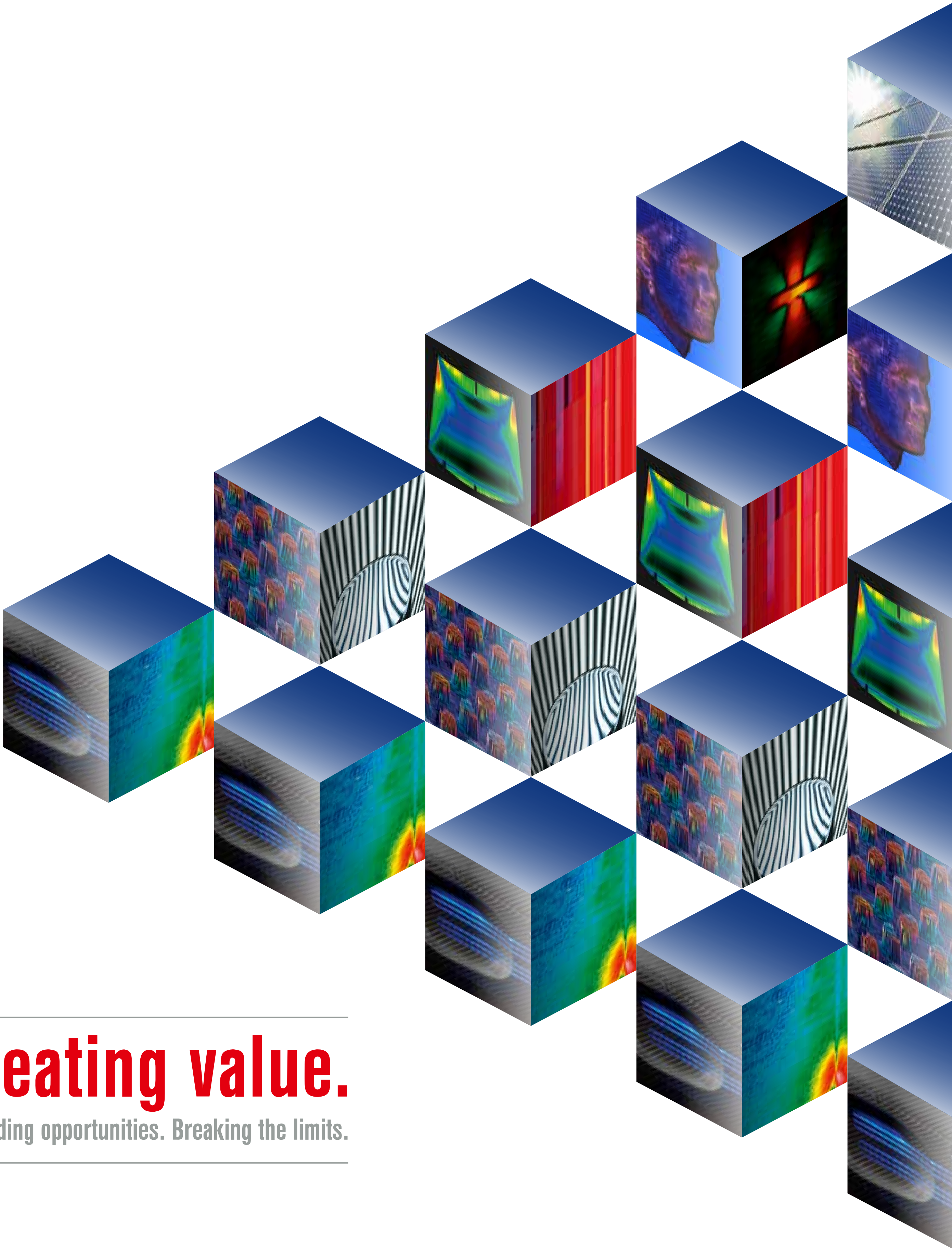
Annual Report 2012 / 2013



# Creating value.

Expanding opportunities. Breaking the limits.

# Key Figures

## Pro forma consolidated total output EBITDA/EBIT statement*

| (in € k) | Oct. 1, 2012 - Sep. 30, 2013 | | Oct. 1, 2011 - Sep. 30, 2012 | |
|---|---|---|---|---|
| Net sales | 89,541 | 90% | 83,885 | 90% |
| Capitalized work | 10,280 | 10% | 9,621 | 10% |
| Total output | 99,821 | 100% | 93,506 | 100% |
| Cost of materials | 20,866 | 21% | 19,989 | 21% |
| Personnel expenditure excluding depreciation | 18,973 | 19% | 17,694 | 19% |
| Production costs excluding depreciation | 39,839 | 40% | 37,684 | 40% |
| Gross profit | 59,982 | 60% | 55,822 | 60% |
| Research and development total | 15,600 | 16% | 14,487 | 15% |
| Sales and marketing costs | 16,084 | 16% | 14,740 | 16% |
| Administration | 4,462 | 4% | 4,337 | 5% |
| Sales and administration costs excluding depreciation and amortization | 20,546 | 21% | 19,077 | 20% |
| Other revenues | 2,309 | 2% | 1,952 | 2% |
| EBITDA | 26,145 | 26% | 24,211 | 26% |
| Depreciation and amortization | 8,857 | 9% | 8,695 | 9% |
| Total costs | 45,003 | 45% | 42,259 | 45% |
| EBIT | 17,288 | 17% | 15,516 | 17% |
| Earnings from associated companies | 46 | 0% | 60 | 0% |
| Interest income | 127 | 0% | 84 | 0% |
| Interest expenses | -919 | -1% | -758 | -1% |
| EBT | 16,542 | 17% | 14,902 | 16% |
| Income taxes | 5,077 | 5% | 4,209 | 5% |
| Consolidated net profit | 11,465 | 11% | 10,693 | 11% |
| Of which accounted to non-controlling shareholders | -103 | 0% | 30 | 0% |
| Net profit accounted to shareholders of ISRA VISION AG | 11,567 | 12% | 10,663 | 11% |

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

## Selected financial data

| (in € k / %) | Sept. 30, 2013 | Sept. 30, 2012 | Percentage change |
|---|---|---|---|
| ROCE (Return on Capital Employed) | 11% | 11% | |
| Equity Ratio | 57% | 56% | |
| Cash-flow from operating activities | 15,527 | 11,377 | 36% |
| Fund assets September, 30 | 9,655 | 7,536 | 28% |
| Earnings per share in € | 2.64 | 2.44 | 8% |
| Dividend per share in € | 0.35* | 0.30 | 17% |
| Equity per share in € | 26.92 | 24.62 | 9% |
| Shared issued | 4,381,093 | 4,374,854 | 0% |
| No of employees (annual average) | 542 | 492 | 10% |

* subject to the agreement of the General meeting

# Content

Dear shareholders, customers, business partners and friends of ISRA,
dear employees,

Enis Ersü
CEO

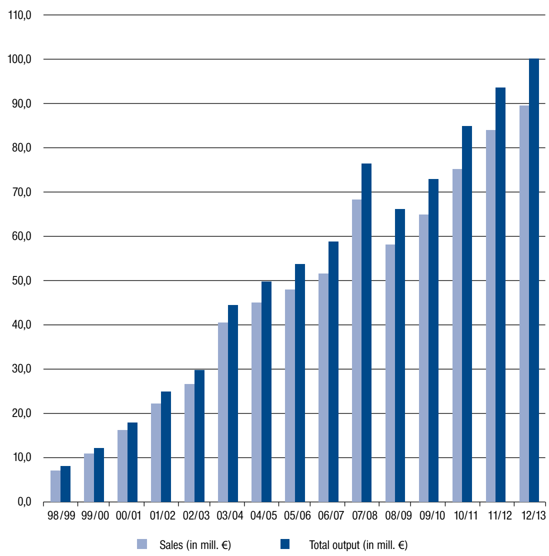
For ISRA, 2012/2013 was a successful financial year: We consistently pursued our growth strategy, even though the global economic environment continued to be marked by some degree of uncertainty. ISRA significantly increased the group revenues and earnings and once again reached the high margin level. As in the previous years since our going public, we met our forecast again for 2012/2013. The start into the new financial year is characterized by a good order entry. With the dynamic first quarter, the growth will also continue in the current financial year. The revenue mark of 100 million euros is within reach, and ISRA remains on course.

The results of 2012/2013 in detail: ISRA recorded revenues of 89.5 million euros (previous year: 83.9 million euros). The gross margin, a key figure for the group, with 60 percent underscores yet again the overall strong margin level referenced to total output: the EBITDA margin was at 26 percent (previous year: 26 percent), the EBIT margin at 17 percent (previous year: 17 percent). The EBT margin increased by one percentage point to 17 percent to total output (previous year: 16 percent). EBITDA improved by 8 percent to 26.1 million euros (previous year: 24.2 million euros). A growth of 12 percent to 17.3 million euros was reached by EBIT (previous year: 15.5 million euros), EBT grew disproportionately strong to the group revenues by 11 percent to 16.5 million euros (previous year: 14.9 million euros). After minority interests, the consolidated annual net income rose by 8 percent to 11.6 million euros – the best result in the history of the company. Earnings per share after taxes increase to 2.64 euros (previous year: 2.44 euros).

In the two segments Industrial Automation and Surface Vision, ISRA maintained and further expanded its worldwide leading market position in 2012/2013. In the Industrial Automation division, in which sales activities focus almost exclusively on the automotive industry, revenues rose by 13 percent to 24.3 million euros (previous year: 21.5 million euros). EBIT increased by 25 percent to 4.8 million euros (previous year: 3.8 million euros), the EBIT margin improved – as in the previous year – by one percentage point to 17 percent to total output (previous year: 16 percent). The revenues in the Surface Vision segment improved to 65.3 million euros (previous year: 62.4 million euros). EBIT was at 12.5 million euros (previous year: 11.7 million euros), the EBIT margin at 17 percent to total output (previous year: 17 percent).

Following the good results in 2012/2013, the business performance in the regions also continued in the first quarter of 2013/2014. In particular, Asia confirms the development of the previous quarters with additional growth. The order entries in North and South America are also at a good level. After a phase of investment restraint, Europe is recording increasing revenues. The regional expansion remains an integral component of ISRA's strategy in the future and makes an important contribution to profitable growth of the company. For the current financial year, we are expecting an overall positive revenue development in all regions.

To successfully continue the long-term growth strategy, we are concentrating on further expanding the strong international presence, the good market position as well as the customer base of global players with the help of intensive sales and marketing activities. At the same time, ISRA is consistently extending its technology and product portfolio through innovations and acquisitions. With the integration of GP Solar, we have strategically positioned ourselves as the leading provider for inspection technology in the solar industry – particularly in the growth markets in Asia. As a result, ISRA is well prepared in this field to benefit from the worldwide catch-up potential for investments in quality inspection systems for existing as well as new production lines. The bundled know-how of ISRA and the recently integrated teams of 3D-Shape and GP Solar will also be applied by using innovative solutions to realize opportunities on markets outside the current core industries. In addition, the sales activities for the intelligent Yield Management product series „EPROMI"



(Enterprise Production Management Intelligence), which supports customers in improving production efficiency, will be strongly continued.

Dr.-Ing. h.c. H. J. Wiedenhus
Chairman of the Supervisory Board

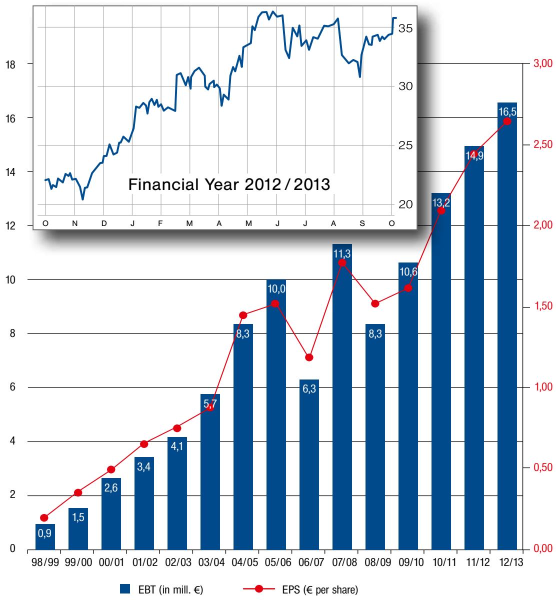
Besides the organic, the external growth through acquisitions of suitable companies is another important component of our long-term strategy. With the full integration of the Machine Vision specialist Vistek, located in Istanbul, we have successfully expanded our initial investment from 2009. With this acquisition, ISRA extends its product portfolio by an application for the inspection of glassware. At the same time, we gain good access to the markets in Turkey as well as in the Middle East. Following the positive integration of GP Solar, ISRA will intensify the activities with respect to new acquisition projects and, upon positive outcomes of the analyses, plans on concluding an additional project in the current financial year.

In the course of the 2013 / 2014 financial year, the company will concentrate strategically as well as operationally on activities that will prepare ISRA for revenue dimensions beyond 100 million euros. Developing new growth opportunities in existing as well as in new markets plays a key role that is just as important as the expansion of the operational company structures and the strengthening of management for future team sizes. In order to prepare the organization, the company also continues the measures for increasing productivity and efficiency. The optimization of the cash management remains in focus, particularly by improving the working capital on the basis of a further enhanced lean production. Additionally, the implementation of the new ERP system as well as the support of the marketing and sales activities by the introduction of a new internet presence are being continued as planned.

For 2013 / 2014, ISRA forecasts a revenue growth to approx. 100 million euros. The strong order entries in the first three months of the current financial year under review and the high order backlog of 55.5 million euros (PY: approx. 46 mill. euros) form a good basis. The margin optimization will be continued, just like in previous quarters. For the current financial year, we are planning with margins at the same level as in the first quarter of 2013 / 2014.

The price of the ISRA share developed positively in the 2012 / 2013 financial year. A significant increase of market capitalization has attracted the attention of many institutional investors. Independent of the dynamic price development of the share, ISRA proceeds with its continuous and growth-oriented dividend strategy based on the good business performance. The Executive Board and the Supervisory Board therefore recommend to the General Meeting on March 25, 2014, an increase of the dividend of 5 cent per share to 0.35 euros.

On behalf of the Supervisory Board and Management, I would like to thank you – dear shareholders and customers – for the confidence placed in us. I am thankful to you, dear business partners, for the good cooperation. The employees of ISRA deserve my very special appreciation and recognition. You are keeping the company consistently on course and honor our commitment to serve our customers anew every day.




With the best regards

Enis Ersü, Chairman of the Board,
On behalf of the management

Darmstadt, Germany, March 2014

2012 / 2013

# Group Management Report ISRA VISION AG

Financial Year 2012 / 2013

## 1 Business and Operating Environment

### 1.1 Economic situation

Based on the economic forecasts published at the end of 2013 by economic research institutes, the global economic development in 2013 was divided. While the downward trend from the previous two years continued at the beginning of 2013, a positive trend began to emerge in the fall of 2013, among other things due to the decline in uncertainty in the eurozone. Nevertheless, the crisis has not yet been completely overcome.[1] The Institute for the World Economy (IfW) anticipates an increase in the world gross domestic product (GDP) of 2.9 percent in the year 2013, while growth in the year 2012 amounted to 3.1 percent. Although an even lower value than in 2012 can be recorded, the world economy has picked up a significant upswing in the course of the year 2013.[2] For 2013, the F.A.Z. Institute (FAZ) anticipates a growth of 3.0 percent, Deutsche Bank (DB) 2.8 percent; while Berenberg Bank (BB) expects significantly less with 2.3 percent.[3]

#### Moderate recovery in the US and in Europe

Following the slump in the summer months, the economic development in parts of Asia shows different directions and partially remains behind the original expectations. Deutsche Bank still assumes an economic growth of 5.9 percent in Asia without Japan and only 3.9 percent without Japan and China.[4] A weak development with 3.7 percent GDP increase (IfW and DB) can be recorded especially for India, although a minor stimulation did take place in the third quarter.[5] A recovery of the economic situation with a GDP growth between 1.6 percent (IfW) and 2.0 percent (DB) is confirmed for Japan.[6] For China, the forecasted growth lies between 7.5 percent (IfW) and 7.8 percent (DB) with a general trend below the value of the previous year, but above expectations, while these numbers and the economic circumstances are interpreted differently.[7]

In the year 2013, the United States is said to have gone through a phase of gradual economic recovery. Parallel to the course of the world economy, the development in the second half of the year was significantly above the figures of the first half of the year. This resulted in growth rates of the GDP in the range of 1.6 percent (IfW) to 1.8 percent (DB) over the entire year 2013.[8] The countries of Latin America showed very different developments in the course of the year. Overall, the region grew by 2.7 percent according to the IfW. The growth rates for individual countries are said to range from 0.5 percent or 1.5 percent in Venezuela and Mexico up to 5.0 percent or 7.0 percent in Argentina and Peru. Brazil joins the middle of the field with 2.0 percent, among other things because of the uncertainties due to protests and strikes in the third quarter.[9]

Similar to the United States, the eurozone is also recovering gradually, although the economic development has not yet been able to pick up any speed. For this reason, the GDP of the member countries still shrinks by 0.4 percent (IfW and BB) or 0.2 percent (DB) in the course of the year 2013, while the confidence in the economic strength and the survival of the currency union returned successively.[10] The better forecasts for the EU and overall Europe of 0.0 percent (DB) to 0.5 percent (BB) GDP growth can be traced back to the good development of most of the remaining European countries, such as the United Kingdom and Switzerland, but also Poland.[11]

#### Positive indicators for Germany

In the course of the year 2013, the German economy continued to improve further, even though the positive forecasts were fulfilled only partially. While indicators such as the business climate showed a clear upward trend, the upswing was not completely reflected in the economic activities, e.g. in order entries and industrial production. The reasons, among other things, are a weak export demand as well as only a minor increase in private consumption.[12] This development results in a GDP growth of 0.4 percent (IfW) to 0.6 percent (BB) for Germany.[13] The economic forecasts for 2014 promise a positive economic development (cp. Forecast report in section 10).

[1] Cp. F.A.Z. Institute, Wirtschaftsprognose 2014, p. 17-19; Institute for the World Economy, Weltkonjunktur im Herbst 2013, p. 3.

[2] Cp. Institute for the World Economy, Weltkonjunktur im Herbst 2013, p. 3.

[3] Cp. F.A.Z. Institute, Wirtschaftsprognose 2014, p. 17; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 4.; Berenberg Bank, Ausblick 2014, p. 3.

[4] Cp. Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 38 and 41.

[5] Cp. Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 22 and 23; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 4, 39 and 40.

[6] Cp. Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 10-14; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 4, 35-37.

[7] Cp. Berenberg Bank, Ausblick 2014, p. 3, 36 and 37; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 39, and Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 22 and 23.

[8] Cp. Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 6 and 9; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 5.

[9] Cp. Institute for the World Economy, Weltkonjunktur im Herbst 2013, p. 24.

[10] Cp. Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 13, 14 and 18; Berenberg Bank, Ausblick 2014, p. 18 and 19; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 22-24.

[11] Cp. Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 22 and 23; F.A.Z. Institute, Wirtschaftsprognose 2014, p. 23 and 24; Berenberg Bank, Ausblick 2014, p. 4.

[12] Cp. Institute for the World Economy, Deutsche Konjunktur im Winter 2013, p. 4; Berenberg Bank, Ausblick 2014, p. 5, 20 and 21.

[13] VCp. Institute for the World Economy, Deutsche Konjunktur im Winter 2013, p. 32; Berenberg Bank, Ausblick 2014, p. 5; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 22.

### 1.2 Industry trend in industrial image processing

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

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

For the year 2013, the German Engineering Federation (VDMA) anticipates that the German industry sales of the image processing industry will grow by approx. 5 percent compared to 2012 to more than 1.5 billion euros. The positive impulses are particularly the result of a rising demand from overseas and the high order backlog in the first 6 months of the year.[14] For the North American image processing industry, the American Industry Association AIA sees a growth of the industry of approx. 9 percent in North America, which should be above the value that was expected at the beginning of the year. This growth is particularly the result of a positive development in the area of Machine Vision systems.[15] For the Asian markets, complete statements for the year 2013 are not yet available. An assessment of the Chinese Machine Vision association CMVU forecast a growth of the national Machine Vision market in the double-digit range at the beginning of the year.[16]

### 1.3 ISRA VISION – a global company

ISRA VISION AG, together with its subsidiaries (ISRA), is one of the world market leader for surface inspection systems. It is one of the world‘s leading providers for image processing systems (Machine Vision), specializing in the 3D Machine Vision segment, especially for „3D Robot Vision“.

#### Focused on different industries with innovative solutions

The core competence of the company is ISRA BrainWARE®, an innovative software for intelligent machine vision systems. It integrates scientific know-how in the areas of optics, lighting technology, measurement technology, physics, image processing and classification algorithms as well as a complex system design. Machine Vision is a key technology of seeing systems which imitate the human eye. Today‘s ISRA applications primarily concentrate on the automation of production and quality assurance of goods and products that are supplied to large, promising markets such as energy, healthcare, food, mobility and information technology. Amongst the customers are predominantly renowned global players of the respective industry. In the area of industrial automation, ISRA addresses first and foremost customers from the automotive industry and, complementarily, from other industries; in the Surface Vision segment customers stem from the glass, solar, plastics, print, paper, specialty paper and metal industry.

