2014

ANNUAL REPORT

BASLER

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Key Figures

in € m*	2012	2013	2014	Changes to previous year
Sales revenues	55.9	65.1	79.2	22 %
Incoming orders	60.6	68.6	82.7	21 %
Gross results	26.9	32.5	41.0	26 %
Gross profit margin	48.1 %	49.9 %	51.8 %	2 Pp.
Full costs for research and development	8.3	9.1	11.0	21 %
Research and development ratio	14.8 %	14.0 %	13.9 %	0 Pp.
EBITDA	13.4	14.0	18.0	29 %
EBIT	8.3	8.5	12.5	47 %
EBT	5.6	7.8	11.1	42 %
Net income	4.1	5.6	8.2	46 %
Weighted average number of shares	3,372,588	3,281,312	3,219,331	-2 %
Result per share (€)	1.21	1.70	2.54	49 %
Cash flow from operating activities	12.6	12.1	16.0	32 %
Cash flow from investing activities	-6.3	-6.5	-8.6	32 %
Free Cash flow	6.3	5.6	7.4	32 %

in € m*	12/31/2012	12/31/2013	12/31/14	Changes to previous year
Total assets	58.5	63.3	72.3	14 %
Long-term assets	34.5	35.6	38.8	9 %
Equity	29.6	32.5	37.3	15 %
Liabilities	28.9	30.8	35.0	14 %
Equity ratio	50.6 %	51.3 %	51.6 %	0 Pp.
Net cash	3.5	3.7	4.5	22 %
Working Capital	12.0	13.7	17.1	25 %
Number of employees for the fiscal year (full-time equivalents)	290	325	375	15 %
Share price (XETRA) in €	13.79	29.00	38.66	33 %
Number of shares in circulation	3,325,664	3,238,184	3,181,136	-2 %
Market capitalization	45.9	93.9	123.0	31 %

*unless otherwise stated

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PREFACE BY THE MANAGEMENT BOARD

Hardy Mehl
CFO/COO

Arndt Bake
CMO

Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Dear shareholders, employees, customers, and business partners,

We are pleased that we have been able to continue our profitable growth strategy in 2014 and would like to inform you about the details in our annual report.

We exceeded our previous sales and result record values of the financial year 2013 and were able to even increase the speed of our growth. Our sales rose by 22 % to € 79.2 million and our pre-tax result grew by 42 % to € 11.1 million. A positive free cash flow of € 7.4 million allowed us to finance this growth out of own resources and, moreover, to increase our net liquidity as well as the number of own shares.

With these results, we grew more than twice as fast as the German image processing components industry whose sales increased by 8 % (source: VDMA, Verband Deutscher Maschinen- und Anlagenbau, German Engineering Federation). We further expanded our market shares in all regions – EMEA, Asia, and America – whereas Asia again showed the highest growth dynamics. This success is due to the consistent implementation of our volume strategy as well as to the diversification in applications outside of factory automation.

In summer 2014, we supplemented our longstanding sales and service office in Singapore with a production facility and thus reached another important milestone towards globalization. In the future, cameras for the Asian markets will be manufactured in Singapore according to the same quality standards as in Germany. We started production with a limited product portfolio and will gradually increase the number of locally manufactured products thus moving closer to our Asian customers.

Our passionate and committed employees as well as an innovation fostering company culture are two essential success factors for these positive results of the past reporting period. We are very proud of both and would like to further develop and expand these two success factors in the future. In the elapsed fiscal year, we hired 52 new employees with a very low fluctuation rate of less than one percent. The search for personnel was positively impacted by the consistently developed employer brand and the measures for reconciling family and work life. For maintaining the company culture, in 2014 we set a high value on the selection and adequate integration of new colleagues. We would like to take this opportunity to thank all employees for this record result achieved in the financial year 2014 and would like to let you participate in the success of the company by paying a bonus for your contributions and efforts.

We thank our customers for using our products, the continuous communication and feedback enabling us to further develop them, as well as for the trust in our company. Also in 2014, we further expanded our product portfolio and range of services for you and constantly took measures to improve efficiency in order to offer you a unique price/performance ratio.

We would also like to thank our shareholders for the trustful and excellent cooperation in the course of the reporting period. The positive results of the fiscal year 2014 enable us to let you participate for the fifth time in a row in the success of the company. We will therefore forward a proposal to the general meeting 2015 suggesting to pay a dividend for the financial year 2014 in the amount of 70 Cents per share, consisting of a basic dividend of 20 Cents per share and an additional dividend of 50 Cents per share. Should that proposal be adopted, the planned dividend payment of a total of € 2.23 million would correspond to about 27 % of the net result.

For 2015, economic research institutes and banks assume a restrained upturn of the global economy with ongoing geopolitical risks. In principle, we share this estimation for our market environment. In comparison to the economic forecast, we are more positive about the development of the Chinese image processing market. On the basis of discussions with our customers and forecasts of associations and market research institutes we expect our market to grow by approximately 5 - 8 % in 2015.

For our camera business, in 2015 we expect growth in sales to continue as in the previous years. Important factors for growth will be sales with new products, gains in market shares in important regional markets, as well as diversification in application fields outside of industrial mass production, as for example in the medical sector, retail applications, and logistics. We assume the Asian market to develop disproportionately positive again this year.

For the financial year 2015, we expect sales revenues for the group to be in a corridor between € 81 and 84 million and a pre-tax return between 9 and 10 %. Driven by a strong project business, this year's course of business will develop atypically compared to previous years. We expect a stronger than usual first quarter followed by a second and third quarter simultaneously developing on a slightly lower sales level, and a seasonal weakening in the fourth quarter.

With a high level of orders, an increased number of employees, a unique market access, a strong brand, solid liquidity, and a very attractive product portfolio, Basler AG is well positioned for the financial year 2015. Therefore, this year we are again confident to grow significantly faster than the market for image processing components.

The risk profile of our business model is well-balanced due to a large number of customers and target markets. Besides the high level of customer loyalty in the design-in business we underpin the sustainability of our business model by diversification in applications outside the factory. Thus, we are convinced to be able to continue with the implementation of our growth strategy and to exceed the sales threshold of € 100 million in the foreseeable future.

We look forward to move another step forward with you in 2015.

Ahrensburg, March 2015

The Management Board

Dr. Dietmar Ley (CEO) John P. Jennings (CCO)

Arndt Bake (CMO) Hardy Mehl (CFO/COO)

BASLER / Preface by the Management Board

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REPORT OF THE SUPERVISORY BOARD

- Prof. Dr. Eckart Kottkamp
  Vice Chairman of the Supervisory Board
- Norbert Basler
  Founder &
  Chairman of the Supervisory Board
- Konrad Ellegast
  Supervisory Board

Dear Ladies and Gentlemen,

In the elapsed fiscal year 2014, the supervisory board has fulfilled its incumbent obligations according to the law, the German Corporate Governance Code, the articles of incorporation and the rules of procedure of the supervisory board and has continuously monitored and advised the management board in its management activities. The management board has provided the supervisory board with written and oral reports on the economic position of Basler AG, its foreign subsidiaries, and its divisions on a monthly basis and has discussed the business and economic situation in detail with the chairman of the supervisory board.

In fiscal year 2014, four regularly occurring supervisory board meetings took place, which all members of the supervisory board attended. The meetings were held on March 18, June 4, September 19, and December 16. Moreover, one additional meeting in which the management board presented the strategy and the corresponding planning for the next years to the supervisory board was held on November 12. Committees as set forth in § 171, Section 2, Clause 2 of the Stock Corporation Act (AktG) were not formed, due to the small size of the supervisory board (three persons).

The management board and the supervisory board cooperate closely for the benefit of the company. The basis for this cooperation is frank and trusting discussion. The management board has coordinated the company's strategic orientation with the supervisory board and has reported in regular intervals to the supervisory board about the state of implementation. The supervisory board was involved in all major decisions of fundamental importance to the company. The management board has informed the supervisory board at regular intervals about all relevant issues concerning the company's business development and risk situation. The chairman of the supervisory board is in regular contact with the CEO, and was informed by him about current developments and unusual occurrences and passed them on accordingly to the other members of the supervisory board. The supervisory board consented to those business dealings which, according to the law and the company's articles of incorporation, required its consent. This applies to decisions and measures of fundamental importance to the company's situation with regard to assets, finances, and revenue.

Significant issues the supervisory board dealt with in the elapsed fiscal year were inter alia:

- Consultation on and conclusion of the annual balance sheet for 2013 and the proposals for the shareholders' meeting
- Dividends for fiscal year 2013 including the proposal for the shareholders' meeting
- Economic and market-specific developments
- Situation of the relevant markets and Basler AG's position in these markets
- Advancement of the corporate strategy
- New business development
- Situation and quantitative and functional expansion of the subsidiaries
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- Corporate financing and banking relationships
- Currency hedges
- Liquidity and working capital
- Investor relations
- Extension of the share buyback program
- Corporate planning and budget for the group for fiscal year 2015
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- Production concept
- Business premises
- Correctness and effectiveness of the internal control system (IKS)
- Correctness and effectiveness of the risk management system (RMS)
- Commitment to and amendments of the Corporate Governance Code
- IT security and IT costs
- Remuneration of the management board
- Further development of supervisory board composition

The BDO AG Wirtschaftsprüfungsgesellschaft which was selected as annual auditor by the shareholders' meeting on June 4, 2014, was commissioned by the chairman of the supervisory board to perform the audit by a letter of October 28, 2014. The annual auditor participated in the supervisory board meeting on March 17, 2015, in which the presented annual balance sheet and the reported essential results were discussed.

The accounting, the annual balance sheet as of December 31, 2014, and the situation report for Basler AG, along with the group's annual balance sheet as of December 31, 2014, and the group's situation report have been audited by the annual auditor, the BDO AG Wirtschaftsprüfungsgesellschaft, they have been found to be compliant with the applicable laws and the company's articles of incorporation, and they have each been furnished with an unconditional audit certificate. The supervisory board took consenting note of the audit result.

The supervisory board, on its part, examined the company's and the group's annual balance sheets and the company's and the group's situation reports in the context of the applicable legal regulations. No objections were raised. The supervisory board approved of and therewith established the annual balance sheet for Basler AG as prepared by the management board.

In accord with the Corporate Governance Code, the supervisory board regularly reviewed the efficiency of its work and enhanced it in connection with useful modifications related to the preparation and the document composition for its meetings. Furthermore, the supervisory board perceived on its own authority education and training measures required to perform its duties.

The supervisory board members do not act as consultants to nor hold officer positions in executive bodies of clients, suppliers, creditors, or other business partners. Consequently, conflicts of interest did not arise with their mandates during the past fiscal year.

The report compiled by the management board according to § 312 of the Stock Corporation Act (AktG) on relations with affiliate companies was audited by the annual auditor and furnished with the following audit certificate:

"Following our duly performed audit and evaluation we herewith confirm that

- the actual information given in the report is correct

and

- the company's performance was not inappropriately high for the legal transactions specified for the reporting year".

The supervisory board took consenting note also of this audit report of the annual auditor. The supervisory board states after the concluding result of its own audit, that no objections are to be raised regarding the management board's statements on relations with affiliate companies.

Openness to Change in the Inside – Innovative Strength and Competitiveness to the Outside

The ambitious targets of the mid-term corporate planning were exceeded once again: In the elapsed fiscal year, Basler AG generated sales that are clearly above expectations and which are combined with the highest profitability of the company's history.

The company is growing considerably stronger than the market and thus is continuously expanding its market leadership. The repeatedly demonstrated high degree of innovative power regarding new products and new technologies ensures the sustainability of growth and profitability.

To be able to do both – ensuring a high level of operating efficiency in the present and, at the same time, creating the foundations for future competitiveness, growth, and profitability – requires a high degree of willingness to change and passion. Without the company's inherent enthusiasm for the future, without the joy of creativity, and without the courage to exchange the safety of things that are tried and true against opportunities of the unknown, there will be no continuous success. Following this conviction, major efforts were made especially along last year, in order to adjust company structures and

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the company culture to this even more precisely than before. The capital that is needed for this and the time spent by the employees are a good investment in the future.

In addition to this, considerable energy was invested in the development of the strategy. The anticipated changes in our markets and the possibilities resulting from the technological progress are important opportunities for Basler AG and require an ongoing development of the strategic path.

One aspect of the company strategy is the increasing internationalization in the course of which more and more functions are to be installed also in the subsidiaries. In this regard, special mention should be made of the successful setup of a production facility in Singapore in the elapsed fiscal year. This organizational project is an example for the permanent adjustment of all structures to changing requirements.

The supervisory board is not only pleased with the outstanding operational achievements but also with the progress made in strategy, structure and culture issues in the course of the elapsed fiscal year. Thus, the financial year 2014 was a big success.

The supervisory board expressly thanks all employees, executives, and the members of the management board of Basler AG for the excellent and successful work they have accomplished in the past fiscal year.

Ahrensburg, March 2015

For the Supervisory Board

Norbert Basler
Chairman of the Supervisory Board

Prof. Dr. Eckart Kottkamp
Vice Chairman of the Supervisory Board

Konrad Ellegast
Supervisory Board

THE BASLER SHARE

In 2014, the stock markets experienced ups and downs. First, favorable economic outlooks provided gains. However, due to inter alia geopolitical uncertainties, the recovery began to stagnate putting pressure on the markets. Then again, in the second half year, monetary policy impulses caused increasing share prices. Overall, the German leading index DAX increased to more than 9,800 points starting at about 9,500 points at the beginning of the year. Also the European stock markets trended upward.

In this mainly positive capital market environment, the Basler share strongly gained value due to the excellent business development. The share opened the financial year 2014 at a price of € 28.62 and closed at a price of € 38.66 at the end of the market year. This corresponds to a share price increase of 35 %.

Already in the course of the first quarter, the Basler share price increased from € 28.62 at the beginning of the year to € 38.00 in March 2014 going through an annual low of € 28.21 at the end of January and closed the first quarter of 2014 at a price of € 35.00. In the second quarter, the share price slightly rose again to € 37.00 in April and settled at this level before the closing price was just below € 37.00 at the end of June. After the publication of the preliminary figures for the second quarter in July, the share price reached € 40.00 for the first time. In mid-September, the price temporarily reached the annual high of € 43.85 before closing the quarter at € 41.00. Mid-October, the interest in the share rose again, after having increased for the second time our profit guidance upon publication of the preliminary business figures for the third quarter. In November and December the share price settled at a level between € 38.00 and € 40.00 and closed at € 38.66 on December 31, 2014.

The continuing significant upward movement of our share price due to the positive sales and profit development in the elapsed fiscal year, confirms our decision made in autumn 2011 to start buying own shares in view of the favorable company valuation at that time.

The General Meeting

The general meeting took place in the Hamburg Chamber of Commerce on June 4, 2014.

The investors present were given an extensive company presentation by the management board informing them about the strategic alignment of the company and the course of business in 2013. After a general debate all items were approved by more than 99 % of the voters present.

Please find detailed information about the general meeting 2014 here www.baslerweb.com.

Share Buyback Program

The general meeting of May 18, 2010, authorized the company to buy back own shares amounting to a total of up to 10 % of the share capital of the corporation existing at the time the resolution was adopted. The authorization was approved through May 18, 2015. This resolution was superseded by the general meeting of June 4, 2014, and replaced by a new resolution. This reads as follows:

The company is authorized to buy back own shares amounting to a volume of up to 10 % of the share capital of the corporation existing at the time the resolution was adopted – or if this value is lower – at the time of the exercise of the authorization. The authorization is approved through June 3, 2019. The shares can be used for all purposes provided for in the authorization of the general meeting of June 4, 2014.

Convinced that sales and results would continuously improve over forthcoming reporting periods, in September 2011, the management board decided first to buy back shares with an equivalent of € 1 million. Further share buyback programs with an equivalent of € 1 million each were resolved in spring 2012, in spring 2013, as well as in September 2013. The program that started in September 2013 was completed in April 2014. Due to the solid liquidity development in the first half year of 2014, on June 30, 2014, in accordance with the resolution of the general meeting the management board and the supervisory board decided to make full use of the total of 10 % of own shares and to use a maximum amount of € 3.5 million for the buyback of own shares.

At the reporting date December 31, 2014, 318,864 own shares corresponding to almost 9 % were held by Basler AG. These were bought at an average share price of € 18.62. The buyback starting in June 2014 had not been completed on December 31, 2014, and thus had not been fully used until then.

Dividend and Appropriation of Earnings

Due to the positive business development in the fiscal year 2014, the management board of Basler AG has decided to propose to this year's general meeting to pay a dividend.

Our dividend strategy provides for a combination of a reliable base dividend, to be paid independently of the company's result and an additional dividend depending on the company's success On this base, the proposal will be made in the general meeting of 2015 to pay a dividend for the fiscal year 2014 of 70 Cents per share consisting of a base dividend of 20 Cents per share and an additional dividend amounting to 50 Cents per share.

BASLER / The Share

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Capital Market Communication

Continuous and open communication with all capital market participants is very important to Basler AG. Therefore, we value the direct contact to analysts, investors, and private shareholders. We communicate with institutional investors in the frame of conference calls, individual conversations, and roadshows or at capital market conferences. It is during the general meeting, at smaller conferences, as well as in personal discussions where we inform private investors about the development of the company.

In the elapsed fiscal year, Basler AG participated in three roadshows and five capital market conferences. Due to the increased share price level, many investors sought direct contact with the company. We addressed this interest via conference calls and videoconferences or in the form of company tours.

As a listed family company, in 2014 we concentrated our investor relations work mainly on investors pursuing a long-term strategy focusing on listed family companies like Basler AG which are comfortable with correspondingly limited trade volumes. Due to this clear orientation, the quality of our investors' meetings considerably improved and, along the improving figures, enabled us to gain more new investors for Basler AG in 2014 than in the previous years. After these positive experiences made in the elapsed fiscal year, we will continue this strategy in 2014.

In the previous year, the analysts of Warburg Research and Oddo Seydler Bank AG – formerly Close Brothers Seydler Research AG - regularly prepared studies about Basler AG (previous year: 2). You can find the current recommendations via www.baslerweb.com/share in the Share >> Analyst recommendations section.

