

**Consolidated Annual Report
Of MOBOTIX AG,
Winnweiler/Langmeil, Germany**

Financial Year 2017/18

1 October 2017 To 30 September 2018

1. Basic Information On The Group

1.1 Technology And Products

MOBOTIX AG is a leading provider of high-resolution digital, network-based video security systems and sells its solutions through distributors and qualified sales partners across the world.

As part of the decentralized IoT system architecture developed by MOBOTIX, images are no longer analyzed on a central PC, but in the cameras themselves. They detect movement automatically, save the images in a database and inform the system operator of the event via e-mail or VoIP telephone call. This decentralized structure relieves both the network and the central video management system, enables higher frame rates and significantly reduces the number of storage systems required when recording high-resolution video sequences. Owing to their inexpensive decentralized architecture, MOBOTIX video security systems are suitable for highly diverse applications, from small systems with a few Web cameras through to large-scale property surveillance with hundreds of cameras and central control stations. Examples of such applications can be found not only in airports, train stations, universities and logistics companies, but also in the remote maintenance and automation sector. Over 1 million MOBOTIX cameras are in use around the world.

A component in the product portfolio of MOBOTIX AG that supports business is the video management software MxManagementCenter (MxMC). In the financial year 2017/18, the range of functions as well as user-friendliness were greatly improved on the basis of market feedback, among others through the introduction of licensed add-ons such as a configuration tool and a POS add-on, and performance on Windows and Macintosh systems was enhanced.

IT security is a central component of MOBOTIX technology. It is ensured on the basis of a combination of decentralized IoT technology and the MxMC video management software developed in-house. MOBOTIX is working together with Syss GmbH, a well-regarded independent provider of penetration testing services, as part of the “MOBOTIX Cactus Concept” cyber security campaign launched in 2017. Within the scope of this partnership, the Mx6 camera line was certified as “cyber secure” by Syss in 2018.

Apart from complete video solutions, which are tailored to vertical focus markets, the expansion of the MOBOTIX system to include now-established standards, such as ONVIF and H.264, represents a main focus of current R&D. Along with the Mx6 camera series, MxMC will also support these industrial standards from Autumn 2018. Another focal point is the integration of MOBOTIX cameras with the video management system from Genetec, which, alongside Milestone, is among the world’s leading providers of video management systems. This integration will be implemented by means of MOBOTIX’s own video codec, MxPEG+. A number of new technology partnerships were concluded during the 2017/18 financial year. The aim here was to continue efforts to integrate MOBOTIX cameras into more and more third-party systems and hence open up market opportunities that had previously been closed to the company.

In order to be in the best position possible to meet the demands of individual projects and tenders, the MOBOTIX MOVE camera line, which consists of four models, was launched in summer 2018 to supplement MOBOTIX’s existing range of IoT cameras.

The MOBOTIX camera portfolio is rounded off by the M16D-Thermal and S16D-Thermal product lines. The Dual-Thermal camera systems are optionally available as thermal radiometry models that feature calibrated high-end thermal image sensors.

MOBOTIX provide extensive accessories and powerful software solutions for all camera lines as well as for the IP-based Door Station.

The launch of the new T26 generation of Door Stations at the end of the financial year 2017/18 ensured the continuity of the product line.

1.2 Structure Of The MOBOTIX Group

The MOBOTIX Group consists of MOBOTIX AG, Winnweiler/Langmeil, Germany; MOBOTIX CORP, New York, USA; MOBOTIX LIMITED, Nottingham, UK; MOBOTIX SINGAPORE PTE. LTD., Singapore; and MOBOTIX AUSTRALIA PTY LTD, Sydney, Australia. MOBOTIX LIMITED, Nottingham, UK; MOBOTIX SINGAPORE PTE. LTD., Singapore; and MOBOTIX AUSTRALIA PTY LTD, Sydney, Australia are service companies and have not been included in the Company's consolidated financial statements, as their contribution is minor. MOBOTIX DO BRASIL SERVICOS EM SISTEMAS DE SEGURANCA LTDA., São Paulo, Brazil, was liquidated in the financial year 2017/18.

All manufacturing and development of new products as well as the coordination of worldwide sales and distribution take place in Winnweiler/Langmeil, Germany.

The subsidiary MOBOTIX CORP included in the consolidated financial statements is purely a distribution company for the American market. The Managing Directors of MOBOTIX CORP, New York, USA, are Dr. Tristan Haage (CEO) and Klaus Kiener (CFO).

1.3 Sales

MOBOTIX products in Germany are sold through certified partners, security and IT implementers and electronics wholesalers.

MOBOTIX products are sold internationally primarily through distributors with downstream qualified system integrators and resellers. The distributors are assisted in most regions by local Business Development Managers and Technical Project Engineers, who are directly employed by the MOBOTIX Group.

In the United States, the Company sells its products through its own distribution subsidiary, MOBOTIX CORP.

Furthermore, there are distribution agreements in place with individual regional companies of the Konica Minolta Group.