#### Group, subsidiaries and branch locations

With 27 locations, ISRA is close to the customer at any location worldwide and ensures an optimal service and support.

#### Germany

ISRA is represented throughout Germany. ISRA VISION AG in Darmstadt is the headquarters for the group. The departments of Finance, Marketing, Purchasing and partly Electrical Production are concentrated at this location. The Industrial Automation division, with the automotive industry as its primary focus, is also managed from Darmstadt. The activities for developing and marketing the ready-to-use product line „Plug & Automate“ for 3D Machine Vision fall into this segment. The operating facility of ISRA VISION AG in Karlsruhe concentrates the group‘s expertise in the area of hardware development.

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

The Surface Inspection business for glass, plastics and specialty paper is concentrated in ISRA SURFACE VISION GmbH, Herten. Furthermore, the customers from the printing industry are served at the Herten location. In addition, the location in Herten manages the central production for the Surface Vision segment. ISRA VISION LASOR GmbH, Bielefeld, develops the surface vision systems for specialty paper. A shared activity with Darmstadt at this location is the basic development of software for all Surface Vision systems. ISRA VISION Parsytec AG in Aachen is focused

[14] VDMA, Results of session „Business Intelligence, financial reporting, statistics – a roadmap to success?“ 13/14 September 2013, Schloss Hohenkammer near Munich, p. 3, and VDMA, Industrielle Bildverarbeitung – Marktbefragung 2013, p. 18/19.

[15] Cp. AIA; The Machine Vision Market: What to Expect; press release dated July 01, 2014.

[16] Cp. e.g. imv Europe, press release dated July 29, 2013: Land of promise? Opportunities and threats inside Asia; imv Europe, press release dated February 22, 2013: US vision market to grow 4 per cent in 2013, according to AIA.

on the metal and paper industry. The software modules of the „Enterprise Production Management Intelligence“ (EPROMI) architecture are also marketed with Aachen as its base. They help to optimize management decisions by enabling production management to exercise direct control over the production hall.

GP Solar GmbH with headquarters in Munich and an operating facility in Constance, which was integrated into the group in the course of the financial year, together with GP Inspect GmbH in Munich and ISRA VISION Graphikon GmbH with headquarters in Berlin, are responsible for the activities in the photovoltaics and solar thermal energy industry. The portfolio includes solutions for the inspection of silicon-based solar cells and modules as well as for the inspection of modules based on thin-film technology and test devices for lab equipment in the solar industry.

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

### Europe

ISRA VISION Parsytec Ltd. in Hampshire, Great Britain, concentrates on business with customers from the metal and paper industry. In Finland, ISRA is present with ISRA VISION FINLAND Oy for Scandinavian customers from the paper industry. The interest in VISTEK ISRA VISION A.S., Istanbul, serves as a development location and as a springboard to the Turkish market, as well as both the Near and Middle East. ISRA VISION LLC, Moscow, serves the growing Russian market with inspection solutions.

### America

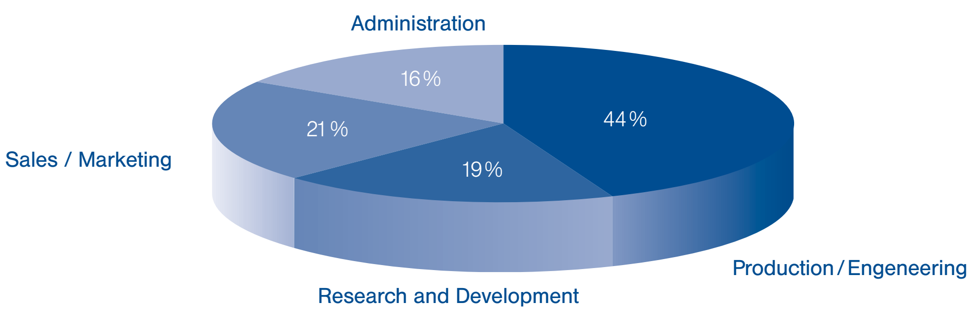
ISRA VISION SYSTEMS, Inc., of Bloomfield Hills (Michigan), USA, runs the entire North American automotive business of the Industrial Automation division. All Surface Vision activities in North America were brought together under one roof at ISRA SURFACE VISION Inc. of Duluth (Georgia), USA. ISRA VISION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

### Asia

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

### Employee development

ISRA pays special attention to well-trained technical personnel with social and interdisciplinary competencies in its international employee recruitment process. In the 2012/2013 financial year, the ISRA Group employed an average of 542 people worldwide (previous year: 492). 558 people were employed as of September 30, 2013. The majority is working at locations in Germany (72 percent). Europe (without Germany) accounted for 3 percent, North and South America for 9 percent and Asia for 16 percent of the employees.




Of the staff employed worldwide as of September 30, 2013, 44 percent worked in production and engineering and approximately 19 percent in research and development (R&D). Another 21 percent of ISRA employees worked in sales and marketing and 16 percent in administration.

### Research and development is the catalyst for the growth strategy

Research and development are an important foundation for innovations and, therefore, the prerequisite for future growth of ISRA. For the ability to expand product offerings for existing and new customers and to develop new applications for potential markets, ISRA continuously invests in research and development. In the year under review, 15.6 million euros were invested for this purpose, 8 percent more than the previous year (14.5 million euros).

In the past financial year, the Company once again successfully introduced a variety of new products and applications to the market. These include new products that offer customers a higher return on investment as well as cost-effective solutions tailored specifically for fast-growing markets in East Europe, Asia and Latin America. Regular customers were offered optimized products and solutions for existing and future production lines. ISRA also developed innovative applications for new customer markets and industries based on existing technologies.

In the area of surface inspection, solutions are being marketed that significantly increase system performance. These products can be used not only in new systems, but also as retrofits for existing systems. With the help of new technical solutions in electronics, color camera technology and LED lighting, ISRA creates innovative products for customers in the plastics, printing, glass and solar industries.

In the area of industrial automation, ISRA has introduced several innovations for 3D applications. They are used for three-dimensional measurement tasks, facilitation of assembly at the operating production line and gripping into transport containers to identify and remove unsorted parts.

### Ratios and the most important performance indicators

The Company's most important performance indicators stem from the consolidated total output EBITDA / EBIT statement. They provides a view of the Company's efficiency and profitability as it relates to the industry. The most important performance indicators are the gross margin (gross profit to total output), EBITDA, EBIT and EBT as well as the corresponding margins, each with respect to total output and revenues.[17]

ISRA is a market-oriented company, and the forecasts of sales represent an additional foundation for the corporate governance. The forecasts are created every two weeks by the sales division. Based on this foundation, decisions are made about the further personnel requirements in the area of marketing, sales, customer support, production and engineering. The estimated quarterly and annual revenues report, which is also created anew every two weeks, serves as leading target achievement indicator.

### 1.4 Assessment of the business development

ISRA Management assesses the closing financial year as another successful year. The company confirmed the forecasted growth rate, as it has in the preceding thirteen trading years with the exception of the global economic crisis of 2008, and increased revenues to 89.5 million euros and the annual consolidated surplus to 11.6 million euros. This plus of 7 percent respectively 8 percent shows that the business development is not necessarily coupled with the general economic development or the economic situation in the industry sector. With a double-digit EBT growth of 11 percent and an EBT margin to total output of 17 percent (previous year: 16 percent), ISRA continues its profitable growth, despite the challenges in individual regions and industries as well as the restructuring and integration of GP Solar. The earnings per share after taxes increase to 2.64 euros (previous year: 2.44 euros), a plus of 8 percent. This provides a good basis for the company to continue the sustainable dividend strategy (previous year: 0.30 euros per share). Non-financial performance indicators have also contributed to the positive business development. In the 2012 / 2013 financial year, the Management team and marketing were reinforced through selective, targeted hiring employment. The integration of GP Solar increased the level of innovation and customer benefit, not only in the solar industry, but also for projects in other target industries.

In the financial year 2012 / 2013, ISRA has maintained its market position worldwide in both segments, Surface Vision and Industrial Automation. In the Industrial Automation segment, in which sales activities concentrate almost exclusively on the automotive industry, revenues rose by 13 percent to 24.3 million euros (previous year: 21.5 million euros). The revenues in the Surface Vision segment rose to 65.3 million euros (previous year: 62.4 million euros), a plus of 5 percent.

With respect to the regional business development, ISRA profits from its strong worldwide presence. The company increased its revenues, particularly in Asia – especially in China – as well as in North and South America. In Europe, the economic situation and the investment delays associated with it led to a more reserved business in individual countries.

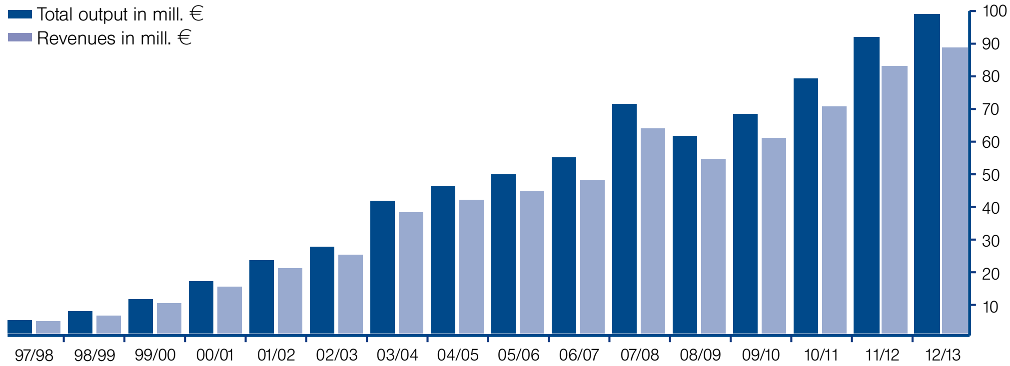
[17] This pro forma presentation is an additional presentation based on the previous years and therefore not part of the ISRA consolidated financial statements.

## 2 Result of Operations and Financial Position

### 2.1 Results of Operations

#### Profitable growth

ISRA increased revenues in the 2012 / 2013 financial year by approx. 7 percent to 89.5 million euros.




#### Pro forma consolidated total output EBITDA/EBIT statement[18]

Particularly based on increased revenues, total output rose to 99.8 million euros in the 2012 / 2013 financial year, representing an increase of 7 percent compared to the previous year (93.5 million euros). Capitalized development costs increased proportionally by 7 percent to 10.3 million euros. The percentage cost share of production was kept constant with 39.8 million euros (previous year: 37.7 million euros) in the year under review at 40 percent of total output through continuous optimization of the products and the production processes. It leads to a gross profit margin of 60 percent (previous year: 60 percent); this corresponds to the long-term margin goal. With respect to revenues, the margin amounted to 67 percent (previous year: 67 percent).

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|---|---|---|---|---|
| Net sales | 89,541 | 90 % | 83,885 | 90 % |
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| Depreciation and amortization | 8,857 | 9 % | 8,695 | 9 % |
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| Earnings from associated companies | 46 | 0 % | 60 | 0 % |
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| EBT | 16,542 | 17 % | 14,902 | 16 % |
| Income taxes | 5,077 | 5 % | 4,209 | 5 % |
| Consolidated net profit | 11,465 | 11 % | 10,693 | 11 % |
| Of which accounted to non-controlling shareholders | - 103 | 0 % | 30 | 0 % |
| Of which accounted to shareholders of ISRA VISION AG | 11,567 | 12 % | 10,663 | 11 % |

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

The so far order entries show a positive trend with double-digit percentage increase compared to previous year. The order backlog of approx. 53 million euros (as of January 15, 2014; previous year: approx. 48 million euros) also is a strong indication for the current financial year. The improving investment activities for new and replacement equipment in the target industries of ISRA play a substantial role in these tendencies of higher order entry and backlog. The past has shown it is not necessarily only tied to the general economic development. Other significant factors are the technology innovations as well as the intensity and the focus of sales activities.

## Sales, marketing and administration

Expenditures for sales and marketing amounted to 16.1 million euros (previous year: 14.7 million euros) in the reporting period. In the context of the continued innovation and marketing offensive, these expenditures rose by 8 percent compared to previous year virtually corresponding to the revenue growth. Administrative costs in the amount of 4.5 million euros (previous year: 4.3 million euros) rose by 3 percent thanks to a lean organization, a smaller proportional increase than the one in revenue growth. Its share of the total output amounted to approx. 4 percent (previous year: 5 percent).

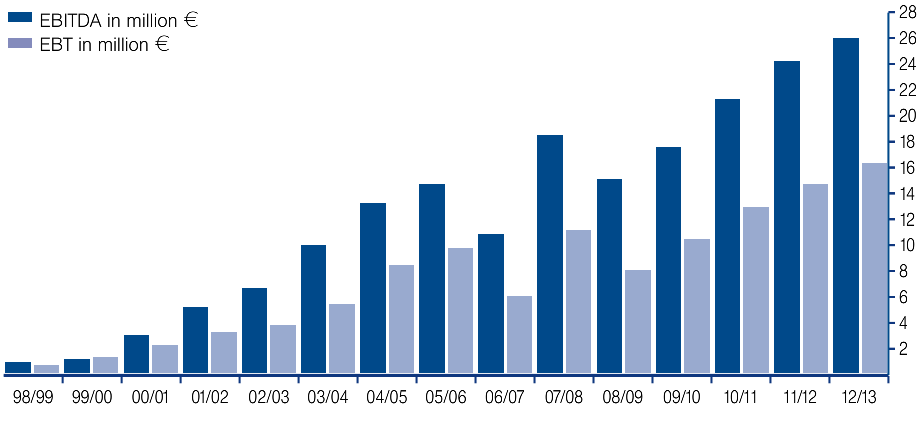
## Research & development

In the year under review, the company spent 15.6 million euros (previous year: 14.5 million euros) for R&D. This corresponds to an increase of 8 percent. 10.3 million euros of it were invested in developing new products that are soon to be launched on the market (previous year: 9.6 million euros). These amounts were capitalized in accordance with IAS 38. At the same time, 7.0 million euros (previous year: 6.8 million euros) were written off for capitalized development costs from previous years and from the year under review as well as for software and licenses.

## Stable margins

ISRA increased the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) by 8 percent to 26.1 million euros (previous year: 24.2 million euros). This resulted in a margin based on total output at the same level of the previous year in the amount of 26 percent. The depreciation and amortization in the year under review increased by approx. 2 percent to a total of 8.9 million euros (previous year: 8.7 million euros).

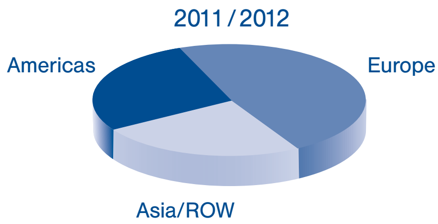
In the year under review, ISRA raised an EBIT (Earnings Before Interest and Taxes) in the amount of 17.3 million euros. That represents an increase of 12 percent compared to the previous year with 15.5 million euros. The financing result changed from minus 0.7 million euros in the previous year to minus 0.8 million euros. ISRA increased earnings before taxes by 11 percent to 16.5 million euros (previous year: 14.9 million euros). Referenced to total output, it corresponds to a margin of 17 percent, referenced to revenues 18 percent (previous year: 16 percent and 18 percent, respectively). Tax expenditures amounted to 5.1 million euros (previous year: 4.2 million euros). ISRA achieved consolidated group earnings attributable to the shareholders of ISRA VISION AG of 11.6 million euros. This translates to an increase of 8 percent compared to the previous year (10.7 million euros). In relation to the weighted average of the number of shares of 4,381,093 (previous year: 4,374,854), it results in an EPS (Earnings per Share) of 2.64 euros (previous year: 2.44 euros). The number of shares is the weighted average of externally owned shares during a financial year and does not include shares purchased back by the Company.

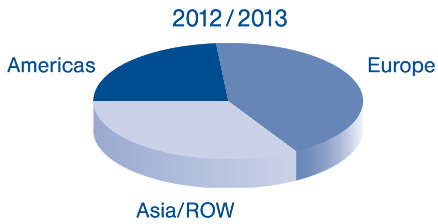



## Growth in segments and regions

In the financial year 2012 / 2013, ISRA has maintained its market position worldwide in both segments, Surface Vision and Industrial Automation. In the Industrial Automation segment, in which sales activities concentrate almost exclusively on the automotive industry, revenues rose by 13 percent to 24.3 million euros (previous year: 21.5 million euros). EBIT increased by 25 percent to 4.8 million euros (previous year: 3.8 million euros), the EBIT margin improved – similarly to the previous year – by one percentage point to 17 percent to total output (previous year: 16 percent). The revenues in the Surface Vision segment rose to 65.3 million euros (previous year: 62.4 million euros), a plus of 5 percent. EBIT amounted to 12.5 million euros (previous year: 11.7 million euros), the EBIT margin to 17 percent to total output (previous year: 17 percent). The segments paper, plastic and print provided a good contribution to revenues. The business in the glass industry benefited from new product introductions, particularly in the second half of the year.

With respect to the regional business development, ISRA profits from its strong worldwide presence. The company increased its revenues, particularly in Asia – especially in China – as well as in North and South America. In Europe, the economic situation and the investment delays associated with it led to a more reserved business in individual countries.




## 2.2 Financial position

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

### Cash flow and liquidity analysis

In the 2012 / 2013 financial year, ISRA attained an operative cash flow of 15.6 million euros (previous year: 11.4 million euros). In the 2012 / 2013 financial year, a significant share of the operative cash flow came from the items depreciation and amortization in the amount of 8.9 million euros (previous year: 8.7 million euros), changes in deferred tax assets and deferred tax liabilities in the amount of 3.3 million euros (previous year: 2.4 million euros), as well as earnings tax payments in the amount of 3.4 million euros (previous year: 0.9 million euros). The changes in trade payables and other liabilities amounted to minus 13.1 million euros (previous year: plus 4.9 million euros). This increase of trade payables and other liabilities results mainly from the acquisition of GP Solar GmbH and the assumption of their respective liabilities.

In the year under review, ISRA invested 1.4 million euros (previous year: 1.8 million euros) in property, plant and equipment. The investments in intangible assets amount to 9.9 million euros, which places them almost at the same level of the previous year (10 million euros). Nearly all of it falls to capitalized development costs. The acquisition of the shares of GP Solar GmbH, including the shares of GP Inspect GmbH, as well as final payment for shares of 3D-Shape GmbH led to investments in company acquisition of 1.4 million euros. The cash flow from investment activities amounted to overall minus 12.7 million euros (previous year: minus 13.3 million euros).

The cash flow from financing activities essentially consists of income from the assumption of financial liabilities with 5.5 million euros (previous year: 9.0 million euros) or repayment of financial liabilities with 4.1 million euros (previous year: 3.7 million euros). The dividend payout of 1.3 million euros results from the dividend of 0.30 euros per share. Overall, the cash and cash equivalents increased as of September 30, 2013, by 2.1 million euros (previous year: 1.7 million euros) to 9.7 million euros (previous year: 7.5 million euros). With the positive operative cash flow as well as existing cash, cash equivalents and available credit lines, ISRA disposes of a solid capital base for future growth. Interest risks from previous acquisitions are explained in sections 5.7 and 6.

As of the balance sheet date, ISRA had long-term bank liabilities in the amount of 11.6 million euros (previous year: 15.4 million euros). They are held in euros and are mostly subject to variable interest rates. The liabilities to Kreditanstalt für Wiederaufbau amounted to 1.6 million euros (previous year: 2.6 million euros), and 10.0 million euros (previous year: 12.5 million euros) to Baden-Württembergische Bank. Long-term liabilities no longer exist to Commerzbank (formerly Dresdner Bank) (previous year: 0.25 million euros). As of the end of the 2012 / 2013 financial year, the net debt amounted to 30.9 million euros (previous year: 31.6 million euros). A positive availability of financial means is present; as of September 30, 2013, only means in the amount of 0.5 million euros (previous year: 0.7 million euros) were deposited as security and subject to a restraint on disposal.

### Off-balance sheet arrangements

The use of off-balance sheet arrangements plays a minor role at ISRA. Merely business assets with a short useful life and without reference to core competence are provided for business operations in the context of leasing operations.

## 2.3 Net Assets

In the 2012 / 2013 financial year, total assets of the ISRA Group increased by 15.5 million euros to 207.2 million euros (previous year: 191.7 million euros). On the assets side, ISRA showed cash and cash equivalents in the amount of 9.7 million euros (previous year: 7.5 million euros) on the balance sheet date of September 30, 2013. Short-term assets showed a share of 50 percent of the total assets (previous year: 49 percent). The trade receivables rose to 63.2 million euros (previous year: 59.8 million euros) due to the increase in business volume. Receivables from unfinished orders amounted to 34.7 million euros (previous year: 28.1 million euros), based on the percentage-of-completion method.

Long-term assets amounted to 104.2 million euros (previous year: 97.2 million euros) as of the balance sheet date. The goodwill increased by 0.9 million euros to 38.3 million euros (previous year: 37.4 million euros). Due to the continuing positive development in both operating segments, the impairment test did not call for any need for correction. Other intangible assets increased by 5.9 million euros to 54.5 million euros (previous year: 48.6 million euros) due to capitalized development costs. Capitalized development costs as inernally developed intangible assets rose from 36.2 million euros to 40.5 million euros.