In addition to this, we offer comprehensive information in the internet via www.baslerweb.com/Investors, where you can find our quarterly reports, half year reports, and annual financial reports, along with analyst presentations and press releases, as well as the financial calendar for the current year showing all important publication dates and the date of the general meeting (please see also – financial calendar on page 61).

Contact Details

For questions about our company or the Basler share, please contact our investor relations department:

Tel. +49 4102 463 0
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ir@baslerweb.com
www.baslerweb.com/Investors

Regular Information

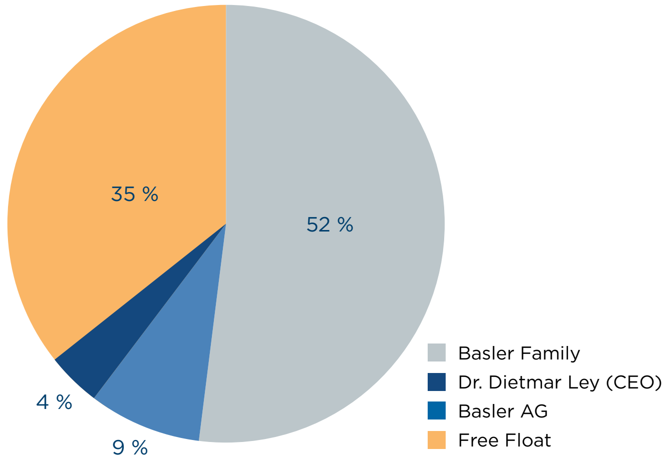
If you wish to receive information about our company regularly, please contact our investor relations department via www.baslerweb.com/Investors.

Share-related Information

ISIN: DE0005102008
Symbol: BSL
Prime Standard branch: Industrial
Industry group: Advanced Industrial Equipment
Admission segment: Prime Standard / Regulated Market
Designated sponsor: Close Brothers Seydler AG
Number of shares: 3,500,000
Member of the following indices: CDax, Prime All Share, Technology All Share

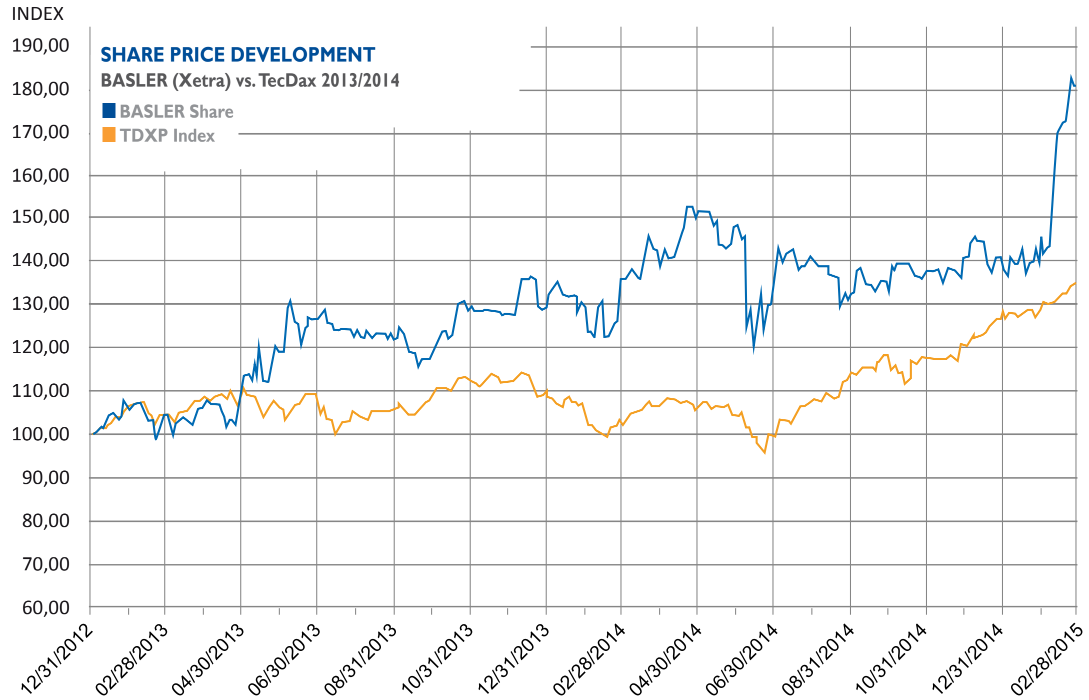
As regards trade, our share is supported on the capital market by Oddo Seydler AG - formerly Close Brothers Seydler AG (so-called designated sponsoring). Oddo Seydler AG is a leading provider of this service in Germany and regularly earns top rankings by Deutsche Börse.

Shareholder Structure



Share Price Key Figures

	2014	2013	2012	2011
Market capitalization in € million (as of 12/31),	123.0	93.9	45.9	46.4
Annual closing price in € (as of 12/31)	38.66	29.00	13.79	13.48
Year high in €	43.85	31.05	14.40	14.73
Year low in €	28.21	13.47	9.40	10.00
Annual development	+35 %	+110 %	+2 %	+16 %



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DECLARATION OF CONFORMITY 2014 WITH THE CORPORATE GOVERNANCE CODE PURSUANT TO § 161 OF THE GERMAN STOCK CORPORATION ACT (AKTIENGESETZ - AKTG)

The management board and the supervisory board declare that in the elapsed fiscal year 2014 Basler AG complied with the recommendations for conduct as amended on May 13, 2013 as well as on June 24, 2014 by the "Government Commission of the German Corporate Governance Code" (hereinafter called "code") with the following exceptions:

Clause 3.8, Paragraph 3 — D&O Insurance Deductible for the Supervisory Board

Clause 3.8, paragraph 3, of the code sets forth that an appropriate deductible should be stipulated when the company takes out a D&O insurance policy for the supervisory board. The D&O insurance coverage for the management board comprises a deductible according to statutory provisions. However, the insurance policy does not provide for a deductible for the members of the supervisory board. The management board and the supervisory board are convinced that responsible action is a self-evident obligation for all members of the company's executive bodies. Therefore, a deductible for the members of the supervisory board is not necessary.

Clause 4.2.5, Paragraph 3 – Composition and Remuneration (Granted Benefits for the Reporting Year)

Composition and Remuneration Board/ Supervisory Board

Clause 5.3 — Establishment of Committees within the Supervisory Board

The supervisory board does not establish any committees. The supervisory board of Basler AG comprises three persons. This configuration ensures efficient work in all matters of the supervisory board, especially as the generally accepted minimum size for a committee is a membership of three.

Clause 5.4.1. — Composition of the Supervisory Board

For nominations to the general meeting, the supervisory board will also in the future continue to align itself to all necessary legal requirements and will emphasize the candidates' professional and personal qualifications independent of gender. Consideration will also be given to the international activities of the company, to potential conflicts of interest, and to diversity. Basler AG does not state specific pertinent goals in these areas.

Clause 6.3 — Share Ownership of Members of the Management Board and the Supervisory Board

With regard to the share ownership, the management board and the supervisory board declare pursuant to clause 6.3: The total share ownership of all members of the management board and the supervisory board exceeds 1 % of the total of shares issued by the company and is as follows:

As of the reporting date, the members of the management board held the following numbers of shares:

Shares of the Board

As of the reporting date, the members of the supervisory board held the following number of shares:

Shares of the Supervisory Board

Ahrensburg, March 17, 2015

Dr. Dietmar Ley
CEO

Norbert Basler
Chairman of the Supervisory Board

John P. Jennings
CCO

Prof. Dr. Eckart Kottkamp
Vice Chairman of the Supervisory Board

Arndt Bake
CMO

Konrad Ellegast
Supervisory Board

Hardy Mehl
CFO/COO

CONSOLIDATED FINANCIAL STATEMENT

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MANAGEMENT REPORT

1 Basic Company Information

1.1 Business Model

Basler AG is based in Ahrensburg near Hamburg (Germany) and develops and manufactures high-quality digital cameras for professional users that are mainly used in industrial mass production, medical technology, traffic control, as well as in video surveillance. Basler cameras are recognized on the market for innovation, excellent quality, simple integration, compact housings, and an outstanding price performance ratio. These factors make Basler one of the world's biggest providers of industrial cameras.

In addition to research and development as well as the production of cameras, Basler has a globally operating sales organization. Target customers are national and international manufacturers of investment goods (OEM customers), integrating Basler cameras in their own products. The OEM customers are supported by an own direct sales organization or by regional sales partners (distributors).

Basler AG has 100 % owned subsidiaries in the USA, Singapore, and Taiwan. The subsidiaries are fully consolidated in the consolidated financial statements. Further branches are located in Japan, South Korea, China, Poland, UK, and Finland. The foreign subsidiaries and branches mainly provide sales and service activities. In July 2014, a production facility was opened in the Singapore subsidiary manufacturing cameras for the Asian market.

External factors influencing the business model are the general macroeconomic situation and the demand situation in the central regional markets in Asia, Europe, and North America. Due to Basler's alignment towards industrial goods manufacturers, the economic situation of the machinery and plant construction industry continues to be of particular importance for the business development of the group.

1.2 Control System

An annually conducted strategy process defining the alignment of the company regarding product portfolio, target markets, sales strategy, technologies, and financial key figures is the basis of the group management. The strategy process concludes with a four-year planning as well as with a budget for the upcoming fiscal year.

Financial and non-financial performance indicators that are essential for the group management are derived from both planning perspectives and summarized in a balanced score card system (BSC). The main BSC key figures include sales, profit (EBT), cash flow, profitability, employee satisfaction, and the awareness level of the brand. In 2014, the ROCE (return on capital employed) was implemented as a further BSC key figure. The most important performance indicators are sales and EBT. Further key figures of the corporate management are mentioned in the economic report. The BSC figures are updated once a month and discussed within the management team. This enables an early recognition of potential deviations from the targets and the initiation of appropriate countermeasures.

In order to ensure a high quality of the manufactured products and of the corporate processes applied, Basler has implemented a quality management system (QM system). In the course of the financial year, internal audits are conducted to find out whether the processes within the operational practice are compatible with the process descriptions of the QM system. Once a year, an external audit is conducted in order to verify whether the QM system is applied according to the provisions of the DIN ISO 9000/2008 and DIN ISO 9000/2000

1.3 Research and Development

As a technology company, Basler relies on an early recognition of technological trends and their fast integration in new products. Since camera technology develops fast and Basler AG pursues a sustainable growth strategy, Basler's average annual investment in research and development (R&D) is between 13 and 15 % of sales. R&D activities are structured as follows:

- Predevelopment of new technologies
- Development of new platform architectures for future product lines
- Development of new products on existing product platforms
- Customer specific adjustments of products
- Maintenance of existing products

The target of the predevelopment is the examination of technologies that seem to be reasonable for the integration in future products. This is how we ensure to master new technologies prior to platform or product developments and to have sufficiently analyzed possible risks.

In this way, product developments that are based on these technologies can be conducted closely to the planning. We demonstrate first interim results to technology-orientated customers in the course of the year at trade fairs in order to get first feedbacks from the market.

In the platform development, in the elapsed fiscal year, we laid the foundations for a low price and very compact camera family called Basler dart. This product was presented for the first time at the VISION fair in November and will be transferred into series production in the first quarter of 2015. With these products based on the dart product platform, we consistently invest in the expansion of our product portfolio.

In the elapsed fiscal year, we also continued to improve our innovative USB 3.0 interface technology and significantly expanded our product portfolio based on this interface technology. We see great potential in this and therefore will continue to equip a large part of our product portfolio with a USB 3.0 interface in the future. At the same time, the camera portfolio with GigE interface that is already established in the market was continuously expanded in order to underpin our present leading position in the market. Within this context, new CMOS sensors were integrated in the existing ace product platform strengthening our mainstream product portfolio.

At the end of 2014, we launched the new high end Basler beat camera series on to the market. The Basler beat camera combines a high frame rate with a high resolution of 12 megapixels.

In 2014, besides investments in primary camera development, investments were specifically made in the development of complementary accessories. By offering accessory products we intend to use our superior market access even better and, furthermore, to differentiate even better from our competitors. In view of this, in the past year we launched a series of optimally priced lenses to the mainstream market. The unique price performance ratio due to the combination of Basler ace cameras and Basler Lenses met with an excellent response from the market.

In addition to the development of new products, we invest about one fifth of the R&D budget in the constant updating of our products in order to ensure the manufacturability for a period of three to ten years and to continuously optimize the manufacturing costs.

Based on total sales, the expenses for research and development amounted to 14 % (previous year: 14 %). Compared to the previous year, overall, the costs (personnel expenses, depreciations, other operating expenses, as well as directly attributable overhead) increased from € 9.1 million € to € 11.0 million in 2014.

The expenses include third-party services in the amount of € 815 thousand (previous year: € 613 thousand). The capitalized investments in own developments amounted to € 5.9 million (previous year: € 4.3 million) which corresponds to an increase of 37 % compared to 2013. The amount of depreciations for own developments amounted to € 3.2 million (previous year: € 3.4 million). As of December 31, 2014, the number of full-time equivalent employees in research and development was 94 (previous year: 84).

At the end of fiscal year 2014, Basler AG was the owner of 25 patents and patent applications, of which 14 are granted and 11 are in the process of application. Furthermore, Basler is owner of one utility model, 28 trade names, and three registered designs. Another 46 trade names are in the process of application.

2 Economic Report

2.1 Basic Conditions

In 2014, the global economy developed below original expectations. Despite decreased raw material prices and low interest rates the upswing was moderate. The global economic growth amounted to 2.4 % and did not achieve the original forecast of 2.8 %. Whereas the economic growth rates in the USA (2.3 %) and China - as the large driver - (7.4 %) show a continuous upswing, the European economy grew by only 1.2 % also due to the ongoing euro crisis. Whereas the economy in Germany grew in the first half year, it came to a standstill in the second half year and companies put their investments on hold. In the elapsed fiscal year, overall, the economic performance in Germany only increased by 1.5 % (source: Berenberg, Global Outlook).

This development also affected the machinery and plant construction industry that is relevant to us. Thus, in July the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, VDMA) decreased its growth forecast from initially 3 % to 1 %. In the fiscal year 2014, export growth to Southeast Asia increased by 10 %, those to European partner countries rose by 6 % and to North America (particularly USA) by 6 %. The exports to Australia and Latin America showed a negative development. Geopolitical tensions in Eastern Europe lead to slumps in export to the Ukraine and Russia. Despite these negative impacts the number of employees in the German mechanical engineering sector increased in 2014 once again to more than 1 million (source: VDMA Mechanical Engineering Development Dec. 2014).

The German image processing industry developed better than the entire sector of machinery and plant construction. Compared to the previous year, the sales development of components of the German image processing industry was positive and increased by 8 %. (source: VDMA IBV, quarterly statistic Q4). In comparison, Basler developed considerably better than the market and generated sales growth of approximately 22 %.

2.2 Business Development

The above average performance of the elapsed fiscal year shows that we make good progress in the implementation of our strategy. In absolute terms, sales developed from € 65.1 million in 2013 to the new record value of € 79.2 million in fiscal year 2014 (+ 22 %) and thus resulted in a record result before taxes amounting to € 11.1 million (+ 42 %).

Due to the consistent alignment of the camera business towards high-volume areas (mainstream and entry level) we were able to increase production from 130,000 units in the previous year to 179,000 units.

As in the previous year, the main driver of growth was our ace compact camera family that showed an increase in sales by 46 %. In particular, the ace models with Gigabit Ethernet interface largely contributed to the sales growth. The ace models with USB 3.0 interface that were launched on to the market in 2013 were also successfully distributed. For these camera models we expect a continuously rising demand in the future since the USB 3.0 technology is now well established in the market. We also successfully increased sales from the high speed ace models equipped with camera link interfaces that are positioned at higher price levels. As in 2014, the ace product family with currently more than 100 different models was again the most successful camera family.

With our product launch of the dart camera series in the previous year, we laid the foundations for the planned expansion into the entry level market. Even with minimal early stage sales, we receive very positive market response. We also were very successful with the development and sales of additional components as objectives and cables (accessories). We are confident that the expansion of the value-added chain will lead to positive impulses and synergies in sales. Sales revenues from accessories exceeded expectations.

Also the sales from the pilot camera family (GigE cameras with CCD sensors) exceeded the planned values.

With regard to the regional business allocation, in the elapsed fiscal year we reached the largest sales growth of 33 % in the EMEA countries. Sales revenues in America increased by 20 %, those in Asia by 17 %, and in Germany we recorded a growth of 15 %. However, in this regional allocation it must be taken into consideration that a considerable part of

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the deliveries in the EMEA region were induced by customer projects in Asia. Thus, to a large proportion, the Asia region is also responsible for the strong sales growth in the EMEA region. We owe this to our progress made in market penetration, the continuous investment in new sales employees, the expansion of the distribution network, and the adding of new sales partners. Furthermore, we continuously expand our subsidiaries and broaden our representative offices in other European countries.

According to additional investments (especially personnel), operating expenses increased from € 25.7 million in the previous year to € 30.8 million in 2014. The major part of the cost increase relates to the implementation of our medium-term planning providing for sales revenues amounting to € 120 million at a minimum pre-tax return rate of 10 %. All functional areas actively work on the implementation of the strategy, meet the requirements relative to the organizational structures and procedures, and acquire the necessary know how in order to achieve this target. Consequently, in the elapsed fiscal year, several organizational projects were carried out and processed in the expenses of the financial year 2014. The most essential project was the production start in our Singapore subsidiary. We are confident to gain further competitive advantages in the future by offering a selected portfolio of locally manufactured cameras for the Asian region. Furthermore, we prepare at an early stage for a more mature market phase with stronger Asian competitors.

Compared to the previous year, the annual surplus increased by € 2.6 million and amounted to € 8.2 million (previous year: € 5.6 million). The pre-tax margin was 14 % (previous year: 12 %). The reason for the better result in the elapsed fiscal year were sales revenues above plan, higher gross profit margins, and a slower than planned increase of the operational costs. The sales revenues and gross profits were positively influenced by unplanned large-scale projects in the Asian electrical industry.

Compared to the previous year, the return on equity improved by 6.6 percentage points and is 25.2 % at the end of the fiscal year.

