In the Surface Vision segment, the existing products for the metal, glass and plastic web inspection with their successful market presence underwent further development. The focus is on increasing resolution and inspection speed, integrating intelligent sensors and combining them with 3D technologies. At the same time, the application portfolio in the individual target industries was expanded based on existing technologies for the purpose of growth and diversification of revenues. Using powerful components, state-of-the-art illumination concepts and advanced software, the system solutions realize a fast return-on-investment.

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 2018, the global economy lost momentum over the course of 2018. Economic sentiment has dimmed considerably in the emerging economies in particular, but has remained at a moderate level in the developed countries. Depending on the source, 2018 saw overall growth of around 3.7%, roughly the same level as the previous year and slightly lower than expectations. The key factors influencing the development of the global economy include escalating trade policy conflicts and the resulting uncertainty, the tightening of monetary policy in the United States and reduced growth in China and on other emerging markets.

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

[3] cf., for example: Institute for the World Economy, Weltkonjunktur im Winter 2018; Berenberg Bank, Horizonte Q1 2019; Commerzbank, Woche im Fokus – Ausblick 2019: Nur eine Wachstumsdelle? Commerzbank, Konjunktur und Finanzmärkte – Dezember 2018; Institute for the World Economy, Weltkonjunktur im Winter 2018; Deutsche Bank, Weltwirtschaftlicher Ausblick – Ausblick 2019: Abflachung des Wachstums, aber kein Einbruch.

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 GDP growth of around 1.5%, Germany fell short of the previous year's level and the forecasts for the year. This was caused by weaker industrial demand from abroad and reduced production in the automotive sector. The rate of economic expansion in the US accelerated again as a result of the government's tax reform with continued strong demand from households, and will achieve GDP growth of approximately 2.9% for the year as a whole. Growth in China is slowing slightly lower on account of the high indebtedness of its companies and the trade war with the US. A growth rate of around 6.6% is expected in line with forecasts.

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 2018, the German Engineering Federation VDMA expects that the German industry revenues in the image processing industry could maintain the previous year's record level.[4] The AIA industry association has not yet published any growth figures for the North American image processing industry. Similarly, no statements for the year 2018 are available for the Asian region.

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

ISRA clearly met its profit forecast and set a new record in the 2017/2018 financial year with significant EBT growth of 18% to 33.0 million euros (previous year: 28.0 million euros) and an EBT margin of 22% of revenues. With revenues rising to 152.5 million euros (previous year: 143.0 million euros), ISRA surpassed its medium-term revenue target of 150.0 million euros.

Besides organic growth, external growth through acquisitions of suitable companies is another important part of the long-term strategy. A further project was completed in the past financial year. In integrating Polymetric GmbH, ISRA has absorbed key 3D technologies for the ongoing development of future product families with integrated 3D machine vision. Polymetric's competencies in 3D measurement technology as well as 3D object detection will be utilized as innovations for product and system variants in different areas of industry and application.

ISRA expanded its position in the two segments Industrial Automation and Surface Vision worldwide in the 2017/2018 financial year. The Industrial Automation segment, whose customer base includes premium automotive manufacturers and global players from a wide range of industries in particular, achieved growth of 7% with revenues rising to 39.8 million euros (previous year: 37.2 million euros). In addition to successful 3D machine vision solutions for robot-guided assembly and high precision 3D metrology, growth was driven in part by the consistently high interest in ISRA's portfolio for automation. The successful launch of further "Touch & Automate" products prepared for INDUSTRIE 4.0 at key trade fairs such as AUTOMATICA and Hannover Messe again boosted strong demand in the financial year. Furthermore, the company received several major strategic orders in the past financial year, including fully automatic paint inspection from the automotive industry and high-resolution 3D inspection of smart touch devices.

In the Surface Vision segment, the targeted approach of product innovations and successful attendance at leading trade fairs is having a positive effect on overall demand. Revenues also rose by 7% to 112.7 million euros (previous year: 105.8 million euros), and the EBIT margin amounted to 19% of total operating revenue (previous year: 18%). The metal area made a positive contribution to earnings with the systematic expansion of its portfolio to include high potential customer applications and with additions to its management team. In the glass business area, ISRA is addressing the market with innovative product developments for the inspection of smart touch devices and float glass products. In the past financial year it received strategic order entries and a major order for high-resolution thin glass inspection for display applications.

[4] cf. VDMA Robotic and Automation: Industrielle Bildverarbeitung auf Rekordniveau; press information from November 6, 2018.

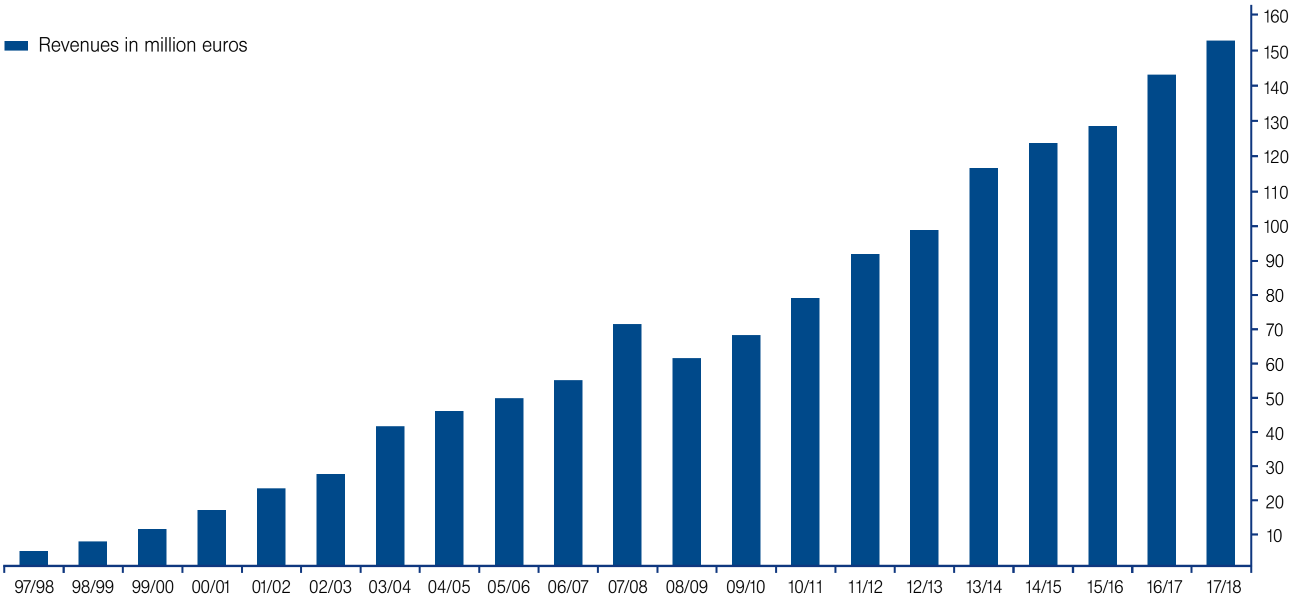
The focus of the previous Plastics product portfolio was extended further with an even broader positioning on innovative materials, which is reflected in the name change to Advanced Materials. With increased international revenues, ISRA has already received a significant major order for 3D high-end inspection in the packaging industry. Momentum in the print inspection business area was at a high level and its product innovations were well received by the market. Cost-optimized products led to new revenue potential in the paper industry; additional stimulus resulted from the new production analytics software tools. The security business unit – formerly specialty paper – added additional solutions with an attractive cost structure to its product portfolio of specialized inspection solutions for high-security paper.

In the solar industry, business in China slowed noticeably after a dynamic start to the year as a result of government intervention in solar subsidies; new growth stimulus is anticipated from product innovations such as CONNECTED PHOTOVOLTAICS 4.0, software tools for multi-line production with the aim of multi-location networking. In the relatively new semiconductor business area, the company has acquired two major orders from leading manufacturers in Europe and is continuing its market launch in Asia. With its diversified range of support activities and international service teams, ISRA achieved a double-digit increase in the contribution to total revenues by the customer support and service center.

2.2.1 Results of operations

Continuing growth

ISRA increased revenues in the 2017 / 2018 financial year by approximately 7 % to 152.5 million euros (previous year: 143.0 million euros). Owing to the conservative expansion of resources, some order entries from the second half of the 2017 / 2018 financial year will be reflected as revenues in the 2018 / 2019 financial year. The necessary capacity expansion and hiring to boost efficiency in production have already been initiated. 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 around 98 million euros gross (as of January 10, 2019; previous year: approx. 90 million euros gross) represents a good foundation for the current financial year



Consolidated total output EBITDA / EBIT statement [5]

As a result of increased revenues, the total output rose to 168.9 million euros in the 2017 / 2018 financial year, which is 7 % more than in the previous year (158.0 million euros). The capitalized work rose by 9 % to 16.4 million euros (previous year: 15.0 million euros). The cost share of the production remained constant as a result of the ongoing optimization of products and production processes to 65.5 million euros in the year under review (previous year: 61.4 million euros). Rounded up, it still amounts to 39 % of total operating revenue. This led to a gross margin of 61 % (previous year: 61 %), even higher than the long-term target. With respect to revenues, the margin amounted to 68 % (previous year: 68 %).

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

(in €k)	Oct. 01, 2017 - Sep. 30, 2018		Oct. 01, 2016 - Sep. 30, 2017	
Net sales	152,528	90%	142,995	91%
Capitalized work	16,377	10%	14,992	9%
Total output	168,905	100%	157,987	100%
Cost of materials	33,651	20%	31,796	20%
Cost of labor excluding depreciation	31,886	19%	29,569	19%
Cost of production excluding depreciation	65,538	39%	61,365	39%
Gross profit	103,367	61%	96,621	61%
Research and Development total	22,680	13%	22,475	14%
Sales and Marketing	28,765	17%	27,629	17%
Administration	5,023	3%	4,889	3%
Sales and Administration excluding depreciation and amortization	33,787	20%	32,519	21%
Other revenues	2,130	1%	1,317	1%
EBITDA	49,031	29%	42,945	27%
Depreciation and amortization	15,809	9%	14,613	9%
Total costs	72,276	43%	69,606	44%
EBIT	33,222	20%	28,332	18%
Interest income	153	0%	48	0%
Interest expenses	-345	0%	-346	0%
EBT	33,030	20%	28,035	18%
Income taxes	9,769	6%	7,311	5%
Consolidated net profit	23,260	14%	20,723	13%
Of which accounted to non-controlling shareholders	152	0%	215	0%
Of which accounted to shareholders of ISRA VISION AG	23,108	14%	20,508	13%

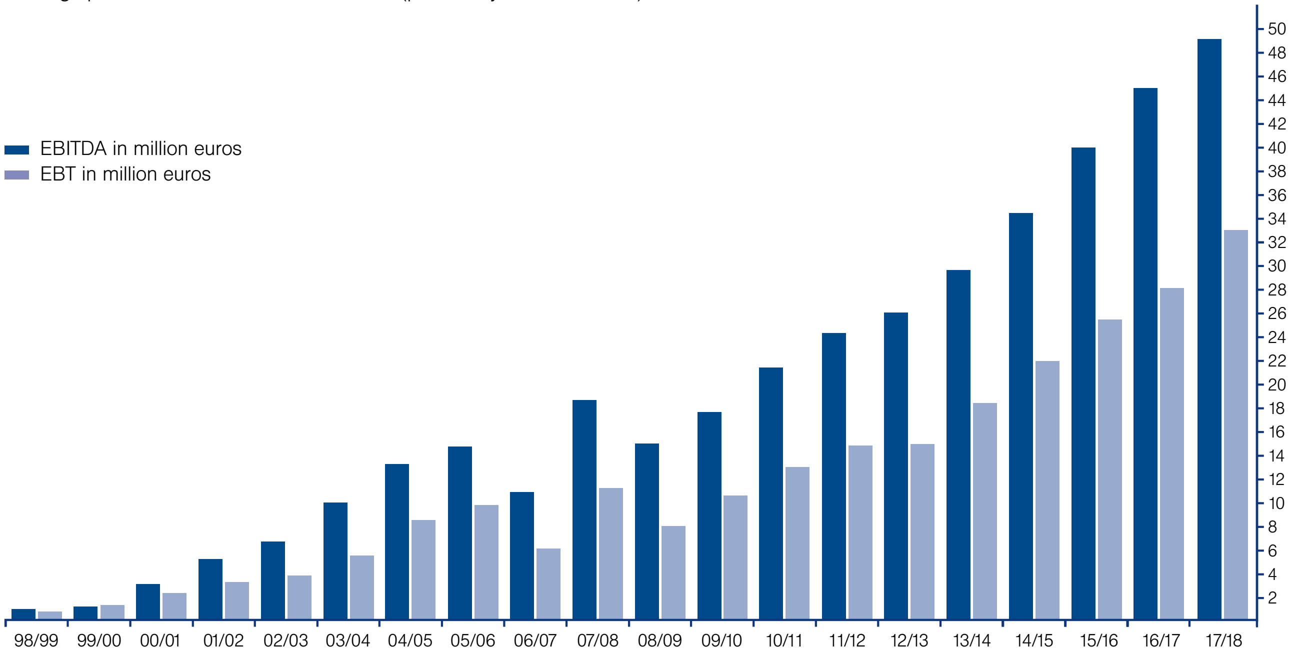
Consolidated total output EBITDA/EBIT statement [5]

Sales, Marketing, Administration and R&D

Expenditures for Sales and Marketing amounted to 28.8 million euros in the reporting period (previous year: 27.6 million euros). In the context of the continued innovation and marketing offensive, these expenditures rose by 4% compared to the previous year. In line with planning, administrative expenses in the amount of 5.0 million euros (previous year: 4.9 million euros) were reduced further to 3% of total operating revenue (previous year: 3%) as a result of synergy effects. The company's R&D expenditure amounted to 22.7 million euros in the period under review (previous year: 22.5 million euros). This corresponds to an increase of 1%. 16.4 million euros of it were invested in developing new products that are soon to be launched on the market (previous year: 15.0 million euros). These amounts were capitalized in accordance with IAS 38.

