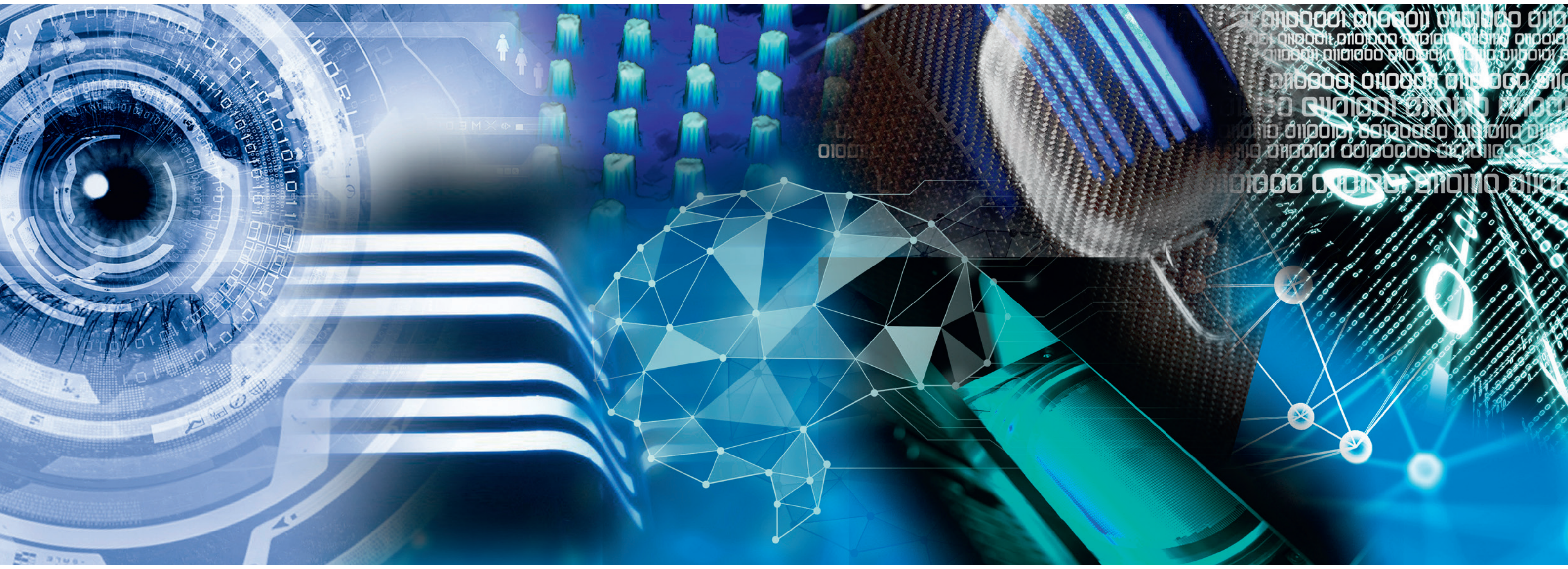
ISRA VISION

Annual Report 2018 / 2019



Preparing Future Growth with Vision Excellence

Group Management Report ISRA VISION AG

Financial Year 2018/2019

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's market leaders for surface inspection systems. Furthermore, it is among the globally leading providers of 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 products. With these products, ISRA addresses very demanding applications based on modular hardware and software, e. g. for automated optical quality assurance in the Glass, Paper, Printing, Solar, Advanced Materials, High-performance Materials and Metal Industries, or for the flexible automation of industrial robots for precise assembly or gripping processes in addition to inline measurement and quality control in automotive production. The application-specific products are marketed by way of industry-specific key account management and long-term cooperation with the global market leaders in the respective sectors.

On the other hand, ISRA offers a growing portfolio of generic standard products that are designed for broader use in 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.

Furthermore, ISRA offers general production analytics software tools for the optimization of production, which are marketed as a supplement to both application-specific and generic products. With these software modules, ISRA enables users in all customer industries to centrally aggregate production data, to prepare for different issues and decisions and thus sustainably optimize the 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 the scientific know-how of optics, sensor and lighting technology, measurement technology, physics, image processing and classification algorithms with a system architecture adapted to the processes and requirements of its customer industries. Combined with the ability to process and analyze large volumes of quality and production data, and the networking of sensors and IT systems, ISRA is able to develop innovative, comprehensive solutions for smart production in line with INDUSTRIE 4.0 and to market them in the various customer industries.

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

Group, subsidiaries and branch locations

ISRA currently has more than 25 locations in all relevant industrialized countries, making it one of the most broadly positioned suppliers to 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 other products, 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 the help of 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, Advanced Materials, Innovative High-performance Materials and Security Paper and Printing is concentrated at the Herten site. In addition, Herten manages the central production for all areas. Employees at the Bielefeld site develop 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 on a silicon basis 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 activities.

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. ISRA's development activities in the field of embedded vision sensors are being driven forward at the two locations in Zurich (Switzerland) and Barcelona (Spain).

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 region. The focus here is on sales, service and engineering for customers from the Automotive, Metal, Advanced Materials, Printing 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, Advanced Materials and Print Industry are supported by the Taiwan office. The activities in Mumbai and Calcutta (India) also target customers in the glass, metal, plastics and printing 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 and lithium-ion batteries.

1.2 Objectives and strategies

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 the Company's core competence.

Continuous growth

Innovations remain important drivers of 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, the 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 for customers.

In addition, the multi-branch strategy is an important factor to continue the course of the double-digit percentage growth. The Company not only diversifies 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 even stronger and independent of economic and regional fluctuations. Consequently, projects on developing new customer industries, geographic regions or application fields will continue to be examined and implemented provided they offer goods chances of being successful.

Optimization of cash flow and margins

By relying on economies of scale in all areas and achieving efficiency increases in production, the Management sees optimization and growth potentials for cash flow as well as margins. To prepare the organization for continued revenue growth beyond 200 million euros, the Management concentrates on measures for increasing the cost efficiency of internal processes. The activities for making processes leaner and for reducing lead times are being continued in production. 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 over 60%. In addition, optimizing cash management remains an important focus.

Targeted acquisitions help to expand the portfolio

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

1.3 Internal management system

The economic planning and management of the Group takes place centrally via the targets calculated by the Executive Board that are coordinated with the segments and functional units during the strategy process. On the basis of these targets, business development is continuously reviewed using regularly updated estimates of the control and performance indicators, in which the implementation of the strategic goals is monitored and measures are introduced to counteract deviations from plan.

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 managing the Company. The forecasts are created on a continuous basis by the sales department. Based on this foundation, decisions are made on further personnel requirements in the areas 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 a catalyst for the growth strategy

Research and Development are an important foundation for innovations and, therefore, the prerequisite for the future growth of ISRA. In order to be able to expand product offerings for existing and new customers and develop new applications for potential markets, ISRA constantly invests in Research and Development. In the year under review, 24.8 million euros were invested for this purpose, 10% more than in the previous year (22.7 million euros).[2]

In the past financial year, the company once again successfully introduced a variety of new products and applications to the market. These include new products that offer customers a higher return on investment as well as more cost-effective solutions tailored specifically for markets in Eastern Europe, Asia and Latin America. Regular customers were offered optimized products and solutions for existing and future production lines. At Group level, advanced 3D point cloud technology, the integration of embedded technologies and production analytics software tools were at the center of development activities. With the acquisition of the Swiss company Photonfocus AG in August 2019, the strategic portfolio in the field of embedded sensor technology was expanded once again in a strategic manner; the development competencies are already flowing into new product generations and will open up additional market potential.

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 various hierarchy levels within a company and along the entire value chain, is

---

[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 of the ISRA Consolidated Financial Statements.

[2] Information on capitalized developments can be found in the section "Earnings situation" in the Economic Report.

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.

INDUSTRIE 4.0 thus offers enormous potential 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 equipped 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 by issues topics 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. For example, the product families for efficient bin picking, 3D metrology and high-precision 3D surface measurement have been expanded. In the Surface Vision segment, the current products for metal, glass and plastic web inspection with their successful market presence underwent further development. The focus is on increasing resolution and inspection speed, integrating intelligent sensors and combining them with 3D technologies. At the same time, the application portfolio in the individual target industries was expanded based on current 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. Economic Report

2.1 Macroeconomic and sector-specific conditions

According to the economic reports published by banks and economic research institutes[3] at the end of 2019, the global economic momentum has further decreased over the course of 2019. Especially in the advanced economies, the economy continued to deteriorate, while the situation in many emerging markets stabilized. All in all, depending on the source, growth of approximately 3.0% is expected for 2019, which could be below the level of the previous year and lower than expectations. The weakness of world trade due to trade policy conflicts and the stagnation of industrial production are cited as the main factors influencing the course of the global economy. The service sector, on the other hand, has been largely stable.

[3] Ct., for example: Institute for the World Economy, *Weltkonjunktur im Winter 2019*; Institute for the World Economy, *Deutsche Konjunktur im Winter 2019*; Berenberg Bank, *Horizonte Q1 2020;* Berenberg Bank, *Volkswirtschaft, December 16, 2019, Makroausblick 2019;* Commerzbank, *Woche im Fokus – Ausblick 2020: Erst halb voll, dann halb leer;* Commerzbank, *Woche im Fokus, Hoffnungszeichen aus China und den USA?*; Deutsche Bank, *Weltwirtschaftlicher Ausblick: Wieder in der Spur*.

Contradictory signals from the regions

As the main sales markets of ISRA, how Germany, North America and China develop is of particular interest to the Company's course of business. The growth assessment in these three countries turns out to be mixed. With GDP growth of around 0.5%, Germany was significantly below the previous year's figure and below the forecasts. This was due to a negative trend in industrial production with declining value added as a result of a reduced willingness to invest internationally. This has also affected business-related services. In the USA, the economic momentum is gradually slowing down. The weakening global economy in conjunction with increased trade policy uncertainty and the expiry of financial stimuli had a negative impact on growth. This will result in GDP growth of around 2.3% for the year as a whole. In China, growth will continue to decline as a result of the weak export business in conjunction with the trade war with the USA and the only moderate easing of economic policy. A growth rate of around 6.2% is expected based on the forecasts.

Weaker development in the sector

Machine Vision is a key technology that is used in nearly all industries. The sector benefits 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 helps companies to conserve resources and minimize environmental pollution.

Competitive structures in the industry can be characterized by a high level of fragmentation in the form of many providers with a 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 2019, the German Engineering Federation VDMA expects that the German industry revenues in the image processing industry will not be able to maintain the very high level of the two previous years as a result of weaker economic development in customer markets. A decline in sales in the mid to high single-digit percentage range is projected.[4] For the North American Machine Vision industry, the industry association AIA has reported a 4.5% decline in industry sales for the first quarter of 2019; no growth figures have been published for the year as a whole to date. Similarly, no statements are available for the Asian region for 2019.

2.2 Course of business and situation

ISRA's business development in 2018/2019 stands out positively overall compared to the Machine Vision market. In the first three quarters of the financial year, the Company had successfully asserted itself in the steadily cooling market by posting robust growth. In the fourth quarter, delays in expected major orders, particularly from Europe and Asia, significantly weakened the momentum. As already announced on November 25, 2019, revenues for the past

[4] cf. VDMA Robotic and Automation: Konjunktureller Abschwung erfasst Robotik und Automation, press release dated November 22, 2019; AIA, AIA statistics show a 4.5 percent decline in sales over the same period in 2018, down to 674 million dollars, press release dated June 19, 2019

financial year developed in the low single-digit range (+1%) and amounted to 153.9 million euros (previous year: 152.5 million euros).

Management countered the slowdown in the markets by undertaking targeted measures to generate new market impetus. Digital marketing has been strengthened and sales capacities have been expanded by around 15% and largely completed. In conjunction with the strong innovation roadmap, the focus is on reviving the dynamics of incoming orders. Measures aimed at optimizing costs in the areas of production efficiency, management reorganization and process optimization are also already being implemented. Under these conditions, the Company has secured profitability at its usual high level for the entire financial year 2018/2019. EBT[5] (earnings before taxes) developed slightly positively and, at 33.7 million euros (FY 17/18: 33.0 million euros), is at a margin of 22% to sales (FY 17/18: 22%).

Besides organic growth, external growth through acquisitions of suitable companies represents yet another important component of the long-term strategy. A further project was completed in the past financial year. By integrating Photonfocus AG, ISRA has strategically expanded its portfolio in the area of embedded sensor technology in order to combine 3D Machine Vision expertise with robot automation both in established markets and in industries with discrete manufacturing. Significant progress has also been made in the area of surface inspection: High sensor speeds as well as the use of 3D and infrared technology and hyperspectral sensor technology in the Photonfocus portfolio allow for additional applications to be addressed in ISRA's established markets.

The global economic trends in financial year 2018/2019 are also reflected in the results of the segments. In the Industrial Automation segment, whose customer base includes in particular premium automobile manufacturers and global players from a wide range of industries, the momentum weakened slightly and orders were postponed, resulting in revenues of 39.1 million euros (previous year: 39.8 million euros).

The segment result is mainly being driven by Machine Vision solutions for robot-guided assembly and measurement technology. Good demand for the Machine Vision portfolio for networked production and the easy-to-operate, INDUSTRIAL 4.0-capable systems from the "Touch & Automate" family continues to be observed. In the course of the year, the market launch of product innovations for 3D surface inspection with integrated precision measurement technology for discrete industries such as the automotive, electronics or display industry was also started, which is expected to provide additional impetus in the coming months.

In the Surface Vision segment, ISRA achieved slight growth through broad diversification across various target markets, with revenues rising to 114.8 million euros (previous year: 112.7 million euros). In the area of metal, one of the growth drivers in recent financial years, the Company countered the delays in incoming orders by intensifying its marketing and sales and by introducing innovations in the field of 3D inspection. There are already signs of an improvement in the dynamics of incoming orders. The Advanced Materials unit recorded strong sales

[5] EBITDA, EBIT and EBT figures and costs have been adjusted in this report – unless stated otherwise – for acquisition costs amounting to 1.6 million euros.

growth over the entire financial year 2018 / 2019. The development of new niche markets for innovative materials, combined with increasing quality requirements in the respective end markets, ensure sustained order intake. In the area of glass, business is developing comparably well with high customer demand. Here, the focus on high-end applications for demanding markets such as the display and solar industries is paying off. The Print division will be further strengthened by making targeted investments in marketing and sales. In the solar industry, important major orders were received in financial year 2018 / 2019; the Chinese market in particular offers further potential in 2019 / 2020. A number of recently delayed projects are at an advanced stage of negotiations or close to completion. In the Paper division, the Management is strengthening the Company by further optimizing the portfolio with cost-cutting embedded technologies and by focusing on high-margin industries such as the packaging sector. The Security division with specialized inspection systems for high security paper developed as planned at a moderate growth level. The still young business field of semiconductor inspection is expanding the application spectrum by taking new technological approaches. New strategic customers were acquired in the course of the year. The important service area (Customer Support & Service Center) was strategically strengthened in the financial year through intensified internationalization and management expansion, among other efforts.

2.2.1 Results of operations

Moderate increase in sales under challenging market conditions

ISRA increased its revenues in financial year 2018 / 2019 by approximately 1% to 153.9 million euros (previous year: 152.5 million euros). Orders that were planned for delivery in the 4th quarter could only be recorded at a later date. As a result, production capacities reached their limits and the respective sales cannot be realized until financial year 2019 / 2020. ISRA’s willingness to make new or replacement investments in its various target industries has an influence on the order backlog and the revenues that can subsequently be achieved. The current order backlog of approx. 82 million euros gross (previous year: approx. 98 million euros gross) and the incipient recovery of the economic environment represent a good foundation for the current financial year.

Consolidated Total Output EBITDA / EBIT Statement[6, 7]

Total output rose to 171.9 million euros in financial year 2018 / 2019, which is 1.8% more than in the previous year (168.9 million euros). Own work capitalized increased by 10% to 18.0 million euros (previous year: 16.4 million euros). The cost share of production was further reduced to 65.4 million euros (previous year: 65.5 million euros) in the year under review through ongoing optimization of products and production processes and now amounts to 38% of total operating performance. This led to a gross margin of 62% (previous year: 61%). With respect to revenues, the margin amounted to 69% (previous year: 68%).

[6] This pro forma presentation is an additional presentation based on the previous years and therefore not part of the ISRA Consolidated Financial Statements.

[7] EBITDA, EBIT and EBT figures and costs have been adjusted in this report – unless stated otherwise – for acquisition costs amounting to 1.6 million euros.

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Sales revenues	153.901	152.528
Own work capitalized	18.036	16.377
Total output	171.937	168.905
Cost of materials	33.545	33.651
Cost of labor exculding depreciation	31.897	31.886
Cost of production exculding depreciation	65.441	65.538
Gross profit	106.495	103.367
Research and Development total	24.849	22.680
Sales and Marketing	27.958	28.765
Administration	5.469	5.023
Sales and Administration exculding depreciation	33.428	33.787
other revenues	3.763	2.130
EBITDA before acquisition costs	51.982	49.031
Depreciation	18.116	15.809
Total costs	76.392	72.276
EBIT for acquisition costs	33.866	33.222
Financing income	221	153
Financing expense	-386	-345
Result of financing	-164	-192
EBT before acquisition costs	33.701	33.030
Acquisition costs	-1.563	0
EBT	32.138	33.030
Income taxes	9.511	9.769
Group result	22.627	23.260
of which attributable to non-controlling shareholders	67	152
of which attributable to shareholders of ISRA VISION AG	22.559	23.108
Group earnings per share in euros	1,03	1,06
Number of shares in circulation	21.889.900	21.902.903

Sales, Marketing, Administration and R&D

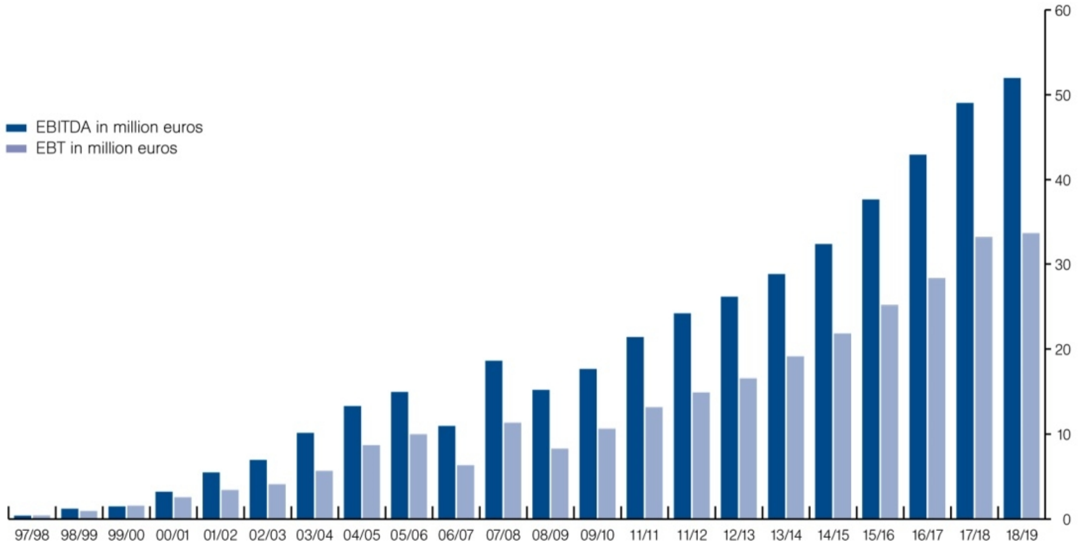
Expenditures for Sales and Marketing amounted to 28.0 million euros in the reporting period (previous year: 28.8 million euros). Administrative expenses increased to 5.5 million euros (previous year: 5.0 million euros) and amounted to 3% of total operating revenue (previous year: 3%). The Company's R&D expenditure amounted to 24.8 million euros in the period under review (previous year: 22.7 million euros). This equates to an increase of

10%. 18.0 million euros (previous year: 16.4 million euros) of it were invested in developing new products that are soon to be launched on the market. These amounts were capitalized in accordance with IAS 38.