The MOBOTIX Group's export ratio in the financial year 2017/18 was 67% (previous year: 65%).

1.4 Research And Development

The MOBOTIX Group employed 68 people (by headcount) in its Product organization as of 30 September 2018. As in previous years, its development activities focused on the creation of new hardware and software products as well as on the further optimization of product functionality. Most development work is performed in-house. Development activities are outsourced on a small scale only in the areas of tool engineering, lens design and PC board layout. Collaboration with Konica Minolta was further expanded in the area of R&D in the financial year 2017/18, with plans for even greater cooperation in 2018/19.

MOBOTIX were again in a position to present numerous product innovations and evolutions in the financial year 2017/18.

A number of new functions were added to the MxBell app available for iOS and Android devices in March 2018. For example, a playback view to search for clips filtered by video source and time and a grid view to display up to four cameras at once in the live feed were added to the previous functions already available.

MOBOTIX began series production of the Mx6B camera line, which includes high-performance outdoor, indoor and thermographic cameras as well as an expanded list of functions, in June 2018. This means that the MxBus standard developed by MOBOTIX is also used in the Mx6 line. The other advantages of the Mx6A line, including higher frame rates, ONVIF compatibility and several added firmware functions, continue to be available in the Mx6B line. A firmware update announced for Q4 2018 will deliver full ONVIF compatibility as well as higher frame rates and extra functions.

The MOBOTIX MOVE camera line was added to the portfolio alongside the Mx6B series in summer 2018. This line consists of four models (one Bullet, one VandalDome and two PTZ cameras). The line was launched in order to be in the best position possible to respond to the demands of individual projects and tenders and hence open up further market opportunities. The MOBOTIX MOVE line supports the ONVIF/H.264 industry standards while also offering integrated IR illumination, autofocus lenses and WDR functions which had hitherto not been offered in the MOBOTIX portfolio.

Our further developed video management software MxManagementCenter (MxMC) with a focus on ease-of-use has already proved itself in practical use among our customers, and was expanded once more to include several features and useful performance enhancements.

Starting with MxMC version 1.8 launched in May 2018, there is a central configuration tool available from MOBOTIX; MxMC 2.0, which will be released in Q4 2018, will include a number of additional configuration options. The first licensed add-on feature, MxMC POS, was released alongside the configuration tool in May 2018. This add-on allows information from Vectron POS systems to be linked with recordings from MOBOTIX cameras which enables change to be checked quickly or detailed searches to be carried out. The release of MxMC 2.0 includes additional licensed add-ons that, for example, make it possible to add MOBOTIX MOVE cameras. MxMC has a special advantage over other video management systems: It allows the camera images to be fully automatically arranged or distributed on the monitor in a grid pattern, depending on the currently selected window size. MxMC is an extremely flexible system well suited to both novices and security professionals in all sectors, and it will soon be individually extended to include high-quality, application-specific additional features.

A number of other development projects were continued or initiated successfully.

2. Financial Report

2.1 Macroeconomic And Sector-Specific Conditions

MOBOTIX operate in the market for video security systems. The market for video security systems comprises analog video security systems and network camera systems, video management software and accessories. The market segment of relevance to MOBOTIX is the network camera systems segment.

A market survey from July 2018 by the market research company IHS Research concludes that the total revenue generated by the network camera systems market worldwide is set to grow by an annual average of around 5% between 2018 and 2022. In particular, growth potential is expected to be above average in the Americas. Conversely, the IHS study concludes that growth for the EMEA region beyond the specified period will be low. In addition, growth in the Asia and China submarkets is in line with expected global growth in the market for network camera systems.

The study forecasts that global annual sales growth from 2018 to 2022 will average 23% for network cameras with a resolution of between 6 and 8.3 megapixels. At the same time, IHS Research is expecting a 16% annual average decline in prices. As such, the fall in prices already forecast in previous studies will continue.

2.2 Business Activities

In the financial year 2017/18, the MOBOTIX Group's revenue from sales increased by 1.4% year-on-year, from €65.5 million to €66.4 million. Revenue from sales comprises revenue from component sales to contract manufacturers in the amount of €2.5 million (previous year: €2.4 million) and, for the first time, revenue from order development and services for Konica Minolta, Inc., Tokyo, Japan, in the amount of €1.8 million. As a result, sales excluding component sales increased by €0.8 million, or 1.3%, compared to the previous year. Revenue from the sale of video security systems and software declined 1.5% to €62.1 million (previous year: €63.0 million). The decline in revenue from the sale of video security systems and software is mainly due to the decline in the number of camera systems sold, which was down 1.5% from the previous year. Declining sales volume has been recorded due to the increased competition, particularly from Chinese camera suppliers, but also due to expectations not being met by partners and end customers regarding the performance of the new Mx6 camera line launched the previous year. A higher-than-average decline in sales was reported particularly in Germany, the Benelux region and in Australia, while sales volumes rose in the American market and in the MEA region.