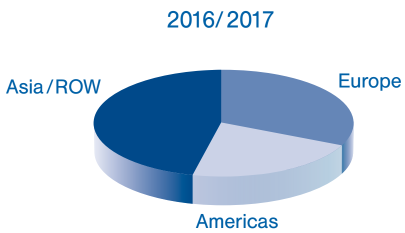
Positive development of margins

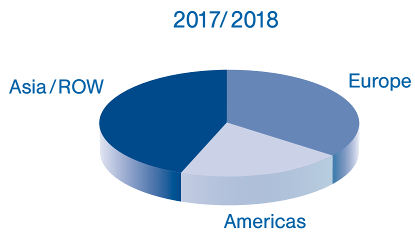
ISRA's EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) increased over-proportionally to revenues by 14% to 49.0 million euros (previous year: 42.9 million euros) on the basis of the outlined cost development. This resulted in a margin based on total output in the amount of 29% (previous year: 27%). The depreciation and amortization in the year under review increased by approximately 8% to a total of 15.8 million euros (previous year: 14.6 million euros). 14.3 million euros (previous year: 13.1 million euros) of this figure was attributed to depreciation and amortization for capitalized development of the previous years and the year under review as well as software and licenses. The remaining depreciation and amortization rose by 1% to 1.6 million euros (previous year: 1.5 million euros). As a result, ISRA obtained an EBIT (Earnings Before Interest and Taxes) in the amount of 33.2 million euros in the year under review. That represents an increase of 17% compared to the previous year with 28.3 million euros. The financial result developed from minus 0.3 million euros in the previous year to minus 0.2 million euros as a result of the repayment of financial liabilities to banks. ISRA increased earnings before taxes (EBT) by 18% to 33.0 million euros (previous year: 28.0 million euros). Referenced to total output, it corresponds to a margin of 20%, referenced to revenues 22% (previous year: 18% and 20% respectively). Tax expenditures amounted to 9.8 million euros (previous year: 7.3 million euros). ISRA achieved consolidated Group earnings attributable to the shareholders of ISRA VISION AG of 23.1 million euros. This translates to an increase of 13% compared to the previous year (20.5 million euros). Based on the weighted average number of shares outstanding[6] of 21,902,903 (previous year: 21,891,200)[7], earnings per share amounted to 1.06 euros (previous year: 0.94 euros)[7].



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 7% to 39.8 million euros (previous year: 37.2 million euros). EBIT rose by 25% to 9.4 million euros (previous year: 7.6 million euros), and the EBIT margin was up accordingly at 21% of total operating revenue (previous year: 19%). Revenues in the Surface Vision segment climbed to 112.7 million euros (previous year: 105.8 million euros), a significant increase of 7%. EBIT rose by 14% to 23.8 million euros (previous year: 20.8 million euros), and the EBIT margin was up accordingly at 19% of total operating revenue (previous year: 18%).





As one of the world's most broadly positioned providers in the machine vision industry, ISRA is represented at more than 25 locations in all relevant countries. The broad international presence and diversification across various forward-looking markets was once again confirmed as a successful business strategy in the 2017/2018 financial year. Business in the regions is again developing positively. The European markets were strengthened in line with planning – ISRA is generating further significant increase in revenues here, particularly in Central and Eastern Europe. Order entries on key Asian markets such as China, Korea and Japan remained at a similarly dynamic high level compared to the previous year. In North America, the company is benefiting in particular from intensive marketing and sales activities.

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

[6] 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.

[7] The prior-year figure was adjusted due to the comparability as a result of the stock split.

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.

Capital structure

In the 2017 / 2018 financial year, total assets of the ISRA Group increased by 27.9 million euros to 312.9 million euros (previous year: 285.0 million euros). On the liabilities side of the consolidated balance sheet, the trade payables increased by 2.6 million euros to 20.6 million euros (previous year: 18.1 million euros). Current liabilities to banks rose to 32.9 million euros (previous year: 31.0 million euros). The remaining financial liabilities fell by 0.7 million euros to 13.8 million euros (previous year: 14.5 million euros). Income tax liabilities decreased to 2.5 million euros (previous year: 4.8 million euros). The short-term provisions amounted to 1.0 million euros (previous year: 0.9 million euros).

Under long-term liabilities, deferred tax liabilites increased to 39.1 million euros (previous year: 33.3 million euros). Noncurrent provisions in the form of pension provisions rose only slightly from 3.4 million euros to 3.6 million euros, due in part to the virtually constant interest rate. As in the previous year, there were no long-term liabilities to banks.

At the end of the 2017 / 2018 financial year, the equity ratio amounted to 63 % (previous year: 62 %). As a result of the share split implemented on May 23, 2018, issued capital increased by 17.5 million euros to 21.9 million euros, while capital reserves fell by 17.1 million euros to 21.7 million euros. 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 1.3 million euros in tangible assets (previous year: 1.0 million euros). The investments in intangible assets rose to 18.3 million euros (previous year: 15.7 million euros). They are mostly capitalized development costs. In the period under review, investments in long-term assets for the segments Industrial Automation and Surface Vision amounted to 4.4 and 15.1 million euros, respectively (previous year: 3.7 and 12.8 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, 2018, ISRA generated an operative cash flow of 25.6 million euros (previous year: 37.1 million euros). Trade receivables and other assets rose by 15.8 million euros (previous year: 9.1 million euros). Furthermore, operating cash flow was largely accounted for by depreciation and amortization of 15.8 million euros (previous year: 14.5 million euros), income tax payments of 7.3 million euros (previous year: 5.1 million euros), the increase in trade payables and other liabilities of 7.0 million euros (previous year: 14.6 million euros), the increase in inventories of 4.1 million euros (previous year: decrease of 1.1 million euros) and changes in deferred tax assets and liabilities of 6.2 million euros (previous year: 1.4 million euros), which essentially resulted from an increase in deferred tax assets.

Cash flow from investment activities amounts to a total of minus 19.9 million euros (previous year: minus 16.7 million euros) and is essentially based on investments in intangible assets. The cash flow from financing activities of minus 0.3 million euros (previous year: minus 7.4 million euros) is due in particular to the borrowing of financial liabilities of 1.9 million euros (previous year: repayment of 5.0 million euros) in conjunction with profit distributions of 2.6 million euros (previous year: 2.1 million euros) resulting from the dividend of 0.59 euros per share[8] (previous year: 0.48 euros per share). Taking into account the changes in value due to exchange rate effects of minus 0.5 million euros (previous year: minus 0.2 million euros), cash and cash equivalents rose by a total of 5.0 million euros (previous year: 12.8 million euros) to 34.7 million euros (previous year: 29.7 million euros) as of September 30, 2018.

A positive availability of financial means is given group-wide. ISRA has access to unutilized cash credit facilities of 26.2 million euros and unutilized bank guarantees of 8.2 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 4.5 and 6.

[8] The dividend per share relates to the number of shares before the share split since implemented. Adjusting for the 1:5 stock split, the dividend would amount to 0.118 euros (previous year: 0.082 euros).

2.2.3 Net assets

On the assets side, ISRA showed cash and cash equivalents in the amount of 34.7 million euros (previous year: 29.7 million euros) on the balance sheet day of September 30, 2018. 61 % of the total assets were short-term assets (previous year: 58 %). Trade receivables rose by 14 % to 111.8 million euros (previous year: 98.0 million euros). Revenues from unfinished orders amounted to 66.3 million euros (previous year: 47.4 million euros), based on the percentage-of-completion method.

Long-term assets amounted to 121.6 million euros (previous year: 118.7 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 3.3 million euros to 76.2 million euros (previous year: 72.9 million euros), primarily as a result of the rise in own work capitalized as internally generated intangible assets, from 62.0 million euros to 66.2 million euros.

Tax losses carried forward for ISRA totaled 0.1 million euros as of September 30, 2018 (previous year: 1.6 million euros). Deferred tax assets were recognized for tax losses carried forward in the amount of 0.1 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. Further information on sustainability and corporate social responsibility can be found in the combined non-financial report on the ISRA VISION AG website (https://www.isravision.com/csr-reports).

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 (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, high performance materials, 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.

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.

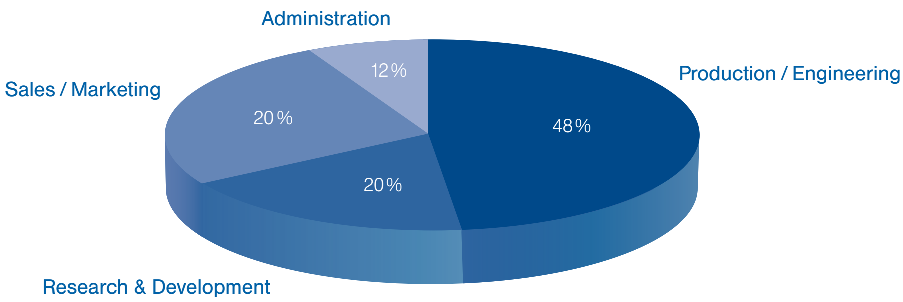
Efficiency of business processes

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 2017 / 2018 financial year, the ISRA Group employed an average of 699 people worldwide (previous year: 645). 765 people were employed as of September 30, 2018. The majority is working at locations in Germany (63%). Europe (without Germany) accounted for 5%, North and South America for 9% and Asia for 22% of the employees.



Of the staff employed worldwide as of September 30, 2018, 48% worked in production and engineering and approximately 20% in Research and Development (R&D). Another 20% of ISRA employees worked in Sales and Marketing and 12% 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. For example, ISRA is involved in the idea competition at the Technical University of Darmstadt and in the framework of the Deutschlandstipendium (scholarship program). In addition, cooperation with universities and higher education institutions offers the opportunity to specifically promote the scientific establishment of industrial image processing in academic education, in order to attract young talents to this innovative industrial sector at an early stage. ISRA is continuously expanding these cooperations and developing them at an international level. 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. The additions to digital business development, marketing and technical operations in particular should be highlighted in this context.

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 and Acquisitions.

Social commitment

As a successful globally operating company, ISRA 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 through local social and cultural initiatives at our different locations.

2.2.5 Assessment of the course of business

ISRA Management assesses the closing financial year as another successful year. The company has outperformed its earnings forecast and significantly increased its profitability. With revenues rising to 152.5 million euros, ISRA surpassed its medium-term revenue target of 150.0 million euros and achieved another milestone for additional economies of scale and further growth. The earnings per share after taxes increased to 1.06 euros, a plus of 13%. This provides a good basis for the company to continue its sustainable dividend strategy (previous year: 0.59 euros per share[9]). The gross margin was stable at the high level of the previous year, while the EBITDA and EBT margins were increased significantly. Among other things, this increase results from possibilities for efficiency increase in R&D, 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 18% and an EBT margin to total output of 20% in spite of challenges in individual regions and industries. The respective growth in both segments with improved margins also essentially 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 2017/2018 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 successful launch of more than 19 innovative products.

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. On the basis of the operating 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.

Please see the comments in the notes for the report on possible significant events that occurred after the end of the reporting period.

3 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.[10] A moderate environment is expected in 2019 according to their forecasts published in December 2018.

The institutes and banks also state that actual economic performance in the coming years will be largely dependent on how quickly the current trade policy conflicts can be solved and how long central banks stand by their current monetary and interest policy. Continued interest rate hikes in the US or early increases in the euro area could negatively impact conditions and adversely affect the economic development in individual countries and thus overall global growth. Political risks, such as the trade conflict between the US and China or Europe and the UK leaving the European Union, are rated higher compared to the previous year. Assuming that monetary and fiscal policies develop as expected, slightly wea-

[9] The dividend per share relates to the number of shares before the share split since implemented. Adjusting for the 1:5 stock split, the dividend would amount to 0.118 euros per share.

[10] Cf., for example: Institute for the World Economy, Weltkonjunktur im Winter 2018; Berenberg Bank, Horizonte Q1 2019; Commerzbank, Woche im Fokus – Ausblick 2019: Nur eine Wachstumsdelle? Commerzbank, Konjunktur und Finanzmärkte – Dezember 2018; Institute for the World Economy, Weltkonjunktur im Winter 2018; Deutsche Bank, Weltwirtschaftlicher Ausblick - Ausblick 2019: Abflachung des Wachstums, aber kein Einbruch.

ker global economic growth than in the previous year of around 2.7 % to 3.5 % can be expected for 2019, though ISRA's management is more cautiously projecting growth at the lower end of this range.

Framework conditions in Germany, China and the United States

For ISRA's principal markets, however, economists envision different perspectives. In Germany, stabilizing order entries in industry and the good conditions in the service sector could allow for growth of between 1.2 % and 1.5 %. Owing to the effects of interest rate increases to date and the trade conflicts, growth in the US is expected to be somewhat lower than in 2018 at around 2.5 %. A massive drop-off in economic development in China should be avoided thanks to government intervention in monetary and financial policy. Given these conditions, growth of just over 6 % is forecast.

Image processing industry anticipating positive development

According to VDMA forecasting, industrial image processing in Germany and Europe is expected to maintain the previous year's high level in 2018 without achieving further growth. While the forecasts for 2019 anticipate growth, they do not provide any quantitative information.[11] The US industry association AIA has not yet published an outlook, and specific forecasts for the Asian market are also not yet available.

Lean global structures and synergy effects as the basis for further profitable growth

In the 2017 / 2018 financial year, ISRA has once again continued its growth and is thereby pursuing its growth strategy. On the one hand, the market shares in the relevant industries were maintained – even expanded in some – 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 achieving significant global revenues, the basis for further growth has been reached in the various 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. The revenues level achieved ensures a basis for realizing further scale effects and synergies as a catalyst for profitable growth.

By expanding digital business development, ISRA is implementing a forward-looking digital strategy for market and customer communication and is laying the foundations for additional sales opportunities – for instance with its recently launched new website. Parallel to this, the company is expanding its internal structures and preparing the organization for the next revenue target for 200+. ISRA is augmenting technical operations with an expert for significant optimization in production efficiency to help achieve this goal. Similarly, a specialist has also been recruited in finance operations to expand international structures and strengthen the regional units for future growth. The digital marketing team has been optimally positioned for the future with a highly experienced manager.

As a driving force 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. More than 19 innovative product launches greatly improved the company's technological expertise in the past financial year, particularly against the backdrop of INDUSTRIE 4.0. At the same time, this product campaign opens up market potential of several hundred million euros, primarily in the recently conceived smart factory automation and production analytics business areas.

The continuous expansion of the Customer Support and Service Centers can contribute more and more to 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 business with leading international automotive manufacturers and market leaders in other industries. These are showing consistently high interest in innovative solutions using 3D technologies in the production line. Additional future potential is expected by new product developments for 3D measurement and fully automated paint inspection. In addition, the growing market for INDUSTRIE 4.0 applications is opening up additional revenue potential for the ready-to-use product lines in smart factory automation.

[11] cf. VDMA Robotics and Automation: Industrielle Bildverarbeitung auf Rekordniveau; press release from November 6, 2018 and according to VDMA Robotics + Automation information from January 8, 2019.

In the Surface Vision segment, ISRA is broadening its full portfolio for metal industry customers and supplementing its range with innovative products that are expected to unleash strong potential for demand. In the glass business area, the company is planning further thin glass and display glass orders in addition to the long-term positioning of product innovations for the float glass and smart touch device inspection. In advanced materials – formerly plastics – ISRA is stepping up international sales activities in particular and increasingly catering to manufacturers of innovative materials with an extended product range in order to generate further growth in revenues.

In the printing industry, the company is anticipating sustained interest in the innovative portfolio for the entire process chain and recently introduced new products. In paper inspection, substantial stimulus is expected from the market launch of new production analytics tools in the forthcoming financial year. Similarly, cost-optimized solutions in the security area (specialty paper) will appeal to a broader customer base and thereby generate new revenue potential.