2.3 Profit Situation

in € million	2014	2013	Change	in %
Sales revenues	**79.2**	**65.1**	**14.1**	**22 %**
Cost of service performed	-38.2	-32.6	-5.6	17 %
Gross Results	41.0	32.5	8.5	26 %
Other internal income	2.3	1.7	0.6	35 %
Expenses	-30.8	-25.7	-5.1	20 %
Operative profit	12.5	8.5	4.0	47 %
Financial result	-1.4	-0.7	-0.7	100 %
Earnings before profit tax	11.1	7.8	3.3	42 %
Taxes	-2.9	-2.2	-0.7	32 %
Group's annual surplus	8.2	5.6	2.6	46 %

Compared to the previous year, the sales increased by € 14.1 million (+ 22 %) and amounted to € 79.2 million at the end of the fiscal year. Along with the sales growth, the costs of service performed increased. Their increase of 17 %, however, was under-proportionate. The other operational costs climbed by 20 % to € 30.8 million. The main drivers for this were higher personnel costs due to an increased number of employees from 352 in the previous year to 405 in 2014, as well as due to annual increases, performance related variable remunerations, and recruiting costs. Also the other expenses increased, particularly expenses for consultancy, marketing, and travelling.

In comparison to the previous year, the financial result deteriorated by € 0.7 million. This was mainly due to slightly increased interest payments due to additional loan capital and the negative market valuation of an interest rate swap of € 0.2 million.

Due to existing loss carry forwards at Basler AG, the actual tax burden for the financial year was € 1.5 million, corresponding to a tax ratio of approximately 13.5 %. The deferred tax expenses amounted to € 1.4 million. The tax ratio including deferred taxes amounted to 26.4 %.

Compared to the previous year, the annual surplus increased by 46 % and amounted to € 8.2 million (previous year: € 5.6 million).

The order backlog as of the reporting date amounted to € 12.6 million (previous year: € 9.2 million).

2.4 Financial Situation

The liquidity management of the group is aimed at meeting the demand for capital such that an appropriate balance is achieved between maturity risk, rating of the creditors, the cost of equity and the cost of debt. At the end of the financial year, 96 % of the long-term assets were covered by equity.

In the financial year, a positive cash flow of € 16.0 million (previous year: € 12.1 million) was generated from current business activity. In 2014, the cash flow from investing activities amounted to € -8.6 million (previous year: € -6.5 million). In the course of the financial year 2014, the free cash flow calculated as the sum of cash flows from operational activity and investment reached a value of € 7.4 million (previous year: € 5.6 million).

On the financing side, liabilities to banks in an amount of € 0.4 million were paid off and new loans from the ERP Innovation Program of the Kreditanstalt für Wiederaufbau (KFW) in the amount of € 2.7 million were taken out. At the balance sheet date, unused credit lines with banks amounted to € 2.4 million.

Considering dividend payments and the buyback of own shares, cash flow from financing activities amounted to € -4.2 million (previous year: € -4.2 million).

At the end of the financial year, liquid assets amounted to € 12.8 million. This means an increase of freely available liquidity by € 3.1 million, compared to the previous year. The liquidity of the group was secure at all times.

2.5 Asset Situation

in € million	2014	2013	Change	in %
Intangible assets	17.4	14.5	2.9	20 %
Tangible assets	5.3	4.3	1.0	23 %
Buildings and land in finance lease	16.0	16.7	-0.7	-4 %
Deferred tax claims	0.1	0.1	0.0	0 %
Long-term assets	**38.8**	**35.6**	**3.2**	**9 %**
Inventories	12.5	9.6	2.9	30 %
Receivables from deliveries and services	7.0	6.9	0.1	1 %
Other short-term assets	1.2	1.5	-0.3	-20 %
Cash in bank and cash in hand	12.8	9.7	3.1	32 %
Short-term assets	**33.5**	**27.7**	**5.8**	**21 %**
Total assets	**72.3**	**63.3**	**9.0**	**14 %**
Equity	**37.3**	**32.5**	**4.8**	**15 %**
Long-term interest bearing bank liabilities	7.4	5.6	1.8	32 %
Liabilities from finance lease	11.5	12.9	-1.4	-11 %
Other long-term liabilities	3.4	1.7	1.7	100 %
Long-term liabilities	**22.3**	**20.2**	**2.1**	**10 %**
Current financial debt	2.3	1.5	0.8	53 %
Short-term provisions	3.9	3.2	0.7	22 %
Liabilities from finance lease	2.2	2.1	0.1	5 %
Current other financial debt	4.3	3.8	0.5	13 %
Current financial debt	**12.7**	**10.6**	**2.1**	**20 %**
Total liabilities	**72.3**	**63.3**	**9.0**	**14 %**

In the elapsed fiscal year, investments in intangible assets increased to € 6.5 million (previous year: € 4.7 million). These mainly included own developments and services purchased for research and development. Investments in tangible assets amounted to € 2.2 million (previous year: € 1.8 million), much of which was attributable to the opening of a new production facility in the Singapore subsidiary and the resultant investments in machines. Buildings and land in finance lease decreased by € 0.7 thousand due to scheduled depreciations. In comparison to the previous year, long-term assets increased by 9 %.

Inventories increased by € 2.9 million to € 12.5 million, compared to the previous year. This increase is due to the production start in Asia and to increased incoming orders at the end of the financial year and the resultant material procurements.

Receivables from deliveries and services slightly increased by 1 %. Cash in bank and cash in hand showed a balance that was € 3.1 million higher than in the previous year. Compared to 2013, current assets increased by 21 %. In comparison to the previous year, the total assets increased by 14 % to € 72.3 million.

In comparison to the previous year, equity increased by € 4.8 million to € 37.3 million. The increase due to the annual surplus of € 8.2 million is settled against the purchase of own shares with an equivalent value of € 2.1 million and the distribution of a dividend of € 1.5 million.

The subscribed capital – consisting of 3.5 million non-par bearer shares - amounts unchanged to € 3.5 million. As a deduction of this, the par value of own shares in an amount of € 0.32 million (previous year: € 0.26 million) is shown. In comparison to the previous year, the retained earnings including the consolidated result increased by € 4.5 million to € 33.9 million. As of the reporting date, a hidden reserve amounting to € 12.3 million resulted from the volume of own shares.

The long-term interest bearing bank liabilities increased by € 1.7 million due to new loans taken out from existing commitments from KfW subsidies. As of the balance sheet date, cash values of the lease liabilities amount to € 13.7 million (previous year: € 15.0 million). € 11.5 million of this (previous year: € 12.9 million) were long-term liabilities.

The current liabilities increased by € 2.1 million which is particularly due to the increase of short-term provisions for variable compensation, and a planned employee participation in the success of the financial year.

Off balance sheet liabilities mainly in terms of order commitments amounted to € 9.1 million (previous year: € 5.7 million) as of the balance sheet date. There have been no premature payment obligations in the elapsed fiscal year.

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2.6 Financial and Non-Financial Performance Indicators

In addition to the mentioned figures, further performance indicators are measured and are used for managing the company.

Inter alia, we measure profitability on the basis of the profitability per employee (annual average number of employees in relation to the after tax result). In the fiscal year 2014, it was increased by 28 % to € 20.3 thousand, compared to the previous year (previous year: € 15.9 thousand). The gross profit margin increased from 49.9 % in the previous year to 51.8 %. Furthermore, we use the ROCE (return on capital employed) for managing the company.

To provide comparability, we point out that the capital employed also includes liabilities from finance lease for our building in Ahrensburg. At the end of the financial year, the ROCE amounted to 25.7 % (previous year: 19.0 %).

The working capital (without liquid assets) amounted to € 17.1 million (previous year: € 13.7 million), at the end of the fiscal year. The increase mainly results from the increase of raw materials, auxiliary materials, and operating materials that in turn was initiated by high incoming orders with resultant material procurement at the year end.

The satisfaction of our employees is essential for the success of our company. Therefore, we provide a flexible and family friendly working environment, reconciling the demands of work and family life. In addition to various part-time models and flexible working time, we offer our employees child care services for emergencies during special working hours, and during school holidays. In 2013, we set up a separate room in Ahrensburg for child care services. In 2011, Basler AG was audited by the Hertie Foundation within the "Work and Family" initiative and certified as "family-friendly company". We are pleased that the high level of the employees' satisfaction again increased slightly in 2014, due to our various activities. Also the employee fluctuation rate is again very low at 0.9 % (previous year: 1.5 %).

In 2014, the average number of employees of the group was 405 (previous year: 352). Converted to the number of equivalents of full-time employment the average number of employees was 374 (previous year: 325). Please find any further details concerning the employee structure in the notes.

We give special attention to our own in-house training of young people, in order to find suitable junior staff, but also in order to confirm our regional social commitment. The training ratio in the elapsed fiscal year amounted to 6.3 % (previous year: 7.6 %).

Another key aspect of our personnel policy is the continuous development of our employees through internal and external seminars, courses, on the job trainings, or self-study. Once a year, development reviews with the employees are conducted in which employee and manager agree upon development objectives. The progress is measured once a year and the implementation level of the agreed measures is part of the balanced score card. The costs for basic and further training increased from € 342 thousand in 2013 to € 545 thousand in 2014.

Customer satisfaction surveys are conducted every two years. For many years, measuring criterion for the customer satisfaction has been the willingness to recommend Basler. The result of the latest survey was very satisfactory.

2.7 Overall Statement

As in the previous years, we are very satisfied with the course of business in the reporting period and look back on a successful fiscal year 2014, in which we exceeded our planning considerably. Sales revenues amounting to € 79.2 million were above the corridor of € 70 million to € 74 million forecasted at the beginning of the fiscal year. The pre-tax margin of 14 % again exceeded the previous year's figure of 12 % and also our strategic benchmark of 10 %. In particular, we succeeded in growing clearly above market. This was possible due to the focusing on high-volume areas of the industrial camera market. With a broader product portfolio and new innovative products we reach more customers and applications than just a few years ago. Gradually we expand our strong market position by adding new market fields to our strength factory applications, like medical, logistics, or retail. Due to the continuous extension of the sales organization and the expansion in further regions we have a better market access than in the past. Because of the results of the elapsed fiscal year we feel even more confident in our strategic direction which allows us to look to the future with confidence.

It is our goal to let the shareholders of Basler AG participate in the success and, at the same time, maintain sufficient liquidity in order to continue the growth course. In 2011, we adopted a dividend policy providing for a distribution of 30 % of the net results in form of a reliable base dividend in combination with an optional additional dividend depending on the company's performance. For fiscal year 2013 a dividend of 47 Cents per share was paid, corresponding to a distribution ratio of 27 %. Since in 2014 we generated a result amounting to € 8.2 million (previous year: € 5.6 million) at an after tax return of 10.4 % (previous year: 8.6 %) which is the best result in the company's

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history, we will propose to the this year's shareholders' meeting in May 2015 to pay a dividend in the amount of 70 Cents per share (corresponds to € 2.2 million). Should the shareholders' meeting vote for the proposal, approximately 27 % of the annual surplus would be distributed to the shareholders. Since the dividend originates from the tax account, it is exempt from the withholding tax and the solidarity surcharge amounting to 26.375 % in total.

3 Supplementary Report

There are no relevant events impacting the annual financial statement to report after the reporting date.

4 Forecast Report

The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, VDMA) expects the global engineering industry to grow by approximately 2 % (source: VDMA, Economic Report December 2014). On the one hand decreased raw material prices and exchange rates support the international business environment, but on the other hand unsolved conflicts in Russia and the Ukraine, as well as economic uncertainties in China dim prospects, thus for the German engineering industry a growth of about 2 % is forecasted. Compared to 2014, the Association of Manufacturers of Machinery and Equipment for the Semiconductor Industry (SEMI) assumes an increase in sales figures of 15.2 % for 2015 (source: Market Study SEMI).

In view of our again broadened product portfolio, our enlarged sales organization, as well as the development of new sales regions and vertical markets, for 2015 we once again expect the continuation of our double-digit percentage sales growth in the camera business. Therefore, we plan for group sales revenues within a corridor of approximately € 81 to 84 million. Again, the main driver of growth will be increasing revenues with Gigabit Ethernet cameras. In addition to this, for the coming year, we expect a sustainable demand for USB 3.0 cameras. Due to the positive initial feedback, we assume a successful launch of the new dart camera series and our accessories. In 2015, we will gain new customers in the entry level market due to the unique price performance ratio and the compact design of this camera series, and thus will continue to consistently implement our volume strategy. In pursuit of our mid-term goal to exceed the sales threshold of € 120 million in 2018, for the time being, we give priority to profitable sales growth versus an increase of the pre-tax return and, analogous to the previous years, we plan with a pre-tax return within a corridor of 9 to 10 %. Any further profits will be reinvested - on a priority basis for additional personnel in the functional areas of sales, marketing, and research and development - in order to continue a sustainable and solid growth strategy within the coming years.

5 Opportunities and Risks Report

The growth strategy pursued by Basler for market leadership for industrial cameras in the coming years with group's sales above € 120 million, can only be implemented if opportunities are determinedly used and, at the same time, measures are taken in order to minimize threatening risks in an appropriate way.

The opportunity and risk management system at Basler includes:

- to generate transparency within the executive team about opportunities and risks of our business and
- to agree within the executive team how the company can use its opportunities and how the probability of occurrence of relevant risks can be limited

Essential parts of the opportunities and risks management system are the risk strategy, the risk atlas, the risk matrix, and the risk coping. In 2013, a risk strategy was adopted and software for a standardized collection and measurement of risks was implemented. In the elapsed fiscal year, the risk inventory was conducted. Here, risks were identified and quantified according to occurrence probability and monetary amounts and measures were defined in order to minimize the risk. The number of identified risks has been compared to the defined risk cover amount (available capital for covering risks). The risk capacity of the group was not exceeded. These measure will be flanked by the internal control system (IKS), the internal quality management system and finally by the annual external audit in the frame of the DIN ISO 9000/2000 and DIN ISO 9000/2008.

5.1 Internal Organisation

In this category we deal with the business model, organizational structures and processes, IT and communications, information procurement, and personnel.

An enduring weakening of growth of the camera market is not foreseeable today. Forecasts issued by federations and market research institutes assume persistent growth in the single-digit percentage range for classical applications in industrial mass production and growth in the double-digit percentage range for newer sales markets like e.g. traffic technology, logistics, or medical technology. Since we continuously expand the product portfolio and push the diversification of possible applications, we consider the business model to be scalable and future-proof.

The company is organized by functions and the foreign subsidiaries directly report to the management board. With a flat hierarchy and short decision making processes, we want to maintain the flexibility and the exchange among the employees even with increasing growth. As a technology company, Basler is heavily depending on the knowledge of its employees. Therefore, we took measures - as already mentioned under 2.6 - for staff retention and further development, and actively work on maintaining and creating a company culture that is fostering innovation.

One challenge within the coming years will be to shape the process of the increasing number of employees in a creative and effective way. That is why we continuously work on increasing the level of attractiveness of the Basler employer brand and develop concepts for the integration of new employees (please see also 2.2).

Regarding IT and information procurement we refer to point 6 of the management report.

5.2 Finance

The credit default risk is countered by a credit management system and a professional receivables management, in which larger customers are continually subject to credit checks and their credit limits are stored in the system according to the rating. In case of an exceeding of a credit limit, the specific situation is checked and, if necessary, the delivery of goods will be stopped. Outstanding debts are subject to a three-stage default action. If the customer fails settling an outstanding invoice that has reached dunning level two, in general no further deliveries will be made. Default risks are countered through individual and general valuation allowances. In total, the average default ratio of 0.5 % in 2014 is again low in terms of the receivables from deliveries and services. In the fiscal year 2014, individual value adjustments and write-offs on accounts receivables were posted in the amount of € 44 thousand (previous year: € 18 thousand).

Liquidity is controlled in collaboration between accounting, controlling, sales, and strategic purchasing. Based on the four-year planning and the budget of the current fiscal year, a liquidity planning is made which is updated regularly and part of the monthly reporting. On that basis, the liquidity requirements can be identified in time and be prematurely financed with banks.

In the past years, the company had a positive cash flow from operating activities, from which investments can be financed in addition to financial liabilities and, moreover, that resulted in a net liquidity at the reporting date amounting to € 4.5 million. The total of cash in hand, positive free cash flow, and freely available lines with credit institutions cover the future financial needs of Basler AG within a foreseeable period. In addition to this, as a technology company with a considerable part of investments in research and development and a positive rating, we get low interest KFW loans.

Due to the positive profit situation and the company's strong equity, we currently do not see a liquidity risk.

We take interest and foreign currency risks within a very limited scope only. As far as possible, sales revenues in foreign currencies - particularly in USD and JPY - are used for purchasing material in these currencies. Remaining surpluses are partially secured via forward exchange contracts or foreign exchange options. We use currency derivatives exclusively as hedging instruments.

5.3 Procurement Market

In principle, there is a risk of a certain dependence on suppliers of technological components. On the suppliers' side, we reduce the risk by establishing long-term business relationships and regular supplier audits, and by permanently observing the procurement markets. As far as technically possible and economically useful, we strive to build up a second source. Furthermore, we implemented processes and systems in order to ensure the short-term availability and the adherence to delivery dates of components.

5.4 Sales Market

Due to its broad portfolio mix of industries and customers, the volatility of our camera business is low. Due to our focusing on the high-volume mainstream and entry level segments, the share of sales with customers outside the factory continuously increases, and thus improves the sales risk structure, and increases the stability of our business model. Although broadly diversified activities also experience declines in sales in times of economic crisis, in general, they are less strongly affected than businesses depending on cyclical individual industries.

There are periodic fluctuations in demand in individual target markets. This applies in particular to capital goods markets in the semiconductor-, electronics- and LCD industry. Global economic downswings affect the camera market in so far as they are accompanied by decreasing investments in equipment. For 2015, we assume unchanged market risks compared to 2014. Of particular importance are risks related to a possible flaring up of the euro crisis, a further geopolitical escalation between the Ukraine and Russia, or strong turbulences in the exchange markets. Despite the risk of a macroeconomic weakening in China, in total we assume a positive development of our business in China.

The intensity of competition in the industrial camera market continued to be high in the year just ended. In our view, we have a lead on our competitors with regard to the product portfolio and the market position. With our volume strategy, our target is to gain market shares in existing target markets and to develop new applications with considerable volumes faster than the competition. In order to achieve this goal, we continuously increase the expenses for sales, research and development, and production and especially for marketing. Furthermore, we pursue the strategy to gradually increase our value creation in Asia and the USA and develop from a German company with an international sales organization to a global company that is moving even closer to its customers. If this strategy can successfully be implemented, Basler will strengthen its market position relative to the competition.

