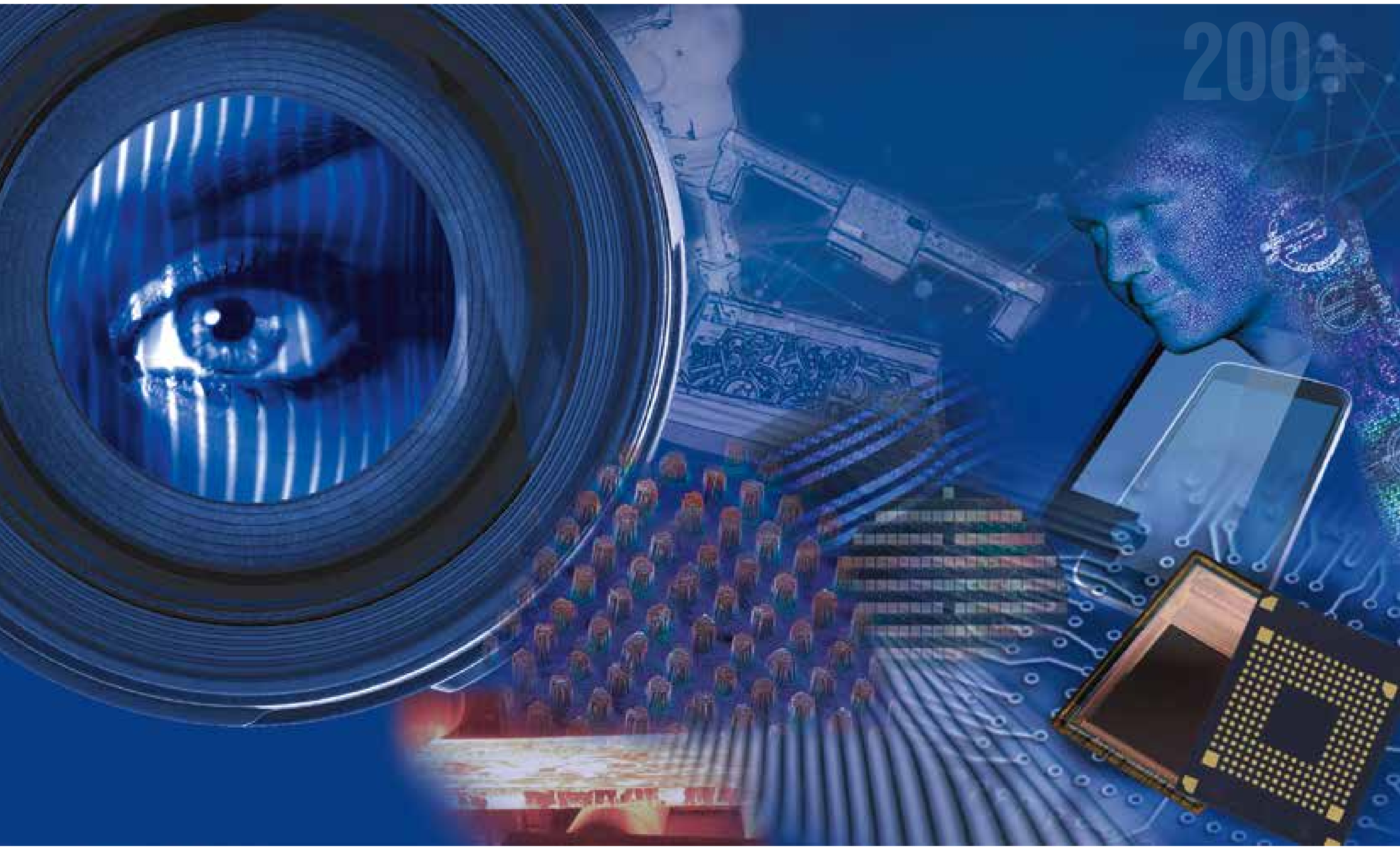
Annual Report 2016 / 2017

# Vision Competence For Automation Excellence



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

2016 / 2017

# Group Management Report ISRA VISION AG

Financial Year 2016 / 2017

## 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, solar, plastics 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 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, plastics, 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, plastics and security paper 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, plastics, 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, plastics 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 expected for the current 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 multibranch 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 150 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.

## 1.4 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, 22.5 million euros were invested for this purpose, 7 % more than in the previous year (21.1 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, high connectivity and the integration of embedded technologies 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 and high precision 3D surface measurement, among others, were expanded. With another forward-looking project, ISRA combines its competencies in surface inspection and Robot Vision for reliably inspecting the paintwork on car bodies.

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

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

In the Surface Vision segment, the existing products for the metal, glass and plastic film 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 2017, the global economy is undergoing a powerful upswing with positive economic development in almost in all of the major national economies. While the economic sentiment in the emerging economies is still subdued – but has improved significantly compared to the previous year – a high level has been established in the advanced countries especially. Depending on the source, 2017 saw overall growth of 2.8 to 3.8 percent, significantly higher than the previous year and expectations. The key factors influencing the development of the global economy include the increase in foreign trade in Asia, the rise in global investment and the expansion of production by the advanced national economies.

#### 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 predominantly positive. With growth in GDP of around 2.3 percent, Germany has increased its growth by approximately one percentage point compared to the previous year and significantly exceeded forecasts. In addition to continued good consumption, this was thanks to the accelerated increase in employment and significantly more dynamic investment activity. The US economy performed positively following a modest start as a result of rallying investment coupled with continued strong demand from households, and will achieve GDP growth of approximately 2.3 percent for the year as a whole. The downturn in growth in China was less pronounced than expected, despite lower monetary incentives and slower credit growth. A growth rate of around 6.8 percent – slightly higher than forecasts – is expected.

#### 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 2017, the German Engineering Federation VDMA expects that the German industry revenues in the image processing industry could grow by up to 18 percent compared to 2016. [4] The AIA industry association anticipates an increase in sector revenue for the North American image processing industry of around 14 percent in the first nine months of 2017, which results from consistent growth in the application-specific Machine Vision systems (14 %) and components (14 %). [5] No statements for the year 2017 are available for the Asian region to date.

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

In the 2016 / 2017 financial year, ISRA once again reached the forecasted annual target and concluded the financial year with a strong fourth quarter. After reaching the revenue goal of 100 + in the 2013 / 2014 financial year, the company is still benefiting from the expected economies of scale and underscores its robust strategic positioning with a revenue growth of 11 % to 143.0 million euros (previous year: 128.8 million euros).

Besides organic growth, external growth through acquisitions of suitable companies is another important part of the long-term strategy. Due to the continually changing market environment in the past financial year, a sustainable transaction date for current acquisition projects could not be found. The completion of at least one project is expected in the first quarters of the new financial year.

[3] cf., for example: Institute for the World Economy, Weltkonjunktur im Winter 2017; Berenberg Bank, Makroausblick December 2017; Commerzbank, Woche im Fokus – Ausblick 2018: Auf die Inflation kommt es an; Deutsche Bank, Weltwirtschaftlicher Ausblick – Frohe Feiertage.

[4] cf. VDMA Robotic and Automation: Growth forecast raised to 11 percent; press information from September 27, 2017.

[5] cf. A3 Association for Advancing Automation: North American Automation Market Shattering Records in 2017; press release dated December 12, 2017.

Both company segments decisively contributed to reaching the annual target. Revenues in the Industrial Automation segment, whose customer base includes manufacturers from the international automotive industry in particular – and a number from the premium segment – and leading companies in other industries, increased by a further 20 percent to 37.2 million euros, significantly higher than in the previous year (previous year: 31.1 million euros). Premium car manufacturers in particular showed continuing interest in 3D robot automation solutions. The expansion of the distribution of generic products, among other things, led to increasing sales of systems for 3D measurement and 3D robot guidance. The completion of a major order in 3D measurement technology for touchscreens from Asia and further order entries for the measurement of reflective surfaces underline the successful positioning of the products.

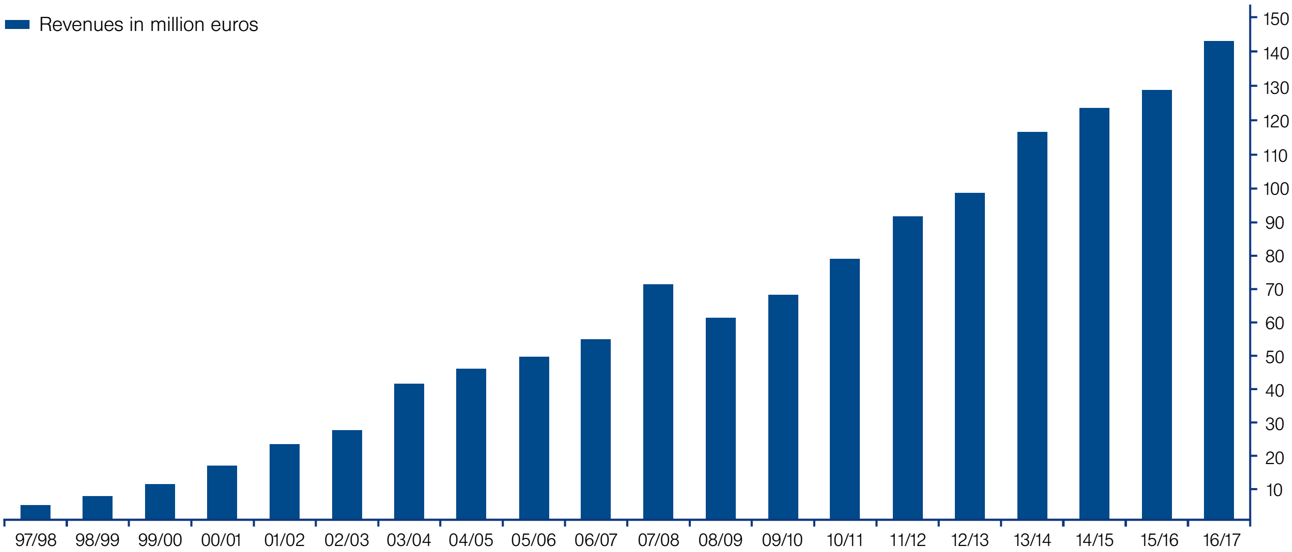
In the Surface Vision segment, the targeted market approach of innovations and products based on embedded technologies is having a stimulating effect on overall demand. Revenues increased by eight percent to 105.8 million euros (previous year: 97.7 million euros). The glass unit reported strong growth due to the continuing interest in systems for the high-resolution inspection of smart touch devices and of float and display glass. Also in the metal industry, ISRA is benefiting from its complete portfolio strategy. In the print industry, ISRA has increasingly focused on sales activities in Asia and an international key account strategy. After extensive marketing and sales measures and the positioning of cost-optimized solutions, the paper business noted a significant increase in new orders.

Frugal solutions with embedded system architectures are generating new revenue sources in the plastics industry. The introduction of the new "Touch & Inspect" system architecture for networked, "smart" quality surface inspection has enabled initial orders from film manufacturers for multiple production lines. Additional revenues were generated from the niche markets of carbon fiber and battery-film. In the niche market for speciality paper inspection, strategic order entries were recorded by new product developments for high-security printing. On the basis of consistent design-to-cost measures, ISRA was able to benefit from the increase in demand in the solar industry.

### 2.2.1 Results of operations

#### Continuing growth

ISRA increased revenues in the 2016 / 2017 financial year by approximately 11 % to 143.0 million euros (previous year: 128.8 million euros). New and replacement investments in the various target industries of ISRA have strong influence over the order backlog and subsequently attainable revenues. The order backlog of over 90 million euros gross (as of January 05, 2018; previous year: approx. 85 million euros gross) represents a good foundation for the current financial year.