Positive development of the margins

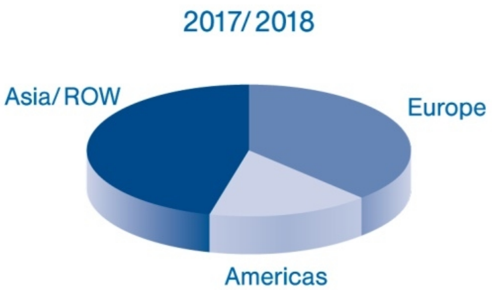
On the basis of the outlined cost development, ISRA increased its EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) by 6% to 52.0 million euros (previous year: 49.0 million euros). This resulted in an improved margin of 30% (previous year: 29%) based on total output. With an increase of approx. 15%, depreciation and amortization in the year under review totaled 18.1 million euros (previous year: 15.8 million euros). 16.8 million euros (previous year: 14.3 million euros) of this figure was attributed to depreciation and amortization for capitalized development of the previous years and the year under review as well as software and licenses. The remaining depreciation and amortization decreased by 14% to 1.3 million euros (previous year: 1.5 million euros). As a result, ISRA generated EBIT (Earnings Before Interest and Taxes) in the amount of 33.9 million euros in the year under review. This represents an increase of 2% compared to the previous year's figure of 33.2 million euros. The financial result remained constant at minus 0.2 million euros (previous year: minus 0.2 million euros). ISRA increased its Earnings Before Taxes (EBT) by 2% to 33.7 million euros (previous year: 33.0 million euros). In relation to total output, this equates to a margin of 20%, in relation to revenues 22% (previous year: 20% and 22%, respectively). Tax expenditures amounted to 9.5 million euros (previous year: 9.8 million euros). Taking into account acquisition costs of 1.6 million euros, ISRA achieved consolidated Group earnings attributable to the shareholders of ISRA VISION AG of 22.6 million euros (previous year: 23.1 million euros). Based on the weighted average number of shares[8] of 21,889,900 (previous year: 21,902,903), earnings per share amounted to 1.03 euros (previous year: 1.06 euros).

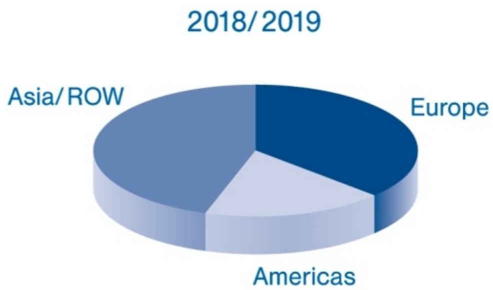
[8] The number of shares is the weighted average of externally owned shares during a financial year and does not include the shares repurchased by the Company.



Development in the segments and regions

In the Industrial Automation segment, in which the sales activities are directed primarily at the automotive industry, the revenues in the current reporting period decreased slightly to 39.1 million euros (previous year: 39.8 million euros). EBIT remained relatively constant at 9.2 million euros (previous year: 9.4 million euros), and the EBIT margin was accordingly 20% of total operating revenue (previous year: 21%). Revenues in the Surface Vision segment rose to 114.8 million euros (previous year: 112.7 million euros), an increase of 2%. EBIT rose by 4% to 24.7 million euros (previous year: 23.8 million euros), the EBIT margin was 20% of total operating revenue (previous year: 19%).





As one of the world's most broadly positioned companies in the Machine Vision industry, ISRA is represented at more than 25 locations in all relevant countries. This broad international presence and diversification across various forward-looking markets proved its value in financial year 2018 / 2019 even in a weak global economic climate. In Europe and Asia, ISRA was able to confirm the high level of the previous year despite the growing challenges, while growth rates were even achieved in North America.

2.2.2 Financial Position

The top priority of financial management is to ensure 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 ISRA VISION AG in Darmstadt. Liquidity is safeguarded through in-depth financial planning. An important task for the future continues to be the systematic optimization of working capital, i.e., increasing the operating cash flow while at the same time reducing net debt.

Capital structure

In financial year 2018 / 2019, the total assets of the ISRA Group increased by 32.2 million euros to 345.1 million euros (previous year: 312.9 million euros). On the liabilities side of the Consolidated Statement of Financial Position, trade payables increased by 2.8 million euros to 23.4 million euros (previous year: 20.6 million euros). Current liabilities to banks rose to 40.6 million euros (previous year: 32.9 million euros). The remaining financial liabilities remained at the previous year's level of 13.8 million euros. Income tax liabilities increased to 4.0 million euros (previous year: 2.5 million euros). Current provisions amounted to 1.3 million euros (previous year: 1.0 million euros).

Under non-current liabilities, deferred tax liabilities rose to 40.7 million euros (previous year: 39.1 million euros). Non-current provisions in the form of pension provisions increased from 3.6 million euros to 4.1 million euros. As in the previous year, there were no non-current liabilities to banks.

The equity ratio amounted to 62% (previous year: 63%) at the end of financial year 2018 / 2019. Issued capital increased by 8 thousand euros to 21.9 million euros (previous year: 21.9 million euros) due to a capital increase in connection with the acquisition of Polymetric GmbH. The use of off-balance sheet financial instruments plays a minor role at ISRA. Only 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

ISRA invested 2.4 million euros in tangible assets in the year under review (previous year: 1.3 million euros). Investments in intangible assets increased to 29.3 million euros (previous year: 18.2 million euros). These are mainly capitalized development costs. The Industrial Automation and Surface Vision segments accounted for investments in non-current assets of 15.2 million euros and 16.5 million euros respectively in the reporting period (previous year: 4.4 million euros and 15.1 million euros). These include investments in financial assets in the amount of 10.2 million euros (previous year: 0.0 million euros) for the acquisition of shares in Photonfocus AG, among other items.

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

Liquidity

As of the reporting date September 30, 2019, ISRA generated operating cash flow of 33.7 million euros (previous year: 25.6 million euros). Trade receivables and other assets increased by 4.4 million euros (previous year: 15.8 million euros). Operating cash flow was largely accounted for by depreciation and amortization of 18.1 million euros (previous year: 15.8 million euros), income tax payments of 6.3 million euros (previous year: 7.3 million euros), an increase in trade payables and other liabilities of 11.5 million euros (previous year: 7.0 million euros), an increase in inventories of 7.7 million euros (previous year: 4.1 million euros) and changes in deferred tax assets and liabilities of 1.1 million euros (previous year: 6.2 million euros), which essentially resulted from a reduction in deferred tax assets.

Cash flow from investing activities amounted to a total of minus 31.3 million euros (previous year: minus 19.9 million euros) and is essentially based on investments in intangible assets and the acquisition of Photonfocus AG. Cash flow from financing activities in the amount of 3.0 million euros (previous year: minus 0.3 million euros) is due in particular to the borrowings of financial liabilities of 7.8 million euros (previous year: 1.9 million euros) in conjunction with profit distributions of 3.3 million euros (previous year: 2.6 million euros) resulting from the dividend of 0.15 euros per share (previous year: 0.118 euros per share)[9]. Taking into account the changes in value due to exchange rate effects of minus 0.3 million euros (previous year: minus 0.5 million euros), cash and cash equivalents increased by a total of 5.2 million euros (previous year: 5.0 million euros) to 39.9 million euros (previous year: 34.7 million euro) as of September 30, 2019.

Financial resources are sufficiently available Group-wide. ISRA has access to unutilized cash credit facilities of 29.1 million euros and unutilized bank guarantees of 10.8 million euros. With positive operating cash flow as well as existing cash, cash equivalents and available credit lines, ISRA has a solid capital base for future growth. Interest risks from previous acquisitions are explained in section 6.

2.2.3 Net assets

On the assets side, ISRA reported cash and cash equivalents in the amount of 39.9 million euros (previous year: 34.7 million euros) on the balance sheet date of September 30, 2019. Current assets accounted for 61% of total assets (previous year: 61%). Trade receivables increased by 4% to 115.8 million euros (previous year: 111.8 million euros). Of this amount, 66.9 million euros (previous year: 66.3 million euros) is related to revenues from unfinished orders, based on the Period-related revenue recognition.

.

[9] For better comparability, the dividend/share for the previous year refers to the theoretical number of shares after the share split in the ratio 1:5 that has already been carried out. The actual dividend before the share split amounted to 0.59 euros/share.

Non-current assets amounted to 135.4 million euros (previous year: 121.6 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 increased by 8.7 million euros to 84.9 million euros (previous year: 76.2 million euros) due to the rise in concessions, industrial property rights and similar rights and values from 9.1 million euros to 15.5 million euros and the increase in own work capitalized as internally generated intangible assets from 66.2 million euros to 69.4 million euros.

Tax losses carried forward for ISRA totaled 0.1 million euros as of September 30, 2019 (previous year: 0.1 million euros). Deferred tax assets were recognized for tax losses carried forward in the amount of 0.1 million euros.

2.2.4 Non-financial key performance indicators and sustainability

ISRA VISION AG is a globally operating Company whose market environment is characterized by increasingly higher dynamics and complexity. This requires sustainable business processes that are characterized by responsible handling of economic, ecological and social resources. Besides efficient, value-oriented corporate governance, the non-financial key performance indicators and sustainability aspects presented below play an important role in the continued success of ISRA. Further information on sustainability and corporate social responsibility can be found in the Combined Non-Financial Report on the ISRA VISION AG website (https://www.isravision.com/csr-reports).

Customer benefits

For products and solutions from ISRA, the benefits to customers are at the center of attention. Important indicators include 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 are often only a few months and allow customers to make budget-independent investments. Resulting low total costs of ownership contribute to a higher operating margin.

Ecological and social benefits

Machine Vision also plays an important role with respect to a sustainable development in industrial production since it helps companies to conserve resources and minimize environmental pollution. ISRA offers solutions that address not only economic customer benefits, 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 who work in production. In the Surface Vision segment, automated surface inspection enables customers in the Glass, Solar, Advanced Materials, High-performance Materials, Printing, Paper, Security Paper and Metal Industry to immediately detect any quality defects during 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 its 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 various application sectors on the market.

The permanent 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 time to market. For this purpose, ISRA uses innovation roadmaps to ensure early identification of future requirements of the market and to acquire and utilize the necessary technologies.

Knowledge of the markets

Considering that ISRA and its predecessor companies have been in business for more than 30 years, the Company has gained a position of trust with its customers. As such, ISRA has 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 that the customer needs, both today and in the future. Customer loyalty, which manifests itself in many years of trustworthy business relationships, is a clear indicator of its knowledge of the markets.

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 yet been supplied to 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

The products sold by ISRA are generally used in systems that manufacture 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 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 supporting global customers who themselves are largely market leaders in their respective industries. To secure and intensify customer proximity, emerging markets are developed quickly and, if the need arises, supported locally by ISRA’s own subsidiaries or operating facilities.

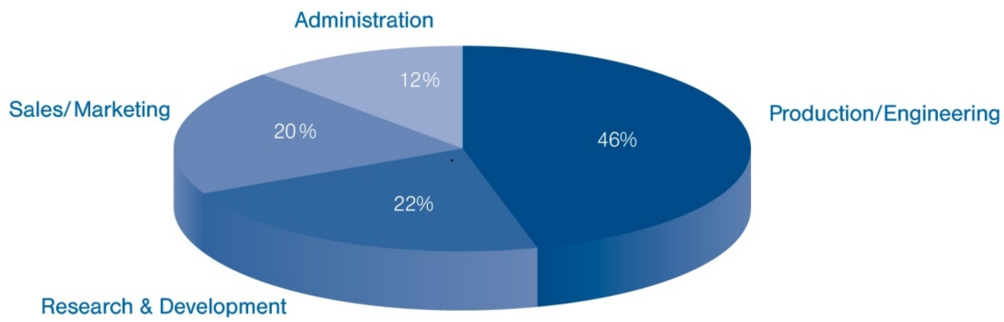
Efficiency of business processes

ISRA continuously works on improving the efficiency of its 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 efficiency in production as well as Research and Development and to ensure lean processes (Lean Production). Furthermore, the Company has established additional programs that, for example, are continuously probing and optimizing the cost structures and workflow management in its administration.

Personnel development and securing specialists

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

In financial year 2018 / 2019, the ISRA Group employed an average of 772 people worldwide (previous year: 699). 861 people were employed as of September 30, 2019 (previous year: 765). Most of its employees work at locations in Germany (61%). Europe (excluding Germany) accounted for 10%, North and South America for 9% and Asia for 20% of its employees.



Of the staff employed worldwide as of September 30, 2019, 46% worked in production and engineering and approximately 22% in Research and Development (R&D). Another 20% of ISRA employees worked in Sales and Marketing and 12% in Administration.

ISRA already pays special attention to well-trained technical personnel with social and interdisciplinary skills 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 as part 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 collaborations and developing them at the international level as well. Furthermore, 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 its current employees even further, the Company supports its employees on a regular basis through internal education as well as 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 responsibility. This allows ISRA to secure its long-term success and create secure high-quality jobs.

Management expertise

The high degree of innovation of products and markets as well as the ambitious growth objectives of ISRA demand a high degree of expertise at the Management level. In this context, ISRA was again able to significantly reinforce the well-established Management which is closely tied to the Company with selective, target-oriented employment. The additions to digital business development, marketing and technical operations in particular deserve special mention in this regard.

Besides the organic growth that is being sought, the acquisition and integration of companies in order to be able to expand market shares and develop new markets poses a special challenge for Management. As part of the successful acquisitions of recent years, ISRA was already able to demonstrate its extensive knowledge in the area of Mergers and Acquisitions.

Social commitment

As a successful globally operating company, ISRA bears social responsibility. Social commitment is important to ISRA and centrally anchored in its corporate mission. A matter of special concern lies in supporting the development and education of children and adolescents, e. g. in the form of monetary donations, but also through the personal commitment on the part of the Management. In accordance with the global orientation of the Company, the charitable efforts also cover various projects all over the world through local social and cultural initiatives at our various sites.

2.2.5 Assessment of the course of business

In view of the economic environment, ISRA's Management considers the financial year that just ended another successful year. In the first three quarters of the financial year, the Company successfully held its ground in a constantly cooling market by posting robust growth and high profitability. It was not until the fourth quarter that delays in expected major orders weakened growth. Although the forecast could not be achieved due to the economic conditions, growth in the low single-digit range (+1%) with sales of 153.9 million euros and consistently high profitability was nevertheless ensured. The gross margin was further improved and the EBITDA and EBT margins were maintained at the high level of the previous year. The continued consistent implementation of the Innovation Roadmap in conjunction with the successful integration of Photonfocus AG, as well as strategic measures to increase efficiency in almost all divisions, created the conditions for future profitable growth. With earnings per share after taxes of 1.03 euros, the Company has also created a good basis for continuing its sustainable dividend strategy (FY 2018 / 2019: 0.15 euros per share).

With regard to non-financial performance indicators, Sales and Marketing were expanded in financial year 2018 / 2019, among other things, and the operating areas were optimized, by new processes and infrastructure in conjunction with intensive training, for example. The employee base was strengthened by selective, targeted hiring, for the Management team and Sales, for example, as well as extensive training programs to promote individual potentials.

Based on the net assets, Financial Position, and results of operations reported here, the Management's overall assessment of the economic position of the Group is positive. On the basis of operating cash flow, in combination with the good equity capital position of the Company, ISRA has achieved a high degree of independence that 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. Forecast Report

Among other things, ISRA's forecasts are based on statements by economic research institutes and banks on the development of the global economy.[10] A moderate environment is expected in 2020 according to their forecasts published in December 2019, with signs of a stabilization of economic development.

The institutes and banks also note that the actual economic performance in the coming years will be largely dependent on how quickly the current trade policy conflicts between the USA, China and Europe can be resolved or whether a renewed escalation further deteriorates the framework conditions for international trade. Further risks include the fact that the weakness of the industry to date could spread to other sectors of the economy. Fiscal policy on the part of governments and central banks could only provide limited stimulus due to a globally inconsistent orientation with a partly restrictive, partly expansive effect.

The economic trend can be expected to increasingly stabilize and turn positive in the course of the year. Assuming that monetary and fiscal policies develop as expected, worldwide economic growth of approx. 2.4% to 3.1% can be expected for 2020, whereby ISRA Management is more cautiously projecting growth at the lower end of this range.

[10] Cf., for example: Institute for the World Economy, *Weltkonjunktur im Winter 2019*; Institute for the World Economy, *Deutsche Konjunktur im Winter 2019*; Berenberg Bank, *Horizonte Q1 2020;* Berenberg Bank, *Volkswirtschaft, December 16, 2019, Makroausblick 2019;* Commerzbank, *Woche im Fokus – Ausblick 2020: Erst halb voll, dann halb leer;* Commerzbank, *Woche im Fokus, Hoffnungszeichen aus China und den USA?*; Deutsche Bank, *Weltwirtschaftlicher Ausblick: Wieder in der Spur*.

Framework conditions in Germany, China and the United States

For ISRA's principal markets, however, economists envision different prospects. In Germany, a return to somewhat stronger growth could take place after the emerging bottoming out of the industrial sector. On the basis of a clear recovery in industry from the second half of the year onwards and the good conditions in the service sector, growth of 0.6% - 1.0% could be achieved. For the USA, the economy is expected to continue its downward trend for the time being. Although the business climate in the manufacturing sector has recovered, initial signs of a weaker job market are evident. Due to the continuing uncertainty resulting from the trade disputes with China and the EU, growth is expected to be slightly lower than in 2019 at a rate of 1.5% to 1.9%. The forecasts of banks and institutions for China are inhomogeneous. While some also see signs of a reversal of the economic trend in China, elsewhere no upturn is expected for 2020. Besides the trade conflict with the USA, the high level of company debt and the hesitant increase in economic stimulus programs by the Chinese government are cited as causes for uncertainty. Under these conditions, growth of just under 6% is forecast.

Image processing industry expects a positive development

According to VDMA forecasts, Machine Vision will not achieve growth in Germany and Europe in 2020. However, in the overriding area of robotics and automation, a recovery in incoming orders can be expected in the second half of the year to return to the very high level of 2017 and 2018. In the future, the digitalization of production within the framework of Industry 4.0 should offer enormous growth potential.[11] The US industry association AIA has not yet published an outlook, and specific forecasts for the Asian market are also not yet available.

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

In financial year 2018 / 2019, ISRA continued with the implementation of its growth strategy and expanded its internal structures to prepare the organization for the next revenue dimension of 200+. With the successive hiring of new employees at the more than 25 locations, e.g. the targeted reinforcement of the regional management in the UK, Mexico and Spain, investments are being made worldwide in the Company's global expansion. This makes ISRA one of the most globalized companies in its target markets. ISRA's independence from individual markets and regions, combined with its broad diversification and the sustained expansion of its market share in various customer industries, make the Company relatively strong even in economically difficult phases. The sales level achieved provides a basis for realizing further economies of scale and synergies as a catalyst for profitable growth.

By expanding digital business development, ISRA is implementing a forward-looking digital strategy for market and customer communication and is laying the foundations for additional sales opportunities – for instance by further developing its sales-oriented IT systems (website, Customer Relationship Management, Social Media). Management is countering the slowdown in the markets by initiating targeted measures to generate new market

[11] Cf.: VDMA: *Herbst 2019 – Maschinenbau Konjunktur in den Fachzweigen*; Information für Teilnehmer der VDMA Auftragseingangs- und Umsatzstatistik und gemäß Auskunft des VDMA Fachverbands Robotik + Automation vom 18.12.2019.

impulses. The strengthening of digital marketing and the expansion of sales capacities by approximately 15 % have been initiated and largely completed. In conjunction with its strong Innovation Roadmap, the focus is on reviving the dynamics of incoming orders. Measures to optimize costs in the areas of production efficiency, management reorganization and process optimization are also already being implemented.

As a driving force for further organic growth, ISRA continues to invest in new products and the development of new applications and markets in order to increase revenues. For this reason, the Management is concentrating on the Innovation Roadmap that is continuously adapted to customer needs and market requirements. The Company's technological expertise was greatly expanded through the integration of Photonfocus AG in the past financial year, especially against the backdrop of INDUSTRIE 4.0 and Embedded Machine Vision. With the technologies and development expertise that were acquired, an additional market potential of up to 40 million euros will be opened up in the area of smart factory automation, but also in surface inspection.

The continuous expansion of Customer Support and the Service Centers can contribute more and more to revenue development. A coordinated marketing offensive as well as the reinforcement of the service management form an important basis for the success of the proactive service business on the market.