We counter the risk of market price and margin erosion, by striving to be the fast mover in the market with innovative products and, at the same time, by permanently optimizing their manufacturing costs. Thus, a lean product design, the use of platform architectures as well as lean manufacturing are critical success factors for our company.

Given the current shareholder structure, a hostile takeover of Basler AG can almost be excluded. The shareholder structure is nonetheless constantly checked for changes. Furthermore, in the elapsed fiscal year, Basler AG increased its number of own shares from 261,816 shares as of December 31, 2013, to 318,864 shares as of December 31, 2014.

5.5 Political and Legal Risks

Due to the regional diversification of our camera business in almost 60 countries of which 20 countries belong to the OECD, we consider the risk of political events with catastrophic effects on our business as manageable.

We face legal risks by continuously improving the know-how of our legal department involving it in our contract negotiations and change processes. Additionally, in special cases, we consult external experts for legal and tax advice. In the elapsed fiscal year, we implemented a new contract management system in order to be able to professionally administrate existing contracts. Within the context of the risk management system and sensitive information we also deal with the subject "Business damage due to employees of the company". There are no indications for criminal activities or gross negligence.

With regard to data protection and safety of data we refer to paragraph 6 of the report.

5.6 Operating Risks

Another essential success factor is an on time and high quality product development. The implemented processes and planning instruments are continuously reviewed and adjusted to the requirements so that development processes can be concluded on schedule and according to budget.

Our production corresponds to modern standards and is organizationally oriented to manage variations of incoming orders, and to be able to implement an appropriate capacity utilization of employees and machines.

The quality of our products is monitored in the framework of an integrated quality management system. This system includes the certification according to DIN ISO 9000/2000 and DIN ISO 9000/2008 and the annual supervision by external auditors. This is supplemented by internal audits.

The development and maintenance of the Basler brand is an integral part of the product policy. Name and logo of Basler are registered and protected brands.

5.7 Overall Statement

As manufacturer of industrial cameras we assess the corporate strategy risk of Basler to be low. This assessment is based on the fact that superseding technologies for cameras are not in sight and digital viewing becomes increasingly important in the industry as well as in all other areas of life. Furthermore, the trade associations for the global camera market expect continuous growth in the coming years. Finally, in the medium term, banks and economic research institutes mainly assume the global economic development to be stable to slightly positive.

Due to the fact that Basler continuously aligns its activities regarding new products and the development of new markets and application fields and thus continuously broadens its sales opportunities, we consider the risk of a below average development of the company in comparison to the camera market to be manageable. By broadening our target markets, the already low dependences on single vertical markets or customers decrease step by step.

We annually review our business model and the multi-year planning. The achievement of quantitative and qualitative goals for the respective fiscal year is monitored on a monthly basis in a balanced score card system and discussed by the management team.

Insofar, in the absence of macroeconomic crises, we assume that we will be able to achieve the sales threshold of € 120 million with a pre-tax return margin (EBT margin) of at least 10 % in the medium term.

There were no significant events outside of ordinary business operations that are not described in the management report.

6 Internal Control System and Risk Management System Related to the Accounting Process

The management board of Basler AG is responsible for the preparation and accuracy of the consolidated financial statements as well as for the consolidated management report. This is guaranteed by including the accounting processes of Basler AG in the quality management system which is valid for the entire group. The processes are on principle designed in accord with the "four-eyes" principle and a strict separation of functions. They are supported by the group-wide SAP system that includes a firm authorization concept where all individual financial statements of the Basler group are prepared in accordance with group-wide standards. If included companies prepare individual financial statements according to other accounting standards, the group-wide standards for commercial financial statements II (IFRS standards) apply, which are processed centrally in group accounting.

The accounting principles as well as controls to monitor process and data quality for an automated preparation of financial statements are stored in this system.

The closing processes are almost completely automated wherever possible and are governed by appropriate computer based workflows. The completeness and correctness of accounting data are regularly reviewed by sampling inspections, and plausibility checks, by manual control supported by the software used.

Within its activity the supervisory board of Basler AG regularly addresses key aspects of accounting, risk management, as well as audit assignments and key audit areas.

7 Risk Reporting Related to the Use of Financial Instruments

Due to Basler's high export rate, the majority of the payments are made in foreign currencies. Due to sales revenues minus material purchases and other expenses in the respective foreign currency, payment surpluses in USD and JPY occur. Foreign currency balances are always exchanged into Euro. Surpluses in foreign currencies that possibly evolve in the future are hedged using forward exchange contracts the maturity of which in general does not exceed twelve months. Thus, currency risks from fluctuations of the exchange rate are minimized.

In order to hedge long-term sales revenues against exchange rate fluctuations, occasionally currency option transactions are concluded. Spot exchange transactions, forward currency transactions and currency option transactions are not used for speculative purposes, but are used to minimize risks of foreign currencies. As of the reporting date, forward currency transactions in USD amounting to 5 million (previous year: none) and forward currency transactions in JPY amounting to 450 million (previous year: none) existed. As of the balance sheet date, there were no forward exchange dealings. The creation of valuation units was waived and forward currency transactions are balanced at fair value.

In 2011, Basler AG concluded a payer swap intended to serve as hedge for a planned company acquisition. Since the transaction did not take place, the evaluation unit was dissolved in fiscal year 2012 and since then the swap has been balanced at its market value. As of December 31, 2014, the market value amounted to € -1.3 million. In fiscal year 2014, expenses of € 224 thousand were booked due to the market valuation and the continuously decreasing interest rate level.

Basler exclusively concludes derivative transactions with its principal banks. We consider the risk of a default of the counterparty to be very low.

8 Information Concerning Takeovers (§ 289 and § 314 of the German Commercial Code, HGB)

From January 1, 2011, until December 31, 2013, the management board of Basler AG consisted of three members. With effect from January 1, 2014, Hardy Mehl was appointed as fourth member to the management board and the responsibilities were newly defined. Dr. Dietmar Ley is responsible for research and development as well as personnel and organizational development, John P. Jennings is responsible for sales, market communications, and the subsidiaries, Arndt Bake is responsible for marketing and new business, and Hardy Mehl is responsible for production, purchasing and logistics, finance, legal and investor relations.

The Articles of Incorporation of Basler AG include the following provisions regarding appointment and dismissal of members of the management board:

"The appointment of the members of the management board, the revocation of their appointment, and the conclusion, modification, and termination of employment contracts with the members of the management board is effected by the supervisory board. The same applies for the appointment of a member of the management board as chairman and for other members of the management board as deputy chairmen."

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The Articles of Incorporation of Basler AG can only be changed by the shareholders' meeting and only by three quarters of the share capital represented at the time of passing of the resolution.

The share capital of Basler AG amounting to € 3.5 million is divided into 3.5 million of no-par-value bearer shares.

Mr. Norbert Basler, Großhansdorf, has informed the management board of Basler AG that he owns 1.816.891 million shares and therewith commands 51.9 % of the voting rights.

The authorization of the management board as regards the issue or buyback of own shares is regulated in the Articles of Incorporation as follows:

"The management board is authorized to increase the company's capital stock once or several times up to a total of € 1,750,000 by May 30, 2017 with the supervisory board's approval by the issuing of up to 1,750,000 new bearer stock certificates against cash contributions and/or contributions in kind. In doing so, shareholders are entitled to subscription rights. However, the management board is authorized, subject to approval by the supervisory board, to exclude subscription rights of the shareholders for fractional amounts. Furthermore, with the supervisory board's approval, the management board may exclude the shareholders' subscription rights in order to be able to offer the new shares of the company to third parties against subscription in kind for the purpose of acquiring companies or participating in companies or claims against the company or affiliated companies. The exclusion of the subscription right by the management board is permissible with the supervisory board's approval, even if the increase in capital against cash subscription does not exceed 10 % of the capital stock of the amount of € 3,500,000.00 and the issue amount does not fall considerably short of the officially reported price of the already quoted stock of similar funding at the time of ultimately determining the issue price (§ 203 Sec. 1 sentence 1 in connection with § 186 Sec. 3 sentence 4 German Stock Corporation Act (AktG)). The market price is the arithmetic average of the closing prices of the company stock in electronic trading at the Frankfurt Stock Exchange (XETRA trade) or a successor system during the last ten trading days prior to exercising the authorization.

With the supervisory board's approval, the management board is authorized to determine the details of the increase in capital stock and the conditions of issuing shares, in particular in determining the issue price."

The management board is in addition authorized to buy own shares not exceeding 10 % of the current share capital until June 30, 2019. The authorization can be exercised partially or fully, once or several times, for one or several purposes. It may, however, also be exercised by companies that are dependent or majority owned by the corporation or on their behalf by third parties. According to the corporation's choice, the acquisition may be effected (i) via the stock market or (ii) via a public purchase bid directed to all shareholders of the company or a public invitation directed to all shareholders of the company to make sales offers or (iii) via a public offer directed to all shareholders to exchange shares for shares of a company listed within the meaning of § 3 Sec. 2 German Stock Corporation Act (AktG) or by a public invitation to tender such an offer.

With the supervisory board's approval, the management board is authorized to use the shares thus obtained and previously obtained shares for all legally permissible purposes.

With the supervisory board's approval, the management board is in addition authorized to use the shares obtained according to this authorization and the previously obtained own shares to grant shares to other employees of the corporation, to members of the executive board and to employees of companies that are affiliated with the corporation within the meaning of §§ 15 ff. German Stock Corporation Act (AktG) as far as these persons are entitled to their purchase based on employee share ownership plans.

With the supervisory board's approval, the management board is in addition authorized to use the shares obtained according to this authorization and the previously obtained own shares to fulfil conversion rights, options, and conversion obligations, respectively, due to convertible bonds, partial debentures, and bonds with warrants implying conversion rights, options, and conversion obligations, respectively, issued by the company or by companies that are dependent or majority owned by the corporation.

With the supervisory board's approval, the management board is in addition authorized to withdraw own shares without further decision by the shareholders' meeting.

The shareholders' subscription rights for own shares are excluded as far as these shares are used in accord with the above authorizations.

The management board will inform the shareholders' meeting about each acquisition of own shares and their use. Further issues according to § 315 Sec. 4 German Code of Commercial Law do not exist.

9 Declaration Regarding Corporate Governance (§ 314 sec.1 no.8 German Commercial Code, HGB)

You can find on our website the declaration of compliance with the Corporate Governance Code, explanations regarding our practices of corporate governance, and a description of the working practices of the management board and the supervisory board (www.baslerweb.com). Click Investors → Corporate Governance.

10 Principles of the Remuneration System

The following statements regarding the remuneration of the bodies of Basler AG are statements for the notes as stipulated by the German Commercial Code and statements due to provisions by the Corporate Governance Code.

10.1 Remuneration of the Management Board

The remuneration of the members of the management board consists of diverse components. Based on their employment contracts, the members of the management board are entitled to a fixed and an annually variable remuneration as well as to fringe benefits. The structure of the remuneration system for the management board and the adequacy of remuneration are regularly checked and defined by the supervisory board.

According to market standards, the company grants all members of the management board additional benefits provided by their executive contracts. They are partly considered as non-cash benefits and are taxed accordingly. This includes mainly the car allowance and the granting of accident insurance coverage. Secondary employment is on principle subject to approval.

The contract periods for the members of the management board are linked to the terms of appointment as member of the management board. The contracts for the members of the management board provide for a post-contractual non-competition clause. The members of the management board are contractually prohibited from supplying services to or for a competitor within the period of one and a half years after their resignation.

10.1.1 Own Requirements on the Remuneration System

The remuneration system for the management board is intended to address the following aspects:

- Long-term perspective
- Profitability
- Growth
- Equity strength
- Performance orientation
- Efficiency of implementation
- Transparency for all parties concerned

This results in the following requirements on the remuneration system:

- Individual and adequate remuneration
- Focus on sustainable corporate development
- Breakdown into fixed and variable components
- Multi-year assessment basis
- Consideration of positive and negative developments
- Avoidance of disincentives with regard to unreasonable risks
- Relevant and ambitious targets and key figures
- Exclusion of subsequent changes of performance targets
- Limitation of variable remuneration
- Supervisory board shall be enabled to react to extraordinary developments

10.1.2 Structure of the Remuneration System (Only Monetary Salary Components)

An individual target salary is agreed upon with each member of the management board at the time of conclusion and/or amendment of a contract. The amount of the target salary depends inter alia on the following:

- Duties and responsibilities
- Performance
- Market conditions
- Economic situation of the company
- Success and outlook of the company
- External peer groups
- Internal remuneration structure

For all members of the management board, the same percentage of the salary target is defined representing the basis for calculating the variable remuneration. The amount of the variable component considers the previous and other regulations of the company, customary market conditions and the recommendations of the Corporate Governance Code.

The variable component for members of the management board at Basler AG is set at 25 % of the target salary.

10.1.3 Performance Indicators

The strategic goal of a highly profitable high-growth company and our fundamental decision in favor of high-equity corporate financing lead to measuring the corporate success in terms of profitability and growth.

Earnings before taxes (EBT) in relation to sales are considered as a suitable indicator for profitability.

$$\text{Profitability} = \frac{\text{EBT}}{\text{Sales}}$$

The percentage increase of the sales revenues compared to the previous year is considered as a suitable indicator for growth.

$$\text{Growth in sales} = \frac{\text{Current sales}}{\text{Previous year´s sales}} -1$$

10.1.4 Targets

At the beginning of each fiscal year expected values are agreed upon as targets for both indicators. The profitability target is based on the long-term profit expectation and is supposed to show high continuity over the years. The sales expectations also take into account medium and shorter-term influences and will thus fluctuate more strongly from year to year.

At the beginning of each fiscal year tolerance ranges for both indicators are agreed upon describing the scope of normal business activity. The lower benchmark figure of the tolerance shall mark the transition from a basically satisfactory result to an unsatisfactory result. Vice versa, the upper benchmark figure marks the dividing line between good and very good performance.

The level of target achievement is determined by linear functions concerning profitability and growth. These functions will each show 100% target achievement if the values for profitability and growth specified after conclusion of the annual financial statements exactly correspond to the expected values. The functions will show 0 % target achievement if the actual values fall below the expected values by an amount equaling the width of the tolerance. The functions will become negative if the downward deviations are even more pronounced.

Profitability and growth are equally important targets. However, in case of doubt the demand for profitability is more imperative than the demand for continuous growth. Thus, lacking profitability shall not be compensated by unrestrained growth. Accordingly, the degree of achievement for growth is limited to 400 %. Furthermore, the degrees of achievement are currently balanced at a ratio of 60 % to 40 % in favor of profitability. Adding up both weighted degrees of achievement for profitability and growth it results in the level of the total target achievement for the fiscal year.

The required limitation for the components of variable remuneration is set between -100 % to +400 %.

10.1.5 Bonus

The total target achievement (-100 % to 400 %) is multiplied by the variable component of the target salary as defined above and results in the amount in euros for the bonus entitlement of the respective member of the management board for the elapsed fiscal year. Accordingly, the bonus entitlement can amount to between -25 % (malus) to 75 % of the target salary.

The bonus entitlement calculated in that way is not paid immediately. In order to do justice to the required sustainability and the multi-year assessment basis the bonus amounts are paid delayed by a bonus bank and are subject to the risk of a substantial decrease due to subsequent worsening of the situation. A separate account is kept for the bonus claims of each member of the management board.

The bonus or malus calculated for the elapsed fiscal year is booked to the individual account. Allowing for the previous balance this results in a current account balance. If this account balance is positive one third will be paid out. Two thirds will be forwarded to new account and be considered in the next year. Negative balances must be compensated by positive balances or bonus deposits before payouts can be made by the bonus bank.

10.1.6 Total Remuneration

The total remuneration consists of the fixed salary (75 % of the target salary) and the payment made by the bonus bank.

If the targets agreed upon concerning profitability and growth are achieved on average over several years, the actual total remuneration will be in the amount of the target salary. If the targets are clearly missed for a long time, only the fixed salary will be paid out (75 % of the target salary) in the long term.

In case of significant overachievement of the profitability and the growth target over several years a gradually increasing total remuneration of a maximum of 175 % of the target salary will be paid out.

With regard to the information concerning the recommendations pursuant to nos. 4.2.5 para. 3 sent. 2 DCGK (Deutsche Corporate Governance Kodex, German Corporate Governance Code) we refer to the notes.

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10.1.7 Limits of the Model and Intervention of the Supervisory Board

No remuneration model will ever be able to consider all eventualities of real influences. It shall be as simple as possible and must consequently fail in the case of extraordinary and unpredictable boundary conditions.

In the event of serious crises (for example the global economic crisis 2008/2009) or success of the management board that cannot be represented in the profit and loss statement (for example strategic successes or the averting of threatening situations) such a remuneration model does not provide satisfactory results.

In order to reduce such system related disadvantages of a required remuneration system the supervisory board of Basler AG reserves two possibilities to intervene in the system:

- Delayed payout by the bonus bank
- Special allocations to the bonus bank

In the case of extraordinary difficult circumstances, the supervisory board may resolve on suspending or delaying impending payouts by the bonus bank, especially if bonus payments seem to be inappropriate with regard to stress on the staff or partners. The management board members' basic claim for payout remains intact.

In the case of extremely good results that are significantly above all expectations, the supervisory board may resolve on making special allocations to the bonus bank, especially if these results are not necessarily represented in the profit and loss statement. As the normal bonus, these special allocations also risk to decrease before being paid out over the years. The special allocations for each member of the management board can be resolved individually.

If the bonus bank shows a negative balance at the time of termination of office as member of the management board, it will be cleared by the company. In return, in the case of a positive balance the employment contracts provide that this balance remains in the bonus bank and thus is subject to the risk of decrease in the following years, analogous to the entitlement calculations of the remaining members of the management board in that year. However, after resigning from the management board no new positive claims will be transferred to the bonus bank. Payouts by the bonus bank to the remaining members of the management board are made at the scheduled regular dates. Thereby, one third each is paid out of the balance existing at the two scheduled regular dates subsequent to the resigning of the member of the management board and the remaining balance is paid out at the third regular date.

