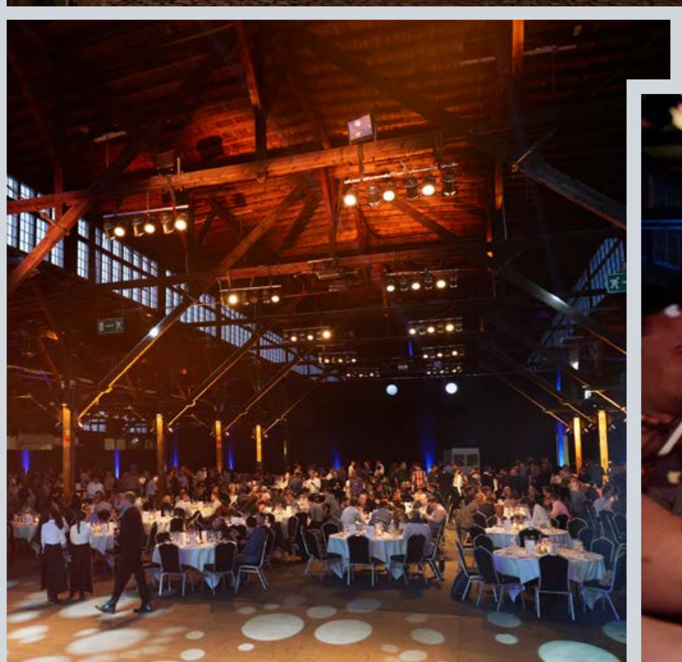
30 YRS BASLER

Annual Report 2018

March 23, 2018 will be remembered for a long time –

for all the best reasons. Once again we showed that in addition to producing highly successful cameras, we can also throw a legendary party. The great anniversary party started with the departure of the red shuttle buses from the Ahrensburg headquarters. Their destination: The "Schuppen 52", a heritage-listed dockside shed in Hamburg, situated directly on the water, with an incredible view across the Elbe to the port of Hamburg and the Elbphilharmonie. The 30-year anniversary was celebrated in style at this perfect location ...



KEY FIGURES

in € m*	2016	2017	2018	Changes in %
Sales revenues	97.5	150.2	150	0 %
Incoming orders	105.4	153.6	154	0 %
Gross results	47.5	74.0	73.4	-1 %
Gross profit margin	48.7 %	49.3 %	48.9 %	-0.4 Pp.
Full costs for research and development	13.2	16.0	20.1	26 %
Research and development ratio	13.5 %	10.7 %	13.4 %	2.7 Pp.
EBITDA	18.8	40.0	36.0	-10 %
EBIT	12.2	30.5	24.8	-19 %
EBT	11.4	29.8	24.5	-18 %
Net income	7.9	21.6	17	-21 %
Weighted average number of shares	3,230,943	3,209,430	3,214,066	0 %
Result per share (€)	2.45	6.74	5.29	-22 %
Cash flow from operating activities	16.1	31.8	27.0	-15 %
Cash flow from investing activities	-8	-9.8	-25.7	163 %
Free Cash flow	8.1	22.0	1.3	-94 %

in € m*	12/31/16	12/31/17	12/31/18	Changes to previous year
Total assets	90.4	117.7	139.0	18 %
Long-term assets	43.9	45.9	63.5	38 %
Equity	50	65.6	75.5	15 %
Liabilities	40.4	52.1	63.5	22 %
Equity ratio	55.3 %	55.7 %	54.3 %	-1 Pp.
Net cash	8.8	25.0	8.0	-68 %
Working Capital	18.6	19.8	31.4	59 %
Number of employees for the fiscal year (full time equivalents)	457	504	610	21 %
Share price (XETRA) in €	60.37	195.05	124.00	-36 %
Number of shares in circulation	3,215,247	3,211,136	3,205,719	0 %
Market capitalization	194.1	626.3	397.5	-37 %

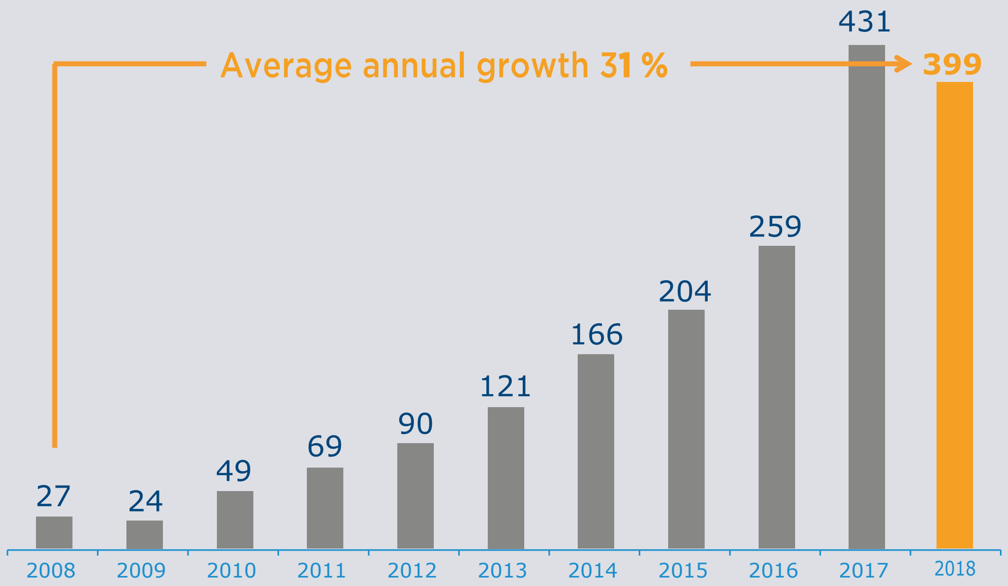
*unless otherwise stated

CONTENT

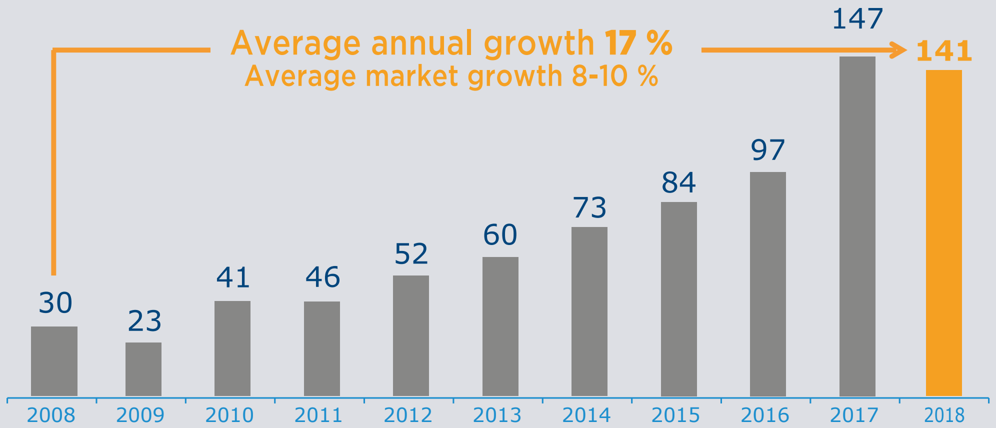
The Basler image movie is available at:
http://info.baslerweb.com/video

BASLER GROWTH STORY

Camera Units (in k Units)



Camera Revenue (in € million)

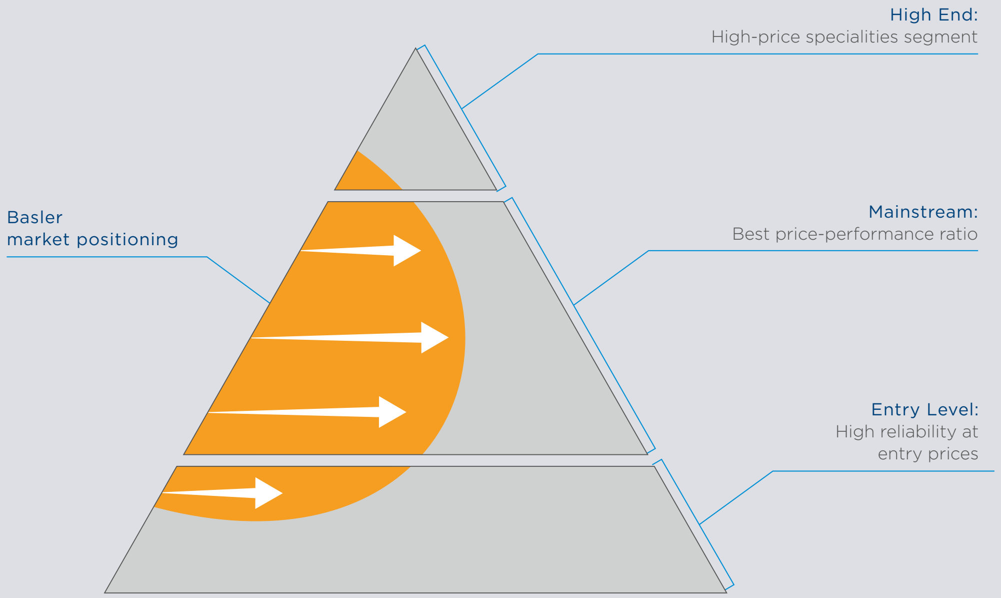


GROWTH STRATEGY UNTIL 2022

In the past few years Basler consistently and successfully aligned its strategy towards the high volume mainstream and entry level markets.

As a result, the company plans an average annual growth of 15 % in these areas for the next few years and has targeted a medium-term goal to increase sales to € 250 million by 2022; raising the number of produced cameras to over 900,000 pieces at a pre-tax return of 12 %.

OUR MARKET MODEL



Our volume strategy is based on:

- → an attractive price-performance ratio
- → ease of use
- → high reliability of products

We achieve this through lean innovation and lean operations.

REPORT OF THE MANAGEMENT BOARD

Dear Shareholders, Employees, Customers, and Business Partners of Basler AG,

The year of the 30th company anniversary of Basler AG was a year of stabilization and change at the same time. Within a stagnating market environment, the sales level that increased from approximately € 100 million to € 150 million in 2017 due to an extraordinarily strong growth of both the market and Basler market share was stabilized on a broader market range. Moreover, we built up structures as well as capacities and hired a considerable number of new employees. In addition to this stabilization, we consistently pushed forward the strategy of developing from a camera supplier towards a full-range provider for vision hardware and accelerated the implementation by two acquisitions. By acquiring Silicon Software GmbH in July 2018, we expanded our product portfolio by high-performance frame grabber boards. The majority acquisition of the machine vision business of our long-term Chinese distribution partner MVLZ expands our business by accessories and offers direct market access to the biggest and strongest growing regional market. This acquisition was effective on January 1, 2019, and thus helped us start the new financial year in a powerful way.

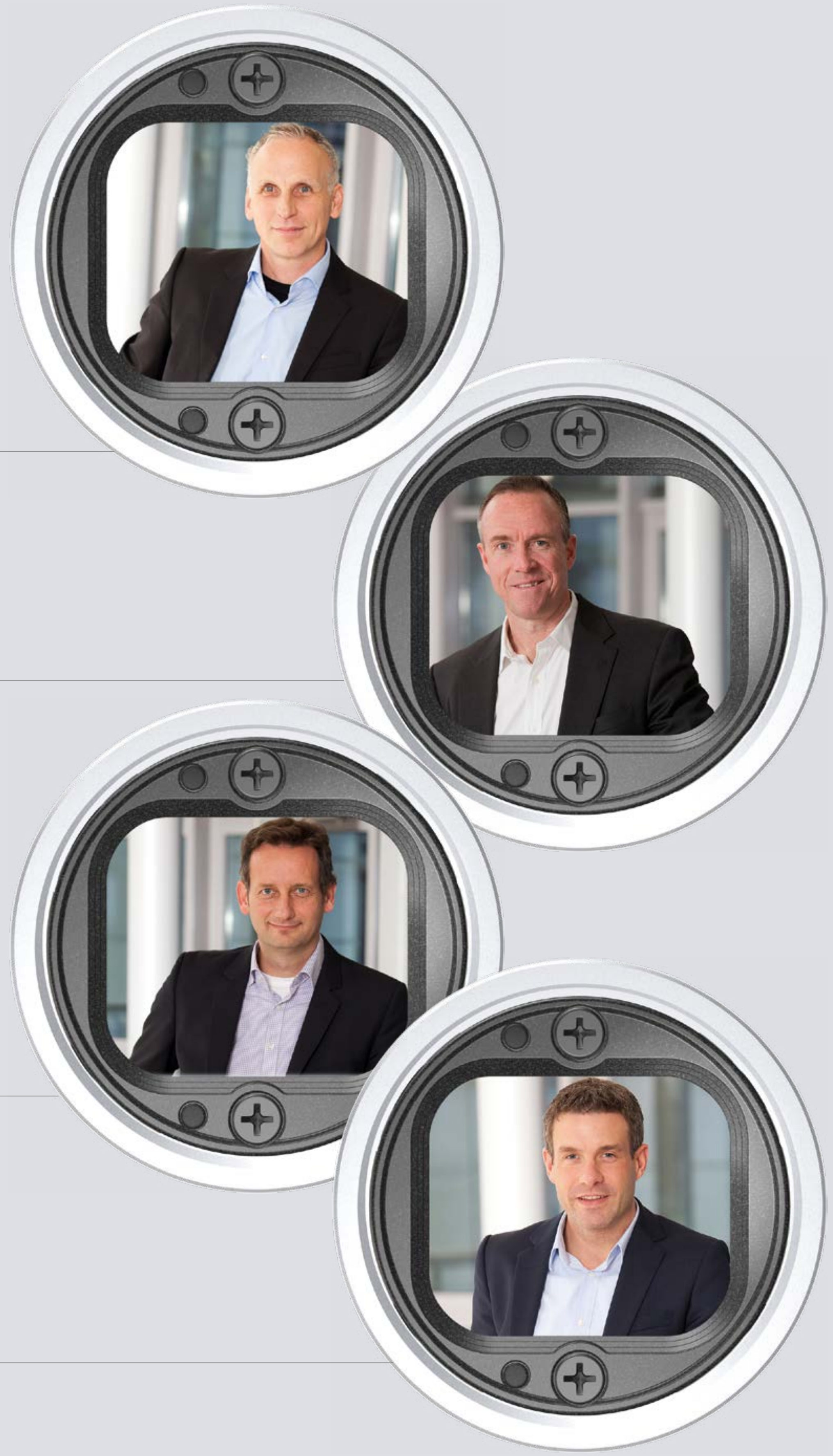
We also made important progress in our new business of embedded vision. MyCable GmbH acquired mid 2017 was fully integrated in common business processes and merged into Basler AG at the turn of the year. In financial year 2018, the embedded vision team got important product innovations and sales cooperations off the ground and thus laid the foundation for opening up newly emerging market segments outside the factory automation with highly integrated embedded vision technologies.

Despite significant organic expansion and considerable expenses for inorganic growth, we very profitably closed the financial year at a pre-tax return rate of 16 % which is above our forecast of 13 – 15 % given at the beginning of the year.

The two essential success factors for the positive results of the past reporting period are our passionate employees as well as a company culture, which fosters innovation. In the elapsed fiscal year, we hired close to 100 new employees at a very low fluctuation rate (1.57 %). We would like to take this opportunity to thank all employees for the unabated and extraordinarily high commitment and achievements.

We thank our customers and sales partners for the trust in our company, for using our products as well as for the continuous communication enabling us to further improve our products and services.

We would also like to thank our shareholders for the trustful and excellent cooperation in the course of the reporting period. We are very pleased to have the full confidence of our shareholders and the high level of encouragement for our profitable growth strategy despite the difficulties on the sales and capital markets in the second half of the year. Also in this year we would like to let you participate in the success of the



Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Arndt Bake
CMO

Hardy Mehl
CFO/COO

company and will forward a proposal to the shareholders meeting 2019 suggesting to pay a dividend for the financial year 2018 in the amount € 1.59 per share. Should that proposal be adopted, the planned dividend payment of a total of € 5,097,093.21 would correspond to about 30 % of the net result.