ISRA with growth opportunities in both segments

The Company expects the market environment to recover and demand to pick up again in the two segments Industrial Automation and Surface Vision. In the Industrial Automation segment, growth is largely being driven by business with leading international automotive manufacturers and market leaders in other industries. They are showing consistently high interest in innovative solutions that use 3D technologies in the production line. In addition to planned orders from the automotive industry, e.g. for fully automated paint inspection, additional growth potential is expected in the coming months from portfolio expansions in the smart factory automation area and from increased entry into new markets for networked automation. The product innovations for 3D surface inspection with integrated precision measurement technology and for 3D robot vision applications address not only the automotive industry but also other industries with discrete manufacturing, such as the electronics and display industry.

In the Surface Vision segment, an improvement in the dynamics of incoming orders is already becoming apparent in the metal business unit, one of the strategic growth drivers of recent years, as a result of marketing and sales intensifications as well as innovations in the field of 3D inspection and production analytics tools. In advanced materials, the increasing quality requirements in existing markets and the development of new niche markets for innovative materials continue to ensure strong order intake and a continuation of the significant growth in financial year 2019 / 2020. In the glass business unit, the Company expects a sustained positive development and further orders from the thin glass and display glass sectors as well as the development of new potential through product innovations for the inspection of float glass and smart touch devices. The print business unit has already been further strengthened through targeted investments in marketing and sales. The increasing use of embedded technologies enables optimal pricing of products to expand volume business with the printing industry. In the solar industry, the market in China in particular offers potential. On the basis of major orders already concluded, there is also further potential for follow-up orders in 2019 / 2020. ISRA is specifically countering the increasing local competition in Asia with offensive sales activities. Some recently delayed projects are at an advanced stage of negotiations or are close to completion. In the paper business unit, Management is focusing on high-margin niche markets such as the packaging sector. The further optimization of the portfolio with cost-cutting embedded technologies in conjunction with the production analytics tools for increasing earnings will enable a high return on investment for customers. A moderate growth level with high margin shares is planned for the security division with specialized inspection systems for high security paper (Specialty Paper). Additional potential is offered by the gradual expansion of the business into the area of high security printing. In the still young business area of semiconductor inspection, the focus in financial year 2019 / 2020 will be on marketing the new technology approaches for additional fields of application. Further orders are expected in the coming months as a result of the development of the Asian market.

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.

The Company is consistently expanding its Customer Service and Support division internationally. The goal is to increase the contribution of service revenues to the Company's total revenues disproportionately in the medium term by offering a diversified range of support services.

In order to achieve the growth planned, worldwide sales activities and regional presence will be further intensified. In the coming months, the Company is expecting to see an initially moderate, but then increasingly positive business development on the European markets. In Asia, the Management sees an increase in demand from individual strategic countries in the coming quarters. The marketing and sales measures aimed at further increasing demand from America will be systematically continued. Regional expansion and the strengthening of the international sites remain an important part of the company strategy. Planned measures will address India, Eastern Europe, South East Asia and MENA.

Strategic acquisitions possible

In addition to organic growth, external growth through acquisitions of companies with promising synergy potential represents an important component of ISRA's long-term strategy. Activities will focus on target companies that will sustainably advance ISRA's technology leadership, market position or expansion into new markets. The Management is currently monitoring and analyzing several possible targets from the fields of industrial automation, production analytics and INDUSTRIE 4.0 software and sensor technology and, if the assessment is positive, plans to complete a further project in the course of financial year 2019 / 2020. Projects to strengthen the regional business in Eastern Europe and Asia are also being driven forward.

Continuation of growth path

The medium-term strategic focus remains unchanged: to exceed the revenue target of 200 million euros.

The Company will continue to focus on achieving diversified growth across industries and regions and on exceeding its revenue target of 200 million euros in the medium term. The Management is continuing its long-term strategy of expanding the Company's market position both through organic growth and by integrating innovative companies. The Management is countering the slowdown in the markets by taking targeted measures to generate new market impetus. The strengthening of digital marketing and the expansion of sales capacities by approximately 15% have been initiated and largely completed. In conjunction with the strong Innovation Roadmap, the focus is on reviving the dynamics of incoming orders. Measures to optimize costs in the areas of production efficiency, management reorganization and process optimization are also already being implemented. Based on the current order backlog of approximately 82 million euros gross (status: January 16, 2020; previous year: 98 million euros gross) and the apparent recovery of the economic environment, ISRA expects to see a gradual improvement in the economic situation in its customer industries and increasingly positive business development from the second quarter on.

Assuming that trade and monetary policies develop in line with the forecasts of banks and economic institutes and that the political risks do not materialize, ISRA's management projects a return to low, double-digit growth rates in revenues and earnings for the entire year 2019 / 2020, both for the Group and the two segments. In view of the current fluctuations on the international markets, the level of profitable growth that can be realized depends on the development in the coming months of the first two quarters at the beginning of 2020. The level may range between growth in the lower double-digit percentage range and more moderate growth, with the Company's planning focusing on the former. Based on the high margin level of the past years, continued growth in the low double-digit range should result in comparably high margins.

Strategic and operational planning is already geared towards the next medium-term sales target of 200 million euros in sales, regional expansion and the expansion of structures in all areas of the Company. The financial situation of the ISRA Group is solid. A high equity ratio, the operating cash flow, the liquid funds and the available credit lines from financial partners form a reliable foundation for the continued positive development beyond the current financial year up into the year 2021. Management will focus on the optimization of operating productivity and the continuous improvement of cash flow and working capital. As in previous years, ISRA will release a detailed outlook for the current financial year in February 2020. ISRA's executive bodies also intend to continue the sustainable dividend policy for financial year 2018 / 2019. A proposal to this effect will be made to the Annual General Meeting in March 2020.

4. Opportunity and Risk Report

Business activities go hand in hand with risks. A company's success is characterized by successful opportunities exceeding the downside risks with all important decisions after detailed consideration. Owing to the global positioning of ISRA and the growing number of markets, sites and employees, it is becoming increasingly difficult to promptly procure, distribute and process detailed information. For this reason, ISRA uses a qualified risk management system based on ISO 31000 that 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 report 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. Furthermore, it is audited and adjusted, if necessary. The goal is to be able to recognize, analyze and evaluate the main chances and risks for the business development of ISRA early and as completely as possible, and to initiate the required measures on this basis.

For this purpose, the overriding 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. Control measures are defined for risks that are assessed to be serious and cannot easily be borne by the Company. For risks that occur more on a strategic or administrative level and that can be intercepted by employing individual measures, measures aimed at risk avoidance, reduction or transfer are initiated. This includes, for example, measures on limiting interest rate risks or 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 has 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 on 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 current 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 at a 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 usual level in view of the uncertainty in conjunction with, for example, Brexit and the political situation in the USA. For this purpose, ISRA continues to maintain its risk management system which has already been further improved 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 also be continued.

If the economic trend should turn negatively for the longer term in the course of the year 2020, it could negatively impact the economic situation of our customers and therefore the demand for the products ISRA offers. 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.

Development of new applications, technologies and regional markets

Generally speaking, 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 will result in permanent growth in these markets. The accompanying increasing demand in ISRA's customer industries offers the Company opportunities for future revenue growth. Additional potentials can be found in the development of innovative new products and new technologies as well as additional regional markets.

ISRA plans to open up additional industries in the future with its current and new technologies and products. The overall market for Machine Vision, including all of the different application areas, is worth approximately 9 billion euros. Many of the possible problems customers face and applications that can be solved by using Machine Vision have not yet been completely identified and filled. As a result, extensive opportunities, but also risks, arise 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 senior management guarantee 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 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, the Financial Position and results of operations, the Management successfully concentrates on areas of core competence and direct cooperation with customers concerning new applications.

In addition, ISRA intends to develop additional geographic markets in the future by setting up its own sites. ISRA is thus strengthening its local presence, thereby optimizing its access to new customers in the industries in the regions that the Company addresses. The success of such 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 were to fail in developing these new geographic markets, this could have a negative impact on the results of operations, Financial Position, and net assets. ISRA has already established its own subsidiaries for the structural reinforcement of market activities on many strategic growth markets such as China, Brazil, Turkey and Taiwan. In this way, ISRA is creating a strong base in emerging countries to be able to benefit from market opportunities that accompany the increased use of automation technologies in industrial production in these regions. At the present time, substantial opportunities are emerging in Eastern Europe and Southeast Asia. For this reason, an intensive examination of these opportunities and consideration of any risks in establishing ISRA's own local sites is being carried out.

Continuous innovations for quick technological change

The core technology of ISRA is Machine Vision technology for industry, i.e. the use of electronic image generation, image processing and image analysis technologies for 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 the industry standards based on it are characterized by continuous further development. Thus, the requirements that intelligent Machine Vision systems must meet in the area of automating production processes and quality assurance systems are also subject to rapid change. Therefore, the software solutions developed by ISRA based on these technologies and standards require continuous further development.

For this reason, ISRA's success depends on its 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 ability to develop and bring to market new and improved products in a timely manner that conform to changes in technology and meet customer demands. Technological progress by one or several of the Company's competitors or new future market players in this field can cause current or future products of the Company to become less competitive or outdated. If the Company should develop or acquire technological improvements too late or not at all or adjust its products to the technological change too late or not at all, this would negatively impact net assets, the 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 manner, recognize risks in time and initiate the required countermeasures early enough.

Competition

The Company competes with a number of vendors of Machine Vision systems in all business areas. It is possible that competitors who have been forced into the defensive may temporarily attempt to offer a challenging price strategy in order to gain market shares. Furthermore, it cannot be ruled out that additional vendors will enter the market in the various industries in the future. Several companies currently produce complete solutions for high-end applications that are similar to ISRA's products. These manufacturers have access to technologies that allow their products to be adapted in a relatively short time and with comparatively little effort for use in 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 offer 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 – that will be increasing. As such, one major goal of the Management is for ISRA to further expand its 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, in sales and customer support, in particular.

Dependency on certain customers

In all business areas, ISRA primarily addresses the leading companies of the respective target market (key accounts and OEM customers). As such, many customers are global players. In the future, the Company's strategy will continue to be directed at retaining and gaining primarily global companies in the respective target market as its 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 consistent goal is to set up a revenue structure at the Group level that is independent of this risk by assigning no more than a 5% share of total revenues to a single customer outside of the ISRA Group. The Management was able to successfully achieve this goal in the past financial year.

4.3 Operational risks

Risks from project business

ISRA achieves a share of its revenues in the project business with individual customers. In this case, 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 happen to occur in projects during planning, calculations prove to be incorrect, executions defective or late, such projects cannot be executed at a profit or at cost or 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. The

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 ISRA offers in addition to the actual liability risk. Due to market conditions, it cannot always be ruled out that the contracts concluded with customers contain 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 having qualified Executive Board members, managers and employees below the level of the Executive Board and management. Such key positions pertain to Research and Development and Sales, in particular. The loss of managers or employees in key positions could negatively impact ISRA’s net assets, Financial Position and results of operations. The Management meets these risks by taking appropriate 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 abroad by 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. In order to take advantage of these opportunities, it is necessary to hire qualified managers and employees, select strategic partners and merger or acquisition candidates, and raise the necessary funds. Furthermore, this requires sensible expansion of the appropriate organizational structures, particularly in the 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 is unable to integrate the business relationships into the ISRA Group. Until now, the

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 registers trademarks and patents as well as confidentiality and other contractual agreements about the use of intellectual property for the products and services ISRA offers. These mechanisms provide the chance to expand 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 the necessary measures to protect 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 within the Company to be able to maintain a technological advantage over the competition at all times.

Information technology 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 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, own work capitalized as well as goodwill from the acquisitions of the preceding years are entered into the Consolidated Statement of Financial Position. Own work capitalized reflects investments in market-near product developments that represent great potential for the coming years and are intended to ensure additional revenue growth. The Company's assets 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 interact with the development of the business and market success and, as such, are accompanied by uncertainty. To reduce these market assessment risks, the recoverability and the underlying approaches are checked by conducting regular impairment tests. If recoverability differences should occur, extraordinary depreciations must be posted.

Interest risks and follow-up financing risks

The liability items of the ISRA Consolidated Statement of Financial Position include 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 here can have a significant impact on the revenues and results of operations of the Group. These are the risks that have been identified and are considered to be significant. In addition, ISRA is exposed to general legal and economic risks in countries that certain Group companies operate in. This does not preclude the existence of other risks not yet recognized as important by the Management, nor does it preclude the possibility of these risks 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 related to the Group accounting process

Risk management at 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 the Group Management report) by implementing appropriate and effective regulations and controls. For this purpose, central organization and control as well as local responsibility for individual partial processes are interconnected.

The control and risk management system includes all of the measures, structures and processes with the objective of 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 taken outside the software systems. Using Group-wide standardized monthly reporting allows for recognizing plan-actual variances during the year. All Individual Financial Statements of Group companies that are entered in the Group consolidation are subject to an audit by 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 with regard to its Individual and Consolidated Financial Statements.

Standard software (Axapta) is predominantly used for important accounting processes in the Group. Integrated plausibility checks perform the main control function. The software systems used are protected against unauthorized access.

Group companies prepare the Annual Financial Statements at the respective sites according to local law. They are prepared 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 has been completed, the Annual Financial Statements are reconciled and then consolidated according to the general Group principles and IFRS regulations. During consolidation, an additional check of the Individual Annual Financial Statements takes place. This multi-tier check system of the 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 on the use of financial instruments

The use of financial instruments is regulated by internal guidelines in the context of risk management. These guidelines set limits for underlying transactions, define authorization procedures, exclude the use of derivatives for speculative purposes, minimize credit risks, and regulate internal reporting and segregation of functions. If necessary, hedging transactions are undertaken exclusively via the Group's central finance department for the purposes of hedging against fluctuations in market interest rates.

The risks from using financial instruments essentially result in 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 operating business.

Default risks

In all areas of its business, ISRA has customer relationships with many large companies. These companies are primarily multinationals in the Automotive, Glass, Paper, Security Paper, Print, Advanced Materials, Metal, Solar and automation industries. The Company strategy is to minimize dependency on individual customers and to successively increase the number of new customers. In the year under review, no customers accounted for a share of revenues exceeding 5% of the Group's total revenues except for two individual cases with shares just above 5%. While the increased acquisition of new customers will also increase the risk of individual defaults, the relevance of a single case will be reduced in this way. Specific default risks are to be reduced through prior analyses of new customers.

Creditworthiness risks

Most of ISRA's customers show 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 concluded 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. Changes 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 notes.

Currency and price fluctuation risks

In general, customer orders are processed in euros. ISRA products are offered in national currencies only in the United States and in China. The Management regularly adjusts sales calculations to changes in the exchange rates in order to minimize currency risks. Furthermore, basic risks exist towards local providers and the competitors from the dollar region if the dollar exchange rate were to change significantly. These risks can be partly reduced by operating 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 via 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, the Management considers this type of financing to be optimal at present. There is, however, still the possibility that acquired companies will not immediately earn back interest expenses through their operating business. The Management currently estimates this probability to be low, however.

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 Company 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 the 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 include 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 elements, payments to the members of the Executive Board include variable components which may amount to up to 50% of their base salary. These 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 Company's development over a period of three years. The individual amounts of the previous year's variable performance-related remuneration with long-term incentive effect were paid out in financial year 2018 / 2019.

The members of the Supervisory Board receive adequate remuneration for their membership on the Supervisory Board every full financial year. This remuneration is determined by the Annual General Meeting and is payable after the end of the financial year. The Chairman receives double the amount; the Vice Chairman 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 are also reimbursed for all expenses and for the value-added tax that they must pay on their remuneration and expenses.

8. Acquisition-related disclosures

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

As of the balance sheet date, the Company's share capital totaled 21,914,444.00 euros. It is divided into 21,914,444 shares of bearer common stock with a par value of one euro each. Each share conveys one vote. It is not permitted to securitize the shares. The information required according to § 315a Para. 1 Clause 1 of the German Commercial Code (HGB) is listed in the Group notes.

EVWB GmbH & Co. KG (majority shareholder and CEO Enis Ersü), headquartered in Darmstadt, Germany, held an interest of more than 10% in 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 by 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 by 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 Executive Board, with approval from the Supervisory Board, is authorized 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, after partly utilizing 8,244 euros, up to a maximum amount of 10,944,856 euros (authorized capital). The subscription rights of shareholders are also served with an indirect subscription right in accordance with § 186 Section 5 Clause 1 of the German Stock Corporation Act. The Executive Board is authorized, with the agreement of the Supervisory Board, to exclude the statutory subscription rights of shareholders

- for fractional amounts,
- insofar as it is necessary to grant the bearers and / or holders of conversion rights and / or option rights or the debtors of conversion obligations from bonds, issued by the Company directly or through a Group Company on the basis of the authorization resolved under item 9 of the agenda of the Annual General Meeting on March 28, 2018, a subscription right to new shares equal to the number that they would be entitled to after exercise of the conversion rights and / or option rights or when performing their conversion obligations,

- to secure shares in return for contributions of fixed assets, in particular in the context of mergers with other companies or the purchase of other companies, parts of companies or of an interest in other companies,
- if the capital increase takes place by means of an equity contribution and the issued value is not, at the time of the final determination of the issued value by the Executive Board, significantly less than the share price of the shares of a similar nature and scope which are already quoted on the stock markets, when judged in terms of the provisions of §§ 203 Sections 1 and 2, 186 Para. 3 Sentence 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 Para. 3 Sentence 4 does not exceed 2,190,620.00 euros or – if this amount is less – 10% of the existing base capital at the time of the issue of the new shares. Realization of shares must be charged against this 2,190,620.00 euros / 10% limitation of base capital if they come into effect due to an existing authorization that applies when this authorization takes effect or an authorization replacing it under shareholder exception from subscription according to § 71 Section 1 No. 8 of the German Stock Corporation Act (AktG) in conjunction with § 186 Section 3 Clause 4 of the German Stock Corporation Act (AktG). In addition, stocks issued or to be issued to service bonds under warrant and / or conversion right fall under the 2,190,620.00 euros / 10% limitation of share capital if the bond was issued under shareholder exception from subscription due to an existing authorization that applies when this authorization takes effect or an authorization replacing it according to § 186 Section 3 Clause 4 of the German Stock Corporation Act.. Moreover, this must also include shares issued from authorized capital in accordance with § 203 section 1 and section 2 AktG in conjunction with § 186 section 3 clause 4 AktG with pre-emption rights disapplied since March 17, 2015. If shares must therefore be added to the limit for the above reasons as a result of being issued or sold, or as a result of the issue of convertible and warrant bonds, prior to the entry in the commercial register of the capital increase from company funds resolved by the Annual General Meeting of March 28, 2018 under item 8 A) of the agenda, the shares in question must be added to the limit five-fold.

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

The share capital has been conditionally increased by up to 10,453,100.00 euros by issuing up to 10,453,100 no-par value bearer shares (conditional capital II). The conditional capital increase may only be carried out to the extent that the holder or creditor (jointly: Holder) of convertible or negotiable option bonds, issued up to March 16, 2020, on the basis of the authorization given to the Executive Board by the Annual General Meeting on March 17, 2015 in its original form or by way of the resolution of the Annual General Meeting on March 28, 2018, makes use of this conversion right or option right, or to the extent that the holders, who are obliged to make the conversion fulfill their obligation to undertake the conversion and that no other means of performance are applied in these cases. The new shares shall be issued at the option or conversion price to be determined in accordance with the aforementioned authorization resolution. The new shares will begin participating in Company profits as of the start of the financial year in which they are created (by exercising option / conversion rights and / or fulfilling option / conversion obligations).

Under a resolution passed by the Annual General Meeting held on March 28, 2018, the Executive Board of ISRA VISION AG has been authorized to acquire its own shares until March 16, 2020, complying with the principle of equal treatment (§ 53a of the German Stock Corporation Act (AktG)).The Board members are authorized to acquire a pro rata amount of the base capital up to 2,190,620 euros in total, under the provision that the shares 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 Para. 2 Sentences 2 and 3 of the German Stock Corporation Act (AktG) must be observed. Purchases may not be undertaken for the purpose of trading in own shares. The authorization volume, i.e. the above pro rata amount of share capital of 2,190,620 euros is reduced to the extent that the Executive Board has already exercised the authorization to acquire own shares resolved by the Annual General Meeting on March 17, 2015, prior to the entry in the commercial register of the capital increase from company funds resolved under item 8 a) of the agenda of the Annual General Meeting on March 28, 2018; the pro rata share capital attributable to the shares acquired is five times this amount. This authorization may be implemented in full or in parts. Purchases may be undertaken within the period covered by the authorization up to the point where the maximum purchase volume has been reached by partial purchases on various purchasing dates. Purchases may also be undertaken by subsidiary enterprises of the Company in the context of § 17 of the German Stock Corporation Act (AktG) or on its / their behalf by third parties.