The effects of the Chinese government's temporary halt to investment programs in the solar industry remain unclear at this time; ISRA is stepping up its activities in the area of the recently introduced CONNECTED PHOTOVOLTAICS 4.0 technology to benefit from the current relocation and creation of new production capacity outside China. In the relatively new semiconductor business area, ISRA will continue its market launch in the Asian region and further strengthen its customer base. The company is systematically expanding customer service and support internationally and is planning to greatly boost the contribution made by service revenues to the company's total revenues in the medium term with a diversified range of activities.

In the ongoing development of networked smart sensor portfolios with high connectivity, the Company is opening up extensive sales opportunities in INDUSTRIE 4.0. Management anticipates additional potential from production analytics software tools, which enable efficient process control and yield maximization based on inspection and automation data.

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 European markets. In Asia, Management sees an increasing demand in individual strategic countries in the next quarters. The measures in marketing and sales to boost demand from Americas are being systematically continued.

The regional expansion and the strengthening of international locations remain an important part of the Company strategy. 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 continuously examining the economic conditions in Brazil and neighboring countries. The same applies for the Southeast Asian economic area.

Strategic acquisitions possible

In addition to organic growth, external growth through acquisitions of companies with promising synergy potential is an important component of ISRA's long-term strategy. The activities are focusing on target companies that will sustainably advance ISRA's technology leadership, market position or expansion into new markets. Management is currently monitoring and analyzing several possible targets in different industries and is planning the completion of one further project in the course of the 2018/2019 financial year given a positive review.

Continuation of growth path

With the order backlog again at a high level of currently around 98 million euros gross (as of January 10, 2019; previous year: 90 million euros, gross), ISRA has had a good start to the new financial year. The Company will continue to focus on achieving diversified growth across industries and regions and on exceeding its revenue target of 200 million euro in the medium term. The weaker but partially still robust economy in most markets and regions provides a basis for further profitable growth. In particular, the company is countering weaker economic developments with an intensification of the marketing measures and sales activities plus innovations that support the growth strategy. Assuming that monetary and fiscal policies develop according to the forecasts of banks and economic institutions, and that political risks are not confirmed, ISRA's management is planning further revenue growth in 2018/2019, both in the Group and the two segments. In view of the current fluctuations on the international markets, the amount of profitable growth that can be achieved is dependent on the performance in the forthcoming months of the first two quarters at the start of 2019. The level can range between growth in a low double-digit percentage range and slighter growth, whereby the company's planning is focusing on the former. Based on the high margin level of recent years, relatively high margins should result from continued growth in the lower double-digit range.

Strategic and operational planning is already geared towards sales and regional expansion, and the development of structures in all corporate divisions for the next medium-term revenue target of 200 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 2020. Management will 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 2019. ISRA's executive bodies intend to continue the sustainable dividend policy for the 2017 / 2018 financial year; a proposal to this effect will be made to the Annual General Meeting in March 2019.

4 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.

4.1 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.

4.2 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 2019, 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. ISRA has already established its own subsidiaries for the structural reinforcement of market activities on many strategic growth markets such as China, Brazil, Turkey and Taiwan. 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 Eastern Europe and Southeast Asia. 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. With the exception of two single cases, with shares just above 5%, management was able to successfully achieve this goal in the past financial year.

4.3 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.

4.4 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 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.

4.5 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. 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.

4.6 Other risks

General legal and economic risks

The opportunities and risks described can have a significant impact on the revenues 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.

5 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.

6 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. If necessary, 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, print, 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, no customers accounted for a share of revenues exceeding 5% of the Group's total revenues except for two single cases with shares just above 5%. 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. Any acquisitions could be financed by long-term loans with variable interest rates. ISRA possibly 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 this probability to be low.

7 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 2017 / 2018.

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 Annual 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.

8 Takeover-related statements

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

As of the balance sheet date, the Company's share capital totalled 21,906,200.00 euros. This was associated with 21,906,200 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 § 315a Section 1 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 Annual General Meeting held on March 28, 2018 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 10,953,100.00 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 of the Annual General Meeting of March 17, 2015 and possibly by way of the resolution adjusted under item 9 of the agenda of the Annual General Meeting of March 28, 2018, 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 2,190,620.00 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 2,190,620.00 euros / 10 % limitation of base capital if they come into effect due to an existing authorization as of July 8, 2015 or an authorization replacing it 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 issued or to be issued to service bonds under warrant and / or conversion right fall under the 2,190,620.00 euros / 10 % limitation of share capital if the bond was issued under shareholder exception from subscription due to an existing authorization as of July 8, 2015 or an authorization replacing it according to § 186 Section 3 Clause 4 of the German Stock Corporation Act.. Moreover, this must also include shares issued from authorized capital in accordance with § 203 section 1 and section 2 AktG in conjunction with § 186 section 3 clause 4 AktG with pre-emption rights disapplied since March 17, 2015. If shares must therefore be added to the limit for the above reasons as a result of being issued or sold, or as a result of the issue of convertible and warrant bonds, prior to the entry in the commercial register of the capital increase from company funds resolved by the Annual General Meeting of March 28, 2018 under item 8 a) of the agenda, the shares in question must be added to the limit five-fold.

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 Annual General Meeting on March 28, 2018, share capital has been conditionally increased by up to 10,453,100.00 euros by issuing up to 10,453,100 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 in its original form or by way of the resolution of the Annual General Meeting on March 28, 2018, 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 Annual General Meeting held on March 28, 2018, 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 a pro rata amount of the base capital up to 2,190,620 euros in total, 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. The authorization volume, i.e. the above pro rata amount of share capital of 2,190,620 euros is reduced to the extent that the Executive Board has already exercised the authorization to acquire own shares resolved by the Annual General Meeting on March 17, 2015 prior to the entry in the commercial register of the capital increase from company funds resolved under item 8 a) of the agenda of the Annual General Meeting on March 28, 2018; the pro rata share capital attributable to the shares acquired is five times this amount. 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.

9 Corporate governance declaration

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

Darmstadt, January 11, 2019

The Executive Board

Report of the Supervisory Board

Financial year 2017 / 2018

Composition of the Supervisory Board

On September 30, 2018, the Supervisory Board of ISRA VISION AG consisted of the six members Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairman of the Supervisory Board), Ms. Susanne Wiegand, Mr. Stefan Müller, Mr. Falko Schling, Prof. em. Dr. rer. nat. Henning Tolle and Dr. Burkhard Bonsels. Mr. Falko Schling resigned his position as a member of the Supervisory Board effective November 30, 2018.

Cooperation between Executive Board and Supervisory Board

As in previous years, the Supervisory Board also exercised its legal and statutory responsibilities in the 2017 / 2018 financial year with the utmost care. The Supervisory Board's collaboration with the Executive Board was characterized by an intensive and trustful dialog. The Executive Board regularly and comprehensively informed the Supervisory Board in due time about all significant events and developments. Communications focused on the financial position and performance of the company and on business development. The Supervisory Board discussed the reports of the Executive Board in depth and requested supplementary information 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 consent of the Supervisory Board. The Supervisory Board approved the business transactions submitted for assent 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 5, 2017

- Passing of a resolution on the Declaration of Conformity to the Corporate Governance Code according to § 161 of the German Stock Corporation Law (AktG)
- Approval of the recruitment of Mr. Guido Hettwer

January 16, 2018

- Authorizing, respectively approving the individual and consolidated financial statements of ISRA VISION AG for the 2016 / 2017 financial year
- Adoption of the resolution proposal concerning the use of the net profit of the 2016 / 2017 financial year
- Approval of the provision of business consulting and tax advisory services by the auditor
- Adoption of the Report of the Supervisory Board for the 2016 / 2017 financial year
- Approval of the agenda for the 2018 Annual General Meeting as well as adoption of other resolution proposals of the Supervisory Board to the Annual General Meeting
- The Supervisory Board resolves to propose to the Annual General Meeting the distribution of a dividend and to set the dividend at 59 cents per share.
- Approval of in Main Committee previously discussed remuneration of the Executive Board
- Approval of the acquisition of the 100 % shares in Polymetric GmbH
- The Supervisory Board discusses the results of the Main Committee on Executive Board remuneration
- Approval of the figures adopted by the Main Committee

May 22, 2018

- The Supervisory Board resolves to create a draft Rules of Procedure
- Election of two deputies for the Chairman of the Supervisory Board (Prof. em. Dr. rer. nat. Henning Tolle and Dr. Burkhard Bonsels).
- Election of members of the Main Committee (Dr.-Ing. h. c. Heribert J. Wiedenhues and Falko Schling).

September 18, 2018

- Approval of the budget for the 2018 / 2019 financial year
- Approval of the composition of the Main Committee of the Supervisory Board of ISRA VISION AG
- Approval of the composition of the Audit Committee of the Supervisory Board of ISRA VISION AG

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 acquisition projects,
- Risk situation, risk and opportunity management and compliance,
- International development of the markets for industrial image processing, especially under consideration of the global situation,
- Expansion of the technology portfolio with a focus on smart factory automation; and
- Expansion opportunities and risks for ISRA VISION AG and the Group.

Meetings of the Supervisory Board

The Supervisory Board convened four meetings on a regular basis by personal attendance in the 2017 / 2018 financial year. The following topics were deliberated in detail and decided upon:

Meeting on December 5, 2017

All members of the Supervisory Board attended the Supervisory Board meeting on December 5, 2017. The preliminary financial statements for 2016 / 2017 were explained and discussed. Furthermore, the Executive Board gave a forecast for the first quarter of 2017 / 2018 and an outlook for the entire 2017 / 2018 financial year. The Supervisory Board discussed the draft agenda items presented by the Executive Board for the Annual General Meeting on March 28, 2018. In addition, the Declaration of Conformity to the Corporate Governance Code was discussed; warranted deviations in the Declaration of Compliances were recorded and unanimously approved. The Supervisory Board acknowledged the comments by the Chairperson on several possible acquisition projects. The Supervisory Board also approved the appointment of Mr. Guido Hettwer. Besides, the Supervisory Board concordantly appointed Mr. Schling to the Main Committee. Dr.-Ing. h. c. J. Wiedenhues is Chairperson of the Main Committee. The Chairperson of the Executive Board also reported on the cyber security tests and the new construction project in Darmstadt, and explained that two external consultants would be used for logistics, supply chain and production. In conclusion, the Chairperson of the Executive Board provided additional details on the construction of a further hall in Herten.

Meeting on January 16, 2018

One member of the Supervisory Board was unable to attend the meeting of the Supervisory Board on January 16, 2018 and conveyed his apologies. The Supervisory Board was quorate. In this meeting, the Audit Committee reported on its meetings of December 5, 2017 and of January 16, 2018. The annual financial statement, the consolidated financial statements, the management report for ISRA VISION AG and the Group for the 2016 / 2017 financial year as well as the proposal by the Executive Board for the use of the net profit for the year were reviewed in detail by the Supervisory Board. 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.

The auditors explained the audit focus of the separate and consolidated financial statements, the results of the audit of the annual financial statements, the associated management report, the consolidated financial statements and the corresponding Group management report. The audit did not give rise to any findings. According to the results of these audits, the Group's accounting is free of errors, there were no objections to the internal control system, and the risk detection system is suitable for detecting risks that could jeopardize the continued exixtance of the company at an early stage. Questions from Supervisory Board members were answered comprehensively 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 2016 / 2017 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 thereby approved.

After a detailed discussion, 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..

The Supervisory Board extensively discussed the threat to the auditor's independence as a result of it providing consulting and tax advisory services. There is no threat in the opinion of the Supervisory Board. The Supervisory Board allows the Executive Board to award business consulting and tax advisory services in line with EU law.

As in previous years, the Chairman of the Supervisory Board reported that the Supervisory Board exercised its legal and statutory responsibilities with the utmost care. The Supervisory Board resolved the report of the Supervisory Board for the 2016 / 2017 financial year as presented.

The Supervisory Board subsequently discussed the organization and sequence of the Annual General Meeting and gave its approval for the agenda for the Annual General Meeting for the 2016 / 2017 financial year as well as decided on its suggestions to the Annual General Meeting for the respective agenda items. Moreover, the Supervisory Board unanimously resolved to propose the official approval of the actions of the Executive Board at the Annual General Meeting.

In addition, the Executive Board presented the concept for the 2016 / 2017 financial report to the Supervisory Board.

The overview of the first quarter of the 2017 / 2018 financial year and the forecast until September 30, 2018 were explained and discussed.

The Supervisory Board discussed potential acquisitions and agreed to acquire all shares in Polymetric GmbH, Darmstadt. Furthermore, the Supervisory Board discussed the results of the Main Committee on Executive Board remuneration and unanimously approved the figures adopted by the Main Committee.

In addition, the draft of the new Rules of Procedure for the Supervisory Board was discussed extensively at the meeting of the Supervisory Board on January 16, 2018. The Supervisory Board was also informed about the current status of enterprise resource planning (ERP) projects and the security audit.

Meeting on May 22, 2018

All members of the Supervisory Board attended the Supervisory Board meeting on May 22, 2018. The Executive Board reported in depth about the second quarter of 2017 / 2018, gave a preview of the third quarter of 2017 / 2018 as well as an outlook on the entire 2017 / 2018 financial year, whereby the Supervisory Board acknowledged and approved the planning and forecasts of the Executive Board. Furthermore, the Executive Board explained current acquisition projects and reported to the Supervisory Board on the successful integration of Polymetric. The Chairperson of the Executive Board introduced a new employee from his staff to the Supervisory Board and then reported on conclusions of contracts and recruitments in the upper management. These employees were intended to join the ISRA team in the course of 2018.

The Supervisory Board discussed the current version of the Rules of Procedure from 2003 and resolved to prepare new Rules of Procedure for August 2018. Following internal discussion, the members of the Supervisory Board then elected Prof. em. Dr. rer. nat. Henning Tolle and Dr. Burkhard Bonsels as deputies for the Chairman of the Supervisory Board and Dr.-Ing. h. c. Heribert J. Wiedenhues and Falko Schling were again elected as members of the Main Committee. In conclusion, the Supervisory Board discussed the current economic conditions and the possible economic impact of the US trade embargo.

Meeting on September 18, 2018

All members of the Supervisory Board took part in the meeting of the Supervisory Board on September 18, 2018. The Executive Board informed the Supervisory Board about the third quarter of 2017 / 2018 and presented an overview of the fourth quarter of 2017 / 2018. The Supervisory Board intensively discussed the budget presented and proposed by the Executive Board. The various conditions of the individual customer industries were also debated. Accordingly, the capacity expansion at selected locations and the expansion of branches in various regions were also debated. The Supervisory Board discussed personnel issues at this meeting as well. This focused on the hiring of further qualified employees as this is an essential requirement for archieving the aimed sustainable growth of the company. Furthermore, the Executive Board reported to the Supervisory Board extensively on current acquisition projects and corresponding considerations. Medium-term strategic company planning was also debated comprehensively at this Supervisory Board meeting. Moreover, the Supervisory Board approved the appointment of Mr. Müller to the Main Committee of the Supervisory Board of ISRA VISION AG. The Chairman of the Main Committee is Dr.-Ing Wiedenhues. Mr. Schling was a member of the Main Committee until November 30, 2018. In addition, the Supervisory Board appointed Dr.-Ing. Wiedenhues (Chairman), Ms. Wiegand and Dr. Bonsels to the Audit Committee of the Supervisory Board of ISRA VISION AG.