Independently of the remuneration model, in the case of premature termination of office as member of the management board without good cause, it is agreed upon a limitation of payments to the value of two annual remunerations which are not allowed to exceed the total of claims resulting from the remaining term of the employment contract.

Thus, the remuneration model for the management board agreed upon by the shareholders' meeting 2011 meets the requirements of the Corporate Governance Code related to:

- Individual and adequate remuneration
- Focus on sustainable corporate development
- Breakdown into fixed and variable components
- Multi-year assessment basis
- Consideration of positive and negative developments
- Avoidance of disincentives with regard to unreasonable risks
- Relevant and ambitious targets and key figures
- Exclusion of subsequent changes of performance targets
- Limitation of variable remuneration
- Supervisory board's power to intervene in the case of extraordinary developments

10.2 Remuneration of the Supervisory Board

Remuneration of the members of the supervisory board is set forth in the Articles of Incorporation. Chairmanship and vice chairmanship of the supervisory board are given consideration by extra pays of 100 % and/or 50 %. Given the current level of fixed remuneration, the addition of a performance related component to remuneration is not considered.

Ahrensburg, March 5, 2015

Dr. Dietmar Ley	John P. Jennings
(CEO)	(CCO)
Arndt Bake	Hardy Mehl
(CMO)	(CFO/COO)

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Consolidated Profit and Loss Statement

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2014 to December 31, 2014

in € k	Notes	01/01/ - 12/31/2014	01/01/ - 12/31/2013
Sales revenues	4	**79,240**	**65,110**
Cost of sales		-38,211	-32,564
- of which depreciations on capitalized developments	*10*	*-2,531*	*-2,743*
Gross profit on sales		**41,029**	**32,546**
Other operating income	5	2,295	1,690
Sales and marketing costs		-14,082	-11,538
General administration costs		-10,041	-7,726
Research and development		-5,287	-4,975
Other expenses	6	-1,372	-1,461
Operating result		**12,542**	**8,536**
Financial income	7	58	615
Financial expenses	7	-1,496	-1,374
Financial result		**-1,438**	**-759**
Earnings before tax		**11,104**	**7,777**
Income tax	8	-2,926	-2,215
Group´s year surplus		**8,178**	**5,562**
of which are allocated to			
shareholders of the parent company		8,178	5,562
non-controlling shareholders		0	0
Average number of shares	9.5	3,219,331	3,281,312
Earnings per share diluted / undiluted (€)		2.54	1.70

Consolidated Statement of Comprehensive Income

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2014 to December 31, 2014

in € k	Notes	01/01/ - 12/31/2014	01/01/ - 12/31/2013
Group's year surplus		8,178	5,562
Result from differences due to currency conversion, directly recorded in equity	18.3	349	-83
Surplus / Net loss from cash flow hedges	18.3	0	168
Total result, through profit or loss		**349**	**85**
Total result		**8,527**	**5,647**
of which are allocated to			
shareholders of the parent company		8,527	5,647
non-controlling shareholders		0	0

Consolidated Cash Flow Statement

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2014 to December 31, 2014

in € k	Notes	01/01/ - 12/31/2014	01/01/ - 12/31/2013
Operating activities			
Group's year surplus		8,178	5,562
Increase (+) / decrease (-) in deferred taxes		1,440	1,224
Payout/ incoming payments for interest		1,540	1,437
Depreciation of fixed assets		5,339	5,424
Change in capital resources without affecting payment		349	85
Increase (+) / decrease (-) in accruals		1,404	367
Profit (-) / loss (+) from asset disposals		-12	-3
Increase (-) / decrease (+) in reserves		-2,954	-1,959
Increase (+) / decrease (-) in advances from demand		-1,432	1,557
Increase (-) / decrease (+) in accounts receivable		-85	-555
Increase (-) / decrease (+) in other assets		342	247
Increase (+) / decrease (-) in accounts payable		1,137	-714
Increase (+) / decrease (-) in other liabilities		704	-528
Net cash provided by operating activities		**15,950**	**12,144**
Investing activities			
Payout for investments in fixed assets		-8,731	-6,537
Incoming payments for asset disposals		172	27
Net cash provided by investing activities		**-8,559**	**-6,510**
Financing activities			
Payout for amortisation of bank loans		-400	-1,925
Payout for amortisation of finance lease		-1,325	-1,242
Incoming payment for borrowings from banks		2,701	3,210
Interest payout		-1,540	-1,437
Payout for own shares		-2,161	-1,790
Dividends paid		-1,519	-982
Net cash provided by financing activities		**-4,244**	**-4,166**
Change in liquid funds		**3,147**	**1,468**
Funds at the beginning of the fiscal year		9,665	8,197
Funds at the end of the fiscal year		**12,812**	**9,665**
Composition of liquid funds at the end of the fiscal year			
Cash in bank and cash in hand	16	12,812	9,665
Payout for taxes		1,041	1,624

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Group Balance Sheet

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2014 to December 31, 2014

in € k	Notes	12/31/2014	12/31/2013
Assets			
A. Long-term assets			
I. Intangible assets	10	17,380	14,516
II. Fixed assets	10	5,365	4,295
III. Buildings and land in finance lease	17	16,008	16,700
IV. Other financial assets		5	5
V. Deferred tax assets	11	58	44
		38,816	**35,560**
B. Short-term assets			
I. Inventories	12	12,550	9,595
II. Receivables from deliveries and services and from production orders	13	6,963	6,878
III. Other short-term financial assets	14	351	217
IV. Other short-term assets	14	507	944
V. Claim for tax refunds	15	342	392
VI. Cash in bank and cash in hand	16	12,812	9,665
		33,525	**27,691**
		72,341	**63,251**

in € k	Notes	12/31/2014	12/31/2013
Liabilities			
A. Equity	18		
I. Subscribed capital		3,181	3,238
II. Capital reserves		0	0
III. Retained earnings including group's earnings		33,931	29,376
IV. Other components of equity		195	-154
		37,307	**32,460**
B. Long-term debt			
I. Long-term liabilities			
1. Long-term liabilities to banks	19	7,413	5,599
2. Other financial liabilities		0	8
3. Liabilities from finance lease		11,531	12,859
II. Non-current provisions	20	796	515
III. Deferred tax liabilities	11	2,647	1,193
		22,387	**20,174**
C. Short-term debt			
I. Other financial liabilities	19	2,286	1,540
II. Short-term accrual liabilities	20	3,861	3,201
III. Short-term other liabilities			
1. Liabilities from deliveries and services		2,277	1,132
2. Other short-term financial liabilities		1,369	2,355
3. Liabilities from finance lease	17	2,154	2,151
IV. Current tax liabilities		700	238
		12,647	**10,617**
		72,341	**63,251**

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*Development of Fixed Assets for Fiscal Year 2014

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2014 to December 31, 2014

	Acquisition and production costs						Depreciations						Net book value	
in € k	As of 01/01/2014	Additions	Transfers	Disposals	Foreign exchange differentials	As of 12/31/2014	As of 01/01/2014	Additions	Unscheduled depreciations	Disposals	Foreign exchange differentials	As of 12/31/2014	As of 12/31/2014	Previous year
Intangible assets														
Licenses	4,842	334	30	-105	0	5,101	3,765	433	0	-86	0	4,112	**989**	1,077
Finished own developments	16,810	31	2,648	0	0	19,489	10,034	2,532	704	0	0	13,270	**6,219**	6,776
Own developments in process	6,603	5,900	-2,648	0	0	9,855	0	0	0	0	0	0	**9,855**	6,603
Payments for third-party developments	60	286	-30	0	0	316	0	0	0	0	0	0	**316**	60
Total intangible assets	**28,315**	**6,551**	**0**	**-105**	**0**	**34,761**	**13,799**	**2,965**	**704**	**-86**	**0**	**17,382**	**17,379**	**14,516**
Tangible Assets														
Land and buildings on third-party land	1,526	16	122	0	5	1,669	598	104	0	0	5	707	**962**	928
Technical equipment and machinery	5,446	791	499	-102	10	6,644	3,627	612	0	-40	7	4,206	**2,438**	1,819
Other furniture, fixtures, and equipment	3,168	618	172	-104	13	3,867	2,082	262	0	-25	6	2,325	**1,542**	1,086
Assets under construction	462	755	-793	0	0	424	0	0	0	0	0	0	**424**	462
Total tangible assets	**10,602**	**2,180**	**0**	**-206**	**28**	**12,604**	**6,307**	**978**	**0**	**-65**	**18**	**7,238**	**5,366**	**4,295**
Buildings and land under finance leases														
Land of finance lease	1,817	0	0	0	0	1,817	0	0	0	0	0	0	**1,817**	1,817
Buildings of finance lease	24,391	0	0	0	0	24,391	9,508	692	0	0	0	10,200	**14,191**	14,883
Total buildings and land under finance leases	**26,208**	**0**	**0**	**0**	**0**	**26,208**	**9,508**	**692**	**0**	**0**	**0**	**10,200**	**16,008**	**16,700**
Other financial assets	5	0	0	0	0	5	0	0	0	0	0	0	**5**	5
Total other financial assets	**5**	**0**	**0**	**0**	**0**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**5**	**5**
Total assets	**65,130**	**8,731**	**0**	**-311**	**28**	**73,578**	**29,614**	**4,635**	**704**	**-151**	**18**	**34,820**	**38,758**	**35,516**

* Appendix to the notes

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*Development of Fixed Assets for Fiscal Year 2013

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2013 to December 31, 2013

	Acquisition and production costs						Depreciations						Net book value	
in € k	As of 01/01/2013	Additions	Transfers	Disposals	Foreign exchange differentials	As of 12/31/2013	As of 01/01/2013	Additions	Unscheduled depreciations	Disposals	Foreign exchange differentials	As of 12/31/2013	As of 12/31/2013	Previous year
Intangible assets														
Licenses	4,844	422	123	-546	-1	4,842	3,792	508	11	-546	0	3,765	**1,077**	1,052
Finished own developments	19,885	245	1,007	-4,327	0	16,810	11,011	2,743	608	-4,328	0	10,034	**6,776**	8,874
Own developments in process	3,593	4,017	-1,007	0	0	6,603	0	0	0	0	0	0	**6,603**	3,593
Payments for third-party developments	123	60	-123	0	0	60	0	0	0	0	0	0	**60**	123
Total intangible assets	**28,445**	**4,744**	**0**	**-4,873**	**-1**	**28,315**	**14,803**	**3,251**	**619**	**-4,874**	**0**	**13,799**	**14,516**	**13,642**
Tangible Assets														
Land and buildings on third-party land	1,167	339	66	-41	-5	1,526	549	87	0	-33	-5	598	**928**	618
Technical equipment and machinery	5,281	556	52	-439	-4	5,446	3,517	548	0	-435	-3	3,627	**1,819**	1,764
Other furniture, fixtures, and equipment	3,072	304	113	-317	-4	3,168	2,165	227	0	-306	-4	2,082	**1,086**	907
Assets under construction	99	594	-231	0	0	462	0	0	0	0	0	0	**462**	99
Total tangible assets	**9,619**	**1,793**	**0**	**-797**	**-13**	**10,602**	**6,231**	**862**	**0**	**-774**	**-12**	**6,307**	**4,295**	**3,388**
Buildings and land under finance leases														
Land of finance lease	1,817	0	0	0	0	1,817	0	0	0	0	0	0	**1,817**	1,817
Buildings of finance lease	24,391	0	0	0	0	24,391	8,816	692	0	0	0	9,508	**14,883**	15,575
Total buildings and land under finance leases	**26,208**	**0**	**0**	**0**	**0**	**26,208**	**8,816**	**692**	**0**	**0**	**0**	**9,508**	**16,700**	**17,392**
Other financial assets	5	0	0	0	0	5	0	0	0	0	0	0	**5**	5
Total other financial assets	**5**	**0**	**0**	**0**	**0**	**5**	**0**	**0**	**0**	**0**	**0**	**0**	**5**	**5**
Total assets	**64,277**	**6,537**	**0**	**-5,670**	**-14**	**65,130**	**29,850**	**4,805**	**619**	**-5,648**	**-12**	**29,614**	**35,516**	**34,427**

* Appendix to the notes

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Consolidated Statement of Changes in Equity

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2014 to December 31, 2014

				Other components of equity			
in € k	Subscribed capital	Capital reserve	Retained earnings incl. group's earnings	Differences due to currency conversion	Reserves for cash flow hedges	Sum of other components of equity	Total
Notes	18.1			18.3	18.3		
Shareholders' equity as of 01/01/2013	**3,326**	**0**	**26,498**	**-71**	**-168**	**-239**	**29,585**
Total result	0	0	5,562	-83	168	85	5,647
Share buyback	-88	0	-1,702	0	0	0	-1,790
Dividend outpayment*	0	0	-982	0	0	0	-982
Shareholders' equity as of 12/31/2013	**3,238**	**0**	**29,376**	**-154**	**0**	**-154**	**32,460**
Total result	0	0	8,178	349	0	349	8,527
Share buyback	-57	0	-2,104	0	0	0	-2,161
Dividend outpayment**	0	0	-1,519	0	0	0	-1,519
Shareholders' equity as of 12/31/2014	**3,181**	**0**	**33,931**	**195**	**0**	**195**	**37,307**

* € 0.30 per share

** € 0.47 per share

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. GENERAL INFORMATION

1. The Company

The Basler group develops, manufactures, and sells on a world wide scale industrial goods in the area of Vision Technology - the technology of machine vision. The Basler corporation has its headquarters in 22926 Ahrensburg (Germany), An der Strusbek 60-62, and maintains subsidiaries in Singapore, Taiwan, and the USA as well as sales and service offices in Japan, South Korea, China, Finland, Poland, and UK. Development and manufacturing are carried out in the German headquarters. In July 2014, a further production line was opened in the Singapore subsidiary. The production in Asia exclusively manufactures cameras for the Asian market and is currently concentrating on selected camera types.

The shares of Basler AG have been listed at the Frankfurt Stock Exchange since March 23, 1999. The Basler AG has subjected itself to the Prime Standard regulations.

2. Basics of Accounting

2.1 Compliance with IFRS

The consolidated financial statements of Basler AG were prepared according to the International Financial Reporting Standards (IFRS) as applicable within the European Union (EU) and in addition, according to the regulations of commercial law, as stipulated by § 315a Sec. 1 German Code of Commercial Law, Handelsgesetzbuch - HGB. The European Commission has adopted for use in the EU all IFRS that were issued by the International Accounting Standards Board (IASB) and that were in force at the time of preparation of the present consolidated financial statements. These IFRS were also adopted by Basler AG. Therefore, the term "IFRS" will be used below.

2.2 Standards with no Effect on the Consolidated Financial Statements

The application of IFRS 10 has no effects. IFRS 11 is not applicable, since Basler AG is not participating in joint arrangements. The application of IFRS 12 did not result in further notes. IAS 28 is not applicable, since no investments in associates or joint ventures were held.

2.3 Approved but not yet Adopted Standards

The following IFRS incorporated into EU law were issued as at the reporting date, their application is, however, only mandatory in future reporting periods. The Basler group has decided not to exercise a possible option of an early application in the case of standards and interpretations with mandatory application only in future reporting periods.

Amendment / standard	Publication date	Date of incorporation into EU law	Date of application (EU)
Annual improvements of IFRS – cycle 2011-2013	December 12, 2013	December 18, 2014	July 1, 2014
Annual improvements of IFRS – cycle 2010-2012	December 12, 2013	December 17, 2014	July 1, 2014
Defined benefit plans: Employee contributions (Amendments of IAS 19)	21. November 2013	December 17, 2014	July 1, 2014
IFRIC 21 Notes	May 20, 2013	June 13, 2014	June 17, 2014

The individual effects of the amendments are investigated by the group. The estimated effects of the initial application of IFRS 10 were reviewed. However, due to the simple and clear participation structure within the Basler group no effects are expected.

All amounts are stated in thousand euros (€ k) unless stated otherwise.

The fiscal year corresponds to the calendar year. Comparative figures of the previous year are indicated in the group's comprehensive financial statement, in the cash flow statement, and in the statement of the registered earnings and expenditures.

The group's annual balance sheet is prepared under the going concern premise.

2.4 Use of Estimates

The preparation of the consolidated financial statement in accord with IFRS requires the management to make estimates and assumptions regarding the recognition and amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the reporting date, and regarding the amount of turnover and expenses reported during the period under review. The actual results can deviate from these assessed values. Critical accounting estimates arise as to the evaluation of tangible assets concerning the useful

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life as well as to the evaluation of internally generated intangible assets concerning the useful life and to expected sales. In the course of the fiscal year, a review of the underlying useful lives revealed that two projects needed to be adjusted to given market conditions. The book values of the tangible and intangible assets result from the development of the fixed assets. The management board is of the opinion that the book value of the internally generated intangible assets despite possibly low sales volumes will be entirely realized.

3. Accounting and Valuation Methods

3.1 Foundations for Consolidation

All major subsidiaries that are directly or indirectly controlled by Basler AG as provided by IAS 27 are included in the group's annual balance sheet.

For a list of subsidiaries and investments, see note III, 29.

Harmonization

The financial statements to be consolidated of Basler AG as parent company and of the subsidiaries included in the consolidation were prepared using uniform accounting and valuation methods. All intra-group business transactions, balances, and profit and loss are completely eliminated in the context of consolidation.

Currency conversion

The functional currency of the subsidiaries is the currency of the respective country, except for Basler Asia Pte. Ltd. which prepares the balance in euros. Consequently, on the balance sheet date, assets and liabilities are converted into euros using the applicable exchange rate on the reporting date. Sales and expenses are converted using the average exchange rate of the period under review. Accumulated exchange rate gains and losses are reported as a separate component of the equity capital. In the fiscal year, equity capital was increased by € 349 thousand (previous year: decreased by € 83 thousand).

Business transactions made in foreign currencies in the individual financial statements of the consolidated companies were converted at the exchange rates applicable on the reporting dates of the transactions. In fiscal year 2014, profits amounting to € 1,054 thousand (previous year: € 361 thousand) and expenses amounting to € 688 thousand (previous year: € 658 thousand) accrued, respectively.

The income is reported under other operating income and the expenses under general administrative expenses in the respective annual financial statements.