Corporate Governance Declaration

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

Darmstadt, December 2019

The Executive Board

Report

by

the Supervisory Board

Financial year 2018/2019

Composition of the Supervisory Board

On September 30, 2019, the Supervisory Board of ISRA VISION AG consisted of the six members Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairman of the Supervisory Board), Susanne Wiegand, Stefan Müller, Prof. em. Dr. rer. nat. Dipl.-Ing. Henning Tolle, Dr. Burkhard Bonsels and Dr.-Ing. Hans-Peter Sollinger.

Cooperation between the Executive Board and the Supervisory Board

As in previous years, the Supervisory Board also exercised its legal and statutory responsibilities in financial year 2018/2019 with the utmost care. The Supervisory Board's collaboration with the Executive Board was characterized by an intensive and trustful dialogue. The Executive Board regularly and comprehensively informed the Supervisory Board in written and verbal form about all significant events and developments in a timely manner. Communications focused on the Financial Position and performance of the Company and on business development. The Supervisory Board discussed the reports of the Executive Board in depth and requested supplementary information whenever necessary. The Supervisory Board continuously monitored the activities of the Executive Board based on this reporting and provided comprehensive advice on 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 consent by the Executive Board.

Criteria for monitoring the Executive Board by the Supervisory Board included in particular the legal, compliance, effectiveness and efficiency areas of Group-wide management by the Executive Board. Topics and the 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 Chairman of the Supervisory Board also remained in regular contact with the Executive Board, primarily with its Chairman, and discussed issues of strategy, acquisitions, planning, business development, expansion of management, the risk situation, risk management and the compliance of ISRA VISION AG and the Group during Supervisory Board meetings.

The Supervisory Board was promptly involved in all decisions of major importance at all times. The Chairman of the Supervisory Board was always informed immediately by the Chairman of the Executive Board about important events that were of significant importance for the assessment of the situation and development and also for the management of the Company.

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

November 14, 2018

Passing of a resolution on the partial use of Authorized Capital

December 5, 2018

Passing of a resolution on the Declaration of Conformity to the Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Law (AktG)

January 8, 2019

Passing of a resolution of Guido Hettwer as a member of the Executive Board of ISRA VISION AG

January 22, 2019

Authorizing, respectively approving the Individual and Consolidated Financial Statements of ISRA VISION AG for financial year 2017/2018

Adoption of the resolution proposal concerning the allocation of the net profit for financial year 2017/2018

Approval to propose the discharge of the Executive Board at the 2019 Annual General Meeting

Approval of the Report by the Supervisory Board for financial year 2017/2018

Approval of the agenda for the 2019 Annual General Meeting and adoption of the other resolutions proposed by the Supervisory Board to the Annual General Meeting

The Supervisory Board discussed the results of the Main Committee on the remuneration of the Executive Board

Approval of the set of figures determined by the Main Committee

The Supervisory Board resolved to propose a dividend payment of 15 cents per share to the Annual General Meeting

Approval of the remuneration of the Executive Board previously discussed by the Main Committee

February 14, 2019

l Correction of the resolution of November 14, 2018, on the utilization of Authorized Capital

July 12, 2019

l Resolution on the acquisition of Photonfocus AG

September 10, 2019

l Approval of the budget for financial year 2019/2020

l Resolution on the new building in Darmstadt, financing of the new building and the sale of the property as well as the conclusion of the contract submitted by the architect

Summary of key points in consultations by the Supervisory Board

- The key points in consultations by the Supervisory Board in all sessions in the period under review were:
- Strategy, planning and business development,
- Revenue development as well as the assets, revenue and Financial Position,
- Investments and acquisition projects,

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

Meetings of the Supervisory Board

The Supervisory Board convened four meetings in financial year 2018/2019 as scheduled. The following topics were deliberated in detail and decided upon:

Supervisory Board meeting on December 5, 2018

All members of the Supervisory Board attended the Supervisory Board meeting on December 5, 2018. The preliminary financial statements for 2017/2018 were explained and discussed at this meeting. Furthermore, the Executive Board issued a forecast for the first quarter of 2018/2019 and an outlook for the entire financial year 2018/2019. The Supervisory Board discussed the draft agenda items presented by the Executive Board for the Annual General Meeting on March 19, 2019. In addition, the Declaration of Conformity with the Corporate Governance Code was discussed: warranted deviations in the Declaration of Compliance were recorded and unanimously approved. The Supervisory Board acknowledged the comments by the Chairman on several possible acquisition projects. Dr.-Ing. Wiedenhues is Chairman of the Main Committee. Furthermore, the newly appointed managers Sandra Cameron, Guido Hettwer, Frank Meyer and Matthias Nelischer were introduced to the Supervisory Board. Lastly, the timetable for 2019 was discussed.

Supervisory Board meeting on January 22, 2019

All members of the Supervisory Board attended the Supervisory Board meeting on January 22, 2019. At this meeting, the Audit Committee reported on its meetings on December 5, 2018, and on January 22, 2019. The Annual Financial Statements, the Consolidated Financial Statements, the Management Report for ISRA VISION AG and the Group for financial year 2017/2018, as well as the proposal by the Executive Board for the allocation of the net profit for the year were reviewed in detail by the Supervisory Board. This meeting was attended by the Chairman of the Executive Board as well as the two financial auditors who certify the auditor’s report. The auditors explained the audit focus of the Individual and Consolidated Financial Statements, the results of the audit of the Annual Financial Statements, the associated Management Report, the Consolidated Financial Statements and the corresponding Group Management Report. The audit did not give rise to any findings. According to the results of these audits, the Group’s accounting is free of errors, there were no objections to the internal control system, and the risk detection system is suitable for detecting risks that could jeopardize the continued existence of the Company at an early stage. Questions from Supervisory Board members were answered comprehensively and the various topics 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 financial year 2017/2018 submitted for the Company and the Group by the Executive Board were subsequently approved by the Supervisory Board. The Annual Financial Statements of the Company were thereby adopted. After detailed discussion, in accordance with the recommendation by the Audit Committee, the Supervisory Board also approved the Executive Board's proposal for the allocation of the net profit for the year.

The Chairman of the Supervisory Board reported that the Supervisory Board exercised its legal and statutory responsibilities with the utmost care. The Supervisory Board approved the Report by the Supervisory Board for financial year 2017/2018 as presented. The Supervisory Board subsequently discussed the organization and course of the Annual General Meeting and gave its approval for the agenda for the Annual General Meeting for financial year 2017/2018 as well as decided on its proposals to the Annual General Meeting regarding the respective agenda items. Moreover, the Supervisory Board unanimously resolved to propose the discharge of the Executive Board at the Annual General Meeting.

In addition, the Executive Board presented the concept for the 2017/2018 Annual Report to the Supervisory Board. The overview of the first quarter of financial year 2018/2019 and the forecast up until September 30, 2019, were explained and discussed. The Supervisory Board also discussed potential acquisitions. Furthermore, the Supervisory Board discussed the results of the Main Committee on Executive Board remuneration and unanimously approved the figures adopted by the Main Committee. At the meeting on January 16, 2018, Dr.-Ing. Hans-Peter Sollinger was also introduced as a candidate for the Supervisory Board.

Supervisory Board meeting on May 21, 2019

One member of the Supervisory Board was unable to attend the meeting of the Supervisory Board on May 21, 2019, and asked to be excused. The Supervisory Board was able to pass resolutions. The Executive Board reported on the second quarter of 2018/2019 in depth, gave a preview of the third quarter of 2018/2019, as well as an outlook for the entire financial year 2018/2019, whereby the Supervisory Board acknowledged and approved the planning and the forecasts of the Executive Board. The Chairman of the Executive Board also explained current acquisition projects and informed the Supervisory Board of further details. The Supervisory Board took note of the comments.

Supervisory Board meeting on September 10, 2019

All members of the Supervisory Board took part in the Supervisory Board meeting on September 10, 2019. The minutes of the last Supervisory Board meeting on May 21 were approved. The Executive Board explained the development of the Company in the third quarter of financial year 2018/2019 in detail to the members of the Supervisory Board and presented an overview of the entire financial year 2018/2019, whereupon those present discussed the budget for financial year 2019/2020 on the basis of the proposal provided in advance and unanimously approved the budget. Next, the dates of the upcoming Supervisory Board meetings and the next Annual General Meeting were set. In the fifth item on the agenda, the Chairman of the Executive Board explained the individual acquisition candidates with their respective core competencies and business focuses. In this context, the Supervisory Board approved the acquisition of the Swiss company Photonfocus AG. Finally, the

Chairman of the Executive Board explained the "New Headquarters in Darmstadt" and the construction project by giving a detailed presentation. The Supervisory Board approved the new headquarters in Darmstadt, the financing of the new building and the sale of the land as well as the conclusion of the contract submitted by the architects.

Activities of the committees

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

The Audit Committee mainly addresses questions concerning accounting, risk management and compliance, the necessary independence of the auditor, issuing of the audit assignment, determining the audit areas of concentration and the remuneration agreement.

The Main Committee deals in particular with the requirements for the employment contracts of the members of the Executive Board and prepares the resolution of the Supervisory Board regarding the remuneration system for the Executive Board.

The Audit Committee held two meetings and the Main Committee one meeting in financial year 2018/2019.

The Audit Committee dealt with questions concerning the audit at its meeting on December 5, 2018. At its meeting on January 22, 2019, it examined the audit documents for financial year 2017/2018 as well as the proposal by the Executive Board on the allocation of the net profit for 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 risk management and compliance topics.

At its meeting on January 22, 2019, the Main Committee analyzed, discussed and presented all important information concerning the remuneration of the Executive Board, particularly with respect to the incentivization of individual remuneration components. The compensation of the Executive Board was approved by the entire Supervisory Board.

Corporate Governance and Declaration of Conformity

In financial year 2018/2019 as well, the Supervisory Board dealt with corporate governance issues and the German Corporate Governance Code in detail. On December 5, 2019, the Supervisory Board passed a resolution on the Declaration of Compliance with the German Corporate Governance Code (DCGK) in the version dated February 7, 2017, in accordance with section 161 of the AktG. In December 2019, the Supervisory Board approved the annual Declaration of Compliance. This Declaration of Compliance can be found in the Corporate Governance Declaration and, like the previous declarations, is permanently available on the Company's website.

No conflicts of interest arose for the Supervisory Board in financial year 2018/2019. No member of the Supervisory Board attended fewer than half of the meetings.

Audit of the Annual Financial Statements and the Consolidated Financial Statements for financial year 2018/2019

The Annual Financial Statements prepared in accordance with the regulations of the German Commercial Code (HGB) and the Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards (IFRS) in the version applicable in the EU, as well as the applicable commercial regulations in accordance with Section 315e of the German Commercial Code (HGB) as well as the Management Report and the Group Management Report of ISRA VISION AG for financial year 2018/2019 were audited by PKF Deutschland GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main (PKF), the auditor commissioned by the Annual General Meeting on March 19, 2019, and authorized in writing by the Supervisory Board on September 23, 2019, and each granted an unqualified audit certificate. The auditor conducted his audit in accordance with Section 317 HGB and the EU Audit Regulation, taking into account the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as the International Standards on Auditing (ISA).

Before the Audit Committee proposed PKF as the financial auditor to the Annual General Meeting, PKF certified to the Chairman of the Supervisory Board and the Audit Committee that no circumstances existed that could affect its independence as an auditor or confirm any doubts concerning its independence. Here, PKF also explained the scope of their services that were provided to the Company in the previous financial year or have contractually been arranged for the following year. The Supervisory Board concurred with PKF that, among other aspects, 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 financial statements that would result in an incorrect statement by the Executive Board and Supervisory Board concerning the German Corporate Governance Code.

The aforementioned financial statement documents, the auditor's reports and the proposal of the Executive Board concerning the allocation of net profit for the year, were handed over to the members of the Supervisory Board in a timely manner. In preparation for the examination of these documents in the full Supervisory Board, the Audit Committee of the Supervisory Board dealt with the aforementioned financial statement documents and the audit reports of the auditor at its meeting on December 5, 2019.

In the meeting of the Audit Committee and in the subsequent accounts review meeting of the Supervisory Board on January 22, 2019, the Executive Board explained each of the financial statement documents mentioned as well as its proposal for the allocation of the net profit for the year. In addition, questions from the members of the committee and the Supervisory Board were answered by the Executive Board.

Following the explanation by the Executive Board under consideration of the audit results of PKF, the Audit Committee and the Supervisory Board examined the financial statement documents. The auditor present at the meeting of the Audit Committee and in the accounts review meeting of the Supervisory Board – the two financial auditors certifying in person – reported in depth on 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 the approach and valuation, intercompany settlements, valuation of investments as well as the percentage of completion and impairment test of goodwill in accordance with IAS 36. At the meeting of the Audit Committee and the accounts review meeting of the Supervisory Board on January 22, 2019, the auditor also reported that his audit of the internal control system and risk management system with reference to the accounting process did not identify any significant weaknesses. The auditor was questioned in detail by both the Audit Committee and the Supervisory Board on the audit results and on the type and scope of the audit activity. In addition, the Audit Committee reported to the Supervisory Board on 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, risk management and internal auditing systems of ISRA VISION AG and the Group in the context of its monitoring function and verified their effectiveness. On the basis of that report, the Supervisory Board also assumed that these systems were effective.

The committee also informed the Supervisory Board that it was informed by PKF that no circumstances existed that would give an indication of their bias, and about the services that were performed by PKF outside the audit. The committee also reported on its monitoring of the independence of the auditor, taking into account the non-audit services provided, and its assessment that the auditor possesses the necessary independence; the Supervisory Board also came to this conclusion on the basis of this committee report.

The Audit Committee and the Supervisory Board were able to convince themselves that the audit by PKF had been performed properly. In particular, they came to the conclusion that the audit reports – and the audit itself – met the legal requirements. Based on the report and the recommendation by the Audit Committee, the Supervisory Board subsequently approved the results of the audit and, since there were no objections to be raised after the concluding result of their own audit, approved the Annual Financial Statements, the Consolidated Financial Statements as well as the Management Report and Group Management Report (including the Declaration by the Executive Board on Corporate Governance in accordance with Section 289a of the German Commercial Code (HGB) and the Combined Separate Non-Financial Report) of ISRA VISION AG for financial year 2017/2018. The Annual Financial Statements of the Company have thereby been adopted.

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 also included a discussion with the auditor, particularly in terms of the dividend policy, the liquidity of the ISRA Group and the shareholders' interests, the Supervisory Board agreed with the proposal explained by the Executive Board concerning the allocation of the net profit for the year.

Our Thanks

The Supervisory Board would like to thank the Executive Board and all employees of ISRA VISION AG and its Group companies for their work, personal dedication and the innovations that made ISRA VISION AG so successful in the past financial year 2018/2019.

Darmstadt, January 28, 2020
Dr.-Ing. h. c. Heribert J. Wiedenhues
Chairman of the Supervisory Board

Declaration of Corporate Governance

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

The Corporate Governance Declaration pursuant to § 289a of the German Commercial Code (HGB) contains the Declaration of Conformity pursuant 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 procedures of Executive Board and Supervisory Board as well as the composition and working procedures of the Supervisory Board committees.

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

The German Corporate Governance Code provides 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 met the high demands and now underscores its orientation towards these standards and shareholder interests with its Declaration of Compliance.

Declaration of Conformity to the Corporate Governance Code

pursuant to § 161 of the German Stock Corporation Act (AktG)

The Executive Board and Supervisory Board of ISRA VISION AG hereby declare pursuant to § 161 of the German Stock Corporation Act (AktG) that the recommendations of the government commission, besides the exceptions listed below, on the German Corporate Governance Code (GCGC) in the version dated February 7, 2017, have been fulfilled, and that henceforth the recommendations in the version dated February 7, 2017, will be fulfilled as well. The following recommendations were not or not completely fulfilled:

Item 3.8 Para. 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 are not of the opinion that the responsibility with which the members of the Supervisory Board perform their tasks will be improved by adopting 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 individuals for the Supervisory Board.

Item 4.2.3 Para. 2 GCGC

The service contracts of the Executive Board members contain maximum limits with respect to the variable remuneration components, but do not show any amount-based maximum limits for the entire remuneration, including fringe benefits. Nevertheless, no change of the existing service contracts is planned. Limiting the variable remuneration components provides sufficient assurance that the overall remuneration will also remain within reasonable limits. The Supervisory Board does not consider it necessary 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 company development.

Item 4.2.3 Para. 4 GCGC

The service contracts of the Executive Board members of ISRA VISION AG do not contain any severance caps because the amount of possible severance is subject to a termination agreement to be concluded at the end of the Executive Board activity and, therefore, dependent on 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 severance payments.

Item 4.2.5 Para. 3 and Para. 4 GCGC

According to item 4.2.5, Para. 3 GCGC, the Remuneration Report should include certain information on the remuneration for each Executive Board member and should be presented in the form of model tables. At ISRA VISION AG, the remuneration of the Executive Board is disclosed in accordance with the legal provisions. ISRA VISION AG is convinced that the remuneration 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 using rigid model tables.

Item 5.1.2 GCGC

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

Item 5.3.2 Para. 2 and 3 Sentence 3 GCGC

In particular, questions concerning the monitoring of the accounting process, the effectiveness of the internal control system, the risk management and the internal auditing systems, the audit, in particular the independence of the auditor, and compliance and the other items listed in the Code are of such fundamental importance that they are not assigned to a committee of the Supervisory Board, and are instead reserved for the Supervisory Board as a whole. The Chairman of the Audit Committee will be selected specifically based on his or her special experience and knowledge on applying accounting principles and internal control mechanisms. Against this backdrop, it is not ruled out that the Chairman of the Supervisory Board will also be elected to serve as the Chairman of the Audit Committee – as is currently the case.

Item 5.3.3 GCGC

ISRA VISION AG's Supervisory Board consists of six members. Due to the low number of members, it was deemed unnecessary to form a Nomination Committee. However, this does not detract from the efficiency of the Supervisory Board's work.

Item 5.4.1 Para. 2, 4 and 5 Sentence 2 GCGC

The goal of appointing members to the Supervisory Board of ISRA VISION AG is to ensure that its members collectively have the knowledge, skills and professional experience required to perform their duties properly. Hear, the Supervisory Board must always ensure that it is sufficiently independent. However, the Supervisory Board must regularly decide on the most suitable candidates when new elections are scheduled. Regarding this, the Supervisory Board has not developed a formal competence profile for the entire Board and does not intend to do so. The Supervisory Board – in agreement with the Executive Board – does not consider it appropriate for it to be bound by abstract objectives formulated in advance when selecting candidates, instead of being able to decide freely in the concrete decision-making situation on the persons available who appear to it to be best suited for the position. For this reason, the Supervisory Board does not specify any concrete objectives as defined in Item 5.4.1 Para. 2 GCGC, nor does it set an age limit for members of the Supervisory Board in accordance with the AGG, nor does it set an age limit for members of the Supervisory Board as recommended by Item 5.4.1 Para. 2 Sentence 1 in the version dated May 5, 2015. Consequently, such objectives will also not be taken into account for nominations directed at the responsible election bodies nor are they and the status of their implementation reported on. The Supervisory Board complies with all legal requirements and also complies with the recommendations of the GCGC with regard to the publication of detailed information on the candidates proposed to the Annual General Meeting for election to the Supervisory Board. In addition, it follows the requirement to provide comprehensive and annually updated information on all Supervisory Board members and their respective mandates in the Notes to the Annual Financial Statements and the Notes to the Consolidated Financial Statements. The Supervisory Board does not see any added value in publishing an annually updated overview of the main activities in addition to Supervisory Board mandates for all Supervisory Board members on the Company's website.

Item 5.4.6 Para. 1 Sentence 2 GCGC

Remuneration of Supervisory Board members applies to the positions of Chairman and Vice Chairman. 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 Para. 3 GCGC

Payments to the members of the Supervisory Board are disclosed in the Consolidated Financial Statements. This ensures that the requirements for information to which the shareholders are entitled are fulfilled both appropriately and adequately. For this reason, there is no provision for publishing individual details concerning the remuneration of the Supervisory Board members. For this reason, there is no provision for publishing individual details concerning the remuneration of the Supervisory Board members.