The total operating output (revenue from sales, increase in the inventory of finished goods and work in progress, own work capitalized) rose year-on-year by 0.7%, from €66.4 million to €66.9 million. Adjusted for revenue from component sales to contract manufacturers, the total operating output also increased by 0.6% from the previous year. Given a gross profit of €36.1 million (previous year: €35.9 million), which was slightly higher than in the previous year, a significant improvement in the annual result was achieved thanks to the successful implementation of the restructuring program at the beginning of the financial year and further cost savings. The annual result improved by €6.7 million to €0.4 million (previous year: -€6.3 million).

EBITDA (earnings before interest, tax, depreciation and amortization) in the amount of €3.2 million for the financial year is €8.5 million higher than in the previous year (previous year: €-5.3 million).

Owing to the negative business development in the financial year 2016/17, MOBOTIX AG began preparing a comprehensive restructuring program entitled "Fit for the Future" in the last quarter of the financial year 2016/17 and adjusting the cost structure as well as strengthening product development and marketing in particular, and focusing the sales structure on growth markets. These measures led to sales stabilizing and contributed to a significant improvement in business performance.

The keystones of this are a streamlined and consequently more efficient operational organization, adapted job profiles, more efficient work processes and investment in the IT infrastructure (SAP/ERP and SAP/CRM implementation).

The restructuring program led to job cuts which were carried out in a manner that was as socially responsible as possible within a "volunteer program" that was concluded on 23 October 2017 along with the works council with the signing of the partial reconciliation of interests and the company agreement on the "volunteer program." In addition to job cuts, the restructuring program also includes all investments made to strengthen the IT infrastructure (SAP/ERP and SAP/CRM implementation), measures to strengthen product development and an increased focus of the sales structure on growth markets, as well as a streamlined, more efficient structure for work processes and operational organization as a whole.

Non-financial performance indicators are of minor importance for understanding the MOBOTIX Group's business performance and position.

2.3 Net Assets, Financial Position And Results Of Operations Of The MOBOTIX Group

Results Of Operations

The financial year 2017/18 saw an increase in sales of the MOBOTIX Group of 1.4%, from €65.5 million in the previous year to €66.4 million. Revenue from sales comprises revenue from component sales to contract manufacturers in the amount of €2.5 million (previous year: €2.4 million). The increase in sales is mainly due to revenue in the amount of €1.8 million from orders development and the services for Konica Minolta, Inc., Tokyo, Japan, which was included for the first time. Revenue from the sale of video security systems and software declined 1.5% to €62.1 million (previous year: €63.0 million).

The export ratio (excluding component sales) was 66.7% in the 2017/18 financial year (previous year: 64.8%). Revenue from the sale of video security systems and software fell from €22.2 million in the financial year 2016/17 to €20.6 million (-7.2%). The rest of Europe (excluding Germany) accounts for €21.1 million (previous year: €20.2 million). Sales in the rest of the world declined by 1.3%, from €20.6 million in the previous year to €20.3 million in the reporting year.

The total operating output (revenue from sales, increase and/or decrease in the inventory of finished goods and work in progress, other own work capitalized) increased year-on-year by 0.7%, from €66.4 million in the previous year to €66.9 million in the 2017/18 financial year. This is primarily due to the increase in sales.

Other operating income rose by €0.4 million to €1.1 million. The increase is mainly due to the release of provisions for restructuring in the amount of €0.2 million and income from foreign currency translation.

The material usage ratio (cost of materials, excluding component sales, adjusted for changes in inventory, in proportion to revenue from the sale of video security systems and software) rose year-on-year to 44.8% in the 2017/18 financial year (previous year: 43.1%).

The decrease in the personnel cost ratio (cost of personnel in proportion to the total operating output, excluding component sales) to 34.8% in the financial year 2017/18 (previous year: 38.3%) is mainly due to the decrease in personnel costs. Personnel costs in the financial year 2017/18 fell year-on-year by €2.2 million (8.8%). This is mainly due to the lower average number of employees, among others as a result of the “Fit for the Future” restructuring program.

Depreciation, amortization expenses and impairment losses in the financial year 2017/18 in the amount of €2.2 million (previous year: €2.2 million) are identical to those of the previous year.

Other operating expenses in the amount of €11.7 million in the financial year 2017/18 (previous year: €17.4 million), adjusted for the allocation to restructuring reserves in the amount of €1.8 million, fell year-on-year by €3.9 million (-25.0%). This drop in other operating expenses was primarily due to the cost-saving measures already launched in the financial year 2016/17, in particular for delivery costs, marketing costs and miscellaneous other operating expenses. Marketing expenses were reduced by €0.5 million. Sales-related expenses for goods deliveries were reduced by €0.6 million. Charges for value adjustments also fell by €1.0 million while currency losses decreased by €0.6 million. Conversely, expenses related to temporary workers increased by €0.3 million as a result of the insourcing of the final assembly of indoor cameras from external contract manufacturers.