For 2019, economic research institutes and banks largely assume negative economic growth rates, but no recession. In principle, we share this estimation for our market environment. Based on discussions with our customers as well as on latest forecasts and incoming orders, we again expect the computer vision market to move sideways in 2019. Independent of the market growth in 2019 and due to the intact medium to long-term lasting growth drivers of the computer vision market, we strive for gaining further market shares and further strong investments in our future in financial year 2019. In respect of current economic and political uncertainties, we continuously aim for ensuring the right balance between sustainable investments in growth and solid liquidity.

Against the background of the high market intransparency and considering inorganic growth components, for the time being we assume sales revenues to be within a corridor of € 160 million to € 180 million in fiscal year 2019. Subsequently, the pre-tax return rate will decrease and develop systematically towards the strategic target of 12 %. According to what we know now, we assume a pre-tax return rate between 7 and 11 % for the fiscal year 2019.

With a high level of orders, an increased number of employees, unique market access, solid liquidity, and a significantly extended product and service portfolio, as well as a future oriented sustainable growth strategy, Basler AG is well positioned for the financial year 2019 and beyond. 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.

We are motivated to further implement our profitable and self-financed growth strategy and intend to exceed the sales threshold of € 250 million by 2022.

We look forward to working together with you shaping the growth of Basler AG and would like to give you detailed insights of the past fiscal year.

Ahrensburg, March 2019

The Management Board

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

REPORT OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,

In the elapsed fiscal year 2018, 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 2018, five regularly occurring supervisory board meetings took place, all members of the supervisory board attended the meetings. These were held on March 19, 2018, May 7, 2018, September 11, 2018, November 14, 2018, and December 12, 2018. Additionally, directly after the shareholders' meeting on May 7, 2018, a short meeting took place in order to determine the office holders after the new elections to the supervisory board, also this meeting was attended by all members of the supervisory board. Furthermore, on July 2, 2018, an extraordinary meeting of the supervisory board took place. Mr. Garbrecht, Prof. Dr. Steinkamp as well as Mrs. Brandes attended by telephone.

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 2017 and the proposals for the shareholders' meeting
- Dividends for fiscal year 2017 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
- M&A-activities

Norbert Basler
Founder & Chairman of the Supervisory Board

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

Horst W. Garbrecht
Supervisory Board

Prof. Dr. Mirja Steinkamp
Supervisory Board

Dorothea Brandes
Supervisory Board

Dr. Marco Grimm
Supervisory Board

- Preparation of the joint venture Basler China with MVLZ, China, as well as the preparation of the integration of the MVLZ, China, machine vision business into Basler China
- Acquisition and integration of Silicon Software GmbH
- Advancement of the company organization
- Expansion of business premises
- Transfer prices between Basler AG and its subsidiaries
- Investments
- Corporate financing and banking relationships
- Currency hedges
- Liquidity and working capital
- Investor relations
- Share buyback program
- Corporate planning and budget for the group for fiscal year 2019
- 4-year-planning 2019 - 2022
- Adjustment catalogue of business transactions requiring the approval of the supervisory board
- Adjustment of rules of procedure of the supervisory board
- Organisation of the audit committee and the nominating committee
- Implementation of the one third employee participation in the supervisory board
- Dividend policy
- Correctness and effectiveness of the internal control system (IKS)
- Correctness and effectiveness of the risk management system (RMS)
- Compliance issues as well as implementation of a compliance system
- Changes of legal requirements
- Sustainability reporting
- Commitment to and amendments of the Corporate Governance Code
- Selection procedure for the statutory auditor
- Remuneration of the management board
- Further development of supervisory board composition and organization
- Efficiency of the supervisory board's work

The BDO AG Wirtschaftsprüfungsgesellschaft which was selected as annual auditor by the shareholders' meeting on May 7, 2018, was commissioned by the chairman of the supervisory board's audit committee, Prof. Dr. Mirja Steinkamp, to perform the audit by a letter of June 15, 2018. The annual auditor participated in the supervisory board meeting on March 18, 2019, in which the presented annual balance sheet and the reported essential results were discussed.

The accounting, the annual balance sheet as of December 31, 2018, and the situation report for Basler AG, along with the group's annual balance sheet as of December 31, 2018, 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 improved it. 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.

Regarding the supervisory board itself, there is the following to report:

After having achieved the corresponding criteria for a one third participation, the supervisory board of Basler AG now consists of six members. Mrs. Dorothea Brandes as well as Dr. Marco Grimm were elected by the employees as employee representatives to the supervisory board and took office on May 7, 2018, directly after the shareholders' meeting. Within this meeting, all four present supervisory board members ran for office again and were reelected by the shareholders for different lengths of terms of office.

In an extraordinary meeting of the supervisory board that was held directly after the shareholders' meeting the supervisory board decided to fill the offices as follows:

Chairman of the supervisory board: Mr. Norbert Basler

Vice chairman of the supervisory board: Prof. Dr. Eckart Kottkamp

Chairman of the audit committee: Prof. Dr. Mirja Steinkamp

Members of the audit committee: Mr. Norbert Basler, Prof. Dr. Eckart Kottkamp

Chairman of the nomination audit: Mr. Norbert Basler

Members of the nomination committee: Prof. Dr. Eckart Kottkamp, Mr. Horst Garbrecht.

30 Years of Basler – Ramp-up for the next Market Phase

In 2018, Basler AG celebrated its 30th anniversary. During these three decades, the company adapted its business model serveral times in order to anticipate developments and opportunities in the image processing industry and to make use of them in the interest of the company. This was again the case in the elapsed fiscal year.

The conversion and transition from a camera supplier to a provider of computer vision hardware follows the strategy amended in 2017 and made good progress in 2018. Intensive investments in the expansion of the product portfolio, as for example the takeover of Silicon Software GmbH last summer as well as numerous internal change projects prepare the next big step in the company development. The future positioning as full provider of computer vision hardware will meet future changes in demand-related behavior of customers as well as the expected consolidation of the current provider landscape consisting of small and medium-sized enterprises. One central motivation for the accelerating industry consolidation is to improve market access. Against this background, the joint venture that was concluded in the course of the financial year between Basler AG as majority owner and the longtime distribution partner MVLZ China is an important success. Since January 1, 2019, more than one hundred employees of Basler China ensure a direct access to the customers in the largest and the strongest growing regional market for computer vision. Henceforth, approximately 70 % of customers worldwide are directly serviced by own sales organisations in Asia, Europe, and North America.

The biggest operating company performance in the elapsed fiscal year was the profitable stabilization of the sales level that increased from approximately € 100 million to over € 150 million in 2017 due to an exceptional boom in the smartphone market although the demand from the smartphone industry considerably cooled off in 2018. At the same time, internal capacities and structures in all functional areas were adjusted to the expected sales growth integrating more than 130 new employees in the team of Basler AG.

The elapsed fiscal year represents a transition phase in a strategic, economic, and organizational respect. First results of the numerous change processes made in 2018 will probably become visible in the new fiscal year 2019. The supervisory board is convinced that in its new positioning Basler AG will disproportionately take advantage of the growth potentials in the computer vision market and will continue to develop successfully in the upcoming years.

We expressly thank all employees, executives, and the members of the management board of Basler AG for the excellent results of their work in a fiscal year that was successful and challenging at the same time.

Ahrensburg, March 2019

The Supervisory Board

Norbert Basler
Founder & Chairman of the Supervisory Board

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

Horst W. Garbrecht
Supervisory Board

Prof. Dr. Mirja Steinkamp
Supervisory Board

Dorothea Brandes
Supervisory Board

Dr. Marco Grimm
Supervisory Board

THE BASLER SHARE

At the beginning of 2018, the price of the Basler share opened on a very high level at € 192.97. In the first weeks of the year, it increased to its annual high of € 218.70 on January 21, 2018 due to high market expectations based on repeated result increases made in the financial year 2017. The very high share price level of over € 200.00 and the intraday high of € 221.17 on February 22, 2018, last until the publication of the preliminary results 2017 at the end of February. In March, the share price slightly decreased and closed the first quarter at € 173.00.

After a sideways movement in the month of April, the share price again exceeded the level of € 190.00 upon publication of positive first quarter results at the beginning of May. Subsequently, the share price leveled off between € 160.00 and € 180.00 and closed the second quarter at € 165.60.

The capital market reacted neutrally to the announcements of the joint venture with the Chinese distributor MVLZ and the acquisition of Silicon Software GmbH in the month of July, neither announcement led to strong share price fluctuations. The expectations of the quarterly report at the beginning of August made the share price rise again to over € 190.00 followed by a moderate decrease in the course of the following weeks. It closed the third quarter at € 164.00.

Particularly in the fourth quarter the global political and economic uncertainties had a negative effect on the capital market's development. Despite a slight increase of the profit forecast (EBT margin) at the end of October, the macro-economic environment also affected the Basler share. In the fourth quarter it continuously decreased and closed the year at € 124.00.

Shareholders´ Meeting

The shareholders´ meeting took place in the Hamburg Chamber of Commerce on May 7, 2018.

The investors present were given an extensive company presentation by the management board informing them about the strategic direction of the company and the course of business in 2017. After a general debate, all items were approved by more than 99 % of the voters present.

Please find detailed information about the meeting 2018 here
www.baslerweb.com/en/investors/annual-general-meeting.

Share Buyback Program

The shareholders´ meeting of May 7, 2018, 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 resolution reads as follows:

“By June 3, 2019, 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 shares can be used for all purposes provided for in the authorization of the shareholders´ meeting of June 4, 2014.”

Convinced that sales and results would continuously improve over forthcoming reporting periods, in September 2011 the management board first decided to buy back shares. In the course of the past seven years, further share buyback programs followed. On September 17, 2018, the supervisory board and the management board decided for the latest buyback of own shares which started immediately. At the reporting date December 31, 2018, Basler AG held 294,281 own shares corresponding to almost 8.4 % of total shares. These were bought at an average share price of € 30.00.

Keyfact

€ 1.59

Dividend

Dividend and Appropriation of Earnings

Due to the solid business development in the fiscal year 2018, the management board of Basler AG has decided to propose to the shareholders´ meeting 2019 to pay a dividend.

Our dividend strategy is to pay approximately 30 % of the net result every year, however, always depending on the business development and planned investments in growth and in the future of the company.

On this base, the proposal will be made in the shareholders´ meeting of 2019 to pay a dividend for the fiscal year 2018 of € 1.59 per share.

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 via conference calls, individual meetings, and roadshows or at capital market conferences. It is during the shareholders´ 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 eight (previous year: nine) roadshows and six (previous year: six) 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 2018 we again 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, even though they considerably increased in the elapsed two fiscal years. Due to this clear orientation as well as the very stable business development in 2018, the quality and quantity of our investors' meetings considerably improved further. After these positive experiences made in the elapsed fiscal years, we will continue and further improve this strategy in 2019, despite the currently volatile times in the capital markets.

In the previous year, the analysts of Warburg Research, Oddo BHF Aktiengesellschaft, Berenberg Bank, as well as Matelan Research regularly prepared studies about Basler AG (previous year: 4). 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 shareholders´ meeting.

Contact Details

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

Tel. +49 4102 463 0
Fax +49 4102 46346 108
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, GEX*

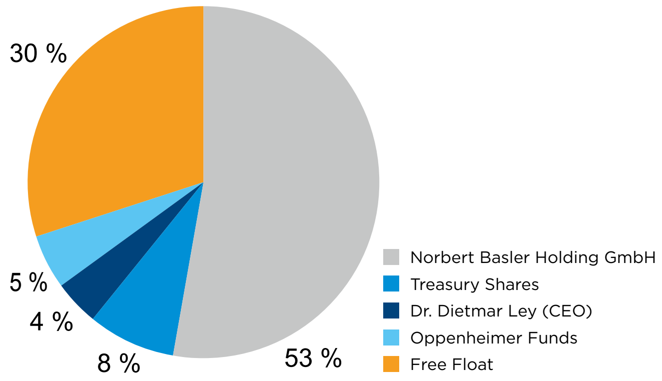
Keyfact

€ 218.70

Year high 2018

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

Shareholder Structure



Share Ownership by the Members of Management Board and Supervisory Boards

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

Management Board	12/31/2018 Number of Shares	12/31/2017 Number of Shares
Dr. Dietmar Ley	125,794	125,794
John P. Jennings	4,500	5,500
Arndt Bake	400	700
Hardy Mehl	1.200	800

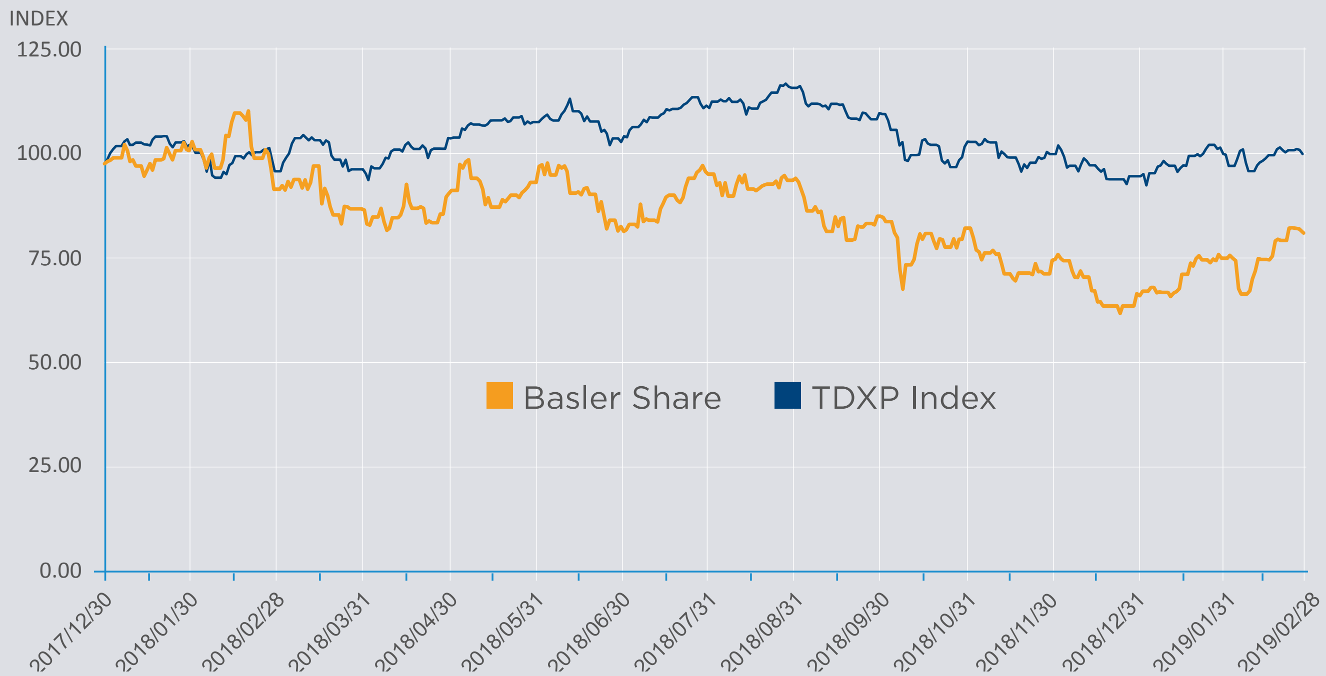
As at the reporting date, the members of the supervisory board did not hold own shares.