Tax losses carried forward for the ISRA Group totaled 12.0 million euros as of September 30, 2013 (previous year: 12.2 million). Deferred tax assets were recognized for tax losses in the amount of 9.4 million euros.

The equity ratio increased to 57 percent compared to the previous year (56 percent) as of September 30, 2013.

On the liabilities side of the consolidated balance sheet, the trade payables decreased by 0.6 million euros to 6.7 million euros (previous year: 7.3 million euros) despite the business expansion. The short-term bank liabilities increased by 5.2 million euros to 28.9 million euros. The remaining financial liabilities rose by 2.3 million euros to 11.2 million euros. The income tax liabilities decreased to 1.9 million euros (previous year: 2.3 million euros). Short-term accruals of 1.0 million euros have only an insignificant effect on the consolidated balance sheet, similar to the previous year (0.7 million euros). As of the end of the financial year, ISRA had access to unused financing of approx. 20 million euros.

Of the long-term liabilities, bank liabilities decreased due to scheduled repayments by 3.8 million euros to 11.6 million euros. They contain a liability of 1.6 million euros from the ERP innovation program of the Kreditanstalt für Wiederaufbau (previous year: 2.6 million euros). Deferred tax liabilities rose by 2.8 million euros to 24.4 million euros, the long-term accruals in the form of pension provisions decreased slightly from 2.1 million euros to 2.0 million euros.

### 2.4 Summary statement

Based on the described results of operations, financial position, and net assets, the management's overall assessment of the economic position of the group is positive. The company confirmed the forecasted growth rate and increased revenues to 89.5 million euros and the annual consolidated surplus to 11.6 million euros – a plus of 7 and 8 percent respectively. With a double-digit EBT growth of 11 percent and an EBT margin to total output of 17 percent (financial year 2011 / 2012: 16 percent), ISRA continues its profitable growth. The intensive efforts in Cash Management show an operative cash flow that improved to 15.6 million euros (financial year 2011 / 2012: 11.4 million euros). In conjunction with the good equity capital position of the Company, it results in a large measure of independence for ISRA which allows it to continue on the path of growth rate it has embarked upon.

## 3 Non-financial performance indicators

Besides an efficient, value-oriented corporate governance, non-financial performance indicators presented below carry an important share of the success of ISRA.

### 3.1 High level of innovation

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

The goal is to increase the efficiency of the ISRA solutions and to continually reduce the costs of the systems, to develop new applications and open up related earnings potentials and sales markets, to expand the technological advantage in order to create the barrier for competitors looking to enter the market, and to shorten the time to market. For this purpose, ISRA uses innovation roadmaps to ensure early identification of future requirements of the market and the acquisition and utilization of required technologies.

### 3.2 Customer benefit

For products and solutions from ISRA, the benefit to customers is at the center of attention. Important indicators are the return on investment and the amortization time of investments. Continual research and development work secures ISRA's competitiveness. The amortization time which is often only a few months allows customers to make budget-independent investments, resulting in low cost of ownership, contributing to a higher operating margin.

### 3.3 Knowledge of the markets

With a business activity that spans more than 25 years by ISRA and its predecessor companies, the Company has gained a position of trust with customers. As such, ISRA has a sound knowledge of the customer processes in the framework of production and is capable of continuously aligning its products with the requirements and needs of customers. Focusing on individual industries and close contact with customers secure the required technology transfer to offer the products which the customer needs, today and in the future, quickly. A clear indicator for knowledge of the markets is customer loyalty which manifests itself in many years of trustworthy business relationships.

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

### 3.4 Customer proximity

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

To secure and intensify the customer proximity, emerging markets are quickly developed and, if the need arises and, as it was done in Russia and Brazil, supported locally by ISRA's own subsidiaries or operating facilities.

### 3.5 Efficiency of business processes

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

### 3.6 Employee qualification and securing specialists and experts

Employees with skills and personal qualities are an essential prerequisite for the success of ISRA. For this reason, special attention is paid to well-trained employees, their qualifications and competencies. This is manifested in the large percentage of employees with an academic degree.

To ensure an always adequate staffing and personnel development, continuous investments are made in the Human Resources Management. To expand the personal qualifications, the Company supports its employees on a regular basis using continuing internal education as well as through targeted external measures for individual positions. Human Resources Management continuously accompanies employees and supports them to expand their skills according to their assignments and to motivate them to take on responsibilities. This allows ISRA to secure the long-term company success and to create secure, high-quality jobs.

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

### 3.7 Management competencies

The high degree of innovation of products and markets as well as the ambitious growth objectives of ISRA demand a high degree of competency at the management level. In this context, ISRA was again able to significantly reinforce the well-established management which is closely tied to the Company with selective, target-oriented employment.

Besides the aspiring intrinsic growth, a special challenge for management is the acquisition and integration of companies to be able to expand market shares and develop new markets. In the framework of the successful acquisitions of recent years, ISRA was able to demonstrate its extensive knowledge in the area of mergers & acquisitions.

## 4 Report on post-balance sheet date events

After the conclusion of the 2012 / 2013 financial year, ISRA VISION AG acquired an additional 51 percent in VISTEK ISRA VISION A.S., Istanbul, and now owns 75 percent of the shares.

## 5 Report on opportunities and risks

Business activities go hand-in-hand with risks. A company's success is characterized by successful opportunities exceeding the downside risks in all important decisions after detailed considerations. ISRA strives to identify risks well in advance. Owing to globalization of the company and the growing number of locations, it is increasingly more important to promptly procure, distribute and process detailed information. To be able to identify and evaluate risks against opportunities, ISRA uses a qualified risk management system.

### 5.1 Risk management

The risk management system of ISRA is operated centrally by departments that are reporting directly to the Executive Board and is checked regularly for its efficiency and appropriateness. Depending on the type of risk, the Executive Board is informed ad hoc or periodically via direct communication. A group-wide reporting and messaging system secures the report of significant risks as well as risks that might threaten the existence of the group. Continuous oral and written queries by the risk management officer also inform about the current risk situation of the group. In the assessment of risks, ISRA also relies on the experience with the corresponding business processes that exist within the group.

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 risk management system is especially aimed at early recognition, control and monitoring of risk.

### 5.2 General business environment and industry-specific risks

#### Persistent attention

Despite the continuing recovery of the global and, in particular, the European economic situation, future setbacks cannot be ruled out with certainty at this time. Because of this uncertainty, it must be observed in the coming weeks and months to what extent industrial investments are being executed in the different ISRA customer industries. For this purpose, ISRA continues to maintain the risk management system which has already been intensified since the last economic crisis.

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

If – against expectations – the economic trend should turn negatively in the course of the year 2014, it could negatively impact the economic situation of the customers and therefore the demand for products offered by ISRA. This could result in commensurate risks to revenue and profits. For this reason, the management has simulated different risk scenarios in order to be prepared accordingly. Simulations have been performed, especially with regard to delays/drops in orders, bad debts, overdue incoming payments, and delays in the commissioning of systems.

#### Developing new applications and dependency on individual markets and countries

ISRA is continuously striving to develop new target markets. This implies, in particular, that the Company succeeds in building the special application know-how required for new target markets, successfully developing new products and introducing them to the market.

Successes in product development, especially for new application areas, cannot be predicted with any certainty. Hence, it cannot be ruled out that new products may result in technical application problems or that products in the new target markets are not at all, not fast enough or not sufficiently accepted. To avoid risks that could have negative effects on the results of operations, financial position, and net assets, management successfully concentrates on core competency areas and direct cooperations with customers concerning new applications.

ISRA intends to develop additional geographic markets in the future with own locations. The success of such an expansion depends on a large number of factors and is accompanied by uncertainties. The continued internationalization could be associated with risks on these new markets. If these risks should become a reality, in whole or in part, and the company should not succeed in developing these new geographic markets, it could lead to a negative impact on the results of operations, financial position, and net assets.

In the growth regions Russia and Brazil, ISRA has already founded its own subsidiaries for the structural reinforcement of market activities. ISRA strengthens its local presence in this way, thereby optimizing its access to new customers in the addressed industries of the regions. The office in São Paulo, Brazil, serves the plastics, paper, printing, metal and automotive industries. The subsidiary in Moscow serves the Russian market and the neighboring states of the CIS. In this way, ISRA is creating a strong base in emerging countries to be able to profit from market opportunities that accompany the increased use of automation technologies in industrial production in these regions.

### Competition

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

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

## 5.3 Business strategy

### Management of growth

The company intends to continue its global expansion in Germany and also abroad using internal growth as well as strategic alliances, legal mergers and acquisitions of companies or parts of companies. This requires hiring suitable managers and employees, selecting strategic partners and legal merger or acquisition candidates as well as procuring the required financial means. Furthermore, it requires meaningful expansion of suitable organizational structures, particularly in accounting, planning, controlling and human resources divisions. The past has shown that the management knows the resulting risks and, among other things, limits them through forward-thinking planning and efficient cost controlling.

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

### Continuous innovations for quick technological change

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

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

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

### 5.4 Performance and profitability risks

#### Dependency on specific customers

In all business areas, ISRA is primarily addressing the leading companies of the respective target market (key accounts and OEM customers). As such, many customers are global players. In the future, the strategy of the Company will continue to be directed at retaining and gaining primarily global companies of the respective target market as customers. Through this, the loss of one of these customers and any reactions of other customers could decisively impact the results of operations, financial position, and net assets of the Company. ISRA's rigorous goal is to set up a revenue structure that is independent of this risk by assigning no more than a 2.5 percent share of the total revenues to a single customer outside of the ISRA Group. In the past financial year, management has successfully implemented this goal.

### 5.5 Personnel risks

#### Dependency on qualified personnel in key positions

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

### 5.6 Information risks

#### Limited protection of intellectual property

The protection of intellectual property, particularly know-how and software, is very important to ISRA. However, many company developments and products cannot be protected. In setting up, maintaining and protecting its rights to intellectual property, ISRA relies on registering trade-marks and patents and the statutory provisions on copyrights and trade secrets and to confidentiality agreements and other contractual agreements about the use of intellectual property for the products and services of ISRA. But these mechanisms can offer only limited protection, particularly in the case of software solutions. Furthermore, failures to take required measures for the protection of rights to intellectual property can significantly affect the competitiveness as well as the results of operations, financial position, and net assets.

Despite ISRA's endeavors to protect its rights to intellectual property, it cannot be ruled out that unauthorized persons copy or use products or services from ISRA. 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. Each of these events could impact the results of operations, financial position, and net assets of ISRA. To counter these risks, the innovation speed is kept high in the Company to be able to maintain a technological edge over the competition at all times.

### 5.7 Financial risks

#### Risks from project business

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

#### Liability risks

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

### Market assessment risks

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

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

### Interest risks and follow-up financing risks

The liability items of the ISRA consolidated balance sheet contain bank liabilities. The change of 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. For the purpose of hedging a portion of these interest risks, ISRA completed a cash flow hedge.

## 5.8 Other risks

### General legal and economic risks

ISRA is exposed to general legal and economic risks in countries where individual group companies operate. In addition to this, the group's net sales and profit position may also be significantly influenced by the risks described. These are the risks that have been identified until now. This does not preclude the existence of other risks not yet realized as important by management, nor does it preclude the possibility of these risks are being underestimated. Corresponding measures were introduced for all probable risks.

## 5.9 Opportunity management

ISRA has institutionalized various instruments and processes to be able to recognize and implement evolving opportunities. At the operational level, demands and requirements as well as new applications formulated by customers are discussed during regular Sales Management meetings and transferred to projects after examining profitability and implementability.

Business Development is responsible for the strategic development of new markets and monitoring of existing markets. The monitoring of existing sales regions and industries, market studies on emerging new markets and industry sectors as well as regular reports to upper management guarantee an early identification of new sales potentials.

## 5.10 Opportunities

In principle, 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 and information technology markets. The constant increase of the world population and the resulting increase in demand marked out a permanent growth on these markets. The accompanying, increasing demand in the ISRA customer industries offers ISRA opportunities for future revenue growth.

Additional potentials can be found in the development of innovative, new products and the development of new markets. The overall market for industrial image processing amounts to approx. 7 billion euros in all types of different application areas. A multitude of possible customer issues and applications that can be solved with machine vision has not yet been completely identified and filled. As a result, it provides extensive opportunities for the industry and the ISRA Group. ISRA plans to open up additional industries in the future using existing and new technologies and products. Besides organic growth, ISRA's strategy also envisions expanding the market position by means of acquisitions.

The Company size reached so far through organic growth and acquisitions under a continuously close focus on the core competence in Machine Vision could possibly result in economies of scale due to a disproportionately low development of costs and lead to an increase in profitability as well as 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.

## 6 Risk reporting relating to the use of financial instruments

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

The risks from the use of financial instruments are essentially the result of liquidity risks, 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 a line of credit and cash is being held in reserve. Until now, credit lines and cash flows have secured sufficient reserves at all times. The company will continue to maintain the credit lines required for this purpose with a volume adjusted to the respective operative business.

### Credit risks

In all areas of its business, ISRA has customer relationships with many large enterprises. These companies are chiefly multinationals in the automotive, glass, paper, special paper, printing, plastics, metal, solar and automation industries. The company strategy is to minimize dependency on individual customers and to successively increase the number of new customers. In the year under review, none of the customers accounted for a share of revenues exceeding 2.5 percent of the group's total revenues. While the increased acquisition of new customers will also increase the risk of individual failures, the relevance of a single case will be reduced in this way. Specific failure risks should be reduced through prior analyses of new customers.

### Creditworthiness risks

The majority of ISRA customers shows a high degree of creditworthiness. Splitting the overall receivable into smaller amounts (e.g. payable prior to work being conducted, during system construction and after initialization) 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 2012 / 2013 financial year, the level of bad debt was less than 1 percent of the revenue and thus in line with the average of the past few years.

### Interest risks and cash flow fluctuation risks

To counter the risks associated with interest rates and cash flow fluctuations, interest rate hedging instruments are finalized for variable interest rate bank loans. In managing interest risks, ISRA limits itself to instruments commonly used on the market. Such instruments are employed exclusively to hedge existing loans and not for speculative purposes. ISRA has undertaken a cash flow hedge for hedging interest risks. This swap business does, however, not cover the entire 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. Additional explanations are listed in the appendix.

### Currency and price fluctuation risks

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

### Acquisition risks

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

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

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

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

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

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

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

## 8 Remuneration report

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

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

The remuneration of Executive Board members comprises short-term components as well as long-term incentives. The short-term components comprise non-performance-based and performance-based elements. Non-performance-based components involve fixed remuneration, payments in kind and other types of benefits. The non-performance-oriented, fixed base remuneration is paid monthly as a salary and is reviewed on a yearly basis. Executive Board members also receive other benefits, such as allowances for health insurance and benefits in kind that primarily involve the use of a company car. As performance-based element, payments to the members of the Executive Board include variable components which may amount to up to 50 percent of basic pay. They are revised annually by the Supervisory Board on the basis of objectives. To create a lasting remuneration system, the remuneration for the members of the Executive Board includes a performance-based component based on the development of the Company over a period of three years.

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

## 9 Takeover-related disclosures

### Information acc. to § 315 Section 4 of the German Commercial Code (HGB)

As of the balance sheet date, the Company's share capital totaled 4,381,240.00 euros. This was associated with 4,381,240 shares of bearer common stock with a par value of one euro. Each share conveys one vote. It is forbidden to securitize the shares. The information required acc. to § 315 Section 4 Clause 1 of the German Commercial Code (HGB) is listed in the group appendix.

EVWB GmbH & Co. KG, headquartered in Darmstadt, (majority shareholder and CEO Enis Ersü) as well as Fidelity Management & Research Company, headquartered in Boston, Massachusetts, USA, each holds an interest in excess of 10 percent of ISRA VISION AG.

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

The General Meeting held on March 24, 2010 adopted a resolution amending the Articles of Association. This amendment authorizes the Executive Board to increase the Company's share capital until March 23, 2015 once only or on multiple occasions by issuing new no-par value bearer shares against cash or non-cash contributions, up to a maximum amount of 2,190,620.00 euros (authorized capital). The Executive Board is authorized, with the agreement of the Supervisory Board, to exclude the statutory subscription rights of shareholders

- for fractional amounts,
- 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 and § 186 Section 3, Clause 4 of the German Stock Corporation Law (AktG) and the amount of the share capital attributable to the shares issued under exclusion of the statutory subscription rights in accordance with § 186 Section 3, Clause 4 does not exceed 438,124.00 euros or – if this amount is lower – 10 percent of the recorded share capital at the time of the issue of the new shares. Realization of stocks have to be charged against this 10 percent limitation of share capital if they come to effect due to authorization under shareholder exception from subscription according to § 71 Section 1 No. 8 of the German Stock Corporation Law (AktG) in conjunction with § 186 Section 3 Clause 4 of the German Stock Corporation Law (AktG). In addition, stocks used to service bonds under option and/or conversion right fall under the 10 percent limitation of share capital if the bond was issued under shareholder exception from subscription due to authorization according to § 186 Section 3 Clause 4 of the German Stock Corporation Law.

On the basis of a resolution passed by the General Meeting on March 29, 2011, ISRA VISION AG increased its share capital by up to 100,000.00 euros by issuing up to 100,000 no-par value bearer shares for the purpose of securing non-exercised options (conditional capital I).

On the basis of a resolution passed by the General Meeting on March 29, 2011, share capital has been increased by up to 1,790,620.00 euros of no-par value bearer shares (conditional capital II). The conditional capital increase may only be carried out to the extent that the holder of convertible or negotiable option bonds, issued on the basis of the authorization given to the Executive Board by the Annual General Meeting on March 29, 2011, makes use of this conversion or option right, or to the extent that the holders, who are obliged to make the conversion fulfill their obligation to undertake the conversion.

Based on the decision of the General Meeting held on March 24, 2010, the Executive Board of ISRA VISION AG has been authorized to acquire its own shares until March 23, 2015, complying with the principle of equal treatment (§ 53a of the German Stock Corporation Law (AktG)). They are authorized to acquire up to 10 percent of the authorized capital at the time of the adoption of the resolution, under the provision that the shares which are purchased in accordance with this authorization, when added to the other shares in the company which the company has already purchased and still possesses or which have to be allocated to it pursuant to § 71a and following of the German Stock Corporation Law (AktG),

[19] Cp. F.A.Z. Institute, Wirtschaftsprognose 2014, p. 17-22; Berenberg Bank, Ausblick 2014, p. 6 and 8-10; Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 26-29.

do not represent more than 10 percent of the share capital of the company. In addition, the requirements of § 71 Section 2 Clauses 2 and 3 of the German Stock Corporation Law (AktG) must be observed. Purchases may not be undertaken for the purpose of trading in own shares. This authorization may be implemented in full or in parts. Purchases may be undertaken within the period covered by the authorization up to the point where the maximum purchase volume has been reached by partial purchases on various purchasing dates. Purchases may also be undertaken by subsidiary enterprises of the Company in the context of § 17 of the German Stock Corporation Law (AktG) or on its/their behalf by third parties.

As a publicly traded company, ISRA VISION AG had the particular opportunity until March 2011 to have its employees and the Executive Board participate directly in its success via a stock option program, a variable element of their remuneration in the form of a long-term incentive. Options may only be exercised after a blocking period has expired. According to the stock option program, options can be exercised for either cash or shares; however, ISRA VISION AG's internal practice tends towards offering cash for stock options.

An option holder's options expire if the option holder has terminated the employment relationship with the Company, or if they are no longer a member of a statutory body of ISRA VISION AG or of a group company. Irrespective of this, options remain in force unchanged if the employment relationship ends due to the employee retiring or owing to professional disability. Options cannot be inherited or transferred. In addition, option rights expire 5 years after the day they are issued.

Options may only be exercised if at least one of the two predefined targets for success has been reached. These are based on the stock performance in relation to purchase price and time of exercise. The subscription price for a share is given by the arithmetic average of the closing prices in XETRA trading for the share in the period between the 15th and 5th trading day (before the option is issued), multiplied by a factor of 1.1.

The Supervisory Board is authorized to define the further details of the subscription conditions and the issue and structure of the options for the Executive Board. In addition, the Supervisory Board is authorized to transfer on behalf of the Executive Board the shares needed to fulfill the option rights by issuing acquired treasury shares or by issuing new shares through a capital increase.