EBITDA (5.0% of total operating output excluding component sales; earnings before interest, tax, depreciation and amortization) comes to €3.2 million (2016/17: -€5.3 million). **EBIT** (1.6% of total operating output excluding component sales; earnings before interest and tax) amount to -€7.6 million (2016/17: -€1.0 million). The 2017/18 financial year ended on an annual net income of €0.4 million (2016/17: net loss of €6.3 million) and a return on revenue (excluding component sales) of 0.7% (2016/17: -10.0%).

Net Assets

Non-current assets decreased by €0.4 million, or -2.2%, to €17.5 million. Capital expenditure of €1.8 million on non-current assets was offset by depreciation and amortization of €2.2 million. Most of this spending was related to investment in intangible assets in the amount of €1.2 million and in technical equipment and machinery as well as office furniture and equipment in the amount of €0.6 million. Capital expenditure on intangible assets chiefly relate to investments in new IT infrastructure. Capital expenditure on technical equipment and machinery mainly comprised investment in injection molding tools and IT equipment.

Inventories, particularly work in progress, rose from €15.4 million to €16.2 million as a result of the introduction of the new Mx6 B line of cameras.

Trade receivables as of 30 September 2018 increased by €1.2 million to €11.2 million since the beginning of the financial year owing to higher sales volume in September 2018 compared with September 2017.

The higher volume of business with the Konica Minolta Group resulted in an increase in receivables from affiliated companies which rose from €0.9 million to €1.1 million.

Cash in hand/bank balances and cash equivalents as of 30 September 2018 rose to €2.7 million, representing a €4.8 million decrease since the beginning of the financial year (30 September 2017: €7.5 million) as a result of the recourse to the cash in hand from the refinancing for the restructuring and investments in the IT infrastructure (SAP/ERP and SAP/CRM implementation) carried out in September 2017.

Equity remained essentially unchanged at €26.1 million (30 September 2017: €26.3 million). The equity ratio rose from 49.0% to 51.4% on a balance sheet total that decreased by €2.7 million (-5.1%) to €50.9 million (30 September 2017: €53.6 million). A dividend for the financial year 2016/17 in the amount of €0.5 million was paid in the financial year 2017/18. MOBOTIX held a total of 128,134 treasury shares as of 30 September 2018.

The decline in other provisions by €1.7 million to €4.3 million is mainly due to the use of provisions for restructuring.

The decrease in bank loans and overdrafts of €1.4 million to €17.0 million (30 September 2017: €18.4 million) is the result of the scheduled repayment of medium- and long-term loans.

Trade payables increased by €0.6 million to €2.6 million year-on-year as compared with 30 September 2017 (30 September 2017: €2.0 million).

Financial Position

Operating cash flow before changes in working capital came to €1.6 million in the 2017/18 financial year (previous year: -€4.0 million). The increase compared to the previous year is mainly due to the significantly stronger annual result before income taxes.

The cash flow from operating activities before taxes on income was -€0.9 million in the financial year 2017/18 (previous year: -€0.5 million). Given an operating cash flow of €1.6 million prior to changes in working capital, the increase in trade receivables (€1.2 million) and in receivables from affiliated companies (€0.9 million) led in particular to a negative cash flow from operating activities before taxes on income.

The net cash flow from investing activities amounted to -€1.8 million (previous year: -€0.9 million) and was mainly due to investment in intangible assets.

The negative cash flow from financing activities in the amount of -€2.1 million (previous year: €9.7 million) resulted primarily from the scheduled repayment of medium- and long-term loans totaling €1.4 million and the dividend payment of €0.5 million.

The changes in these individual cash flows resulted in total cash and cash equivalents of €2.7 million as of 30 September 2018 (30 September 2017: €7.5 million).

The Company's solvency was secure at all times during the financial year 2017/18. Financing options continue to be available to the Company as a result of its credit standing. The MOBOTIX Group currently has credit lines totaling €20.5 million from several banks at its disposal that had not been utilized as of the balance sheet date.

Non-current liabilities decreased by €4.2 million year-on-year to €12.8 million as compared to 30 September 2017. Current liabilities, including provisions, rose from €10.3 million to €12.0 million. As a proportion of the MOBOTIX Group's balance sheet total, non-current liabilities decreased from 31.7% to 25.1%. Current liabilities, including provisions, accounted for 23.5% of total assets as of the reporting date compared with 19.3% as of 30 September 2017.

2.4 Net Assets, Financial Position And Results Of Operations Of MOBOTIX AG

Results Of Operations

The 2017/18 financial year saw an increase in **sales** of MOBOTIX AG by 0.9%, from €62.9 million in the previous year to €63.5 million. Revenue from sales comprises revenue from component sales to contract manufacturers in the amount of €2.5 million (previous year: €2.4 million). The increase in sales is mainly due to revenue in the amount of €1.8 million from order development and services for Konica Minolta, Inc., Tokyo, Japan, which was included for the first time. Revenue from the sale of video security systems and software declined 2.0% to €59.0 million (previous year: €60.2 million).