Share Price Key Figures

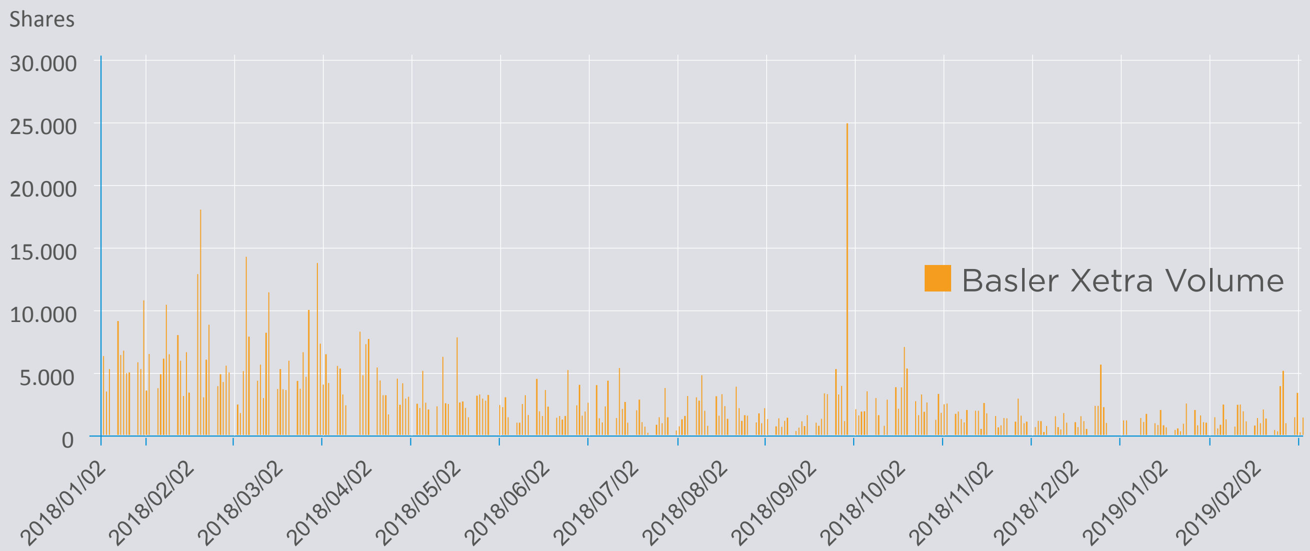
	2018	2017	2016	2015
Market capitalization in € million (as of 12/31)	397.50	626.3	194.1	140.8
Annual closing price in € (as of 12/31)	124.00	195.05	60.37	43.43
Year high in €	218.70	228.70	63.85	62.00
Year low in €	120.40	58.57	43.51	37.46
Annual development	-36 %	+218 %	+34 %	+12 %

SHARE PRICE DEVELOPMENT 2018

Basler (Xetra) vs. TecDax



DEVELOPMENT TRADE VOLUME 2018



CORPORATE GOVERNANCE

Corporate Governance Report of Basler AG as well as of the Basler Group

The management board and the supervisory board of Basler AG and the Basler group are committed to responsible, long-term and substantial development of the company. Good Corporate Governance is one of the key components. The following Declaration of Conformity refers to the recommendations of the Government Commission for the German Corporate Governance Code as amended on February 7, 2017.

Open and transparent corporate communication, observance of shareholder interests, forward-looking handling of opportunities and risks, as well as efficient and trustful cooperation between the management board and the supervisory board, are major aspects of good Corporate Governance. These are conducive to Basler AG and Basler group in gaining the trust of shareholders, business partners, employees, and the general public. At the same time, these principles are important orientation standards for both committees. In the following, the management board and the supervisory board jointly report on Corporate Governance at Basler AG.

Leadership Structure and Company Structure

The Basler group have a two-part management and monitoring structure shared between the bodies of the management board and the supervisory board.

Management Board

In 2018, the composition in terms of personnel remained unchanged.

The four-member management board leads the company under its own responsibility. In line with corporate interests, the management board performs its leadership role with the objective of sustainably increasing the company value.

The management board agrees with the supervisory board on the strategic direction of the company and implements this strategy. It ensures the adherence to legal provisions and company-internal guidelines and works to achieve compliance throughout the group. It establishes an appropriate risk management and risk controlling system in the company.

The supervisory board is promptly involved and provided with complete information concerning all decisions that may materially affect the net asset situation, financial and earnings situation of the company. The management board reports to the supervisory board regularly, quickly and comprehensively in written and verbal form about all relevant topics relating to business development, company planning, strategic alignment, the opportunity and risk situation, risk management, and compliance. Members of the management board are appointed by the supervisory board.

The members of the management board do not hold other mandates in other statutory supervisory boards or in comparable domestic or foreign supervisory committees.

Supervisory Board

Since the shareholders´ meeting 2018 the supervisory board consists of six members. Two of them are representatives of the employees and are directly elected by the staff. The supervisory board serves the management board in an advisory capacity, monitors the management board in its management of the company and verifies all significant business transactions for the management board by examining the documents in question in terms of the German Stock corporation Act (AktG), the company's articles of incorporation and the supervisory board's and management board's rules of procedure. Also, outside of regular supervisory board meetings the supervisory board is provided with information on the business development. In this way, it can follow and support business operations by giving advice and recommendations on an appropriate information basis.

The other four members of the supervisory board are elected by the annual shareholders´ meeting. The election of the supervisory board is in compliance with the recommendations of the Corporate Governance Code; all members of the supervisory board are elected individually. The supervisory board complements the rules of procedure of the management board by determining a catalogue of transactions requiring consent. The supervisory board acts on the basis of its own rules of procedure. Moreover, the supervisory board declares the annual financial statements, and approves the consolidated financial statements. Every year, the chairman of the supervisory board presents the activities of the supervisory board in his report to the shareholders as part of the annual report. In addition, he is available for discussion as chairman at the annual shareholders´ meeting. You will find additional information on the management board, and the supervisory board, particularly regarding their working methods and further mandates performed by the members in the supervisory board's report, in the notes, as well as in the management report.

The individual supervisory board members' supervisory board mandates as well as the shareholdings of the management board are shown in the notes.

The rules of procedures for the supervisory board foresee the formation of two committees. Both of them have been formed and work in line with the contents of the rules of procedures of the supervisory board:

The audit committee's function is to prepare negotiations and resolutions of the supervisory board regarding:

- accounting and the effectiveness of the risk management system
- the internal control systems as well as the internal audit system with the necessary independence of the auditor
- the issuing of the audit mandate to the auditor
- the determination of focal points of the audit, and the fee agreement
- compliance issues

The chairman of the audit committee should be independent and should not have been a member of the company's management board in the past two years. The chairman of the supervisory board is not the chairman of the audit committee. At least one member of the audit committee is independent and has expert knowledge in the fields of accounting and final audits.

The nominating committee searches for suitable candidates for the work of the supervisory board, proposes them to the supervisory board for its election proposals to the shareholders´ meeting. The nominating committee is exclusively staffed by shareholder representatives.

Relevant Information on Corporate Governance Practices of the Management Board and the Supervisory Board

In addition to legal requirements, the company's articles of incorporation, the rules of procedures of the supervisory board and the management board, the supervisory board's competence profile as well as the recommendations of the German Corporate Governance Code form the basis for practices of corporate management at Basler AG.

Diversity Conception

For several years, Basler AG relies on the diversity principle shown in the composition of the employees, the high rate of female participation as well as the age structure of the company.

There have been no formulated written diversity concepts for the supervisory board as well as for the management board to date. The management board consists of experienced managers. Before their board activities, all of them were responsible for different areas in the company. Their professional backgrounds and focus complement each other very well. Their individual curricula vitae can be found at www.baslerweb.com/en/company/management/board.

The management board's employment contracts expire at different times, the age limit for members of the management board is 70 years. The management board did not set up any committees. Since the beginning of 2014, the members of the management board have been working together on a basis of trust. For the time being no changes in this body are planned.

In 2014, the supervisory board together with the management board worked out a competence profile including the key topics: professional skills, experiences, competence in the company's key success factors, as well as a personality profile. The purpose of this competence profile is to cover as good as possible all important and trendsetting topics of the company.

In the past years, two new supervisory board members, Mr. Garbrecht and Mrs. Prof. Dr. Steinkamp, were found according to this profile and complete the body with the necessary qualifications.

All members of the supervisory board are elected separately. As the contracts of the management board, those of the supervisory board expire at different times.

The nominating committee ensures the implementation of the diversity concept.

In its proposals to the shareholders´ meeting, the supervisory board will continue to observe legal requirements and give priority to women in case of equal qualification. In doing so, the company's international activities, potential conflicts of interest as well as diversity will be considered. The decision on the candidates which the supervisory board considers to be the most appropriate ones, is to be taken whenever a new election is scheduled. The supervisory board and the management board do not consider it as useful to be bound to pre-formulated abstract targets for selecting candidates instead of freely deciding on a person which is available and seems to be most suitable for the position. In its meeting in March 2018, the supervisory board decided that for the time being, no increase of the female quota has to be achieved in the supervisory board and the management board. Due to this a gender quota of 0 % is defined for the management board. Therefore, the supervisory board does not give concrete targets according to clause 5.4.1, paragraph 2, DCGK (Deutscher Corporate Governance Kodex, German Corporate Governance Code) nor does it set a limit for the length of service or an age limit for members of the supervisory board as recommended in clause 5.4.1 paragraph 2, sentence 21, DCGK, in the version dated February 7, 2017.

Remuneration of the Management Board and the Supervisory Board

In accordance with the recommendations of the German Corporate Governance Code, Basler AG has been reporting the remuneration of each member of the management board and the supervisory board for some time now. 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 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.

You will find a detailed overview of the remuneration of the management board and the supervisory board in the notes of this annual report.

Opportunities and Risks Report as well as Compliance

The growth strategy pursued by Basler for market leadership for industrial cameras in the coming years with group sales above € 250 million, can only be implemented if opportunities are seized and, at the same time, measures are taken in order to minimize risks in an appropriate way.

The purpose of the opportunity and risk management system at Basler is:

- to generate transparency within the executive team about opportunities and risks of our business and
- to agree within the executive team how the probability of occurrence of relevant risks can be limited and
- to create scopes of action enabling a deliberate approach to opportunities and risks, in order to avoid risks that are unacceptable and to reduce avoidable risks to an acceptable level.

Essential parts of the opportunities and risk management system are the risk strategy, the risk atlas, the risk matrix, and the risk coping. In 2014, a risk strategy was adopted and software for a standardized collection and measurement of risks was implemented. Again, 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 measures 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 9001:2015.

The compliance of the group's business activities with legal requirements and human rights, as well as the rejection of corruption and bribery are self-evident for Basler AG. Therefore, the group set up a "Code of Conduct". Detailed information on this subject can be found under point 11 of the management report "Non-Financial Statement".

Financial Reporting and Year-End Audit

Basler AG prepares its consolidated financial statements as well as the consolidated interim reports as per the International Financial Reporting Standards (IFRS). The annual financial statements of Basler AG (individual financial statements) are prepared in accordance with the provisions of the German Commercial Code (HGB). The consolidated financial statements are prepared by the management board, examined by the auditor and approved by the supervisory board. The annual shareholders´ meeting selected BDO AG Wirtschaftsprüfungsgesellschaft as auditor and group auditor for the 2018 fiscal year. On March 18, 2019, BDO took part in the deliberations of the supervisory board concerning the annual financial statements and the consolidated financial statements and reported on the results of its audit. Furthermore, the auditor was available to provide the supervisory board with additional information and answer questions concerning the year-end audit.

Shareholders and the Shareholders´ Meeting

Shareholders can assert their rights and exercise their voting rights at the shareholders´ meeting. The management board presents the consolidated financial statements and annual financial statements, explains the prospects of the company and, together with the supervisory board, answers the shareholders' questions. The invitation to the shareholders´ meeting and the corresponding documents and information are made available on the Basler AG website the day the meeting is called in accordance with stock corporation laws or are made available for viewing in the offices of the company. Basler supports its shareholders in the assertion of their voting rights by appointing voting representatives, who vote according to the instructions of the shareholders.

Transparency and Communication

Basler makes an open and trustful communication with the shareholders and other stakeholders priority and maintains a fair, prompt and reliable dialogue with all stakeholders. All capital market-relevant information is published simultaneously in German and English and made accessible on the company's website. This includes annual and quarterly reports, press releases, ad hoc notifications, information on the shareholders´ meeting and company presentations. The financial calendar with the relevant publication and event dates can also be found there.

Directors' Dealings and Voting Rights

Basler AG provides information on the trading of company shares by management board and supervisory board members (directors' dealings) as per § 15a of the German Securities Trading Act (WpHG) as well as on changes in the shareholdings if the voting thresholds defined in the German Securities Trading Act (WpHG) are reached, surpassed or fallen below. Information on the shares held by the management board and the supervisory board are included in the notes.

Gender Quota

In the context of implementing the law for equal participation of women and men in executive positions in the private industry and public services of March 6, 2015, the supervisory board should set objectives for reaching the gender quota in the supervisory board and the management board. In its meeting in March 2018, the supervisory board decided that for the time being, no increase of the women quota has to be achieved in the supervisory board and the management board. Due to this a gender quota of 0 % is defined for the management board.

With the election of Prof. Dr. Mirja Steinkamp as a member of the supervisory board in the shareholders´ meeting 2017, as well as the recently elected Dorothea Brandes as employees representative member of the supervisory boards, the women's quota in the supervisory board of Basler AG is currently more than 30 %. There is no intention to change the current staffing of the very well cooperating management board and the supervisory board.

Further information on this subject is given in the declaration of conformity (5.4.1).

In March 2018, the management board and the supervisory board decided that until the end of 2021 at the latest a women quota of 30 % should be achieved in executive functions as well as on head of department level at Basler AG. The first management level below the management board is the divisional management followed by the department heads. On December 31, 2018, 21 % (previous year: 28 %) of the company's executive functions as well as 30 % (previous year: 28 %) of the head of departments were female. This development is due to the M&A transactions in the past 24 months when smaller companies were acquired with mostly men in executive functions. The opportunities offered by the organic growth were not sufficient for compensating this effect in such a short period of time.

DECLARATION OF CONFORMITY 2018 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 2018, Basler AG complied with the recommendations for conduct as amended on February 7, 2017 by the „Government Commission of the German Corporate Governance Code" (hereinafter called "code") with the following exceptions:

Clause 5.4.1 – Composition of the Supervisory Board

For nominations to the shareholders´ meeting, the supervisory board will in the future also continue to align itself to all necessary legal requirements and will give preference to women with equal qualifications. Consideration will also be given to the international activities of the company, to potential conflicts of interest, and to diversity. However, the supervisory board must make its decision insofar as the best suitable candidate is concerned from its perspective whenever a new election is waiting. The supervisory board – in agreement with the management board – does not consider it to be pertinent if it is bound by abstract objectives formulated in advance with respect to the selection of a candidate, instead of being able to freely decide on the persons available in their specific decision scenario which it deems to be best suited for the position. For this reason, the supervisory board does not name specific objectives as provided by clause 5.4.1 paragraph 2 DCGC nor will it determine a regular limit of length of the membership to the supervisory board as recommended by clause 5.4.1, paragraph 2. Consequently, such objectives will also not be taken into account for the nominations directed at the responsible election bodies and no report will be given about them and the state of their implementation.

Ahrensburg, March 15, 2019

Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Arndt Bake
CMO

Hardy Mehl
CFO/COO

Norbert Basler
Founder & Chairman of the Supervisory Board

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

Horst W. Garbrecht
Supervisory Board

Prof. Dr. Mirja Steinkamp
Supervisory Board

Dorothea Brandes
Supervisory Board

Dr. Marco Grimm
Supervisory Board

MANAGEMENT REPORT

CONTENT

1 Basic Company Information

1.1 Business Model

Basler is headquartered in Ahrensburg near Hamburg (Germany) and develops and manufactures image processing components for professional users. The majority of sales are related to digital cameras that are mainly used in industrial mass production, medical technology, traffic control as well as logistics and many other industries. Basler cameras are recognized in the market for innovation, excellent quality, simple integration, compact housings, and an outstanding price performance ratio. These factors make Basler the world's biggest provider of digital industrial cameras measured in terms of sales volume, the number of sold units, size of the sales organization and brand awareness. On this basis, Basler gradually develops further to a full provider of hardware components for image processing.