#### Consolidated total output EBITDA / EBIT statement [6]

As a result of increased revenues, the total output rose to 158.0 million euros in the 2016 / 2017 financial year, which is 11 % more than in the previous year (142.3 million euros). The capitalized work also rose by 11 % to 15.0 million euros (previous year: 13.5 million euros). The cost share of the production was reduced further as a result of the ongoing optimization of products and production processes to 61.4 million euros in the

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

year under review (previous year: 55.5 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: 67%).

| (in €k) | Oct. 01, 2016 - Sep. 30, 2017 | | Oct. 01, 2015 - Sep. 30, 2016 | |
|---|---|---|---|---|
| Net sales | 142,995 | 91% | 128,815 | 91% |
| Capitalized work | 14,992 | 9% | 13,506 | 9% |
| Total output | 157,987 | 100% | 142,321 | 100% |
| Cost of materials | 31,796 | 20% | 28,983 | 20% |
| Cost of labor excluding depreciation | 29,569 | 19% | 26,500 | 19% |
| Cost of production excluding depreciation | 61,365 | 39% | 55,483 | 39% |
| Gross profit | 96,621 | 61% | 86,838 | 61% |
| Research and Development total | 22,475 | 14% | 21,063 | 15% |
| Sales and Marketing | 27,629 | 17% | 24,665 | 17% |
| Administration | 4,889 | 3% | 4,818 | 3% |
| Sales and Administration excluding depreciation and amortization | 32,519 | 21% | 29,483 | 21% |
| Other revenues | 1,317 | 1% | 1,388 | 1% |
| EBITDA | 42,945 | 27% | 37,680 | 26% |
| Depreciation and amortization | 14,613 | 9% | 12,089 | 8% |
| Total costs | 69,606 | 44% | 62,635 | 44% |
| EBIT | 28,332 | 18% | 25,591 | 18% |
| Interest income | 48 | 0% | 41 | 0% |
| Interest expenses | -346 | 0% | -477 | 0% |
| EBT | 28,035 | 18% | 25,155 | 18% |
| Income taxes | 7,311 | 5% | 7,398 | 5% |
| Consolidated net profit | 20,723 | 13% | 17,757 | 12% |
| Of which accounted to non-controlling shareholders | 215 | 0% | 201 | 0% |
| Of which accounted to shareholders of ISRA VISION AG | 20,508 | 13% | 17,556 | 12% |

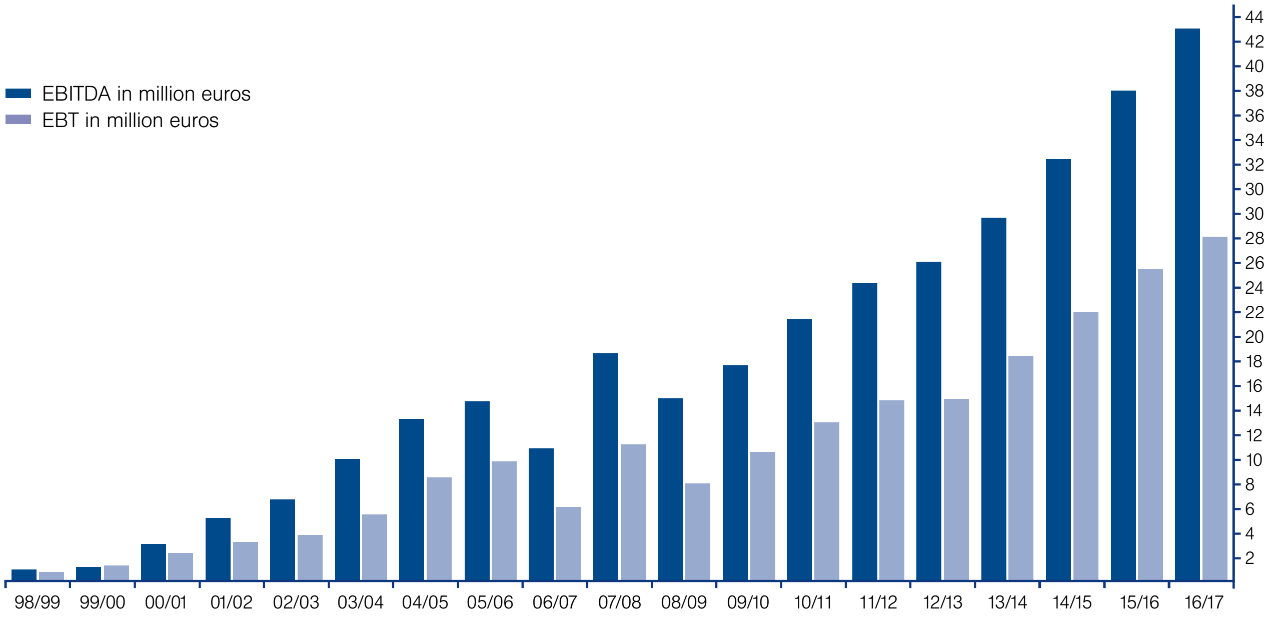
Consolidated total output EBITDA/EBIT statement [6]

### Sales, Marketing, Administration and R&D

Expenditures for Sales and Marketing amounted to 27.6 million euros in the reporting period (previous year: 24.7 million euros). In the context of the continued innovation and marketing offensive, these expenditures rose by 12% compared to the previous year. In line with planning, administrative expenses in the amount of 4.9 million euros (previous year: 4.8 million euros) were reduced further to three percent of total operating revenue (previous year: 3%) as a result of synergy effects. The company's R&D expenditure amounted to 22.5 million euros in the period under review (previous year: 21.1 million euros). This corresponds to an increase of 7%. 15.0 million euros of it were invested in developing new products that are soon to be launched on the market (previous year: 13.5 million euros). These amounts were capitalized in accordance with IAS 38.

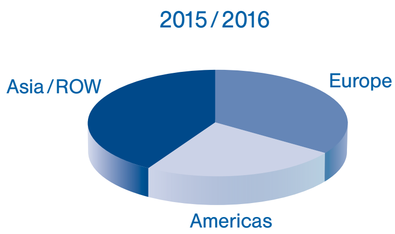
### Positive development of margins

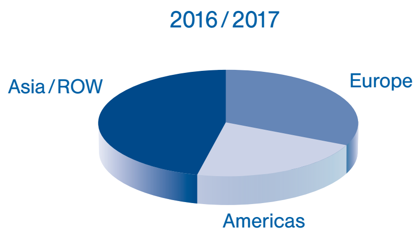
ISRA's EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) increased overproportionally to revenues by 14% to 42.9 million euros (previous year: 37.7 million euros) on the basis of the outlined cost development. This resulted in a margin based on total output in the amount of 27% (previous year: 26%). The depreciation and amortization in the year under review increased by approximately 21% to a total of 14.6 million euros (previous year: 12.1 million euros). 13.1 million euros (previous year: 10.8 million euros) of this figure was attributed to depreciation and amortization for capitalized work of the previous years and the year under review as well as software and licenses. The remaining depreciation and amortization rose by 15% to 1.5 million euros (previous year: 1.3 million euros). As a result, ISRA obtained an EBIT (Earnings Before Interest and Taxes) in the amount of 28.3 million euros in the year under review. That represents an increase of 11% compared to the previous year with 25.6 million euros. The financial result developed from minus 0.4 million euros in the previous year to minus 0.3 million euros as a result of the repayment of financial liabilities to banks. ISRA increased earnings before taxes (EBT) by 11% to 28.0 million euros (previous year: 25.2 million euros). Referenced to total output, it corresponds to a margin of 18%, referenced to revenues 20% (previous year: 18% and 20% respectively). Tax expenditures amounted to 7.3 million euros (previous year: 7.4 million euros). ISRA achieved consolidated Group earnings attributable to the shareholders of ISRA VISION AG of 20.5 million euros. This translates to an increase of 17% compared to the previous year (17.6 million euros). Based on the weighted average number of shares outstanding[7] of 4,378,240 (previous year: 4,379,295), earnings per share amounted to 4.68 euros (previous year: 4.01 euros).




### Development in segments and regions

In the Industrial Automation segment, in which the sales activities are directed primarily to the automotive industry, the revenues in the current reporting period were increased by 20% to 37.2 million euros (previous year: 31.1 million euros). EBIT rose by 21% to 7.6 million euros (previous year: 6.2 million euros), and the EBIT margin was up accordingly at 19% of total operating revenue (previous year: 18%). Revenues in the Surface Vision segment climbed to 105.8 million euros (previous year: 97.7 million euros), a significant increase of 8%. EBIT rose by 7% to 20.8 million euros (previous year: 19.4 million euros), and the EBIT margin was up accordingly at 18% of total operating revenue (previous year: 18%).




The broad regional positioning and diversification across various markets was once again confirmed as a successful strategy in the 2016/2017 financial year. With more than 25 locations worldwide, ISRA ranks as one of the globally most broadly positioned providers in its industry. Despite the moderate economic growth in China, the strongest growth was achieved on the Asian markets, which increased Asia's share in total revenues to more than 45% as a result of high demand in China in particular. The market momentum in Europe is continuing at the high level of the previous year. ISRA is currently experiencing high demand on the American markets.

### 2.2.2 Financial position

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

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

### Capital structure

In the 2016/2017 financial year, total assets of the ISRA Group increased by 21.2 million euros to 285.0 million euros (previous year: 263.8 million euros). On the liabilities side of the consolidated balance sheet, the trade payables increased by 5.6 million euros to 18.1 million euros (previous year: 12.4 million euros). Current liabilities to banks were down by 5.0 million euros at 31.0 million euros (previous year: 36.0 million euros) thanks to operating cash flow. The remaining financial liabilities increased by 2.5 million euros to 14.4 million euros (previous year: 11.9 million euros). Income tax liabilities rose to 4.8 million euros (previous year: 3.5 million euros) as a result of the positive results of the regional companies. The short-term provisions amounted to 0.9 million euros (previous year: 1.6 million euros).

Under long-term liabilities, deferred tax liabilities remained virtually consistent at 33.3 million euros (previous year: 33.2 million euros). Non-current provisions in the form of pension provisions declined from 4.1 million euros to 3.4 million euros, due in part to the higher interest rate. As in the previous year, there were no long-term liabilities to banks.

At the end of the 2016/2017 financial year, the equity ratio amounted to 62% (previous year: 60%). 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 1.0 million euros in tangible assets (previous year: 0.9 million euros). The investments in intangible assets rose to 15.7 million euros (previous year: 14.8 million euros). Almost all of them are capitalized development costs. In the period under review, investments in long-term assets for the segments Industrial Automation and Surface Vision amounted to 3.7 and 12.8 million euros, respectively (previous year: 2.7 and 13.2 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, 2017, ISRA generated an operative cash flow of 37.1 million euros (previous year: 34.3 million euros). Trade receivables and other assets rose by 9.1 million euros (previous year: 0.3 million euros). Furthermore, operating cash flow was largely accounted for by depreciation and amortization of 14.5 million euros (previous year: 12.1 million euros), income tax payments of 5.1 million euros (previous year: 2.5 million euros), the increase in trade payables and other liabilities of 14.6 million euros (previous year: 6.5 million euros), the decrease in inventories of 1.1 million euros (previous year: increase of 3.0 million euros) and changes in deferred tax assets and liabilities of 1.4 million euros (previous year: 2.4 million euros), which essentially resulted from a reduction in deferred tax assets.

Cash flow from investment activities amounts to a total of minus 16.7 million euros (previous year: minus 15.6 million euros) and is essentially based on investments in intangible assets. The cash flow from financing activities of minus 7.4 million euros (previous year: minus 16.4 million euros) is due in particular to the repayment of financial liabilities of 5.0 million euros (previous year: 14.1 million euros). The profit distribution of 2.2 million euros (previous year: 1.8 million euros) results from the dividend of 0.48 euros per share (previous year: 0.41 euros per share). Taking into account the changes in value due to exchange rate effects of minus 0.2 million euros (previous year: minus 0.5 million euros), cash and cash equivalents rose by a total of 12.8 million euros (previous year: 1.8 million euros) to 29.7 million euros (previous year: 16.9 million euros) as of September 30, 2017.

A positive availability of financial means is given group-wide. ISRA has access to unutilized cash credit facilities of 27.1 million euros and unutilized bank guarantees of 9.0 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.

### 2.2.3 Net assets

On the assets side, ISRA showed cash and cash equivalents in the amount of 29.7 million euros (previous year: 16.9 million euros) on the balance sheet day of September 30, 2017. 58% of the total assets were short-term assets (previous year: 55%). Trade receivables rose by 11 percent to 98.0 million euros (previous year: 88.5 million euros). Revenues from unfinished orders amounted to 47.4 million euros (previous year: 49.9 million euros), based on the percentage-of-completion method.

Long-term assets amounted to 118.7 million euros (previous year: 118.5 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 2.2 million euros to 72.9 million euros (previous year: 70.7 million euros), primarily as a result of the rise in own work capitalized as internally generated intangible assets, from 58.0 million euros to 62.0 million euros.

Tax losses carried forward for ISRA totalled 1.6 million euros as of September 30, 2017 (previous year: 6.1 million euros). Deferred tax assets were recognized for tax losses carried forward in the amount of 1.6 million euros.

### 2.2.4 Non-financial key performance indicators and sustainability

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

#### Customer benefit

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

#### Ecological and social benefit

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

#### High level of innovation

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

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.