Item 7.1.2 Sentences 2 and 3 GCGC

The Supervisory Board regularly discusses financial information with the Executive Board over the course of the year. In terms of lean processes, financial information provided during the year is not discussed again with the Executive Board once the reports have been completed. The Company complies with the current legal requirements and publishes its Consolidated Financial Statements and financial information during the year within the legally prescribed periods after 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 administrative structures.

Relevant disclosures 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 responsible and long-term value-enhancing corporate governance.

Managing risks effectively

Doing business as an entrepreneur means taking risks. Effective management of these risks will determine the success of a company. ISRA's risk management system ensures that these risks are 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. The Executive Board reports in detail about risks and future trends in the Management Report.

Description of the working procedures of the Executive Board and Supervisory Board

The Executive Board manages the business autonomously

Good corporate governance at ISRA means first and foremost 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 consultation with the Supervisory Board and manages the ISRA Group on its own responsibility. The rules of procedure for the Executive Board regulate the allocation of responsibilities within the Executive Board and define transactions and processes that require the approval of the Supervisory Board.

The Chairman of the Executive Board, Mr. Enis Ersü, coordinates the Executive Board and with it the management of the Company with respect to the overall goals and plans of the Executive Board. Mr. Hans Jürgen Christ is responsible for Sales and Strategic Operations and Dr.-Ing. Johannes Giet for Research and Development.

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 rules of procedure regulate all administrative and organizational matters. The Chairman of the Supervisory Board reports about this body's work in a separate Supervisory Board Report.

The Chairman of the Supervisory Board coordinates the work on the Supervisory Board, chairs its meetings, and externally represents the interests of the Supervisory Board. The Chairman of the Supervisory Board keeps in regular contact with the Executive Board including in between meetings of the Supervisory Board, particularly with its Chairman, and discusses questions concerning strategy, planning, business development, the risk situation, risk management and the Company's compliance. The Chairman of the Executive Board informs the Chairman of the Supervisory Board without delay about important events that are of material 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, in complying with § 76 Para. 4 of the German Stock Corporation Act (AktG), determined a target figure of 5% for the share of women in the first management level below the Executive Board by June 30, 2017. Due to the flat hierarchical structure of the Company, the target figure refers to one management level below the Executive Board. This target figure was achieved at the end of the target attainment period. The share of women at the first management level beneath the Executive Board is currently 15%. The Company will work to increase the share of women in management levels below the Executive Board.

The Supervisory Board of ISRA VISION AG has, in complying with § 111 Para. 5 of the German Stock Corporation Act (AktG) and under consideration of the current contract situations, determined a target figure of 16.67% for the share of women on the Supervisory Board and of 0% for the share of women on the Executive Board by June 30, 2017. These target figures were achieved at the end of the target attainment period. Against the backdrop 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 share of women on the Supervisory Board at 16.67% and the Executive Board level at 0%. For the management level below the Executive Board, the Executive Board has set a target of 5% in the future as well.

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

Cooperation of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board work together closely in the best interests 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, the risk situation, risk management and 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 procedures and composition of the committees of the Executive Board and the Supervisory Board

The Supervisory Board has formed two committees to increase its efficiency.

The Audit Committee

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

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

The Audit Committee deals primarily with monitoring the accounting process, the effectiveness of the internal control system and the internal auditing 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 compliance.

Main Committee

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

- Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairman of the Main Committee)
- Mr. Falko Schling (until November 30, 2018)
- Mr. Stefan Müller

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

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

The Supervisory Board performs efficiency checks on a regular basis.

Reassuring and expanding Trust

By providing open information and transparent decision-making structures, the Management aims to confirm and further develop the trust of customers, employees, business partners, shareholders and the public. The Company communicates proactively, openly, regularly and completely. Information relevant to the share price is reported immediately via ad hoc announcements. All mandatory publications, Company reports, essential notifications and press releases are published promptly on ISRA's website. In this way, the company ensures equal treatment of all shareholders.

The Executive Board

Information on shares

Shares held by members of the management and supervisory bodies:

Executive Board Member	Number of Shares	Supervisory Board Member	Number of Shares
E. Ersü	4.966.555*	Dr.-Ing. h. c. H. J. Wiedenhues	0
H. J. Christ	300	Dr. B. Bonsels	55.000
S. Amir	0	Prof. em. Dr. rer. Nat. Dipl.-Ing. H. Tolle	11.020
Dr.-Ing. J. Giet	0	S. Müller	0
A. Gerecke	0	S. Wiegand	0

*The voting rights attributed to Mr. Ersü are held via the following companies controlled by Mr. Ersü, whose share of the voting rights in ISRA VISION AG is 3% or more in each case: EWB2 GmbH, EWB GmbH & Co. KG and EWB GmbH

Pro Forma Consolidated Total Operating Revenue EBITDA-EBIT Statement*

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

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Sales revenues	153.901	152.528
Own work capitalized	18.036	16.377
Total output	171.937	168.905
Cost of materials	33.545	33.651
Cost of labor exculding depreciation	31.897	31.886
Cost of production exculding depreciation	65.441	65.538
Gross profit	106.495	103.367
Research and Development total	24.849	22.680
Sales and Marketing	27.958	28.765
Administration	5.469	5.023
Sales and Administration exculding depreciation	33.428	33.787
other revenues	3.763	2.130
EBITDA before acquisition costs	51.982	49.031
Depreciation	18.116	15.809
Total costs	76.392	72.276
EBIT for acquisition costs	33.866	33.222
Financing income	221	153
Financing expense	-386	-345
Result of financing	-164	-192
EBT before acquisition costs	33.701	33.030
Acquisition costs	-1.563	0
EBT	32.138	33.030
Income taxes	9.511	9.769
Group result	22.627	23.260
of which attributable to non-controlling shareholders	67	152
of which attributable to shareholders of ISRA VISION AG	22.559	23.108
Group earnings per share in euros	1,03	1,06
Number of shares in circulation	21.889.900	21.902.903

* This pro forma presentation is an additional presentation based on the previous years and therefore not part of the ISRA Consolidated Financial Statements. These are not IFRS key financial figures.

Consolidated Financial Statements

of

ISRA VISION AG, Darmstadt

as of

September 30, 2019

Consolidated Statement of Income

(in euro thousands)	Note	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Sales revenues		153.901	152.528
Cost of sales	2	65.935	66.291
Gross result from sales (gross margin)		87.966	86.237
Research and Development		23.305	20.136
Total costs		24.849	22.680
Depreciation	13	17.105	14.256
Grants		-613	-423
Own work capitalized	13	-18.036	-16.377
Sales and Marketing	3	28.391	29.445
Administration	4	5.554	5.141
Sales and Administration		33.945	34.586
Miscellaneous other income	6	3.150	1.707
Net income from associated companies		0	0
Financing expense		-386	-345
Result of financing		-164	-192
EBT before acquisition costs		33.701	33.030
Acquisition costs	7	-1.563	0
EBT		32.138	33.030
Income taxes	8	9.511	9.769
Group result		22.627	23.260
of which attributable to shareholders of ISRA VISION AG		22.560	23.108
of which attributable to non-controlling shareholders		67	152
Group earnings per share in euros (undiluted and diluted)		1,03	1,06
Number of shares in circulation		21.889.900	21.902.903

Consolidated Statement of Comprehensive Income

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Group earnings	22.627	23.260
Amounts to possibly be reclassified to profit and loss		
Currency translation difference	229	-555
Amounts not to be reclassified to profit and loss		
Change in actuarial gains and losses for pension provisions	-482	-8
Effect of taxes	145	2
Total gains/losses recognized directly in equity	-108	-561
Total Group result	22.519	22.699
of which attributable to shareholders of ISRA VISION AG	22.452	22.547
of which attributable to non-controlling shareholders	67	152

Consolidated Statement of Financial Position

(in euro thousands)	Note	09/30/2019	09/30/2018
ASSETS			
Assets			
Current assets			
Inventories	10	46.893	36.929
Trade receivables	9	115.760	111.831
Cash and cash equivalents	24	39.890	34.716
Financial assets	11	2.258	3.236
Other receivables	12	2.805	2.434
Income tax receivables		2.108	2.135
Total current assets		209.713	191.281
Non-current assets			
Intangible assets	13	127.709	115.156
Property, plant and equipment	14	5.917	4.815
Shares in associated companies	26	12	12
Financial assets	11	1.321	1.282
Deferred income tax assets	20	475	358
Total non-current assets		135.434	121.624
Total assets		345.147	312.905
LIABILITIES			
Current liabilities			
Trade payables	16	23.427	20.621
Financial liabilities to credit institutions	15	40.629	32.872
Other financial liabilities	18	13.815	13.822
Provisions	17	1.344	1.020
Income tax liabilities		4.029	2.452
Total liabilities	19	2.441	1.618
Total current liabilities		85.684	72.406
Non-current liabilities			
Deferred tax liabilities	20	40.678	39.144
Pension provisions	21	4.067	3.586
Total non-current liabilities		44.746	42.730
Total liabilities		130.430	115.136
Equity	22		
Subscribed capital		21.914	21.906
Capital reserve		21.111	21.722
Treasury shares		-233	0
Cumulative other result		253	361
Profit carried forward		147.557	128.810
Group earnings attributable to the shareholders of ISRA VISION AG		22.560	23.108
Equity share attributable to the shareholders of ISRA VISION AG		213.163	195.907
Equity attributable to non-controlling shareholders		1.554	1.862
Total equity		214.717	197.769
Total liabilities		345.147	312.905

Consolidated Statement of Cash Flows

(in euro thousands)	Note	10/01/2018 - 09/30/2019	10/01/2017 - 09/30/2018
Group result		22.627	23.260
Income tax payments		-6.335	-7.292
Change in the net amount of deferred tax assets and deferred tax liabilities		1.081	6.159
Change in provisions		-493	271
Depreciation		18.116	15.809
Change in inventories		-7.718	-4.072
Changes in trade receivables and other assets		-4.359	-15.819
Change in liabilities to suppliers and other liabilities		11.477	7.008
Financial result		161	192
Other non-cash changes		-817	68
Cash flow from operating activities		33.740	25.585
Cash outflow for capital expenditure related to property, plant and equipment		-1.814	-1.308
Cash outflow for investments in intangible assets		-19.279	-18.289
Company acquisition	24	-10.179	-260
Cash flow from investing activities		-31.271	-19.857
Cash outflow to the owner of the company by acquiring own shares		-836	606
Distributed profits		-3.286	-2.585
Acquisition of non-controlling interests in subsidiaries		-500	0
Cash inflow from taking out financial liabilities		7.757	1.892
Interest income		219	153
Interest payments		-379	-345
Cash flow from financing activities		2.974	-279
Effects of foreign exchange rates on cash and cash equivalents		-269	-461
Change in cash and cash equivalents	24	5.174	4.988

Consolidated Statement of Changes in Equity

for the period October 1, 2018, to September 30, 2019

(in euro thousands)	Subscribed capital	Capital reserve	Treasury shares	Other changes in equity not recognized in profit or loss	Profit carried forward	Result for the year after minority interests	Equity of the shareholders of ISRA VISION	Other shareholders' interests	Equity
Balance on 10/01/2018 before adjustment	21.906	21.722	0	361	128.810	23.108	195.907	1.862	197.769
Effect of converting over to IFRS 9					-90		-90		-90
Effect of converting over to IFRS 15					-880		-880		-880
Balance on 10/01/2018 after adjustment	21.906	21.722	0	361	127.839	23.108	194.936	1.862	196.798
Profit carried forward					23.108	-23.108	0		0
Capital increase (conversion of the capital reserve due to a share split)	8	-8					0		0
Own shares acquired		-603	-233				-836		-836
Own shares sold							0		0
Distribution of profit					-3.286		-3.286		-3.286
Change in shares of non-controlling shareholders					-104		-104	-376	-480
Total result				-108		22.560	22.452	67	22.520
- Actuarial profits/losses				-337			-337		-337
- Currency translation differences				230			230		230
Balance on 09/30/2019	21.914	21.111	-233	253	147.557	22.560	213.162	1.553	214.716

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

Consolidated Statement of Changes in Equity

for the period October 1, 2017, to September 30, 2018

(in euro thousands)	Subscribed capital	Capital reserve	Treasury shares	Other changes in equity not recognized in profit or loss	Profit carried forward	Result for the year after minority interests	Equity of the shareholders of ISRA VISION	Other shareholders' interests	Equity
Balance on 10/01/2017	4.381	38.800	-159	921	110.886	20.508	175.338	1.710	177.049
Profit carried forward					20.508	-20.508	0		0
Capital increase (conversion of the capital reserve due to a share split)	17.525	-17.525					0		0
Own shares acquired							0		0
Own shares sold		447	159				606		606
Dividend							0		0
Distribution of profit					-2.585		-2.585		-2.585
Change in shares of non-controlling shareholders							0		0
Total result				-561		23.108	22.547	152	22.699
- Cash flow hedge							0		0
- Actuarial profits/losses				-6			-6		-6
- Currency translation differences				-555			-555		-555
Balance on 09/30/2018	21.906	21.722	0	361	128.810	23.108	195.907	1.862	197.769

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

Notes to the Consolidated Financial Statements as of September 30, 2019

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’s name from ISRA VISION SYSTEMS AG to ISRA VISION AG was adopted at the General Meeting on 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 A.S., ISRA VISION COMÉRCIO, SERVIÇOS, IMPORTAÇÃO E EXPORTAÇÃO LTDA, ISRA VISION LLC, ISRA VISION INDIA Private Ltd., ISRA Immobilie Darmstadt GmbH and Photonfocus AG 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 accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as they are applied in the European Union.

The Consolidated Financial Statements are prepared in euros. Compared to the previous year, the consolidated Group includes the newly incorporated PHOTONFOCUS AG. Minority interests held by other shareholders are stated according to their respective pro-rata share of the subsidiary’s net assets. The consolidation includes 29 subsidiaries.

2. Accounting methods

Unless stated otherwise, all figures are rounded off to thousand euros in the Consolidated Financial Statements. Rounding differences may occur in percentages and figures.

Individual items of the Consolidated Statement of Financial Position and the Consolidated Statement of Income have been combined to improve the clarity of presentation. The Consolidated Statement of Income is structured according to the cost of sales method.

New or changed accounting standards applied for the first time

IFRS 9 Financial Instruments

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

ISRA applied IFRS for the first time for the financial year beginning on October 1, 2018; prior-year figures were not restated in accordance with the transitional provisions of IFRS 9.

Classification

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

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

The new classification requirements had no material impact on the recognition of trade receivables or financial assets.

The assets existing at the time of initial application, which were previously allocated to the category Loans and Receivables in accordance with IAS 39, are now allocated to the measurement category At Amortized Cost in accordance with IFRS 9.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. The application of IFRS 9 has not resulted in any changes in the classification and measurement of financial liabilities compared to IAS 39.

Value impairment

IFRS 9 replaces the “incurred loss model” of IAS 39 with a forward-looking expected loss model.
The new impairment model applies to financial assets measured at amortized cost or fair value through other comprehensive income.

Impairment is measured as follows in accordance with IFRS 9:

- 12-month loan defaults: Expected loan defaults resulting from default events that are possible within the twelve months after the reporting date.

- Lifelong loan defaults: The expected loan defaults that result from all possible default events over the expected lifetime of a financial instrument.

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

The estimated expected loan defaults for trade receivables and contract assets are determined taking into account the creditworthiness of customers, historical default probabilities, country-specific features and future macroeconomic factors. The revised calculation of value adjustments as of October 1, 2018, due to the application of IFRS 9 has resulted in an additional impairment requirement of EUR 129 thousand (see table on IFRS 9 / IFRS 15 in section IFRS 15 Revenue from Contracts with Customers).

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is the new standard for recognizing revenue from contracts with customers and combines all previous revenue recognition regulations and converts them into a uniform model. It is intended to replace the existing guidance on the recognition of revenues, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 provides for the following 5 steps for revenue recognition:

1. Identification of the contract
2. Identification of the performance obligations
3. Fulfilment of the performance obligations
4. Determination of the transaction price
5. Allocation of the transaction price to the performance obligations

ISRA manufactures surface inspection systems that are used in various industries. Revenues from these contracts will continue to be recorded predominantly on a period basis, as assets that have no alternative uses are created regularly and ISRA has a legal claim to payment for the services provided.

The stage of completion is recorded using an input-based method in which the ratio between the expenses incurred in the financial year, hours actually worked and the total expected expenses and hours is determined.

IFRS 15 provides for the disclosure of contractual assets and contractual liabilities. Contractual assets exist if more services have been rendered than payments received, whereas contractual liabilities represent ISRA's obligation to transfer assets to the customer.

Effects of new or amended accounting standards applied for the first time

The following tables provide an overview of the effects of IFRS 9 and IFRS 15 on the Consolidated Statement of Financial Position as of October 1, 2018. The adjustments are attributable to the change in the calculation of valuation allowances (additional impairment requirement under IFRS 9) and, with regard to IFRS 15, can be traced back in particular to contracts that were previously recognized in accordance with IAS 11 using the POC method, but for which the criteria of IFRS 15 do not allow revenue to be recognized over a specific period.

ASSETS	Carrying amounts 09/30/2018	IRFS 9	IFRS 15	Carrying amounts 10.01.2018
Inventories	36.929	0	0	36.929
Trade receivables	111.831	-129	-1.461	110.241
Other Current assets	42.521	0	0	42.521
Deferred tax assets	358	39	0	397
Other Non-current assets	121.266	0	0	121.266
Total assets	**312.905**	**-90**	**-1.461**	**311.354**
LIABILITIES				
Other Current liabilities	72.406	0	0	72.406
Deferred tax liabilities	39.144	0	-581	38.563
Other Non-current liabilities	3.586	0	0	3.586
Equity	197.769	-90	-880	196.799
Total liabilities	**312.905**	**-90**	**-1.461**	**311.354**

In financial year 2018/2019, the following additional new or amended standards and interpretations were mandatory for the first time which had no significant impact on the net assets, financial position and results of operations of the ISRA Group:

Standard or interpretations		Endorsement	Application mandatory beginning on
IFRS 2	Share-based payment	complete	Jan. 1, 2018
IFRS 4	Insurance contracts	complete	Jan. 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	complete	Jan. 1, 2018
	Annual improvements to IFRSs – 2012-2016 cycle	complete	Jan. 1, 2018

IAS 40	Amendments relating to clarification of transfers	complete	Jan. 1, 2018

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

In addition, IASB or IFRIC also published the following new or changed standards and interpretations, which do not yet have to be applied in financial year 2018/2019 and whose adoption by the European Union was partially still pending as of the balance sheet date:

Standard or interpretations		Endorsement	Application mandatory beginning on
IFRS 3	Amendments to IFRS 3 Business Combinations - Clarifications on the definition of a business operation	open	Jan. 1, 2020
IFRS 7, IFRS 9 and IAS 39	Amendments to IFRS 7, IFRS 9, and IAS 39: Interest Rate Benchmark Reform	complete	Jan. 1, 2020
IFRS 9	Amendments to IFRS 9: Prepayments with negative settlement	complete	Jan. 1, 2019
IAS 1 and 8	Amendments to IAS 1 and IAS 8: Definition of materiality	open	Jan. 1, 2020
IAS 19	Amendments to IAS 19: Employee benefits – plan amendment, curtailment or settlement	complete	Jan. 1, 2019
IAS 28	Amendments relating to disposal or contribution of assets between an investor and its associate or joint venture	open	Jan. 1, 2019
IFRS 10	Amendments relating to the sale or contribution of assets between an investor and its associate or joint venture	open	to be determined
IFRIC 23	Uncertainty over income tax treatments	complete	Jan. 1, 2019
IFRS 16	Leases	complete	Jan. 1, 2019
IFRIC 17	Insurance contracts	open	Jan. 1, 2021
	Annual improvements to IFRSs – 2015-2017 cycle	complete	Jan. 1, 2019

The new or amended standards and interpretations listed in the table above are not of material relevance to ISRA with the exception of the following explanations on IFRS 16. ISRA has not voluntarily applied any of the new or amended standards and interpretations mentioned above ahead of time.

IFRS 16 Leases

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

The standard is effective for the first time for financial periods beginning on or after January 1, 2019.

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

When transitioning to IFRS 16, the Group will:

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

The Group will recognize new assets and liabilities for its operating leases on land and buildings and vehicles. ISRA therefore expects an increase in total assets of probably 8 million euros to 10 million euros from the first-time application of IFRS 16. In addition, the type of expenses associated with these leases will change, as IFRS 16 replaces the straight-line expenses for operating leases with a depreciation expense for rights of use assets and interest expenses for liabilities from the lease.