Target customers are national and international manufacturers of investment goods (OEM customers), integrating image processing components in their own systems and equipment. The customers are supported by our own direct sales organization and/or by regional sales partners (distributors). Basler AG's component products are generic and usable in many industries and / or applications. After the OEM customer's successful integration within its product development (so-called design-in), the camera and other components become a firm part of the specific customer solution. Since the customer normally does not change its components supplier throughout the life cycle of its own products, the design-in phase will typically be followed by perennial business.

Basler AG owns subsidiaries in Germany, the USA, Canada, Singapore, Taiwan, China, Japan, and Korea. The subsidiaries are fully consolidated in the financial statements. Further representative offices are located in Poland, UK, Finland, France, and the Netherlands. The foreign subsidiaries and representative offices mainly provide sales and service activities. Additionally, there is a production site in the Singapore subsidiary for the supply of the local Asian markets.

External factors influencing the business model are the general macroeconomic situation and the demand situation in the regional markets in Asia, Europe, and North America. Due to the alignment towards industrial goods manufacturers, the economic situation of the machinery and plant construction industry - particularly the semiconductor and electronics sector - is of particular importance for the business development of the group. Due to the expansion started in the past years to business outside of factory applications into, for example, the medical market and traffic technology market as well as the logistics market, Basler opens up further long-term growth potential and at the same time reduces the cyclicality of its business.

1.2 Control System

Basler AG pursues a self-financed, profitable growth strategy. An annual strategy process defining the alignment of the company regarding target markets, positioning, service program, technologies, sales strategy, and financial key figures is the basis of the group management. The key financial indicators are sales and pre-tax return.

Markets

Industry & Production

Biomedical Microscopy

Medical & Life Sciences

Traffic & Transport

Retail

Logistics

Furthermore, the economic value creation is controlled via the return of capital employed (ROCE).

The strategy process concludes with a qualitative and quantitative four-year planning as well as with a budget for the upcoming fiscal year. Performance indicators that are essential for the group management are derived from both planning perspectives and summarized in a balanced score card system (BSC) with derived scorecards for key value added processes. The BSC figures and the underlying scorecards are updated monthly and discussed within the management team. On the operational level there is a so-called "daily management" or "shop floor management" where teams discuss their daily work progress. This enables us to recognize potential deviations from the targets and the initiation of appropriate countermeasures on different hierarchic levels.

In order to ensure a high quality, robustness as well as a high reliability of the manufactured products and of the corporate processes applied, Basler has implemented a worldwide quality management system (QM system). Every four months, a quality management review is conducted in which the management board checks the effectiveness of the existing management system together with the process owner and provide for its sustained development or optimization. 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. Additionally, once a year, an external audit is held in order to verify whether the QM system is applied according to the provisions of the DIN EN ISO 9001:2015.

For better addressing the requirements of the medical market, in 2018 the quality management system was expanded for some service offers for DIN EN ISO 13485 (Medical Norm), in order to be able to manufacture, and deliver selected products according to the requirements of this guideline. Inter alia, a separate production line has been set up in Ahrensburg that was put into operation in the first quarter of 2018.

1.3 Research and Development

As a technology company, Basler AG relies on an early recognition of technological trends and their fast integration in product development. Since image processing technology develope fast and the company pursues a sustainable growth strategy, the average annual investment in research and development (R&D) amounts to approximately 13 % of sales. R&D activities are structured as follows:

→ Pre-development of new technologies
→ Development of new platform architectures for future product lines as well as corresponding manufacturing technologies
→ Development of new product lines and products on existing product platforms
→ Customer specific adjustments of products
→ Maintenance of existing products

The target of the pre-development is the examination of technologies that seem to be reasonable for integration in future products. As far as possible, Basler aims to master new technologies and application fields prior to platform or product developments and to have sufficiently analyzed possible risks beforehand. This way, product developments can be conducted more efficiently and closer to planning. Already at this stage selected customers are informed about technology developments in order to get early feedback from customers and / or markets.

Within the categories mentioned above, the following measures in the financial year 2018 should be particularly pointed out.

→ Pre-development of new technologies:

- Further development of 3D camera technologies
- Pre-development of novel low cost camera modules based on embedded vision technology
- Pre-development of basis technologies for new industrial camera platforms

→ Development of new platform technologies:

- Development of two new industrial camera platforms
- Development of embedded vision camera modules
- Feature extension of pylon software development kits (SDK)
- Development of a new platform generation for frame grabber boards

→ Product development:

- Expansion of the ace product line by new CMOS sensors and new features
- Development of new ace camera line MED ace whose functionality and manufacturing process are specially adapted to customer requirements of the medical market
- Integration of the new data interface BCON for MIPI in the dart product line in order to enable a direct and cost-effective possibility to connect to embedded processors
- Development of complementary accessories for expanding our product portfolio of cameras towards all hardware components

Compared to the previous year the expenses for R&D (personnel costs, depreciation, other operating expenses as well as directly attributable overhead) increased from € 16.0 million to € 20.0 million and amounted to 13.3 % of sales. The number of full-time equivalent employees in research and development increased from 128 (December 31, 2017) to 188 (December 31, 2018), due to new hirings and the acquisition of Silicon Software GmbH.

The expenses include third-party services in the amount of € 655 thousand (previous year: € 4 thousand). The capitalized investments in own developments amounted to € 8.6 million (previous year: € 5.1 million). The amount of depreciation for own developments amounted to € 7.6 million (previous year: € 6.2 million).

At the end of fiscal year 2018, Basler was the owner of 56 patents and patent applications: 22 of them are granted, 34 are in the process of application. Furthermore, Basler is the owner of 2 utility models, 7 designs, and 111 trade names. Further trade names are in the process of application.

2 Economic Report

Basler Embedded

Basler Cameras for Medical Applications

2.1 Basic Conditions

The 2018 environment was characterized by political crises like the trade war between the USA and China or the upcoming exit of the UK from the European Union. This difficult environment led to a slightly weaker economic development than expected. The global economic growth of 2.9 % was slightly below the expected growth of 3.0 %. Whereas China with 6.6 % economic growth was above the forecasts, the USA economy grew by 2.9 % according to expectations. The euro zone recorded a growth of 1.8 % (previous year: 2.3 %) and developed below the forecasts, particularly due to the political tensions in France and Italy. In 2018, Germany achieved an economic growth of 1.5 % (previous year: 2.5 %). (Source: Berenberg, Economy and Financial Markets, Outlook 2019).

The market for machinery and plant engineering that is relevant for Basler developed more weakly than expected. While the industry in Germany achieved an increase in sales of 3 %, Europe grew by 4 %. Sales in the USA increased by 4 % and in China by 5 %. (source: VDMA, Verband Deutscher Maschinen- und Anlagenbau, Prognosespiegel International Feb. 2019). Compared to the previous year, the market for components for the image processing industry declined and / or stagnated. Incoming orders recorded a decrease of 7 %, whereas the sales revenues remained on the 2017 level. (source: VDMA Statistic Dec. 2018).

2.2 Business Development

After a particularly strong growth of 54 % in fiscal year 2017, in 2018 the Basler group strived for stabilizing sales and adjusting the organization to the new sales level. Already in the forecast at the beginning of the year, a flattening of the market growth and a decrease in sales with manufacturers of investment goods for mobile devices in the course of the financial year were announced. According to the forecast, markets and subsequently incoming orders cooled down in the course of the year, after strong incoming orders in the first quarter of the new financial year 2018. Compared to the previous year, particularly in the electronics industry investments in production equipment decreased significantly. The sales development in the last three quarters was stable and led to the planned stabilization of the 2017 sales level. Sales decreases from cyclical industries were compensated by growth with customers from less cyclical industries, and thus, the structure of sales improved in favor of a lower dependence on customers from less cyclical industries. At increasing average revenues, the number of camera units sold of approximately 430,000 in 2017, slightly decreased to 399,000 in 2018.

The biggest impact of the weak market cycle in the equipment investments for the electronics industry was felt in our Asian business. The usually disproportionately growing Asian business recorded a decrease of 4 % in 2018. The sales revenue in Germany increased by 21 %, the sales figures in the remaining EMEA zone (Europe, Middle East, Africa) decreased by 5 %. Due to the positive development of the economy in the USA, sales revenues there increased by 7 %.

In July 2018, Basler AG concluded transactions improving the company's market access in the biggest and fastest growing regional market in China and expanding the product portfolio towards a full provider of image processing components:

- Signing of a joint venture agreement with Beijing Sanbao Xingye Image Tech. Co. Ltd. („MVLZ") for taking over its machine vision business in China on January 1, 2019.

  For approximately twenty years, MVLZ was Basler's distribution partner in China distributing image processing components of all kinds and advising Chinese customer to use these components. In doing so, MVLZ was active in the industrial image processing (machine vision) as well as in the scientific imaging sector. Both companies agreed on transferring the MVLZ machine vision business to the newly established Basler Vision Technology (Beijing) Co., Ltd with headquarters in Beijing and subsidiaries in Shenzhen and Shanghai. The transfer includes the customer base of the machine vision business, approximately one hundred qualified employees, necessary office and operating equipment, as well as inventories. By the end of January 2019, the transfer was fully implemented. Within a capital increase MVLZ obtained minority shares in the Basler Vision Technology (Beijing) Co., Ltd., that will gradually be re-purchased by Basler AG until the end of 2021. Currently, Basler AG holds 97 % of the Basler China joint venture.
- Signing of an agreement for the acquisition of 100 % of the shares of Silicon Software GmbH located in Mannheim.

  Silicon Software is a technologically leading manufacturer of frame grabber boards and software for the graphic programming of vision processors. With approximately 50 employees, the company manufactures and distributes standard products as well as customer specific OEM solutions for image processing applications in the factory automation and medical sector. In 2018, sales amounted to approximately € 8.6 million. The Silicon Software product portfolio complementarily supplements the Basler product portfolio and will considerably support the company in successfully implementing its expansion strategy towards the performance segment of the computer vision market and accelerating the strategic transfer from a camera provider to a vision hardware toolbox provider.

2.3 Profit Situation

in € million	2018	2017	Change	in %
Sales revenues	**150.0**	**150.2**	**-0.2**	**0 %**
Currency result	0.3	-0.5	0.8	-160 %
Cost of service performed	**-76.9**	**-75.7**	**-1.2**	**2 %**
Gross results	73.4	74.0	-0.6	-1 %
Other internal income	0.5	0.7	-0.2	-29 %
Expenses	**-49.1**	**-44.2**	**-4.9**	**11 %**
Operative profit	24.8	30.5	-5.7	-19 %
Financial result	**-0.3**	**-0.7**	**0.4**	**-57 %**
Earnings before profit tax	24.5	29.8	-5.3	-18 %
Taxes	**-7.5**	**-8.2**	**0.7**	**-9 %**
Group's annual surplus	**17.0**	**21.6**	**-4.6**	**-21 %**

Keyfact

€ 150.0 million

Sales revenue 2018

Compared to the previous year, group's sales solidly developed with revenues amounting to € 150 million (previous year: € 150.2 million). The costs of service performed slightly increased compared to the previous year, particularly due to higher depreciations on investments in product capacities and higher depreciations on developments. Subsequently, compared to the previous year, the gross margin (gross result / sales) slightly decreased from 49.3 % in 2017 to 48.9 % in 2018. The other operational costs rose according to plan due to the organic expansion of the organization and due to the M&A transactions. The acquisition of Silicon Software led to an increase of the cost base due to the consolidation from July 2018. The takeover of the Chinese distributor's machine vision business only led to transaction-related special expenditures for consulting. The personnel costs developed from € 47.9 million in 2017 to € 51.8 million in 2018 and include a general market-oriented salary increase of 2.8 %. Unlike 2017, in 2018 no provisions for profit sharing were made for employees, executives, and management board. In the previous year, an amount of € 7.2 million were considered for the record result at that time. The significant increase in personnel costs is due to a higher average number of employees from 545 in 2017 to 653 in 2018 as well as higher operating expenses that increased from € 16.5 million in the previous year to € 19.8 million in 2018.

Keyfact

16.3 %

Pre-tax margin 2018

With a pre-tax result of € 24.5 million (previous year: € 29.8 million) and a pre-tax margin (pre-tax result / sales) of 16.3 % (previous year: 19.8 %), the Basler group closed the financial year above the original forecast (13 – 15 %) since the gross margin was less under pressure than expected, the personnel increase was slower than planned, and the planned operating expenditures were higher than actually occurred. Thus, the result was below the previous year's record value, however, significantly above the pre-tax return margin of approximately 12 % sought in the medium-term planning thus providing an even balance between short-term profitability and sustainable growth.

The tax expense for financial year 2018 amounted to € 7.5 million corresponding to a tax ratio of approximately 30.6 % (previous year: 27.5 %). The increase of the group's tax ratio is based on the lower share in earnings in overall results from Asia compared to the previous year and on the formation of provisions due to the results from the external fiscal audit in 2018. The deferred tax expenses amounted to € 0.6 million (previous year: € 1.5 million).

The group's annual surplus decreased by € 4.6 million to € 17.0 million (previous year: € 21.6 million). The reason for this is the sales level that remained nearly the same at considerably higher personnel costs as investments in growth, and a higher tax ratio. Thus, the result per share amounts to € 5.29 (previous year: € 6.74).

The solid order backlog of € 23.1 million (previous year: € 14.8 million) allows Basler to start the up-coming year with confidence.

2.4 Financial Situation

The liquidity management of the group is aimed at meeting the demand for capital such that the organic growth is self-financed achieving an appropriate balance between maturity risk, rating of the creditors, cost of equity and the cost of debt. At the end of the financial year 2018, 119 % of the long-term assets were covered by equity (previous year: 143 %).

Keyfact

€ 1.3 million

Free cash flow 2018

In the financial year 2018, a positive cash flow of € 27.0 million (previous year: € 31.8 million) was generated from current business activity. In the reporting period, the cash flow from investing activities amounted to € 25.7 million (previous year: € -9.8 million) and included considerable cash outflows for the acquisition of Silicon Software GmbH. The parties have agreed not to disclose information on the purchase price of which 80 % will be paid in cash and 20 % will be paid in Basler shares. The free cash flow calculated as the sum of cash flows from operational activity and investment summed up to € 1.3 million (previous year: € 22.0 million). The significant decrease of the free cash flow is particularly due to the acquisition and the expansion of the organization causing an increase in personnel costs.

On the financing side, liabilities to banks in an amount of € 1.1 million were paid off in 2018 and retrievals of KfW loans were made amounting to € 8.2 million. At the balance sheet date, unused credit lines with banks amounted to € 14.4 million plus further KfW loans of € 6.8 million to be paid out in 2019 and 2020.

Keyfact

€ 31.8 million

Liquidity / Cash 2018

Considering dividend payments and the purchase of own shares, the total cash flow from financing activities amounted to € -5.5 million (previous year: € -5.4 million).

At the end of the financial year, liquid assets amounted to € 31.8 million. The liquidity of the group was secure at all times.