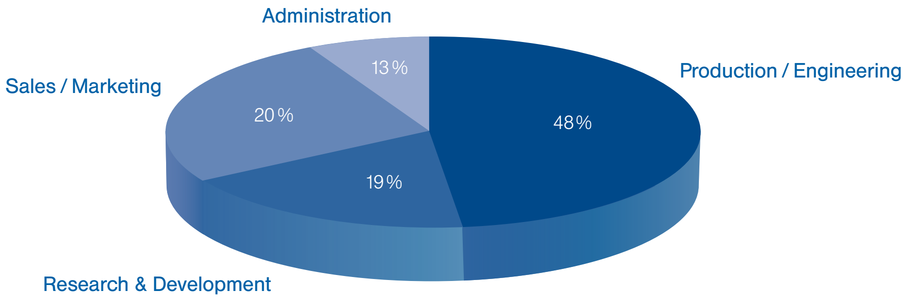
### Efficiency of business processes

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 2016 / 2017 financial year, the ISRA Group employed an average of 645 people worldwide (previous year: 600). 692 people were employed as of September 30, 2017. The majority is working at locations in Germany (63 %). Europe (without Germany) accounted for 6 %, North and South America for 10 % and Asia for 21 % of the employees.




Of the staff employed worldwide as of September 30, 2017, 48 % worked in production and engineering and approximately 19 % in Research and Development (R&D). Another 20 % of ISRA employees worked in Sales and Marketing and 13 % in Administration.

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

Cooperation with universities and technical colleges enables ISRA to gain qualified young academics. 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 commitment of a team for Digital Business Development and Marketing is a particular highlight 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 VISION bears social responsibility. Social commitment is important to ISRA and centrally anchored in its corporate mission. A matter of special concern lies in supporting the development and education of children and adolescents, e. g. in the form of monetary donations, but also through the personal commitment on part of the Management. In accordance with the global orientation of the Company, the charitable efforts also cover various projects all over the world. In view of the current geopolitical development and the refugee crisis, ISRA increasingly directed its attention to help in this area and provided support in the form of monetary contributions as well as non-financial engagement.

### 2.2.5 Assessment of the course of business

ISRA Management assesses the closing financial year as another successful year. The Company confirmed the growth forecast, as it has in the preceding fifteen trading years with the exception of the global economic crisis of 2008, and increased revenues to 143.0 million euros and the consolidated net profit to 20.5 million euros. This plus of 11 % and 17 %, respectively, shows that the course of business is not necessarily coupled with the general economic development or the economic situation in the industry sector. The earnings per share after taxes increased to 4.68 euros, a plus of 17 %. This provides a good basis for the company to continue its sustainable dividend strategy (previous year: 0.48 euros per share). The forecasted stability of the margins was reached. The gross margin as well as the EBITDA and the EBT margin could be increased to a minor degree. Among other things, this increase results from possibilities for efficiency increase in Purchasing, Production, Sales and Administration that were made possible by reaching the revenue goal of 100 million euros. In the end, ISRA continued its profitable growth with a double-digit EBT growth of 11 % and an EBT margin to total output of 18 % in spite of challenges in individual regions and industries. The respective growth in both segments with at least stable margins also confirmed the segment forecast.

Non-financial performance indicators also contributed to the positive business development. Among other things, Sales and Marketing were expanded in the 2016 / 2017 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 inclusion in the list of the 25 most innovative medium-sized companies by the magazine Wirtschaftswoche.

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

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.[8] A positive environment is expected in 2018 according to their forecasts published in December 2017.

The institutes and banks also state that actual economic performance in the coming years will be largely dependent on how quickly inflation rises to the targets set by the central banks and how quickly they abandon their expansionary monetary policy. Any fast interest rate hikes could negatively impact conditions and make economic development in individual countries sensitive and thus adversely affect overall global growth. Political risks are ranked lower than in the previous year. Assuming that monetary and fiscal policies develop as expected, global economic growth of around 3.0 to 3.8 percent can be expected for 2018, though ISRA's management is more cautiously projecting growth of just under 3.0 percent.

[8] cf., for example: Institute for the World Economy, Weltkonjunktur im Winter 2017; Berenberg Bank, Makroausblick December 2017; Commerzbank, Woche im Fokus – Ausblick 2018: Auf die Inflation kommt es an; Deutsche Bank, Weltwirtschaftlicher Ausblick – Frohe Feiertage.

### Framework conditions in Germany, China and the United States

For ISRA's principal markets, however, economists envision different perspectives. In Germany, the upturn on the basis of private consumption, equipment investment and construction investment could enable economic growth of up to 2.5%. Further stimulus from tax cuts is expected for the US, as not just private consumption but also investment and trade could spark growth impetus. Despite further interest rate hikes by the Fed, growth rates of just over 2 percent and in some cases even as much as 2.9 percent are expected. In China, however, economic expansion will gradually slow down. The temporarily more expansive monetary and fiscal policy will be scaled back again in favor of a lower increase in debt and the move to a more sustainable economy. Given these conditions, growth from 6.1 to 6.4 percent is forecast.

### Image processing industry anticipating dynamic development

According to VDMA forecasting, industrial image processing in Germany and Europe is expected to achieve growth up to 18% in 2017, thereby significantly exceeding the original forecasts of 10%. Based on this high level of revenues, the industry is expected to develop dynamically in 2018 with growth of up to 13% anticipated.[9] In a press release for the third quarter of 2017, the American industry association AIA assumes further growth in both image processing systems and most individual components.[9] Specific forecasts for the Asian market are not currently available.

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

In the 2016/2017 financial year, ISRA has once again met its growth forecasts and remains on its course of long-term growth. On the one hand, the market shares in the relevant industries were consistently expanded, even market leadership in some of them was gained – on the other hand, the successive hiring of employees at more than 25 locations throughout the world represents an investment in the global expansion of the Company. By 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.

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. The continuous expansion of the Customer Support and Service Centers as well as the Production Analytics Software tools for efficiency and productivity increase 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 the sharp rise in revenues with leading international automotive manufacturers. These are showing consistently high interest in innovative solutions using 3D technologies in the production line. 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 easy-to-use product lines for smart production automation.

In the Surface Vision segment, further revenues are expected for the metal industry from the innovative combination of 3D surface measurement and inspection and the expanded Production Analytics portfolio. Digital printing and flexible packaging are expected to contribute to growth in the printing area. The good sales and order situation in the special paper sector is receiving substantial impetus from the new inspection options for high-security print. In the solar sector, management is intensifying marketing and sales activities and optimizing the cost base of its products in order to further expand its competitive edge in Asia, with a focus on China. In the paper industry, ISRA is using innovations and design-to-cost approaches to address additional customer groups by focusing on dynamic market segments such as the packaging industry. In particular, the product extensions for the comprehensive testing of films and non-woven materials and advanced solutions with embedded technologies are expected to increase revenues in the plastics industry. In the relatively new semiconductor wafer business, a new strategic customer order provides a good basis for further growth and the planned market entry in Asia. The measures to expand service business are showing consistent results: With international service teams available to customers worldwide and a diversified range of activities, ISRA is planning to substantial boost to the contribution made by the customer support and service center to overall revenues in the medium term.

[9] cf. VDMA Robotics and Automation: Wachstumsprognose auf 11 Prozent angehoben; press release from September 27, 2017 and according to VDMA Robotics + Automation information from December 20, 2017.

[10] cf. A3 Association for Advancing Automation: North American Automation Market Shattering Records in 2017; press release dated December 12, 2017.

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 Asian markets. In Europe, Management sees an increasing demand in individual strategic countries in the next quarters. The demand from the Americas was successfully supported by extensive measures in Sales and Marketing in the past financial year. These measures will continue undiminished until further notice.

The regional expansion and the strengthening of international locations remain an important part of the Company strategy. 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 expects the completion of at least one project in the first quarters of the new financial year.

### Continuation of growth path forecasted

With the order backlog again at a high level of currently more than 90 million euros gross (as of January 05, 2018; previous year: 85 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 150 million euro in the financial year 2017 / 2018. The hospitable investment climate in most markets and regions provides a robust 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 do not increase, ISRA's management is planning further revenue growth in 2017 / 2018, probably in the low double-digits but at least in the high single-digits, and the expansion of profitability both in the Group and the two segments. A further optimization of the EBITDA, EBIT and EBT margins is anticipated, while at least maintaining the current high level.

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 2019. Management will continue to focus on the optimization of operating productivity and the continuous improvement of cash flow and working capital. ISRA will release a detailed outlook for the current financial year in February 2018. ISRA intends to continue its sustainable dividend policy for the 2016 / 2017 financial year.

## 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 2018, it could negatively impact the economic situation of the customers and therefore the demand for products offered by ISRA. This could result in corresponding risks to revenue and profits. For this reason, the Management has simulated different risk scenarios in order to be prepared accordingly. Simulations have been performed, especially with regard to delays / drops in orders, bad debts, overdue incoming payments, and delays in the commissioning of systems.

### Developing new applications, technologies and regional markets

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

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

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

In addition, ISRA intends to develop additional geographic markets in the future with own locations. ISRA strengthens its local presence in this way, thereby optimizing its access to new customers in the addressed industries of the regions. The success of such an expansion depends on a large number of factors and is accompanied by uncertainties. The continued internationalization could be associated with risks on these new markets. If these risks should become a reality, in whole or in part, and the Company should not succeed in developing these new geographic markets, it could lead to a negative impact on the results of operations, financial position, and net assets. In the growth regions Russia and Brazil, ISRA has already founded its own subsidiaries for the structural reinforcement of market activities. The office in São Paulo, Brazil, serves the plastics, paper, print, metal and automotive industries. The subsidiary in Moscow serves the Russian market and the neighboring states of the CIS. In this way, ISRA is creating a strong base in emerging countries to be able to profit from market opportunities that accompany the increased use of automation technologies in industrial production in these regions. At the present time, substantial opportunities are emerging in Eastern Europe, India 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 a single case (a share of 6.26%), 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 net sales and results of operations of the Group. These are the risks that have been identified and are considered to be significant. In addition, ISRA is exposed to general legal and economic risks in countries where particular Group companies operate. This does not preclude the existence of other risks not yet realized as important by management, nor does it preclude the possibility of these risks are being underestimated.

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

## 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. 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 five percent of the Group’s total revenues except for one single case (revenue share of 6.25 %). 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 2016 / 2017.

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

## 8 Takeover-related statements

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

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

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

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

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

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

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

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

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

## 9 Corporate governance declaration

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

Darmstadt, January 12, 2018

The Executive Board

# Report of the Supervisory Board

for the 2016/2017 financial year

## Members of the Supervisory Board

The Supervisory Board currently consisted of the members Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairman), Ms. Susanne Wiegand, Mr. Stefan Müller, Mr. Falko Schling and Prof. em. Dr. rer. nat. Dipl.-Ing. Hennig Tolle. Dr. Wolfgang Witz has resigned from his position as a member of the Supervisory Board effective from the end of the 2016/2017 financial year. At the petition of the Executive Board to the Local Court, Dr. Burkhard Bonsels was propose as the successor for the remainder of the term of office as a member of the Supervisory Board.

## Cooperation between Executive Board and Supervisory Board

As in previous years, the Supervisory Board also exercised its legal and statutory responsibilities in the 2016/2017 financial year with the utmost care. The collaboration with the Executive Board was characterized by an intensive and trustful dialogue. The Executive Board regularly and comprehensively informed the Supervisory Board about the status quo of the Company and business activities, both verbally and in writing. The Supervisory Board discussed the reports of the Executive Board in depth and requested supplementary information and explanations whenever necessary. The Supervisory Board continuously monitored the activities of the Executive Board based on this reporting and provided comprehensive advice in the management and strategic development of the Company. A catalog written by the Supervisory Board lists the types of business transactions whose execution requires the Executive Board to obtain the 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 06, 2016

- 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 performance of construction work at the Darmstadt, Berlin and Herten locations and of the formation of the respective project companies
- Approval of the provision of share capital for start-up companies in the Machine Vision area of at least 2 million euros

January 17, 2017

- Authorizing, respectively approving the individual and consolidated financial statements of ISRA VISION AG for the 2015/2016 financial year
- Adoption of the resolution proposal by the Supervisory Board to the General Meeting concerning the use of the net profit of the 2015/2016 financial year
- Approval of the agenda for the 2017 General Meeting as well as adoption of other resolution proposals of the Supervisory Board to the General Meeting
- Adoption of the Report of the Supervisory Board for the 2015/2016 financial year
- Approval of in Main Committee previously discussed remuneration of the Executive Board
- Approval of the engagement of business consulting and tax advisory services
- Adoption of a resolution on the drafting of current Rules of Procedure for the Supervisory Board
- Adoption of a resolution on the submission of a security report

September 05, 2017

- Approval of the budget for the 2017 / 2018 financial year
- Approval of the establishment of branch locations and subsidiaries in Italy, France, Mexico and Slovakia
- Approval to found ISRA Immobilie Darmstadt GmbH, to purchase land and construct a building in Darmstadt
- Approval to found ISRA Immobilie Berlin GmbH for the building in Berlin-Adlershof

### Summary of key points in consultations by the Supervisory Board

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

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

### Meetings of the Supervisory Board

The Supervisory Board convened four meetings on a regular basis by personal attendance in the 2016 / 2017 financial year. The following topics were deliberated in detail and decided upon:

### Meeting on September 06, 2016

In the meeting on December 06, 2016, the preliminary financial statements for 2015 / 2016 were explained and discussed. Furthermore, the Executive Board gave an overview of the first quarter of 2016 / 2017 and an outlook for the entire 2016 / 2017 financial year. The Supervisory Board discussed the draft agenda items presented by the Executive Board for the General Meeting on March 15, 2017 and approved them. Furthermore, the Declaration of Conformity to the Corporate Governance Code was discussed, deviations in the Declaration of Compliances were recorded and the declaration was adopted. The Executive Board informed the Supervisory Board about possible acquisition projects. Furthermore, the Supervisory Board discussed the foundation of project companies and approved the building work at the Darmstadt, Berlin and Herten locations. In addition, the Supervisory Board endorsed the promotion of up-and-coming machine vision companies with growth potential by providing a fund.