Activities of committees

The Supervisory Board sets 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 2017 / 2018 financial year, the Audit Committee held two meetings, the Main Committee held one meeting.

In its meeting on December 5, 2017, the Audit Committee dealt with questions concerning the audit. In its meeting on January 16, 2018, it examined the audit documents for the 2016/2017 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 16, 2018, the Main Committee analyzed, discussed and presented all important information concerning the compensation of the Executive Board, particularly with respect to the incentivization of individual remuneration components. The compensation of the Executive Board was approved by the entire Supervisory Board.

Corporate Governance and Declaration of Conformity

In the 2017 / 2018 financial year, the Supervisory Board has dealt in depth with questions concerning Corporate Governance and the German Corporate Governance Code. On December 5, 2018, 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 February 7, 2017. In December 2018, the Supervisory Board decided on the annual Declaration of Conformity. This Declaration of Conformity 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 2017 / 2018 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 2017 / 2018 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 § 315e of the German Commercial Code (HGB) as well as the management report and the Group management report of ISRA VISION AG for the 2017 / 2018 financial year were audited by PKF Deutschland GmbH financial auditing company from Frankfurt am Main (PKF), the auditor commissioned through the Annual General Meeting on March 29, 2018, and authorized in writing by the Supervisory Board on September 24, 2018, and each granted an unqualified audit certificate. The auditor conducted its audit in accordance with section 317 HGB and the EU Audit Regulation, taking into account German ordinary commercial accounting principles promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as the International Standards on Auditing (ISA).

Before the Supervisory Board suggested PKF as financial auditor to the Annual 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 German Corporate Governance Codex (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 handed over to the members of the Supervisory Board in a timely manner. For the preparation of the audit of these documents in the Supervisory Board meeting, the Auditi Committee of the Supervisory Board discussed the named financial statement documents and audit reports of the auditor in its meeting on December 5, 2018.

In the meeting of the Audit Committee and in the subsequent accounts review meeting of the Supervisory Board on January 22, 2019, 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 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, intercompany settlements, valuation of investments as well as percentage of completion and impairment test of goodwill in line with IAS 36. In the meeting of the Audit Committee and the accounts review meeting of the Supervisory Board on January 22, 2019, the auditor also reported that his audit of the internal control system 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 t 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 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 required 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 regalatory 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 and the combined separate non-financial report) of ISRA VISION AG for the 2017 / 2018 financial year. The annual financial statement of the company has thereby 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.

Our thanks

The Supervisory Board wishes to thank the Executive Board and all employees of ISRA VISION AG and its Group companies for their work, personal dedication and the innovations that have made ISRA VISION so successful in the 2017 / 2018 financial year.

Darmstadt, January 22, 2019

Dr.-Ing. h. c. Heribert J. Wiedenhues
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 February 7, 2017, have been fulfilled, and that henceforth the recommendations in the version dated February 7, 2017 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 which the members of the Supervisory Board perform their tasks with 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.

Item 4.1.3 GCGC

Employees are not yet given the institutionalized opportunity to provide evidence of legal violations in the company with protection. If there are any indications of legal violations in the company, the employees of ISRA VISION AG have the option of contacting the Compliance department confidentially or the Executive Board directly. ISRA VISION AG currently considers this to be sufficient and appropriate due to its still manageable size. In addition, there is currently no institutionalized whistleblower system for legal violations. ISRA VISION AG is however still examining and evaluating whether the introduction of such a system could be useful and appropriate.

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 VISION AG does not discriminate against or favour 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 as Executive Board members is based exclusively on the qualification of the respective person for the management or the Executive Board position. For this reason, Executive Board and Supervisory Board have determined targets for the percentage of women (gender quotes) 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 GCGC

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 fringe benefits. Nevertheless, a change of the existing service contracts of the Executive Board members is not being planned. Limiting the variable remuneration components provides sufficient assurance that the overall remuneration will also remain within reasonable limits. The Supervisory Board does not consider it essential to have a forward-looking, multi-year assessment basis in this specific case. Even without such a basis for assessment, the Supervisory Board believes that, taking into account the circumstances of the individual case and the structure of the variable remuneration components, the remuneration of the members of the Executive Board is geared towards sustainable corporate development.

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 shall include certain information and shall be presented in form of model tables. At ISRA VISION AG, 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 5.1.2 Section 2 Clause 3 GCGC

The goal of filling the positions of the Executive Board of ISRA VISION AG is that its members have the required knowledge, skills and professional experience for the proper care of their assignments. The Supervisory Board – in agreement with the Executive Board and in accordance with the Allgemeines Gleichbehandlungsgesetz (AGG – German General Act on Equal Treatment) – does not wish to be bound to predetermined age limits when selecting candidates for the Executive Board, and instead to be able to decide freely on the persons available in the specific decision-making situation which it deems to be best suited for the position as a member of the Executive Board. For this reason, the Supervisory Board has not set an age limit for members of the Executive Board in accordance with item 5.1.2 Section 2 Sentence 3.

Item 5.3.2 Sections 2 and 3 Clause 3 GCGC

In particular, questions of the monitoring of the accounting process, the effectiveness of the internal control system, the risk management and the internal auditing systems, the audit, in particular the independence of the auditor, and compliance and the other items listed in the Code are of such fundamental importance that they are not assigned to a committee of the Supervisory Board, and are instead reserved for the Supervisory Board as a whole. The chairperson of the Audit Committee will be selected specifically based on their 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

ISRA VISION AG Supervisory Board consists of six members. Due to 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, 4 and 5 Clause 2 GCGC

The goal of filling the positions of the Supervisory Board of ISRA VISION AG is that overall its members have the required 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. Concerning this matter, the Supervisory Board has not developed a formal competence profile for the entire Committee and does not intend to do so. The Supervisory Board – in agreement with the Executive Board – does not consider it to be relevant to bound by abstract objectives formulated in advance with respect to its candidate selection, instead of being able to freely decide on the persons available in their specific decision scenario which it deems the 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 in accordance with the German General Act on Equal Treatment (AGG) 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 February 7, 2017. 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. The Supervisory Board complies with all legal requirements and with the recommendations of the GCGC with regard to the publication of detailed information on the candidates proposed for election to the Supervisory Board at the Annual General Meeting. In addition, it follows the provision to disclose all members of the Supervisory Board and their respective mandates in an updated form in the notes to the annual financial statements and in the notes to the consolidated financial statements. The Supervisory Board sees no added value in publishing an annually updated overview of the main activities in addition to the Supervisory Board mandates for all members of the Supervisory Board on the company's website. The new recommendation of item 5.4.1 Section 5 Clause 2 of the February 7, 2017 version of the GCGC is therefore not complied with.

Item 5.4.2 Clause 1 GCGC

Section 5.4.2 of the Code recommends that the Supervisory Board – in its own estimation – has a sufficient number of independent members. A member is to be considered independent if they have no business or personal relationship with the company, its executive bodies, a controlling shareholder or an affiliate, which may give rise to a significant and not merely temporary conflict of interest. The Supervisory Board of ISRA VISION AG, in its own estimation, has a sufficient number of independent members. Individual members of the Supervisory Board are also shareholders and occasionally have a personal relationship with the company, but this does not cause any conflict of interest. The effective work of the Supervisory Board is unreservedly guaranteed in this composition.

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 disclosed 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 however, are never relevant to current market prices, and are not published on the Internet since they contain proprietary information.

Item 7.1.2 Clauses 2 and 3 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. 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 administration 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 risks effectively

Doing business as an entrepreneur means taking 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 autonomously

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. Guido Hettwer are responsible for sales and strategical operations, Mr. Shlomo Amir for business development, Dr.-Ing. Johannes Giet for Research and Development and Mr. Andreas Gerecke for Operations.

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.

Specification on the promotion of female participation in management positions

In September 2015, the Executive Board of ISRA VISION AG has, compliant with § 76 section 4 of the German Stock Corporation Act (AktG), determined a target figure of 5 % 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. This target figure was achieved at the end of the target attainment period. At the first management level beneath the Executive Board, the proportion of women is currently 15 %. The Company will work to increase the proportion of women in management levels below the Executive Board.

The Supervisory Board of ISRA VISION AG has, compliant with § 111 section 5 of the German Stock Corporation Act (AktG) and under consideration of the current contract situations, determined a target figure of 16.67 % for the share of women in the Supervisory Board and of 0 % for the share of women in the Executive Board by June 30, 2017. These target figures were achieved at the end of the target attainment period. Against the background of the expiry of the first target attainment periods as of June 30, 2017, new targets were defined for ISRA VISION AG. The Supervisory Board has resolved to set the target for the proportion of women in the Supervisory Board at 16.67 % and the Executive Board level at 0 %. For the management level below the Executive Board, the Executive Board has set a target of 5 % in the future as well.

The deadline for achieving the new targets was set as June 30, 2022.

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 three members of the Supervisory Board

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

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)
- Mr. Falko Schling (until November 30, 2018)
- Mr. Stefan Müller

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	Number of shares as per Sept. 30, 2018	Supervisory Board	Number of shares as per Sept. 30, 2018
E. Ersü	4.966.555*	Dr.-Ing. h. c. H. J. Wiedenhues	0
H. J. Christ	300	Dr. B. Bonsels	55.000
S. Amir	0	Prof. em. Dr. rer. nat. Dipl.-Ing. H. Tolle	16.020
Dr.-Ing. J. Giet	0	S. Müller	0
A. Gerecke	0	S. Wiegand	0
G. Hettwer	0	F. Schling	0

* Mr. Ersü holds the voting rights allocated to him via the following companies which he himself controls: EVWB2 GmbH, 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 pro forma 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 revenues 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 consolidated total operating revenue EBITDA-EBIT statement do not deviate from the consolidated income statement, which corresponds to IFRS.

(in € k)	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Net sales	152,528	142,995
Capitalized work	16,377	14,992
Total output	168,905	157,987
Cost of materials	33,651	31,796
Cost of labor excluding depreciation	31,886	29,569
Cost of production excluding depreciation	65,538	61,365
Gross profit	103,367	96,621
Research and Development total	22,680	22,475
Sales and Marketing costs	28,765	27,629
Administration	5,023	4,889
Sales and Administration costs excluding depreciation	33,787	32,519
Other revenues	2,130	1,317
EBITDA	49,031	42,945
Depreciation and amortization	15,809	14,613
Total costs	72,276	69,606
EBIT	33,222	28,332
Interest income	153	48
Interest expenses	-345	-346
Financing result	-192	-297
EBT	33,030	28,035
Income taxes	9,769	7,311
Consolidated net profit	23,260	20,723
Of which accounted to non-controlling shareholders	152	215
Of which accounted to shareholders of ISRA VISION AG	23,108	20,508
Earnings per share in €**	1.06	0.94
Shares issued**	21,902,903	21,891,200

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

** The prior-year figure was adjusted due to the comparability as a result of the stock split. Consolidated earnings per share for the 2016/2017 financial year amounted to 4.68 euros with 4,378,240 shares outstanding.

- Consolidated Financial Statements (IFRS)

2017 / 2018

Consolidated Income Statement

(IFRS)

(in €k)	Explanation	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Net sales		152,528	142,995
Cost of sales	2	66,291	62,095
Gross operating result (gross profit)		86,237	80,900
Research and Development		20,136	20,310
Total costs		22,680	22,475
Depreciation and amortization	12	14,256	13,081
Grants		-423	-254
Capitalized work	12	-16,377	-14,992
Sales and Marketing costs	3	29,445	28,311
Administration	4	5,141	5,010
Sales and Administration costs		34,586	33,321
Other revenues	6	1,707	1,063
Interest income		153	48
Interest expenses		-345	-346
Financing result		-192	-297
Earnings before taxes (EBT)		33,030	28,035
Income taxes	7	9,769	7,311
Consolidated net profit		23,260	20,723
Of which accounted to shareholders of ISRA VISION AG		23,108	20,508
Of which accounted to non-controlling shareholders		152	215
Earnings per share in € (diluted/undiluted)*		1.06	0.94
Shares issued*		21,902,903	21,891,200

* The prior-year figure was adjusted due to the comparability as a result of the stock split. Consolidated earnings per share for the 2016/2017 financial year amounted to 4.68 euros with 4,378,240 shares outstanding.