The export ratio (excluding component sales) was 62.3% in the 2017/18 financial year (previous year: 63.1%). Revenue from the sale of video security systems and software fell from €22.2 million in the financial year 2016/17 to €20.6 million (-7.2%). The rest of Europe (excluding Germany) accounts for €21.1 million (previous year: €20.2 million). Sales in the rest of the world declined by 2.8%, from €17.8 million in the previous year to €17.3 million in the reporting year.

The total operating output (revenue from sales, increase and/or decrease in the inventory of finished goods and work in progress, other own work capitalized) increased year-on-year by 1.1%, from €63.6 million in the previous year to €64.3 million in the 2017/18 financial year. This is primarily due to the increase in sales.

Other operating income rose by €0.3 million to €1.0 million. The increase is mainly due to the release of provisions for restructuring in the amount of €0.2 million.

The material usage ratio (cost of materials, excluding component sales, adjusted for changes in inventory, in proportion to revenue from the sale of video security systems and software) rose year-on-year to 46.1% in the 2017/18 financial year (previous year: 45.7%).

The decrease in the personnel cost ratio (cost of personnel in proportion to the total operating output, excluding component sales) to 33.5% in the financial year 2017/18 (previous year: 36.8%) is mainly due to the decrease in personnel costs. Personnel costs in the financial year 2017/18 fell year-on-year by €1.8 million (8.0%). This is mainly due to the lower average number of employees, resulting among others from the "Fit for the Future" restructuring program.

Depreciation, amortization expenses and impairment losses in the financial year 2017/18 in the amount of €2.2 million (previous year: €2.2 million) are identical to those of the previous year.

Other operating expenses in the amount of €10.6 million in the financial year 2017/18 (previous year: €12.8 million), adjusted for the allocation to restructuring reserves in the amount of €1.8 million, fell year-on-year by €2.2 million (-17.1%). This drop in other operating expenses was primarily due to the cost-saving measures already launched in the financial year 2016/17, in particular for delivery costs, marketing costs and miscellaneous other operating expenses. Marketing expenses were reduced by €0.5 million. Sales-related expenses for goods deliveries and expenses for legal fees and consulting costs each declined by €0.3 million. Charges for value adjustments also decreased by €0.9 million. Conversely, expenses related to temporary workers increased by €0.3 million as a result of the insourcing of the final assembly of indoor cameras from external contract manufacturers.

EBITDA (5.7% of total operating output excluding component sales; earnings before interest, tax, depreciation and amortization) comes to €3.5 million (2016/17: -€3.2 million). EBIT (2.2% of total operating output excluding component sales; earnings before interest and tax) amount to -€1.4 million (2016/17: -€5.4 million). The 2017/18 financial year ended on an annual net income of €0.8 million (2016/17: net loss of €4.1 million) and a return on revenue (excluding component sales) of 1.3% (2016/17: -6.8%).

Net Assets

Non-current assets decreased by €0.4 million, or -1.6%, to €24.5 million. Capital expenditure of €1.8 million on non-current assets was offset by depreciation and amortization of €2.2 million. Most of this spending was related to investment in intangible assets in the amount of €1.2 million and in technical equipment and machinery as well as office furniture and equipment in the amount of €0.6 million. Capital expenditure on intangible assets chiefly relate to investments in new IT infrastructure. The capital expenditure on technical equipment and machinery mainly comprised investment in injection molding tools and IT equipment.

Inventories, particularly work in progress, rose from €14.0 million to €15.1 million as a result of the introduction of the new Mx6 B line of cameras.

Trade receivables as of 30 September 2018 increased by €0.8 million to €8.7 million since the beginning of the financial year owing to higher sales volume in September 2018 compared with September 2017.

The increased volume of business with the Konica Minolta Group mainly resulted in a rise in receivables from affiliated companies from €1.5 million to €5.2 million.

Cash in hand/bank balances and cash equivalents as of 30 September 2018 decreased to €2.4 million, representing a €4.7 million decrease since the beginning of the financial year (30 September 2017: €7.0 million). This resulted from the recourse to the cash in hand from the refinancing for the restructuring and investments in the IT infrastructure (SAP/ERP and SAP/CRM implementation) carried out in September 2017.

Equity increased slightly year-on-year to €33.5 million (30 September 2017: €33.2 million). The equity ratio rose from 55.4% to 58.0% on a balance sheet total that decreased by €2.2 million (-3.6%) to €57.7 million (30 September 2017: €59.9 million). A dividend for the financial year 2016/17 in the amount of €0.5 million was paid and €17.7 million was allocated to other retained earnings in the financial year 2017/18, in accordance with the resolution on the appropriation of earnings of 28 May 2018. MOBOTIX held a total of 128,134 treasury shares as of 30 September 2018.

The decline of other provisions by €1.6 million to €3.9 million is mainly due to the use of provisions for restructuring.

The decrease in bank loans and overdrafts of €1.4 million to €17.0 million (30 September 2017: €18.4 million) is the result of the scheduled repayment of medium- and long-term loans.