## 10 Forecast report

### Increasing recovery, but risks remain

According to statements from economic research institutes and banks, a positive economic development can be seen to emerge globally for 2014. The actual course of the economic development in the coming years does, however, depend decisively on the fact whether a renewed flare-up of the sovereign debt crisis in Europe can be prevented, whether the fight over the budget and debt limit in the United States can be settled, whether a sufficient supply of credit for private enterprise in the European countries marked by recession can be established, and whether the unconventional economic policy in Japan can be continued successfully. Under these conditions, a slightly higher economic growth of 3.0 percent (BB) to 3.7 percent (IfW) based on an annual comparison could be expected globally for 2014.[19]

For Europe or the EU, experts predict a strengthening of the economic situation and a continued recovery, whereby a positive GDP growth can be expected again after a shrinking of the economy in the previous years, but a growth that will be at a moderate level. Expected values range from 1.2 percent (IfW and BB) to 1.5 percent (DB).[20] The expectations for the eurozone are at a slightly lower level. Their rates are listed between 0.9 percent (IfW) and 1.2 percent (F.A.Z, DB and BB).[21]

A prerequisite for a positive development in the United States is that reaching the debt limit again in February 2014 and a possible agreement of the political players will result in less drastic measures in the budget and fiscal policy than in 2013 so that the effect on economic growth will remain limited.[22] Under these boundary conditions, a higher economic growth can be expected compared with 2013, whereby the forecast values in a range of 2.1 percent (F.A.Z) to 3.2 percent (DB) turn out to be rather differently.[23] The forecasts for the Latin American region are also divergent. The IfW anticipates a gradual economic acceleration and expects a GDP increase in 2014 of 3.9 percent, which is said to significantly increase again in the following year. Deutsche Bank, on the other hand, shows 3.1 percent and over the medium-term does not expect that the region can return to growth rates in the amount of 5 percent; Berenberg Bank anticipates only 2.0 percent growth for Latin America. There is a consensus concerning the opinion that Brazil, in particular, with a growth rate of approx. 2.1 percent (BB and DB) will show weak dynamics.[24]

[20] Cp. F.A.Z. Institute, Wirtschaftsprognose 2014, p. 23/24; Berenberg Bank, Ausblick 2014, p. 18/19; Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 16-21.

[21] Cp. F.A.Z. Institute, Wirtschaftsprognose 2014, p. 37; Berenberg Bank, Ausblick 2014, p. 6; Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 18.

[22] Cp. Berenberg Bank, Ausblick 2014, p. 16-18; Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 9.

[23] Cp. F.A.Z. Institute, Wirtschaftsprognose 2014, p. 27; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 17.

[24] Cp. Institute for the World Economy, Weltkonjunktur im Winter 2013, p. 24/25; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 42 and 43; Berenberg Bank, Ausblick 2014, p. 6.

[25] Cp. Berenberg Bank, Ausblick 2014, p. 36-38; F.A.Z. Institute, Wirtschaftsprognose 2013, p. 21 and 26; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 39.

[26] Cp. Berenberg Bank, Ausblick 2014, p. 6 and 28-30; Institute for the World Economy, Weltkon junktur im Winter 2013, p. 10-13; Deutsche Bank, Globaler Ausblick Konjunktur (Q4/2013), p. 35.

[26] VDMA, Results of session „Business Intelligence, financial reporting, statistics – a roadmap to success?“ 13/14 September 2013, Schloss Hohenkammer near Munich, p. 5.

[26] Cp. AIA; The Machine Vision Market: What to Expect; press release dated July 01, 2014.

In Asia, the development of the Chinese economy is characterized by a restructuring of the economy and far-reaching reforms towards more open market mechanisms and private consumption. As a result, double-digit growth rates are no longer possible; approx. 7.5 percent are expected for 2014.[25] Thanks to the impulses from the monetary and financial policy, the Japanese economy provides opportunities for a GDP increase from 1.0 percent (DB) to 1.8 percent (BB).[26]

### Image processing industry expects possible increase in 2014

In 2013, industrial image processing in Germany was able to repeat the positive result from the previous year in line with forecasts with another increase by 5 percent. For the further economic development of the industry, a survey by the VDMA shows that 51 percent of the participants expect that 2014 will be an (even) better year for Machine Vision than 2013. Another 30 percent expect a similar level as 2013, whereas only 9 percent assume a worse year.[27] The American Industry Association AIA expects additional growth of the Machine Vision industry for 2014 in North America of up to 6 percent, particularly in the second half of 2014.[28] Sound forecasts for Asia have not yet been published by the industry associations.

### ISRA with growth opportunities in both segments

In the 2012/2013 financial year, ISRA has once again met its growth forecasts and remains on its path of long-term growth. The multi-industry strategy is an important factor to continue the course of the double-digit percentage growth. In the process, the company does not only diversify itself via the two application fields Surface Inspection and Production Automation, but also via different customer industries in the strategic energy, health, food, transportation and information markets in different geographic regions. The economic crisis of 2008/2009 has already shown that the broad strategic positioning has made ISRA more robust and independent towards economic and regional fluctuations.

The development for the 2013/2014 financial year will continue to be determined by the economic situation on the global markets, whereby the Company assumes a positive trend. With an order backlog of approx. 53 million euros (status: January 15, 2014; previous year: approx. 48 million euros), ISRA started out the new financial year rather well and expects a continuation of the order entry dynamics in 2013/2014. The revenue goal of 100 million euros is within reach for 2013/2014.

For the current financial year, ISRA once again anticipates a positive development in Asia and America. New impulses are expected in Europe for the second half of 2013/2014. The expansion on the international markets continues to remain a fundamental component of the growth strategy in the future. Under the assumption of a stable economic development in the ISRA target industries, the Management anticipates a profitable organic revenue growth in the subsequent financial year in the lower double-digit range with at least stable margins and corresponding by better performance. Thus, ISRA plans with a profitable revenue growth and at least stable margins in the entire group and both segments for the 2013/2014 and 2014/2015 financial years,, whereby further margin improvement as well as cash flow optimization remain the main focus of management. The Company responds to the different market situations in the individual business areas with targeted marketing and sales measures as well as additional innovations that support the growth strategy. The strong diversification in the customer industries offers the opportunity for cross-financing between the segments.

For the 2012/2013 financial year, the Management anticipates additional positive impulses in the Surface Vision segment. In the previous financial year, the segments paper, plastic and print provided a good contribution to revenues. The business in the glass industry profited from new product introductions, particularly in the second half of the year – the dynamics also continue at the beginning of the new financial year. The order book from the specialty paper industry shows a similar development in the first quarter of 2013/2014 – this renders the forecast for this segment more positive for the new financial year. To offset the effect of the investment delays in the metal industry – predominantly for steel – the worldwide sales activities were reinforced with product innovations and investments in marketing and sales. The order entries, which are expected shortly, are the first signs of a minor upswing in the market. In the solar business, ISRA is in a strategically strong position with the integration of GP Solar, and was already able to profit from the newly accelerating demand, particularly from Asia, with several large-scale orders at the beginning of the new financial year. In the Industrial Automation segment, in which sales activities concentrate almost exclusively on the automotive industry, the company also continues to expect a positive development.

ISRA carries on to continuously invest in new products and the development of new applications and markets in order to increase revenues. A positive contribution to the revenue and margin improvement is expected by the continuing expansion of the Customer Support and Service Center. The investments in the internal infrastructure will be continued in 2014. In particular, the introduction of the software systems for market communication (Internet presence) and productivity increase (Enterprise Resource Planning system) are scheduled to be completed in the course of the year.

The financial situation of the ISRA Group is very solid. A high equity ratio, the operative cash flow, the liquid funds and the available credit lines of financial partners form a reliable foundation for the continued positive development beyond the current financial year up into the year 2015. The current operative cash flow forms the basis for financing the organic growth. The planned investments for the different sectors of the operative business are made from the resources described above. Furthermore, the optimization of the cash flow remains an important management task. In the case of acquisitions, additional financing demand may occur depending on volume, whereby smaller acquisitions could be financed through operative cash flow.

ISRA is focused in the short term on exceeding the revenue goal of 100 million euros. In addition, targeted acquisitions continue to form a material part of the strategy. Innovations remain essential drivers of the organic growth. Management concentrates on a sustainable innovation roadmap and thus on new products and applications with the aim to further improve the customer return on investment. A coordinated marketing offensive as well as the reinforcement of the international service and sales teams form the basis for the success of the innovations on the market. By using economies of scale in all areas and efficiency increases in production, Management sees optimization potentials in the future, for cash flow as well as margins.

## 11 Statement on Corporate Governance

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

Darmstadt, January 15, 2014

The Executive Board

# Report of the Supervisory Board

for the 2012 / 2013 Financial Year

## Members of the Supervisory Board

In the period under review, the Supervisory Board consisted of Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairman), Dr. Wolfgang Witz (Deputy Chairman), Dr. Erich W. Georg, Stefan Müller, Falko Schling and Prof. Dr. rer. nat. Dipl.-Ing. Hennig Tolle.

## Cooperation between Executive Board and Supervisory Board

As in previous years, the Supervisory Board exercised its legal and statutory responsibilities in the 2012 / 2013 financial year with conscientious care. The collaboration with the Executive Board was characterized by an intensive and methodical dialogue. The Executive Board regularly and comprehensively informed the Supervisory Board about the status quo of the Company and business activities, both verbally and in writing. The Supervisory Board discussed the reports of the Executive Board in depth and requested supplementary information and explanations whenever necessary. The Supervisory Board continuously monitored the activities of the Executive Board based on this reporting and provided comprehensive advice in the management and strategic development of the Company. A catalog written by the Supervisory Board lists the types of business transactions whose execution requires that the Executive Board obtain the approval of the Supervisory Board. The Supervisory Board approved all business transactions submitted for approval, by the Executive Board.

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

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

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

November 12, 2012

- Revocation of the appointment of Eric Ceyrolle as a member of the Executive Board (via circulation proceedure)

November 27, 2012

- Passing of resolution on the Declaration of Compliance for the Corporate Governance Code according to § 161 of the German Stock Corporation Law (AktG)
- Adoption of the resolution on retirement age of 70 years upon appointing members of the Executive Board

January 10, 2013

- Approval for the acquisition of real estate in Berlin Adlershof (via circulation proceedure)

January 22, 2013

- Authorizing or approving the individual and consolidated financial statements of ISRA VISION AG for the 2011 / 2012 financial year
- Adoption of the resolution proposal by the Supervisory Board to the General Meeting for the use of the net profit of the 2011 / 2012 financial year
- Approval of the agenda for the 2013 General Meeting as well as adoption of other resolution proposals of the Supervisory Board to the General Meeting
- Adoption of the Report of the Supervisory Board for the 2011 / 2012 financial year

April 29, 2013

- Approval for the acquisition of GP Solar GmbH, including its 100 percent subsidiary GP Inspect GmbH (via circulation proceedure)

August 21, 2013

- Approval for the budget for the 2013 / 2014 financial year

## Summary of Key Points in Deliberations by the Supervisory Board

The key focus of deliberations during all meetings of the Supervisory Board during the period under review concentrated on, strategy, planning and business development, particularly revenue development as well as assets, earnings and financial situation, investments and acquisitions.

Additionally, the risk situation, risk management, compliance, international development of the markets – specifically under consideration of the global situation – for industrial image processing, expansion opportunities and risks for ISRA VISION AG and the Group in Europe, Asia, Russia and South America were also discussed.

### Meetings of the Supervisory Board

The Supervisory Board duly convened four meetings by personal attendance in the 2012/2013 financial year. The following topics were deliberated in detail and decided upon:

### Meeting on November 27, 2012

In the meeting on November 27, 2012, the preliminary financial statements for 2011/2012 were explained and discussed. Furthermore, the Executive Board gave an overview of the first quarter of 2012/2013 and an outlook for the entire 2012/2013 financial year. The Supervisory Board discussed the draft agenda items presented by the Executive Board for the general meeting on March 19, 2013 and approved them. Furthermore, the Declaration of Compliance to the Corporate Governance Code was discussed, deviations in the Declaration of Compliances were recorded and the declaration was adopted. In this context, a retirement age for the appointment of members of the Executive Board was also discussed. It was decided that a member of the Executive Board should not be older than 70 years at his or her appointment. The Executive Board informed the Supervisory Board about possible acquisition projects.

### Meeting on January 22, 2013

In the Supervisory Board meeting on January 22, 2013, the Audit Committee reported on its meetings of December 05, 2012 and of January 22, 2013. The annual financial statement, the consolidated financial statements, the management report for ISRA VISION AG and the group for the 2011/2012 financial year as well as the proposal by the Executive Board for the use of the net profit for the year were treated in detail by the Supervisory Board and examined. This meeting was attended by the chairperson of the Executive Board as well as the auditor – accompanied by the two financial auditors certifying the auditor‘s report. Questions from Supervisory Board members were answered at length and individual facts were discussed in detail. Following the subsequent result of the examination performed by the Supervisory Board, it was determined that no objections were noted. The annual financial statements and management reports for the 2011/2012 financial year submitted for the Company and the group by the Executive Board were subsequently approved by the Supervisory Board. The annual financial statement of the Company was thus approved.

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

The Supervisory Board subsequently discussed the organization and sequence of the General Meeting and reached a decision on the approval for the agenda as well as on its suggestions to the General Meeting for the individual agenda items. Furthermore, the Supervisory Board reached a decision on the Report of the Supervisory Board to the General Meeting.

In addition, the Executive Board presented the concept for the 2011/2012 financial report to the Supervisory Board. The overview of the first quarter of the 2012/2013 financial year and the forecast until September 30, 2013 were explained and discussed.

In the meeting on January 22, 2013, the Supervisory Board also dealt extensively with risk management and compliance.

### Meeting on May 21, 2013

In the Supervisory Board meeting on May 21, 2013, the Executive Board reported in depth about the second quarter of 2012/2013, gave a preview of the third quarter as well as an outlook on the entire 2012/2013 financial year, whereby the Supervisory Board acknowledged and approved the planning and forecasts of the Executive Board. The Supervisory Board explained the progress of various acquisition projects.

### Meeting on August 21, 2013

In the Supervisory Board meeting on August 21, 2013, the Executive Board reported to the Supervisory Board about the third quarter of 2012/2013 and gave a preview of the fourth quarter of 2012/2013. In addition, the Executive Board informed the Supervisory Board about the hiring of personnel for various key positions. The Supervisory Board discussed the budget proposed and explained by the Executive Board in depth, including a discussion of the situation in the individual customers industries. The Supervisory Board subsequently approved the budget for the 2013/2014 financial year presented by the Executive Board. The Supervisory Board determined the annual timetable for the financial year 2013/2014. The Executive Board informed the Supervisory Board in detail about the status of various acquisition considerations. Furthermore, the Supervisory Board discussed the mid-term strategic company planning. In addition, the Supervisory Board was informed that the hiring of additional qualified personnel was planned to further strengthen important sectors for the aspiring growth.

### Activities of committees

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

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

In the 2012 / 2013 financial year, the Audit Committee conducted two meetings, the Main Committee one meeting.

In its meeting on December 05, 2012, the Audit Committee dealt with questions concerning the audit. In its meeting on January 22, 2013, it examined the audit documents for the 2011 / 2012 financial year as well as the proposal by the Executive Board for the use of the net profit of this financial year and presented its pertinent recommendations to the entire Supervisory Board. The Audit Committee submitted its recommendation concerning the nomination for the auditor election to the entire Supervisory Board.

In its meeting on January 22, 2013, the Main Committee analyzed and discussed all the relevant information concerning the compensation of the Executive Board, particularly with respect to the function of incentives of individual remuneration components, and presented it to the entire Supervisory Board. After extensive consideration, the Supervisory Board decided on the determination of the remuneration of Executive Board members and the decisive parameters in this context.

### Corporate Governance and Declaration of Compliances

In the 2012 / 2013 financial year, the Supervisory Board has again dealt in depth with questions concerning Corporate Governance and the German Corporate Governance Code. On November 27, 2012, the Supervisory Board passed a resolution on the declaration of compliances in accordance with § 161 of the German Stock Corporation Law (AktG) on the German Corporate Governance Code as published on May 15, 2012. On November 26, 2013, the Supervisory Board decided on the new declaration of compliances. This declaration is reflected in the Declaration on Corporate Governance and, similar to the preceding declarations, permanently accessible on the website of the Company. No conflicts of interest occurred on the Supervisory Board in the course of the 2012/13 financial year. No Supervisory Board member attended less than half of the meetings.

### Examination of annual financial statement and consolidated financial statement for the 2012 / 2013 financial year

The annual financial statements were prepared in line with the regulations of the German Commercial Code (HGB) and the consolidated financial statements in line with the International Financial Reporting Standards (IFRS), in the version applicable in the EU, as well as the applicable commercial regulations in accordance with § 315a of the German Commercial Code (HGB). The management report of ISRA VISION AG and the group management report were also found to be acceptable for the 2012 / 2013 financial year. The PKF Deutschland GmbH financial auditing company from Frankfurt am Main (PKF), commissioned through the General Meeting on March 19, 2013, and authorized in writing by the Supervisory Board on March 28, 2013, performed the audit and granted each an unqualified certification.

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

The aforementioned financial statement documents, the auditor‘s reports and the suggestion of the Executive Board concerning the allocation of net profit for the year, were submitted to the members of the Supervisory Board in a timely manner. For the preparation of the audit and handling of these documents, the Audit Committee of the Supervisory Board discussed the named financial statement documents and audit reports of the auditor as well as the proposed allocation of the profit by the Executive Board in the full Supervisory Board in its meeting on December 06, 2013.

In the meeting of the Audit Committee and in the subsequent accounts review meeting of the full Supervisory Board on January 23, 2014, the Executive Board explained each of the listed financial statement documents as well as its proposal for the use of the net profit for the year. In addition, questions from the members of the Audit Committee and the Supervisory Board were answered by the Executive Board.

Following the explanation by the Executive Board under consideration of the audit results of PKF, the Audit Committee and the Supervisory Board examined the financial statement documents. The auditor present in the meeting of the Audit Committee and in the accounts review meeting of the Supervisory Board – accompanied by the two financial auditors certifying the auditor‘s report – reported in depth about the audit and the audit results and explained the audit report. The priorities of the audit by the Audit Committee and the Supervisory Board were: consistency of approach and valuation, inter-company settlements, valuation of investments as well as percentage of completion and impairment test of inventories and goodwill in line with IAS 36. In the context of the reporting in the meeting of the Audit Committee and the accounts review meeting of the Supervisory Board on January 23, 2014, the auditor also reported that his audit of the internal control and risk management system with reference to the accounting process did not identify any significant weaknesses. The auditor was questioned in depth by the Audit Committee as well as the Supervisory Board about the audit results and about type and scope of the audit activity. Furthermore, the Audit Committee reported to the Supervisory Board about its own audit of the accounting, its discussions with the Executive Board and the auditor as well as its monitoring of the accounting process. The committee also reported that it dealt with the effectiveness of the internal control management system, the risk management system and the internal revision system of ISRA VISION AG and the Group in the context of its monitoring function and verified its effectiveness. On the basis of that report, the Supervisory Board also assumed that these systems are effective.

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

The Audit Committee and the Supervisory Board could be satisfied that the audit by PKF had been properly performed. In particular, they came to the conclusion that the audit reports – and the audit itself – met the statutory requirements. Based on the report and the recommendation of the Audit Committee, the Supervisory Board subsequently granted its approval to the result of the audit, and since there were no objections to be raised after the concluding result of their own audit, it approved the annual financial statement, the consolidated financial statements as well as the management report and the group management report (including the statement by the Executive Board on Corporate Governance in accordance with § 289a of the German Commercial Code, HGB) for the 2012 / 2013 financial year. The annual financial statement of the company has thus been approved.

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

The Supervisory Board extends its thanks to the Executive Board, as well as to all employees of ISRA and its Group companies, for their personal efforts and successful work in the past 2012 / 2013 financial year.

### Authorization of this Report

In its meeting on January 23, 2014, the Supervisory Board approved this report pursuant to § 171 Section 2 of the German Stock Corporation Law (AktG).

Darmstadt – January 23, 2014

Chairman of the Supervisory Board

# Statement on Corporate Governance

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

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

## Declaration of Compliance acc. to § 161 of the German Stock Corporation Law (AktG)

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

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

## Declaration of Compliance for the Corporate Governance Code according to § 161 of the German Stock Corporation Law (AktG)

Executive Board and Supervisory Board of ISRA VISION AG hereby declare in accordance with § 161 of the German Stock Corporation Law (AktG) that the recommendations of the government commission, aside from the exceptions listed below, on the German Corporate Governance Code (GCGC) in the version dated May 15, 2012, have been fulfilled, and that henceforth the recommendations in the version dated May 13, 2013 will be fulfilled as well. The following recommendations were not or not completely fulfilled:

*Item 3.8 Section 3 GCGC*

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

*Items 4.1.5 and 5.1.2 Section 1 Clause 1 GCGC*

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

*Item 4.2.3 Section 2 GCGC as of May 13, 2013*

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

*Item 4.2.3 Section 4 GCGC*

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

*Item 4.2.5 Section 3 GCGC as of May 13, 2013*

The decision on the information for the financial years starting after December 31, 2013, recommended by item 4.2.5 section 3 GCGC while using the model tables recommended by the Codex shall be made only after first experiences of other companies are present. Because, at ISRA, these recommendations are concerned with the financial year ending on September 30, 2015 for the first time since the financial year deviates from the calendar year.

*Item 5.2 Section 2 GCGC*

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

*Item 5.3.3 GCGC*

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

*Item 5.4.1 Clauses 2 to 5 GCGC*

The goal of filling the positions of the Supervisory Board of ISRA VISION AG is that overall its members have the requisite knowledge, skills and professional experience for the proper care of their assignments. In the process, the Supervisory Board will also ensure its sufficient independence. However, the Supervisory Board must make its decision insofar as the best suitable candidate is concerned from its perspective whenever a new election is waiting. The Supervisory Board – in agreement with the Executive Board – does not consider it to be pertinent if it is bound by abstract objectives formulated in advance with respect to its selection of a candidate or even considers itself to be bound by them, instead of being able to freely decide on the persons available in their specific decision scenario which it deems to be best suited for the position. For this reason, the Supervisory Board does not name specific objectives as provided by item 5.4.1 clause 2 GCGC. Consequently, such objectives will also not be taken into account for the nominations directed at the responsible election bodies and therefore no report will be given about them and the state of their implementation.