### Meeting on January 17, 2017

In the Supervisory Board meeting on January 17, 2017, the Audit Committee reported on its meetings of December 06, 2016 and of January 17, 2017. The annual financial statement, the consolidated financial statements, the management report for ISRA VISION AG and the Group for the 2015 / 2016 financial year as well as the proposal by the Executive Board for the use of the net profit for the year were assessed in detail by the Supervisory Board and reviewed. This meeting was attended by the chairperson of the Executive Board as well as the auditor in person of the two financial auditors certifying the auditor‘s report. Questions from Supervisory Board members were answered at length and individual facts were discussed in detail. Following the final result of the Supervisory Board’s examination, it was concluded that no objections were noted. The annual financial statements and management reports for the 2015 / 2016 financial year submitted for the Company and the Group by the Executive Board were subsequently approved by the Supervisory Board. The annual financial statement of the Company was thus approved.

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

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

In addition, the Executive Board presented the concept for the 2015 / 2016 financial report to the Supervisory Board. The overview of the first quarter of the 2016 / 2017 financial year and the forecast until September 30, 2017 were explained and discussed.

The meeting on January 17, 2017 resolved the updated version of the Rules of Procedure for the Supervisory Board and the submission of a security report.

### Meeting on May 24, 2017

In the Supervisory Board meeting on May 24, 2017, the Executive Board reported in depth about the second quarter of 2016/2017, gave a preview of the third quarter as well as an outlook on the entire 2016/2017 financial year, whereby the Supervisory Board acknowledged and approved the planning and forecasts of the Executive Board. Besides, the Executive Board gave an explanation on current acquisition projects.

### Meeting on September 05, 2017

At the Supervisory Board meeting on September 05, 2017, the Executive Board informed the Supervisory Board about the third quarter of 2016/2017 and presented a preview of the fourth quarter of 2016/2017. The Supervisory Board discussed the budget proposed and explained by the Executive Board in depth, including a discussion of the situation in the individual customer industries. The Supervisory Board determined the annual timetable for the financial year 2017/2018. The Executive Board informed the Supervisory Board in detail about the status of various acquisition considerations. Furthermore, the Supervisory Board discussed the mid-term strategic company planning. In addition, the Supervisory Board was informed that the hiring of additional qualified personnel was planned to further strengthen important sectors for the aspiring growth. In addition, the Supervisory Board approved the establishment of new branches and subsidiaries in Italy, France, Mexico and Slovakia. At the meeting on September 5, 2018, the Supervisory Board also approved the founding of ISRA Immobilie Darmstadt GmbH and ISRA Immobilie Berlin GmbH as well as the purchase of land and the construction of a building in Berlin and Darmstadt.

### 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 2016/2017 financial year, the Audit Committee held two meetings, the Main Committee held one meeting.

In its meeting on December 06, 2016, the Audit Committee dealt with questions concerning the audit. In its meeting on January 17, 2017, it examined the audit documents for the 2015/2016 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 17, 2017, the Main Committee analyzed, discussed and presented all important information concerning the compensation of the Executive Board, particularly with respect to the function of incentives 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 2016/2017 financial year, the Supervisory Board has dealt in depth with questions concerning Corporate Governance and the German Corporate Governance Code. On December 05, 2017, 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 07, 2017. In December 2017, the Supervisory Board decided on the new Declaration of Conformity. This declaration is reflected in the Declaration on Corporate Governance and, similar to the preceding declarations, permanently accessible on the website of the Company. No conflicts of interest occurred on the Supervisory Board in the course of the 2016/2017 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 2016/2017 financial year

The annual financial statements were prepared in line with the regulations of the German Commercial Code (HGB) and the consolidated financial statements in line with the International Financial Reporting Standards (IFRS), in the version applicable in the EU, as well as the applicable commercial regulations in accordance with § 315a of the German Commercial Code (HGB). The management report and the Group management report of ISRA VISION AG for the 2016/2017 financial year were also found to be acceptable. The PKF Deutschland GmbH financial auditing company from Frankfurt am Main (PKF), commissioned through the General Meeting on March 15, 2017, and authorized in writing by the Supervisory Board on March 31, 2017, performed the audit and granted each an unqualified audit certificate.

Before the Supervisory Board suggested PKF as financial auditor to the General Meeting, PKF certified to the Chairman of the Supervisory Board and the Audit Committee that no circumstances existed that could affect the independence as auditor or confirm any doubts concerning their independence. In this process, PKF also explained the scope of other services that were provided to the Company in the previous financial year or have contractually been arranged for the following year.

The Supervisory Board agreed with PKF that, among other things, PKF should inform the Supervisory Board and record in the audit report if facts were to be determined during the execution of the audit of annual financial statements that would result in an incorrect statement by the Executive Board and Supervisory Board concerning the GCGC.

The aforementioned financial statement documents, the auditor's reports and the suggestion of the Executive Board concerning the allocation of net profit for the year, were submitted to the members of the Supervisory Board in a timely manner. For the preparation of the audit and handling of these documents, the Auditing Committee of the Supervisory Board discussed the named financial statement documents and audit reports of the auditor in the full Supervisory Board in its meeting on December 05, 2017.

In the meeting of the Audit Committee and in the subsequent accounts review meeting of the full Supervisory Board on January 16, 2018, the Executive Board explained each of the listed financial statement documents as well as its proposal for the use of the net profit for the year. In addition, questions from the members of the Audit Committee and the Supervisory Board were answered by the Executive Board.

Following the explanation by the Executive Board under consideration of the audit results of PKF, the Audit Committee and the Supervisory Board examined the financial statement documents. The auditor present in the meeting of the Audit Committee and in the accounts review meeting of the Supervisory Board – in person of the two financial auditors certifying the auditor's report – reported in depth about the audit and the audit results and explained the audit report. The priorities of the audit by the Audit Committee and the Supervisory Board were: Consistency of approach and valuation, intercompany settlements, valuation of investments as well as percentage of completion and impairment test of inventories in line with IAS 36. In the meeting of the Audit Committee and the accounts review meeting of the Supervisory Board on January 16, 2018, the auditor also reported that his audit of the internal control and Risk Management system with reference to the accounting process did not identify any significant weaknesses. The auditor was questioned in depth by the Audit Committee as well as the Supervisory Board about the audit results and about type and scope of the audit activity. Furthermore, the Audit Committee reported to the Supervisory Board about its own audit of the accounting, its discussions with the Executive Board and the auditor as well as its monitoring of the accounting process. The committee also reported that it dealt with the effectiveness of the internal control management system, the Risk Management system and the internal revision system of ISRA VISION AG and the Group in the context of its monitoring function and verified its effectiveness. On the basis of that report, the Supervisory Board also assumed that these systems are effective.

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

The Audit Committee and the Supervisory Board could be satisfied that the audit by PKF had been properly performed. In particular, they came to the conclusion that the audit reports – and the audit itself – met the statutory requirements. Based on the report and the recommendation of the Audit Committee, the Supervisory Board subsequently granted its approval to the result of the audit, and since there were no objections to be raised after the concluding result of their own audit, it approved the annual financial statement, the consolidated financial statements as well as the management report and the Group management report (including the declaration by the Executive Board about the corporate governance in accordance with § 289a of the German Commercial Code, HGB) for the 2016 / 2017 financial year. The annual financial statement of the company has thus been approved.

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

### Thank you

The Supervisory Board thanks the Executive Board, as well as all employees of ISRA and its Group companies for their personal efforts and successful work in the past 2016 / 2017 financial year.

Darmstadt, January 16, 2018

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 May 05, 2015, have been fulfilled, and that henceforth the recommendations in the version dated February 07, 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 with which the members of the Supervisory Board perform their tasks will be improved through such a deductible. Rather, there is a risk that the agreement to share costs would conflict with the aspirations of ISRA VISION AG to recruit highly qualified persons for the Supervisory Board.

*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 examining and evaluating whether a future 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 does not discriminate against or favor any person because of gender, origin, race, language, country of origin and background, conviction, religious or political views. In the interest of the Company, filling management positions and appointing persons as Executive Board members is based exclusively on the qualification of the respective person for the management position or the Executive Board position. For this reason, Executive Board and Supervisory Board have determined targets for the share of women which are in accordance with the current regulations in force. Additional quota or other objectives that would place a general restriction on the selection of suitable persons are not planned for the filling of management positions or Executive Board positions due to the aforementioned reasons.

*Item 4.2.3 Section 2 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 the fringe benefits. Nevertheless, a change of the existing service contracts of the Executive Board members is not being planned. Because limiting the variable remuneration components provides sufficient assurance that the overall remuneration will also remain within reasonable limits. 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 for financial years starting after December 31, 2013 shall include certain information and shall be presented in form of model tables. At ISRA VISION, the compensation of the Executive Board is disclosed according to the legal provisions. The ISRA VISON AG is convinced that the compensation of the Executive Board can be disclosed to the shareholders in a clear and comprehensive way even without the complex and detailed breakdown and without the use of rigid model tables.

*Item 5.3.2 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 Supervisory Board as a whole. The chairperson of the Audit Committee will be selected specifically based on his or her special experience and knowledge in the application of accounting principles and internal control mechanisms. Against this background, it is not ruled out that the chairperson of the Supervisory Board is also elected to be the chairperson of the Audit Committee – as it is currently the case.

*Item 5.3.3 GCGC*

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

*Item 5.4.1 Sections 2, 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 requisite knowledge, skills and professional experience for the proper care of their assignments. In the process, the Supervisory Board will also ensure its sufficient independence. However, the Supervisory Board must make its decision insofar as the best suitable candidate is concerned from its perspective whenever a new election is waiting. 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 pertinent if it is bound by abstract objectives formulated in advance with respect to its selection of a candidate, instead of being able to freely decide on the persons available in their specific decision scenario which it deems to be best suited for the position. For this reason, the Supervisory Board does not name specific objectives as provided by item 5.4.1 Section 2 GCGC, nor will it determine an age limit for the members of the Supervisory Board or a regular limit of length of membership to the Supervisory Board as recommended by item 5.4.1. Section 2 Clause 1 as of May 05, 2015. Consequently, such objectives will also not be taken into account for the nominations directed at the responsible election bodies and no report will be given about them and the state of their implementation. 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 present 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 07, 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 recorded in the consolidated financial statements. In this manner, the requirements for information to which the shareholders are entitled will be fulfilled both appropriately and adequately. For this reason, there is no provision for publishing individual details concerning the remuneration of the Supervisory Board members.

*Item 6.1 Section 1 Clause 2 GCGC*

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

*Item 7.1.2 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.

*Item 7.1.2 Clause 4 GCGC*

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

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

### Corporate governance through value-oriented management

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

### Managing risks effectively

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

## Description of the working method of Executive Board and Supervisory Board

### The Executive Board manages transactions 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. Shlomo Amir are responsible for sales and strategical operations, Dr.-Ing. Johannes Giet for Research and Development and Mr. Andreas Gerecke for Operations. The statutory retirement age for executive boards was set to 70 years.