Consolidated Statement of Comprehensive Income

(in €k)	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Consolidated net profit	23,260	20,723
Amounts that may subsequently be reclassified to the income statement		
Changes to the currency exchange variationen	-555	-1,146
Amounts not reclassifiable to the income statement		
Changes to actuarial profits and losses from performance-based retirement benefits	-8	335
Tax effect	2	-101
Total of earnings and expenditures recorded directly in the equity capital	-561	-912
Overall group earnings	22,699	19,811
Of which accounted to shareholders of ISRA VISION AG	22,547	19,596
Of which accounted to non-controlling shareholders	152	215

Consolidated Group Balance Sheet

(in € k)	Explanation	Sept. 30, 2018	Sept. 30, 2017
ASSETS			
Short-term assets			
Inventories	9	36,929	32,667
Trade receivables	8	111,831	98,049
Cash and cash equivalents	23	34,716	29,728
Financial assets	10	3,236	3,146
Other receivables	11	2,434	1,954
Income tax receivables		2,135	747
Total short-term assets		**191,281**	**166,291**
Long-term assets			
Intangible assets	12	115,156	111,682
Tangible assets	13	4,815	5,219
Shareholdings in associated companies	25	12	12
Financial assets	10	1,282	1,083
Deferred tax claims	19	358	730
Total long-term assets		**121,624**	**118,728**
Total assets		**312,905**	**285,019**
EQUITY AND LIABILITIES			
Short-term liabilities			
Trade payables	15	20,621	18,064
Financial liabilities to banks	14	32,872	30,980
Other financial liabilities	17	13,822	14,450
Accruals	16	1,020	945
Income tax liabilities		2,452	4,832
Other liabilities	18	1,618	1,952
Total short-term liabilities		**72,406**	**71,223**
Long-term liabilities			
Deferred tax liabilities	19	39,144	33,358
Pension provisions	20	3,586	3,390
Total long-term liabilities		**42,730**	**36,747**
Total liabilities		**115,136**	**107,970**
Equity	21		
Issued capital		21,906	4,381
Capital reserves		21,722	38,800
Own shares		0	-159
Other comprehensive income		361	921
Profit brought forward		128,810	110,886
Net profit accounted to the shareholders of ISRA VISION AG		23,108	20,508
Share of equity capital held by ISRA VISION AG shareholders		**195,907**	**175,338**
Equity capital accounted to non-controlling shareholders		1,862	1,710
Total equity		**197,769**	**177,049**
Total equity and liabilities		**312,905**	**285,019**

Consolidated Cash Flow Statement

(in € k)	Explanation	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Consolidated net profit		**23,260**	**20,723**
Income tax payments		-7,292	-5,092
Changes in deferred tax assets and liabilities		6,159	1,375
Changes in accruals		271	-1,368
Depreciation and amortization		15,809	14,509
Changes in inventories		-4,072	1,059
Changes in trade receivables and other assets		-15,819	-9,069
Changes in trade payables and other liabilities		7,008	14,601
Financial result		192	297
Other non-cash changes		68	40
Cash flow from operating activities		**25,585**	**37,077**
Payments for investments in tangible assets		-1,308	-979
Payments for investments in intangible assets		-18,289	-15,692
Payments for investments in financial assets	25	0	-12
Company acquisition	23	-260	0
Cash flow from investment activities		**-19,857**	**-16,683**
Payments to company owners through acquisition of own shares		606	0
Dividend payouts		-2,585	-2,102
Deposits from sales of own shares		1,892	0
Repayments of financial liabilities		0	-4,974
Interest income		153	48
Interest expenses		-345	-346
Cash flow from financing activities		**-279**	**-7,373**
Exchange rate-based value changes of the financial resources		-461	-211
Change of financial resources	23	**4,988**	**12,809**

Consolidated Statement of Changes in Equity

for the period October 01, 2017 to September 30, 2018

(in € k)	Issued capital	Capital reserves	Own shares	Other not-income-affecting changes of equity	Profit brought forward	Net profit by shares of other investors	Equity of shareholders of ISRA VISION	Accounted to non-controlling shareholders	Equity
As of Oct. 1, 2017	4.381	38,800	- 159	921	110,886	20,508	175,338	1,710	177,049
Profit brought forward					20,508	- 20,508	0		0
Capital increase (conversion of capital reserve due to stock split)	17,525	- 17,525					0		0
Own shares purchased							0		0
Own shares sold		447	159				606		606
Payout					- 2,585		- 2,585		- 2,585
Changes in shares of non-controlling shareholders							0		0
Overall earnings				- 561		23,108	22,547	152	22,699
Actuarial profits / losses				- 6			-6		-6
Currency exchange variations				- 555			- 555		- 555
As of Sept. 30, 2018	21,906	21,722	0	361	128,810	23,108	195,907	1,862	197,769

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

Consolidated Statement of Changes in Equity

for the period October 01, 2016 to September 30, 2017

(in € k)	Issued capital	Capital reserves	Own shares	Other not-income-affecting changes of equity	Profit brought forward	Net profit by shares of other investors	Equity of shareholders of ISRA VISION	Accounted to non-controlling shareholders	Equity
As of Oct. 1, 2016	4,381	38,800	- 159	1,833	95,432	17,556	157,843	1,495	159,338
Profit brought forward					17,556	-17,556	0		0
Own shares purchased							0		0
Own shares sold							0		0
Payout					- 2,102		- 2,102		- 2,102
Changes in shares of non-controlling shareholders							0		0
Overall earnings				- 912		20,508	19,596	215	19,811
Actuarial profits / losses				234			234		234
Currency exchange variations				- 1,146			- 1,146		- 1,146
As of Sept. 30, 2017	4,381	38,800	- 159	921	110,886	20,508	175,338	1,710	177,049

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

Notes to the Consolidated Financial Statements as of September 30, 2018

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, ISRA VISION INDIA Private Limited, ISRA Immobile Darmstadt GmbH and ISRA VISION POLYMETRIC GmbH 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) according to how they are to be applied in the European Union.

The consolidated financial statements are prepared in euro. As against the previous year the consolidated group includes the newly incorporated ISRA VISION POLYMETRIC GmbH. Minority interests held by other shareholders are stated according to their respective pro-rata share of the subsidiary's net assets. The consolidation incorporates 27 subsidiaries.

2. Accounting methods

Unless otherwise indicated, all figures are rounded off to thousands euros 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 2017/2018 financial year, the following new or changed standards and interpretations had to be applied for the first time; these have no material impact on the net assets, financial positions and results of operations of the ISRA Group:

Standard or interpretations		Endorsement	Application mandatory beginning
IAS 7	Amendments relating to additional notes disclosures	complete	1 January 2017
IFRS 12	Amendments relating to clarification of recognition of deferred tax assets for unrealised losses	complete	1 January 2017
	Annual improvements to IFRSs – 2012-2014 cycle: Amendments to IFRS 1 and IAS 28	complete	1 January 2017

New or changed accounting standards, published, but not yet applied

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 2017 / 2018 financial year and whose adoption by the European Union was partially still pending as of the balance sheet date:

Standard or interpretations		Endorsement	Application mandatory beginning
IAS 28	Amendments relating to sale or contribution of assets between an investor and its associate or joint venture	open	to be determined
IAS 40	Amendments relating to clarification of transfers of investment property	open	1 January 2018
IFRS 2	Share-based payment	open	1 January 2018
IFRS 4	Insurance contracts	open	1 January 2018
IFRS 9	Financial instruments	complete	1 January 2018
IFRS 10	Amendments relating to sale or contribution of assets between an investor and its associate or joint venture	open	to be determined
IFRS 15	Revenue from contracts with customers	complete	1 January 2018
IFRS 15	Amendments relating to clarifications and transitional reliefs	complete	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	open	1 January 2018
IFRIC 23	Uncertainty over income tax treatments	open	1 January 2019
IFRS 16	Leases	complete	1 January 2019
IFRIC 17	Insurance contracts	open	1 January 2021
	Annual improvements to IFRSs – 2014-2016 cycle	complete	1 January 2018

The Group is required to apply IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as of October 1, 2018. The Group has assessed the estimated impact of the first-time application of IFRS 9 and IFRS 15 on the consolidated financial statements. The estimated impact of the application of these standards on consolidated equity as of October 1, 2018 is based on current assessments and is summarized below. The actual impact of the application of these standards as of October 1, 2018 can differ from this.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out the requirements for the recognition and measurement of financial assets, financial liabilities and several contracts for the purchase or sale of non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 is effective for financial periods beginning on or after January 1, 2018. ISRA will apply IFRS for the first time for the financial year beginning on October 1, 2018; prior-year figures will not be restated in accordance with the transitional provisions of IFRS 9.

Classification

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model under which the assets are held and as well the properties of their cash flows.

IFRS 9 contains three key categories for financial assets: measured at amortized cost, measured at fair value through profit or loss (FVTPL) and measured at fair value through other comprehensive income (FVOCI). The standard eliminates the existing IAS 39 categories: held to maturity, loans and receivables and available-for-sale.

On the basis of its assessment, ISRA does not hold the opinion that the new classification requirements will have a material impact on the recognition of its trade receivables or financial assets.

Shares in affiliated companies do not fall within the scope of IFRS 9. Loans to affiliated companies are still recognized at cost as financial instruments within the scope of IFRS 9. Investments accounted for using the equity method also do not fall within the scope of IFRS 9.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

However, in accordance with IAS 39, all changes in the fair value of liabilities that were designated as measured at fair value through profit or loss are recognized in profit or loss, whereas IFRS 9 requires that these changes in fair value are presented as follows:

- The change in fair value due to changes in the credit risk of the liability is shown in other comprehensive income.
- The remaining change in fair value is shown in profit or loss.

Other financial obligations at ISRA include liabilities classified at fair value through profit or loss. ISRA is retaining this classification in accordance with IFRS 9.

Value impairment

IFRS 9 replaces the “incurred loss model” of IAS 39 with a forward-looking expected loss model.

The new impairment model applies to financial assets measured at amortized cost or fair value through other comprehensive income.

Impairment is measured as follows in accordance with IFRS 9:

- 12-month credit losses: Expected credit losses resulting from default events that are possible within the twelve months after the reporting date.
- Lifetime credit losses: The expected credit losses that result from all possible default events over the expected lifetime of a financial instrument.

Measurement under the lifetime credit loss concept is to be applied when the risk of a default occurring at the end of the reporting period has increased significantly since initial recognition; otherwise measurement under the 12-month credit loss concept is applied. An entity can specify that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk at the end of the reporting period. However, measurement under the lifetime credit loss concept always applies to trade receivables and contract assets without a significant financing component; the Group has resolved to also apply this method to trade receivables and contract assets with a significant financing component.

In the future, the estimated expected credit losses on trade receivables and other receivables, including contract assets, will be calculated on the basis of external ratings and the experience with actual historical loan defaults over the past 36 months. Credit risks within each group are broken down according to shared credit risk characteristics.

Overall, the application of the new impairment model results in earlier recognition of expected losses on trade receivables and other receivables, including contract assets, and therefore to higher impairment losses. It is estimated that the application of the amendment will reduce retained earnings by up to € 200k as of October 1, 2018.

Cash and cash equivalents are deposited with banks or financial institutions. ISRA assumes that its cash and cash equivalents have a low credit risk on the basis of the external ratings of the banks and financial institutions, and therefore does not expect first-time application to have a significant impact on its financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is the new standard for recognizing revenue from contracts with customers, which combines all previous revenue recognition regulations and converts them into a uniform model. It is intended to replace the existing guidance on the recognition of revenues, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The standard is effective for the first time for financial periods beginning on or after January 1, 2018.

ISRA will apply IFRS 15 for the first time to the coming 2018/2019 financial year from October 1, 2018 on. First-time application by ISRA will be in accordance with the modified retrospective method (cumulative catch-up transition). The cumulative effects of the first-time application of IFRS 15 will be recognized as an adjustment of the relevant line items of the opening statement of financial position, including in equity, in accordance with the applied method. ISRA applies the standard retrospectively only to contracts that are not completed contracts at the date of initial application. A central internal project was set up to analyze the impact and the Group's material revenue flows. In accordance with the simulative analysis as of October 1, 2018, the application of IFRS 15 using the modified retrospective method would have resulted in an estimated effect of a low seven-figure reduction in equity. It would also have increased contract assets and resulted in a change in inventories in the consolidated statement of financial position.

The presentation and disclosure requirements go beyond the stipulations of current standards. More extensive qualitative and quantitative information will be reported in the future.

IFRS 16 Leases

IFRS 16 replaces the existing regulations on leases, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for the first time for financial periods beginning on or after January 1, 2019. Early application is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. ISRA will not apply the new standard early.

IFRS 16 introduces a uniform accounting model for recognizing leases in the lessee's statement of financial position. The lessee recognizes a right-of-use asset, which represents its right to use the underlying asset, and a lease liability, which represents its payment obligations. There are expedients for short-term leases and leases for low-value assets. Accounting for the lessor is similar to the current standard, i.e. the lessor continues to classify leases as finance or operating leases.

The Group has completed its initial assessment of the possible impact on its consolidated financial statements; it has not yet completed a detailed assessment. The actual impact on the consolidated financial statements of applying IFRS 16 at its effective date will depend on future economic circumstances, the composition of the lease portfolio at this time, the Group's opinion on exercising options to extend leases and the extent to which the Group applies expedients and exemptions.

The most significant impact identified to date is that the Group will recognize new assets and liabilities for its operating leases for vehicles, land and buildings. The future minimum lease payments under non-cancellable operating leases in accordance with IAS 17 (on an undiscounted basis) amount to € 11,096k as of September 30, 2018 (see note 22).

Furthermore, the type of the costs associated with these leases will change as IFRS 16 replaces straight-line expenses for operating leases with a depreciation expense for right-of-use assets and interest expenses for liabilities under the lease.

No material impact on the Group's finance leases is expected.

When transitioning to IFRS 16, the Group can opt:

- to apply the IFRS 16 definition of a lease to all its contracts or
- to apply an exemption, and thereby not have to reassess whether a contract is or contains a lease, if this has already been analyzed and classified under IAS 17.

The Group intends to apply the exemption to retain the definition of a lease when transitioning. This means that the Group will apply IFRS 16 to all contracts completed before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The other new or amended standards and interpretations in the above table are of no material relevance to ISRA. ISRA has not voluntarily applied the new or amended standards and interpretations early.

(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 statements 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 combinations

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 percentage of completion as of the balance sheet date. It is the relation of actually worked hours to 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 and intangible – 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.

(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, 2018	Average rate Oct. 01, 2017 - Sept. 30, 2018
1 EUR = USD	1.1576	1.1906
1 EUR = CNY	7.9662	7.7818

(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 are 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 and hours incurred during the financial year and the overall expenditures and hours to be expected. The revenues and contract costs of unfinished projects are then calculated as of the balance sheet date.

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 deliveries 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), DZ Bank AG and Sparkasse. 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. Further acquisitions after achieving control

ISRA VISION POLYMETRIC GmbH, Darmstadt

ISRA VISION AG acquired 100 % of shares in Polymetric GmbH, Darmstadt, by way of purchase agreement dated January 23, 2018. The goal of the acquisition is the strategic expansion of the 3D portfolio. The purchase price was € 650k and was partially settled in cash and cash equivalents. The purchase agreement includes an earn-out clause that, according to current information, will not be triggered.

ISRA VISION POLYMETRIC GmbH specializes in the development of individual solutions for 3D data acquisition and processing. Accurate computer models are generated for 3D digitization from point cloud readings of real objects.

Purchase price allocation as of the acquisition date results in the following carrying amounts for ISRA VISION POLYMETRIC GmbH: non-current assets of € 39k, current assets of € 310k, current and non-current liabilities of € 288k and net assets of € 61k. The remeasurement performed for purchase price allocation relates to products, customer relationships, order backlog and deferred tax liabilities. This resulted in a fair value for non-current assets of € 479k. For other items, the fair value is equal to the carrying amount prior to the acquisition. The remeasurement resulted in net assets of € 501k.

The goodwill not deductible for tax purposes amounts to € 149k, and is calculated as the purchase price of € 650k less the net assets at fair value of € 501k. The goodwill is essentially based on the expertise of the employees taken on. In addition, economies of scale and synergies can be leveraged in the medium term by focusing on common target markets and the global distribution of the extended product portfolio through international ISRA branches.

Revenues contributed to the Group amounted to € 338k in the 2017 / 2018 financial year, while earnings after taxes amounted to € 23k. If the acquired business had been included in the consolidated financial statements from October 1, 2017, revenues and earnings after taxes would have amounted to an estimated € 451k and € 31k respectively in the past financial year.

4. Release of the consolidated financial statements

The consolidated financial statements were released for publication by the Executive Board on January 11, 2019.

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 revenues 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 print industries.