*Item 5.4.6 Clause 3 Section 1 GCGC as of May 15, 2012*

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

*Item 5.4.6 Section 3 GCGC*

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

*Item 6.1 Section 1 GCGC as of May 13, 2013 or Item 6.1 Section 3 GCGC as of May 15, 2012*

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

*Item 7.1.2 Clause 2 GCGC*

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

*Item 7.1.2 Clause 4 GCGC*

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

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

### Corporate governance through value-oriented management

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

### Managing risk effectively

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

### Description of the Working Method of Executive Board and Supervisory Board

### The Executive Board manages transactions responsibly and self-reliantly

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

The chairperson of the Executive Board, Mr. Ersü, coordinates the Executive Board and together with it the corporate governance with respect to the overall goals and plans of the Executive Board. Mr. Christ is responsible for sales, Mr. Rothermel for production and engineering, and Dr.-Ing. Giet for research and development. The statutory retirement age for executive boards was set to 70 years at his / her appointment.

### The Supervisory Board monitors and advises the Executive Board

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

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

### Cooperation of Executive Board and Supervisory Board

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

### Avoiding conflicts of interest

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

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

To increase efficiency, the Supervisory Board has formed two committees.

*Audit Committee*

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

- Dr.-Ing. h. c. Heribert J. Wiedenhues (Chairperson of the Audit Committee)
- Dr. Erich W. Georg

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

*Main Committee*

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

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

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

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

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

**Reassuring and Expanding Trust**

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

The Executive Board

### Shareholding structure

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

| Executive Board | No. of shares as per Sept. 30, 2013 | Supervisory Board | No. of shares as per Sept. 30, 2013 |
|---|---|---|---|
| E. Ersü | 1,103,000* | Dr.-Ing. h. c. H. J. Wiedenhues | 0 |
| H. J. Christ | 60 | Dr. W. Witz | 0 |
| W. Rothermel | 0 | Prof. Dr. rer. nat. Dipl.-Ing. H. Tolle | 1,200 |
| Dr.-Ing. J. Giet | 0 | S. Müller | 0 |
| E. Ceyrolle** | 0 | Dr. E. W. Georg | 0 |
| | | F. Schling | 0 |

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

** Resigned on December 07, 2012

# Declaration of Conformity to the Corporate Governance Code as per § 161 of the German Stock Corporation Law (AktG)

Executive Board and Supervisory Board of ISRA VISION AG hereby declare, in accordance with § 161 of the German Stock Corporation Law (AktG) that the recommendations of the government commission, aside from the exceptions listed below, on the German Corporate Governance Code (GCGC) in the version dated May 15, 2012, have been fulfilled, and that henceforth the recommendations in the version dated May 13, 2013 will be fulfilled as well. The following recommendations were not or not completely fulfilled:

### Item 3.8 Section 3 GCGC

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

### Items 4.1.5 and 5.1.2 Section 1 Clause 1 GCGC

ISRA VISION AG is a cosmopolitan, value-oriented company. At ISRA VISION AG and its subsidiaries, all persons have equal opportunities. Pursuant to the Basic Law of the Federal Republic of Germany, ISRA does not discriminate against or favor any person because of gender, origin, race, language, country of origin and background, conviction, religious or political views. In the interest of the Company, filling management posi-tions and appointing persons as Executive Board members is based exclusively on the qualification of the re-spective person for the management position or the Executive Board position. For this reason, certain quota or other objectives that would place a general restriction on the selection of suitable persons are not planned for the filling of management positions or Executive Board positions.

### Item 4.2.3 Section 2 GCGC as of May 13, 2013

The service contracts of the Executive Board members were already concluded before announcing the new edi-tion of the Codex dated May 13, 2013. They contain maximum limits with respect to the variable remuneration components, but do not show any amount-based maximum limits for the entire remuneration, including the fringe benefits. Nevertheless, a change of the existing service contracts of the Executive Board members is not being planned. Because limiting the variable remuneration components provides sufficient assurance that the overall remuneration will also remain within reasonable limits.

### Item 4.2.3 Section 4 GCGC

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

### Item 4.2.5 Section 3 GCGC as of May 13, 2013

The decision on the information for the financial years starting after December 31, 2013, recommended by item 4.2.5 section 3 GCGC while using the model tables recommended by the Codex shall be made only after first experiences of other companies are present. Because, at ISRA, these recommendations are concerned with the financial year ending on September 30, 2015 for the first time since the financial year deviates from the calendar year.

### Item 5.2 Section 2 GCGC

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

### Item 5.3.3 GCGC

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

### Item 5.4.1 Clauses 2 to 5 GCGC

The goal of filling the positions of the Supervisory Board of ISRA VISION AG is that overall its members have the requisite knowledge, skills and professional experience for the proper care of their assignments. In the pro-cess, the Supervisory Board will also ensure its sufficient independence. However, the Supervisory Board must make its decision insofar as the best suitable candidate is concerned from its perspective whenever a new election is waiting. The Supervisory Board – in agreement with the Executive Board – does not consider it to be pertinent if it is bound by abstract objectives formulated in advance with respect to its selection of a candidate or even considers itself to be bound by them, instead of being able to freely decide on the persons available in their specific decision scenario which it deems to be best suited for the position. For this reason, the Supervisory Board does not name specific objectives as provided by item 5.4.1 clause 2 GCGC. Consequently, such objectives will also not be taken into account for the nominations directed at the responsible election bodies and therefore no report will be given about them and the state of their implementation.

#### Item 5.4.6 Clause 3 Section 1 GCGC as of May 15, 2012

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

#### Item 5.4.6 Section 3 GCGC

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

#### Item 6.1 Section 1 GCGC as of May 13, 2013 or Item 6.1 Section 3 GCGC as of May 15, 2012

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

#### Item 7.1.2 Clause 2 GCGC

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

#### Item 7.1.2 Clause 4 GCGC

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

Darmstadt, November 2013

- Consolidated Financial Statements (IFRS)

2012 / 2013

# Consolidated Income Statement

(IFRS)

| (in € k) | Explanation | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|---|
| Net sales | | 89,541 | 83,885 |
| Cost of sales | 2 | 40,749 | 38,611 |
| Gross operating result (gross profit) | | 48,792 | 45,274 |
| Research and development | | 11,915 | 11,229 |
| Total costs | | 15,600 | 14,487 |
| Depreciation and amortization | 12 | 6,962 | 6,768 |
| Grants | | -367 | -405 |
| Capitalized work | 12 | -10,280 | -9,621 |
| Sales and marketing costs | 3 | 16,855 | 15,512 |
| Administration | 4 | 4,676 | 4,564 |
| Sales and administration costs | | 21,531 | 20,077 |
| Other revenues | 6 | 1,942 | 1,547 |
| Earnings from associated companies | | 46 | 60 |
| Interest income | | 127 | 84 |
| Interest expenses | | -919 | -758 |
| Financing result | | -792 | -674 |
| Earnings before taxes (EBT) | | 16,542 | 14,902 |
| Income taxes | 7 | 5,077 | 4,209 |
| Consolidated net profit | | 11,465 | 10,693 |
| Of which accounted to shareholders of ISRA VISION AG | | 11,567 | 10,663 |
| Of which accounted to non-controlling shareholders | | -103 | 30 |
| Earnings per share in € (diluted / undiluted) | | 2.64 | 2.44 |
| Shares issued | | 4,381,093 | 4,374,854 |

# Consolidated Statements of Comprehensive Income

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Net profit | 11,465 | 10,693 |
| Amounts that may subsequently be reclassified to the income statement | | |
| Change of unrealized profits to cash flow hedges | 27 | 31 |
| Tax effect | 0 | -6 |
| Total unrealized earnings to cash flow hedges | 27 | 25 |
| Changes to the currency exchange variation | -713 | 306 |
| Total of earnings and expenditures recorded directly in the equity capital | -687 | 331 |
| Overall group earnings | 10,778 | 11,025 |
| of which accounted to shareholders of ISRA VISION AG | 10,881 | 10,957 |
| of which accounted to non-controlling shareholders | -103 | 68 |

# Pro forma Consolidated Total Operating Revenue EBITDA-EBIT Statement*

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Net sales | 89,541 | 83,885 |
| Capitalized work | 10,280 | 9,621 |
| Total output | 99,821 | 93,506 |
| Cost of materials | 20,866 | 19,989 |
| Cost of labor excluding depreciation | 18,973 | 17,694 |
| Cost of production excluding depreciation | 39,839 | 37,684 |
| Gross profit | 59,982 | 55,822 |
| Research and development total | 15,600 | 14,487 |
| Sales and marketing costs | 16,084 | 14,740 |
| Administration | 4,462 | 4,337 |
| Sales and administration costs excluding depreciation | 20,546 | 19,077 |
| Other revenues | 2,309 | 1,952 |
| EBITDA | 26,145 | 24,211 |
| Depreciation and amortization | 8,857 | 8,695 |
| Total costs | 45,003 | 42,259 |
| EBIT | 17,288 | 15,516 |
| Earnings from associated companies | 46 | 60 |
| Interest income | 127 | 84 |
| Interest expenses | -919 | -758 |
| Financing result | -792 | -674 |
| EBT | 16,542 | 14,902 |
| Income taxes | 5,077 | 4,209 |
| Consolidated net profit | 11,465 | 10,693 |
| Of which accounted to non-controlling shareholders | -103 | 30 |
| Of which accounted to shareholders of ISRA VISION AG | 11,567 | 10,663 |
| Earnings per share in € | 2.64 | 2.44 |
| Shares issued | 4,381,093 | 4,374,854 |

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

# Consolidated Group Balance Sheet

| (in € k) | Explanation | Sept. 30, 2013 | Sept. 30, 2012 |
|---|---|---|---|
| ASSETS | | | |
| Assets | | | |
| Short-term assets | | | |
| Inventories | 9 | 25,848 | 24,866 |
| Trade receivables | 8 | 63,180 | 59,784 |
| Cash and cash equivalents | 24 | 9,130 | 6,801 |
| Financial assets | 10 | 1,268 | 508 |
| Other receivables | 11 | 3,053 | 2,186 |
| Income tax receivables | | 591 | 439 |
| **Total short-term assets** | | **103,070** | **94,584** |
| Long-term assets | | | |
| Intangible assets | 12 | 92,831 | 86,012 |
| Tangible assets | 13 | 5,538 | 4,499 |
| Shareholdings in associated companies | 25 | 0 | 195 |
| Cash and cash equivalents | 24 | 525 | 735 |
| Financial assets | 10 | 1,335 | 1,198 |
| Deferred tax claims | 19 | 3,933 | 4,517 |
| **Total long-term assets** | | **104,162** | **97,156** |
| **Total assets** | | **207,232** | **191,740** |
| EQUITY AND LIABILITIES | | | |
| Short-term liabilities | | | |
| Trade payables | 15 | 6,676 | 7,299 |
| Financial liabilities to banks | 14 | 28,944 | 23,793 |
| Other financial liabilities | 17 | 11,208 | 8,870 |
| Other accruals | 16 | 961 | 712 |
| Income tax liabilities | | 1,896 | 2,302 |
| Other liabilities | 18 | 1,659 | 2,022 |
| **Total short-term liabilities** | | **51,344** | **44,998** |
| Long-term liabilities | | | |
| Deferred tax liabilities | 19 | 24,362 | 21,604 |
| Financial liabilities to banks | 14 | 11,575 | 15,375 |
| Pension reserves | 20 | 2,027 | 2,059 |
| **Total long-term liabilities** | | **37,964** | **39,038** |
| **Total liabilities** | | **89,308** | **84,036** |
| Equity | 21 | | |
| Issued capital | | 4,381 | 4,381 |
| Capital reserves | | 38,623 | 38,623 |
| Own shares | | -8 | 0 |
| Cash flow hedges | | -1 | -28 |
| Currency exchange variations | | 573 | 1,286 |
| Profit brought forward | | 61,259 | 51,910 |
| Net profit accounted to the shareholders of ISRA VISION AG | | 11,567 | 10,663 |
| **Share of equity capital held by ISRA VISION AG shareholders** | | **116,394** | **106,835** |
| Equity capital accounted to non-controlling shareholders | | 1,530 | 869 |
| **Total equity** | | **117,924** | **107,704** |
| **Total equity and liabilities** | | **207,232** | **191,740** |

# Consolidated Cash Flow Statement

| (in € k) | Explanation | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|---|
| Net profit | | 11,465 | 10,693 |
| Income tax payments | | 3,414 | 878 |
| Changes in deferred tax assets and liabilities | | 3,341 | 2,409 |
| Changes in accruals | | -289 | -300 |
| Depreciation and amortization | | 8,857 | 8,695 |
| Changes in inventories | | -38 | -5,945 |
| Changes in trade receivables, other assets | | 659 | -10,541 |
| Changes in trade payables, other liabilities | | -13,378 | 4,886 |
| Interest income | | -127 | -84 |
| Interest expenses | | 859 | 758 |
| Other non-cash changes | | 764 | -72 |
| **cash flow from operating activities** | | **15,527** | **11,377** |
| Payments for investments in tangible assets | | -1,394 | -1,811 |
| Payments for investments in intangible assets | | -9,878 | -10,033 |
| Company acquisition | 24 | -1,410 | -1,490 |
| **cash flow from investment activities** | | **-12,681** | **-13,334** |
| Payments to company owners through acquisition of own shares | | -8 | -153 |
| Dividend payouts | | -1,314 | -1,094 |
| Deposits from sales of own shareholdings | | 0 | 239 |
| Acquisition of minority interests in subsidiaries | | 0 | -56 |
| Deposits from the assumption of financial liabilities | | 5,480 | 8,980 |
| Repayments of financial liabilities | | -4,130 | -3,710 |
| Interest income | | 127 | 84 |
| Interest expenses | | -859 | -758 |
| **cash flow from financing activities** | | **-704** | **3,532** |
| Exchange rate-based value changes of the financial resources | | -23 | 114 |
| **Change of financial resources** | | **2,119** | **1,689** |
| Net cash flow | | | |
| Financial resources on October 1, 2012 | | 7,536 | 5,847 |
| of which restricted | | 735 | 945 |
| Financial resources available on October 1, 2012 | | 6,801 | 4,902 |
| Financial resources on September 30, 2013 | | 9,655 | 7,536 |
| of which restricted | | 630 | 735 |
| Financial resources available on September 30, 2013 | | 9,025 | 6,801 |
| **Change of available financial resources** | | **2,224** | **1,899** |

# Consolidated Statement of Changes in Equity

for the period October 01, 2012 to September 30, 2013

| (in € k) | Issued capital | Capital reserves | Own shares | Cash flow-hedges | Currency exchange-variations | Profit brought forward | Net profit by shares of other investors | Equity of shareholders of ISRA VISION | Accounted to non-controlling shareholders | Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| As of Sept. 30, 2012 | 4,381 | 38,623 | 0 | -28 | 1,286 | 51,910 | 10,663 | 106,835 | 869 | 107,704 |
| Profit brought forward | | | | | | 10,663 | -10,663 | 0 | | 0 |
| Own shares | | | -8 | | | | | -8 | | -8 |
| Payout | | | | | | -1,314 | | -1,314 | | -1,314 |
| Changes in shares of non-controlling shareholders due to change in scope of consolidation | | | | | | | | 0 | 764 | 764 |
| Overall earnings | | | | 27 | -713 | | 11,567 | 10,881 | -103 | 10,778 |
| As of Sept. 30, 2013 | 4,381 | 38,623 | -8 | -1 | 573 | 61,259 | 11,567 | 116,394 | 1,530 | 117,924 |

# Consolidated Statement of Changes in Equity

for the period October 01, 2011 to September 30, 2012

| (in € k) | Issued capital | Capital reserves | Own shares | Cash flow-hedges | Currency exchange-variations | Profit brought forward | Net profit by shares of other investors | Equity of shareholders of ISRA VISION | Accounted to non-controlling shareholders | Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| As of Sept. 30, 2011 | 4,381 | 38,591 | -29 | -53 | 1,017 | 43,939 | 9,065 | 96,911 | 834 | 97,745 |
| Profit brought forward | | | | | | 9,065 | -9,065 | 0 | | 0 |
| Own shares | | 56 | 29 | | | | | 85 | | 85 |
| Payout | | | | | | -1,094 | | -1,094 | | -1,094 |
| Acquisition of shares of non-controlling shareholders | | -24 | | | | | | -24 | -33 | -56 |
| Overall earnings | | | | 25 | 269 | 0 | 10,663 | 10,957 | 68 | 11,025 |
| As of Sept. 30, 2012 | 4,381 | 38,623 | 0 | -28 | 1,286 | 51,910 | 10,663 | 106,835 | 869 | 107,704 |

# Notes to the Consolidated Financial Statements as of September 30, 2013

## 1. General

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

The purpose of the Company is to develop, market, employ, distribute and sell products, systems, equipment, and services in the areas of machine vision, automation, software and robot technology.

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

The consolidated financial statements are prepared in euros. Compared to the previous year, the group of consolidated companies also includes the acquired GP Inspect GmbH and GP Solar GmbH, the newly established Russian ISRA VISION LLC as well as the VISTEK ISRA VISION A.S. Minority interests held by other shareholders are stated according to their respective pro-rata share of the subsidiary's net assets. After the merger of a company, 24 subsidiaries were included in the consolidation.

## 2. Accounting methodes

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

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

In addition, ISRA VISION AG voluntarily publishes a consolidated total operating revenue EBITDA-EBIT statement typical for the industry oriented to the cost-summary method.

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

The accounting methods applied in the consolidated financial statements, with the exception of the changes listed below, correspond to those that were also used as the basis for the consolidated financial statements as of September 30, 2012.

In the consolidated financial statements for the 2012/2013 financial year, the following new or changed accounting standards and interpretations had to be applied for the first time:

| Standard / Interpretation | | revised / new |
|---|---|---|
| IAS 1 | Amendments to IAS 1 Presentation of Financial Statements (Presentation of Items of Comrehensive Income) | revised |

ISRA VISION AG performed the adjustment in the representation of miscellaneous earnings.

The following financial reporting regulations newly published or changed by the IASB and partially not yet adopted by the European Union will have to be applied only to future financial statements – assuming the adoption by the European Union. No regulations will be applied prematurely:

| Standard / Interpretation | | To be applied as of financial year |
|---|---|---|
| IAS 19 | Employee benefits (IAS 19R) | 2013/2014 |
| IFRS 7 | Amendments to IFRS 7 Financial instruments: Disclosures (Offsetting of financial assets and financial liabilities) | 2013/2014 |
| IFRS 13 | Fair Value Measurement | 2013/2014 |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | 2013/2014 |
| IAS 1, IAS 16, IAS 32 and IAS 34 | Changes from the Annual Improvements Project 2009-2011 | 2013/2014 |
| IFRS 10 | Consolidated Financial Statements | 2014/2015 |
| IAS 32 | Amendments to IAS 32 Financial instruments: Presentation (Offsetting of financial assets and financial liabilities) | 2014/2015 |
| IFRS 11 | Joint Arrangements | 2014/2015 |
| IFRS 12 | Disclosure of Interrests in Other Entities | 2014/2015 |
| IAS 27 | Separate Financial Statements (2011 R) | 2014/2015 |
| IFRS 10, IFRS 12, IAS 27 | Amendments at IFRS 10, IFRS 12 und IAS 12 (Investment companies) | 2014/2015 |
| IAS 28 | Investments in Associates and Joint Ventures (2011 R) | 2014/2015 |
| IAS 36 | Amendments to IAS 36: Impairment of Assets (Recoverable amount disclosures) | 2014/2015 |
| IAS 39 | Amendments to IAS 39: Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting) | 2014/2015 |
| IFRIC 21* | Levies | 2014/2015 |
| IFRS 9* | Financial instruments | 2015/2016 |

The changes identified with (*) have not yet been published by IASB in their final version (IFRS 9) or have not yet been endorsed by the EU.

ISRA VISION AG does not expect any significant effects on its consolidated financial statements from the future application of the new financial reporting regulations. The changes expected from the initial application of IAS 19 are described below. The new consolidation standards do not show an effect since ISRA VISION AG already fully consolidates all subsidiaries according to the regulations of IAS 27 which would also be subject to full consolidation according to the new IFRS 10. Except for the changes to IAS 36, no prematurely applicable regulations are prematurely applied by ISRA VISION AG.

*(a) Discretionary decisions*

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

- Employer pension plans
  When preparing the balance sheet for the employer pension plans, the Company chose to apply the „corridor method“. If another acceptable calculation method had been chosen, it could have resulted in deviating amounts for the pension reserves accounted for and the recognized cost of labor.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*(c) Consolidation*

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

*(d) Associated companies*

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

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

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

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

*(e) Foreign currency conversion*

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

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

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

| | Closing rate 30.09.2013 | Average rate 01.10.2012 - 30.09.2013 |
|---|---|---|
| 1 EUR = USD | 1.3499 | 1.3140 |
| 1 EUR = CNY | 8.2849 | 8.1253 |

*(f) Realization of sales and other revenue*

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

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

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

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

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

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

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

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

Research costs

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

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

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

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

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

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

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

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

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

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

*(i) Cash and cash equivalents*

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

*(j) Trade receivables and other financial assets*

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

*(k) Inventories*

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

*(l) Tangible assets*

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

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

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

*(m) Value impairments*

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

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

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

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

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

*(n) Trade payables and other financial liabilities*

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

*(o) Financial liabilities*

For the year under review, financial liabilities were reported vis-à-vis the following credit institutions: Baden-Württembergische Bank AG, Kreditanstalt für Wiederaufbau, Commerzbank (formerly Dresdner Bank), Bankhaus Lampe and DZ Bank. They are valued at the continued purchase costs using the effective interest method.