### 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 percent for the share of women in the first management level below the Executive board by June 30, 2017. Due to the flat hierarchical structure of the Company, the target figure refers to one management level below the Executive Board. 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 percent. 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 percent for the share of women in the Supervisory Board and of 0 percent for the share of women in the Executive Board by June 30, 2017. 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 16.66 percent and the Executive Board level at 0 percent. For the management level below the Executive Board, the Executive Board has set a target of 5 percent 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 two members of the Supervisory Board:

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

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

*Main Committee*

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

- Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairperson of the Main Committee)
- Dr. Wolfgang Witz (until September 30, 2017)
- Mr. Falko Schling (from December 05, 2017)

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

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

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

## Reassuring and Expanding Trust

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

The Executive Board

## Shareholding structure

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

| Executive Board | No. of shares as per Sept. 30, 2017 | Supervisory Board | No. of shares as per Sept. 30, 2017 |
|---|---|---|---|
| E. Ersü | 993,311* | Dr.-Ing. h. c. H. J. Wiedenhues | 0 |
| H. J. Christ | 60 | Dr. W. Witz | 0 |
| S. Amir | 0 | Prof. em. Dr. rer. nat. Dipl.-Ing. H. Tolle | 3,174 |
| Dr.-Ing. J. Giet | 0 | S. Müller | 0 |
| A. Gerecke | 0 | S. Wiegand | 0 |
| W. Rothermel | 0 | F. Schling | 0 |

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

# Pro forma consolidated total operating revenue EBITDA-EBIT Statement*

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

| (in €k) | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Net sales | 142,995 | 128,815 |
| Capitalized work | 14,992 | 13,506 |
| Total output | 157,987 | 142,321 |
| Cost of materials | 31,796 | 28,983 |
| Cost of labor excluding depreciation | 29,569 | 26,500 |
| Cost of production excluding depreciation | 61,365 | 55,483 |
| Gross profit | 96,621 | 86,838 |
| Research and Development total | 22,475 | 21,063 |
| Sales and Marketing costs | 27,629 | 24,665 |
| Administration | 4,889 | 4,818 |
| Sales and Administration costs excluding depreciation | 32,519 | 29,483 |
| Other revenues | 1,317 | 1,388 |
| EBITDA | 42,945 | 37,680 |
| Depreciation and amortization | 14,613 | 12,089 |
| Total costs | 69,606 | 62,635 |
| EBIT | 28,332 | 25,591 |
| Interest income | 48 | 41 |
| Interest expenses | -346 | -477 |
| Financing result | -297 | -436 |
| EBT | 28.035 | 25,155 |
| Income taxes | 7.311 | 7,398 |
| Consolidated net profit | 20.723 | 17,757 |
| Of which accounted to non-controlling shareholders | 215 | 201 |
| Of which accounted to shareholders of ISRA VISION AG | 20,508 | 17,556 |
| Earnings per share in € | 4.68 | 4.01 |
| Shares issued | 4,378,240 | 4,379.295 |

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

- Consolidated Financial Statements (IFRS)

2016 / 2017

# Consolidated Income Statement

(IFRS)

| (in €k) | Explanation | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|---|
| Net sales | | 142,995 | 128,815 |
| Cost of sales | 2 | 62,095 | 56,113 |
| Gross operating result (gross profit) | | 80,900 | 72,703 |
| Research and development | | 20,310 | 18,151 |
| Total costs | | 22,475 | 21,063 |
| Depreciation and amortization | 12 | 13,081 | 10,758 |
| Grants | | - 254 | - 164 |
| Capitalized work | 12 | - 14,992 | - 13,506 |
| Sales and Marketing costs | 3 | 28,311 | 25,251 |
| Administration | 4 | 5,010 | 4,933 |
| Sales and Administration costs | | 33,321 | 30,184 |
| Other revenues | 6 | 1,063 | 1,224 |
| Interest income | | 48 | 41 |
| Interest expenses | | - 346 | - 477 |
| Financing result | | - 297 | - 436 |
| Earnings before taxes (EBT) | | 28,035 | 25,155 |
| Income taxes | 7 | 7,311 | 7,398 |
| Consolidated net profit | | 20,723 | 17,757 |
| Of which accounted to shareholders of ISRA VISION AG | | 20,508 | 17,556 |
| Of which accounted to non-controlling shareholders | | 215 | 201 |
| Earnings per share in € (diluted / undiluted) | | 4.68 | 4.01 |
| Shares issued | | 4,378,240 | 4,379,295 |

# Consolidated Statement of Comprehensive Income

| (in €k) | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Consolidated net profit | 20,723 | 17,757 |
| Amounts that may subsequently be reclassified to the income statement | | |
| Changes to the currency exchange variationen | - 1,146 | - 694 |
| Amounts not reclassifiable to the income statement | | |
| Changes to actuarial profits and losses from performance-based retirement benefits | 335 | - 525 |
| Tax effect | - 101 | 162 |
| Total of earnings and expenditures recorded directly in the equity capital | - 912 | - 1,057 |
| Overall group earnings | 19,811 | 16,700 |
| Of which accounted to shareholders of ISRA VISION AG | 19,596 | 16,499 |
| Of which accounted to non-controlling shareholders | 215 | 201 |

# Consolidated Group Balance Sheet

| (in € k) | Explanation | Sept. 30, 2017 | Sept. 30, 2016 |
|---|---|---|---|
| ASSETS | | | |
| **Short-term assets** | | | |
| Inventories | 9 | 32,667 | 33,726 |
| Trade receivables | 8 | 98,049 | 88,520 |
| Cash and cash equivalents | 23 | 29,728 | 16,919 |
| Financial assets | 10 | 3,146 | 2,706 |
| Other receivables | 11 | 1,954 | 1,645 |
| Income tax receivables | | 747 | 1,845 |
| **Total short-term assets** | | **166,291** | **145,362** |
| **Long-term assets** | | | |
| Intangible assets | 12 | 111,682 | 109,563 |
| Tangible assets | 13 | 5,219 | 5,700 |
| Cash and cash equivalents | 25 | 12 | 0 |
| Financial assets | 10 | 1,083 | 1,194 |
| Deferred tax claims | 19 | 730 | 1,997 |
| **Total long-term assets** | | **118,728** | **118,454** |
| **Total assets** | | **285,019** | **263,816** |
| | | | |
| EQUITY AND LIABILITIES | | | |
| **Short-term liabilities** | | | |
| Trade payables | 15 | 18,064 | 12,422 |
| Financial liabilities to banks | 14 | 30,980 | 35,954 |
| Other financial liabilities | 17 | 14,450 | 11,921 |
| Other accruals | 16 | 945 | 1,568 |
| Income tax liabilities | | 4,832 | 3,487 |
| Other liabilities | 18 | 1,952 | 1,741 |
| **Total short-term liabilities** | | **71,223** | **67,094** |
| **Long-term liabilities** | | | |
| Deferred tax liabilities | 19 | 33,358 | 33,249 |
| Pension provisions | 20 | 3,390 | 4,134 |
| **Total long-term liabilities** | | **36,747** | **37,383** |
| **Total liabilities** | | **107,970** | **104,478** |
| **Equity** | 21 | | |
| Issued capital | | 4,381 | 4,381 |
| Capital reserves | | 38,800 | 38,800 |
| Own shares | | -159 | -159 |
| Other comprehensive income | | 921 | 1,833 |
| Profit brought forward | | 110,886 | 95,432 |
| Net profit accounted to the shareholders of ISRA VISION AG | | 20,508 | 17,556 |
| **Share of equity capital held by ISRA VISION AG shareholders** | | **175,338** | **157,843** |
| Equity capital accounted to non-controlling shareholders | | 1,710 | 1,495 |
| **Total equity** | | **177,049** | **159,338** |
| **Total equity and liabilities** | | **285,019** | **263,816** |

# Consolidated Cash Flow Statement

| (in € k) | Explanation | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|---|
| **Consolidated net profit** | | **20,723** | **17,757** |
| Income tax payments | | -5,092 | -2,498 |
| Changes in deferred tax assets and liabilities | | 1,375 | 2,377 |
| Changes in accruals | | -1,368 | 989 |
| Depreciation and amortization | | 14,509 | 12,089 |
| Changes in inventories | | 1,059 | -3,023 |
| Changes in trade receivables and other assets | | -9,069 | -332 |
| Changes in trade payables and other liabilities | | 14,601 | 6,478 |
| Financial result | | 297 | 436 |
| Other non-cash changes | | 40 | 32 |
| **Cash flow from operating activities** | | **37,077** | **34,305** |
| Payments for investments in tangible assets | | -979 | -889 |
| Payments for investments in intangible assets | | -15,692 | -14,754 |
| Company acquisition | 25 | -12 | 0 |
| **Cash flow from investment activities** | | **-16,683** | **-15,643** |
| Payments to company owners through acquisition of own shares | | 0 | -159 |
| Dividend payouts | | -2,102 | -1,795 |
| Deposits from sales of own shares | | 0 | 93 |
| Repayments of financial liabilities | | -4,974 | -14,149 |
| Interest income | | 48 | 41 |
| Interest expenses | | -346 | -477 |
| **Cash flow from financing activities** | | **-7,373** | **-16,446** |
| Exchange rate-based value changes of the financial resources | | -211 | -458 |
| **Change of financial resources** | 23 | **12,809** | **1,758** |

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 Sept. 30, 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 |

# Consolidated Statement of Changes in Equity

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

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

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

# Notes to the Consolidated Financial Statements as of September 30, 2017

## 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 Immobile Berlin 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) regarding how these are applied in accordance with Regulation No. 1606/2002 of the European Parliament and in accordance with the European Council's ruling on applying international accounting standards in the European Union. Since all IFRS applied by ISRA VISION AG have been adopted by the European Commission for application in the EU, the consolidated financial statements of ISRA VISION AG also correspond to the IFRS published by the IASB. For this reason, the term IFRS is henceforth being used by standard.

The consolidated financial statements are prepared in euro. As against the previous year the consolidated group includes the newly established ISRA Immobilie Darmstadt GmbH, which was incorporated on July 20, 2017 with payment of share capital in the amount of T€ 25. Minority interests held by other shareholders are stated according to their respective pro-rata share of the subsidiary's net assets. The consolidation incorporates 26 subsidiaries.

## 2. Accounting methodes

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

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

### New or changed accounting standards applied for the first time

In the 2016/2017 financial year, the following new or changed standards and interpretations had to be applied for the first time that have no material impact on the net assets, financial position and results of operations of the ISRA Group:

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

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

In addition, IASB or IFRIC also published the following new or changed standards and interpretations, which do not yet have to be applied in the 2016/2017 financial year and whose adoption by the European Union was partially still pending as of the balance sheet date:

- The IASB published IFRS 9, Financial Instruments, in July 2014. IFRS 9 introduces a uniform approach for the classification and measurement of financial assets. The standard is generally based on cash flow characteristics and the business model by which they are controlled. The standard provides for a new impairment model based on expected defaults. In addition, IFRS 9 contains new regulations on the application of hedge accounting in order to better illustrate a company's risk management activities, particularly with respect to the controlling of non-financial risks. This standard will have to be applied to the ISRA Group for the first time in the 2018 / 2019 financial year. An adoption by the European Union took place on November 22, 2016. ISRA is currently analyzing the effects of the adoption of IFRS 9 and does not expect any significant effects on the consolidated financial statements.

- IFRS 14 dated January 30, 2014, grants first-time adopters of IFRS a facilitation to the extent that they may continue accounting previously recognized regulatory deferral account balances from a price regulation. This standard is not relevant to companies that are already accounting according to IFRS.

- In May 2014, the IASB published the standard IFRS 15, Revenue from Contracts with Customers. Based on the new standard, the recognition of revenues must reflect the transfer of the promised goods or services to the customer, with the amount that corresponds to the respective consideration which the company expects to receive in exchange for these goods or services. IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenue, as well as the pertinent interpretations. The realization concept of IFRS 15 comprises individual regulations that consider the specific characteristics of the order manufacturing and, in principle, allow a revenue realization according to the performance progress. Differences in the realization criteria can be identified with respect to the specific arrangement. The interpretation of the regulations of IFRS 15 with regard to the recognition of revenues over a period of time is discussed in the current literature as well as the accounting practice. IFRS 15 is effective for the first time for financial periods beginning on or after January 01, 2018. ISRA will apply the standard to the financial year starting from October 01, 2018. Further insights over the course of the implementation of IFRS 15 affirm that there will be no significant repercussions regarding the consolidated financial statement. Changes regarding the aggregated amount of sales revenues registered for customer contracts do only occur in a very small way in the financial year 2017 / 2018 (in comparison to the analogous prior year period). The by far outweighing amount of production orders, which at the moment are being recognized based on the Percentage-of-Completion method, complies with the requirements for a period-oriented realization of sales revenues.