(in € k)	Industrial Automation		Surface Vision		Total	
	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Net sales	39,821	37,210	112,707	105,785	152,528	142,995
EBIT	9,428	7,551	23,793	20,781	33,222	28,332
Financing result					- 192	- 297
Income taxes					9,769	7,311
Consolidated net profit					23,260	20,723

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

(in € k)	Industrial Automation		Surface Vision		Total	
	as of Sept. 30, 2018	as of Sept. 30, 2017	as of Sept. 30, 2018	as of Sept. 30, 2017	as of Sept. 30, 2018	as of Sept. 30, 2017
Investments in long-term assets in year under review	4,406	3,702	15,122	13,211	19,528	16,913
At-equity investments	0	0	0	12	0	12
Value impairment						
Goodwill	0	0	0	0	0	0
Depreciation and amortization						
Other intangible assets	1,637	2,893	12,869	10,340	14,506	13,233
Tangible assets	180	166	1,122	1,214	1,302	1,380
Assets	72,217	62,715	240,688	222,304	312,905	285,019

Regional representation of net sales

(in € k)	Germany		Europe		America		Asia, ROW*	
	Oct. 01, 17 - Sept. 30, 18	Oct. 01, 16 - Sept. 30, 17	Oct. 01, 17 - Sept. 30, 18	Oct. 01, 16 - Sept. 30, 17	Oct. 01, 17 - Sept. 30, 18	Oct. 01, 16 - Sept. 30, 17	Oct. 01, 17 - Sept. 30, 18	Oct. 01, 16 - Sept. 30, 17
Net sales	26,552	21,497	31,911	29,775	24,440	24,622	69,625	67,102

* ROW = Rest of the World

In the following countries, ISRA VISION AG achieves more than 10% of its total sales: Germany (€ 26,552k), China (€ 42,074k), US (€ 17,543k).

Regional representation of assets situation

(in € k)	Germany		Europe		America		Asia		Total	
	as of Sept. 30, 2018	as of Sept. 30, 2017	as of Sept. 30, 2018	as of Sept. 30, 2017	as of Sept. 30, 2018	as of Sept. 30, 2017	as of Sept. 30, 2018	as of Sept. 30, 2017	as of Sept. 30, 2018	as of Sept. 30, 2017
ASSETS										
Intangible assets and tangible assets	117,870	114,454	435	831	1,349	1,373	317	243	119,971	116,901

2. Cost of sales

(in € k)	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Material	-33,651	-31,796
Personnel	-32,640	-30,299
Total	**-66,291**	**-62,095**

The cost of sales increased by € 4,196k, a smaller increase than the one in revenues. The cost of labor includes depreciation and amortization in the amount of € 754k (previous year: € 730k).

3. Cost of Sales and Marketing

(in € k)	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Sales	-29,445	-28,311

Due to increased sales activities, the cost of sales and marketing increased by € 1,134k (previous year: € 3,060k). The cost of Sales and Marketing includes depreciation and amortization in the amount of € 680k (previous year: € 682k).

4. Administrative costs

(in € k)	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Administration	-5.141	-5.010

Administrative costs rose by € 131k (previous year: € 77k). The Administrative costs include depreciation and amortization in the amount of € 119k (previous year: € 121k).

5. Total depreciation / amortization

(in € k)	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Amortization of intangible assets	- 14,506	- 13,233
Depreciation of tangible assets	- 1,302	- 1,380
Total according to inventory of assets	**- 15,808**	**- 14,613**

Of the depreciation and amortization of intangible assets, € 12,213k (previous year: € 11,018k) 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, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Freight proceeds	63	305
Revenues from exchange rate differences	918	650
Revenues from insurance indemnifications	102	79
Other operating revenues	625	29
Subtotal	1,707	1,063
Grants (in R&D)	423	254
Total	2,130	1,317

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, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Taxes on current earnings		
Germany	2,821	4,647
Other countries	996	1,360
	3,817	6,007
Deferred tax expenditure		
Germany	5,600	1,419
Other countries	352	-116
	5,952	1,303
Total	9,769	7,311

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, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Earnings before taxes	33,030	28,035
Expected income tax expenditure	10,233	8,677
Effect from foreign income tax rates	- 187	- 102
Tax losses with no deferred taxes	12	177
Use of tax loss carryforwards not previously recognized	0	- 1,311
Consolidation-based and other effects	- 288	- 130
Stated income tax expenditure	9,769	7,311

In the 2017 / 2018 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 15.15 % weighted – this resulted in an overall tax rate of approximately 30.98 % (previous year: 30.95 %).

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 around 30 %. A tax rate of 19.0 % 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 31.07 % 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, 2018	Sept. 30, 2017
Trade receivables of domestic group companies	31,360	42,252
Trade receivables of foreign group companies	14,128	8,377
Receivables from unfinished orders valuated acc. to the percentage of completion method	66,343	47,420
Balance sheet value	**111,831**	**98,049**

Costs of additional recognized profits and minus recognized losses up to the balance sheet date amounted to € 74,108k (previous year: € 53,355k). Partial billings in the amount € 7,765k (previous year: € 5,935k) 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 € 140,973k (previous year: € 132,361 k).

The value adjustments on receivables performed as follows:

(in € k)	2017 / 2018	2016 / 2017
Value adjustments as of October 1	2,778	1,956
Usage	641	265
Liquidation	601	288
Allocation	1,315	1,410
Exchange rate differences	- 13	- 36
Value adjustments as of September 30	2,839	2,778

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) Receivables	Balance sheet value	Of which not overdue or value-adjusted as of the reporting date	Net value of value-adjusted receivables	Of which not value-adjusted as of the reporting date but overdue (for one of the periods below)			
				< 31 days	31-60 days	61-90 days	> 90 days
As per Sept, 30, 2018	111,831	93,154	7,239	5,401	2,100	873	3,065
As per Sept, 30, 2017	98,049	81,036	3,385	2,317	1,436	1,635	8.241

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, 2018	Sept. 30, 2017
Raw materials, ancillary resources and supplies	13,751	11,788
Work in progress	18,885	17,149
Finished products	4,293	3,730
Balance sheet value	**36,929**	**32,667**

In the 2017 / 2018 financial year, impairment losses on inventories amounted to € 103k (previous year: € 142k).

10. Financial assets

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

(in €k)	Sept. 30, 2018 Short-term	Sept. 30, 2018 Long-term	Sept. 30, 2017 Short-term	Sept. 30, 2017 Long-term
Loans and other receivables from employees	256	0	196	0
Insurance claims	0	1,011	0	997
Rental deposits	0	271	0	86
Miscellaneous	2,980	0	2,949	0
Balance sheet value	**3,236**	**1,282**	**3,146**	**1,083**

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, 2018 Short-term	Sept. 30, 2018 Long-term	Sept. 30, 2017 Short-term	Sept. 30, 2017 Long-term
Advance payments	791	0	740	0
Sales tax receivables	1,643	0	1,214	0
Balance sheet value	**2,434**	**0**	**1,954**	**0**

12. Intangible assets

Intangible assets include:

(in €k)	Goodwill	Software, licenses	Capitalized work	Total
Procurement and production costs				
October 1, 2017	**40,823**	**31,575**	**105,141**	**177,539**
Additions	0	991	16,427	17,417
Additions from acquisitions	149	654	0	803
Disposals	0	61	0	61
Reclassifications	0	0	0	0
Currency exchange variations	25	-482	5	-452
September 30, 2018	**40,997**	**32,677**	**121,573**	**195,246**
Depreciation and amortization				
October 1, 2017	**2,056**	**20,654**	**43,146**	**65,857**
Additions	0	2,293	12,032	14,325
Additions from acquisitions	0	19	0	19
Disposals	0	48	0	48
Reclassifications	0	0	0	0
Value impairment	0	0	181	181
Reversal of impairment loss	0	0	0	0
Currency exchange variations	6	-255	5	-244
September 30, 2018	**2,061**	**22,664**	**55,365**	**80,090**
Balance sheet value of intangible assets				
October 1, 2017	**38,767**	**10,921**	**61,994**	**111,682**
September 30, 2018	**38,936**	**10,013**	**66,208**	**115,156**

(in € k)	Goodwill	Software, licenses	Capitalized work	Total
Procurement and production costs				
October 1, 2016	**40,945**	**31,498**	**90,130**	**162,573**
Additions	0	660	15,032	15,692
Additions from acquisitions	0	0	0	0
Disposals	0	254	21	275
Reclassifications	0	0	0	0
Currency exchange variations	- 122	- 329	0	- 451
September 30, 2017	**40,823**	**31,575**	**105,141**	**177,539**
Depreciation and amortization				
October 1, 2016	**2,072**	**18,788**	**32,150**	**53,010**
Additions	0	2,215	10,226	12,441
Additions from acquisitions	0	0	0	0
Disposals	0	254	21	275
Reclassifications	0	0	0	0
Value impairment	0	0	792	792
Reversal of impairment loss	0	0	0	0
Currency exchange variations	- 16	- 94	0	- 111
September 30, 2017	**2,056**	**20,654**	**43,146**	**65,857**
Balance sheet value of intangible assets				
October 1, 2016	**38,873**	**12,710**	**57,980**	**109,563**
September 30, 2017	**38,767**	**10,921**	**61,994**	**111,682**

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 € 55,365k (previous year: € 43,146k), € 12,213k of which relates to amortization in the year under review (previous year: € 11,018k). Capitalized developments have been value impaired by € 181k (previous year € 792k), because the value in use would be negative as the recoverable amount. The capitalized developments also include additions from capitalized patent costs in the amount of € 50k (previous year: € 40k) and depreciation and amortization for patents in the amount of € 2,043k (previous year: € 2,063k).

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 flows 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 11.28 % was assumed (previous year: 9.96 %).

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, 2018	Sept. 30, 2017
Goodwill Industrial Automation	5,910	5,900
Goodwill Surface Vision	33,026	32,867
Goodwill	**38,936**	**38,767**

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, 2018, 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, 2017	**2,674**	**4,951**	**7,759**	**256**	**15,641**
Additions	60	396	729	0	1,185
Additions from acquisitions	0	0	124	0	124
Disposals	303	209	495	0	1,007
Reclassifications	0	0	0	0	0
Currency exchange variations	26	-3	-87	0	-64
September 30, 2018	**2,457**	**5,135**	**8,030**	**256**	**15,878**
Depreciation and amortization					
October 01, 2017	**549**	**3,959**	**5,765**	**149**	**10,421**
Additions	62	497	739	4	1,302
Additions from acquisitions	0	0	85	0	85
Disposals	0	200	489	0	688
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	9	-3	-63	0	-57
September 30, 2018	**619**	**4,253**	**6,037**	**154**	**11,063**
Balance sheet value of tangible assets					
October 01, 2017	**2,125**	**993**	**1,995**	**107**	**5,219**
September 30, 2018	**1,838**	**882**	**1,992**	**102**	**4,815**

As of September 30, 2018, 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, 2016	**2,742**	**4,784**	**7,202**	**235**	**14,963**
Additions	14	169	775	22	979
Additions from acquisitions	0	0	0	0	0
Disposals	5	0	163	0	168
Reclassifications	0	0	0	0	0
Currency exchange variations	-76	-2	-55	-1	-134
September 30, 2017	**2,674**	**4,951**	**7,759**	**256**	**15,641**
Depreciation and amortization					
October 01, 2016	**513**	**3,469**	**5,134**	**148**	**9,264**
Additions	59	492	829	1	1,380
Additions from acquisitions	0	0	0	0	0
Disposals	0	0	161	0	161
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	-23	-2	-37	0	-62
September 30, 2017	**549**	**3,959**	**5,765**	**149**	**10,421**
Balance sheet value of tangible assets					
October 01, 2016	**2,229**	**1,316**	**2,068**	**87**	**5,700**
September 30, 2017	**2,125**	**993**	**1,995**	**107**	**5,219**

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 € 32,872k (previous year: € 30,980k).

The weighted average interest rate over the 2017/2018 financial year for bank liabilities amounts to 0.54%.

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:

2017/2018 (in € k)	Balance sheet value	Cash flows 2018/2019		Cash flows 2019/2020		Cash flows from 2019/2020	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Liabilities to banks	32,872	31	32,872	0	0	0	0
Trade payables	20,621		20,621				
Financial liabilities	13,823		13,823				
Other liabilities	1,618		1,618				

2016/2017 (in € k)	Balance sheet value	Cash flows 2017/2018		Cash flows 2018/2019		Cash flows from 2018/2019	
		Interest	Repayment	Interest	Repayment	Interest	Repayment
Liabilities to banks	30,980	30	30,980	0	0	0	0
Trade payables	18,064		18,064				
Financial liabilities	14,450		14,450				
Other liabilities	1,952		1,952				

All liabilities as of the balance sheet date of September 30, 2018, 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 2017 / 2018.

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 € 20,621k (previous year: € 18,064k). 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, 2017	Additions	Usage	Liquidation	Change from currency variations	Sept. 30, 2018	Of which due in the next financial year
Warranties	647	152	195	137	0	467	467
Contribution for severely disabled persons / Pension Insurance Association	75	352	373	1	0	53	53
Other accruals	222	2,124	1,809	7	-31	500	500
Balance sheet value	**945**	**2,628**	**2,377**	**145**	**-30**	**1,020**	**1,020**

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

17. Other financial liabilities

(in € k)	Sept. 30, 2018	Sept. 30, 2017
Wages / salaries, performance bonuses, related social insurance contributions and remaining holiday entitlements	9,670	8,873
Other liabilities	4,153	5,577
Balance sheet value	**13,822**	**14,450**

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, 2018	Sept. 30, 2017
Advance payments received	1,618	1,952
Balance sheet value	**1,618**	**1,952**

19. Deferred tax assets / deferred tax liabilities

The calculation of the deferred taxes is based on average profit tax rates of 30.95 % (previous year: 30.41 %) for Germany and 30 % (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, 2018	Sept. 30, 2017
Intangible assets	18,720	17,413
Inventories	-4,761	-3,598
Receivables, POC	23,551	16,829
Other items	1,635	2,714
Deferred tax liabilities	**39,144**	**33,358**
Losses carried forward	34	492
Pension provisions	386	222
Other accruals	330	291
Other items	-392	-275
Deferred tax assets	**358**	**730**

The deferred tax assets realized after more than 12 months amount to € 358k (previous year: € 273k). The deferred tax liabilities realized after more than 12 months amount to € 18,384k (previous year: € 12,333k). The change in the balance of the deferred taxes amounts to € 6,158k (previous year: € 1,376k).

Tax losses carried forward totaled € 109k as of September 30, 2018 (previous year: € 1,619k). 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 2019 - 2023.

There are no losses that can be carried forward indefinitely. Within 9 years, € 109k 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 2018.

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, 12 of them retirees, 10 active employees and 15 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, 2018, 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 2.3 % (previous year: 2.21 %), projected pension increase 1.7 % p. a. (previous year: 1.70 %).

For provision's evaluations of ISRA VISION PARSYTEC AG and ISRA PARSYTEC GmbH, the following assumptions were made: Discount rate 2.3 % (previous year: 2.21 %), projected pension increase 1.7 % p. a. (previous year: 1.70 %).