No significant effects on the Group's finance leases are expected.

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 contained in the notes.

Pension commitments

The amount of benefits is determined based on actuarial calculations. These are based on extensive assumptions, the discount rate, mortality rate and future pension increases, for example.

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 using 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 the Management may not occur or may differ and thus lead to a decrease in value.

Impairment of assets

On 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. Management considers the assumptions and estimates made to be appropriate. However, due to unforeseen events, the assumptions made by the Management may not occur or may differ and thus lead to a decrease in value.

Realization of sales of production orders

ISRA VISION AG generates most 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. The percentage of completion is determined in accordance with the status of the work performed. To determine the percentage of completion, the progress of order processing is calculated as the ratio between the expenses incurred in the financial year, hours actually worked, and the total expected expenses and total hours, as the share of sales to be realized is based on this. 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.

On 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 an estimate of the probability of future taxable income. 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 Statement of Financial Position or on the recognition of expenditures and income in the Consolidated Statement of Income as well as the Consolidated Statement of Comprehensive Income. The actual figures may deviate from the amounts shown. 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 regarding expected cash flows and discount rates. Many different 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 of 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 determined taking into account the creditworthiness of customers, historical default probabilities, country-specific features and future macroeconomic factors.

Deferred tax assets are recorded if the use of the future tax advantages appears to be predominantly probable. The assessment of the usability of loss carryforwards is subject to estimates regarding the future tax result situation of the companies concerned, which may deviate from the actual future results.

To evaluate its pension commitments, 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 commitments and claims. Among other things, the calculations are based on assumptions regarding 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 the 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 accordance with the provisions of

IFRSs. As a rule, the date of initial consolidation is the date on which ISRA gained the controlling interest. Companies are included in the Consolidated Financial Statements until the date of their sale. 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 the voting rights.

Shares in associates are accounted for according to the equity method. As such, shares in associates are initially carried at their purchase costs. On 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.

Material unrealized interim results from transactions with associates are eliminated in proportion to the interest held.

The carrying amount of an associate is compared to its recoverable amount by conducting 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 contained in the Consolidated Statement of Income 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.

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

	Rate on the reporting date 09/30/2019	Average exchange rate 10/01/2018 - 09/30/2019
1 EUR = USD	1,0889	1,1281
1 EUR = CNY	7,7784	7,7569

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 control over the respective asset is transferred to the buyer. Revenues from services are recorded as soon as the services have been provided. Revenues are not recognized if the contract has no commercial substance or if or when there are significant risks associated with the receipt of the consideration. Revenues are recorded less any reductions such as bonuses, cash discounts or rebates.

Revenues from production orders are generally recognized over a specific period of time according to their stage of completion, as assets that have no alternative use are created regularly and for which ISRA has a legal claim to payment for services already rendered.

The percentage of completion is determined on an input-related basis in accordance with the status of the work performed. To determine the percentage of completion, the progress of order processing is calculated as the ratio between the expenses incurred in the financial year, hours actually worked, and the total expected expenses and hours. The contract revenue and contract costs attributable to the unfinished projects must then be determined as of the balance sheet date.

If the services performed as of the balance sheet date (contract costs consisting of cost of materials and hours, and contract profit/loss) exceed the advance payments received, the construction contracts are reported separately on the assets side of the Consolidated Statement of Financial Position as “contract assets.” If, on the other hand, the advance payments received exceed the services performed to date, they are reported on the liabilities side of the Consolidated Statement of Financial Position as a "contractual liability" under other liabilities. Contract assets mainly arise from the continuous rendering of services in relation to fixed milestone payments for the construction contracts.

Rework is carried out promptly so that there are no obligations to take back or refund goods and no warranties that exceed the statutory period of 24 months.

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

Expenses for in-house product development in accordance with 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 are 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 Statement of Income (see also Notes, part 12). The retention of the carrying amount is ensured by a continuous process of monitoring and managing development projects. Each year, the retention of the 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). Impairment losses are recognized if the capitalized carrying amounts exceed the respective present value.

Research costs

Research is the search for new insights that are then used to develop new products and processes as well as improve existing ones. Costs arising in this context are carried as expenses at the time they are incurred.

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

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

The impairment of balanced goodwill is reviewed at least once a year as part of impairment testing. 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 Consolidated Statement of Cash Flows comprise checks, cash and credit balances at banks. Cash and cash equivalents are measured at amortized cost.

j) Trade receivables and other financial assets

Customer receivables and other financial assets are measured at amortized cost. 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.

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) Contract assets

Contracts in progress requiring engineering, assembly and commissioning work are assessed according to the percentage of completion method and reported as contract assets under trade receivables.

l) Inventories

These items are valued at acquisition and production costs or at the lower realizable market value on the balance sheet date. Elements of production expenses include 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.

m) Tangible assets

Plant and office equipment is carried on the balance sheet at its acquisition or production costs 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

n) Value impairments

On 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 might need 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.

o) Trade payables and other financial liabilities

Trade payables and other financial liabilities are valued at 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 on the balance sheet date.

p) Financial liabilities

For the year under review, financial liabilities were owed to 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.

q) Employer pension plans in accordance with IAS 19

The valuation of employer pension commitments in accordance with IAS 19 is carried out in line with the projected unit credit method allowing for future increases to salaries and pensions (IAS 19). Actuarial profits and losses are accounted for immediately neutral in their effects in the Consolidated Statement of Comprehensive Income. Interest costs are included in the financial result.

r) Provisions

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.

s) 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 between the IFRS carrying amount and the tax value of assets and liabilities existing on the balance sheet date. In addition, ISRA VISION AG forms deferred tax assets for tax losses carried forward that can most likely 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 to the tax rate applied in particular. 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.

t) Other taxes

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

u) 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.

v) 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 include 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 in the Consolidated Statement of Financial Position if ISRA becomes 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.

The classification of financial assets and thus their measurement depends on the business model operated and the structure of the cash flows. The classification and subsequent measurement of financial liabilities depends on the respective purpose.

Financial assets are measured at fair value upon initial recognition.

Subsequent measurement is either at amortized cost, fair value through profit and loss or fair value through OCI. At ISRA, financial assets are generally measured at amortized cost or in exceptional cases at fair value.

Accounting ends when the contractual right to cash flows expires or is transferred or ISRA has transferred all risks and rewards associated with ownership.

ISRA does not make use of the option to designate financial assets as assets to be measured at fair value through profit or loss upon initial recognition.

On each balance sheet date, ISRA VISION AG checks whether there are substantial indications of impairment. Any impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of the future cash flows expected from it. Impairment losses are recognized in the Consolidated Statement of Income according to their respective functional areas.

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

Value impairment

A forward-looking model of expected credit losses is used to measure impairment of financial assets measured at amortized cost or FVOCI.

Impairment losses are measured on one of the following bases:

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

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

The estimated expected loan defaults on trade receivables and other receivables, including contract assets, will be calculated on the basis of the creditworthiness of customers, historical default probabilities, country-specific features and future macroeconomic factors.

Cash and cash equivalents are deposited with banks or financial institutions. Based on the external ratings of the banks and financial institutions, ISRA sees a low risk of default for its cash and cash equivalents and has therefore not recognized any impairment. Primary financial liabilities are measured at fair value upon initial recognition. Subsequent measurement is at amortized cost using the effective interest method.

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 a fair value hedge.

w) 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 neither records the leasing objects as assets nor the leasing obligations associated with them as financial liabilities. Instead, the leasing installments have been expensed in the Consolidated Statement of Income as incurred linearly over the duration of the lease.

3. Acquisitions after gaining control

Photonfocus AG, Lachen (CH)

By signing the purchase agreement dated August 8, 2019, ISRA VISION AG acquired 100% of the shares in Photonfocus AG, Lachen, Switzerland. The purchase price amounts to CHF 11,500,000 less the acquired shareholder loan and was paid in cash. With Photonfocus AG, ISRA VISION AG is expanding its strategic portfolio in the field of embedded sensor technology and consistently continuing its future orientation with an extended focus on Smart Factory Automation for discrete industries. Photonfocus AG has been developing sensor modules for industrial image processing with high speed requirements for nearly two decades.

The specialized sensor technologies and development expertise on embedded systems with integrated intelligence will be incorporated into new products and product generations of ISRA in the short term and will open up additional market potential in the field of factory automation. The focus here is on linking 3D Machine Vision expertise with robot automation in both established markets such as the automotive industry and in industries with discrete manufacturing in general. The goal of the acquisition is to expand the business with Industry 4.0 components and embedded products. The purchase price allocation at the time of acquisition resulted in the following book values for Photonfocus AG: 328 thousand euros in non-current assets, 4.053 thousand euros in current assets, 3,824 thousand euros in non-current and current liabilities and 558 thousand euros in net assets. The revaluation performed as part of the purchase price allocation relates to products/technology valued at 4,817 thousand euros, customer relationships worth 689 thousand euros, orders on hand of 121 thousand euros and deferred tax liabilities. This results in a fair value of 9,839 thousand euros for non-current assets. The revaluation results in net assets valued at 6,554 thousand euros.

Due to the scope and complexity of the business processes, the purchase price allocation with regard to the identification and measurement of assets and liabilities at fair value is still provisional. Consequently, the fair values of the acquired assets and liabilities and goodwill may still change.

The non-deductible goodwill for tax purposes amounted to 3,894 thousand euros and results from the purchase price of 10,448 thousand euros less the net assets at fair value of 6,554 thousand euros.

The goodwill is mainly based on the know-how of the acquired employees. In addition, ISRA VISION is planning to use the company’s technologies and expertise in strategic areas of hardware and software development that have significant sales potential.

The turnover incorporated into the Group in financial year 2018/2019 amounted to 1,642 thousand euros, and the profit after tax was 79 thousand euros. If the acquired business had been included in the Consolidated Financial Statements since October 1, 2018, revenue and profit after tax in the past financial year would have amounted to an estimated 9,713 thousand euros and 663 thousand euros, respectively.

4. Approval of the Consolidated Financial Statements

The Consolidated Financial Statements were approved for publication by the Executive Board on January 16, 2020.

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 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 alignment of the Group structure into a market-oriented organization. The reporting segments reflect the business divisions that sell specific products in certain markets. The operative segments reflect the reporting structure of ISRA VISION AG. In accordance with the internal reporting structures, the business segments correspond to the reporting segments.

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

- INDUSTRIAL AUTOMATION

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

- SURFACE VISION

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

(in euro thousands)	Industrial Automation		Surface Vision		Total	
	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Sales revenues	39.127	39.821	114.773	112.707	153.901	152.528
EBIT	9.214	9.428	24.651	23.793	33.866	33.222
Financing result					-164	-192
Acquisition expenses					-1.563	0
Income taxes					-9.511	9.769
Group result					22.627	23.260

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

(in euro thousands)	Industrial Automation		Surface Vision		Total	
	as of 09/30/2019	as of 09/30/ 2018	as of 09/30/2019	as of 09/30/ 2018	as of 09/30/2019	as of 09/30/ 2018
Investments in non-current assets in the reporting year	15.239	4.406	16.497	15.122	31.736	19.528
Investments accounted for using the equity method	0	0	0	0	0	0
Impairment						
Goodwill	0	0	0	0	0	0
Depreciation						
Other intangible assets	2.300	1.637	14.538	12.869	16.838	14.506
Property, plant and equipment	177	180	1.101	1.122	1.278	1.380

Regional representation of net sales

(in eur thousands)	Germany		Europe		America		Asia, ROW *	
	10/01/2018 - 09/30/2019	10/01/2017 - 09/30/2018	10/01/2018 - 09/30/2019	10/01/2017 - 09/30/2018	10/01/2018 - 09/30/2019	10/01/2017 - 09/30/2018	10/01/2018 - 09/30/2019	10/01/2017 - 09/30/2018
Sales revenues	26.155	26.552	31.058	31.911	27.415	24.440	69.272	69.625

* ROW = Rest of the World

Sales are reported based on the recipient country. ISRA VISION AG generates more than 10% of its total sales in the following countries: Germany (26,155 thousand euros), China (49,822 thousand euros), US (20,729 thousand euros).

Regional representation of the asset situation

	as of 09/30/2019	as of 09/30/2018	as of 09/30/2019	as of 09/30/2018	as of 09/30/2019	as of 09/30/2018	as of 09/30/2019	as of 09/30/2018	as of 09/30/2019	as of 09/30/2018
ASSETS										
Intangible assets and property, plant and equipment	121.012	117.870	10.131	435	1.428	1.349	1.055	317	133.626	119.971

2. Cost of sales

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Materials	-33.545	-33.651
Personnel	-32.390	-32.640
Total	-65.935	-66.291

The cost of sales decreased by 356 thousand euros compared to the previous year, and includes depreciation of 494 thousand euros (previous year: 754 thousand euros) in costs of labor.

3. Cost of sales and marketing

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Sales and marketing	-28.391	-29.445

The cost of sales and marketing decreased by 1,054 thousand euros (previous year: 1,134 thousand euros). The cost of sales and marketing includes depreciation and amortization in the amount of 433 thousand euros (previous year: 680 thousand euros).

4. Administrative costs

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Administration	-5.554	-5.141

Administrative costs rose by 413 thousand euros (previous year: 131 thousand euros). The administrative costs include depreciation and amortization in the amount of 85 thousand euros (previous year: 119 thousand euros).

5. Total depreciation / amortization

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Depreciation on intangible assets	-16.838	-14.506
Depreciation on property, plant and equipment	-1.278	-1.302
Total according to fixed asset schedule	-18.116	-15.808

Of the depreciation and amortization of intangible assets, 14,899 thousand euros (previous year: 12,213 thousand euros) is accounted for by capitalized developments that are to be depreciated over a period of six years after completion.

6. Other revenues

Other revenues consist of the following items:

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Freight income	12	63
Income from exchange rate differences	1.858	918
Income from insurance compensation payments	504	102
Other operating income	776	625
Subtotal	3.150	1.707
Grants (in R&D)	613	423
Total	3.763	2.130

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

7. Acquisition costs

These expenses are the costs of unsuccessful acquisitions. As a significant irregular income component, this fact must be disclosed in a separate expense item. For a better understanding of the earnings situation in financial year 2018/2019, a corresponding subtotal was added to the structure of the Consolidated Statement of Income.

8. Income taxes

The tax expenses shown in the Comprehensive Statement of Total Income are attributable to Germany and foreign countries as well as to current tax expenses and deferred tax expenses as follows:

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Current income taxes		
Germany	7.129	2.821
Abroad	1.188	996
	8.317	3.817
Deferred tax expense		
Germany	1.302	5.600
Abroad	-108	352
	1.195	5.952
Total	9.511	9.769

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

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Result before income taxes	32.138	33.030
Expected income tax expense	9.956	10.233
Effect from foreign income tax rates	-256	-187
Tax losses without capitalization of deferred taxes	23	12
Use of previously unrecognized tax loss carryforwards	0	0
Consolidation-related and other effects	-212	-288
Reported income tax expense	9.511	9.769

In financial year 2018/2019, the corporate tax rate totaled 15.0%, plus the German Solidarity Surcharge of 5.5% of corporate tax. This resulted in an effective corporate tax rate of 15.83%. Taking into account the local business taxes – which amounted to 15.15% weighted – this resulted in an overall tax rate of approximately 30.98% (previous year: 30.98%).

The taxes in the Individual Financial Statements of ISRA VISION LLC, ISRA VISION SYSTEMS Inc., ISRA SURFACE VISION Inc. and ISRA VISION Parsytec Inc. were determined at a tax rate of around 28%. A tax rate of 19.0% was applied to ISRA VISION Ltd. and ISRA VISION Parsytec Ltd. while a tax rate of 25.0% was applied for ISRA VISION (Shanghai) Co. Ltd. A uniform tax rate of 31.07% was applied for the German Parsytec Group. A tax rate of 20.0% was applied for the Finnish company ISRA VISION FINLAND Oy. A uniform tax rate of 16.92% was applied for the Swiss Photonfocus Group.

9. Receivables

(in euro thousands)	09/30/2019	09/30/2018
Trade receivables of domestic Group companies	36.945	31.360
Trade receivables of foreign Group companies	11.930	14.128
Contract Assets	66.885	66.343*
Carrying value	115.760	111.831

*Receivables from unfinished orders valued according to the percentage of completion method

The value adjustments on receivables and contract assets developed as follows:

(in euro thousands)	2018/2019	2017/2018
Balance of valuation allowances on October 1	2.839	2.778
IFRS 9 adjustments on October 1	129	n.a.
Usage	789	641
Release	676	601
Addition	1.124	1.315
Exchange rate differences	10	-13
Stand Wertberichtigungen am 30. September	2.636	2.839

The devaluations for receivables disclosed as other operating expenses were made exclusively on a case-by-case basis. To determine expected credit defaults, the credit ratings of customers, historical default probabilities, country-specific characteristics and future macroeconomic factors are taken into account. 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 euro thousands)				thereof not impaired as of the balance sheet date and overdue in the following time frames			
Trade receivables	Carrying amount	thereof not overdue and not impaired as of the balance sheet date	Net value of impaired receivables	< 31 days	31-60 days	61-90 days	> 90 days
as of 09/30/2019	115.760	98.258	1.713	6.428	2.831	2.759	3.772
as of 09/30/2018	111.831	93.154	7.239	5.401	2.100	873	3.065

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

10. Inventories

The inventory includes:

(in euro thousands)	09/30/2019	09/30/2018
Raw materials and supplies	14.104	13.751
Unfinished goods	25.516	18.885
Finished goods	7.273	4.293
Carrying value	46.893	36.929

In financial year 2018/2019, impairment losses on inventories amounted to 340 thousand euros (previous year: 103 thousand euros).

11. Financial assets

This category comprises the following current and non-current financial assets:

(in euro thousands)	09/30/2019		09/30/2018	
	current	non-current	current	non-current
Loans to employees and other receivables from employees	293	0	256	0
Insurance claims	297	958	0	1.011
Security deposit	0	363	0	271
Other	1.668	0	2.980	0
Carrying value	2.258	1.321	3.236	1.282

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

12. Other receivables

This category comprises the following current and non-current receivables:

(in euro thousands)	09/30/2019		09/30/2018	
	current	non-current	current	non-current
Advance payments made	457	0	791	0
Sales tax receivables	2.347	0	1.643	0
Carrying value	2.804	0	2.434	0

13. Intangible assets

Intangible assets include:

(in euro thousands)	Goodwill	Software, licenses	Own work capitalized	Total
Acquisition and production costs				
October 1, 2018	40.997	32.677	121.573	195.246
Additions		1.605	18.096	19.701
Additions from company acquisition	3.894	5.745	0	9.639
Disposals	0	4.399	23.344	27.742
Reclassifications	0	0	0	0
Exchange rate differences	20	67	93	180
September 30, 2019	44.911	35.695	116.418	197.024
Write-offs				
October 1, 2018	2.061	22.664	55.365	80.090
Additions	0	1.939	14.899	16.838
Additions from company acquisition	0	0	0	0
Disposals	0	4.362	23.344	27.706
Reclassifications	0	0	0	0
Impairment	0	0	0	0
Reversal of impairment losses	0	0	0	0
Exchange rate differences	0	0	93	93
September 30, 2019	2.061	20.240	47.014	69.316
Carrying value of intangible assets				
October 1, 2018	38.936	10.013	66.208	115.156
September 30, 2019	42.850	15.455	69.404	127.709

(in euro thousands)	Goodwill	Software, licenses	Own work capitalized	Total
Acquisition and production costs				
October 1, 2017	40.823	31.575	105.141	177.539
Additions	0	991	16.427	17.417
Additions from company acquisition	149	654	0	803
Disposals	0	61	0	61
Reclassifications	0	0	0	0
Exchange rate differences	25	-482	5	-452
September 30, 2018	40.997	32.677	121.573	195.246
Write-offs				
October 1, 2017	2.056	20.654	43.146	65.857
Additions	0	2.293	12.032	14.325
Additions from company acquisition	0	19	0	19
Disposals	0	48	0	48
Reclassifications	0	0	0	0
Impairment	0	0	181	181
Reversal of impairment losses	0	0	0	0
Exchange rate differences	6	-255	5	-244
September 30, 2018	2.061	22.664	55.365	80.090
Carrying value of intangible assets				
October 1, 2017	38.767	10.921	61.994	111.682
September 30, 2018	38.936	10.013	66.208	115.156

The item “Software and Licenses” includes the software purchased, the costs of licenses, and the intangible assets acquired as part of the acquisitions that can be identified in the purchase price allocation.