Transactions within the European Union are recorded using the applicable fixed euro exchange rates. Further relevant exchange rates are listed below:

	Applicable exchange rates as of	
	12/31/2014	12/31/2013
1 Euro	US dollar 1.2141	US dollar 1.3791
1 Euro	New Taiwan dollar 38.6092	New Taiwan dollar 41.3155

	Average exchange rates	
	2014	2013
1 Euro	US dollar 1.3285	US dollar 1.3281
1 Euro	New Taiwan dollar 40.33046	New Taiwan dollar 39.5175

Sources: Exchange rates of the European Central Bank with the exception of the New Taiwan dollar which is based on the Interbank spot rate.

Capital consolidation principles

Capital consolidation is performed according to the purchase method where at the time of acquisition the acquisition costs for the holding are charged against the proportionate equity capital. Assets and debts of the subsidiaries are valued at their fair values if the fair values to be applied deviate from their book values.

All intra-group balances, earnings, and expenses as well as unrealized profits and losses from intra-group transactions are eliminated to their full amounts. Deferred taxes are delimited according to IAS 12 from consolidation procedures impacting on revenue results.

3.2 Earnings Realization

Earnings are recorded when it is probable that the economic benefits will accrue for the group and when the amounts of the earnings can reliably be estimated. Earnings are assessed according to the applicable time values of the considerations received or to be received. Discounts, rebates and value-added tax or other dues are not considered. Moreover, the realization of earnings presupposes the following criteria for assessment to be satisfied.

Sale of goods and products

Earnings for goods and products are recorded after the relevant opportunities and risks related to the ownership of the goods and products sold were transferred to the buyer. Generally, this applies at the time of shipment of the goods and products. Earnings from customer-specific manufacturing across periods are recorded as earnings according to the degree of completion (percentage-of-completion method). The degree of completion is determined according to the costs accrued on the balance sheet date. The degree of completion is expressed as percentage of the estimated total costs of the related project. Earnings are recorded only to the amount of the accrued reimbursable expenses if the result of an order cannot reliably be estimated.

Rental income

Earnings from subleasing the office building in Ahrensburg are recorded in the period in which they arise and in accord with the regulations of the contract concerned.

Interest income

Interest income is recorded when the interest has accrued (using the effective interest method). Interest income is reported in the statement of comprehensive income as part of the financial income.

3.3 Taxation

Actual income taxes

The actual tax refund claims and the tax liabilities for current and previous periods are assessed as the amounts that are expected as refunds by and payments to the tax authority, respectively. The amounts are calculated based on the taxes and tax laws applicable at the balance sheet date.

Actual taxes referring to items directly recorded with the equity capital are not recorded in the income statement but with the equity capital.

Deferred taxes

Deferred taxes are accounted for under the asset and liability method. There, temporary differences at the balance sheet date are considered between the valuation of an asset or a debt in the balance sheet and the valuation for taxation.

Deferred tax liabilities are recorded for all taxable temporary differences with these exceptions:

- Deferred tax liabilities due to a first-time valuation of goodwill or an asset or debts resulting from a business transaction other than a business combination that has – at the time of the business transaction – neither bearing on the profit for the period under German commercial law nor on the taxable result.
- Deferred tax liabilities due to taxable temporary differences related to investments in subsidiaries, associates and stakes in joint ventures if the temporal course of the reversal of temporary differences can be controlled and if it is probable that the temporary differences will not reverse in the foreseeable period.

With the exceptions listed below, deferred tax assets are recorded for all deductible temporary differences, not yet used tax loss carry forwards, and unused tax credits to the likely extent that the taxable profit will be available, against which the deductible temporary differences, the not yet used tax loss carry forwards, and tax credits can be applied:

- Deferred tax assets due to deductible temporary differences related to a first-time valuation of an asset or debts resulting from a business transaction other than a business combination that has – at the time of the business transaction – neither bearing on the profit for the period under German commercial law nor on the taxable result.
- Deferred tax assets due to deductible temporary differences related to investments in subsidiaries, associates and stakes in joint ventures if it is probable that the temporary differences will not reverse in the foreseeable period or no sufficient taxable result will be available against which the temporary differences can be applied.

The book values of the deferred income tax assets are checked on every balance sheet date and are reduced by an amount so as to make it improbable that a sufficient taxable result will be available against which the latent tax asset can at least partly be applied. Deferred tax assets that have not undergone valuation are checked on every balance sheet date and are valued at an amount so as to make it probable that a future taxable result will permit realizing the deferred tax asset.

Deferred tax assets and tax liabilities are assessed using those tax rates that will presumably be valid in the period when an asset will be realized or when a debt will be cleared. The assessments are based on the tax rates (and tax laws) valid on the balance sheet date. Future changes of tax rates are taken into account if material prerequisites for being effective are given in the context of the legislative process on the balance sheet date.

Deferred taxes related to items directly recorded with the equity capital are not recorded in the income statement but with the equity capital. Deferred tax assets and tax liabilities are offset against each other if the group has an enforceable claim to the offset of the actual tax refund claims against the actual tax liabilities and if they relate to the income taxes of the same taxable entities, where the taxes are levied by the same tax authority.

3.4 Government Grants

Government grants for development expenses are recorded if it is reasonably assured that the grants will be granted and that the company will meet the related conditions. Expense-related grants are regularly recorded as income for the period that is necessary for offsetting the grants against the corresponding expenses. Grants for an asset directly decrease the book value of the asset and they are recorded as income due to decreased depreciation. In the income statement it is reported as gross statement shown under other operating income.

In the case of non-monetary grants to the group, the assets and the grants are recorded at their nominal values and, if possible, are reversed and recognized in income in equal annual rates over the estimated useful lives of the assets concerned.

3.5 Equity Instruments

Treasury shares acquired by the group are recorded at acquisition cost and are directly deducted from equity capital. The acquisition, sale, issue or withdrawal of treasury shares is not recognized in income. Possible differences between book values and considerations are recorded in the other capital reserve or in the capital reserve.

3.6 Financial Assets and Liabilities

Receivables and other financial assets are capitalized at acquisition costs on the settlement date. If a receivable is in danger of not being recoverable due to a customer's illiquidity, specific allowance is used to the full amount of the receivable.

When the fair values of financial assets or liabilities are assessed or stated, they are on principle based on the market values or stock exchange values. In the absence of an active market the fair values are assessed based on accepted methods of financial mathematics.

3.7 Derivative Financial Instruments

The corporate group enters into a variety of derivative financial instruments in order to manage its exposure to interest and foreign exchange rate risks. These include forward exchange contracts, interest swaps, and foreign currency options. Derivatives are initially recognized at the time of the transaction at fair value and subsequently valued at fair value at each reporting date. The resulting valuation gain or loss is immediately recognized in the income statement unless the derivative is designated and effective as a hedging instrument for hedge accounting purposes. The timing of recognizing the valuation results in the income statement depends on the type of hedging relationship. The effective portion of change in the fair value of derivatives that are suitable and designated as cash flow hedges is recognized in total comprehensive income under the item of cash flow hedges reserve. If necessary, the gains or losses as a result of the ineffective portion is immediately recognized in the income statement under the item Other income/other expenses.

3.8 Inventories

Raw materials, supplies, operating materials, merchandise as well as unfinished and finished products are stated as inventories, unless they can be attributed to a customer order.

Inventories are valued at the acquisition costs or the production costs and net selling price, whichever is less.

Costs that have accrued for taking inventories to their present location and for bringing them into their current states are balanced in the following way:

- Raw materials, supplies and operating materials, and merchandise: moving averages
- Finished and unfinished products: material costs and production costs that can be directly allocated as well as appropriate portions of production overhead based on the normal capacities of the production facilities without considering borrowing costs

The net selling price is the estimated sales revenue that can be realized in the normal course of business minus the estimated costs accrued until completion and estimated distribution costs.

3.9 Tangible Assets and Buildings and Land in Finance Lease

Tangible assets are valued on principle at acquisition costs or production costs minus accumulated scheduled depreciation and accumulated impairment losses. The useful lives applied for this purpose correspond to the expected periods of use of the assets within the company. Residual values were neglected in the calculation of depreciations due to insignificance. Revaluations of the tangible fixed assets are not performed.

The scheduled linear depreciations of property, plant, and equipment are largely based on the following useful lives:

Asset	Useful life in years
Technical equipment and machinery	3 to 8, 10 to 11, 13 to 14
Other equipment, operational and office equipment	3 to 11, 13 to 15
Parking garages	20
Commercial and office buildings	38 to 40

The book values of the tangible assets are reviewed as of every reporting date to identify any evidence of impairment. For details please see 3.17.

3.10 Intangible Assets

Intangible assets acquired against payment, mainly software, are capitalized at purchase costs and amortized over their scheduled useful lives.

Research costs are recorded as expense for the period of their accrual. Development costs for an individual project are only capitalized as intangible assets if the following conditions can be proven to apply:

- the technical feasibility of completing the intangible asset, enabling internal use or sale of the asset
- the intent of completing the intangible asset for its use or sale
- the intangible asset is likely to realize a future economic benefit
- the availability of resources for completing the asset
- the possibility of reliably determining related expenses during the development of the intangible asset

The development costs are balanced according to their initial valuation applying the cost model, i.e. using acquisition costs minus accumulated amortizations and accumulated impairment losses. Amortization starts from the termination of the development phase and from the time when the asset can be used. Amortization is carried out on a straight-line basis over the period for which future benefit can be expected. The following useful lives are assumed:

Asset	Useful life in years
Capitalized development costs	3 to 10
Software, product development received against payment	3 to 7

The amortization cost is included in the group's profit and loss statement, in the cost for service performed, in the sales and marketing expenses, and in the general administrative expenses.

At least once a year and at particular instigation an impairment test is carried out during the development phase. For details please see 3.17.

3.11 Liquid Assets and Cash Equivalents

The item includes cash on hand as well as short-term deposits with maturities of less than three months.

3.12 Leases

A lease is classified as "operating lease" if essentially all risks and opportunities associated with economic ownership therein remain with the lessor.

Liabilities from financing lease agreements are stated at the net present value of the lease payments at the time of conclusion of the contract while other liabilities are stated at the repayment values and/or amortized costs.

3.13 Borrowing Costs

Borrowing costs are capitalized on qualifying assets according to IAS 23. They are added to the production costs of the assets until the date when the assets are essentially ready for their intended use or for sale. Achieved earnings from temporary investment of specially raised borrowed capital until its disbursement for qualifying assets are deducted from the borrowing costs that can be capitalized.

All other borrowing costs are recognized as income in the period where they accrue.

3.14 Financial Debt

Financial debt is stated at its amortized cost. This includes bank debt, liabilities from finance leases, and other financial liabilities.

3.15 Provision

Provisions are recognized when Basler has a present (legal or constructive) obligation due to a past event, when settlement of the obligation is expected to result in an outflow of resources of economic benefit, and when the amount of the obligation can reliably be estimated. If the group expects to receive a reimbursement of at least part of a provision from an identifiable third party (e.g., in the case of an insurance policy) the reimbursement is recognized as a separate asset provided the influx of the reimbursement is virtually certain. The expense from recognizing the provision is recorded in the income statement minus reimbursement. If the effect of the time value of money resulting from discounting is material, provisions are discounted at a pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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3.16 Applicable Fair Value

The fair value to be applied is the price at which an asset would be sold or at which a debt would be transferred at the valuation date in an orderly business transaction between market participants. This applies regardless of whether the price is directly observable or was estimated using a valuation method.

The fair value is not always available as market price. In many cases it must be determined on the basis of different valuation parameters. Depending on the availability of observable parameters and the significance of these parameters for the determination of the fair value in the whole, the fair value is assigned to the levels 1, 2, or 3. The classification is made according to the following:

- Input parameters of level 1 are quoted prices (unadjusted) on active markets for identical assets or debts, which the company can refer to at the balance sheet date.
- Input parameters of level 2 are different to the input parameters and quoted prices of level 1, which are – for the asset or the debt – either directly observable or can be indirectly derived from other prices.
- Input parameters of level 3 are for non-observable parameters for the asset or the debt.

3.17 Impairment of Assets

The book values of property, plant, and equipment as well as intangible assets are reviewed at each reporting date (December 31) for indications of impairment (impairment test). If such indications are apparent, the recoverable amount of the asset is estimated in order to determine the amount of the possible impairment loss. If the recoverable amount cannot be estimated at the level of the specific asset, the recoverable amount of the cash-generating unit (CGU) to which the respective asset is allocated will be determined. At Basler AG, the allocation is made on the level of camera families as CGU.

Intangible assets that are not yet in use are tested for impairment at least once a year and in case of indications of an impairment (triggering events). The recoverable amount is defined as the higher amount of the fair value minus cost to sell and the value in use. For determination of the value in use the estimated future cash flows are discounted using a pre-tax interest rate. This pre-tax interest rate considers the current market evaluation of the time value of the money as well as risks related to the asset, if this has not already been considered in the estimation of the cash flows. The calculations are based on forecasts resulting from financial plans approved by the management. The fair value minus cost to sell is determined using an appropriate valuation model which does not differ from the calculation of the utility value. If the recoverable amount of an asset falls below its book value, the book value is depreciated to the recoverable amount. An impairment loss is recognized immediately in profit or loss.

In case of a reversal of the impairment loss, the book value of the asset will be increased to the newly determined recoverable amount. Here the upper value limit of the attribution in the amount of the original book value of the asset and/or of the CGU needs to be observed. A reversal is immediately recognized in the profit and loss.

For intangible assets with indefinite useful life the impairment test will be made on the level of camera families as CGU. The recoverable amount will be determined on the basis of the calculation of a utility value based on cash flow forecasts. The cash flow forecasts are based on financial plans approved by the management for a period of four years. The planning period reflects the assumptions for short- to mid-term market developments. The company assumes a sales growth in the lower double-digit percentage range for 2015 and the following years. The gross profit margin is expected to decline slightly. Cash flows arising after the planning period are not considered. The discount factor before taxes used for the cash flow forecasts is 8 % (previous year: 8 %). It is based on the concept of weighted average capital costs. In the calculation of the utility value as well as of the fair value less cost to sell (using DCF method) there are uncertain estimates for the underlying assumptions, particularly with regard to:

- Gross profit margins
- Discounting factor (interest rate)
- Sales growth rate

A discount interest rate of more than 39 % and/or an expected decline of the gross profit by 26 % would lead to a devaluation of the assets.

II. ITEMS OF THE ANNUAL FINANCIAL STATEMENTS

NOTES TO THE PROFIT AND LOSS STATEMENT

4. Sales Revenues

The sales revenues from the sale of goods amounting to € 79,240 thousand (previous year: € 65,110 thousand) include sales from solutions business amounting to € 5,950 thousand (previous year: € 5,278 thousand).

5. Other Operational Profit

The other operational profit includes the following:

	2014	2013
Currency exchange gains	1,054	361
Rental income	623	837
Subsidies for research and development	150	44
Insurance recoveries	9	0
Income from the release of provisions	78	73
Other	381	375
	2,295	**1,690**

6. Research and Development and Other Expenses

The other expenses include the following:

	2014	2013
Full costs for research and development	11,040	9,109
Capitalization of own development costs	-5,753	-4,134
Unscheduled depreciations on capitalized developments	704	608
Premises costs	577	740
Further other expense	91	113
	6,659	**4,436**

7. Financial Result

	2014	2013
Interest income from cash in bank	28	1
Interest income from derivative financial instruments	22	21
Interest expense on bank loans	-194	-174
Other interest expenses	-16	0
Interest expense from derivative financial instruments	-352	-360
Interest income from discounting	8	81
Capitalization of interest pursuant to IAS 23	178	128
Mark-to-market evaluation of derivative financial instruments	-224	512
Interest expense for finance lease	-888	-968
	-1,438	**-759**

The interest income and interest expense relate exclusively to financial assets (including cash) valued at amortized cost and to financial liabilities.

The capitalization rate considered in accordance with IAS 23 was 2.44 % on December 31, 2014 (previous year: 3.43 %).

8. Income Taxes

Taxes paid or owed on income/revenues and deferred taxes are both stated as income taxes.

Any income obtained is stated as a negative amount.

	2014	2013
Current taxes from consolidated companies	1,451	1,052
Deferred taxes from consolidated companies	1,464	1,155
Other taxes	11	8
Tax expense	2,926	2,215

	2014	2013
Deferred tax expenses or income from losses carried forward	646	702
Deferred tax expenses or income from temporary differences	818	453
Deferred tax expense	1,464	1,155

The following is a breakdown of the effective tax burden which includes the German corporate income tax rate of 15.83 % (previous year: 15.83 %) including solidarity surcharge, and the applicable trade income tax rate of 12.25 % (previous year: 12.25 %), amounting to a combined statutory tax rate of 28.08 % (previous year: 28.08 %):

Tax reconciliation	2014	2013
Net profit / loss for the year before income taxes	11,104	7,777
Applicable tax rate	28.08 %	28.08 %
Expected tax expense / income	3,118	2,184
Reconciliation		
Effects from deviating tax rates	-167	-33
Tax effect from non-deductible expenses and tax-free earnings	110	-92
Other	-135	156
Actual tax expense / income	2,926	2,215
Group tax rate	26.4 %	28.5 %

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Income taxes directly recognized in equity amount to € 0 thousand (previous year: € 65 thousand) in the reporting year.

As per December 31, the following tax loss carry forwards existed (in € k):

	2014	2013
Germany, corporate income tax	8,180	10,393
Germany, trade income tax	6,264	8,673
USA, federal level	181	36

The tax loss carry forwards in Germany apply for an indeterminate period. Due to the statutory situation, out of the total loss carryforward, a maximum of € 1,000 thousand plus 40 % of the excess tax profit can be utilized per year.

The tax loss carry forwards in the USA can be utilized until 2028.

As at the reporting date Basler capitalized deferred tax assets on corporate income tax and trade income tax loss carryforwards amounting to € 2,062 thousand (previous year: € 2,708 thousand), since due to the tax four-year planning sufficiently taxable income is expected in the future. In this planning, we assume low double-digit sales growth rates as well as stable result margins. Of these, corporate income tax and trade income tax loss carry forwards extant in Germany, amounting to € 8.2 million and € 6.3 million can be utilized without limit; the remaining loss carry forwards in the USA expire after a maximum of fifteen years.