Trade payables increased by €0.7 million to €2.5 million year-on-year as compared with 30 September 2017 (30 September 2017: €1.8 million).

Financial Position

Operating cash flow before changes in working capital came to €1.9 million in the 2017/18 financial year (previous year: -€2.0 million). The increase compared to the previous year is mainly due to the significantly stronger annual result before income taxes.

The cash flow from operating activities before taxes on income was €-0.8 million in the financial year 2017/18 (previous year: €6.3 million). Given an operating cash flow of €1.9 million prior to changes in working capital, the increase in trade receivables (€0.8 million) and in receivables from affiliated companies (€1.5 million) led in particular to a negative cash flow from operating activities before taxes on income. At the same time, trade payables (€0.7 million) increased.

The net cash flow from investing activities amounted to -€1.8 million (previous year: -€7.6 million) and was mainly due to investment in intangible assets.

The negative cash flow from financing activities in the amount of -€2.1 million (previous year: €9.7 million) resulted primarily from the scheduled repayment of medium- and long-term loans totaling €1.4 million and the dividend payment of €0.5 million.

The changes in these individual cash flows resulted in total cash and cash equivalents of €2.4 million as of 30 September 2018 (30 September 2017: €7.0 million).

The Company's solvency was secure at all times during the financial year 2017/18. Financing options continue to be available to the Company as a result of its credit standing. The MOBOTIX Group currently has credit lines totaling €20.5 million from several banks at its disposal that had not been utilized as of the balance sheet date.

Non-current liabilities decreased by €4.2 million year-on-year to €12.8 million as compared to 30 September 2017. Current liabilities, including provisions, rose from €9.7 million to €11.5 million. As a proportion of the MOBOTIX Group's balance sheet total, non-current liabilities decreased from 28.4% to 22.1%. Current liabilities, including provisions, accounted for 19.9% of the balance sheet total as of the reporting date compared with 16.2% as of 30 September 2017.

2.5 Overall Assessment Of The MOBOTIX Group's Net Assets, Financial Position And Results Of Operations

The MOBOTIX Group's net assets, financial position and results of operations in 2017/18 mainly reflected the management's expectations for the performance of business during this financial year.

The planned revenue from sales of €65 million (excluding component sales) could not be achieved, as the revenue generated from sales was €63.9 million (excluding component sales). However, the EBIT for the financial year 2017/2018, €1.0 million, significantly exceeded the predicted amount (€0.7 million). As a result of the "Fit for the Future" restructuring program, personnel costs were significantly reduced year-on-year (by €2.2 million), as were other operating expenses (by €5.7 million).

Konica Minolta and MOBOTIX launched a strategic cooperation in the 2017/2018 financial year that focuses on the development of video surveillance technologies for existing channel partners.

The MOBOTIX Group had an equity ratio of 51.4% as of 30 September 2018, equity in the amount of €26.1 million, cash and cash equivalents in the amount of €2.7 million and unused short-term credit lines

from banks in the amount of €20.5 million – all of which represents a satisfactory financial situation in order to make further investments in the IT infrastructure (SAP/ERP) as well as to boost product development and marketing and to focus the sales structure on growth markets.

3. Changes To The Management Board

Changes To The Management Board Of MOBOTIX AG

Dr. Tristan Haage, the Chief Sales Officer (CSO), chose to resign from the Management Board of MOBOTIX AG effective on 31 October 2017 for personal reasons, with the mutual consent of the Supervisory Board and Management Board, in order to accept a new professional challenge. Sales will be handled by the CEO, Thomas Lausten, until further notice.

Changes To The Management Board Of MOBOTIX AG

Dr. Oliver Gabel, the Chief Technology Officer (CTO), chose to resign from the Management Board of MOBOTIX AG effective on 30 November 2017 for personal reasons, with the mutual consent of the Supervisory Board and Management Board, in order to accept a new professional challenge. Technology was handled by the CEO, Thomas Lausten, until Hartmut Sprave took up this role.

Changes To The Management Board Of MOBOTIX AG

The MOBOTIX AG Supervisory Board appointed **Hartmut Sprave** as the new Chief Technology Officer (CTO) on 2 March 2018 and reappointed **Klaus Kiener** as the Chief Financial Officer (CFO) for another three years.

Hartmut Sprave succeeds Dr. Oliver Gabel, who had resigned in November 2017, and his experience includes many years in software and hardware development. Hartmut Sprave took up the role of CTO on 1 June 2018.

4. Rescissory Actions And Proceedings for Annulment Relating To Resolutions Adopted By The Annual General Stockholders' Meeting For The Financial Year 2015/16

MOBOTIX AG became aware on 9 March 2017 that three shareholders had filed for rescissory action and proceedings for annulment at the Kaiserslautern District Court in relation to resolutions adopted by the Annual General Stockholders' Meeting of MOBOTIX AG on 12 January 2017 for agenda items 2 to 6, i.e., in particular, against the resolution to retain net profit as of 30 September 2016 (agenda item 2) and to reelect two Supervisory Board members (agenda item 6).