The cumulative depreciation of own work capitalized amounted to a total of 47,014 thousand euros (previous year: 55,365 thousand euros), 14,899 thousand euros of which relates to amortization in the reporting year (previous year: 12,213 thousand euros). Own work capitalized was not value impaired (previous year 181 thousand euros Own work capitalized also includes additions from capitalized patent costs in the amount of 60 thousand euros (previous year: 50 thousand euros) and depreciation and amortization for patents in the amount of 2,206 thousand euros (previous year: 2,043 thousand euros).

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

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

- Cash flows are based on the Management’s current planning for a period of five years. Significant planning assumptions have been made regarding sales growth, the working capital ratio and the EBIT margin. The Management bases its planning on historical data as well as external market studies.
- For the periods that extend beyond the planning period, growth rates of 1.5% (previous year: 1.5%) have been assumed.

- A weighted average cost of capital before taxes (WACC) of 12.87% was assumed (previous year: 11.28%).
- The impairment tests for the goodwill have not resulted in the need for a goodwill impairment. If the underlying working capital ratio had been 2 percentage points higher for the goodwill impairment tests of the cash-generating units, this would have resulted in no value impairment. If the underlying revenue growth rates had been 3 percentage points lower for the goodwill impairment tests, this would have resulted in no value impairment. If the underlying EBIT ratios had been 1 percentage point lower for the goodwill impairment tests, this would have resulted in no value impairment.

Goodwill by segments is as follows:

(in euro thousands)	09/30/2019	09/30/2018
Goodwill Industrial Automation	9.804	5.910
Goodwill Surface Vision	33.045	33.026
Goodwill	42.850	38.936

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

As of September 30, 2019, there were no contractual obligations to acquire intangible assets (as in the previous year).

14. Tangible assets

Total tangible assets include:

(in euro thousands)	Land and buildings	Technical equipment	Office furnishings	Assets under construction	Total
Acquisition and production costs					
October 1, 2018	2.457	5.135	8.030	256	15.878
Additions	11	245	1.202	739	2.196
Additions from company acquisiti	0	31	169	0	200
Disposals		135	464	0	598
Reclassifications	32	0	-32	0	0
Exchange rate differences	117	1	12	-70	59
September 30, 2019	2.617	5.277	8.917	925	17.735
Write-offs					
October 1, 2018	619	4.253	6.037	154	11.063
Additions	65	309	867	36	1.278
Additions from company acquisition					0
Disposals		135	406	0	541
Reclassifications	32	0	-32	0	0
Impairment	0	0	0	0	0
Reversal of impairment losses	0	0	0	0	0
Exchange rate differences	30	1	-11	-2	18
September 30, 2019	746	4.428	6.456	188	11.818
Carrying value of property, plant and equipment					
October 1, 2018	1.838	882	1.992	102	4.815
September 30, 2019	1.870	849	2.461	737	5.917

As of September 30, 2019, there were no contractual obligations to acquire tangible assets (as in the previous year). There is a contingent liability from a land purchase agreement, which is expected to be settled in financial year 2019/2020.

(in euro thousands)	Land and buildings	Technical equipment	Office furnishings	Assets under construction	Total
Acquisition and production costs					
October 1, 2017	2.674	4.951	7.759	256	15.641
Additions	60	396	729	0	1.185
Additions from company acquisition	0	0	124	0	124
Disposals	303	209	495	0	1.007
Reclassifications	0	0	0	0	0
Exchange rate differences	26	-3	-87	0	-64
September 30, 2018	2.457	5.135	8.030	256	15.878
Write-offs					
October 1, 2017	549	3.959	5.765	149	10.421
Additions	62	497	739	4	1.302
Additions from company acquisition	0	0	85	0	85
Disposals	0	200	489	0	688
Reclassifications	0	0	0	0	0
Impairment	0	0	0	0	0
Reversal of impairment losses	0	0	0	0	0
Exchange rate differences	9	-3	-63	0	-57
September 30, 2018	619	4.253	6.037	154	11.063
Carrying value of property, plant and equipment					
October 1, 2017	2.125	993	1.995	107	5.219
September 30, 2018	1.838	882	1.992	102	4.815

15. Financial liabilities to banks

As of the balance sheet date, ISRA had non-current bank liabilities of 0 thousand euros (previous year: 0 thousand euros.

Current bank liabilities total 40,629 thousand euros (previous year: 32,872 thousand euros).

The weighted average interest rate over the 2018/2019 financial year for bank liabilities amounts to 0.56%.

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:

2018/2019 (in euro thousands)	Balance sheet value	Cash flows 2019/2020 Interest	Cash flows 2019/2020 Repayment	Cash flows 2020/2021 Interest	Cash flows 2020/2021 Repayment	Cash flows from 2020/2021 Interest	Cash flows from 2020/2021 Repayment
Liabilities to banks	40,629	39	40,629	0	0	0	0
Trade payables	23,427		23,427				
Financial liabilities	13,815		13,815				
Other liabilities	2,441		2,441				

2017/2018 (in euro thousands)	Balance sheet value	Cash flows 2018/2029 Interest	Cash flows 2018/2029 Repayment	Cash flows 2019/2020 Interest	Cash flows 2019/2020 Repayment	Cash flows from 2019/2020 Interest	Cash flows from 2019/2020 Repayment
Liabilities to banks	32,872	31	32,872	0	0	0	0
Trade payables	20,621		20,621				
Financial liabilities	13,823		13,823				
Other liabilities	1,618		1,618				

All liabilities as of the balance sheet date of September 30, 2019, and for which payments were contractually agreed, have been taken into consideration. No assumption of new liabilities has been 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 2018/2019.

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

16. Trade payables

Trade payables amount to 23,427 thousand euros (previous year: 20,621 thousand euros). The liabilities are being paid off regularly, taking full advantage of the discount terms offered. The liabilities are free of interest and payable within one year.

17. Provisions

Provisions include the following items:

(in euro thousands)	09/30/2018	Additions	Usage	Release	Exchange rate differences	09/30/2019	thereof due within the next financial year
Warranties	467	172	127	0	1	513	513
Severely handicapped compensation levy/ Pension guarantee association	53	424	370	1	-29	77	77
Other provisions	500	4.894	4.473	9	-158	754	754
Carrying value	1.020	5.490	4.970	10	-186	1.344	1.344

Other provisions also include provisions for work outstanding, vacation leave and work on the Annual Financial Statements.

18. Other financial liabilities

(in euro thousands)	09/30/2019	09/30/2018
Wages & salaries, performance-related remuneration and related social security contributions and remaining vacation	11.802	9.670
Miscellaneous other financial liabilities	2.013	4.153
Carrying value	13.815	13.822

19. Other liabilities

(in euro thousands)	09/30/2019	09/30/2018
Contractual liabilities	2.441	1618*
Carrying value	2.441	1.618

* Recognized in the previous year under prepayments received

Another contractual liability was created for prepayments from customers for maintenance contracts for the remaining term of the contracts, which will be reversed over the term of the contracts.

20. Deferred tax assets / deferred tax liabilities

The calculation of the deferred taxes is based on average income tax rates of 30.98% (previous year: 30.98%) for Germany and 28% (previous year: 30%) for the United States. Deferred taxes are allocated to the balance sheet items as follows:

(in euro thousands)	09/30/2019	09/30/2018
Intangible assets	23.384	19.897
Inventories	-6.702	-4.761
Receivables Contract assets (previous year: Receivables, POC)	23.710	23.551
Miscellaneous items	287	457
Deferred tax liabilities	40.678	39.144
Loss carryforward	19	34
Pension provisions	517	386
Other provisions	-61	-62
Deferred tax assets	475	358

The deferred tax assets realized after more than 12 months amounts to 475 thousand euros (previous year: 358 thousand euros). The deferred tax liabilities realized after more than 12 months amount to 12,540 thousand euros (previous year: 18,384 thousand euros). The change in the balance of the deferred taxes amounts to 1,418 thousand euros (previous year: 6,158 thousand euros).

Tax losses carried forward totaled 60 thousand euros as of September 30, 2019 (previous year: 109 thousand euros). Deferred tax assets were set aside for all tax losses carried forward. The Executive Board has assessed the usability of the losses carried forward based on the Company's planning for 2020-2024.

There are no losses that can be carried forward indefinitely. 60 thousand euros in losses carried forward will expire within 8 years.

21. Pension provisions

The provisions for employee benefits from the Company pensions plan have been assessed 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 individual commitment. The pension obligations were calculated in 2018 by using the mortality tables published by Dr. Heubeck.

The pension liabilities arise from the 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 the form of proportional fixed monthly pensions upon reaching the age limit or survivor's benefits.

In the Consolidated Statement of Financial Position, pension obligations were combined based on similar agreements and are explained together accordingly.

The retirement benefits include 36 eligible persons in total, 12 of whom are retirees, 9 active employees and 15 former employees. Since no new benefits can be earned, the risk for the Company results exclusively from the development of interest rates, the expected age of retirement as well as the life expectancy of the eligible individuals.

The determination of the obligations as per September 30, 2019, is based on independent actuarial opinions by experts for company pension schemes.

The assessments for ISRA VISION LASOR GmbH are based on the following assumptions: Discount rate 1.09% (previous year: 2.30%), projected pension increase 1.70% p. a. (previous year: 1.70%).

The following assumptions were made in assessing the provisions of ISRA VISION PARSYTEC AG and ISRA PARSYTEC GmbH: Discount rate 1.9% (previous year: 2.30%), projected pension increase 1.7% p. a. (previous year: 1.70%).

The “Reference Guidelines 2018 G” from Dr. Klaus Heubeck were used as the calculation basis. 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 financial year 2018/2019:

(in euro thousands)	2018/2019	2017/2018
Cash value of defined benefit obligations at the beginning of the financial year	2.993	2.853
Actuarial (gains) losses	482	8
Interest expense	67	62
Past service costs	-33	n.a.
Pension payments	-133	-74
Total at the end of the financial year	3.376	2.993

Interest costs are included in the financial result of the respective financial year. Past service costs due to plan adjustments (plan curtailments and compensation) in the financial year 2017/2018 are included in the personnel costs of the financial year 2017/2018.

The actuarial gains and losses, adjusted for the income tax effect, are recognized directly in equity with no impact on result. The total amount of actuarial gains and losses for the financial year is attributable to changes in the financial assumptions.

A change in the above-mentioned key actuarial assumptions by half a percentage point on each balance sheet date would have led to the following changes in the present value of the defined benefit obligation:

Sensitivity of the DBO in euro thousands, as of 09/30/2019 3,376 thousand euros	09/30/2019	09/30/2018
Interest rate +0.5%	-224	-189
Interest rate -0.5%	249	209
Pension increases (pension trend) 0.5%	166	137
Pension increases (pension trend) -0.5%	-152	-126

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

Expected pension payments in euro thousands	
Financial year 2019/2020	110
Financial year 2020/2021	113
Financial year 2021/2022	117
Financial year 2022/2023	138
Financial year 2023/2024	155
Financial year 2024/2025 - 2028/2029	795

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-time 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 691 thousand euros (previous year 593 thousand euros) on September 30, 2019.

In financial year 2018/2019 2,911 thousand euros (previous year: 2,586 thousand euros) were recorded as incurred as contribution-oriented pension provisions to the statutory pension insurance.

22. Equity

a) Share capital

As of the balance sheet date, the Company's share capital amounts to 21,914,444.00 euros and relates to bearer shares with a nominal value of one euro each. On December 18, 2019, the share capital was increased by 8,244.00 euros to 21,914,444.00 euros as part of the acquisition of ISRA VISION Polymetric GmbH.

Capital developed as follows during the current financial year:

The subscribed capital amounts to 21, 914,444.00 as of the balance sheet date (previous year: 21,906,200.00).

The Company holds 27,700 own shares (previous year: no shares).

The Executive Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital until March 16, 2020, once or on multiple occasions by issuing new no-par value shares against cash or non-cash contributions, after partial utilization of 8,244 euros, by up to up to a maximum amount of 10,944,856.00 euros (Authorized Capital). The subscription rights of shareholders are also served with an indirect subscription right in accordance with § 186 Para. 5 Sentence 1 of the German Stock Corporation Act. With the agreement of the Supervisory Board, the Executive Board is authorized to exclude the statutory subscription rights of shareholders

- for fractional amounts,
- insofar as it is necessary to grant the bearers and / or holders of conversion rights and / or option rights or the debtors of conversion obligations from bonds, issued by the Company directly or through a Group Company on the basis of the authorization resolved under item 9 of the agenda, a subscription right to new shares equal to the number that they would be entitled to after exercise of the conversion rights and / or option rights or when performing their conversion obligations,
- to provide 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 Para. 1 and 2, 186 Para. 3 Sentence 4 of the German Stock Corporation Act (AktG) and the amount of the share capital attributable to the shares issued under exclusion of the statutory subscription rights according to § 186 Section 3 Clause 4 does not exceed 2,190,620.00 euros or – if this amount is less – 10% of the existing base capital at the time of the issue of the new shares. Realization of stocks must be charged against the 2,190,620.00 euros / 10% limitation of base capital if they come into effect due to an existing authorization as of July 8, 2015 or an authorization replacing it under shareholder exception from subscription according to § 71 Para.1 No. 8 of the German Stock Corporation Act (AktG) in conjunction with § 186 Para. 3 Sentence 4 of the German Stock Corporation Act (AktG). In addition, stocks issued or to be issued to service bonds under warrant and / or conversion right fall under the 2,190,620.00 euros / 10% limitation of share capital if the bond was issued under shareholder exception from subscription due to an existing authorization as of July 8, 2015 or an authorization replacing it according to § 186 Para. 3 Sentence 4 of the German Stock Corporation Act. Moreover, this must also include shares issued from Authorized Capital in accordance with § 203 Para. 1 and Para. 2 AktG in conjunction with § 186 Para. 3 Sentence 4 AktG with pre-emption rights disapplied since March 17, 2015. If shares must therefore be added to the limit for the above reasons as a result of being issued or sold, or as a result of the issue of convertible and warrant bonds, prior to the entry in the commercial register of the capital increase from Company funds resolved by the Annual General Meeting of March 28, 2018, under item 8 a) of the agenda, the shares in question must be added to the limit five-fold.

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

On the basis of a resolution passed by the Annual General Meeting on March 28, 2018, share capital has been conditionally increased by up to 10,453,100.00 euros by issuing up to 10,453,100 no-par value bearer shares (Conditional Capital II). The conditional capital increase may only be carried out to the extent that the holder or creditor (jointly: Holders) of convertible or negotiable option bonds, issued up to March 16, 2020, on the basis of the authorization given to the Executive Board by the Annual General Meeting on March 17, 2015, in its original form or by way of the resolution of the Annual General Meeting on March 28, 2018, makes use of this conversion right or option right, or to the extent that the holders, who are obliged to make the conversion fulfill their obligation to undertake the conversion and that no other means of performance are applied in these cases. The new shares shall be issued at the option or conversion price to be determined in accordance with the aforementioned authorization resolution. The new shares will begin participating in Company profits as of the start of the financial year in which they are created (by exercising option / conversion rights and / or fulfilling option / conversion obligations).

Under a resolution passed by the Annual General Meeting held on March 28, 2018, the Executive Board of ISRA VISION AG has been authorized to acquire its own shares until March 16, 2020, complying with the principle of equal treatment (§ 53a of the German Stock Corporation Act (AktG)).The Board is authorized to acquire a pro rata amount of the base capital up to 2,190,620 euros in total, under the provision that the shares that 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 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 Para. 2 Sentences 2 and 3 of the German Stock Corporation Act (AktG) must be observed. Purchases may not be undertaken for the purpose of trading in own shares. The authorization volume, i.e. the above pro rata amount of share capital of 2,190,620 euros is reduced to the extent that the Executive Board has already exercised the authorization to acquire own shares resolved by the Annual General Meeting on March 17, 2015, prior to the entry in the commercial register of the capital increase from company funds resolved under item 8 a) of the agenda of the Annual General Meeting on March 28, 2018; the pro rata share capital attributable to the shares acquired is five times this amount. This authorization may be implemented in full or in parts. Purchases may be undertaken within the period covered by the authorization up to the point where the maximum purchase volume has been reached by partial purchases on various purchasing dates. Purchases may also be undertaken by subsidiary enterprises of the Company in the context of § 17 of the German Stock Corporation Act (AktG) or on its / their behalf by third parties.

b) Capital reserve

The capital reserve mainly contains premiums from the IPO and capital increases; in addition, expenses from capital measures were offset against the capital reserve.

The capital reserve amounted to 21,111 thousand euros as of September 30, 2019 (previous year: 21,722 thousand euros). The reduction is due to the purchase of treasury shares and the capital increase.

c) Own shares

27,700 treasury shares were purchased in financial year 2018/2019. The purchase costs of the treasury shares were -233 thousand euros (previous year: 0 thousand euros).

d) Equity attributable to non-controlling shareholders

Besides ISRA VISION AG, other non-controlling shareholders have an interest in the subsidiary ISRA VISION PARSYTEC AG. Their share of the net assets of the respective subsidiary is recorded in the item designated accordingly in Group equity.

The influence of other shareholders in these subsidiaries as of September 30, 2019, is presented below:

(in euro thousands)	Share	Result of the non-controlling shareholders in 2018 / 2019	Cumulative non-controlling shares as of September 30, 2019
ISRA VISION PARSYTEC AG	96,07%	67	1.554

The disclosures for the previous year are as follows:

(in euro thousands	Share	Result of the non-controlling shareholders in 2017 / 2018	Cumulative non-controlling shares as of September 30, 2018
ISRA VISION PARSYTEC AG	96,07%	99	1.487
ISRA VISION VISTEK A.S.	75,00%	54	376

The financial information of the subsidiaries as of September 30, 2019, is summarized as follows:

	Assets as of 09/30/ 2019		Liabilities as of 09/30/2019	
(in euro thousands)	Current	Non-current	Current	Non-current
ISRA VISION PARSYTEC AG	39.961	13.260	2.946	5.453

The following information is reported for the previous year:

	Assets as of 09/30/2018		Liabilities as of 09/30/2018	
(in euro thousands)	Current	Non-current	Current	Non-current
ISRA VISION PARSYTEC AG	36.638	13.261	695	6.069
ISRA VISION VISTEK A.S.	1.760	435	1.121	0

e) Currency translation differences

The currency translation differences in equity serve to record the differences that result from the currency conversions in the financial statements of foreign subsidiaries. The balancing items for currency translation differences decreased in financial year 2018/2019 from 943 thousand euros to 1,172 thousand euros.

f) Dividend

In financial year 2018/2019, ISRA paid out dividends for financial year 2017/2018 in the amount of 3,286 thousand euros. This equates to a dividend of 0.15 euros per share.

23. Contingent liabilities and other financial liabilities

Medium and long-term rental agreements exist in connection with the rental of buildings, motor vehicles, the telephone system and office equipment. The resulting financial liabilities are as follows:

Expenses in the years (in euro thousands)	Reporting year	Previous year
2019 to 2024 (previous year: 2018 to 2023)	10.521	6.751
after 09/30/2024 (previous year: after 09/30/2023)	864	823
Expenses in the reporting year	4.501	3.522

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

The lease for the building occupied by ISRA SURFACE VISION GmbH in Herten includes a purchasing right in for ISRA SURFACE VISION GmbH.

Future minimum lease payments under non-cancellable operating leases (in euro thousands)	Reporting year	Previous year
up to one year	347	312
longer than one year and up to five years	1.387	1.248
longer than five years	549	806

The basis on which contingent rent payments are determined includes the rental of the building for use as a production facility and for the new SURFACE VISION headquarters in Herten. 2,407 sqm of office space, a 924 sqm production hall and parking spaces have been leased. The lease began on February 1, 2006, and has a term of 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 agreed rent has increased due to actual building costs that have exceeded the planned construction costs due to changes that ISRA made to the plans.

Rent expenditures from the operating lease relationship totaled 360 thousand euros in financial year 2018/2019 (previous year: 310 thousand euros).

24. Notes to the Consolidated Statement of Cash Flows

Cash and cash equivalents comprise cash in hand and bank deposits available at short notice in the amount of 39,890 thousand euros (previous year: 34,716 thousand euros). The change in cash and cash equivalents amounts to 5,174 thousand euros (previous year: 4,988 thousand euros). 524 thousand euros in cash has been deposited as collateral.