No active deferred taxes were recognized for loss carry forwards in the USA amounting to € 181 thousand.

9. Additional Information

9.1 Production Orders

The accumulated costs of production orders in progress on the reporting date amount to € 73 thousand (previous year: € 128 thousand), the accumulated profits reported amount to € 157 thousand (previous year: € 260 thousand).

In the year 2014, costs for guarantees amounted to € 197 thousand (previous year: € 246 thousand).

9.2 Scheduled and Unscheduled Depreciations

In fiscal year 2014, unscheduled value adjustments were made on capitalized product developments to the amount of € 704 thousand (previous year: € 608 thousand) which are discontinued products or for which no sufficient economic benefit is expected. The unscheduled depreciations on the capitalized developments were recorded in the reporting year with the other expense. The depreciations and unscheduled

	2014	2013
Cost of service performed	3,176	3,271
Sales and marketing costs	140	144
General administration costs	1,004	995
Other expense	1,019	1,014
	5,339	**5,424**

9.3 Personnel Expenditures

	2014	2013
Wages and salaries	27,057	22,371
Social security contributions	4,391	3,760
	31,448	**26,131**

The expenses for the contribution-based pension schemes amounted to € 2,007 thousand (previous year: € 1,718 thousand). The employees in the group are for the most part insured under the mandatory statutory pension insurance scheme and are thus subject to a government contribution-based plan.

9.4 Material Expenditures

	2014	2013
Expenses for raw, auxiliary, and operating supply items as well as purchased goods	25,857	19,545
Expenses for purchased services	1,686	1,273
	27,543	**20,818**

9.5 Reconciliations for Result per Share

	2014	2013
Earnings diluted / undiluted in € k	8,178	5,562
Weighted average number of ordinary shares	3,219,331	3,281,312
Earnings per Share (Euro)	2.54	1.70

The calculation of the average number of shares outstanding was carried out according to a pro rata temporis weighting taking into account the acquired own shares.

NOTES TO THE BALANCE SHEET

10. Development of Fixed Assets

As of December 31, 2014, Basler used fully depreciated fixed assets representing an acquisition value of € 15,029 thousand (previous year: € 8,303 thousand).

For more details about the development of fixed assets, we refer to the separate explanation.

The technical equipment, machines, and fixtures and fittings amounting to € 313 thousand (previous year € 338 thousand) are assigned as collaterals to credit institutions.

The purchase commitments for tangible assets amounted to € 1,775 thousand (previous year: € 233 thousand) as of December 31, 2014.

For the financial statements, the following intangible assets are of essential importance according to IAS 38.122b at the reporting date:

Description of the Intangible Asset	Book value 12/31/2014 (in € k)	Remaining useful Lives (in Years)
Development of the racer line-scan camera line	1,415	5
Expansion of the ace camera line with sensors of the CMOSIS company and the Camera Link interface	1,036	6
Development of the ace camera line	717	5
Expansion of the ace camera line by 1.3 & 2 MP sensors of the e2V company	548	3
Expansion of the firmware functionality for the MK3 product platform	482	4

As of December 31, 2013, the following intangible assets were important:

Description of the Intangible Asset	Book value 12/31/2013 (in € k)	Remaining useful Lives (in Years)
Expansion of the ace camera line with sensors of the CMOSIS company and the Camera Link interface	1,244	7
Development of the ace camera line	889	6
Expansion of the firmware functionality for the MK3 product platform	668	5
Equipment of the IP BIP camera line with new processor generation	439	4
Development of internal production machine for the manufacturing of the ace camera line	402	6

11. Deferred Taxes

The following deferred tax assets and liabilities apply to measurement or recognition inconsistencies of the individual balance sheet items:

Deferred tax assets	12/31/2014	12/31/2013
From tax loss carry forwards	2,062	2,708
Inventories	87	69
Financial instruments	364	288
Other	201	136
Offsetting	-2,656	-3,157
	58	**44**

Deferred tax liabilities	12/31/2014	12/31/2013
Capitalization of development	4,513	3,756
Receivables	65	109
Finance lease	652	475
Tangible assets	63	0
Other	10	10
Offsetting	-2,656	-3,157
	2,647	**1,193**

12. Inventories

The inventories include the following:

	12/31/2014	12/31/2013
Finished products	2,843	1,506
Semifinished products	1,545	1,140
Raw materials, supplies, and operating materials	7,822	6,597
Merchandise	340	352
	12,550	**9,595**

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As of December 31, 2014, unscheduled value adjustments were made on the inventories to the amount of € 635 thousand (previous year: € 858 thousand). Of which a decrease of € 223 thousand applied to fiscal year 2014 (previous year: a decrease of € 322 thousand).

Finished products and merchandize include devices made available to customers temporarily for testing, on loan, and for demonstration purposes worth € 220 thousand (previous year: € 212 thousand). This manner of reporting facilitates the handling of the future sale to the customer. Devices used for demonstration purposes over an extended period, e.g. for trade fairs and exhibitions, are stated under fixed assets and are depreciated over their useful lives amounting to three years.

13. Receivables from Deliveries and Services as well as Production Orders

Receivables from deliveries and services as well as from production orders were as follows:

	12/31/2014	12/31/2013
Receivables from manufacturing to order	230	388
Advance payments received for manufacturing to order	-228	-178
	2	**210**
Receivables from deliveries and services	6,961	6,668
	6,963	**6,878**

Of the receivables from deliveries and services in the amount of € 6,961 thousand (previous year: € 6,668 thousand) € 6,961 thousand (previous year: € 6,668 thousand) are due within one year.

The values of the receivables from deliveries and services are adjusted by € 12 thousand (previous year: € 29 thousand). Value adjustments of receivables are maintained at Basler on separate accounts. Value adjustments are performed as far as the collectability of a receivable is in danger e.g. due to insolvency. The value adjustments have developed in the following way:

	2014	2013
Status as of 01/01	29	23
Exchange rate differences	0	0
Allocation	41	10
Consumption	39	3
Liquidation	19	1
Status as of 12/31	**12**	**29**

The aging profile of the receivables from deliveries and services after specific allowances is as follows:

	2014	2013
Book value as of 12/31	6,961	6,668
Of which as of 12/31 neither impaired nor past due	6,132	5,171
Of which not impaired and up to 60 days past due	780	1,354
Of which not impaired and more than 61 days past due	49	143

The sum of advance payments received amounts to € 409 thousand (previous year: € 1,791 thousand), of which € 228 thousand (previous year: € 178 thousand) are deducted from the receivables arising from long-term production. The receivables from production orders are not impaired by specific allowances. There are no receivables past due that would require value adjustments.

The maximum default risk corresponds to the book values stated in the balance sheet of each financial asset (less value adjustments taken into account as at the balance sheet date, if applicable).

The fair values do not differ significantly from the book values.

14. Other Short-Term Financial Assets and Other Short-Term Assets

	12/31/2014	12/31/2013
Derivative financial instruments	102	0
Other	249	217
Other short-term financial assets	351	217
Accrued expenses	505	354
Advance payments made	2	590
Other short-term assets	507	944
Total	**858**	**1,161**

The fair values do not differ significantly from the book values. The maximum default risk corresponds to the book values stated in the balance sheet of each financial asset. The other current financial assets are not impaired by value adjustments. There are no receivables past due that would require value adjustments.

15. Tax Refund Claims

The tax refund claims relate to input tax amounting to € 336 thousand (previous year: € 356 thousand) and the reclaim of taxes paid in advance on income and profit amounting to € 7 thousand (previous year: € 36 thousand).

The fair values do not differ significantly from the book values. The maximum default risk corresponds to the book values stated in the balance sheet of each financial asset.

16. Cash and Cash Equivalents

Cash and cash equivalents include cash in bank and cash in hand in the amount of € 12,812 thousand (previous year: € 9,665 thousand).

17. Lease

17.1 Finance Lease

The company building and the company grounds in Ahrensburg are used within the framework of a lease agreement. The agreement is classified as a financing lease agreement. The book values at the end of the fiscal year are as follows:

	12/31/2014	12/31/2013
Land	1,817	1,817
Buildings	14,191	14,883
	16,008	**16,700**

The development is recorded separately in the fixed asset schedule.

The liabilities from finance lease are as follows:

	Minimum lease payments		Cash value of the minimum lease payments	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
With a residual term of up to one year	2,215	2,213	2,154	2,151
With a residual term of more than one year and up to five years	14,077	16,292	11,531	12,859
With a residual term of more than five years	0	0	0	0
	16,292	**18,505**		
Minus: Future financing costs:	-2,607	-3,495		
Cash value of the minimum lease payments	**13,685**	**15,010**	**13,685**	**15,010**
Recorded in the group's annual balance sheet as				
Short-term liabilities from financing lease			2,154	2,151
Long-term liabilities from financing lease			11,531	12,859

Basler will receive at least the following rental payments from subleasing the office building in Ahrensburg under contracts that have been concluded and are non-cancellable:

Fiscal year	
2015	487
2016 - 2018	64
From 2019	-

The earnings from subleases amounted to € 623 thousand in the reporting year (previous year: € 837 thousand). Basler has the option of purchasing the building at the end of the lease.

The interest rates applicable to the liabilities related to this finance lease were fixed on the day of the conclusion of the agreement. They amount to 6.22 % and 6.84 % for the different elements of the building.

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17.2 Operating Leasing

Parts of the fixtures and fittings are used within the framework of an operating lease. The future rental and leasing payments based on non-cancellable operating leases and rentals amount to a minimum of:

Fiscal year	
2015	783
2016 - 2018	490
From 2019	180

Almost all rental and leasing options provide for final purchase options at market conditions. During the year under review, the rent/leasing expenses amounted to € 404 thousand (previous year: € 433 thousand).

18. Equity

18.1 Subscribed Capital

The paid-up share capital of the company amounts to € 3,500,000 and is divided into 3,500,000 issued no-par-value shares. The shares are in bearer form. The number of shares in circulation as of January 1, 2014 amounted to 3,238,184 and on December 31, 2014, to 3,181,136. In the reporting year, 57,048 own shares were acquired.

The shares of Basler AG have been listed at the Frankfurt Stock Exchange since March 23, 1999.

18.2 Authorized Capital

Pursuant to § 4 clause (3) of the Basler AG articles of incorporation, the management board is authorized, subject to approval by the supervisory board, to increase the share capital by May 30, 2017, by issuing up to 1,750,000 new no-par-value bearer shares against cash and/or non-cash contributions either once or several times by a total of € 1,750,000.00. The shareholders shall be granted a subscription right for this purpose. However, the management board is authorized, subject to approval by the supervisory board, to exclude subscription rights of the shareholders for fractional amounts.

18.3 Components of the Residual Total Income

The results before and after taxes of the components of the residual total income are as follows:

	12/31/2014			12/31/2013		
	Earnings before taxes	Taxes	Net	Earnings before taxes	Taxes	Net
Currency conversion of foreign subsidiaries	349	0	349	-83	0	-83
Cash flow hedges	0	0	0	233	-65	168
Total	**349**	**0**	**349**	**150**	**-65**	**85**

18.4 Dividend Payment

On June 5, 2014, a dividend was paid amounting to € 0.47 per share (total dividend: € 1,519 thousand).

19. Financial Liabilities

Basler reports the following financial liabilities as at December 31, 2014 (in € k):

Description	Interest condition	Interest rate	End of term	Repayment amount
ERP bank loan, tranche III	Fixed	3.65 %	03/31/2016	187 € k (previous year: 337 € k)
ERP bank loan, tranche IV	Fixed	4.60 %	03/31/2016	313 € k (previous year: 562 € k)
ERP bank loan 2012, tranche I	Fixed	2.15 %	12/30/2022	3,900 € k (previous year: 2,550 € k)
ERP bank loan 2012, tranche II	Fixed	2.45 %	12/30/2022	3,900 € k (previous year: 2,550€ k)

Furthermore, derivative financial liabilities of € 1,398 thousand (previous year: € 1,027 thousand), the short-term repayment portion of the financial liabilities of € 888 thousand (previous year: € 400 thousand) as well as other financial liabilities of € 0 (previous year: € 114 thousand) are shown under other financial liabilities.

The fair values of the above financial liabilities, of the liabilities from deliveries and services, and of the other short-term liabilities, do not vary significantly from the reported book values.

20. Provisions

	01/01/2014	Allocation	Utilizations	Liquidation	Currency differences	12/31/2014
Long-term provisions						
Personnel costs	515	281	0	0	0	796
Long-term provisions	**515**	**281**	**0**	**0**	**0**	**796**
Short-term provisions						
Personnel costs	2.667	3.049	-2.484	-37	12	3.207
Commissions	37	26	-38	0	3	28
Warranty	198	223	-198	0	0	223
Legal and consultancy costs	125	102	-93	-21	3	116
Other	174	271	-138	-24	4	287
Short-term provisions	**3.201**	**3.671**	**-2.951**	**-82**	**22**	**3.861**
Total	**3.716**	**3.952**	**-2.951**	**-82**	**22**	**4.657**

The provisions for personnel costs were mainly made for variable salaries and for bonuses for the reporting year.

The short-term provisions are expected to be utilized in the course of one year.

21. Derivative Financial Instruments and Other Financial Instruments

As a company acting on global markets, Basler is exposed to various market risks. In order to reduce USD currency risks, Basler uses forward exchange contracts. As these dealings are intended as security for underlying operating transactions, their terms are less than one year in each case. As of the balance sheet date the following open forward exchange contracts existed:

USD	12/31/2014	12/31/2013
Nominal value in € k	3,971	-
Foreign currency amount in k USD	5,000	-
Fair value in € k		
Positive	-	-
Negative	-147	-

JPY	12/31/2014	12/31/2013
Nominal value in € k	3,200	-
Foreign currency amount in k JPY	450,000	-
Fair value in € k		
Positive	102	-
Negative	-	-

The depiction of valuation units is not provided.

In 2011, an interest rate swap was concluded in order to hedge future credit transactions against interest rate increases. The hedging relationship was repealed in 2012. Valuation of the interest rate swap is carried out according to the mark-to-market method. Positive fair values are stated under short-term other assets and negative fair values under short-term other financial liabilities. The expense shown in the financial result resulting from valuation at fair value in fiscal year 2014 amounted to € 224 thousand (previous year: income € 511 thousand).

	12/31/2014	12/31/2013
Nominal value in € k	9,394	10,000
Fair value in € k		
Positive	-	-
Negative	1,251	1,027

In accordance with IFRS 7, the financial instruments are classified into the following valuation classes:

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Cate-gory	Significance		Valuation
AfS	Available for Sale	Financial assets available for divestment	Fair value (without affecting net income against equity)
FAHfT	Financial Assets Held for Trading	Financial assets available for trading	Fair value (with effect on net income through profit or loss)
FLAC	Financial Liabilities Measured at Amortised Cost	Financial liabilities measured at amortized cost	At amortized cost
FVTPL	At Fair Value Through Profit or Loss	At fair value through profit or loss	Fair value (with effect on net income through profit or loss)
HtM	Held to Maturity	Financial investments held to maturity	At amortized cost
LaR	Loans and Receivables	Loans and receivables	At amortized cost

The book values of the financial instruments as of December 31, 2014 are as follows:

	Category of measurement according to IAS 39	Book value	Amortized costs	Fair value, affecting net income	Fair value
Assets					
Remaining financial assets	AfS	5	5		
Long-term financial assets		**5**			**5**
Receivables from deliveries and services	LaR	6,961	6,961		
Receivables from production orders	LaR	2	2		
Short-term financial assets		**6,963**			**6,963**
Short-term derivative assets	FVTPL	102		102	**102**
Remaining other short-term financial assets	LaR	249	249		
Other short-term financial assets		**351**			**351**
Liquid assets	LaR	12,812	12,812		
Cash and cash equivalents		**12,812**			**12,812**
		20,131			
Liabilities					
Liabilities to credit institutions	FLAC	7,413	7,413		
Other financial liabilities	FLAC	0	0		
Liabilities from finance lease	FLAC	11,531	11,531		
Long-term financial liabilities		**18,944**			**18,944**
Other financial liabilities	FLAC	888	888		
Short-term derivative assets	FVTPL	1,398		1,398	
Liabilities from deliveries and services	FLAC	2,277	2,277		
Liabilities from finance lease	FLAC	2,154	2,154		
Remaining other short-term financial liabilities	FLAC	1,369	1,369		
Short-term liabilities		**8,086**			**8,086**
		27,030			

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The valuation levels of the financial instruments valued at fair value are as follows:

	Level 1	Level 2	Level 3	Total
Financial liabilities of "Market value through profit or loss"				
Short-term derivative assets	0	102	0	102
Total	**0**	**102**	**0**	**102**

	Level 1	Level 2	Level 3	Total
Financial assets of "Market value affecting profit and loss"				
Short-term derivative assets	0	1,398	0	1,398
Total	**0**	**1,398**	**0**	**1,398**

Comparative figures as of December 31, 2013:

	Category of measurement according to IAS 39	Book value	Amortized costs	Fair value, affecting net income	Fair value
Assets					
Remaining financial assets	AfS	5	5		
Long-term financial assets		**5**			**5**
Receivables from deliveries and services	LaR	6.668	6.668		
Receivables from production orders	LaR	210	210		
Short-term financial assets		**6.878**			**6.878**
Short-term derivative assets	FVTPL	0			**0**
Remaining other short-term financial assets	LaR	217	217		
Other short-term financial assets		**217**			**217**
Liquid assets	LaR	9.665	9.665		
Cash and cash equivalents		**9.665**			**9.665**
		16.765			
Liabilities					
Liabilities to credit institutions	FLAC	5.599	5.599		
Other financial liabilities	FLAC	8	8		
Liabilities from finance lease	FLAC	12.859	12.859		
Long-term financial liabilities		**18.466**			**18.466**
Other financial liabilities	FLAC	513	513		
Short-term derivative assets	FVTPL	1.027		1.027	
Liabilities from deliveries and services	FLAC	1.132	1.132		
Liabilities from finance lease	FLAC	2.151	2.151		
Remaining other short-term financial liabilities	FLAC	2.355	2.355		
Short-term liabilities		**7.178**			**7.178**
		25.644			

The valuation levels of the financial instruments valued at fair value are as follows :

	Level 1	Level 2	Level 3	Total
Financial liabilities of "Market value affecting profit and loss" category				
Short-term derivative assets	0	1,027	0	1,027
Total	**0**	**1,027**	**0**	**1,027**

For the calculation of the fair value of derivative instruments, discounted cash flow analyses are applied to derivatives without optional components using corresponding interest yield curves to the instruments' maturity and option pricing models are applied to derivatives with optional components. Forward foreign exchange transactions are valued based on listed forward rates and interest yields curves that are derived from listed market interest rates in view of the contracts' maturity. Interest rate swaps are valued at the cash value of the estimated future cash flows. The discounting took place using the pertinent interest yield curves derived from listed interest rates. The fair value of other financial assets and liabilities is determined in accordance with generally accepted measurement models based on discounted cash flow analyses.