2.5 Asset Situation

in € million	2018	2017	Change	in %
Intangible assets	40.8	24.6	16.2	66 %
Tangible assets	10.6	8.8	1.8	20 %
Buildings and land in finance lease	12.0	12.5	-0.5	-4 %
Deferred tax claims	0.1	0.0	0.1	
Long-term assets	**63.5**	**45.9**	**17.6**	**38 %**
Inventories	21.0	20.8	0.2	1 %
Receivables from deliveries and services	18.2	11.1	7.1	64 %
Other short-term assets	4.5	3.9	0.6	15 %
Cash in bank and cash in hand	31.8	36.0	-4.2	-12 %
Short-term assets	**75.5**	**71.8**	**3.7**	**5 %**
Total assets	**139.0**	**117.7**	**21.3**	**18 %**
Equity	**75.5**	**65.6**	**9.9**	**15 %**
Long-term interest bearing bank liabilities	17.7	9.9	7.8	79 %
Liabilities from finance lease	8.5	10.3	-1.8	-17 %
Other long-term liabilities	6.0	1.9	4.1	216 %
Deferred taxes	7.9	5.5	2.4	44 %
Long-term liabilities	**40.1**	**27.6**	**12.5**	**45 %**
Current financial debt	1.8	1.6	0.2	13 %
Short-term provisions	4.4	3.8	0.6	16 %
Liabilities from finance lease	1.8	2.2	-0.4	-18 %
Current other financial debt	15.4	16.9	-1.5	-9 %
Current financial debt	**23.4**	**24.5**	**-1.1**	**-4 %**
Total liabilities	**139.0**	**117.7**	**21.3**	**18 %**

In the elapsed fiscal year, investments in intangible assets of € 24.6 million (previous year: € 5.3 million) considerably increased compared to the previous year's level. These mainly included own developments and services purchased for research and development as well as asset items that were identified according to IFRS 3 from the purchase price allocation (PPA) for Silicon Software. Due to the composition of the project landscape (higher share of platform development projects), the activation rate for own developments increased from 33 % in the previous year to 42.8 % in financial year 2018. For the upcoming financial years, Basler AG assumes an activation rate of 40 %. The Basler group's development activities are rather product related and less research related. The developed products are characterized by long lifecycles (between 8 – 12 years).

This was countered by an average depreciation period of 5 – 6 years, so that intangible assets face solid future revenues. Intangible assets increased by € 16.2 million to € 40.8 million including also the company value of the Mycable GmbH subsidiary (acquired in 2017) and the Silicon Software GmbH acquired in 2018.

Investments in tangible assets amounted to € 4.5 million (previous year: € 4.1 million), much of which was attributable to reconstructions in office spaces, the purchase of new IT infrastructure for new employees, the expansion of the production area as well as the takeover of the fixed assets of Silicon Software GmbH.

The existing lease contract for the company building in Ahrensburg expired on December 31, 2018, and continued by a follow-up contract concluded with the same lessor. The cash value of the right of use from the newly concluded contract amount to € 12.5 million. In the upcoming years, an expansion of the company building will be carried out with the same leasing company offering additional 350 modern office workplaces as well as further conference areas and a larger bistro. The move into the new building is planned for 2022.

Inventories slightly increased by € 0.2 million to € 21.0 million, compared to the previous year. The relatively high level of inventories is due to the lower demand from the market combined with increased delivery times for some electronic components on the procurement markets. Priority was given to delivery reliability which led to relatively high inventories. There are no devaluation risks. Receivables from deliveries and services increased by € 7.1 million to € 18.2 million. The strong increase at the end of the year correlates to the approximately € 6.0 million higher sales levels for the months of November and December compared to the previous year.

Financial resources showed a balance that was € 4.2 million lower than in the previous year. In comparison to the previous year, the total assets increased by 18 % to € 139.0 million.

In comparison to the previous year, equity increased by 15 % to € 75.5 million. This increase in equity is due to the annual surplus in addition with the 20 % payment of the purchase price for the Silicon Software acquisition with own shares minus the distribution of a dividend of € 6.5 million, and the purchase of own shares in the amount of € 0.6 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 € 0.29 million (previous year: € 0.29 million) is shown. In comparison to the previous year, the retained earnings including the consolidated result increased by € 7.5 million to € 66.5 million.

The long-term interest bearing bank liabilities increased by € 7.8 million. Repayments of € 1.1 million faced retrievals of additional KfW innovation loans amounting to € 8.2 million. The cash values of the lease liabilities decreased to € 10.3 million (previous year: € 12.5 million). € 8.5 million of this (previous year: € 10.3 million) were long-term liabilities.

The short-term liabilities decreased by € 1.1 million to € 23.4 million. This is particularly due to a decrease of the liabilities from deliveries and services. At the reporting date, the sum of order commitments amounted to € 11.5 million (previous year: € 18.9 million). There have been no premature payment obligations in the elapsed fiscal year.

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 productivity of the company based on the result per employee (EBITDA divided by FTEs). After almost doubling in 2017 due to the strong increase in sales, in 2018, the result per employee decreased as planned by 31 % to € 59.4 thousand and is thus approximately on the medium-term target value. The decrease is a consequence of the planned scaling up of the company. In 2017, the organization's achievements were extraordinary. The number of employees was designed for a sales level of € 110 million, however, sales revenues of approximately € 150 million were generated. In this respect, the organization was adjusted to this stable sales level, in order to prevent it from overload and to adequately make use of the company's growth opportunities in the medium term. 64 positions for full time equivalents (FTE) were created plus another 43 FTE positions coming from Silicon Software GmbH. Within the lean management system, we are continuously working on further increasing Basler AG's efficiency.

The gross profit margin decreased from 49.3 % in the previous year to 48.9 %. The main reasons for this were a rise of the relative depreciations of development performances and relative fixed costs in material and production due to an almost doubling of the machine capacity as well as a personnel expansion in the materials management. According to the current state of knowledge, the present machine capacity will almost be able to fully serve the planned medium-term growth. The management seeks to stabilize the gross margin on a level of 48 - 50 % in order to push ahead the volume strategy sustainably with great innovative power.

	2018	2017
EBIT	**24.8**	**30.5**
Inventories	21.0	20.8
Receivables from deliveries and services	18.2	11.1
Liabilities from deliveries and services	-7.4	-10.1
Fixed assets	63.5	45.9
Capital employed	**95.3**	**67.7**
ROCE (EBIT/ Capital employed)	**26 %**	**45 %**

Despite considerable investments in the future, the management assumes an overall return on total capital of approximately 30 % in the upcoming years. However, this performance indicator will be considered to be subordinate to sales growth and pre-tax return rate in the corporate management. Furthermore, the management of the company strives to be financially independent, also in periods of weaker economic activity and therefore steers the company with relatively high financial resources.

The working capital (inventories plus receivables from deliveries and services minus liabilities from deliveries and services) amounted to € 31.8 million (previous year: € 21.8 million) at the end of the financial year. This increase is particularly due to the increase of the receivables from deliveries and services as described above. For the upcoming years, the Basler group strives for a working capital level of around 17 % of sales. For achieving this target, an interdisciplinary team is working on measures for continuously optimizing the working capital.

The equity ratio (equity / balance sheet total) decreased from 55.8 % in 2017 to 54.4 % at the end of the elapsed fiscal year.

Keyfact
54.4 %
Equity ratio 2018

Non-financial performance indicators can be found in the Non-Finacial Statement Report according to CSR guideline under Point 11.

2.7 Overall Statement

After the very strong market growth in 2017, the markets calmed down in 2018 and showed a development towards the opposite direction. According to the VDMA (Verein Deutscher Maschinen- und Anlagenbau, German Engineering Association) market growth reduced from 56 % in 2017 to 2 % in 2018. In this market environment, the Basler group started the new year with a high level of sales. In the course of the financial year, sales decreased and finally stabilized at the end of the year. Already in the fourth quarter, incoming orders re-increased and were even 36 % above the previous year's level. Sales revenues of € 150 million finished on the level of the previous year and included sales amounting to € 4.9 million of the Silicon Software GmbH, which was fully consolidated from July 2018. Thus, the corridor of € 145 – 150 million forecasted at the beginning of the year was achieved. The pre-tax return of 16.3 % exceeded the originally forecasted corridor of 13 – 15 %, despite the difficult market environment. Thus, Basler profitably stabilized the sales level increased by 50 % in 2017 and kept its leading market position. Due to the disproportionate market weakness in Asia and Basler's strong sales share in this region, the market share did not expand further in financial year 2018. However, an extensive recruitment program and inorganic expansion investments in the product sector (frame grabber boards; Silicon Software GmbH) and market access (China; MVLZ Sanbao Xingye) provided further competitive advantages to Basler in the course of the financial year.

Because of the continuous expansion of the product portfolio and the sales and marketing organization, the group has a broad range of products and one of the highest performance and the farthest reaching market accesses in the industry. The Basler brand has a leading brand awareness and stands for high reliability, ease of use and a very good price-performance-ratio. Highly motivated and continuously striving for achieving more, the Basler group plans to reach a sales level of € 250 million within the upcoming four years.

Besides a further expansion of our strong market position in factory automation, adjacent markets like medical, traffic, and logistics, are to be opened further in order to make use of the technical opportunities of embedded vision technology and 3D camera technology. Moreover, Basler will gradually develop from a camera supplier to a full provider of image processing components. Due to the progress made in the elapsed fiscal year as well as to the market and technology potentials, the management team feels assured in its strategic orientation and looks to the future with confidence and motivation.

The goal of Basler is to let the shareholders participate in the success and, at the same time, maintain sufficient liquidity in order to continue the growth course. Based on the positive business results in 2018 and the existing dividend policy, the proposal will be made to this year's shareholders' meeting in May 2019 to pay a dividend in the amount of € 1.59 (previous year: € 2.02) per share eligible for subscription (corresponds to € 5.1 million). Should the shareholders' meeting vote for the proposal, 30 % of the annual surplus would be distributed to the shareholders.

Keyfact
€ 1.59
Dividend 2018

3 Supplementary Report

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

4 Forecast Report

After one year of stabilization within a stagnating market environment and the corresponding adjustment of the organization, for the financial year 2019 the Basler group assumes continuing difficult economic conditions at a low one-digit organic growth rate. However, compared to the previous year, the group expects an increase in sales of approximately € 10 – 20 million due to the M&A transactions made in 2018. This estimation is based on the assumption of a slowing down of the growth rate in the factory automation markets and of an again weak investment cycle in the electronics industry in 2019 similar to 2018. In the area of medical and logistics applications, the Basler group assumes stable growth rates. The management board follows the estimations of industry associations and macroeconomists according to which economic trends continue to slow down, however, will not develop to a deep recession in 2019. The Berenberg Bank assumes in its annual outlook a real GDP growth of 2.6 %. The VDMA (Verband Deutscher Maschinen- und Anlagenbau, VDMA) expects the most important engineering regions as USA and Germany to grow moderately by 1.8 to 2.9 %, Japan by only 1.0 %, whereas China is expected to grow by 6.6 % in 2019. In the USA, the demand might continue to increase due to the technology driven structural change. The Chinese government's strategy "Made in China 2025", the increase of personnel costs, and the orientation towards digitization of working processes gave significant momentum for growth for the automation and the image processing sector. However, it has to be considered that increasingly local Chinese companies will participate in this trend (please see also risk report 5.4). It remains to be seen, if the trade conflicts between China and the USA will become even keener and what impacts this may have on the Chinese investment behavior (Source: VDMA International Economic Development, Nov.). Compared to 2018, the Association of Manufacturers of Machinery and Equipment for the Semiconductor Industry (SEMI) even assumes a decrease of the economic situation by 7.8 % for 2018 (source: Market Study SEMI). For 2019, the Basler management assumes the image processing components industry to stagnate or even to slightly decrease.

Keyfact

€ 160-180 million

Group sales revenues 2019

Keyfact

7-11 %

Plan pre-tax return 2019

In consideration of the above mentioned market outlooks and the inorganic business development despite a further weakening macroeconomic situation, the management board of Basler AG expects an increase in sales compared to the previous year. It plans for group sales revenues within a corridor of approximately € 160 to 180 million.

Considering the medium-term goal of exceeding the sales threshold of € 250 million in 2022, for the time being the management board prioritizes profitable sales growth to a separate optimization of the profitability, and expects a medium-term pre-tax return of 12 % along the continuous expansion of the organization. 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 ensure a sustainable sales growth within the coming years. Due to the weak economic prospects, for fiscal year 2019, Basler plans a pre-tax return below the medium-term target rate within a corridor of 7 to 11 %.

5 Opportunities and Risks Report

The growth strategy pursued by Basler for increasing the group's sales to above € 250 million until 2022 can only be implemented if opportunities are seized and, at the same time, measures are taken in order to minimize threatening risks in an appropriate way.

The purpose of the opportunity and risk management system at Basler is:

- to systematically record and evaluate opportunities and risks
- to generate transparency within the executive team about opportunities and risks of our busi-ness and
- to create scopes of action enabling a deliberate approach to opportunities and risks, in order to avoid risks that are unacceptable and to reduce avoidable risks to an acceptable level,
- to agree within the executive team how the probability of occurrence of relevant risks can be limited and to derive corresponding measures.

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. Again, 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 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. In financial year 2018, within the risk assessment opportunities were considered and evaluated for the first time. These measures 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 EN ISO 9001:2015.

5.1 Internal Organization

The subject of this category is the business model, organizational structures and processes, IT and communications, information procurement, and personnel.

The company is organized by functions. The subsidiaries in the USA, Singapore, China, and Mannheim directly report to the management board. Flat hierarchy and short decision-making processes are intended to maintain the flexibility and the exchange among employees despite increasing growth. In order to adequately manage the growing organization, measures for building up the organization and processes are taken. In the frame of a comprehensive lean management initiative, the company's core business is aligned to its main value streams and continuously works on increasing their efficiency. Furthermore, a strategy deployment process has been set up ensuring a breakdown of the company strategy to an operational level.

As a technology company, Basler is heavily depending on the knowledge and commitment of its employees. Therefore, as already mentioned under 11.0 – various measures are being taken for staff retention and further development. Furthermore, we actively work on maintaining innovation fostering structures, processes, behavior patterns, and cultures – despite an increasing size of the company. We are striving for an organization that is able to operate the existing business in a highly optimized way and to pursue new technologies and markets in an agile and innovative manner.

One main challenge in the coming years will be to shape the process of the increasing number of employees in a creative and effective way at all group locations and to effectively integrate the recently acquired business units in Mannheim and China into the existing Basler structures. Furthermore, more and more internal and external processes need to be digitized. Regarding IT and information procurement we refer to point 6 of the management report.

Basler AG is not tariff-bound and does not refer to existing tariff agreements for remuneration matters. Basler AG together with the works council implemented a remuneration system regulating the remuneration of employees. This system is based on job descriptions that are set up independently of individuals and evaluated by an external institute. Thus, a gender neutral and independence of individuals classification is achieved. This remuneration structure is disclosed in the company and thus transparent for all employees. In addition to reference remunerations, performance bonuses may be granted.

5.2 Finance

Credit default risk is countered by a credit and receivables management system, 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 further goods is 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 the fiscal year 2018, individual value adjustments and write-offs on accounts receivables were posted in the amount of € 0 thousand (previous year: € 2 thousand). Even if the Asian business will increase further in the future and the market access in China will be direct from 2019, the management does not expect substantial changes for the group in the credit default risk.

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.

In past years, the group generated a positive cash flow from operating activities, from which investments could be financed in addition to financial liabilities and, moreover, that resulted in a bank balance at the reporting date amounting to € 31.8 million. The total of financial resources, positive free cash flow, and freely available lines with credit institutes cover the future financial needs of the Basler group for a foreseeable period. In addition to this, as a medium-sized technology company with significant investments in research and development and a positive rating, Basler AG gets low interest KfW loans.

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

Currency risks are minimized by so-called natural hedges. As far as possible, sales revenues in foreign currencies - particularly in USD and JPY - are used for covering material and personnel expenses in these currencies. Remaining surpluses are partially secured via forward exchange contracts or foreign exchange options. We use currency derivatives exclusively as hedging instruments. Interest rate risks exist to a lesser extent due to loans at fixed interest rates. In the upcoming fiscal year, in addition to the mentioned above currencies a significant volume of Chinese Yuan (CNY) will occur.