MOBOTIX AG consider these actions to be unjustified and has taken legal steps.

5. Risk Report

5.1 Risk Management

The MOBOTIX Group implemented a risk management system as part of the corporate management system. This is to ensure that risks can be identified and addressed early on (prior to considering risk-mitigation measures). It consists of early identification of risks, control and planning processes, reporting and an internal control system. The principles and decisions relating to the risk management system have been documented in a risk management handbook. The system is enhanced and optimized on an ongoing basis.

The purpose of the Group's risk management system is to identify, monitor and manage any risks assumed. In addition to risks to the Company's survival as a going concern, the system records activities, events and developments that could have a significant impact on future business performance. The risk management process involves identifying and managing operational opportunities and risks over a period of between one and three years. A longer forecasting period is used for strategic opportunities and risks.

The risk to earnings is analyzed using a risk matrix that indicates the probability of occurrence and the potential level of losses. If risks are not quantifiable, their impact is estimated in qualitative terms.

Likelihood Of Occurrence		Possible Impacts (€)	
Low	< 25%	Low	< €0.1 million
Medium	25% - 50%	Medium	€0.1 million - €0.2 million
High	50% - 75%	High	€0.2 million - €0.7 million
Very high	> 75%	Very high	> €0.7 million

We have set up the internal control system described under Item 5.2 to manage the business risks that are typical for the MOBOTIX Group and that could have a material impact on the Group's net assets, financial position and results of operations.

Based on the information currently available, the MOBOTIX Group currently does not face any dominant individual risks that, by themselves and on a balance of probabilities, could jeopardize the MOBOTIX Group's survival as a going concern.

5.2 Internal Control System

The MOBOTIX Group has an extensive system of process controls. The control system's aim is to detect possible deficiencies in the Company's processes at different process levels to initiate appropriate countermeasures, and to ensure and continuously improve the effectiveness of the risk identification and analysis methods by conducting regular reviews. The tasks in the control system are carried out by members of the management team and by employees working centrally in the organization department who assume some of the duties of an internal audit function. The organization department reports directly to the Management Board. The role of the employees of this department as advisors to the various departmental managers enables them to monitor the internal control system's integrity and other aspects. A major element of this task is monitoring the proper compliance with – and implementation of – guidelines. Recommendations (categorized according to their importance) and any needs for changes are reported directly to those in charge of the units under review and to the Management Board.

Ad-hoc audits are carried out in order to identify and investigate current issues promptly. If required, these result in immediate process changes aimed at continuously improving the quality of processes.

Afterwards, follow-up audits are conducted so that progress on implementing the process changes can be reviewed. The Management Board is notified of any discrepancies without delay.

The internal control system is an integral element of risk monitoring in the Group. It is based not only on defined control mechanisms for prevention and monitoring – such as automated and manual reconciliation processes – but also on predefined approval processes, separation of functions and compliance with guidelines. Another important measure is ensuring that the actions of individuals are verified by a second person. By rigorously applying the principles and instructions laid down in the risk policy, the majority of risks can be avoided, or their impact can at least be mitigated.

5.3 Material Risks

Overview Of Overall Risk

	Likelihood Of Occurrence	Possible Impact
Market Risks		
Sales risks/competitive situation	Very high	Very high
Procurement risks	Medium	Medium
Financial Risks		
Risk of receivables default	Medium	Medium
Currency risks	Medium	Low
Political And Legal Risks		
Statutory and regulatory risks	Medium	Medium
Risks from patent disputes	Medium	Medium
Operational Risks		
Personnel risks	Medium	Medium
Warranty risks	Low	Medium

Market Risks

MOBOTIX products are used as video security solutions in various sectors, such as transportation (buses, train stations, airports, traffic surveillance etc.), retail and industry as well as for building and perimeter protection. In past years, MOBOTIX succeeded in standing out from among many competitors through high-resolution and hemispheric camera technology.

External market studies show that digital IP video security systems will see growth in coming years, but that average prices will decrease considerably. Specifically, fiercer competition is expected, especially in the segment of high-resolution network cameras, a field where MOBOTIX has so far held a strong position.

There are also further risks resulting from political changes in specific regions (such as Brexit and the political situation in Turkey). Therefore, the Management Board expects the **market environment** to be exposed to growing risk.

Procurement market risks are generally viewed by the Management Board as being typical for the industry. Market volatility can lead to changes in the availability of components. The risk of longer delivery times in this context is countered by the contractually guaranteed larger stock of inventory of components

at suppliers and of finished goods. There are currently no procurement bottlenecks impacting product availability, but they cannot be ruled out entirely.

The sudden unavailability of critical suppliers, e.g., processor suppliers, which would lead to considerable disruptions to production, continues to be regarded as unlikely.