Please refer to note 13 for the recording of impairments and net profits / losses of the stated financial assets and financial liabilities.

III. ADDITIONAL INFORMATION

22. Types and Management of Financial Risks

22.1 Counterparty Risk

Basler continuously checks the creditworthiness of its customers by employing internal and external evaluations. In addition, the risk associated with receivables from deliveries and services is reduced by the fact that the company has a diverse customer base. Furthermore, the company operates a clearly defined process to follow up on outstanding receivables. A credit line structure supported by the ERP system with documented escalation levels is used to limit the risk even further. Please refer to notes 13, 14, 15, 19, and 21 for statements of the maximum default risks.

22.2 Interest Rate Risk

All longer-term financial liabilities stated as of the balance sheet date are valued at amortized cost and are not subject to interest rate risk within the meaning of IFRS 7 due to existing fixed-interest agreements. The sensitivity analysis in connection with the interest rate risk from the interest rate swap showed a positive effect on earnings before taxes of € 252 thousand resulting from an increase of the interest yield curve by 0.5 percentage points and a direct negative effect on earnings before taxes of € 102 thousand resulting from a decrease of the interest yield curve by 0.5 percentage points.

23. Capital Management/Liquidity Risk

Basler manages its capital with the aim of maximizing the earnings of its stakeholders by optimizing the ratio of equity capital to borrowed capital.

However, it must furthermore be ensured that Basler possesses sufficient reserves to also enable short-term growth. This goal is managed using the financial reserves key figure.

This key figure is calculated from the ratio of borrowed capital plus unused credit lines to short-term assets less liquid assets.

A value of 125 % is targeted.

	12/31/2014	12/31/2013
Borrowed capital without finance lease and deferred taxes	18,703	14,588
Unused credit lines	2,400	3,600
Subtotal:	**21,103**	**18,188**
Short-term receivables	6,963	6,878
Inventories	12,550	9,595
Remaining receivables and other financial assets and accruals and deferrals	858	1,161
Liquid assets	-12,812	-9,665
Subtotal	**7,559**	**7,969**
Financial reserves	**279 %**	**228 %**

This strategy was not changed compared to the previous year.

On the reporting date, Basler had access to credit lines amounting to € 2,400 thousand (previous year: € 3,600 thousand). These were not used, as in the previous year.

The availability of credit lines and the granting of bank loans are partly tied to compliance with certain financial key figures. As in the previous year, Basler AG complied with the key figures.

The following maturity analysis of financial liabilities (contractually agreed, non-discounted payments) indicates the influence on the group's liquidity (in € k):

	2015	2016	2017 to 2019	From 2020
Bank debt	1,075	754	1,895	5,549
Liabilities from deliveries and services	2,277	-	-	-
Other current financial and tax liabilities	3,288	-	-	-
Liabilities from finance lease	2,215	2,218	11,859	0

As per December 31, 2013, the following maturity structure ensued:

	2014	2015	2016 to 2018	From 2019
Bank debt	549	848	1,360	4,036
Liabilities from deliveries and services	1,132	-	-	-
Other current financial and tax liabilities	2,355	-	-	-
Liabilities from finance lease	2,213	2,215	14,077	0

24. Segment Report

In 2009, Basler decided to strategically focus on the camera business. Various product lines of the solutions segment were sold or discontinued. Furthermore, the restructuring to a functional organization was finished in 2012. As a result of these measures, within the internal reporting the discontinuing solutions segment was not reported or managed separately.

Customers of Basler are global players. In the following statement of turnover per country, the product's country of installation is considered the target country. If the country of installation is not known, the last known country of delivery is considered.

	2014	2013
Germany	8,991	7,822
EMEA	24,367	18,385
America	17,303	14,455
Asia	28,579	24,448
	79,240	**65,110**

Sales revenues amounting to € 8.5 million, thus more than 10 % of the total sales revenues were generated with only one customer in 2014.

The long-term assets of the Basler group are held in the following countries:

	2014	2013
Germany	38.045	35.156
America	91	23
Asia	622	337
	38.758	**35.516**

25. Number of Employees

The average number of employees in each functional area is shown in the table below:

	2014	2013
Production	98	79
Sales	121	100
Development	100	89
Administration	86	84
	405	**352**

Basler is strongly committed to providing a family friendly, flexible working environment. One indication of this is the high percentage of employees who work under a wide variety of part-time schemes. Expressed in terms of equivalents of full-time positions this breaks down as follows:

	2014	2013
Production	92	75
Sales	113	95
Development	94	84
Administration	75	71
	374	**325**

26. Remuneration of Auditors

The remuneration paid to BDO AG Wirtschaftsprüfungsgesellschaft is separated into the following categories:

	2014	2013
Audit fees	67	68
Tax consultancy services	48	50
Other services	37	0
	152	**118**

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27. Relations to Closely Affiliated Persons

In fiscal year 2014, there were no transactions with related parties except for the remuneration of the management board and the remuneration of the supervisory board.

28. Management Board and Supervisory Board

28.1 Management Board

Dr. Dietmar Ley CEO is responsible for research and development as well as for personnel and organizational development, **John P. Jennings** is responsible for sales, market communications, and the subsidiaries, **Arndt Bake** is responsible for marketing and new business, and **Hardy Mehl** for production, purchase and logistics, finance, legal and investor relations.

28.2 Supervisory Board

In 2014, the supervisory board consisted of the following members:

Norbert Basler
Supervisory board chairman, entrepreneur

Prof. Dr. Eckart Kottkamp
Supervisory board vice-chairman, consultant

Konrad Ellegast
Regular supervisory board member, consultant

Additional mandates held by the supervisory board members in 2013, compliant with § 285 No. 10 HGB:

Norbert Basler
Member of the supervisory board, Plato AG, Lübeck

Prof. Dr. Eckart Kottkamp
Chairman of the advisory board,
Mackprang Holding GmbH & Co. KG, Hamburg

Chairman of the advisory board,
ACTec GmbH, Freiberg

Chairman of the supervisory board,
Lloyd Fonds AG, Hamburg

Member of the supervisory board,
Elbphilharmonie Hamburg Bau GmbH & Co KG, Hamburg

Member of the supervisory board,
KROMI Logistik AG, Hamburg

Member of the advisory board,
C. Mackprang Jr. GmbH & Co. KG, Hamburg

Konrad Ellegast
Chairman of the advisory board,
Dichtungstechnik G. Bruss GmbH & Co. KG, Hoisdorf

28.3 Remuneration of the Members of the Management Board and Supervisory Board

As of January 1, 2011, the remuneration model of the management board was changed by the implementation of a sustainability clause (see Remuneration Report in the management report). According to this, the variable claims acquired in one fiscal year are paid over a period of three years and during this period of time are subject to the intermediate risk of substantial decreases due to subsequent worsening of the situation.

In 2014, a total of € 1,256,360.49 was paid out allocated as follows:

2014	Dr. Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
Payout	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
In Management Board	since 1996	since 2005	since 2011	since 01/01/2014
Fixed remuneration	262,650.00	217,209.26	181,687.56	172,500.00
Additional benefits	16,394.15	46,766.53	20,455.58	12,388.45
Total	**279,044.15**	**263,975.79**	**202,143.14**	**184,888.45**
One-year variable remuneration	0.00	0.00	0.00	24,609.00
Perennial variable remuneration	118,029.01	92,259.70	83,555.68	0.00
Payout bonus bank	118,029.01	92,259.70	83,555.68	0.00
Other	0.00	0.00	0.00	0.00
Total	**397,073.16**	**356,235.49**	**285,698.82**	**209,497.45**
Pension expenses	498.12	6,361.21	498.12	498.12
Total Payout	**397,571.28**	**362,596.70**	**286,196.94**	**209,995.57**

The claim to variable compensation components of the financial year 2014 amounting to € 735,536.79 was transferred to the bonus bank and will be paid out within the next years according to the process described in the management report. In 2014, the total granted benefits for the management board amounted to € 1,673,443.89, and are allocated as follows:

2014	Dr. Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
Granted Benefits	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
In Management Board	since 1996	since 2005	since 2011	since 01/01/2014
Fixed Remuneration	262,650.00	217,209.26	181,687.56	172,500.00
Additional Benefits	16,394.15	46,766.53	20,455.58	12,388.45
Total	**279,044,15**	**263,975,79**	**202,143.14**	**184,888.45**
One-year variable remuneration	0.00	0.00	0.00	0.00
Perennial variable remuneration	226,080.37	204,583.63	156,390.54	148,482.25
of which transferred to the bonus bank	226,080.37	204,583.63	156,390.54	148,482.25
Total	**505,124.52**	**468,559.42**	**358,533.68**	**333,370.70**
Pension expenses	498.12	6,361.21	498.2	498.12
Total remuneration	**505,622.64**	**474,920.63**	**359,031.80**	**333,868.82**
Possible minimal amount – reduction bonus bank	-87,550.00	-79,225.35	-60,562.50	-57,500.00
Possible maximum amount – transfer to bonus bank	350,200.00	316,901.41	242,250.00	230,000.00

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In 2013, a total of € 971,941.59 was paid out allocated as follows:

2013	Dr. Dietmar Ley	John P. Jennings	Arndt Bake
Payout	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)
In Management Board	since 1996	since 2005	since 2011
Fixed remuneration	255,000.00	203,164.67	181,111.00
Additional benefits	16,563.63	41,329.79	18,677.06
Total	**271,563.63**	**244,494.46**	**199,788.06**
One-year variable remuneration	0.00	0.00	0.00
Perennial variable remuneration	96,918.26	83,187.25	68,432.93
Payout bonus bank	96,918,26	83,187,25	68,432.93
Total	**368,481.89**	**327,681.71**	**268,220.99**
Pension expenses	484,32	6,588,36	484,32
Total Payout	**368,966.21**	**334,270.07**	**268,705.31**

The claim to variable compensation components of the financial year 2013 amounting to € 397,699.77 was transferred to the bonus bank and will be paid out within the next years according to the process described in the management report. In 2013, the total remuneration of the management board amounted to € 1,121,102.92, allocated as follows:

2013	Dr. Dietmar Ley	John P. Jennings	Arndt Bake
Granted Benefits	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)
In Management Board	since 1996	since 2005	since 2011
Fixed remuneration	255,000.00	203,164.67	181,111.00
Additional benefits	16,563.63	41,329.79	18,677.06
Total	**271,563.63**	**244,494.46**	**199,788.06**
One-year variable remuneration	0.00	0.00	0.00
Perennial variable remuneration	160,103.49	123,887.15	113,709.13
of which transferred to the bonus bank	160,103.49	123,887.15	113,709.13
Total	**431,667.12**	**368,381.61**	**313,497.19**
Pension expenses	484.32	6,588.36	484.32
Total Remuneration	**432,151.44**	**374,969.97**	**313,981.51**
possible minimal amount-reduction bonus bank	-85,000.00	-67,721.37	-60,370.34
possible maximum amount-transfer to bonus bank	340,000.00	270,885.48	241,481.34

In the case of a proper termination of office as member of the management board, one third each of a positive balance of the remaining performance-related compensation is paid per year in the course of the following three years.

In the case of premature termination of office as member of the management board possible payments are limited to the value of two annual remunerations and will not exceed the total of claims resulting from the remaining term of the employment contract.

In November 2012, the contracts of Arndt Bake and John P. Jennings and in January 2013, the contract of Dr. Dietmar Ley were amended so that in the case of termination by a member of the management board with good cause no more payments will be made to the member of the management board.

28.4 Remuneration of the Supervisory Board

The total remuneration of the members of the supervisory board amounted to € 54 thousand in the year 2014.

	Fixed remuneration	Performance-related remuneration for 2014	Total 2014
Norbert Basler	24,000.00	0.00	24,000.00
Prof. Dr. Eckart Kottkamp	18,000.00	0.00	18,000.00
Konrad Ellegast	12,000.00	0.00	12,000.00

The total remuneration of the members of the supervisory board amounted to € 54 thousand in the year 2013.

	Fixed remuneration	Performance-related remuneration for 2013	Total 2013
Norbert Basler	24,000.00	0.00	24,000.00
Prof. Dr. Eckart Kottkamp	18,000.00	0.00	18,000.00
Konrad Ellegast	12,000.00	0.00	12,000.00

28.5 Share Ownership by the Members of Management Board and Supervisory Board

As at the reporting date, the members of the management board held the following number of shares:

	12/31/2014 Number of shares	12/31/2013 Number of shares
Dr. Dietmar Ley	144,794	144,358
John P. Jennings	5,500	5,500
Arndt Bake	700	700
Hardy Mehl	450	n.a.

As at the reporting date, the members of the supervisory board held the following number of shares:

	12/31/2014 Number of shares	12/31/2013 Number of shares
Norbert Basler	1,816,891	1,816,891
Prof. Dr. Eckart Kottkamp	-	-
Konrad Ellegast	1,280	1,280

29. Holdings Index

In addition to Basler AG, the following companies are included in the group's annual balance sheet by way of full consolidation due to extant voting majorities:

Company name	Proportion of stake in %
Basler Inc., Exton/USA	100
Basler Asia Pte. Ltd., Singapore	100
Basler Vision Technologies Taiwan Inc., Jhubei City/Taiwan	100
Beruf und Familie Stormarn GmbH, Bad Oldesloe	20

Further participating interests are not held.

30. Corporate Governance

The company has made its Declaration of Compliance with the German Corporate Governance Code which is mandatory under § 161 of the German Stock Corporation Act (AktG). The declaration was made accessible to the shareholders on the company's website at www.baslerweb.com.

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31. Approval of the Annual Balance Sheet

The annual balance sheet is expected to be released for publication by the supervisory board on March 17, 2015.

32. Recommendation for the Appropriation of Profit

The management board recommends the distribution of a dividend amounting to € 0.70 per share corresponding to an amount of € 2,226,795.20.

Ahrensburg, March 5, 2015

Management Board

Dr. Dietmar Ley	John P. Jennings
(CEO)	(CCO)
Arndt Bake	Hardy Mehl
(CMO)	(CFO/COO)

AUDITORS' AUDIT OPINION

We have audited the consolidated financial statements of Basler Aktiengesellschaft, Ahrensburg, — consisting of balance sheet, profit and loss statement, statement of comprehensive income, statement of changes in equity, cash flow statements, and notes — and the group management report for the business year from January 1, 2014 to December 31, 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional provisions stated in Section 315a Para. 1 HGB are the responsibility of the company's legal representatives. It is our responsibility to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German standards of proper auditing of financial statements as established by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that inaccuracies and infringements significantly affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting information of the sections included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the results of our audit the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in Section 315a Para. 1 HGB and give a true and fair view of the net assets, financial position, and results of operations of the group in accordance with German principles of proper accounting. The group management report is in accordance with the annual financial statements and provides on the whole a suitable understanding of the group's position and suitably presents the opportunities and risks of future development.

We have issued the above report on the audit of the consolidated financial statements and the group management report for the fiscal year from January 1, 2014, to December 31, 2014, of Basler Aktiengesellschaft, Ahrensburg, in accordance with applicable legal provisions and German principles of proper accounting for audits of consolidated financial statements.

Lübeck, March 6, 2015

BDO AG
Wirtschaftsprüfungsgesellschaft

Herbers	ppa. Janitschke
Auditor	Auditor

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DECLARATION OF THE LEGAL REPRESENTATIVES

We affirm to the best of our knowledge that the consolidated financial statements, in accordance with the accounting principles applicable to annual reporting, provide a true and fair view of the group's asset, financial, and earnings situation and that the annual group management report represents a true and fair picture of the course of business, including the operating result, and the group's financial situation as well as a description of the essential opportunities and risks concomitant with the expected development of the group during the remainder of the fiscal year.

Ahrensburg, March 5, 2015

The Management Board

Dr. Dietmar Ley (CEO)	John P. Jennings (CCO)
Arndt Bake (CMO)	Hardy Mehl (CFO/COO)

Events 2015

Finance Events

Date		Venue
05/06/2015	Publication 3-month report 2015	Ahrensburg, Germany
05/21/2015	Shareholders' meeting 2015	Hamburg, Germany
08/05/2015	Publication 6-month report 2015	Ahrensburg, Germany
11/04/2015	Publication 9-month report 2015	Ahrensburg, Germany
11/23-25/2015	Deutsches Eigenkapitalforum 2015 (German equity forum)	Frankfurt am Main, Germany

Shows and Conferences

Date		Venue
03/17-19/2015	Vision China, Shanghai / SEMICON China	Shanghai, China
03/18-20/2015	Korea Vision Show / Automation World	Seoul, Korea
03/23-26/2015	Automate 2015	Chicago, USA
04/23-27/2015	Taiwan Kaohsiung Industrial Automation Exhibition	Kaohsiung, Taiwan
05/19-20/2015	NEW-TECH 2015 EXHIBITION	Tel Aviv, Israel
06/10-12/2015	Exhibition on Sensing via Image Information Japan	Yokohama, Japan
06/24-27/2015	Assembly Technology Thailand	Bangkok, Thailand
07/01-03/2015	Vision China, Shenzhen	Shenzhen, China
08/27-30/2015	Taipei Int'l Industrial Automation Exhibition	Taipei, Taiwan
October 2015	AOI Forum & Show Taiwan	Hsinchu, Taiwan
010/14-16/2015	Vision China, Beijing	Beijing, China
11/03-07/2015	China International Industry Fair	Shanghai, China
11/18-19/2015	All-over-IP Expo 2015	Moscow, Russia
11/18-21/2015	Metalex Thailand	Bangkok, Thailand
12/02-04/2015	International Technical Exhibition on Image Technology and Equipment Japan	Yokohama, Japan

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