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 regularly observing the procurement markets. As far as technically possible and economically useful, a second source is built up. Furthermore, processes and systems are implemented in order to ensure the short-term availability and the adherence to delivery dates of components. Overall, the risk situation in the supplier market is assessed to be a medium risk despite

further mergers and the risk of allocation and natural disasters. This risk is met by a professional supply chain management, increased inventories of critical components, a broad product portfolio, and a further expansion of market leadership and / or an improvement of the negotiation position.

5.4 Sales Market

There is a risk of a further weakening of the market growth due to the macroeconomic and geopolitical situation. However, in the medium and long term it can be assumed that the computer vision market will develop positively driven by increasing automation and new application fields. The forecasts coming from associations and market research institutes assume a sustainable growth in a single digit percentage range for applications in industrial mass production and a double digit percentage growth in newer sales markets, like for example traffic, logistics and medical. Since Basler AG continuously expands its product portfolio and pushes the diversification of possible applications, the business model is estimated to be scalable and future-proof.

Due to its broad portfolio mix of industries and customers, as well as its design-in characteristics, the volatility of the camera business in the capital goods markets is relatively low. Due to the Basler group's focusing on the volume segments of the market for image processing components in conjunction with the active work on new application fields, the share of sales with customers outside industrial mass production increases, and thus improves the sales risk structure.

Due to constantly emerging applications for camera technology and the lack of substituting technologies, the market for camera technology in the capital goods market is expected to continue to grow in the near future. However, temporarily there will be moderate fluctuations in demand in individual target markets. This applies in particular to capital goods markets in the semiconductor and electronics industry.

The stronger dynamic in the Asian markets tends to increase the volatility of the business of the Basler group and requires a higher adaptability from the structure and process organization. Furthermore, in the upcoming years, further localization will be necessary in order to get closer to the main sales markets.

The intensity of competition in the industrial camera market increased in the year just ended. The competitive landscape particularly changed due to takeovers and due to aggressive investments of Chinese competitors from the video surveillance industry. Compared to the competitors, the Basler group is ahead regarding product portfolio, market access, and brand recognition. Basler strives for gradually expanding its market position relative to the competition. The competitive environment is highly fragmented and characterized by many small niche suppliers. The top five competitors of Basler are: Teledyne-Dalsa/e2v (Canada), FLIR (USA), TKH Group/Allied Vision (Germany), Toshiba-Teli (Japan), and IDS-Imaging (Germany). The Chinese competitors HIK Vision and Dahua that are new to the market currently show a significantly lower sales level for industrial cameras, however, the management of Basler AG classifies them as serious competitors due to their financial power and competence.

The risk of market price and margin erosion is countered through robust and innovative products. A slim product design, the use of platform architectures, as well as lean manufacturing processes are key success factors for the company's competitiveness and differentiation. Furthermore, competitive advantages are achieved by economies of scale reached by the volume strategy.

Given the current shareholder structure with the Norbert Basler Holding GmbH as majority shareholder, a hostile takeover of Basler AG can almost be excluded. The shareholder structure is nonetheless constantly checked for changes. At the end of the elapsed fiscal year, Basler AG held 294,281 pieces of its own shares.

5.5 Political and Legal Risks

Due to the regional diversification of the camera business in almost 60 countries of which 20 countries belong to the OECD, the risk of political events with catastrophic effects on the business is considered as manageable. Possible first row Brexit effects on Basler AG's revenues are estimated to be low because of the limited sales as well as alternative supply chains. In the elapsed fiscal year, sales with customers from Great Britain were on a lower one-digit million Euro level. Material purchases from Great Britain amount to several million Euro, however, they are mainly supplied by an international group that can also deliver from locations outside Great Britain and their invoices are in Euro.

The risks arising from the trade conflict between the USA and China are much higher due to the size of these sales and procurement markets. At short notice, the uncertainty may lead to hesitant behavior in equipment investments and thus negatively impact the demand for image processing components for these equipment goods. Increased customs tariffs may motivate customers to change to local suppliers, if any exist, in the long run. However, compared to competition, Basler is relatively well positioned with its production sites in Germany and Singapore.

Legal risks are prevented by appropriate insurances. Furthermore, the know-how of the legal department is continuously improved. The legal department is involved in contract negotiations as well as in change processes. Additionally, in special cases, external experts are consulted for legal and tax advice. Within the context of the risk management system and sensitive information, furthermore, we worked on the subject "Business damage due to own employees". Currently, there are no indications for criminal activities or gross negligence.

The development and maintenance of the Basler brand are integral parts of the competitiveness and product policy and are legally protected. Name and logo of Basler as well as key product names are registered and protected brands.

5.6 Operating Risks

Another essential success factor is an on time and high quality product development in order to face the risk of strategic mistakes as far as technology is concerned. The implemented processes and planning instruments are continuously reviewed and adjusted so that development processes can be concluded on schedule and according to budget. In the financial year 2018, the average lead time of product developments was again considerably reduced.

The production corresponds to modern standards and is oriented to manage variations of incoming orders, as well as being able to implement an appropriate capacity utilization of employees and machines. In 2018, the maximum machine capacity amounted to approximately 900,000 units (calculation based on a three-shift-operation). Thus, Basler is very well prepared for the demand of the upcoming years. The production system is and will be able to cushion an increased production of at least 30 % versus budget planning. In view of the experiences from fiscal year 2017 and a certain intransparency and high volatility of the Asian markets' development, the management deliberately accepts manageable idle times for securing the delivery capability.

The quality of the products is monitored in the framework of an integrated quality management system. These systems include the certification according to DIN ISO 9001:2015 as well as EN ISO 13485 and the annual supervision by external auditors. This is supplemented by internal audits and management reviews by the management board.

The productive recruitment and initial training of new employees are a huge challenge in view of the current labor market situation and therefore represent a growth limiting risk. This risk is successfully countered through professional personnel marketing, a standardized onboarding, as well as an open and attractive company culture. In the fiscal year 2018, Basler hired 63 new employees plus another 46 employees from Silicon Software on group level.

The successful integration of the acquired companies represents an operational challenge for Basler AG. So far, the integrations are on schedule and each of them is accompanied by dedicated project and change management. The management board and the first management level are strongly involved in the integration projects. The progresses made are continuously monitored. The legal merger of the MyCable GmbH was completed on January 1, 2019.

5.7 Overall Statement

As manufacturer of cameras for the investment goods industry the management board of Basler assesses the corporate strategy risk still to be low. This assessment is based on the fact that comprehensive substituting technologies for cameras are not in sight and digital viewing becomes increasingly important in the industry/factory automation as well as in all other areas, as for example in traffic, medical, or logistics or for system providers of the permanent retail trade. Due to Basler camera products being typically integrated in machines and equipment during the complete life cycle of the machine connected with a high barrier of change for the customer, business is quite stable and predictable, even though it should be mentioned that the predictability becomes weaker with an increasing Asian project business.

Since Basler focuses on activities regarding new products and the development of new markets and application fields and thus continuously broadens its sales opportunities, the risk of a below average development of the company in comparison to the camera market is considered to be manageable. By broadening the target markets, the already low dependencies on single vertical markets further decreases step by step.

The Asian sales market – particularly China – will most likely continue to show the highest growth rates in the medium term. Due to its good market access and the alignment of the product portfolio, the Basler group is very well positioned to benefit from this trend. On the one hand, there is the opportunity of disproportionate growth rates, and on the other hand there is the risk of an increasing reliance on relatively competitive and cyclical Asian markets. It is to be expected that financially strong Chinese competitors will enter the market and the intensity of competition will further increase in the future. The management of Basler tries to meet this tension by a balanced investment policy and by ensuring a sustainable and profitable growth for the company.

The risk of an economic slowdown significantly increased in the past months. The management board meets this risk by a sound liquidity policy and a continuous reflection of the balance between sustainably effective growth investments, mainly personnel expenses, and short-term profitability.

In the absence of macroeconomic crises, the management assumes to be able to achieve the sales threshold of € 250 million with a pre-tax return margin (EBT margin) of at least 12 % in the medium term (by 2022).

The accumulated expectation value of the ten largest risks (without growth risks) amounts to € 10 million. The expectation value is the estimated probability multiplied with the potential impact. In contrast, there are opportunities amounting to € 2 million. Due to the active management the probability of risks is reduced.

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 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 the Basler group in the quality management system, which is valid for the entire group. The processes are on principle designed in accord with the "four-eye" 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 or with other ERP systems, 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 and are governed by appropriate computer based workflows. The completeness and correctness of accounting data are regularly reviewed by sampling inspections, plausibility checks and by manual control supported by the software used.

Within its activity the supervisory board of Basler, and particularly the audit committee, 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

Because of 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. From the financial year 2019, Chinese CNY will also arise due to the direct market access. 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 accomplished. 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 balance sheet date, there were derivative transactions in foreign currencies as shown in the notes.

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 12/31/2018, the market value amounted to € -347 thousand. In fiscal year 2018, a profit of € 125 thousand was booked due to the market valuation and the reduction of the nominal value.

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 (§ 289a and § 315a of the German Commercial Code, HGB)

The management board of Basler consists of four members who are responsible for the following assignment of functions: 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 chairman."

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 that by contract of September 14, 2015, he transferred his complete shares held as private assets by then into the Basler Beteiligungs-GmbH & Co KG as a contribution. Furthermore, Mr. Norbert Basler informed the management board on December 15, 2017, that the shares were now transferred to Norbert Basler Holding GmbH. Thus, on December 31, 2018, Norbert Basler Holding GmbH was holding 52.67 % of the voting rights in Basler AG which corresponds to 1,843,384 shares.

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 16, 2022 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 for 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 plan.

With the supervisory board's approval, the management board is in addition authorized to use the shares obtained according to this authorization and previously obtained own shares to fulfill 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 Group Declaration regarding Corporate Governance (§ 315d of the German Commercial Code, HGB), Corporate Governance Report

You can find on our website *www.baslerweb.com* the group declaration of compliance with the Corporate Governance Code, the corporate governance report, explanations regarding our practices of corporate governance, and a description of the working practices of the management board and the supervisory board and as well in this report on page 24.

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 intends 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 profitable 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.

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

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 %. The degrees of achievement are balanced at a ratio of 50 % to 50 %. Adding up both weighted degrees of achievement for profitability and growth 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 Euro for the bonus entitlement of the respective member of the management board for the elapsed fiscal year. Accordingly, the bonus entitlement can amount from -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 a 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.

In order to create a special performance incentive for the management board and to motivate its members to work in the long run on increasing the value of the company, the supervisory board decided to convert a part of the bonus into shares. From 2018 up to and including 2020, an individually fixed percentage part of the respective future claim for variable remuneration of above 100 % of target achievement will be granted in shares. Analogously, the above described bonus bank procedure comes into effect

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 (Deutscher Corporate Governance Kodex, German Corporate Governance Code) we refer to the notes.

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 in appropriate 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 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

back

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 200 % and / or 50 %. Given the current level of fixed remuneration, the addition of a performance related component to remuneration is not considered. Additional remuneration is paid for the membership in the nomination committee and the audit committee. The total remuneration can be seen in the notes.

11 Non-Financial Statement

About this statement

Pursuant to the law for “strengthening the non-financial reporting” in the management report and the group management report (CSR Directive Implementation Law), the Basler group (hereinafter called „group“ or „Basler AG“) is obliged for the first time to set up a non-financial statement for financial year 2018. The present summary of the non-financial statement meets this reporting requirements according to §§ 315b and 315c in conjunction with 289c to 289e HGB (German Commercial Code).

The information given here generally applies to the entire group. The group includes the scope of consolidation described in the annual report (please see group notes (IFRS) in the 2018 Annual Report, chapter “Basics of Consolidation”). Concepts only applying to individual areas or locations are market as such.

For the reporting Basler AG followed the guidelines of the Global Reporting Initiative (GRI Standards 2016) that was considered as framework for identifying essential topics pursuant to “GRI 101: Basics” and for the description of the management approaches pursuant to “GRI 103: Management Approach”.

The identification of essential non-financial topics according to § 289c paragraph 3 HGB (German Commercial Code) was made in a multi-step process with the participation of members of the management board and specialist departments. Topics that are relevant for this statement are of great importance for the business activity, the course of business, and the situation of the Basler AG, as well as those that have significant impacts on non-financial aspects. Based on these requirements the following statement contents were selected:

Non-financial aspects	Issues defined essential pursuant to § 289c, para. 3, HGB (German Commercial Code)
Employee matters	Safety, staff retention and qualification, diversity & equal opportunities
Social issues	Internal and external social responsibility
Respect of human rights	Protection of human rights in the company
Combat corruption and bribery	Combat corruption and bribery in the company and in the supply chain
Environmental issues	Operational environmental management
Others	Family Charta, Founder of the company and major shareholder, Basler family

The risk management approach of Basler AG pursues the goal of preferably avoiding risks or, where possible, covering them accordingly. For doing so, an internal risk management system has been implemented. According to § 289 c paragraph 3 HGB (German Commercial Code), significant risks that are very likely to have serious negative impacts are to be reported in the non-financial statement. Risks that were identified by the risk management in the reporting period are described in the Opportunity and Risk Report included in the management report.

Employee Matters

Qualified and motivated employees are one of the key resources of Basler AG. Therefore, the group attaches particular importance to offer an attractive working environment to its employees, as well as to ensure suitable qualifications for demanding jobs in the administration and commercial area education and training. The basis for this is a safe work environment

Work Safety

Aim:

Basler AG ensures the safety and health of its employees.

Key Measures & Due Diligence Processes:

In order to ensure the well-being of the employees, legal work safety requirements are observed. They are adjusted to Basler AG and recorded in a safety manual that is accessible to all employees in the intranet. Due to Basler AG's production structure that consists of various machines and partly requires cleanroom conditions, operating procedures for air pollution control and sound minimization are key safety measures. These requirements are met by using air circulation systems in the shop floors. Additionally, fire protection measures are taken in the form of a central fire alarm system, fire protection walls, smoke ventilation systems, and sprinkler systems.

For identifying potential dangers and need for action as well as deriving measures, regular inspections of the business premises as well as the building are conducted by an external agency for occupational healthcare and safety. These inspections include inter alia a review of the storage of dangerous materials, emissions and fine dust in buildings as well as further dangers for the employees' health. Regular measurements of the room air in the production area are made for monitoring the air quality. To avoid an increased dust loading additional measurements and cleaning measures are carried out.

Results:

By the implementation of these measures and processes, Basler AG achieves a high safety and health level for its employees. This is reflected in an illness rate of 5.6 % (previous year: 4.8 %).

Retention and Qualification of Employees

Aim:

The recruitment and retaining of qualified managers and specialists are of central importance for the group.

Key Measures & Due Diligence Processes:

The satisfaction of the employees is very important to the management of Basler. Therefore, Basler provides 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, Basler AG offers child care services for emergencies, during special working hours, and during school holidays. In 2013, Basler 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". Regular audits confirm a very good implementation of the reconciliation of work and family at Basler AG.

The employees' satisfaction is reflected in a low fluctuation rate of 1.6 % (previous year: 1.6 %).

Basler gives special attention to own in-house trainings of young people, in order to find suitable junior staff, but also in order to confirm the regional social commitment. The training ratio at the end of the financial year amounted to 4.2 % (previous year: 4.2 %).

Another key aspect of the personnel policy is the continuous development of the 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 on development objectives. The progress is measured quarterly. The costs for basic and further training amounted to € 756 thousand (previous year: € 712 thousand).

Results:

Due to the measures that were taken, the group ensured an appropriate qualification of its employees and an attractive working environment, also for new applicants.

In 2018, the average number of employees of the group was 653 (previous year: 545), 34 % (previous year: 38 %) of them are female. Converted to the number of equivalents of full-time employment the average number of employees was 611 (previous year: 504).

Diversity and Equal Opportunities

In order to offer an attractive and effective working environment, diversity and equal opportunities are to be supported. As a listed company, Basler AG is legally required to determine targets for the proportion of women in the supervisory board, the management board, and in the two management levels below the management board.