The “Reference Guidelines 2018 G” from Dr. Klaus Heubeck were used as calculation bases. Fluctuation was assessed taking into account the relative frequency of staff turnover by age and gender.

The cash values of performance-based pension obligations developed as follows during the 2017/2018 financial year:

(in € k)	2017/2018	2016/2017
Cash value of defined benefit obligations at start of financial year	2,853	3,623
Actuarial (profits) losses	8	-335
Interest costs	62	55
Past service costs	144	-414
Pension payments	-74	-76
Total at end of financial year	**2,993**	**2,853**

Interest costs are contained in the financial result of the respective financial year. Past service costs due to plan adjustments (plan curtailments and compensation) are included in the costs of labor 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, 2018, € 2,993 k	Sept. 30, 2018	Sept. 30, 2017
Interest rate +0.5%	-189	-188
Interest rate - 0.5%	209	210
Pension increases (projected pension increase) +0.5%	137	138
Pension increases (projected pension increase) -0.5%	-126	-126

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

Expected pension payments (in € k)	
Financial Year 2018/2019	109
Financial Year 2019/2020	117
Financial Year 2020/2021	119
Financial Year 2021/2022	121
Financial Year 2022/2023	143
Financial Year 2023/2024 - 2027/2028	814

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 € 593k (previous year: € 537k) on September 30, 2018.

In the 2017/2018 financial year, € 2,586k (previous year: € 2,412k) were recorded as incurred as contribution-oriented pension provisions to the statutory pension insurance.

21. Equity

a) Share capital

In accordance with the resolution by the Annual General Meeting of March 28, 2018, a capital increase from company funds was carried out to implement a share split at a ratio of 1:5. The share capital was increased by 17,524,960 euros from capital reserves. For every ISRA share held, each shareholder received four additional new shares with no additional payment.

As of the balance sheet date, the Company's share capital totaled 21,906,200.00 euros. 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 21,906,200.00 as of the balance sheet date (previous year: 4,381,240.00).

The Company holds no own shares (previous year: 3,000 shares).

Reflecting the capital increase from company funds at a ratio of 1:4 (a five-fold increase in share capital), the volume of the authorized capital resolved by the Annual General Meeting on March 28, 2018, including the volume of shares issued from authorized capital with pre-emption rights disapplied, will be increased by four times the amount, but will otherwise remain unchanged. As a result, unless first exercised in full or in part, it reads as follows:

The Executive Board is authorized, with the approval of the Supervisory 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 € 10,953,100.00 (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. 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 2,190,620.00 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 2,190,620.00 euros / 10% limitation of base capital if they come into effect due to an existing authorization as of July 8, 2015 or an authorization replacing it 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 issued or to be issued to service bonds under warrant and / or conversion right fall under the 2,190,620.00 euros / 10% limitation of share capital if the bond was issued under shareholder exception from subscription due to an existing authorization as of July 8, 2015 or an authorization replacing it according to § 186 Section 3 Clause 4 of the German Stock Corporation Act.. Moreover, this must also include shares issued from authorized capital in accordance with § 203 section 1 and section 2 AktG in conjunction with § 186 section 3 clause 4 AktG with pre-emption rights disapplied since March 17, 2015. If shares must therefore be added to the limit for the above reasons as a result of being issued or sold, or as a result of the issue of convertible and warrant bonds, prior to the entry in the commercial register of the capital increase from company funds resolved by the Annual General Meeting of March 28, 2018 under item 8 a) of the agenda, the shares in question must be added to the limit five-fold.

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 Annual General Meeting on March 28, 2018, share capital has been conditionally increased by up to 10,453,100.00 euros by issuing up to 10,453,100 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 in its original form or by way of the resolution of the Annual General Meeting on March 28, 2018, 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 Annual General Meeting held on March 28, 2018, 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 a pro rata amount of the base capital up to 2,190,620 euros in total, 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. The authorization volume, i.e. the above pro rata amount of share capital of 2,190,620 euros is reduced to the extent that the Executive Board has already exercised the authorization to acquire own shares resolved by the Annual General Meeting on March 17, 2015 prior to the entry in the commercial register of the capital increase from company funds resolved under item 8 a) of the agenda of the Annual General Meeting on March 28, 2018; the pro rata share capital attributable to the shares acquired is five times this amount. 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 reduced to € 21,722k due to the share split (previous year: € 38,800k) as of September 30, 2018.

c) Own shares

Purchase costs of own shares declined to € 0k (previous year: € -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, 2018:

(in € k)	Share in voting rights	Result of non-controlling shareholders in 2017 / 2018	Accumulated non-controlling shares as of Sept. 30, 2018
ISRA VISION PARSYTEC AG	96,07 %	99	1,487
ISRA VISION VISTEK A.S.	75,00 %	54	376

The disclosures for the previous year are as follows:

(in € k)	Share in voting rights	Result of non-controlling shareholders in 2016 / 2017	Accumulated non-controlling shares as of Sept. 30, 2017
ISRA VISION PARSYTEC AG	96,07 %	164	1,388
ISRA VISION VISTEK A.S.	75,00 %	51	322

In the following the financial information of the subsidiaries as of September 30, 2018 is summarized::

(in € k)	Assets as of Sept. 30, 2018 Short-term	Long-term	Liabilities as of Sept. 30, 2018 Short-term	Long-term
ISRA VISION PARSYTEC AG	36,638	13,261	695	6,069
ISRA VISION VISTEK A.S.	1,760	435	1,121	0

The disclosures for the previous year are as follows:

(in € k)	Assets as of Sept. 30, 2017 Short-term	Long-term	Liabilities as of Sept. 30, 2017 Short-term	Long-term
ISRA VISION PARSYTEC AG	30,428	14,141	- 1,699	5,769
ISRA VISION VISTEK A.S.	1,377	831	621	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 2017 / 2018 financial year from € 1,498k to € 943k.

f) Dividend

In the 2017 / 2018 financial year, ISRA paid out dividends for the 2016 / 2017 financial year in the amount of € 2,585k. This corresponds to a dividend of € 0.59 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
2018 to 2023 (previous year: 2017 to 2022)	6,751	6,330
After Sep. 30, 2023 (previous year: After Sep. 30, 2022)	823	1,225
Expenditures in year under review	3,522	3,465

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	364
More than one year and up to five years	1,248	1,248
More than five years	806	1,118

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 01, 2006 and expires after 10 years; it has been extended until 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 2017 / 2018 financial year from the operate lease relationship totaled € 310k (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 in the amount of € 34,716k (previous year: € 29,728k). The change of financial resources amounts to € 4,988k (previous year: € 12,809k). No cash funds are deposited as a security.

As of the balance sheet date, ISRA had no long-term liquid funds.

There was an outflow of cash funds of around € 260k for the company acquisition in the reporting

Company acquisition (in €k)	Purchase costs	Cash outflow	Cash balance at time of acquisition	Means of payment
ISRA VISION POLYMETRIC GmbH	650	260	0	cash

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. The monthly rent amounts to 10,200.26 euros plus a lump-sum for ancillary costs of 805.29 euros. 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 (PY: € 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	396	528
More than five years	0	0

25. Shareholdings in associated companies

ISRA Immobilie Berlin GmbH, Darmstadt, was founded on March 14, 2017. The purpose of the Company is to establish, operate and possibly to dispose of an office property in Berlin. The balance sheet date of the Company is December 31. ISRA VISION AG's share of the period result amounts to 49.99 %. The period result amounted to € 0k. The carrying amount of the associated company is € 12k. Its total assets amount to € 25k.

26. 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, 2018	Consolidated balance sheet valuation acc. to IAS 39			Carrying amount Sept. 30, 2017	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	34,716	0	34,716	0	29,728	0	29,728	0
Trade receivables	Loans and receivables	111,831	0	111,831	0	98,049	0	98,049	0
Other assets	Loans and receivables	6,952	0	6,952	0	6,183	0	6,183	0
Of which aggregated to valuation categories acc. to IAS 39									
Loans and receivables		153,499	0	153,499	0	133,960	0	133,960	0
Equity and liabilities									
Trade payables	financial liabilities valued at continued purchase costs	20,621	0	20,621	0	18,064	0	18,064	0
Liabilities to banks	financial liabilities valued at continued purchase costs	32,872	0	32,872	0	30,980	0	30,980	0
Other liabilities	financial liabilities valued at continued purchase costs	13,822	0	13,822	0	14,450	0	14,450	0
Of which aggregated to valuation categories acc. to IAS 39									
Financial liabilities valued at continued purchase costs		67,315	0	67,315	0	63,494	0	63,494	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, 2018, 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.

27. 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 2017 / 2018	2016 / 2017
Loans and receivables	-18		1,667	- 715	- 109	825	- 316
Liabilities balanced for continued purchase costs	-152		1,250			1,099	1,812

28. Personnel

During the 2017 / 2018 financial year, the number of employees averaged 739 (previous year: 679).

	Year under review	Previous year
Employees	690	641
Temporary help	49	38
Total	**739**	**679**

Cost of labor:

(in €k)	Oct. 01, 2017 - Sept. 30, 2018	Oct. 01, 2016 - Sept. 30, 2017
Wages and salaries	- 44,375	- 41,514
Social security expenses, expenses for pension benefits	- 6,541	- 5,995
Total	**- 50,916**	**- 47,509**

29. Information on capital management

The capital management essentially considers cash and cash equivalents (€ 34,716k) 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.

30. Earnings per share

In accordance with the resolution by the Annual General Meeting of March 28, 2018, a capital increase from company funds was carried out to implement a share split at a ratio of 1:5. The number of shares therefore increased from 4,381,240 to 21,906,200.

The earnings per share in the amount of 1.06 euros (previous year: 0.94 euros*) calculated according to IAS 33 are based on the division of the consolidated net profit attributable to the parent company of € 23,108k (previous year: € 20,508k) by the 21,902,903 shares (previous year: 21,891,200* 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, 2017*	21,891,200
Own shares purchased	0
Shares issued	0
Own shares sold	15,000
September 30, 2018	21,906,200

* The prior-year figure was adjusted as a result of the stock split.

31 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.

32 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 https://www.isravision.com/de/investor-relations/corporate-governance in the Investor Relations area

33 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 2017 / 2018 as well as in the prior financial year:

(in € k)	Year under review	Previous year
Audit of annual financial statements	210	205
Other certification and valuation services	39	18
- for previous years	0	0
Tax advisory services	49	38
Other services	10	3
Total	**308**	**264**

34 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 € -1,142k (previous year: € -336k). A 10 % decrease in the EUR / USD exchange rate would lead to the results being increased by € 1,396k (previous year: € 410k). Equity would lead to a change of € -788k and € 963k, 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, 2018 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 2017 / 2018 yields the following results:

If the market interest level as of September 30, 2018 had been 100 base points higher (lower), the result before taxes would have been € 312k (€ 0k) lower (higher) (previous year: € 310k, € 0k). The equity capital would have dropped (risen) by € 216k (€ 0k) (previous year: € 214k, € 0k).

The interest sensitivity analysis is subject to the following assumptions:

The bank liabilities existing as of the reporting date of September 30, 2018, 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 € 4,518k (previous year: € 4,229k).

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.

35. Report on post-balance sheet date events

ISRA carried out a share capital increase after the end of the 2017 / 2018 financial year. The share capital was increased by 8,244 euros to 21,914,444 euros on December 18, 2018. This was a capital increase against non-cash contributions as part of the acquisition of ISRA VISION POLYMETRIC GmbH.

36. 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 2017 / 2018 financial year, the non-performance-based parts of the remunerations total € 295k for Mr. Christ (previous year: € 280k), for Mr. Ersü € 535k (previous year: € 510k), for Mr. Amir € 330k (previous year: € 300k), for Dr.-Ing. Giet € 270k (previous year: € 255k), for Mr. Gerecke € 320k (previous year: € 318k). The benefits in kind and allowances, which included the use of a company car and allowances for health insurance, amounted to € 29k for Mr. Christ (previous year: € 27k), € 28k for Mr. Ersü (previous year: € 28k), € 37k for Mr. Amir (previous year: € 37k), € 22k for Dr.-Ing. Giet (previous year: € 22k), € 10k for Mr. Gerecke (previous year: € 11k). 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 2017 / 2018. The following amounts are an indication for the expected level of the performance-based remuneration, in particular for Mr. Christ € 80k (previous year: € 90k), € 150k for Mr. Ersü (previous year: € 160k), € 15k for Mr. Amir (previous year: € 30k), € 32k for Dr.-Ing. Giet (previous year: € 40k), € 26k for Mr. Gerecke (previous year: € 30k). The variable performance-based remunerations with long-term incentive total € 30k for

Mr. Christ (previous year: € 30k), € 35k for Mr. Ersü (previous year: € 35k), € 15k for Dr.-Ing. Giet (previous year: € 15k), € 5k for Mr. Gerecke (previous year: € 5k). This resulted overall in the following expected non-performance-based and performance-based remunerations for Mr. Christ € 405k (previous year: € 400k), for Mr. Ersü € 720k (previous year: € 705k), for Mr. Amir € 345k (previous year: € 330k), for Dr.-Ing. Giet € 317k (previous year: € 310k), for Mr. Gerecke € 351k (previous year: € 353k). The remuneration of the Executive Board totaled € 2,264k (previous year: € 2,327k). For previous years, the particular amounts of the performance-based remuneration with long-term relevance have been paid in the financial year 2017 / 2018.

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 € 138k (previous year: € 125k). 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; Chairman of the Supervisory Board of the Schwing-Stetter Group, Herne / Memmingen; Chairman of the Board of Trustees of Peter Böttger Stiftung, Montabaur; Chairman of the Board of Management of BFM BrainFleet Management GmbH, Frankfurt am Main; Chairman of the Supervisory Board of ISRA VISION AG since September 2007

Prof. em. Dr. rer. nat. Dipl.-Ing. Henning Tolle, Roßdorf; professor emeritus, Roßdorf; former Chairman of the Supervisory Board of ISRA VISION AG from February 2000 to September 2007; Deputy Chairman of the Supervisory Board of ISRA VISION AG

Dr. Burkhard Bonsels, Seeheim; Managing Director of Athanor Capital Partners GmbH, Seeheim; Deputy Chairman of the Supervisory Board of ISRA VISION AG since February 2018

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 Supervisory Board of ISRA VISION AG from March 2008 to November 2018

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

Ms. Susanne Wiegand, Schönaich; Member of the Divisional Board of Rheinmetall Defence, Düsseldorf; CEO Division Electronic Solutions within the Rheinmetall Group; Chairman of the Board of Rheinmetall Electronics GmbH, Bremen; President of the Board of Directors of Rheinmetall Air Defence AG, Zurich, Switzerland; President of the Board of Directors of Rheinmetall Italia S.p.A., Rome, Italy; Member of the Supervisory Board of ISRA VISION AG since March 2015

Executive Board

Mr. Enis Ersü, Graduate Engineer, Darmstadt (Chairman)
Mr. Hans Jürgen Christ, Graduate Engineer, Ober-Ramstadt (Deputy Chairman)
Mr. Shlomo Amir, MBA, Kochav-Yair, Israel (Deputy Chairman)
Dr.-Ing. Johannes Giet, Graduate Engineer, Eggenstein
Mr. Andreas Gerecke, Graduate Engineer, Hagen

Darmstadt, January 11, 2019

ISRA VISION AG
The Executive Board

List of shareholdings of subsidiaries as of September 30, 2018

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	
20.	ISRA Immobilie Berlin GmbH, Darmstadt, Germany [a)]	49,99	
21.	ISRA Immobilie Darmstadt GmbH, Darmstadt, Germany [a)]	100	
22.	ISRA VISION POLYMETRIC GmbH, Darmstadt, Deutschland	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 and metronom Automation GmbH.