Financial Risks

Due to the Company's credit standing and existing credit commitments, there are currently no substantial **financial risks**. **Currency risks** exist generally in connection with the business operations in the U.S. and the purchasing requirements of MOBOTIX AG in US dollars. There is currently no **material interest-rate risk**. The existing borrowing was taken out with a fixed interest rate. **Risks of receivables default** are mitigated through efficient receivables management (including payment reminders and collections), combined with a restrictive policy on payment terms for customers.

Political And Legal Risks

Public attitudes toward video surveillance have continued to become far more favorable. Existing video surveillance boosts people's feeling of security, which is why it is enjoying increasing public acceptance. A growing number of political initiatives are emerging that are aimed at improving the quality of surveillance systems in public areas. If high-resolution systems increasingly become the norm in public security, MOBOTIX will be able to profit additionally from such development as a key manufacturer of such systems. Having said that, limits will be imposed on video surveillance through various legislation and orders, such as the EU General Data Protection Regulation.

The number of patent disputes in the video security industry is rising considerably. It cannot be ruled out that the MOBOTIX Group may become involved in patent infringement proceedings or that these could have a substantial financial impact.

Operational Risks And Other Risks

Given the changes to the market and competition environment, the organization has a continued need for adjustment. This presents fundamental risks, which the Company counters through adjusting personnel resources, optimizing processes and control systems as well as updating the IT infrastructure (particularly ERP and CRM).

The production and sales of technical products entail **warranty risks**. These are reflected in the financial statements by recognizing appropriate provisions. The Company has also taken out product liability insurance to safeguard against possible losses and risks.

If trends in the global financial markets and the real economy result in a widespread, global recession, this would naturally have a marked effect on the markets relevant to the MOBOTIX Group.

The Company has not identified any current or future risks to its survival as a going concern or that would have a material impact on its development. Technological innovations and the continued expansion of sales are highly important to the sustained success of the Group.

6. Opportunity Report

MOBOTIX is active in the continuously growing video surveillance system market. This growth is mainly driven by increasing security demands, Industry 4.0 and the Internet of Things (IoT).

The Management Board generally assumes that technological market drivers, such as improved image resolutions of video systems, cloud-based installations and software applications in the fields of analytics,

deep learning and artificial intelligence, will favor the decentralized technology approach and that, in this way, MOBOTIX will prevail despite considerable, growing competitive pressure.

Over the coming months, MOBOTIX will develop intelligent IP video solutions for select market segments with a unique competitive edge (e.g., due to the system architecture or robust design) and emphasize appropriate customer projects via key-account sales and the global network of certified partners. As such, robust outdoor cameras will increasingly also be used as sensors in industrial automation, such as for monitoring temperature-critical processes or within the scope of preventative maintenance.

MOBOTIX currently offers a wide range of IP video cameras, including accessories, as well as its own video management software. The Company intends to provide further software applications and add peripheral components (switch, IR emitter, NAS etc.) to the MOBOTIX MOVE segment, thus offering a complete system from a single provider and giving itself a competitive edge.

Further opportunities arise from the substantially improved integration options resulting from the adoption of standards such as ONVIF and H.264, as well as from the integration of MOBOTIX cameras with leading video management systems from Genetec and Milestone.

The Management Board also optimizes the MOBOTIX income model by monetizing the MxMC video management software, for example, via license models. The MxMC versions that are available free of charge, as well as the ones that require licenses, will continue to be available alongside the latest versions of MxMC.

In the future, MOBOTIX will continue to focus to an even greater extent on technology partnerships as a response to the diverse requirements in the vertical markets with optimally tailored complete solutions.

Moreover, the cooperation with Konica Minolta is already opening up growth opportunities in the medium term for technological order development as well as in sales.

7. Forecast Report

The increase in sales of the MOBOTIX Group projected for the financial year 2018/19 is around 6% compared with the financial year 2017/18 and leads to projected revenue from sales (excluding component sales) of approximately €67.5 million for the financial year 2018/19. The projected EBIT for the financial year 2018/19 is around €1.4 million, accordingly, representing an increase of 40%. For MOBOTIX AG, the Management Board also forecasts a revenue sales of around €64 million (excluding component sales) and a positive EBIT that is slightly higher than that of the MOBOTIX Group.

The forward-looking statements made above are predictions.

8. Dependent Company Report

A report on the relationships with affiliated companies was prepared for the financial year 2017/18 in accordance with Section 312 of the German Stock Corporation Act (AktG). Regarding those transactions that have to be reported, the report states: “The Management Board declares that, for the legal transactions and measures disclosed in the report regarding relationships with affiliated companies, adequate consideration was received by the company for each legal transaction and the company was not disadvantaged by the implemented measures according to the circumstances that were known to us at the time the legal transactions were concluded or the measures were implemented. No measures have been refrained from at the behest or in the interest of the controlling company or a company affiliated with it.”

Winnweiler/Langmeil, Germany, 31 October 2018

The Management Board

Thomas Lausten • CEO

Klaus Kiener • CFO

Hartmut Sprave • CTO