In the context of implementing the law for equal participation of women and men in executive positions in the private industry and public services of March 6, 2015, the supervisory board should set objectives for reaching the gender quota in the supervisory board and the management board. In its meeting in March 2018, the supervisory board decided that for the time being, no increase of the female quota has to be achieved in the supervisory board and the management board. Due to this a gender quota of 0% is defined for the management board.

With the election of Prof. Dr. Mirja Steinkamp as a member of the supervisory board in the shareholders´ meeting 2017, as well as the recently elected Dorothea Brandes as employees representative member of the supervisory boards, the female representation in the supervisory board of Basler AG is currently more than 30 %. There is no intention to change the current staffing of the very well cooperating management board and the supervisory board.

Further information on this subject is given in the declaration of conformity (5.4.1).

In March 2018, the management board and the supervisory board decided that until the end of 2021 at the latest a female quota of 30 % should be achieved in executive functions as well as on head of department level at Basler AG. On September 30, 2018, 30 % of the company's executive functions as well as 21 % of the head of departments were female. The first management level below the management board is the divisional management followed by the department heads.

Key Measures & Due Diligence Processes:

The company's staff is characterized by a variety of home countries and cultures. In order to promote the integration of employees of different nationalities and generations, language classes are offered, and in video conferences and during visits in the subsidiaries an intensive exchange takes place. Furthermore, projects are carried out with international participants additionally supporting the integration in social events. The majority of the communication of the company is in German and English language.

Results:

Due to integration measures, Basler AG has an effectively cooperating heterogeneous staff. At the end of the reporting period, the targets for promoting women's participation in leadership positions were not achieved.

The company offers a special promotion program (high potential program) in order to qualify talented employees for leadership roles. The focus of the next program run in 2019 / 2020 will be the promotion of women in leadership positions. Inter alia, it is planned to give half of the places to women and to focus the contents on different gender roles in leading positions. The aim is to identify and promote executives in order to significantly increase the women's proportion in leadership positions.

Social Concerns

Social Responsibility

Being an economic player, Basler AG has a social responsibility, particularly on the local level.

Aim:

Basler AG's aim is to foster the local economic and social development considering the interests of local interest groups.

Key Measures & Due Diligence Processes:

As one of the biggest private employers in Ahrensburg, the group plays an important role for the local economy and society. The group fulfills this role in different external and internal areas.

Thus, the group offers workshops for schools in order to arouse interest for the different occupational areas within the company and to attract attention at an early stage as a local employer. Every year, Basler AG participates in the Girls' Day, arranges

Hackathons for young computer programmers, supports local refugee programs as well as social projects like for example “Wi mook dat” (We do it).

Internally, the topic of work and integration is of great importance. There is a works council as well as a representative for disabled employees. The barrier-free conversion of the company is constantly driven forward. Free of charge fruits, coffee, and tea is available for the employees. Basler AG subsidizes lunch for all employees in the company bistro.

Result:

Basler AG's commitment fosters the local economy and society. Special attention is given to new talents. Diverse internal activities increase staff retention, their health and satisfaction.

Respect of Human Rights & Combat of Corruption and Bribery

Aim:

The aim of this concept is to avoid human rights violation as well as corruption and bribery in Basler AG's supply chain.

Key Measures & Due Diligence Processes:

The business activities' compliance with legal requirements and human rights, as well as the rejection of corruption and bribery are self-evident for Basler AG. Based on this principle, the company compiled a “Code of Conduct”:

Basler AG and the companies affiliated to it (the „Basler Group“) take part in the fair competition on the basis of our corporate values. We attach great importance to integrity, trust as well as the respectful and considerate interaction with each other, both internally and externally. We assume responsibility by giving due consideration to the consequences of entrepreneurial decisions and activities under economic, technological as well as social and ecological aspects and by balancing the interests of all parties involved in a reasonable way. The Basler Group therefore respects the applicable law in the course of its business activities, when implementing its strategy and when attaining its targets. We expect the same from our employees and business partners. Our corporate culture will also be sustained and supported by the responsible and ethical conduct of each employee.

Unlawful behavior can cause considerable economic damage. Even the suspicion of a legal infringement can affect the Basler Group's market position. Hence, the consequences of one's own actions must also be assessed in the light of, what impact they have on the reputation of the Basler Group as a trustworthy business partner as well as on the integrity of all employees and the management.

Any action must therefore be based on a clear understanding of the legal regulations, of the internal guidelines and of a common moral concept. All bodies, executives and employees of the Basler Group are bound to comply with this Code of Conduct, with the company's bodies and officers having a particular role model function. At the same time, they need to enforce the compliance with the Code of Conduct by the employees and to support them in this respect.

This Code of Conduct provides and describes a framework of how the above principles can be implemented in the daily work. The rules of the Code of Conduct will make it easier to comply with the legal provisions and the internal regulations. However, these rules do not represent a complete collection of the duties arising from, and enshrined in, the legal system, in which we work and live. The employees are therefore bound to seek competent advice in cases of doubt, for which the company's executive staff and the relevant departments are available.

The Basler Code of Conduct gives handling instructions for the following subjects:

1. Compliance with the law
2. Integrity and company management (ensuring health and work safety, harassment, discrimination, fair treatment of each other, freedom of opinion, protection of privacy, data protection)
3. Conduct in competition (corruption, bribery, invitations, presents, competition and cartel law, trade controls, foreign trade law, insider trade)
4. Working conditions
5. Environmental protection
6. Protection of company assets, trade and business secrets

Result:

For the financial year 2018, no cases of corruption and bribery or violations of human rights emerged at Basler AG.

Environmental Concerns

Corporate Environment Management

Basler AG takes actually and economically reasonable measures in order to develop and distribute sustainable and safe products. The group deals responsibly with resources. Thus, Basler recognizes its responsibility towards the society and future generations. More detailed information can be seen in the Basler AG Environment Statement.

Aim:

Basler AG wants to make an active contribution to the protection of the environment since we are aware to have a responsibility for the environment.

Key Measures & Due Diligence Processes and Results:

A fundamental and continuous measure is to sensitize the employees for acting in an environmentally conscious manner at work and in their everyday life.

We purchase our electricity from RWE Vertrieb AG. Every year, we get a confirmation that the electricity they deliver is 100 % from renewable energy sources. A continuous maintenance of our technical equipment ensures the highest possible energy efficiency.

In our manufacturing process we only use low hazardous substances (for example soldering paste) if this is necessary. These substances are listed in a register that is accessible for the employees. Before using these substances, a substitution check is conducted, meaning that it is verified whether there is a more sustainable alternative.

Our employees separate waste that is generated in the office premises. Metal scrap, boards, and plastics are collected in separately marked waste containers and discarded by certified specialist companies.

Thanks to latest video conference technology, the communication with our subsidiaries or customers and suppliers is very efficient and, at the same time, unnecessary business trips can be avoided.

Our intelligent logistics concept reduces transportation routes and thus decreases emissions. As an example, deliveries to our distributors are accumulated and delivered on fixed days.

12 DECLARATION OF THE LEGAL REPRESENTATIVES

Pursuant to § 312 paragraph 3 sentence 3 Aktiengesetz (AktG, German Stock Corporation Act) a report on relationships with affiliated companies has been established. This report concludes with the following statement by the management board: “We hereby declare that with regard to the transactions indicated in the report on relationships to affiliated companies and persons, in the circumstances known at the time at which the legal transactions were entered into, Basler AG, Ahrensburg, received reasonable consideration for every legal transaction, and has not been placed at a disadvantage. Other measures within the meaning of § 312 Aktiengesetz (AktG, German Stock Corporation Act) were neither taken nor omitted.”

Ahrensburg, March 15, 2018

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

Consolidated Profit and Loss Statement

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2018 to December 31, 2018

in € k	Notes	01/01/ - 12/31/2018	01/01/ - 12/31/2017
Sales revenues	4,24	**150,003**	**150,201**
Currency earnings	5	**281**	**-488**
Cost of sales		-76,902	-75,672
- of which depreciations on capitalized developments	10	-6,835	-5,610
Gross profit on sales		**73,382**	**74,041**
Other operating income	5	510	701
Sales and marketing costs		-22,961	-19,635
General administration costs		-12,735	-13,095
Research and development	6	-11,575	-10,827
Other expenses	6	-1,794	-706
Operating result		**24,827**	**30,479**
Financial income	7	155	291
Financial expenses	7	-460	-978
Financial result		**-305**	**-687**
Earnings before tax		**24,522**	**29,792**
Income tax	8	-7,509	-8,164
Group´s year surplus		**17,013**	**21,628**
of which are allocated to			
shareholders of the parent company		17,013	21,628
non-controlling shareholders		0	0
Average number of shares	9.5	3,214,066	3,209,430
Earnings per share diluted / undiluted (€)		5.29	6.74

Consolidated Statement of Comprehensive Income

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2018 to December 31, 2018

in € k	Notes	01/01/ - 12/31/2018	01/01/ - 12/31/2017
Group's year surplus		17,013	21,628
Result from differences due to currency conversion, directly recorded in equity	18.3	220	-438
Surplus/ Net loss from cash flow hedges	18.3	0	0
Adjustment Finance Lease w/o income effect / IFRS 15	18.5	-214	-3,378
Total result, through profit or loss		**6**	**-3,816**
Total result		**17,019**	**17,812**
of which are allocated to			
shareholders of the parent company		17,019	17,812
non-controlling shareholders		0	0

Consolidated Cash Flow Statement

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2018 to December 31, 2018

in € k	Notes	01/01/ - 12/31/2018	01/01/ - 12/31/2017
Operating activities			
Group's year surplus		17,013	21,628
Increase (+) / decrease (-) in deferred taxes		624	136
Payout/ incoming payments for interest		506	1,125
Depreciation of fixed assets		11,142	9,168
Change in capital resources without affecting payment		6	-438
Increase (+) / decrease (-) in accruals		610	1,454
Profit (-) / loss (+) from asset disposals		-3	-16
Increase (-) / decrease (+) in inventories		2,178	-5,779
Increase (+) / decrease (-) in advances from demand		-1,615	1,568
Increase (-) / decrease (+) in accounts receivable		-6,386	-525
Increase (-) / decrease (+) in other assets		-236	-1,755
Increase (+) / decrease (-) in accounts payable		-2,887	3,762
Increase (+) / decrease (-) in other liabilities		6,046	1,444
Net cash provided by operating activities		**26,998**	**31,772**
Investing activities			
Payout for investments in fixed assets		-18,026	-8,091
Incoming payments for asset disposals		61	225
Expenses for acquisitions less cash acquired		-7,706	-1,897
Net cash provided by investing activities		**-25,671**	**-9,763**
Financing activities			
Payout for amortisation of bank loans		-1,222	-800
Payout for amortisation of finance lease*		-2,222	-1,666
Incoming payment for borrowings from banks		8,200	1,200
Interest payout		-506	-1,125
Incoming payment for sale of own shares		0	0
Payout for own shares		-3,284	-658
Dividends paid		-6,487	-2,371
Net cash provided by financing activities		**-5,522**	**-5,421**
Change in liquid funds		**-4,195**	**16,588**
Funds at the beginning of the fiscal year		36,025	19,437
Funds at the end of the fiscal year		**31,830**	**36,025**
Composition of liquid funds at the end of the fiscal year			
Cash in bank and cash in hand	16	31,830	36,025
Payout for taxes		5,272	5,322

*Adjustment of the previous year's figure of cash changes in equity / cash inflow / outflow for repayment of a better comparability

Group Balance Sheet

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2018 to December 31, 2018

in € k	Notes	12/31/2018	12/31/2017
Assets			
A. Long-term assets			
I. Intangible assets	10	28,100	21,476
II. Fixed assets	10	10,562	8,784
III. Buildings and land in finance lease	17	11,971	12,481
IV. Goodwill	29	12,740	3,139
V. Other financial assets		5	5
VI. Deferred tax assets	11	72	39
		63,450	**45,924**
B. Short-term assets			
I. Inventories	12	21,033	20,829
II. Receivables from deliveries and services and from production orders	13	18,247	11,066
III. Other short-term financial assets	14	1,714	1,666
IV. Other short-term assets	14	1,682	1,040
V. Claim for tax refunds	15	998	1,170
VI. Cash in bank and cash in hand	16	31,830	36,025
		75,504	**71,796**
		138,954	**117,720**

in € k	Notes	12/31/2018	12/31/2017
Liabilities			
A. Equity	18		
I. Subscribed capital		3,206	3,211
II. Capital reserves		5,286	3,119
III. Retained earnings including group's earnings		66,541	59,028
IV. Other components of equity		492	272
		75,525	**65,630**
B. Long-term debt			
I. Long-term liabilities			
1. Long-term liabilities to banks	19	17,723	9,912
2. Other financial liabilities		4,840	542
3. Liabilities from finance lease	17	8,454	10,258
II. Non-current provisions	20	1,153	1,406
III. Deferred tax liabilities	11	7,933	5,525
		40,103	**27,643**
C. Short-term debt			
I. Other financial liabilities	19	1,773	1,590
II. Short-term accrual liabilities	20	4,391	3,802
III. Short-term other liabilities			
1. Liabilities from deliveries and services		7,391	10,107
2. Other short-term financial liabilities		5,209	4,776
3. Liabilities from finance lease	17	1,805	2,224
IV. Current tax liabilities		2,757	1,948
		23,326	**24,447**
		138,954	**117,720**

Development of Fixed Assets for Fiscal Year 2018

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2018 to December 31, 2018

in € k	Acquisition and production costs						Depreciations						Net book value	
	As at 01/01/2018	Additions*	Transfers	Disposals	Foreign exchange differentials	As at 12/31/2018	As at 01/01/2018	Additions**	Unscheduled depreciations	Disposals	Foreign exchange differentials	As at 12/31/2018	As at 12/31/2018	Previous year
Intangible assets														
Software, trademark rights, patents, and licenses	6,325	6,426	0	-10	1	12,741	5,046	1,185	0	-3	0	6,228	6,513	1,279
Goodwill	3,139	9,601	0	0	0	12,740	0	0	0	0	0	0	12,740	3,139
Finished own developments	42,312	0	2,789	0	0	45,101	26,258	6,456	549	0	0	33,263	11,838	16,054
Own developments in process	4,143	8,596	-2,789	0	0	9,950	0	0	200	0	0	200	9,750	4,143
Payments for third-party developments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total intangible assets	**55,919**	**24,623**	**0**	**-10**	**1**	**80,532**	**31,304**	**7,641**	**749**	**-3**	**0**	**39,691**	**40,841**	**24,615**
Tangible Assets														
Land and buildings on third-party land	2,277	802	691	0	1	3,771	1,128	214	0	0	1	1,343	2,428	1,149
Technical equipment and machinery	9,145	2,041	335	-112	4	11,413	5,719	1,175	0	-93	4	6,805	4,608	3,426
Other furniture, fixtures, and equipment	6,561	1,209	407	-86	5	8,096	3,548	1,247	0	-54	3	4,744	3,352	3,013
Assets under construction	1,196	409	-1,433	0	0	173	0	0	0	0	0	0	173	1,196
Total tangible assets	**19,179**	**4,461**	**0**	**-198**	**10**	**23,453**	**10,395**	**2,636**	**0**	**-147**	**8**	**12,892**	**10,561**	**8,784**
Buildings and Land under finance leases														
Land of finance lease	2,278	0	0	0	0	2,278	0	0	0	0	0	0	2,278	2,278
Buildings of finance lease	22,480	0	0	0	0	22,480	12,277	510	0	0	0	12,787	9,693	10,203
Total Buildings and Land under finance leases	**24,758**	**0**	**0**	**0**	**0**	**24,758**	**12,277**	**510**	**0**	**0**	**0**	**12,787**	**11,971**	**12,481**
Other financial assets	18	0	0	0	0	18	13	0	0	0	0	13	5	5
Total other financial assets	**18**	**0**	**0**	**0**	**0**	**18**	**13**	**0**	**0**	**0**	**0**	**13**	**5**	**5**
Total Assets	**99,874**	**29,084**	**1**	**-208**	**11**	**128,761**	**53,989**	**10,787**	**749**	**-150**	**8**	**65,383**	**63,378**	**45,885**