Note on the audit of the consolidated financial statements and of the group management report

Audit verdicts

We have audited the aggregated financial statements of ISRA VISION AG, Darmstadt, and its subsidiaries (the Group) – consisting of the consolidated balance sheet as of September 30, 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from October 1, 2017 to September 30, 2018 and the notes to the consolidated financial statements, including a summary of key accounting methods.

Furthermore, we audited the Group management report of ISRA VISION AG, Darmstadt, for the financial year from October 1, 2017 to September 30, 2018.

In line with German statutory provisions, we did not audit the content of the information in the "Other information" section of our audit opinion.

In our verdict, based on the findings of our audit,

- the consolidated financial statements attached comply in all material respects with the IFRS, as applicable in the EU, and applicable German statutory provisions in accordance with section 315a(1) HGB, and give a true and fair view of the net assets and financial position of the Group as of September 30, 2018 and its results of operations for the financial year from October 1, 2017 to September 30, 2018 and
- the attached Group management report overall gives a true and fair view of the Group's situation. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German statutory provisions and suitably presents the risks and opportunities of future development.
- Our audit verdict on the Group management report does not extend to the content of the corporate governance declaration in the "Other information" section.

In accordance with section 322(3) first half of sentence 1 HGB, we declare that our audit has not led to any reservations regarding the accuracy of the consolidated financial statements or the Group management report.

Basis for audit verdicts

We conducted our audit of the consolidated financial statements and the Group management report in accordance with section 317 HGB, the EU Audit Regulation (no. 537/2014) and German ordinary commercial accounting principles promulgated by the German Institute of Public Auditors (IDW). Our responsibility in accordance with these provisions and principles is described in more detail under "Auditor's responsibility for the audit of the consolidated financial statements and the Group management report" in our audit report. We are independent of the Group companies in accordance with the provisions of German commercial law and under professional law, and we fulfilled our other German ethical duties in accordance with these requirements. Furthermore, we declare in accordance with Article 10(2) f) of the EU Audit Regulation that we did not provide prohibited non-audit services referred to in Article 5(1) and that we remained independent of the audited entity in conducting the audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit verdicts on the consolidated financial statements and the Group management report.

Audit issues of particular importance in the audit of the consolidated financial statements

Audit issues of particular importance are those that, at our discretion, were the most significant in our audit of the consolidated financial statements for the financial year from October 01, 2017 to September 30, 2018. These issues were taken into account in our audit of the consolidated financial statements as a whole and in the formation of our audit verdict; we have not issued a separate audit verdict on these matters.

We have structured our presentation of these audit issues of particular importance as follows:

1. Issue and problem
2. Audit procedure and findings
3. Reference to further information

In our verdict, the following issues were the most significant in our audit:

Measurement of future receivables from construction contracts

1. Future receivables from construction contracts of €66,343k are reported in the consolidated financial statements of ISRA VISION AG, Darmstadt, as of September 30, 2018. They account for around 21 percent of total assets. The item includes future receivables from finished goods and work in progress not yet accepted as of the balance sheet date. The future receivables are measured at cost plus a mark-up corresponding to the percentage of completion, less any losses arising, to the extent that the results of the construction contract can be reliably estimated. The percentage of completion is estimated by the ratio of costs incurred to the estimated total costs (cost to cost method).

   The calculation of the total costs incurred and the estimate of the expected revenue, and therefore the expected profit, are subject to uncertainty before the start of the contract. Given the inherent uncertainty of estimates and the significance of this item to the consolidated financial statements, this item was of particular importance in the context of our audit.

2. As part of our audit, we assessed the methodological procedures, the internal processes and controls for the calculation of total costs and the expected revenue. We also assessed the procedure and system technology for recognizing the actual costs incurred, examined the manual controls and those implemented in the system for the respective contracts, and traced the audit steps taken and the controls for identifying any impairment.

   In our verdict, the systems, procedures and controls set up by the legal representatives, taking into account the information available, are appropriate overall for the proper and consistent measurement of future receivables from construction contracts. On the basis of our audit findings, we satisfied ourselves that the estimates, and the events and measures leading to any changes in estimates, are sufficiently documented.

3. The company's statement on future receivables from construction contracts can be found in notes 2 and 8 to the consolidated financial statements.

Goodwill impairment

1. Goodwill allocated to several cash-generating units of €38,936k is reported in the consolidated financial statements as of September 30, 2018.

   Goodwill must be tested for possible impairment whenever there are indications that its carrying amount may not be recoverable, or at least once per year. This impairment test is performed by comparing the carrying amount of cash-generating units to their recoverable amount. The recoverable amount is the higher of the fair value less costs to sell (net selling price) and value in use of a cash-generating unit, and is calculated by the legal representatives on the basis of long-term planning and applying a discounted cash flow method. The calculation of the recoverable amount is complex and highly dependent on estimates by the legal representatives, including in particular those regarding future price and volume developments, the timing of operating cash flows, the discounting factors used and the long-term growth rate.

2. As part of our audit, we assessed the methodological procedures for the performance of the impairment test and the calculation of the weighted average cost of capital. Furthermore, we assessed the appropriateness of the future cash flows used in measurement, in particular by comparing this information against the long-term planning and by checking it against general and industry-specific market expectations. Given that even relatively small changes in the discount rate used can have a significant impact on the amount of the value in use calculated thus, we focused intensively on the parameters used to determine the discount rate used and verified the calculation model. We also performed a detailed examination of the measurement model and planning for the cash-generating units as of the balance sheet date. The selection was based on qualitative aspects and the extent to which the respective carrying amount is covered by the value in use. Among other things, in this context we analyzed the consistency of planning assumptions and the feasibility of planned measures to increase future cash flows on the basis of further evidence, and discussed these matters critically in talks with the respective management. We assessed the feasibility of key adjusting measures against the backdrop of the business concept to date and the current and forecast market circumstances. We found that the respective goodwill and the carrying amounts as a whole of the cash-generating units were covered by the discounted future cash flows as of the balance sheet date.

3. The company's statement on goodwill can be found in notes 2 and 12 to the consolidated financial statements.

Impairment of intangible assets in the form of capitalized development costs not yet fully available for use

1. Intangible assets (capitalized development costs) in module groups not yet fully available for use with a carrying amount of € 66,208k allocated to several cash-generating units is reported in the consolidated financial statements as of September 30, 2018.

   Capitalized development costs not yet fully available for use must be tested for possible impairment whenever there are indications that their carrying amount may not be recoverable, or at least once per year. This impairment test is performed by comparing the carrying amount of cash-generating units (module groups) to their recoverable amount. The recoverable amount is the higher of the fair value less costs to sell (net selling price) and value in use of a cash-generating unit, and is calculated by the legal representatives on the basis of long-term planning and applying a discounted cash flow method. The calculation of the recoverable amount is complex and highly dependent on estimates by the legal representatives, including in particular those regarding future price and volume developments, the timing of operating cash flows, the discounting factors used and the long-term growth rate.

2. As part of our audit, we assessed the methodological procedures for the performance of the impairment test and the calculation of the weighted average cost of capital. We also reviewed the evidence of the fulfillment of capitalization criteria in accordance with IAS 38.57. Furthermore, we assessed the appropriateness of the future cash flows used in measurement, in particular by comparing this information against the long-term planning and by checking it against general and industry-specific market expectations. Given that even relatively small changes in the discount rate used can have a significant impact on the amount of the value in use calculated thus, we focused intensively on the parameters used to determine the discount rate used and verified the calculation model. We also performed a detailed examination of the measurement model and planning for selected groups of cash-generating units as of the balance sheet date. The selection was based on qualitative aspects and the extent to which the respective carrying amount is covered by the value in use. Among other things, in this context we analyzed the consistency of planning assumptions and the feasibility of planned measures to increase future cash flows on the basis of further evidence, and discussed these matters critically in talks with the respective management. We assessed the feasibility of key adjusting measures against the backdrop of the business concept to date and the current and forecast market circumstances. We found that the capitalized development costs and the carrying amounts as a whole of the relevant groups of cash-generating units were covered by the discounted future cash flows as of the balance sheet date.

3. The company's statement on the intangible assets (capitalized development costs) not yet available for use can be found in notes 2 and 12 to the consolidated financial statements.

Other information

The legal representatives are responsible for the other information. Other information includes:

- the non-financial declaration
- the corporate governance declaration
- the corporate governance report in accordance with item 3.10 of the GCGC and
- the other parts of the Group management report that were identifies as "unaudited"
- the other parts of the annual report, with the exception of the audited consolidated financial statements, the Group management report and our audit opinion.rk.

Our audit verdicts on the annual financial statements and the management report do not include the other information and we have not assessed it.

Our responsibility in the context of our audit of the annual financial statements and the management report is to read the additional information critically and to consider any key discrepancies between the additional information and the annual financial statements and the management report or our findings from the audit or material misstatements.

Responsibility of the legal representatives and the supervisory body for the consolidated financial statements and the Group management report

The legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as applicable in the EU and applicable German statutory provisions in accordance with section 315a(1) HGB, and for ensuring that the consolidated financial statements give a true and fair view of the net assets and financial position of the Group in accordance with these provisions.

Furthermore, the legal representatives are also responsible for the internal controls that they have determined as necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Moreover, the legal representatives are responsible for the preparation of a Group management report that, as a whole, gives a true and fair view of the Group's situation and, in all material respects, is consistent with the consolidated financial statements, complies with German statutory provisions and suitably presents the risks and opportunities of future development. Furthermore, the legal representatives are responsible for such policies and procedures (systems) as they determine are necessary to enable the preparation of a Group management report in accordance with the applicable German legal requirements, and to provide sufficient and appropriate evidence for the assertions in the Group management report.

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB, the EU Audit Regulation and German ordinary commercial accounting principles promulgated by the Institut der Wirtschaftsprüfer will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements and the Group management report.

As part of an audit in accordance with section 317 HGB, the EU Audit Regulation and German ordinary commercial accounting principles promulgated by the Institut der Wirtschaftsprüfer (IDW), we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatements in the consolidated financial statements and Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our verdict. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control and the policies and procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing a verdict on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related statement made by the legal representatives.
- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related statement in the consolidated financial statements or the Group management report or, if such statement are inadequate, to modify our audit verdict. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the statement, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional German legal requirements applicable under section 315a(1) HGB

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit verdict on the consolidated financial statements and the Group management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit verdict.

- We evaluate the consistency of the Group management report with the consolidated financial statements, its legal compliance and presentation of the Group's position.

- We perform audit procedures on the prospective information presented by the legal representatives in the Group management report. Based on sufficient audit evidence, we hereby, in particular, evaluate the material assumptions used by the legal representatives as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit verdict on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

Other legal and regulator requirements

Other statement in accordance with Article 10 of the EU Audit Regulation

We were appointed as the auditor by the Annual General Meeting on March 28, 2018. We were engaged by the Supervisory Board on September 24, 2018. We have worked as the auditor for ISRA VISION AG without interruption since the financial year from October 01, 2013 to September 30, 2014.

We declare that the audit verdict in this auditor's report is consistent with the additional report to the Supervisory Board referred to in Article 11 of the EU Audit Regulation (audit report).

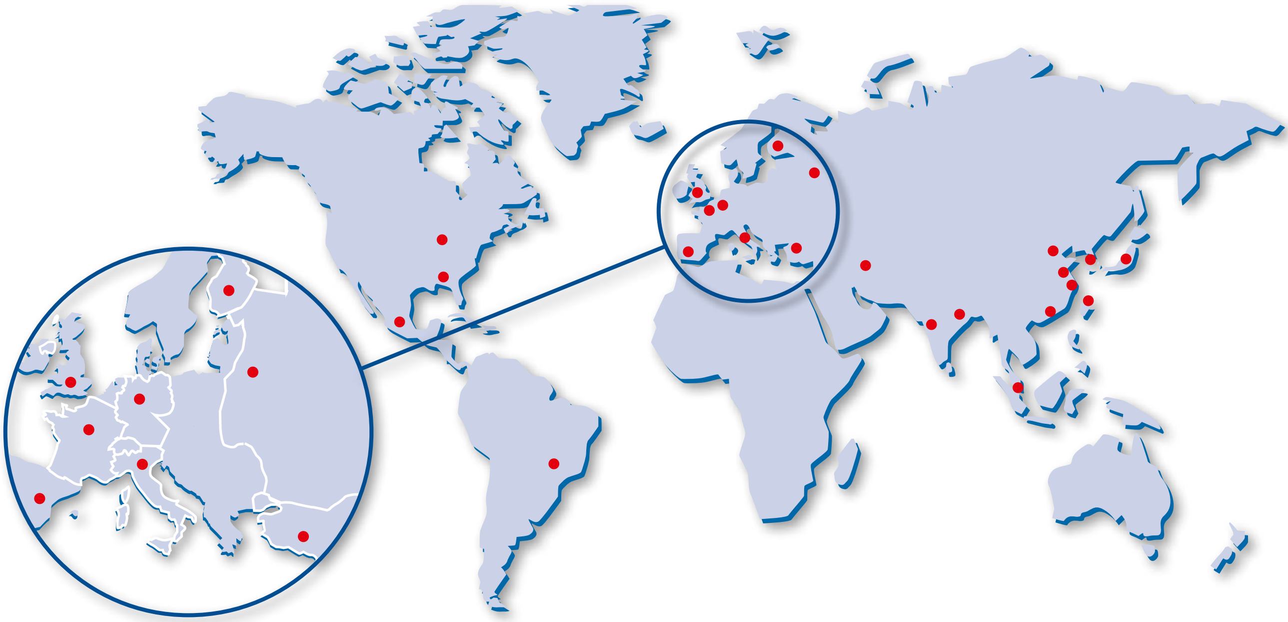
Responsible auditor

The auditor responsible for the audit is Dieter Hanxleden.

Frankfurt / Main, January 22, 2019

PKF Deutschland GmbH
Financial Auditing Company

A. Kramer	D. Hanxleden
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 22, 2019

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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