*(p) Employer pension plans in accordance with IAS 19*

The evaluation of employer pension plans in accordance with IAS 19 is carried out in line with the projected unit credit method allowing for future increases to salary and pensions (IAS 19). Actuarial gains and losses are recorded affecting profit over the expected average residual service length of the persons participating in the plan, provided that they exceed ten percent of the present value of the performance-oriented liability at the end of the previous period.

In June 2011, the IASB published a revised edition of IAS 19 Employee benefits. Essential changes are the elimination of the previously optional corridor method which affects the financial reporting of employer pension plans. In particular, an immediate recording of actuarial gains and losses as well as the past service costs is carried out immediately and completely under other earnings. The changes must be applied to financial years that start on or after January 1, 2013; an earlier application is allowed. The change of the regulation will have effects on the consolidated financial statements of ISRA VISION AG since actuarial gains and losses, which were previously recorded in the context of the corridor method (see also under Note (a) General accounting methods), must be completely recorded in other earnings.

With the retrospective application of the new IAS 19, the pension reserves for September 30, 2013, will probably increase by €349k. The profit carried forward to October 1, 2013, will decrease by the same amount.

*(q) 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.

*(r) Deferred taxes*

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

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

*(s) Other taxes*

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

*(t) Government grants*

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

*(u) Financial instruments*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*(v) Accounting for leases*

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

*(w) Accounting of share-based remuneration transactions in line with IFRS 2*

Liabilities from share option programs for employees, which can be exercised for cash settlement after the expiration of a blocked period, are incorporated by recognizing liabilities and recording a corresponding cost of labor in line with IFRS 2.

## 3. Acquisitions after acquiring control

GP Inspect GmbH, Neuried and GP Solar GmbH, Constance

Purchase agreement dated April 29, 2013, ISRA VISION AG acquired 100 percent of the shares in GP Inspect GmbH, Neuried and GP Solar GmbH, Constance. The purchase price was € 1,600k. The payment of the purchase price was made exclusively in cash.

The purpose of the companies is the development, production and sale of devices for the inspection and measurement of goods in serial production in the photovoltaics industry as well as research and development, manufacture, sales, and placement of production processes, materials and devices for process and quality control of solar cells.

The objective of the acquisition is to expand the technological base to further develop the customer markets of electronics and semiconductors. The acquisition reinforces ISRA with a team in Munich that features machine vision experience in the photovoltaics and electronics industries of approximately 20 years. Furthermore, ISRA bundles its forces in the electronics and semiconductor industries, in conjunction with 3D-Shape GmbH which was acquired as early as 2012, and utilizes the expertise gained to undertake targeted steps in these new markets. Goodwill justifies itself through the know-how of the employees who were kept on and the existing sales structure in Asia. In addition, future synergies can be utilized, e.g. in production and purchasing.

The following fair value or carrying amount arose for the GP subgroup. The tangible assets had a fair value of € 696k. For inventories, the fair value amounted to € 937k. The trade receivables had a fair value of € 302k. Payment defaults were not expected on the purchase date. The other short-term assets showed a fair value of € 5,391k. Cash had a fair value of € 2,431k. The active accrued and deferred items had a fair value of € 25k. The trade payables had a fair value of € 5,326k. The fair value of other liabilities amounted to € 5,246k. For the listed items, the fair value is identical with the carrying amount before the acquisition. The intangible assets had a carrying amount before the acquisition of € 616k and a fair value of € 2,643k. The accruals had a carrying amount of € 218k and a fair value of € 859k. The equity had a fair value of € 994k. The gross amount of the contractual receivables corresponds to the fair value. Contingent liabilities or conditional considerations exist with respect to a contractually stipulated earn-out of € 61k. It was determined in the purchase price allocation by means of the earn-out formula and the assumed occurring probability. The earn-out, calculated for 2013 to 2015, is based on the number of billed units, provided a minimum number of units sold, multiplied by a fixed price per unit and weighted with a probability. The unit is defined as the revenues achieved with GP Solar products divided by a fixed net selling price. Based on different probabilities, the results range from € 46k to € 84k.

The goodwill of the GP subgroup amounts to € 1,022k. This is not deductible for tax purposes.

The revenues entering the group in financial year 2012/2013 amounted to € 2,792k, the period result was € 1,676k. They include a one-time special effect in the amount of € 1,285k. With an affiliation over a complete year, the company could have achieved net sales in the amount of € 6,701k and an earnings contribution of approx. € 937k.

VISTEK ISRA VISION A.S., Istanbul

As of June 10, 2013, the call option stipulated in the purchase agreement became exercisable. This resulted, according to the principles of IAS 27, to a full consolidation of VISTEK. As a result, ISRA VISION AG acquired 51 percent of VISTEK ISRA VISION A.S., Istanbul for € 750k in November 2013.

The purpose of the company is the development and sale of customer-specific machine vision systems. Thanks to its investment in the Istanbul-based machine vision specialist, ISRA will boost its growth potential by strengthening its penetration of the Turkish market, as well as markets in the Middle East and Central Asia. Furthermore, an extension of the R&D capacity is to be achieved by the acquisition.

The following fair value or carrying amount arose for VISTEK. The tangible assets had a fair value of € 14k. For inventories, the fair value amounted to € 67k. The trade receivables had a fair value of € 63k. Payment defaults were not expected on the purchase date. The other short-term assets showed a fair value of € 131k. Cash had a fair value of € 8k. The fair value for accruals amounted to € 11k. The trade payables had a fair value of € 31k. The liabilities to other affiliated companies had a fair value of € 98k. The fair value of other liabilities amounted to € 314k. For the listed items, the fair value is identical with the carrying amount before the acquisition. The intangible assets had a carrying amount before the acquisition of € 62k and a fair value of € 1,449k. The deferred tax accruals had a carrying amount before the acquisition of € 0k and a fair value of € 277k. The re-valued equity had a fair value of € 1,001k. The gross amount of the contractual receivables corresponds to the fair value. Goodwill was not accounted for from this transaction.

In June 2013, the contractually stipulated call option became active and was exercised by ISRA. Prior to this acquisition, ISRA held 24 percent of the shares with a carrying amount of € 195k. The fair value of equity of VISTEK on the acquisition date, which was held prior to the acquisition date of the ISRA, amounted to € 241k. Based on the revaluation of the 24-percent share as of June 30, 2013, it resulted in a profit in the amount of € 266k, which was recognized in the earnings from associated companies item.

The non-controlled share in VISTEK on the acquisition date amounts to € 764k. This amount was determined without accruing to minority goodwill.

The revenues entering the group in financial year 2012/2013 amounted to € 34k, the period result was € -34k. With an affiliation over a complete year, the company could have achieved net sales in the amount of € 137k and an earnings contribution of approx. € -134k.

### 4. Release of the consolidated financial statements

The consolidated annual financial statements were released by the Executive Board for publication on January 15, 2014.

# Explanatory Notes

### 1. Segment reporting

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

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

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

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

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

| (in € k) | Industrial Automation | | Surface Vision | | Total | |
|---|---|---|---|---|---|---|
| | Oct. 01, 2012 - Sept. 30, 2013 | Oct. 01, 2011 - Sept. 30, 2012 | Oct. 01, 2012 - Sept. 30, 2013 | Oct. 01, 2011 - Sept. 30, 2012 | Oct. 01, 2012 - Sept. 30, 2013 | Oct. 01, 2011 - Sept. 30, 2012 |
| Net sales | 24,285 | 21,530 | 65,256 | 62,356 | 89,541 | 83,885 |
| EBIT | 4,716 | 3,820 | 12,571 | 11,696 | 17,288 | 15,516 |
| Earnings from associated companies | 46 | 60 | 0 | 0 | 46 | 60 |
| Financing income | | | | | -792 | -674 |
| Income taxes | | | | | 5,077 | 4,209 |
| Consolidated net profit | | | | | 11,465 | 10,693 |

There was no interdivisional revenue. POC (percentage of completion method) sales figures totaled € 12,602k (previous year: € 9,149k) in the Industrial Automation segment and € 27,414k (previous year: € 25,627k) in the Surface Vision segment.

In the reporting period, it resulted in a one-time revenue effect in the amount of € 1,285k which was also without cash effect.

| (in € k) | Industrial Automation | | Surface Vision | | Total | |
|---|---|---|---|---|---|---|
| | as of Sept. 30, 2013 | as of Sept. 30, 2012 | as of Sept. 30, 2013 | as of Sept. 30, 2012 | as of Sept. 30, 2013 | as of Sept. 30, 2012 |
| Investments in long-term assets in year under review | 3,036 | 2,646 | 8,207 | 9,271 | 11,242 | 11,917 |
| At-equity investments | 0 | 195 | 0 | 0 | 0 | 195 |
| **Value impairment** | | | | | | |
| Business and company values | 0 | 0 | 0 | 0 | 0 | 0 |
| **Depreciation and amortization** | | | | | | |
| Other intangible assets | 2,011 | 2,061 | 5,874 | 5,988 | 7,885 | 8,049 |
| Tangible assets | 143 | 71 | 829 | 575 | 972 | 646 |

### Regional representation of net sales

| (in € k) | Germany | | Europe | | America | | Asia, ROW* | |
|---|---|---|---|---|---|---|---|---|
| | Oct. 01, 12 - Sept. 30, 13 | Oct. 01, 11 - Sept. 30, 12 | Oct. 01, 12 - Sept. 30, 13 | Oct. 01, 11 - Sept. 30, 12 | Oct. 01, 12 - Sept. 30, 13 | Oct. 01, 11 - Sept. 30, 12 | Oct. 01, 12 - Sept. 30, 13 | Oct. 01, 11 - Sept. 30, 12 |
| Net sales | 20,012 | 23,373 | 19,255 | 14,547 | 18,124 | 17,428 | 32,150 | 28,536 |

* ROW = Rest of the World

In the following countries, ISRA VISION AG achieves more than 10 percent of its total sales: Germany (€ 20,012k), China (€ 19,665k), US (€ 19,255k).

### Regional representation of assets situation

| (in € k) | Germany | | Europe | | America | | Asia, ROW* | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | as of Sept. 30, 2013 | as of Sept. 30, 2012 | as of Sept. 30, 2013 | as of Sept. 30, 2012 | as of Sept. 30, 2013 | as of Sept. 30, 2012 | as of Sept. 30, 2013 | as of Sept. 30, 2012 | as of Sept. 30, 2013 | as of Sept. 30, 2012 |
| ASSETS | | | | | | | | | | |
| Long-term assets | 95,671 | 89,184 | 1,330 | 7 | 1,196 | 1,297 | 172 | 218 | 98,369 | 90,706 |

* ROW = Rest of the World

### 2. Cost of sales

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Material | - 20,866 | - 19,989 |
| Personnel | - 19,883 | - 18,622 |
| **Total** | **- 40,749** | **- 38,611** |

The cost of sales increased by € 2,138k, a smaller increase than the one in revenues. The cost of labor includes depreciation and amortization in the amount of € 910k (previous year: € 927k).

### 3. Cost of sales and marketing

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Sales | - 16,855 | - 15,512 |
| **Total** | **- 16,855** | **- 15,512** |

Due to increased sales activities, the cost of sales and marketing increased by € 1,343k. The cost of sales and marketing includes depreciation and amortization in the amount of € 771k (previous year: € 772k).

### 4. Administrative costs

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Administration | - 4,676 | - 4,564 |
| **Total** | **- 4,676** | **- 4,564** |

The administrative costs saw a disproportionately low rise compared to revenues of € 111k. The administrative costs include depreciation and amortization in the amount of € 214k (previous year: € 227k).

### 5. Total depreciation / amortization

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Depreciations on intangible assets | - 7,885 | - 8,049 |
| Tangible assets | - 972 | - 646 |
| **Total according to inventory of assets** | **- 8,857** | **- 8,695** |

Of the depreciation/amortization of intangible assets, € 5,763k (previous year: € 5,748k) is accounted for by capitalized developments that are depreciated over a period of six years after completion.

### 6. Other revenues

Other revenues consist of the following items:

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Freight proceeds | 0 | 79 |
| Revenues from exchange rate differences | 189 | 393 |
| Revenues from insurance indemnifications | 46 | 24 |
| Other operating revenues | 1,708 | 1,051 |
| **Subtotal** | **1,942** | **1,547** |
| Grants (in R&D) | 367 | 405 |
| **Total** | **2,309** | **1,952** |

The other operational revenues include a one-time revenue effect in the amount of € 1,285k from the liquidation of a liability. No unfulfilled conditions or potential liabilities existed with respect to grants.

### 7. Income taxes

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

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| **Taxes on current earnings** | | |
| Germany | 2,043 | 1,370 |
| Other countries | 927 | 730 |
| | **2,970** | **2,100** |
| **Deferred tax expenditure** | | |
| Germany | 2,107 | 2,109 |
| Other countries | 0 | 0 |
| | **2,107** | **2,109** |
| **Total** | **5,077** | **4,209** |

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

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Earnings before taxes | 16,542 | 14,902 |
| Expected income tax expenditure | 5,088 | 4,581 |
| Effect from foreign income tax rates | 131 | 95 |
| Initial effect from activation of deferred tax assets | 0 | 222 |
| Consolidation-based and other effects | - 142 | -689 |
| Stated income tax expenditure | 5,077 | 4,209 |

In the 2012 / 2013 financial year, the corporate tax rate totaled 15 percent, plus the German reunification tax of 5.5 percent of corporate tax. This resulted in an effective corporate tax rate of 15.83 percent. Taking into account the local business taxes – which amounted to 14.93 percent – this resulted in an overall tax rate of approximately 30.76 percent (previous year: 30.74 percent).

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 41.07 percent. A tax rate of 23.5 percent was applied to ISRA VISION Ltd. and ISRA VISION

Parsytec Ltd. For ISRA VISION (Shanghai) Co. Ltd. a 25 percent tax rate was applied. A uniform tax rate of 31.41 percent was applied for the German Parsytec group. A tax rate of 24.5 percent was applied for the Finnish company ISRA VISION FINLAND Oy.

## 8. Receivables

| (in € k) | Sept. 30, 2013 | Sept. 30, 2012 |
|---|---|---|
| Receivables from goods and services of domestic group companies | 24,411 | 28,072 |
| Receivables from goods and services of foreign group companies | 4,083 | 3,642 |
| Receivables from unfinished orders valued acc. to the percentage of completion method | 34,686 | 28,070 |
| **Balance sheet value** | **63,180** | **59,784** |

Costs of additional recognized profits and minus recognized losses up to the balance sheet date amounted to € 40,016k (previous year: € 34,776k). Partial billings in the amount of € 5,330k (previous year: € 6,706k) have been deducted from the receivables from unfinished orders evaluated on the percentage of completion basis.

The value adjustments on receivables performed as follows:

| (in € k) | 2012/2013 | 2011/2012 |
|---|---|---|
| Value adjustments as of October 1 | 847 | 460 |
| Usage | 304 | 86 |
| Liquidation | 240 | 50 |
| Allocation | 1,094 | 518 |
| Exchange rate differences | - 18 | 4 |
| Value adjustment account as of September 30 | 1,379 | 847 |

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

The receivables are structured according to maturity dates as follows:

| (in € k) | | | | Of which not value-adjusted as of the reporting date but overdue (for one of the periods below) | | | |
|---|---|---|---|---|---|---|---|
| Receivables | Carrying amount | Of which not overdue or value-adjusted as of the reporting date | Net value of value-adjusted receivables | < 31 days | 31-60 days | 61-90 days | > 90 days |
| as per Sept. 30, 2013 | 63,180 | 50,936 | 1,152 | 3,159 | 1,042 | 1,232 | 5,659 |
| as per Sept. 30, 2012 | 59,784 | 48,094 | 684 | 4,720 | 811 | 1,246 | 4,230 |

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

## 9. Inventories

The inventory include:

| (in € k) | Sept. 30, 2013 | Sept. 30, 2012 |
|---|---|---|
| Raw materials, ancillary resources and supplies | 8,775 | 7,888 |
| Work in progress | 16,171 | 14,944 |
| Finished products | 902 | 2,033 |
| **Balance sheet value** | **25,848** | **24,866** |

In the 2012/2013 financial year, impairment losses on inventories amounted to € 165k (previous year: € 89k).

### 10. Financial assets

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

| (in € k) | Sept. 30, 2013 Short-term | Sept. 30, 2013 Long-term | Sept. 30, 2012 Short-term | Sept. 30, 2012 Long-term |
|---|---|---|---|---|
| Loans and other receivables from employees | 424 | 0 | 252 | 0 |
| Insurance claims | 0 | 1,263 | 0 | 1,198 |
| Rental deposits | 101 | 72 | 82 | 0 |
| Miscellaneous | 743 | 0 | 174 | 0 |
| Balance sheet value | 1,268 | 1,335 | 508 | 1,198 |

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

### 11. Other receivables

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

| (in € k) | Sept. 30, 2013 Short-term | Sept. 30, 2013 Long-term | Sept. 30, 2012 Short-term | Sept. 30, 2012 Long-term |
|---|---|---|---|---|
| Advance payments | 431 | 0 | 360 | 0 |
| Sales tax receivables | 2,621 | 0 | 1,826 | 0 |
| Balance sheet value | 3,053 | 0 | 2,186 | 0 |

### 12. Intangible assets

Intangible assets include:

| (in € k) | Goodwill | Software, licenses | Capitalized work | Total |
|---|---|---|---|---|
| Procurement and production costs | | | | |
| October 01, 2012 | 39,444 | 26,508 | 63,984 | 129,936 |
| Additions | 0 | 421 | 9,456 | 9,878 |
| Additions from acquisitions | 1,022 | 4,415 | 1,732 | 7,169 |
| Disposals | 0 | 120 | 0 | 120 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Currency exchange variations | - 120 | 2 | - 9 | - 128 |
| September 30, 2013 | 40,346 | 31,226 | 75,164 | 146,735 |
| Depreciation and amortization | | | | |
| October 01, 2012 | 2,034 | 14,097 | 27,792 | 43,923 |
| Additions | 0 | 2,122 | 5,264 | 7,386 |
| Additions from acquisitions | 0 | 1,046 | 1,073 | 2,118 |
| Disposals | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Value impairment | 0 | 0 | 499 | 499 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 |
| Currency exchange variations | - 11 | - 1 | - 9 | - 22 |
| September 30, 2013 | 2,023 | 17,264 | 34,618 | 53,905 |
| Balance sheet value of intangible assets | | | | |
| October 01, 2012 | 37,410 | 12,411 | 36,192 | 86,012 |
| September 30, 2013 | 38,323 | 13,963 | 40,546 | 92,831 |

| (in € k) | Goodwill | Software, licenses | Capitalized work | Total |
|---|---|---|---|---|
| **Procurement and production costs** | | | | |
| October 01, 2011 | 38,536 | 25,585 | 59,719 | 123,840 |
| Additions | 56 | 856 | 9,177 | 10,089 |
| Additions from acquisitions | 865 | 764 | 0 | 1,628 |
| Disposals | 222 | 624 | 5,006 | 5,852 |
| Reclassifications | 0 | -85 | 85 | 0 |
| Currency exchange variations | 209 | 13 | 9 | 231 |
| September 30, 2012 | 39,444 | 26,508 | 63,984 | 129,936 |
| **Depreciation and amortization** | | | | |
| October 01, 2011 | 2,023 | 11,975 | 27,041 | 41,039 |
| Additions | 0 | 2,301 | 5,748 | 8,049 |
| Additions from acquisitions | 0 | 18 | 0 | 18 |
| Disposals | 0 | 198 | 5,006 | 5,204 |
| Reclassifications | 0 | 0 | 0 | 0 |
| Value impairment | 0 | 0 | 0 | 0 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 |
| Currency exchange variations | 11 | 1 | 10 | 21 |
| September 30, 2012 | 2,034 | 14,097 | 27,792 | 43,923 |
| **Balance sheet value of intangible assets** | | | | |
| October 01, 2011 | 36,513 | 13,610 | 32,678 | 82,801 |
| September 30, 2012 | 37,410 | 12,411 | 36,192 | 86,012 |

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

The cumulative depreciations on the capitalized work come in at a total of € 34,618k (previous year: € 27,792k); depreciations from the year under review account for € 5,763k (previous year: € 5,748k).

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

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

- Cash flows depend on the management's current planning for a period of five years. Significant planning assumptions have been made regarding sales growth and EBIT margin. Management bases its planning on historical data as well as external market studies.
- For the periods going beyond the planning, growth rates of 1.5 percent (previous year: 1.5 percent) have been assumed.
- A weighted-average cost of capital before taxes (WACC) of 10.5 percent was assumed (previous year: 9.7 percent).