- The changes of IFRS 10 and IAS 28 dated September 11, 2014, specify the treatment of transactions between an investor and an associated company or a joint venture. As such, the scope of the profit recognition depends on whether the assets gained or lost constitute a business or not.

- IFRS 16, a new standard on accounting for leases, was issued on January 13, 2016. The standard provides a single lessee accounting model that dispenses with the distinction between operating and finance leases, with the result that most leases will have to be recognized in the statement of financial position in the future. In doing so, the lessee will recognize a liability for future payment obligations and, at the same time, capitalize the underlying right-of-use asset. During the term of the lease, the liability is written down according to financial principles and the right-of-use asset is amortized. Other new regulations concern sale and leaseback transactions. IFRS 16 will result in a moderate increase in total assets for the ISRA Group. The asset side of the statement of financial position will be affected by the right-of-use assets to be capitalized under non-current assets. The payment obligations to be recognized will lead to increases in current and non-current financial liabilities. In the income statement, EBITDA will increase slightly as, instead of lease expenses, amortization on right-of-use assets and the interest expense will be recognized in the future. IFRS 16 replaces IAS 17 and the associated interpretations, and is effective for the ISRA Group for the first time in the 2019 / 2020 financial year. An adoption by the European Union took place on October 31, 2017.

- The amendments to IAS 12 of January 19, 2016 clarify the recognition of deferred tax assets for unrealized losses in connection with the measurement of debt instruments at fair value. The changes will have to be applied to the ISRA Group for the first time in the 2017 / 2018 financial year. An adoption by the European Union took place on November 6, 2017.

- The changes of IAS 7 dated January 29, 2016 result in extended statements on changes in financial liabilities and have to be applied by the ISRA Group for the first time in the 2017 / 2018 financial year. An adoption by the European Union took place on November 6, 2017.

- The amendments to IFRS 2 published on June 20, 2016 clarify the classification and measurement of share-based payment transactions. This will have to be applied to the ISRA Group for the first time in the 2018 / 2019 financial year. An adoption by the European Union is still pending.

- IFRIC 23, Accounting for Uncertainties in Income Taxes, dated June 07, 2017 contains clarifications concerning accounting for facts and circumstances in the event of uncertainty in the application of IAS 12 (Income Taxes). The regulations will have to be applied to the ISRA Group for the first time in the 2019 / 2020 financial year. An adoption by the European Union is still pending.

*(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, 2017 | Average rate Oct. 01, 2016 - Sept. 30, 2017 |
|---|---|---|
| 1 EUR = USD | 1.1806 | 1.1046 |
| 1 EUR = CNY | 7.8534 | 7.5213 |

*(f) Realization of sales and other revenue*

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

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

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

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

Expenses for in-house product development according to IAS 38

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

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

Research costs

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

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

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

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

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

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

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

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

*(i) Cash and cash equivalents*

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

*(j) Trade receivables and other financial assets*

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

*(k) Inventories*

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

*(l) Tangible assets*

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

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

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

*(m) Value impairments*

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

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

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

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

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

*(n) Trade payables and other financial liabilities*

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

*(o) Financial liabilities*

For the year under review, financial liabilities existed towards the following credit institutions: Baden-Württembergische Bank AG, Commerzbank AG (formerly Dresdner Bank AG), Deutsche Postbank AG, Norddeutsche Landesbank -Girozentrale- (Nord/LB), 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. Release of the consolidated financial statements

The consolidated financial statements were released for publication by the Executive Board on January 12, 2018.

# Explanatory Notes

## 1. Segment reporting

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

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

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

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

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

| (in € k) | Industrial Automation | | Surface Vision | | Total | |
|---|---|---|---|---|---|---|
| | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
| Net sales | 37,210 | 31,128 | 105,785 | 97,687 | 142,995 | 128,815 |
| EBIT | 7,551 | 6,216 | 20,781 | 19,376 | 28,332 | 25,591 |
| Financing result | | | | | -297 | -436 |
| Income taxes | | | | | 7,311 | 7,398 |
| Consolidated net profit | | | | | 20,723 | 17,757 |

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

| (in € k) | Industrial Automation | | Surface Vision | | Total | |
|---|---|---|---|---|---|---|
| | as of Sept. 30, 2017 | as of Sept. 30, 2016 | as of Sept. 30, 2017 | as of Sept. 30, 2016 | as of Sept. 30, 2017 | as of Sept. 30, 2016 |
| Investments in long-term assets in year under review | 3,702 | 2,661 | 13,211 | 13,178 | 16,913 | 15,839 |
| At-equity investments | 0 | 0 | 12 | 0 | 12 | 0 |
| **Value impairment** | | | | | | |
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| **Depreciation and amortization** | | | | | | |
| Other intangible assets | 2,893 | 1,801 | 10,340 | 8,907 | 13,233 | 10,708 |
| Tangible assets | 166 | 165 | 1,214 | 1,216 | 1,380 | 1,381 |
| Assets | 62,715 | 60,775 | 222,304 | 203,041 | 285,019 | 263,816 |

### Regional representation of net sales

| (in € k) | Germany | | Europe | | America | | Asia, ROW* | |
|---|---|---|---|---|---|---|---|---|
| | Oct. 01, 16 - Sept. 30, 17 | Oct. 01, 15 - Sept. 30, 16 | Oct. 01, 16 - Sept. 30, 17 | Oct. 01, 15 - Sept. 30, 16 | Oct. 01, 16 - Sept. 30, 17 | Oct. 01, 15 - Sept. 30, 16 | Oct. 01, 16 - Sept. 30, 17 | Oct. 01, 15 - Sept. 30, 16 |
| Net sales | 21,497 | 21,440 | 29,775 | 26,733 | 24,622 | 24,875 | 67,102 | 55,766 |

* ROW = Rest of the World

In the following countries, ISRA VISION AG achieves more than 10% of its total sales: Germany (€ 21,497k), China (€ 46,751k), US (€ 19,085k).

### Regional representation of assets situation

| (in € k) | Germany | | Europe | | America | | Asia, ROW* | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | as of Sept. 30, 2017 | as of Sept. 30, 2016 | as of Sept. 30, 2017 | as of Sept. 30, 2016 | as of Sept. 30, 2017 | as of Sept. 30, 2016 | as of Sept. 30, 2017 | as of Sept. 30, 2016 | as of Sept. 30, 2017 | as of Sept. 30, 2016 |
| ASSETS | | | | | | | | | | |
| Intangible assets and tangible assets | 114,454 | 112,532 | 831 | 1,105 | 1,373 | 1,452 | 243 | 174 | 116,901 | 115,263 |

* ROW = Rest of the World

### 2. Cost of sales

| (in € k) | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Material | -31,796 | -28,983 |
| Personnel | -30,299 | -27,130 |
| **Total** | **-62,095** | **-56,113** |

The cost of sales increased by € 5,982k, a smaller increase than the one in revenues. The cost of labor includes depreciation and amortization in the amount of € 730k (previous year: € 630k).

### 3. Cost of Sales and Marketing

| (in € k) | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Sales | -28,311 | -25,251 |

Due to increased sales activities, the cost of sales and marketing increased by € 3,060k (previous year: € 4,078k). The cost of Sales and Marketing includes depreciation and amortization in the amount of € 682k (previous year: € 586k).

### 4. Administrative costs

| (in € k) | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Administration | -5,010 | -4,933 |

Administrative costs rose by € 77k (previous year: € 341k). The Administrative costs include depreciation and amortization in the amount of € 121k (previous year: € 114k).

### 5. Total depreciation / amortization

| (in € k) | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Amortization of intangible assets | - 13,233 | - 10,708 |
| Depreciation of tangible assets | - 1,380 | - 1,381 |
| **Total according to inventory of assets** | **- 14,613** | **- 12,089** |

Of the depreciation and amortization of intangible assets, € 11,018k (previous year: € 8,455k) 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, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Freight proceeds | 305 | 272 |
| Revenues from exchange rate differences | 650 | 613 |
| Revenues from insurance indemnifications | 79 | 25 |
| Other operating revenues | 29 | 313 |
| **Subtotal** | **1,063** | **1,224** |
| Grants (in R&D) | 254 | 164 |
| **Total** | **1,317** | **1,388** |

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, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| **Taxes on current earnings** | | |
| Germany | 4,647 | 3,019 |
| Other countries | 1,360 | 1,969 |
| | **6,007** | **4,987** |
| **Deferred tax expenditure** | | |
| Germany | 1,419 | 3,051 |
| Other countries | - 116 | - 639 |
| | **1,303** | **2,411** |
| **Total** | **7,311** | **7,398** |

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, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Earnings before taxes | 28,035 | 25,155 |
| Expected income tax expenditure | 8,677 | 7,768 |
| Effect from foreign income tax rates | - 102 | - 33 |
| Tax losses with no deferred taxes | 177 | 38 |
| Use of tax loss carryforwards not previously recognized | - 1,311 | 0 |
| Consolidation-based and other effects | - 130 | - 375 |
| Stated income tax expenditure | 7,311 | 7,398 |

In the 2016/2017 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 15.12% weighted – this resulted in an overall tax rate of approximately 30.95% (previous year: 30.88%).

The taxes in the individual financial statements of ISRA VISION LLC, ISRA VISION SYSTEMS Inc., ISRA SURFACE VISION Inc. and ISRA VISION PARSYTEC Inc. were determined at a tax rate of 38.0%. A tax rate of 20.0% was applied to ISRA VISION Ltd. and ISRA VISION PARSYTEC Ltd. For ISRA VISION (Shanghai) Co. Ltd. a 25.0% tax rate was applied. A uniform tax rate of 30.96% 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, 2017 | Sept. 30, 2016 |
|---|---|---|
| Trade receivables of domestic group companies | 42.252 | 30.097 |
| Trade receivables of foreign group companies | 8.377 | 8.553 |
| Receivables from unfinished orders valuated acc. to the percentage of completion method | 47.420 | 49.870 |
| **Balance sheet value** | **98.049** | **88.520** |

Costs of additional recognized profits and minus recognized losses up to the balance sheet date amounted to € 53,355k (previous year: € 56,611k). Partial billings in the amount € 5,935k (previous year: € 6,741k) 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 € 132,361k (previous year: € 119,690k).

The value adjustments on receivables performed as follows:

| (in € k) | 2016/2017 | 2015/2016 |
|---|---|---|
| Value adjustments as of October 1 | 1,956 | 1,717 |
| Usage | 265 | 564 |
| Liquidation | 288 | 163 |
| Allocation | 1,410 | 971 |
| Exchange rate differences | -36 | -6 |
| Value adjustments as of September 30 | 2,778 | 1,956 |

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, 2017 | 98,049 | 81,036 | 3,385 | 2,317 | 1,436 | 1,635 | 8,241 |
| As per Sept. 30, 2016 | 88,520 | 76,931 | 1,009 | 1,618 | 1,098 | 1,060 | 6,803 |

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, 2017 | Sept. 30, 2016 |
|---|---|---|
| Raw materials, ancillary resources and supplies | 11,788 | 11,576 |
| Work in progress | 17,149 | 16,897 |
| Finished products | 3,730 | 5,254 |
| **Balance sheet value** | **32,667** | **33,726** |

In the 2016/2017 financial year, impairment losses on inventories amounted to € 142k (previous year: € 176k).