As of the balance sheet date, ISRA had no non-current liquid funds.

The acquisition of a company resulted in an outflow of liquid funds of approximately 10,179 thousand euros in the reporting year.

Company acquisition in euro thousands	Acquisition costs	Funding outflow	Cash in hand on the acquisition date	Method of payment
PHOTONFOCUS AG	10.448	10.179	269	bar

25. Transactions with affiliated companies or related parties

In a lease dated August 12, 1998, the Company leased administrative, 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 in this GbR (common-law company). The addendum to the lease dated October 1, 2012, has a fixed initial term of ten years. The monthly rent amounts to 10,200.26 euros plus a lump-sum for ancillary costs of 805.29 euros. The terms and provisions of the rental agreement were negotiated at arm’s length. As of the balance sheet date, liabilities to ISRA Bau-Mitarbeiter-Beteiligungsgesellschaft GbR amounted to 0 thousand euros (previous year: 0 thousand euros). In the year under review, rental expenditure for the GbR amounted to 132 thousand euros (previous year: 132 thousand euros).

In a lease dated April 1, 2019, ISRA VISION Graphikon GmbH in Berlin has rented administration, storage and development space at the company's headquarters in Berlin from ISRA Immobilie Berlin GmbH, Darmstadt. The lease has a non-cancellable basic term of 10 years. The rent amounts to 16,089.40 euros per month plus a lump sum for incidental expenses in the amount of 3,991.38 euros. The terms of the lease correspond to those agreed upon with third parties. On the reporting date September 30, 2019, there were liabilities of 10 thousand euros (previous year: 0 thousand euros) to ISRA Immobilie Berlin GmbH. In the year under review, rental expenses for ISRA Immobilie Berlin GmbH amounted to 120 thousand euros (previous year: 0 thousand euros).

Future minimum lease payments under non-cancellable operating leases (in euro thousands)	Reporting year	Previous year
up to one year	373	132
longer than one year and up to five years	1.228	396
longer than five years	1.084	0

26. Shareholdings in associated companies

ISRA Immobilie Berlin GmbH, Darmstadt, was founded on March 14, 2017. The purpose of the Company is to establish, operate and possibly dispose of an office property located 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 -217 thousand euros. The book value of the associated company amounts to -218 thousand euros. The assets amount to 5,528 thousand euros and the balance sheet total to 5,746 thousand euros.

27. Classes of financial assets / liabilities and reconciliation statement

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

		Balance sheet valuation according to IFRS 9		
in euro thousands	Carrying amount on 09/30/2019	fair value	amortized acquisition costs	fair value not affecting income
Assets				
Cash and cash equivalents	39.890	0	39.890	0
Trade receivables	115.760	0	115.760	0
other assets	6.383	0	6.383	0
Liabilities				
Trade liabilities	23.427	0	23.427	0
Liabilities to credit institutes	40.629	0	40.629	0
Other liabilities	13.815	0	13.815	0

The following information is provided for the previous year:

			Balance sheet valuation according to IAS 39		
in euro thousands	Category according to IAS 39	Carrying amount on 09/30/2018	fair value	amortized acquisition costs	fair value not affecting income
Assets					
Cash and cash equivalents	Loans and receivables	34.716	0	34.716	0
Trade receivables	Loans and receivables	111.831	0	111.831	0
other assets	Loans and receivables	6.952	0	6.952	0
thereof aggregated into measurement categories according to IAS 39					
Loans and receivables		153.499	0	153.499	0
Liabilities					
Trade liabilities	financial liabilities measured at amortised cost	20.621	0	20.621	0
Liabilities to credit institutes	financial liabilities measured at amortised cost	32.872	0	32.872	0
Other liabilities	financial liabilities measured at amortised cost	13.822	0	13.822	0
thereof aggregated into measurement categories according to IAS 39					
financial liabilities measured at amortised cost		67.315	0	67.315	0

The cash and cash equivalents, the trade receivables / trade payables and other receivables / payables primarily have a short term to maturity. Their carrying amounts as of the balance sheet date of September 30, 2019, are therefore nearly the same as their current fair value. The carrying amount of the bank liabilities is the same as its 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.

All items shown here under assets are to be allocated to the measurement category Loans and Receivables in accordance with IAS 39 and to the measurement category At Amortized Cost in accordance with IAS 9.

All items shown here under liabilities are measured at amortized cost in accordance with both IAS 39 and IFRS 9.

28. Net profit / net loss

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

	aus der Folgebewertung					Nettoergebnis	
(in euro thousands)	from interest and dividends	at fair value	Currency conversion	Value adjustment	from a disposal	2018/2019	2017/2018
Financial assets measured at amortized cost	-34		1.826	-449	-223	1.120	825
Liabilities carried at amortized cost	-61		-698			-759	-1.402

29. Personnel

In financial year 2018/2019, the number of employees averaged 815 (previous year: 739).

	Reporting year	Previous year
Employees	755	690
Temporary staff	60	49
Total	815	739

Personnel costs:

(in euro thousands)	10/01/2018 to 09/30/2019	10/01/2017 to 09/30/2018
Wages and salaries	-49.571	-44.375
Social security costs, pension costs	-7.294	-6.541
Total	-56.864	-50.916

30. Information on capital management

Capital management essentially covers cash and cash equivalents (39,890 thousand euros) as well as financial liabilities to banks (see 15) and equity (see 22).

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

31. Earnings per share

Earnings per share in the amount of 1.03 euros (previous year: 1.06 euros) calculated according to IAS 33 are based on the division of the consolidated net profit attributable to the parent Company of 22,560 thousand euros (previous year: 23,108 thousand euros) by the 21,889,900 shares on average circulating during the financial year (previous year: 21,902,903 shares).

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

	Number of shares in circulation
September 30, 2018	21.906.200
treasury shares acquired	27.700
shares issued	8.244
treasury shares sold	0
September 30, 2019	21.886.744

32. Notifications in accordance with § 21 Para. 1 and Para. 1a of the German Securities Trading Act WpHG

ISRA VISION AG has been notified of the existence of shareholdings in accordance with § 21 Para. 1 or Para. 1a of the German Securities Trading Act (Wertpapierhandelsgesetz). The contents of the notifications are contained in the Notes to the Individual Financial Statements.

33. Declaration of conformity to the German Corporate Governance Code

ISRA VISION AG is the only Company currently publicly listed in Germany that is included in the Consolidated Annual Financial Statements that has submitted the Declaration of Conformity prescribed by § 161 of the German Stock Corporation Act (AktG) and made it accessible to shareholders under https://www.isravision.com/de/investor-relations/corporate-governance in the Investor Relations area.

34. 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 financial year 2017/2018 as well as in the prior financial year:

(in euro thousands)	Reporting year	Previous year/PKF
Audit of the financial statements	243	210
other certification and valuation services	12	39
- of which for previous years	0	0
Tax advisory services	22	49
other services	42	10
Total amount	319	308

35. 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.

Exchange rate risks

Exchange rate risks mainly result from investments and operating activities.

A 10% increase in the EUR / USD exchange rate would lead to the results being reduced by -1,416 thousand euros (previous year: -1,142 thousand euros). A 10% decrease in the EUR / USD exchange rate would lead to the results being increased by 1,731 thousand euros (previous year: 1,396 thousand euros). Equity would have changed by -978 thousand euros and 1,195 thousand euros, respectively.

A strong dollar contributes to sales for ISRA VISION, while 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 the ISRA Group.

The currency sensitivity analysis is subject to the following assumptions:

The currency sensitivity analysis on the reporting date of September 30, 2019, is 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 at amortized cost.

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

An interest sensitivity analysis using interest rates from 2018/2019 yields the following results:

If the market interest level as of September 30, 2019, had been 100 base points higher (lower), the result before taxes would have been 304 thousand euros (0 thousand euros) lower (higher) (previous year: 312 thousand euros, 0 thousand euros). The equity capital would have dropped (risen) by 210 thousand euros (0 thousand euros) (previous year: 216 thousand euros, 0 thousand euros).

The interest sensitivity analysis is subject to the following assumptions:

The bank liabilities existing as of the reporting date of September 30, 2019, less the payment of the acquisition in the amount of 10,179 thousand euros, can 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 15). Additional liquidity risks result from the contingent liabilities and other financial liabilities (item 23), trade payables (item 16) and other financial liabilities (item 18).

Price risks

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

Credit risks

ISRA conducts business solely with creditworthy third parties. Multinational companies with a high level of creditworthiness account for the majority of its customers. By splitting the total receivables into various sub-areas and due to constant monitoring of the inventory of receivables, there is no significant risk of payment default. The maximum risk of default is limited to the carrying amount reported. There are no significant concentrations of payment default risks. Due to its customer structure, there is similarly no concentration of risks. 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 current financial guarantees and amounts to 3,579 thousand euros (previous year: 4,518 thousand euros).

The default risk is taken into account by means of individual and lump-sum individual value adjustments and trade credit insurance.

Financing risks

The loans granted by banks are subject to contractually agreed terms and key figures. These key figures 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. In the event of a breach of the agreed terms, the creditors have the right to demand immediate repayment of their claims.

36. Supplementary Report

No significant events of material importance to the financial statements of ISRA VISION AG have taken place since the end of financial year 2018/2019.

37. Remuneration of 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 include 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 their base salary. 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, 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 Chairman 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 financial year 2018/2019, the non-performance-based parts of the remuneration totaled 306 thousand euros for Mr. Christ (previous year: 295 thousand euros), 555 thousand euros for Mr. Ersü (previous year: 535 thousand euros), 360 thousand euros for Mr. Amir (previous year: 330 thousand euros), 280 thousand euros for Dr.-Ing. Giet (previous year: 270 thousand euros), 240 thousand euros for Mr. Gerecke (previous year: 320 thousand euros) and 125 thousand euros for Mr. Hettwer. The benefits in kind and allowances, which included the use of a company car and allowances for health insurance, amounted to 29 thousand euros for Mr. Christ (previous year: 29 thousand euros), 28 thousand euros for Mr. Ersü (previous year: 28 thousand euros), 37 thousand euros for Mr. Amir (previous year: 37 thousand euros), 22 thousand euros for Dr.-Ing. Giet (previous year: 22 thousand euros) and 7 thousand euros for Mr. Gerecke (previous year: 10 thousand euros). 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 2018/2019. The following amounts are an indication of the expected level of the performance-based remuneration, in particular 55 thousand euros for Mr. Christ (previous year: 80 thousand euros), 140 thousand euros for Mr. Ersü (previous year: 150 thousand euros), 20 thousand euros for Mr. Amir (previous year: 15 thousand euros), 60 thousand euros for Dr.-Ing. Giet (previous year: 32 thousand euros) and 11 thousand euros for Mr. Gerecke (previous year: 26 thousand euros). The variable performance-based remunerations with long-term incentive totaled 25 thousand euros for Mr. Christ (previous year: 30 thousand euros), 35 thousand euros for Mr. Ersü (previous year: 35 thousand euros), 20 thousand euros for Dr.-Ing. Giet (previous year: 15 thousand euros) and 5 thousand euros for Mr. Gerecke (previous year: 5 thousand euros). This resulted in the following expected non-performance-based and performance-based remunerations in total of

386 thousand euros for Mr. Christ (previous year: 405 thousand euros), 730 thousand euros for Mr. Ersü (previous year: 720 thousand euros), 380 thousand euros for Mr. Amir (previous year: 345 thousand euros), 360 thousand euros for Dr.-Ing. Giet (previous year: 317 thousand euros), 256 thousand euros for Mr. Gerecke (previous year: 351 thousand euros) and 125 thousand euros for Mr. Hettwer. The remuneration of the Executive Board totaled 2,360 thousand euros (previous year: 2,264 thousand euros). The individual amounts of the previous year's variable performance-related remuneration with long-term incentive effect were paid out in financial year 2018/2019.

A D&O insurance policy has been taken out for the members of the Executive Board, which meets the legal requirements regarding the deductible for Executive Board members in accordance with the VorstAG.

The payments to the members of the Supervisory Board for their activities totaled 153 thousand euros (previous year: 138 thousand euros). No option rights have been granted to members of the Supervisory Board. The Chairman of the Executive Board received a loan in the amount of 200 thousand euros (previous year: 200 thousand euros) in November 2010 for an investment property. The investment property serves as collateral. The interest rate is based on EONIA plus a margin in accordance with the refinancing of the Company. The loan that is to be paid off at the end of the term has a repayment period of three years and is automatically extended by one year. The loan was paid back in full in September 2019.

Supervisory Board

Dr.-Ing. h. c. Heribert J. Wiedenhues, Lahnstein; Chairman of the Supervisory Board of the Schwing-Stetter Group, Herne / Memmingen; Chairman of the Board of Trustees of Peter Böttger Stiftung, Montabaur; Chairman of the Board of Management of BFM BrainFleet Management GmbH, Frankfurt/Main; Chairman of the Supervisory Board of ISRA VISION AG since September 2007

Prof. Dr. rer. nat. Dipl.-Ing. Henning Tolle, Roßdorf; Professor Emeritus, Roßdorf; formerly the Chairman of the Supervisory Board of ISRA VISION AG from February 2000 to September 2007; Deputy Chairman of the Supervisory Board of ISRA VISION AG since February 2018

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

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

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

Dr.-Ing. Hans-Peter Sollinger, Heidenheim an der Brenz; former member of the Board of Management of Voith AG; member of the Supervisory Board of LEIPA Group GmbH, Schwedt/Oder; member of the Administrative

Board of Bartholet Maschinenbau AG, Flums, Switzerland; member of the Advisory Board of montratec GmbH, Niedereschach; member of the Supervisory Board of ISRA VISION AG since March 2019

Mr. Falko Schling, Frankfurt; Managing Director of bonotos GmbH, Geisig; member of the Supervisory Board of PMG Holding GmbH, Füssen; Managing Director of KKM GmbH, Katzenelnbogen; member of the Supervisory Board of ISRA VISION AG from March 2008 to November 2018

Executive Board

Mr. Enis Ersü, Graduate Engineer, Darmstadt (Chairman)

Mr. Hans Jürgen Christ, Graduate Engineer, Ober-Ramstadt (Deputy Chairman)

Dr.-Ing. Johannes Giet, Graduate Engineer, Eggenstein

Mr. Shlomo Amir, MBA, Kochav-Yair, Israel (Deputy Chairman), until September 2019

Mr. Andreas Gerecke, Graduate Engineer, Hagen, until June 2019

Mr, Guido Hettwer, Stuttgart, until March 2019

Darmstadt, January 16, 2020

ISRA VISION AG

The Executive Board

List of shareholdings of subsidiaries

as of September 30, 2019

Name and registered office of the company	Shareholding (in percent)	Indirect shareholdings via 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, UK	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, UK	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 COMÉRCIO, SERVIÇOS, IMPORTAÇÃO E EXPORTAÇÃO LTDA, Sao 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 YAPAY GÖRME VE OTOMASYON SANAYI VE TICARET A.S., Istanbul, Türkei [a)]	100	
19. Vision Experts GmbH, Karlsruhe, Germany	100	
20. ISRA Immobilie Berlin GmbH, Darmstadt, Germany [a)]	49.99	
21. ISRA Immobilie Darmstadt GmbH, Darmstadt, Germany [a)]	100	
22. ISRA VISION Polymetric GmbH, Darmstadt, Germany	100	
23. PHOTONFOCUS AG, Lachen, Switzerland	100	
PHOTONFOCUS IMAGING LTD., Oakville / Ontario, Canada	100	23.
PHOTONFOCUS SPAIN, S.L., Barcelona, Spain	100	23.

a) Balance sheet date differs from that of the parent company

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

AUDIT OPINION OF THE INDEPENDENT AUDITOR

To ISRA VISION AG:

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, 2019, 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, 2018 to September 30, 2019 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, 2018 to September 30, 2019.

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

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

- the consolidated financial statements attached comply in all material respects with the IFRS, as applicable in the EU, and applicable German statutory provisions in accordance with section 315e(1) HGB, and give a true and fair view of the net assets and financial position of the Group as of September 30, 2019 and its results of operations for the financial year from October 1, 2018 to September 30, 2019 and
- the attached Group management report overall gives a true and fair view of the Group's situation. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German statutory provisions and suitably presents the risks and opportunities of future development.

Our audit verdict on the Group management report does not extend to the content of the corporate governance declaration in the "Other information" section.

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

Basis for audit verdicts

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

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

Audit issues of particular importance are those that, at our discretion, were the most significant in our audit of the consolidated financial statements for the financial year from October 01, 2018 to September 30, 2019. 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 contract assets

1. Contract assets of € 66,885k are reported in the consolidated financial statements of ISRA VISION AG, Darmstadt, as of September 30, 2019. They account for around 19 percent of total assets. This item includes contract assets from period-related performance obligations, which are recognised in accordance with the stage of completion. The stage of completion is determined as the ratio between the expenses incurred in the fiscal year and hours actually worked and the total expected expenses and hours. Advance payments received and contract assets are netted against these if they can be offset. 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 the contract assets. 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 appropriately documented.
3. The company's statement on contract assets can be found in paragraph 2 and note 9 of the consolidated financial statements.

Goodwill impairment

1. Goodwill allocated to several cash-generating units of € 42,850k is reported in the consolidated financial statements as of September 30, 2019.
   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 cashgenerating 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 paragraph 2 and note 13 of 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 € 69,404k allocated to several cash-generating units is reported in the consolidated financial statements as of September 30, 2019.
   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 longterm 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 paragraph 2 and note 13 of the consolidated financial statements.

Other information

The legal representatives are responsible for the other information. The other information comprises the following unaudited components of the Group management report:

- the corporate governance statement set out in the section 'Non-financial performance indicators and sustainability'
- the 'Combined separate non-financial report'
- the non-financial declaration
- the corporate governance declaration
- the corporate governance report in accordance with GCGC

The Other Information includes furthermore the other parts of the annual report, with the exception of the audited consolidated financial statements, the Group management report and our audit opinion.

Our audit verdicts on the consolidated financial statements and the management report do not include the other information and therefore we do not express an audit opinion or any other form of conclusion on these matters.

In connection with our audit, we have a responsibility to read the other information and assess whether the other information

- contain material inconsistencies with the consolidated financial statements, the group management report or the knowledge gained from our audit, or
- appear to be substantially misrepresented elsewhere.

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 315e(1) HGB, and for ensuring that the consolidated financial statements give a true and fair view of the net assets and financial position of the Group in accordance with these provisions.

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

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

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

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

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

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

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

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

We also:

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

- Obtain an understanding of internal control and the policies and procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing a verdict on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related statement made by the legal representatives.
- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related statement in the consolidated financial statements or the Group management report or, if such statement are inadequate, to modify our audit verdict. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the statement, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional German legal requirements applicable under section 315e(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 statutory and other legal requirements

Other information according to Article 10 EU-APrVO

We were appointed as the auditor by the Annual General Meeting on March 19, 2019. We were engaged by the Supervisory Board on September 30, 2019. We have worked as the auditor for ISRA VISION AG without interruption since the financial year from October 01, 2018 to September 30, 2019.

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 Arno Kramer.

Frankfurt / Main, January 28, 2020

RSM GmbH
Financial Auditing Company
Tax consulting company

Markus Riedhammer	A. Kramer
Financial Auditor	Financial Auditor

Responsibility statement by the legal representatives

To the best of our knowledge, and in accordance with the applicable accounting principles, the Consolidated Financial Statements give a true and fair view of the Group's net assets, financial position and earnings situation, and the Group Management Report provides a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Darmstadt, January 16, 2020

The Executive Board

Forward-looking statements

This Annual Report contains forward-looking statements that are based on assumptions and estimates by the Management of ISRA VISION AG. Even if the Company's Management is of the opinion that these assumptions and estimates are correct, actual developments and actual results in the future may differ considerably from these assumptions and estimates on account of many different factors. These factors could include changes in the overall economic situation, exchange rates, interest rates and in the Machine Vision industry, for example.

ISRA VISION AG provides no guarantees and accepts no liability that future developments and the actual results achieved in the future will correspond to the assumptions, estimates and projections made in this Annual Report. ISRA VISION neither intends to nor assumes any special obligation to update the assumptions and estimates expressed in this Annual Report in order to adapt them to events or developments after the publication of this Annual Report.

The Annual Financial Statements and Management Report are also available in German. In the event of any deviations, the German version takes precedence over the English translation.