The impairment tests have not resulted in the need for a goodwill impairment.

If the underlying working capital quote had been higher by 2 percentage points for the goodwill impairment tests of the cash-generating units, it would have resulted in no value impairment. If the underlying revenue growth rates had been lower by 3 percentage points for the goodwill impairment tests of the cash-generating units, it would have resulted in no value impairment. If the underlying EBIT quotes had been lower by 1 percentage point for the goodwill impairment tests of the cash-generating units, it would have resulted in no value impairment.

The goodwill by segments is derived as follows:

| (in € k) | Sept. 30, 2013 | Sept. 30, 2012 |
|---|---|---|
| Goodwill Industrial Automation | 5,836 | 5,858 |
| Goodwill Surface Vision | 32,486 | 31,552 |
| **Goodwill** | 38,323 | 37,410 |

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

As of September 30, 2013, there were no contractual obligations to acquire intangible assets (as in the previous year).

## 13. Tangible assets

Total tangible assets include:

| (in € k) | Land and buildings | Technical equipment | Office equipment | Fixed assets under construction | Total |
|---|---|---|---|---|---|
| **Procurement and production costs** | | | | | |
| **October 01, 2012** | 1,612 | 1,914 | 6,671 | 776 | 10,974 |
| Additions | 4 | 882 | 430 | 49 | 1,365 |
| Additions from acquisitions | 0 | 1,665 | 1,179 | 0 | 2,844 |
| Disposals | 0 | 80 | 160 | 0 | 239 |
| Reclassifications | 22 | 751 | -751 | -22 | 0 |
| Currency exchange variations | -51 | 0 | -34 | -1 | -86 |
| **September 30, 2013** | 1,587 | 5,133 | 7,335 | 802 | 14,858 |
| **Depreciation and amortization** | | | | | |
| **October 01, 2012** | 239 | 1,451 | 4,641 | 144 | 6,475 |
| Additions | 61 | 319 | 592 | 0 | 972 |
| Additions from acquisitions | 0 | 1,333 | 804 | 0 | 2,137 |
| Disposals | 0 | 69 | 155 | 0 | 225 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Value impairment | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 | 0 |
| Currency exchange variations | -10 | 0 | -28 | -1 | -40 |
| **September 30, 2013** | 290 | 3,034 | 5,853 | 143 | 9,320 |
| **Balance sheet value of tangible assets** | | | | | |
| **October 01, 2012** | 1,372 | 464 | 2,030 | 632 | 4,499 |
| **September 30, 2013** | 1,297 | 2,099 | 1,483 | 660 | 5,538 |

As of September 30, 2013, there were no contractual obligations to acquire tangible assets (as in the previous year).

| (in € k) | Land and buildings | Technical equipment | Office equipment | Fixed assets under construction | Total |
|---|---|---|---|---|---|
| Procurement and production costs | | | | | |
| October 01, 2011 | 1,418 | 1,527 | 5,161 | 903 | 9,010 |
| Additions | 50 | 387 | 1,245 | 128 | 1,811 |
| Additions from acquisitions | 0 | 0 | 432 | 0 | 432 |
| Disposals | 0 | 0 | 214 | 164 | 378 |
| Reclassifications | 92 | 0 | 0 | -92 | 0 |
| Currency exchange variations | 51 | 0 | 46 | 3 | 100 |
| September 30, 2012 | 1,612 | 1,914 | 6,671 | 776 | 10,974 |
| Depreciation and amortization | | | | | |
| October 01, 2011 | 183 | 1,379 | 3,994 | 141 | 5,697 |
| Additions | 48 | 72 | 526 | 0 | 646 |
| Additions from acquisitions | 0 | 0 | 295 | 0 | 295 |
| Disposals | 0 | 0 | 208 | 0 | 208 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Value impairment | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment loss | 0 | 0 | 0 | 0 | 0 |
| Currency exchange variations | 8 | 0 | 34 | 3 | 44 |
| September 30, 2012 | 239 | 1,451 | 4,641 | 144 | 6,475 |
| Balance sheet value of tangible assets | | | | | |
| October 01, 2011 | 1,235 | 148 | 1,167 | 762 | 3,313 |
| September 30, 2012 | 1,372 | 464 | 2,030 | 632 | 4,499 |

### 14. Financial liabilities to banks

As of the balance sheet date, ISRA had long-term bank liabilities of € 11,575k (previous year: € 15,375k).

The short-term bank liabilities total € 28,944k (previous year: € 23,793k).

The weighted average interest rate over the 2012/2013 financial year for bank liabilities amounts to 1.50 percent.

#### 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:

| 2012/2013 (in € k) | Carrying amount | Cash flows 2013/2014 | | Cash flows 2014/2015 | | Cash flows from 2014/2015 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Repayment | Interest | Repayment | Interest | Repayment |
| Liabilities to banks | 40,519 | 158 | 28,944 | 103 | 3,550 | 22 | 8,025 |
| Trade payables | 6,676 | | 6,676 | | | | |
| Cash flow hedge | 2 | | 2 | | | | |
| Financial liabilities | 11,206 | | 11,206 | | | | |
| Other liabilities | 1,659 | | 1,659 | | | | |

| 2011 / 2012 (in € k) | Carrying amount | Cash flows 2012 / 2013 | | Cash flows 2013 / 2014 | | Cash flows from 2013 / 2014 | |
|---|---|---|---|---|---|---|---|
| | | Interest | Repayment | Interest | Repayment | Interest | Repayment |
| Liabilities to banks | 39,168 | 274 | 23,793 | 191 | 3,800 | 157 | 11,575 |
| Trade payables | 7,299 | | 7,299 | | | | |
| Cash flow hedge | 28 | | 26 | | 2 | | |
| Financial liabilities | 8,842 | | 8,842 | | | | |
| Other liabilities | 2,022 | | 2,022 | | | | |

This table includes all liabilities that existed as of the reporting date September 30, 2013 and for which payments were contractually stipulated. An acceptance of new liabilities was not taken into account. The variable interest rate payments associated with financial instruments were calculated on the basis of an average interest rate for financial year 2012 / 2013.

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

### 15. Trade payables

Trade payables total € 6,676k (previous year: € 7,299k). The liabilities are being paid off regularly, taking full advantage of discount terms offered. The liabilities are free of interest and payable within a year.

### 16. Other accruals

Other accruals include the following items:

| (in € k) | Oct. 01, 2012 | Additions | Usage | Liquidation | Change from currency variations | Sept. 30, 2013 | Of which due in the next financial year |
|---|---|---|---|---|---|---|---|
| Warranties | 334 | 256 | 284 | 16 | 0 | 289 | 289 |
| Contribution for severely disabled persons / Pension Insurance Association | 41 | 102 | 40 | 0 | -2 | 102 | 102 |
| Other accruals | 338 | 473 | 229 | 1 | -9 | 570 | 570 |
| **Balance sheet value** | **712** | **831** | **553** | **18** | **-11** | **961** | **961** |

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

### 17. Other financial liabilities

| (in € k) | Sept. 30, 2013 | Sept. 30, 2012 |
|---|---|---|
| Wages/salaries, performance bonuses, related social insurance contributions and remaining holiday entitlements | 5,152 | 3,121 |
| Other liabilities | 6,056 | 5,749 |
| **Balance sheet value** | **11,208** | **8,870** |

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

### 18. Other liabilities

| (in € k) | Sept. 30, 2013 | Sept. 30, 2012 |
|---|---|---|
| Advance payments received | 575 | 469 |
| Sales tax liabilities | 1,084 | 1,553 |
| **Balance sheet value** | **1,659** | **2,022** |

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

The calculation of the deferred taxes is based on average profit tax rates of 30.8 percent (previous year: 30.7 percent) for Germany and 41 percent (previous year: 34 percent) for the United States. The deferred tax assets result primarily from existing tax losses carried forward from the German subsidiaries. The deferred taxes are distributed as follows to the balance sheet items:

| (in € k) | Sept. 30, 2013 | Sept. 30, 2012 |
|---|---|---|
| Intangible assets | 11,426 | 11,669 |
| Inventories | -3,124 | -1,612 |
| Receivables, POC | 12,571 | 10,685 |
| Other items | 3,489 | 863 |
| **Deferred tax liabilities** | **24,362** | **21,604** |
| Losses carried forward | 2,893 | 3,750 |
| Pension reserves | 92 | 141 |
| Other accruals | 289 | 194 |
| Other items | 659 | 432 |
| **Deferred tax assets** | **3,933** | **4,517** |

The deferred tax assets realized after more than 12 months amount to € 3,026k (previous year: € 3,635k). The deferred tax liabilities realized after more than 12 months amount to € 11,454k (previous year: € 8,678k).

The change in the balance of the deferred taxes results from inflows through company acquisitions in the amount of € 3,342k (previous year: € 38k).

Tax losses brought forward totaled € 12.0 million as of September 30, 2013 (previous year: € 12.2 million). No deferred tax assets were set aside for € 2.6 million (previous year: € 0 million) of the tax losses carried forward. The Executive Board has assessed the usability of the losses carried forward based on corporate planning for 2014-2018.

Permanently valid losses carried forward amount to € 11.6 million. Within 20 years, € 0.4 million in losses carried forward will expire.

### 20. Pension provisions

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

The assessments for ISRA VISION Lasor GmbH are based on the following assumptions: discount rate 3.80 percent (previous year: 3.80 percent), projected salary increase 2.50 percent p.a. (previous year: 2.50 percent), projected pension increase 1.90 percent p.a. (previous year: 1.80 percent).

For ISRA Parsytec GmbH, the following assumptions were made: discount rate 3.80 percent (previous year: 4.20 percent), wage/salary growth 1.50 percent p.a. (previous year: 1.50 percent), pension increase 1.90 percent p.a. (previous year: 1.80 percent).

Development of the performance-oriented pension obligation and pension reserves.

| (in € k) | Sept. 30, 2013 | Sept. 30, 2012 |
|---|---|---|
| October 01 | 2,059 | 1,951 |
| Current service period cost | 0 | 0 |
| Interest cost | 60 | 139 |
| Included actuarial profits and losses | -34 | 0 |
| Pension payments | -58 | -32 |
| Actuarial profit / loss | 349 | 478 |
| Cash value of defined benefit obligations | 2,377 | 2,537 |
| Excluded actuarial loss | -349 | -478 |
| September 30 | 2,027 | 2,059 |

| (in € k) | Sept. 30, 2011 | Sept. 30, 2010 | Sept. 30, 2009 |
|---|---|---|---|
| Cash value of defined benefit obligations | 1,951 | 1,856 | 1,843 |

Experience-based adjustment of pension obligation:

| (in percent) | 2012/2013 | 2011/2012 | 2010/2011 | 2009/2010 |
|---|---|---|---|---|
| Deviations | 5.2 | 1.0 | 0.8 | 0.1 |

The current value of the liabilities earned would be 13 percent lower or 16 percent higher if the technical interest rate had been higher or lower by one percentage point with otherwise unchanged assumptions.

## 21. Equity

*a) Share capital*

The Company's **share capital** as of the balance sheet date totals € 4,381,240.00, divided into bearer shares of € 1.00 per share.

Capital developed as follows during the current financial year:

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

The Company holds 300 own shares (previous year: 0 shares).

In addition, the General Meeting held on March 24, 2010 resolved an amendment to the Articles of Association. This amendment authorizes the Executive Board to increase the Company's share capital until March 23, 2015 once only or on multiple occasions by issuing new no-par value shares against cash or non-cash contributions, up to a maximum amount of € 2,190,620.00 **(authorized capital)**. With the agreement of the Supervisory Board, The Executive Board is authorized, to exclude the statutory subscription rights of shareholders

- for fractional amounts,
- 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 and §186 Section 3 Clause 4 of the German Stock Corporation Law (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 of the German Stock Corporation Law (AktG) does not exceed € 438,124.00 and 10 percent of the recorded share capital at the time of the issue of the new shares. Realization of stocks must be charged against this 10 percent limitation of share capital if they come into effect due to authorization under shareholder exception from subscription according to § 71 Section 1 No. 8 of the German Stock Corporation Law (AktG) in conjunction with § 186 Section 3 Clause 4 of the German Stock Corporation Law (AktG). In addition, stocks used to service bonds under warrant and/or conversion right fall under the 10 percent limitation of share capital if the bond was issued under shareholder exception from subscription due to authorization according to § 186 Section 3 Clause 4 of the German Stock Corporation Law

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

Under a resolution passed by the General Meeting on March 29, 2011, the share capital of ISRA VISION AG is conditionally increased by up to € 100,000.00 by issuing up to 100,000 no-par value bearer shares to implement an employee equity compensation plan **(conditional capital I)**.

Under a resolution passed by the General Meeting on March 29, 2011, share capital has been increased by up to € 1,790,620.00 of no-par value bearer shares **(conditional capital II)**. The conditional capital increase may only be carried out to the extent that the holder of convertible or negotiable option bonds, issued on the basis of the authorization given to the Executive Board by the Annual General Meeting from March 29, 2011 to March 28, 2016, makes use of this conversion or option right, or to the extent that the holders, who are obligated to make the conversion fulfill their obligation to undertake the conversion. The issue price of the new shares will be based on the specific option/conversion price in accordance with the above authorization resolution. The new shares will begin participating in company profits as of the start of the financial year in which they are created (by exercising option/conversion rights and/or fulfilling option/conversion obligations).

Under a resolution passed by the General Meeting held on March 24, 2010, the Executive Board of ISRA VISION AG has been authorized to acquire its own shares until March 23, 2015, complying with the principle of equal treatment (§ 53 a of the German Stock Corporation Act (AktG)). They are authorized to acquire up to 10 percent of the recorded base capital at the time of the adoption of the resolution, under the provision that the shares which are purchased in accordance with this authorization, when added to the other shares in the Company which the Company has already purchased and still possesses or which have to be allocated to it pursuant to § 71 a and following of the German Stock Corporation Act (AktG), do not represent more than 10 percent of the base capital of the Company. In addition, the requirements of § 71 Section 2 Clauses 2 and 3 of the German Stock Corporation Act (AktG) must be observed. Purchases may not be undertaken for the purpose of trading in own shares. This authorization may be implemented in full or in parts. Purchases may be undertaken within the period covered by the authorization up to the point where the maximum purchase volume has been reached by partial purchases on various purchasing dates. Purchases may also be undertaken by subsidiary enterprises of the company in the context of § 17 of the German Stock Corporation Act (AktG) or on its / their behalf by third parties.

*b) Capital reserve*

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

As of September 30, 2013, the capital reserve was € 38,623k (previous year: € 38,623k).

*c) Own shares*

The purchase costs of own shares changed from € 0k to € 8k.

*d) Reserve for cash flow hedges*

The reserve for the cash flow hedge is associated with the hedging of payment streams by means of an interest rate swap.

*e) Equity capital accounted to non-controlling shareholders*

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

*f) Currency exchange differences*

The currency exchange variations in the equity capital serve to record the differences that result from the currency conversions in the financial statements of foreign subsidiaries. The balancing items for currency exchange variations decreased in the 2012 / 2013 financial year from € 713k to € 573k.

*g) Dividend*

In the 2012 / 2013 financial year, ISRA paid out dividends for the 2011 / 2012 financial year in the amount of € 1,314k. This corresponds to a dividend of € 0.30 per share.

## 22. Hedging transactions

To hedge against payment stream risks arising from variable-rate liabilities, ISRA VISION used payer interest rate swaps to counter the risk of higher interest payments due to increasing market rates. The interest rate swap is quoted in EUR and has a repayment period until October 31, 2013. The nominal amount of interest rate swaps amounts to € 250k (previous year: € 1,250k). Their fair value is determined by direct reference to publicly quoted market prices in an active market.

As of the balance sheet date, derivatives used for hedging purposes accounted for fair value of € -2k (previous year: € -28k), which was reflected on the balance sheet but not the income statement. The payment streams from the hedged underlying transactions and the hedging instruments end in October 2013 and are affecting profit until this date.

| | 2012 / 2013 | | | | 2011 / 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| (in € k) | Level 1 | Level 2 | Level 3 | Sum | Level 1 | Level 2 | Level 3 | Sum |
| Cash flow hedge | | -2 | | -2 | | -28 | | -28 |

- Level 1: At this level of the fair value hierarchy, the fair values are determined on the basis of publicly quoted market prices that can be observed for the financial instrument in an active market.
- Level 2: If no price can be determined for a financial instrument in an active market, the fair value must be determined by means of a valuation model. The valuation models include the use of the most recent business transactions between knowledgeable, willing and independent business partners, reference to the fair value of another financial instrument that is substantially the same, the valuation using a discounted cash flow method, or via option-price models. A level-2 valuation is given if all significant input factors for the valuation result can be observed directly or indirectly.
- Level 3: The valuation is based on a valuation model which also uses parameters that cannot be observed in the market, but which are significant for the assessment as a whole.

For the other earnings from cash flow hedges, deferred taxes in the amount of € 0.4k (previous year: € 6k) were included in the other earnings. The change of unrealized profits to cash flow hedges amounted to € 27k (previous year: € 31k).

### 23. Contingent liabilities and other financial liabilities

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

| Expenditures during the year (in € k) | Year under review | Previous year |
|---|---|---|
| 2013 to 2018 (previous year: 2012 to 2017) | 6,114 | 2,215 |
| After Sept. 30, 2018 (previous year: after Sept. 30, 2017) | 572 | 4 |
| Expenditures in year under review | 3,997 | 1,396 |

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

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

| Future minimum leasing payments due to non-terminating operate-lease contracts (in € k) | Year under review | Previous year |
|---|---|---|
| Up to one year | 287 | 321 |
| More than one year and up to five years | 331 | 601 |
| More than five years | 0 | 0 |

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

Rent expenditures in the 2012 / 2013 financial year from the operate lease relationship totaled € 244k (previous year: € 246k).

A call option still exists from the purchase agreement for VISTEK ISRA VISION A.S. Exercising this option may lead to financial liabilities for ISRA.

### 24. Observations on consolidated cash flow statement

The cash and cash equivalents comprise cash in hand and bank deposits available at short notice. An amount totaling € 525k (previous year: € 735k) was deposited as a security.

Short-term liquid funds total € 9,130k (previous year: € 6,801k). Long-term liquid funds currently total € 525k (previous year: € 735k), which corresponds to the security deposited.

Company acquisitions in the year under review resulted in a reduction of liquidity amounting to approx. € 1,410k (previous year: € 1,490k). Of this amount, € 540k was utilized for the acquisition of 3D-Shape GmbH and € 1,600k for the acquisition of the GP companies. The cash, whose control was obtained at GP Inspect GmbH or GP Solar GmbH, amounted to € 779k and € 1,652k, respectively. Cash in the amount of € 1,709k was restricted to restructuring measures that were agreed before the acquisition. This restricted appropriation was included in the cash flow statement for the representation in such a way that this cash was not deducted from the purchase price paid.

| Company acquisition (in € k) | Purchase costs | Cash outflow | Cash balance at time of acquisition | Means of payment |
|---|---|---|---|---|
| GP Inspect GmbH | | | 779 | cash |
| GP Solar GmbH | 1,600 | 1,600 | 1,652 | cash |

### 25. Shareholdings in associated companies

VISTEK ISRA VISION A.S., which was still managed as an associate in the previous year, is part of the affiliated companies since July 2013 after acquiring control. The acquisition of control was the result of an exercisable option. This also explains the full consolidation despite a share in the amount of 24 percent at the time of acquiring control. The earnings at the associate for the period from October 2012 to June 2013 amounts to € 46k (previous year: € 60k). The disclosed earnings from associates is comprised of earnings from VISTEK during the status of at-equity investment in the amount of € -220k and the profit from the revaluation at the time of consolidation in the amount of € 266k.

The balance sheet date of VISTEK ISRA VISION A.S. is December 31. Under Turkish law, the financial year lasts from January to December. For the purpose of inclusion in the consolidated financial statements of ISRA VISION AG, an interim financial statement is created for September 30, 2013. A changeover to the ISRA financial year from October to September is associated with large bureaucratic efforts.

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

Under a lease dated August 12, 1998, the Company leased administration, storage, and development premises at the Company's registered office in Darmstadt from ISRA Bau-Mitarbeiter-Beteiligungsgesellschaft GbR, Darmstadt. Two members of the Executive Board of ISRA VISION AG are partners of this GbR (civil law partnership). The addendum to the lease dated October 01, 2012 has a fixed initial term of ten years and may not be terminated during this period. The monthly rent amounts to € 10,200.26 plus a lump-sum for ancillary costs of € 805.29. The terms and provisions of the rental agreement were negotiated at arm's length. As of the balance sheet date, liabilities to ISRA Bau-Mitarbeiter-Beteiligungsgesellschaft GbR amounted to €0 (previous year: € 2,000). In the year under review, rental expenditure for GbR amounted to € 132k (previous year: € 126k).

| Future minimum leasing payments due to non-terminating operate-lease contracts (in € k) | Year under review | Previous year |
|---|---|---|
| Up to one year | 132 | 115 |
| More than one year and up to five years | 528 | 0 |
| More than five years | 528 | 0 |

In the 2012 / 2013 financial year, transactions with VISTEK ISRA VISION A.S. amounted to € 258k (previous year: € 160k), which essentially applies to cash grants. Receivables towards VISTEK ISRA VISION A.S. amount to € 431k (previous year: € 173k).