### 10. Financial assets

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

| (in € k) | Sept. 30, 2017 Short-term | Sept. 30, 2017 Long-term | Sept. 30, 2016 Short-term | Sept. 30, 2016 Long-term |
|---|---|---|---|---|
| Loans and other receivables from employees | 196 | 0 | 289 | 0 |
| Insurance claims | 0 | 997 | 0 | 1,105 |
| Rental deposits | 0 | 86 | 0 | 89 |
| Miscellaneous | 2,949 | 0 | 2,417 | 0 |
| **Balance sheet value** | **3,146** | **1,083** | **2,706** | **1,194** |

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, 2017 Short-term | Sept. 30, 2017 Long-term | Sept. 30, 2016 Short-term | Sept. 30, 2016 Long-term |
|---|---|---|---|---|
| Advance payments | 740 | 0 | 926 | 0 |
| Sales tax receivables | 1,214 | 0 | 719 | 0 |
| **Balance sheet value** | **1,954** | **0** | **1,645** | **0** |

### 12. Intangible assets

Intangible assets include:

| (in € k) | Goodwill | Software, licenses | Capitalized work | Total |
|---|---|---|---|---|
| **Procurement and production costs** | | | | |
| **October 01, 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 01, 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 01, 2016** | **38,873** | **12,710** | **57,980** | **109,563** |
| **September 30, 2017** | **38,767** | **10,921** | **61,994** | **111,682** |

| (in € k) | Goodwill | Software, licenses | Capitalized work | Total |
|---|---|---|---|---|
| Procurement and production costs | | | | |
| October 01, 2015 | 41,007 | 32,442 | 92,415 | 165,863 |
| Additions | 132 | 1,171 | 13,584 | 14,886 |
| Additions from acquisitions | 0 | 0 | 0 | 0 |
| Disposals | 3 | 2,114 | 15,869 | 17,986 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Currency exchange variations | - 190 | - 1 | 1 | - 190 |
| September 30, 2016 | 40,945 | 31,498 | 90,130 | 162,573 |
| Depreciation and amortization | | | | |
| October 01, 2014 | 2,074 | 18,612 | 39,563 | 60,249 |
| Additions | 0 | 2,253 | 8,315 | 10,568 |
| Additions from acquisitions | 0 | 0 | 0 | 0 |
| Disposals | 3 | 2,076 | 15,869 | 17,948 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Value impairment | 0 | 0 | 140 | 140 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 |
| Currency exchange variations | 1 | - 1 | 1 | 1 |
| September 30, 2016 | 2,072 | 18,788 | 32,150 | 53,010 |
| Balance sheet value of intangible assets | | | | |
| October 01, 2015 | 38,932 | 13,830 | 52,851 | 105,614 |
| September 30, 2016 | 38,873 | 12,710 | 57,980 | 109,563 |

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 € 43,146k (previous year: € 32,150k), € 11,018k of which relates to amortization in the year under review (previous year: € 8,455k). Capitalized developments have been value impaired by € 792k (previous year € 140k), 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 € 40k (previous year: € 77k) and depreciation and amortization for patents in the amount of € 2,063k (previous year: € 2,303k).

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 9.96 % was assumed (previous year: 8.28 %).

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, 2017 | Sept. 30, 2016 |
| --- | --- | --- |
| Goodwill Industrial Automation | 5,900 | 5,931 |
| Goodwill Surface Vision | 32,867 | 32,942 |
| **Goodwill** | **38,767** | **38,873** |

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, 2017, 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, 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** |

As of September 30, 2017, 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, 2015** | **2,673** | **5,733** | **8,835** | **306** | **17,548** |
| Additions | 64 | 136 | 753 | 0 | 953 |
| Additions from acquisitions | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 1,085 | 2,428 | 0 | 3,513 |
| Reclassifications | 0 | 0 | 69 | -69 | 0 |
| Currency exchange variations | 5 | 0 | -27 | -3 | -24 |
| **September 30, 2016** | **2,742** | **4,784** | **7,202** | **235** | **14,963** |
| **Depreciation and amortization** | | | | | |
| **October 01, 2015** | **457** | **4,020** | **6,721** | **151** | **11,349** |
| Additions | 54 | 522 | 804 | 0 | 1,381 |
| Additions from acquisitions | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 1,073 | 2,372 | 0 | 3,445 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Value impairment | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 | 0 |
| Currency exchange variations | 1 | 0 | -20 | -3 | -21 |
| **September 30, 2016** | **513** | **3,469** | **5,134** | **148** | **9,264** |
| **Balance sheet value of tangible assets** | | | | | |
| **October 01, 2015** | **2,216** | **1,714** | **2,114** | **155** | **6,199** |
| **September 30, 2019** | **2,229** | **1,316** | **2,068** | **87** | **5,700** |

## 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 € 30,980k (previous year: € 35,954k).

The weighted average interest rate over the 2016/2017 financial year for bank liabilities amounts to 0.57%.

### 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:

| 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 | | | | |

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

All liabilities as of the balance sheet date of September 30, 2017, 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 2016 / 2017.

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 € 18,064k (previous year: € 12,422k). 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, 2016 | Additions | Usage | Liquidation | Change from currency variations | Sept. 30, 2017 | Of which due in the next financial year |
|---|---|---|---|---|---|---|---|
| Warranties | 533 | 274 | 154 | 0 | - 5 | 647 | 647 |
| Contribution for severely disabled persons / Pension Insurance Association | 43 | 49 | 17 | 1 | 0 | 75 | 75 |
| Other accruals | 992 | 1,487 | 1,600 | 654 | - 3 | 222 | 222 |
| **Balance sheet value** | **1,568** | **1,809** | **1,770** | **655** | **- 8** | **945** | **945** |

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

## 17. Other financial liabilities

| (in € k) | Sept. 30, 2017 | Sept. 30, 2016 |
|---|---|---|
| Wages / salaries, performance bonuses, related social insurance contributions and remaining holiday entitlements | 8,873 | 8,337 |
| Other liabilities | 5,577 | 3,583 |
| **Balance sheet value** | **14,450** | **11,921** |

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, 2017 | Sept. 30, 2016 |
|---|---|---|
| Advance payments received | 1,952 | 1,741 |
| **Balance sheet value** | **1,952** | **1,741** |

### 19. Deferred tax assets / deferred tax liabilities

The calculation of the deferred taxes is based on average profit tax rates of 30.41 % (previous year: 30.41 %) for Germany and 38 % (previous year: 38 %) for the United States. The tax reform resolved by the US (Tax Cuts and Jobs Acts) allows, among other things, for a reduction in the national corporate tax rate for companies from 35 % to 21 % from January 01, 2018 on. The US subsidiaries of ISRA VISION AG recognize an excess of future tax receivables over future tax liabilities. The reduction in the tax rate leads to a minimal tax expenditure for the Group. 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, 2017 | Sept. 30, 2016 |
|---|---|---|
| Intangible assets | 17,413 | 16,634 |
| Inventories | - 3,598 | - 4,348 |
| Receivables, POC | 16,829 | 17,819 |
| Other items | 2,714 | 3,144 |
| **Deferred tax liabilities** | **33,358** | **33,249** |
| Losses carried forward | 492 | 1,870 |
| Pension provisions | 222 | 399 |
| Other accruals | 291 | 407 |
| Other items | - 275 | - 679 |
| **Deferred tax assets** | **730** | **1,997** |

The deferred tax assets realized after more than 12 months amount to € 273k (previous year: € 1,045k). The deferred tax liabilities realized after more than 12 months amount to € 12,333k (previous year: € 11,921k). The change in the balance of the deferred taxes amounts to 1.4 million euros (previous year: 2.7 million euros).

Tax losses carried forward totaled 1.6 million euros as of September 30, 2017 (previous year: 6.1 million euros). 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 2018 - 2022.

Permanently valid losses carried forward amount to 1.5 million euros. Within 20 years, € 0.1 million in losses carried forward will expire.

### 20. Pension provisions

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

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

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

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

The retirement benefits overall include 37 eligible persons, 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, 2017, 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 2.21 % (previous year: 1.52 %), projected pension increase 1.70 % 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 2.21 % (previous year: 1.52 %), projected pension increase 1.70 % p.a. (previous year: 1.70 %).

The "Reference Guidelines 2005 G" from Dr. Klaus Heubeck were used as calculation bases. 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 2016 / 2017 financial year:

| (in € k) | 2016 / 2017 | 2015 / 2016 |
|---|---|---|
| Cash value of defined benefit obligations at start of financial year | 3,623 | 3,090 |
| Actuarial (profits) losses | - 335 | 526 |
| Interest costs | 55 | 80 |
| Past service costs | - 414 | - |
| Pension payments | - 76 | - 73 |
| **Total at end of financial year** | **2,853** | **3,623** |

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, 2017, € 2,853 k | Sept. 30, 2017 | Sept. 30, 2016 |
|---|---|---|
| Interest rate + 0.5 % | - 188 | - 254 |
| Interest rate - 0.5 % | 210 | 284 |
| Pension increases (projected pension increase) + 0.5 % | 138 | 174 |
| Pension increases (projected pension increase) - 0.5 % | - 126 | - 159 |

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

| Expected pension payments (in € k) | |
|---|---|
| Financial Year 2017 / 2018 | 96 |
| Financial Year 2018 / 2019 | 101 |
| Financial Year 2019 / 2020 | 108 |
| Financial Year 2020 / 2021 | 109 |
| Financial Year 2021 / 2022 | 112 |
| Financial Year 2022 / 2023 - 2026 / 2027 | 742 |

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 € 537k (previous year: € 511k) on September 30, 2017.

In the 2016 / 2017 financial year, € 2,412k (previous year: € 2,305k) were recorded as incurred as contribution-oriented pension provisions to the statutory pension insurance.

## 21. Equity

### *a) Share capital*

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

Capital developed as follows during the current financial year:

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

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

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

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

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

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

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

*b) Capital reserve*

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

Capital reserves remained unchanged at € 38,800k (previous year: € 38,800k) as of September 30, 2017.

*c) Own shares*

Purchase costs of own shares remained unchanged at € -159k (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, 2017:

| (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 |

The disclosures for the previous year are as follows:

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

In the following the financial information of the subsidiaries as of September 30, 2017 is summarized:

| | Assets as of Sept. 30, 2017 | | Liabilities as of Sept. 30, 2017 | |
|---|---|---|---|---|
| (in € k) | Short-term | Long-term | 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 |

The disclosures for the previous year are as follows:

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

*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 2016 / 2017 financial year from € 2,644k to € 1,498k.

*f) Dividend*

In the 2016 / 2017 financial year, ISRA paid out dividends for the 2015 / 2016 financial year in the amount of € 2,102k. This corresponds to a dividend of € 0.48 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 |
|---|---|---|
| 2017 to 2022 (previous year: 2016 to 2021) | 6,330 | 5,471 |
| After Sep. 30, 2022 (previous year: After Sep. 30, 2021) | 1,225 | 1,563 |
| Expenditures in year under review | 3,465 | 3,872 |

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 | 364 | 312 |
| More than one year and up to five years | 1,248 | 1,248 |
| More than five years | 1,118 | 1,430 |

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 2016/2017 financial year from the operate lease relationship totaled € 240k (previous year: € 240k).

### 23. Observations on consolidated cash flow statement

The cash and cash equivalents comprise cash in hand and bank deposits available at short notice in the amount of € 29,728k (previous year: € 16,919k). The change of financial resources amounts to € 12,809k (previous year: € 1,785k). No cash funds are deposited as a security.

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

### 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 plus a lump-sum for ancillary costs of € 805.29. The terms and provisions of the rental agreement were negotiated at arm's length. As of the balance sheet date, liabilities to ISRA Bau-Mitarbeiter-Beteiligungsgesellschaft GbR amounted to € 0k (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 | 528 | 528 |
| More than five years | 0 | 132 |

### 25. Transactions with affiliated companies or related parties

ISRA Immobilie Berlin GmbH, Darmstadt, was founded on March 03, 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 in the first year. 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, 2017 | Consolidated balance sheet valuation acc. to IAS 39 | | | Carrying amount Sept. 30, 2016 | 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 | 29,728 | 0 | 29,728 | 0 | 16,919 | 0 | 16,919 | 0 |
| Trade receivables | Loans and receivables | 98,049 | 0 | 98,049 | 0 | 88,520 | 0 | 88,520 | 0 |
| Other assets | Loans and receivables | 6,183 | 0 | 6,183 | 0 | 5,545 | 0 | 5,545 | 0 |
| **Of which aggregated to valuation categories acc. to IAS 39** | | | | | | | | | |
| Loans and receivables | | 133,960 | 0 | 133,960 | 0 | 110,984 | 0 | 110,984 | 0 |
| **Equity and liabilities** | | | | | | | | | |
| Trade payables | financial liabilities valued at continued purchase costs | 18.064 | 0 | 18.064 | 0 | 12.422 | 0 | 12.422 | 0 |
| Liabilities to banks | financial liabilities valued at continued purchase costs | 30.980 | 0 | 30.980 | 0 | 35.954 | 0 | 35.954 | 0 |
| Other liabilities | financial liabilities valued at continued purchase costs | 14.450 | 0 | 14.450 | 0 | 11.921 | 0 | 11.921 | 0 |
| **Of which aggregated to valuation categories acc. to IAS 39** | | | | | | | | | |
| Financial liabilities valued at continued purchase costs | | 63.494 | 0 | 63.494 | 0 | 60.297 | 0 | 60.297 | 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, 2017, 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 2016 / 2017 | 2015 / 2016 |
|---|---|---|---|---|---|---|---|
| Loans and receivables | - 108 | | 840 | - 1,123 | 75 | - 316 | 205 |
| Liabilities balanced for continued purchase costs | - 192 | | 2,004 | | | 1,812 | 476 |

### 28. Personnel

During the 2016 / 2017 financial year, the number of employees averaged 679 (previous year: 629).

| | Year under review | Previous year |
|---|---|---|
| Employees | 641 | 590 |
| Temporary help | 38 | 39 |
| **Total** | **679** | **629** |

Cost of labor:

| (in € k) | Oct. 01, 2016 - Sept. 30, 2017 | Oct. 01, 2015 - Sept. 30, 2016 |
|---|---|---|
| Wages and salaries | - 41.514 | - 39.746 |
| Social security expenses, expenses for pension benefits | - 5.995 | - 6.000 |
| **Total** | **- 47.509** | **- 45.746** |

### 29. Information on capital management

The capital management essentially considers cash and cash equivalents (€ 29,728k) 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

The earnings per share in the amount of € 4,68 (previous year: € 4,01) calculated according to IAS 33 are based on the division of the consolidated net profit attributable to the parent company of € 20,508k (previous year: € 17,556k) by the 4,378,240 shares (previous year: 4,379,295 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, 2016 | 4.378.240 |
| Own shares purchased | 0 |
| Shares issued | 0 |
| Own shares sold | 0 |
| September 30, 2017 | 4.378.240 |

### 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 www.isravision.com/entsprechenserklaerungen in the Investor Relations area.