### 27. Classes of financial assets/liabilities and reconciliation statement

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

| (in € k) | Category acc. to IAS 39 | Carrying amount Sept. 30, 2013 | Consolidated balance sheet valuation acc. to IAS 39 | | | Carrying amount Sept. 30, 2012 | Consolidated balance sheet valuation acc. to IAS 39 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Fair value | Continued purchase costs | Fair value without affecting profit/loss | | Fair value | Continued purchase costs | Fair value without affecting profit/loss |
| **Assets** | | | | | | | | | |
| Cash and cash equivalents | Loans and receivables | 9,655 | 0 | 9,655 | 0 | 7,536 | 0 | 7,536 | 0 |
| Trade receivables | Loans and receivables | 63,180 | 0 | 63,180 | 0 | 59,784 | 0 | 59,784 | 0 |
| Other assets | Loans and receivables | 5,656 | 0 | 5,656 | 0 | 3,892 | 0 | 3,892 | 0 |
| **Of which aggregated to valuation categories acc. to IAS 39** | | | | | | | | | |
| Loans and receivables | | 78,491 | 0 | 78,491 | 0 | 71,212 | 0 | 71,212 | 0 |
| **Equity and liabilities** | | | | | | | | | |
| Trade payables | financial liabilities valued at continued purchase costs | 6,676 | 0 | 6,676 | 0 | 7,299 | 0 | 7,299 | 0 |
| Liabilities to banks | financial liabilities valued at continued purchase costs | 40,519 | 0 | 40,519 | 0 | 39,168 | 0 | 39,168 | 0 |
| Derivative financial liabilities with hedge relation | n/a | 2 | 2 | 0 | 2 | 23 | 23 | 0 | 23 |
| Other liabilities | financial liabilities valued at continued purchase costs | 12,867 | 0 | 12,867 | 0 | 10,869 | 0 | 10,869 | 0 |
| **of which aggregated to valuation categories acc. to IAS 39** | | | | | | | | | |
| financial liabilities valued at continued purchase costs | | 60,062 | 0 | 60,062 | 0 | 57,336 | 0 | 57,336 | 0 |

The cash and cash equivalents, the trade receivables / payables and other receivables / payables primarily have a short maturity. Their carrying amounts as of the September 30, 2013, the balance sheet date. are therefore nearly the same as their fair value. The carrying amount of the bank liabilities is the same as their fair value since the revaluation of future interest payments will generally not significantly affect the fair value of the liability with regard to bank liabilities that have a variable interest rate.

### 28. Net profit / net loss

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

| (in € k) | From interests and dividends | From the subsequent valuation | | | From disposal | Net result | |
|---|---|---|---|---|---|---|---|
| | | At fair Value | Currency conversion | Value adjustment | | 2012 / 2013 | 2011 / 2012 |
| Loans and receivables | 84 | 0 | -22 | -854 | 21 | -771 | -497 |
| Liabilities balanced for continued purchase costs | -782 | 0 | 19 | 0 | 0 | -763 | -696 |

### 29. Personnel

During the 2012 / 2013 financial year, the number of employees averaged 542 (previous year: 492).

| | Year under review | Previous year |
|---|---|---|
| Employees | 500 | 447 |
| Temporary help | 42 | 45 |
| | **542** | **492** |

Cost of labor:

| (in € k) | Oct. 1, 2012 - Sept. 30, 2013 | Oct. 1, 2011 - Sept. 30, 2012 |
|---|---|---|
| Wages and salaries | -30,017 | -27,205 |
| Social security expenses, expenses for pension benefits | -4,531 | -3,687 |
| Total | **-34,548** | **-30,892** |

The costs of defined contribution plans (pension contributions) amount to € 1,957k (previous year: € 1,763k).

### 30. Information on capital management

The capital management essentially considers cash and cash equivalents (€ 9,130k) as well as financial liabilities to banks (see 14) and equity capital (see 21).

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

### 31. Stock option program

As a publicly listed company, ISRA VISION AG has a special opportunity to let its employees participate directly in its profits via a stock option program.

The conditions for option rights, according to the old stock option program, on shares of ISRA VISION AG were laid down on the basis of the authorization given by the Annual General Meeting on March 28, 2006 and are as follows: Options may only be issued to members of the Executive Board, managers and employees of ISRA VISION AG and companies in the ISRA VISION AG group..

The total carrying amount of liabilities from these option rights amounted to € 11k (previous year: € 28k) as of the balance sheet date. During the 2012 / 2013 financial year, the total expenditure for share-based payments amounted to € 6k.

| | Number of share options | Weighted average exercise price in € |
|---|---|---|
| Outstanding/exercisable share options Oct. 01, 2012 | 4,194 | 14.71 |
| Granted | 0 | |
| Exercised | 223 | 36.17 |
| Expired | 3,657 | 14.54 |
| Outstanding share options Sept. 30, 2013 | 314 | 18.06 |
| **Of which exercisable as of Sept. 30, 2013** | **109** | |

| Exercise price | Number | Weighted contract duration |
|---|---|---|
| 5.00 - 9.99 | 0 | |
| 10.00 - 14.99 | 0 | |
| 15.00 - 19.99 | 314 | 2.2 |
| 20.00 - 24.99 | 0 | |
| 25.00 - 29.99 | 0 | |
| | 314 | |

Options may only be exercised after a blocking period of two years has expired.

Exercising options is possible if the price of the share of ISRA VISION AG prior to the start of the respective exercise window, in which exercising can occur, exceeds the price of the share of ISRA VISION AG as reference price 1 in the time period in which the option rights are granted as reference price 2, by at least 20 percent. Reference price 1 is determined on the basis of the mean value of the closing prices of the share of ISRA VISION AG as determined in Xetra trading on the Frankfurt Stock Exchange between the 15th and the 5th trading day(each inclusive) prior to the start of the respective exercise window. Reference price 2 is determined based on the mean value of the closing prices of the share of ISRA VISION AG as determined in Xetra trading on the Frankfurt Stock Exchange on the last ten trading days before granting the option.

Exercising options is possible if the performance of the share of ISRA VISION AG between the two determined reference periods below exceeds 10 percent of the performance of the TecDAX within the same period. The first reference period includes the last 10 trading days at the stock exchange before granting the options, the second reference period includes the time between the 15th and the 5th trading day (each inclusive) prior to the start of the respective exercise window, in which exercising can occur. For both reference periods, the starting value (average share price of the first reference period) and closing value (average share price of the second reference period) is determined based on the mean value of the closing prices of the share of ISRA VISION AG as determined in Xetra trading on the Frankfurt Stock Exchange during the reference period.

The performance is the share price development, expressed in percentage points, in a comparison of the starting value with the closing value. The percentage appreciation of the TecDAX is determined in the same way based on the arithmetic averages of the listings of the TecDAX index in both reference periods. If the TecDAX is terminated during the lifetime of the stock option plan or the options issued under it, then the TecDAX will be replaced by another index whose composition matches the TecDAX as closely as possible or, if such an index should not exist, the comparison index will continue to be calculated by a bank authorized by ISRA VISION AG, using as many individual share prices of the TecDAX as possible to match the original TecDAX at the start of the lifetime of the stock option plan as best as possible. The Executive Board with the approval of the Supervisory Board will then determine which index is to be selected or whether a new index under incorporation of as many individual share prices of the TecDAX as possible will be formed.

According to the stock option program, options can be exercised for either cash or shares as selected by the issuer. However, ISRA VISION AG's (past) internal practice tends towards offering cash for stock options. An option holder's options expire if the option holder has terminated the employment relationship with the company, or if they are no longer a member of a statutory body of ISRA VISION AG or of a group company. Irrespective of this, options remain in force unchanged if the employment relationship ends due to the employee retiring or owing to professional disability. Options cannot be inherited or transferred. In addition, option rights expire five years after the day they are issued.

Option rights may be exercised only if the predefined target for success has been reached. These are based on the stock performance in relation to purchase price and time of exercise. The subscription price for a share is given by the arithmetic average of the closing prices in XETRA trading for the share in the period between the 15th and 5th trading day (before the option is issued), multiplied by a factor of 1.1.

The Executive Board is authorized to specify the further details of the subscription conditions and of the issue and structure of the options. In addition, the Executive Board is authorized to transfer the shares that may be granted to fulfill the option rights by issuing acquired treasury shares or via new shares by way of a capital increase still to be implemented. Insofar as members of the Executive Board are affected, the further details will be specified by the Supervisory Board.

### 32. Earnings per share

The earnings per share calculated according to IAS 33 is based on the division of the consolidated net profit attributable to the parent company of € 11,567k (previous year: € 10,663k) by the 4,381,093 shares (previous year: 4,374,854 shares) on average circulating during the financial year.

There is no difference between the diluted and undiluted earnings per share because the outstanding stock options of employees had no computational effect.

| | Number of shares in circulation |
|---|---|
| September 30, 2012 | 4,381,240 |
| Own shares purchased | 300 |
| Shares issued | 0 |
| Own shares sold | 0 |
| September 30, 2013 | 4,380,940 |

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

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

### 34. Declaration of conformity with the German Corporate Governance Code

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

### 35. Auditors' fees

The following fees have been accrued in the ISRA Group for auditing services and additional services by the auditor (PKF) and other companies of the worldwide association of PKF rendered in the 2012 / 2013 financial year:

| (in € k) | Year under review | Previous year |
|---|---|---|
| Audit of annual financial statements | 197 | 198 |
| Other certification and valuation services | 0 | 0 |
| - for previous years | 0 | 0 |
| Tax advisory services | 26 | 3 |
| Other services | 78 | 18 |
| **Total** | **301** | **219** |

The fee for the audit of annual financial statements includes approx. € 31 k (previous year: € 31 k) of fees for foreign PKF companies.

### 36. Risk management

*Principles of risk management*

In terms of its business, ISRA is subject to market risks, in particular currency, interest, liquidity and credit risks.

The objective of risk management is to counter these risks by taking active measures and limiting them as far as possible.

*Currency risks*

The currency risks primarily result from investments and operational activities.

A 10 percent increase in the EUR/USD exchange rate would lead to the results being reduced by € -182k (previous year: € -337k). A 10 percent decrease in the EUR/USD exchange rate would lead to the results being increased by € 226k (previous year: € 412k).

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

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

The currency sensitivity analysis is subject to the following assumptions:

The currency sensitivity analysis on reporting date September 30, 2013 based on the foreign currency receivables and payables may be considered representative for the entire financial year.

*Interest risks*

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

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

An interest sensitivity analysis using interest rates from 2012/2013 yields the following results:

If the market interest level as of September 30, 2013 had been 100 base points higher (lower), the result before taxes would have been € 241k (€ 32k) lower (higher) (previous year: € 150k). The equity capital would have dropped (risen) by € 167k (€ 22k) (previous year: € 104k).

The interest sensitivity analysis is subject to the following assumptions:

The bank liabilities existing as of the September 30, 2013 reporting date may be considered representative for the entire financial year. The analysis only involves original financial instruments that bear variable interest.

*Liquidity risks*

Among other things, liquidity risks result from financial bank liabilities (item 14). Additional liquidity risks result from the contingent liabilities and other financial liabilities (item 23), the trade payables (item 15) and the other financial liabilities (item 17).

Outflow of funds from derivatives (cash flow hedges) arise as follows:

| (in € k) | 2013/2014 |
|---|---|
| Cash outflow of Cash flow hedges | 2 |

*Price risks*

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

*Credit risks*

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

The maximum default risk to be reported is determined by the carrying amounts of the financial assets and the existing financial guarantees and amounts to € 3,631k (previous year: € 1,706k).

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

*Financing risks*

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

## 37. Payments to the members of Executive and Supervisory Board

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

In the 2012/2013 financial year, the non-performance-based parts of the remunerations total € 201k for Mr. Christ (previous year: € 190k), € 440k for Mr. Ersü (previous year: € 415k), € 176k for Dr.-Ing. Giet (previous year: € 170k), and € 146k for Mr. Rothermel (previous year: € 141k). The benefits in kind and allowances, which included the use of a company car and allowances for health insurance, amounted to € 27k for Mr. Christ (previous year: € 26k), € 29k for Mr. Ersü (previous year: € 29k), € 22k for Dr.-Ing. Giet (previous year: € 21k), and € 22k for Mr. Rothermel (previous year: € 21k). 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 2012/2013. The following amounts are an indication for the expected level of the performance-based remuneration, in particular for Mr. Christ € 85k (previous year: € 79k), for Mr. Ersü € 125k (previous year: € 110k), for Dr.-Ing. Giet € 45k (previous year: € 35k), and for Mr. Rothermel € 40k (previous year: € 20k). The variable performance-based remunerations with long-term incentive total € 28k for Mr. Christ (previous year: € 15k), € 35k for Mr. Ersü (previous year: € 20k), € 15k for Dr.-Ing. Giet (previous year: € 10k), and € 10k for Mr. Rothermel (previous year: € 5k). This resulted overall in the following expected non-performance-based and performance-based remunerations for Mr. Christ € 314k (previous year: € 284k), for Mr. Ersü € 600k (previous year: € 545k), for Dr.-Ing. Giet € 236k (previous year: € 215k), and for Mr. Rothermel € 196k (previous year: € 166k). Last year, the remuneration of the Executive Board totaled € 1,306k. For previous years, the particular amounts of the performance-based remuneration with long-term relevance have been paid in the financial year 2012/2013.

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

The payments to the members of the Supervisory Board for their activities totaled € 106k (previous year: € 63k). No option rights have been granted to members of the Supervisory Board. The chairperson of the Executive Board received a loan in the amount of € 200k (previous year: € 200k) in November 2010 for an investment object. The investment object serves as hedging. The interest rate is based on EONIA plus margin in accordance with the refinancing of the Company. The loan, which is paid off at the end of the term, has a repayment period of three years and was extended by an additional year.

### Supervisory Board

Dr.-Ing. h. c. Heribert J. Wiedenhues, Lahnstein, Chairperson of the Supervisory Board of PM – International AG, Speyer; Member of the Administrative Board of PM – International AG, Luxembourg; Member of the Advisory Committee (Chairperson) VITRULAN International GmbH, Marktschorgast; Member of the Supervisory Board of Fischer Computertechnik AG, Radolfzell/Lake Constance; Chairperson of the ISRA Supervisory Board since September 2007

Dr. Wolfgang Witz, Attorney at Law, Mannheim, additional Supervisory Board positions at Troester GmbH & Co. KG, Hanover; TET Systems Holding GmbH & Co. KG, Heidelberg; Deputy Chairperson of the ISRA Supervisory Board since February 2000

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

Mr. Falko Schling, Frankfurt, Managing Director of bonotos Kälte- und Einrichtungstechnik GmbH, Katzenelnbogen; Member of the Supervisory Board of PMG-Holding GmbH Füssen; Managing Director of bonotos consult GmbH, Westendorf, Austria; Member of the ISRA Supervisory Board since March 2008

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

Dr. Erich W. Georg, Usingen, President of the MCIC GmbH (Management Consulting International Cooperation GmbH); Member of the Advisory Committee of Hedrich Vacuum Systems, Ehringshausen; Member of the ISRA Supervisory Board since October 2007

**Executive Board**

Enis Ersü, Graduate Engineer, Darmstadt (Chairperson)
Hans-Jürgen Christ, Graduate Engineer, Ober-Ramstadt (Deputy Chairperson)
Dr.-Ing. Johannes Giet, Graduate Engineer, Eggenstein
Werner Rothermel, Graduate Engineer, Alsbach-Hähnlein

Darmstadt – January 15, 2014

ISRA VISION AG
The Executive Board

## List of shareholdings of subsidiaries and associated companies as of September 30, 2013

| | Name and domicile of the Company | Shareholding (in percent) | Indirect investment via affiliate (no.) |
|---|---|---|---|
| | Parent company | | |
| | ISRA VISON 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., Duluth / Georgia, USA | 100 | 3. |
| 5. | ISRA VISION (Shanghai) Co. Ltd., Shanghai, China a) | 100 | |
| 6. | ISRA VISION Ltd., London, United Kingdom | 100 | |
| 7. | ISRA VISION Parsytec AG, Aachen, Germany | 96 | |
| | ISRA Parsytec GmbH, Aachen, Germany | 96 | 7. |
| | ISRA VISION Japan Co. Ltd., Tokio, Japan | 96 | 7. |
| | ISRA Parsytec Asia/Pacific Co. Ltd., Seoul, South Korea | 96 | 7. |
| | ISRA VISION Parsytec Inc., Duluth / Georgia, USA | 96 | 7. |
| | ISRA VISION Parsytec Ltd., Hampshire, United Kingdom | 96 | 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 SYSTEMS OF CANADA Inc., Windsor, Canada | 100 | |
| 12. | ISRA VISION INDIA Private Limited, Mumbai, India a) | 100 | |
| 13. | ISRA VISION FINLAND Oy, Helsinki, Finland | 65 | |
| 14. | 3D-Shape GmbH, Erlangen, Germany | 100 | |
| 15. | ISRA VISION COMÉRICO, SERVIÇOS, IMPORTAÇÃO E EXPORTAÇÃO LTDA., São Paulo, Brazil a) | 100 | |
| 16. | ISRA VISION LLC, Moskau, Russia a) | 100 | |
| 17. | GP Inspect GmbH, Neuried, Germany | 100 | |
| 18. | GP Solar GmbH, Neuried, Germany | 100 | |
| 19. | VISTEK ISRA VISION A.S., Istanbul, Turkey a) | 24 | |

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

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

# Reproduction of the Auditor's Report

We have audited the consolidated financial statements - comprising the consolidated balance sheet, the consolidated statements of comprehensive income, the consolidated Cash-Flow statement, consolidated statement of changes in equity and notes, as well as the management report, prepared by ISRA VISION AG, Darmstadt, for the financial year from October 1, 2012 to September 30, 2013. The preparation of the consolidated financial statements and the management report in accordance with IFRS, as it is to be applied in the EU, and supplementary according to the accounting principles of § 315a Paragraph 1 of the German Commercial Code (HGB) as well as additional regulations by the articles of incorporation is the responsibility of the Company's legal representatives. Our responsibility is to express an opinion about the consolidated financial statements and the management report based on our audit.

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

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

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

Our audit has not led to any reservations.

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

Frankfurt am Main, January 20, 2014

PKF FASSELT SCHLAGE Partnerschaft
Financial Auditing Company

| | |
|---|---|
| D. Hanxleden | S. Varughese |
| Financial Auditor | Financial Auditor |

# Declaration of the legal representatives

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report of the group includes a fair view of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Darmstadt, January 15, 2014

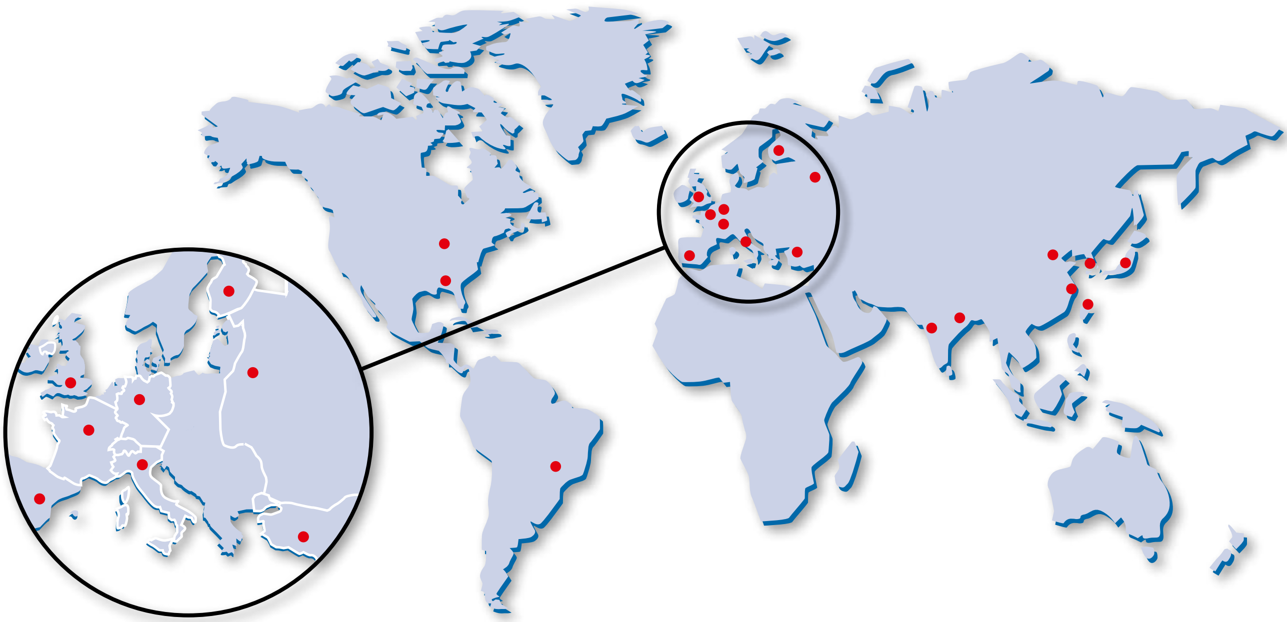
The Executive Board

# Forward-looking statements

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

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

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



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