### 332 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 2016/2017 financial year:

| (in € k) | Year under review | Previous year |
|---|---|---|
| Audit of annual financial statements | 205 | 200 |
| Other certification and valuation services | 18 | 24 |
| - for previous years | 0 | 0 |
| Tax advisory services | 38 | 37 |
| Other services | 3 | 68 |
| **Total** | **264** | **329** |

### 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 € -336k (previous year: € -628k). A 10% decrease in the EUR/USD exchange rate would lead to the results being increased by € 410k (previous year: € 768k). Equity would lead to a change of € -232k and € 283k, 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, 2017 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 2016/2017 yields the following results:

If the market interest level as of September 30, 2017 had been 100 base points higher (lower), the result before taxes would have been € 310k (€ 0k) lower (higher) (previous year: € 359k, € 0k). The equity capital would have dropped (risen) by € 214k (€ 0k) (previous year: € 250k, € 0k).

The interest sensitivity analysis is subject to the following assumptions:

The bank liabilities existing as of the reporting date of September 30, 2017, 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 € 4,229k (previous year: € 3,900k).

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 bought land in Darmstadt for the construction of future Group headquarters after the end of the 2016/2017 financial year. They are expected to be occupied in the course of 2019.

## 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 2016/2017 financial year, the non-performance-based parts of the remunerations total € 280k for Mr. Christ (previous year: € 260k), for Mr. Ersü € 510k (previous year: € 495k), for Mr. Amir € 300k (previous year: € 50k), for Dr.-Ing. Giet € 255k (previous year: € 230k), for Mr. Gerecke € 318k (previous year: € 295k) and for Mr. Rothermel € 85k (previous year: € 170k). The benefits in kind and allowances, which included the use of a company car and allowances for health insurance, amounted to € 27k for Mr. Christ (previous year: € 27k), € 28k for Mr. Ersü (previous year: € 28k), € 37k for Mr. Amir (previous year: € 6k), € 22k for Dr.-Ing. Giet (previous year: € 22k), € 11k for Mr. Gerecke (previous year: € 11k) and € 11k for Mr. Rothermel (previous year: € 22k). 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 2016/2017. The following amounts are an indication for the expected level of the performance-based remuneration, in particular for Mr. Christ € 90k (previous year: € 85k), € 160k for Mr. Ersü (previous year: € 140k), € 30k for Mr. Amir (previous year: € 10k), € 40k for Dr.-Ing. Giet (previous year: € 35k), € 30k for Mr. Gerecke (previous year: € 45k) and € 8k for Mr. Rothermel (previous year: € 25k). The variable performance-based remunerations with long-term incentive total € 30k for Mr. Christ (previous year: € 28k), € 35k for Mr. Ersü (previous year: € 35k), € 15k for Dr.-Ing. Giet (previous year: € 15k), € 5k for Mr. Gerecke (previous year: € 10k) and € 0k for Mr. Rothermel (previous year: € 10k). This resulted overall in the following expected non-performance-based and performance-based remunerations for Mr. Christ € 400k (previous year: € 373k), for Mr. Ersü € 705k (previous year: € 670k), for Mr. Amir € 330k (previous year: € 60k), for Dr.-Ing. Giet € 310k (previous year: € 280k), for Mr. Gerecke € 353k (previous year: € 350k) and for Mr. Rothermel € 93k (previous year: € 205k). The remuneration of the Executive Board totalled € 2,327k (previous year: € 2,284k). For previous years, the particular amounts of the performance-based remuneration with long-term relevance have been paid in the financial year 2016/2017.

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 € 125k (previous year: € 100k). No option rights have been granted to members of the Supervisory Board. The Chairperson of the Executive Board received a loan in the amount of € 200k (previous year: € 200k) in November 2010 for an investment object. The investment object serves as hedging. The interest rate is based on EONIA plus margin in accordance with the refinancing of the Company. The loan, which is paid off at the end of the term, has a repayment period of three years and is automatically extended by one year.

### Supervisory Board

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

Dr. Wolfgang Witz, Freiburg im Breisgau; Attorney at Law and Partner of the law firm Baas, Overlack, Witz, Mannheim; Chairperson of the Advisory Committee of Troester GmbH & Co. KG, Hanover; Deputy Chairperson of the Advisory Committee of TET Systems GmbH & Co. KG, Heidelberg; Deputy Chairperson of the ISRA Supervisory Board since February 2000, resigned in September 2017

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

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

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

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

### Executive Board

Mr. Enis Ersü, Graduate Engineer, Darmstadt (Chairperson)
Mr. Hans Jürgen Christ, Graduate Engineer, Ober-Ramstadt (Deputy Chairperson)
Mr. Shlomo Amir, MBA, Kokhav Ya'ir, Israel (Deputy Chairperson) since August 2016
Dr.-Ing. Johannes Giet, Graduate Engineer, Eggenstein
Mr. Andreas Gerecke, Graduate Engineer, Hagen
Mr. Werner Rothermel, Graduate Engineer, Alsbach-Hähnlein, until March 2017

Darmstadt, January 12, 2018

ISRA VISION AG
The Executive Board

List of shareholdings of subsidiaries as of September 30, 2016

| | Name and domicile of the Company | Shareholding (in %) | Indirect investment via affiliate (no.) |
|---|---|---|---|
| Parent company | | | |
| ISRA VISION AG, Darmstadt, Germany | | | |
| Overview of affiliated companies | | | |
| 1. | ISRA VISION SYSTEMS Inc., Bloomfield Hills/Michigan, USA | 100 | |
| 2. | ISRA SURFACE VISION GmbH, Herten, Germany | 100 | |
| 3. | ISRA VISION LASOR GmbH, Bielefeld, Germany | 100 | |
| 4. | ISRA SURFACE VISION Inc., Berkeley Lake/Georgia, USA | 100 | 3. |
| 5. | ISRA VISION (Shanghai) Co. Ltd., Shanghai, China [a)] | 100 | |
| 6. | ISRA VISION Ltd., London, United Kingdom | 100 | |
| 7. | ISRA VISION PARSYTEC AG, Aachen, Germany | 96,07 | |
| | ISRA PARSYTEC GmbH, Aachen, Germany | 96,07 | 7. |
| | ISRA VISION JAPAN Co. Ltd., Tokyo, Japan | 96,07 | 7. |
| | ISRA VISION Korea Co. Ltd., Seoul, South Korea | 96,07 | 7. |
| | ISRA VISION PARSYTEC Inc., Berkeley Lake/Georgia, USA | 96,07 | 7. |
| | ISRA VISION PARSYTEC Ltd., Hampshire, United Kingdom | 96,07 | 7. |
| 8. | metronom Automation GmbH, Mainz, Germany | 100 | |
| 9. | ISRA VISION Graphikon GmbH, Berlin, Germany | 100 | |
| 10. | ISRA VISION GmbH, Darmstadt, Germany | 100 | |
| 11. | ISRA VISION INDIA Private Limited, Mumbai, India [a)] | 100 | |
| 12. | ISRA VISION Finland Oy, Helsinki, Finland | 100 | |
| 13. | 3D-Shape GmbH, Erlangen, Germany | 100 | |
| 14. | ISRA VISION COMÉRICO, SERVIÇOS, IMPORTAÇÃO E EXPORTAÇÃO LTDA., São Paulo, Brazil [a)] | 100 | |
| 15. | ISRA VISION LLC, Moscow, Russia [a)] | 100 | |
| 16. | GP Solar GmbH, Neuried, Germany | 100 | |
| 17. | GP Inspect GmbH, Neuried, Germany | 100 | 16. |
| 18. | ISRA VISION VISTEK A.S., Istanbul, Turkey [a)] | 75 | |
| 19. | Vision Experts GmbH, Karlsruhe, Germany | 100 | |
| 20. | ISRA Immobilie Berlin GmbH, Darmstadt, Germany [a)] | 49,99 | |
| 21. | ISRA Immobilie Darmstadt GmbH, Darmstadt, Germany [a)] | 100 | |

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

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

## 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, 2017, 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, 2016 to September 30, 2017 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, 2016 to September 30, 2017. In line with German statutory provisions, we did not audit the content of the corporate governance declaration in accordance with section 315(5) HGB or of the corporate governance report in accordance with 3.10 of the German Corporate Governance Code.

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, 2017 and its results of operations for the financial year from October 1, 2016 to September 30, 2017 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 Group's corporate governance declaration or the corporate governance report.

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, 2016 to September 30, 2017. 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 47,420k are reported in the consolidated financial statements of ISRA VISION AG, Darmstadt, as of September 30, 2017. They account for around 17 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 38,767k is reported in the consolidated financial statements as of September 30, 2017.

   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 61,994k allocated to several cash-generating units is reported in the consolidated financial statements as of September 30, 2017.

   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.

*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 effec-tiveness 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 15, 2017. We were engaged by the Supervisory Board on March 31, 2017. 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 16, 2018

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 16, 2018

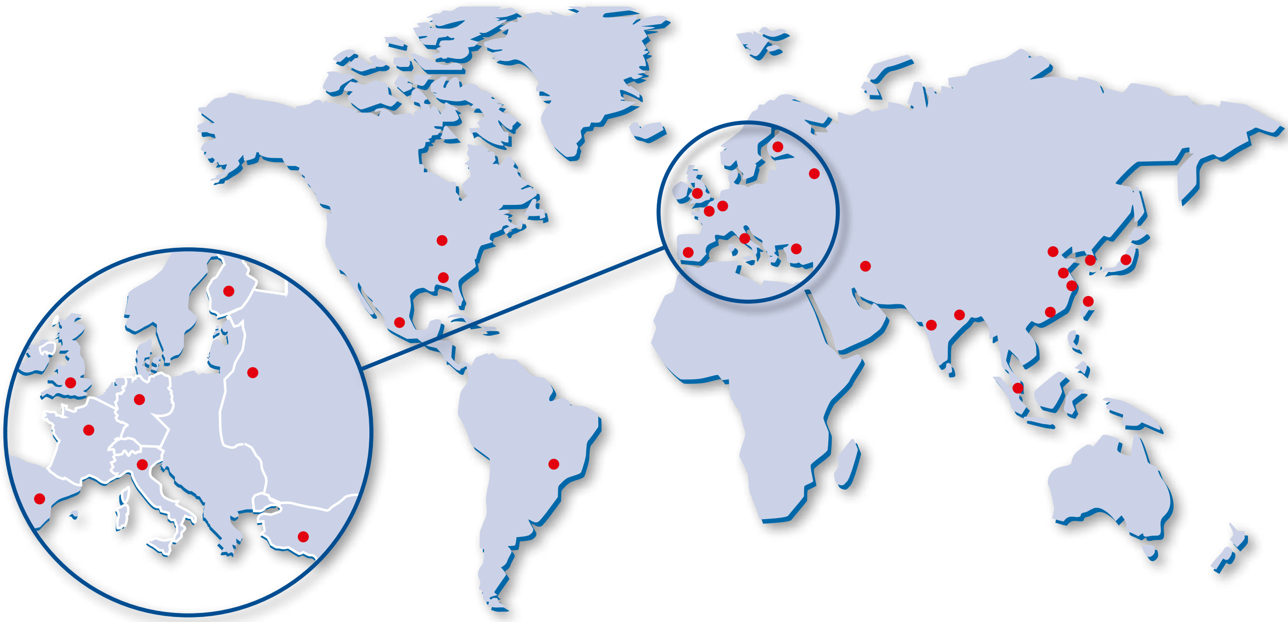
The Executive Board

# 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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