* Including opening balance acquisiton Silicon Software GmbH July 1st, 2018 (€ 6,250,678.31)
** Including accumulated write-offs acquistion Silicon Software GmbH July 1st, 2018 (€ 394,352.30)

*Development of Fixed Assets for Fiscal Year 2017

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2017 to December 31, 2017

	Acquisition and production costs						Depreciations						Net book value	
in € k	As at 01/01/2017	Additions*	Transfers	Disposals	Foreign exchange differentials	As at 12/31/2017	As at 01/01/2017	Additions**	Unscheduled depreciations	Disposals	Foreign exchange differentials	As at 12/31/2017	As at 12/31/2017	Previous year
Intangible assets														
Software, trademark rights, patents, and licenses	6,333	586	203	-799	2	6,325	5,126	592	0	-671	-1	5,046	1,279	1,207
Goodwill	0	3,139	0	0	0	3,139	0	0	0	0	0	0	3,139	0
Finished own developments	33,510	0	8,802	0	0	42,312	20,066	5,610	581	0	1	26,258	16,054	13,444
Own developments in process	7,649	5,296	-8,802	0	0	4,143	0	0	0	0	0	0	4,143	7,649
Payments for third-party developments	205	0	-203	0	-2	0	0	0	0	0	0	0	0	205
Total intangible assets	**47,697**	**9,021**	**0**	**-799**	**0**	**55,919**	**25,192**	**6,202**	**581**	**-671**	**0**	**31,304**	**24,615**	**22,505**
Tangible Assets														
Land and buildings on third-party land	2,155	133	0	-4	-7	2,277	982	154	0	-4	-4	1,128	1,149	1,173
Technical equipment and machinery	8,791	1,080	200	-916	-10	9,145	5,638	973	0	-883	-9	5,719	3,426	3,153
Other furniture, fixtures, and equipment	5,228	1,350	358	-361	-14	6,561	3,026	843	0	-313	-8	3,548	3,013	2,202
Assets under construction	183	1,572	-558	0	-1	1,196	0	0	0	0	0	0	1,196	183
Total tangible assets	**16,357**	**4,135**	**0**	**-1,281**	**-32**	**19,179**	**9,646**	**1,970**	**0**	**-1,200**	**-21**	**10,395**	**8,784**	**6,711**
Buildings and Land under finance leases														
Land of finance lease	1,817	460	0	0	1	2,278	0	0	0	0	0	0	2,278	1,817
Buildings of finance lease	24,391	-1,911	0	0	0	22,480	11,584	692	0	0	1	12,277	10,203	12,807
Total Buildings and Land under finance leases	**26,208**	**-1,451**	**0**	**0**	**1**	**24,758**	**11,584**	**692**	**0**	**0**	**1**	**12,277**	**12,481**	**14,624**
Other financial assets	18	0	0	0	0	18	13	0	0	0	0	13	5	5
Total other financial assets	**18**	**0**	**0**	**0**	**0**	**18**	**13**	**0**	**0**	**0**	**0**	**13**	**5**	**5**
Total Assets	**90,280**	**11,705**	**0**	**-2,080**	**-31**	**99,874**	**46,435**	**8,864**	**581**	**-1,871**	**-20**	**53,989**	**45,885**	**43,845**

* Including opening balance acquisiton Mycable June 1st, 2017 (€ 475 thousand)
** Including accumulated write-offs acquistion Mycable June 1st, 2017 (€ 277 thousand)

Consolidated Statement of Changes in Equity

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2018 to December 31, 2018

in € k	Subscribed capital	Capital reserve	Retained earnings incl. group's earnings	Other components of equity: Differ-ence due to currency conversion	Other components of equity: Reserves for cash flow hedges	Other components of equity: Sum of other components of equity	Total
Shareholders´ equity as of 01/01/2017	**3,215**	**2,443**	**43,648**	**710**	**0**	**710**	**50,016**
Total result		676	17,574	-438		-438	17,812
Share salesback			831				831
Share buyback	-4		-654				-658
Dividend payout*			-2,371				-2,371
Shareholders´equity as of 12/31/2017	**3,211**	**3,119**	**59,028**	**272**	**0**	**272**	**65,630**
Total result		0	16,798	220		220	17,018
Share salesback	15	2,167	466				2,648
Share buyback	-20		-3,264				-3,284
Dividend payout**			-6,487				-6,487
Shareholders´equity as of 12/31/2018	**3,206**	**5,286**	**66,541**	**492**	**0**	**492**	**75,525**

* 0.74€ per share (payout in 2017 for 2016)
** 2.02 € per share (payout in 2018 for 2017)

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 at 22926 Ahrensburg (Germany), An der Strusbek 60-62 (local court Lübeck HRB 4090AH).

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 throughout.

Unless stated otherwise, all amounts are shown in thousands of Euro (€ thousand).

The financial year corresponds to the calendar year. Comparative figures to the previous year are shown in the consolidated statement of comprehensive income, the cash flow overview, as well as the statement of recognized income.

The consolidated financial statements are prepared on a going concern basis.

2.2 Standards with no Effect on the Consolidated Financial Statements

The amendments applicable as of January 1, 2018, within the annual improvements of IFRS cycle (2014 - 2016) regarding IAS 28, IFRS 1, IFRS 3 and IFRS 12 as well as the amendments of IAS 40, IFRS 2 and IFRS 4 have no effect on the consolidated financial statement of Basler AG. The effects of the initial application of IFRS 9 and/or IFRS 15 are described under point 3.6 and 21 and 4.

2.3 Approved but not yet Adopted Standards

The following IFRS incorporated into EU law were issued as at December 31, 2018, their application is, however, only mandatory in future reporting periods if no use is made of the right for an earlier application:

Amendment / Standard	Date of Publication	Date of Incorporation into EU Law	Date of Application (EU)
IFRIC 23 Uncertainty over Income Tax Treatments	June 7, 2017	October 23, 2018	January 1, 2019
Amendment IFRS 9: Financial assets with a negative prepayment penalty	October 12, 2017	March 22, 2018	January 1, 2019
IRFS 16 Leasing Relationships	January 13, 2016	October 31, 2017	January 1, 2019

Following standards as well as interpretations and amendments to existing standards that have also been issued by the IASB are not yet obligatory for the consolidated financial statements as of December 31, 2018. The application of these standards presumes that they will be taken over by the EU within the scope of the IFRS endorsement procedure.

Amendments /Standard / Interpretation	Date of Publication	Date of Incorporation into EU Law	Date of Application (EU)
IRFS 17 Insurance Contracts	May 18, 2017	open	January 1, 2021
Amendments IAS 28: Long-term Shares in associated Companies and Joint Ventures	October 12, 2017	2019	January 1, 2019
Annual Improvements of IFRS (AIP) – Cycle 2015-2017	December 12, 2017	2018	January 1, 2019
Amendments IAS 19: Plan Modification, Curtailments or Compensation	February 7, 2018	2019	January 1, 2019
Amendments References to the Frame Concept in IFRS Standards	March 29, 2018	2019	January 1, 2020
Amendment of IFRS 3 Company Mergers: Definition of a Business Operation	October 22, 2018	2019	January 1, 2020
Amendments to IAS 1 and IAS 8: Definition of material	October 31, 2018	2019	January 1, 2020

The Basler group is required to apply the new IFRS 16 standard Leasing Relationships as of January 1, 2019. We have evaluated the estimated effects of the first-time application of IFRS 16 on the consolidated financial statement as stated below.

IFRS 16 implements a unified accounting model according to which leasing relationships are to be recognized in the lessee's balance sheet. The lessee recognizes a right-of-use asset showing the right of use of the underlying asset, as well as a liability resulting from the leasing relationship constituting an obligation for lease payments. There are rules for simplification for short-term leasing relationships and those of small value. The lessor's accounting is comparable with the current standard – meaning that lessors continue to classify leasing relationships as financing or operating leasing relationship.

IFRS 16 replaces the existing rules for leasing relationships including IAS 17 Leasing Relationships, IFRIC 4 Determination if an agreement contains a leasing relationship,

SIC-15 Operating-Leasing Relationships Incentives, and SIC-27 Evaluation of the substance of transactions involving the legal form of leases.

For evaluating existing leasing relationships according to IFRS 16 outside experts were used. The entry date of the leasing relationships was December 31, 2018. Due to the entry date the profit and loss time slot January 1, 2019 – December 31, 2019 was selected for this impact analysis. The simulated balance sheet regarding the analysis of the assets concerned was prepared as of December 31, 2019. For simulating a steady state vibration contracts that expired during the profit and loss time slot were replaced by identical subsequent contracts.

The portfolio that is relevant for the impacts and which was recognized by Basler AG included 38 contracts / framework contracts in total with 61 objects (as of the impact analysis reporting date December 31, 2019). In the subsidiaries only office lease contracts were identified. Leasing agreements were recognized in five different reporting units. The incremental borrowing rate of interest is 3.0 %. Effect simulation when changing the interest rate by -1 % based on the identic portfolio was conducted. Intragroup leasing relationships and finance leases according to IAS 17 were not taken into consideration (group view).

Buildings with a share of 98 % that are to be shown in the book value of all leasing objects according to IFRS 16 are critical value drivers. All other object types (cars, IT, technical facilities and other BGA) are of subordinate importance (7 %). 79 % of all leasing objects are allocated to the mother company.

Due to the results of the analysis, the group decided to show all building leasing agreements in the frame of IFRS 16 as economic property, currently corresponding to more than 98 % of the total volume and an additional capitalization of € 4.4 million.

As effect of this accounting, the financial debts will increase due to the corresponding statetment. Instead of lease expenses are reported. Furthermore, the operating cash flow will improve since the repayment portion is shown in the cash flow from financing activity.

The future application of the remaining standards is unlikely to have any material effect of the Basler group accounting.

2.4 Use of Estimates

The preparation of the consolidated financial statements 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 valuation of tangible assets concerning the useful life as well as to the valuation of internally generated intangible assets concerning the useful life and to expected sales. Furthermore, there are uncertainties in deferred taxes on losses carried forward, provisions, and assumptions for impairment tests. 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 IFRS 10 are included in the group's annual balance sheet. For a list of subsidiaries and investments, see note III, 29.

The following companies were consolidated for the first time:

- Silicon Software GmbH, Mannheim/Germany
- Silicon Software America Inc., Laval/Canada
- Silicon Software Inc., Nashua/USA
- Basler Vision Technology (Beijing) Co. Ltd., Beijing/China

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 euro. 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 € 220 thousand (previous year: decreased by € 438 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 2018, profits amounting to € 1,608 thousand (previous year: € 1,259 thousand) and expenses amounting to € 1,327 thousand (previous year: € 1,747 thousand) occurred. The currency result is shown as currency result in the gross result of sales.

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	
	12/31/2018	12/31/2017
1 Euro	US dollar 1.145	US dollar 1.1993
1 Euro	New Taiwan dollar 34.9528	New Taiwan dollar 35.5660
1 Euro	7,875 Chinese Yuan	

	Average exchange rates	
	2018	2017
1 Euro	US dollar 1.18100	US dollar 1.12970
1 Euro	New Taiwan dollar 35.55269	New Taiwan dollar 34.35344
1 Euro	7,808 Chinese Yuan	

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.

Capital consolidation is performed according to the IFRS 3 regulations where all assets and debts of the subsidiaries are valued at their fair values. The determined equity share is compared to the investment book value. Remaining differences will be capitalized as company value and are subject to an impairment test according to IAS 36 once a year.

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.

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 as 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 as income. Possible differences between book values and considerations are recorded in the other capital reserve or in the retained earnings.

3.6 Financial Assets and Liabilities

Liabilities 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.

IFRS 9 specifies the requirements for the recognition and valuation of financial assets, financial liabilities, as well as some contracts for acquiring or selling of non-financial contracts. This standard replaces IAS 39 Financial Instruments. There were no impairments on financial assets identified in the fiscal year 2018. These would have to be shown as separate position in the comprehensive income statement. As in the previous years, Basler AG holds a stake in the “Beruf und Familie im HanseBelt gGmbH”, Bad Oldesloe. Due to the holding of 20 % of equity amounting to € 6 thousand, this stake is classified as non-material.

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, individual value adjustments in the full amount of the receivable will be made. In 2018, no value adjustments were made across the group.

IFRS 9 contains three basic categories for the classification of financial assets:

- valued at amortized costs,
- valued at fair value with changes in value on other comprehensive income (FVOCI), as well as
- valued at fair value with changes in value in the profit or loss (FVTPL).

The first-time application of IFRS 9 had not significant impact on the Basler group’s accounting methods regarding financial liabilities and derivative financial instruments.

New book values due to the transition from IAS 39 to IFRS 9 did not arise, please see chart under point 21.

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, production costs, and services that can be directly allocated as well as appropriate portions of production overheads 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 less 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 fixed assets 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 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 expenses 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 production cost model, i.e. using production 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 6
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.

According to IFRS 3 and/or IAS 38, business or company values are not written off on a scheduled basis. Once a year and in case of indications for a value reduction they are subject to an impairment test and, if necessary, devaluated to their recoverable amount.

3.11 Liquid Assets and Cash Equivalents

The item includes cash in hand as well as short-term deposits with maturities of less than 3 months.

3.12 Leases

A lease is classified as an "operating lease" if essentially all risks and opportunities associated with economic ownership therein remain with the lessor. A leasing relationship is classified as a finance leasing relationship if due to the leasing agreement all main opportunities and risks linked to the ownership are transferred to the lessee.

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 Provisions

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 less 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.

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 as follows:

- 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 group assumes a sales growth in the lower double-digit percentage range for 2019 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 8.5 % (previous year: 8.5 %). 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 25.1 % and/or an expected decline of the planned sales revenues by 16.9 % would lead to a devaluation of the assets.

If there are indications of a devaluation of fixed assets these will be examined and its value adjusted, if necessary.

II. ITEMS OF THE ANNUAL FINANCIAL STATEMENTS

NOTES TO THE PROFIT AND LOSS STATEMENT

4. Sales Revenues

The sales revenues originate almost exclusively from standard business. We refer to the classification shown under point 24.

In view of applying IFRS 15, the following effects occurred. The standard specifies a comprehensive framework regarding if, in what amount, and at what point in time sales revenues are to be recorded. It replaces the existing guideline for recording sales revenues, including IAS 18 Sales Revenues, IAS 11 Production Orders.

Pursuant to IFRS 15 revenues are recorded upon obtaining control of the goods or services by the customer. The determination of whether the transfer of control is depending on the point of time or the period of time requires discretionary decisions.

For the transition to IFRS 15, the Basler group applied the modified retrospective method according to which the accumulated adjustments are recorded as of January 1, 2018. Consequently, the Basler group will not apply the requirements of IFRS 15 for each comparative period that is shown.

Retained earnings incl. Consolidated results (in € k)	Effect of IFRS 15 application as of January 1, 2018
Sales contracts for standard products with extended warranty	213
Tax effect	(62)
Effect as of January 1, 2018	151

The table below summarizes the effects resulting from the application of IFRS 15 on the items concerned in the consolidated balance sheet as of December 31, 2018, as well as the consolidated profit and loss statement for the financial year 2018. The effects concern the extended warranty that represents a separate service obligation as “service-type-warranty” and is to be shown separately over the warranty period of three years.

Effects on the consolidated balance sheet December 31, 2018 (in € k)	As reported	Adjustments	Amounts without application of IFRS 15
Assets			
Receivables from deliveries and services	18,247	325	18,572
Equity			
Retained earnings incl. consolidated result	66,541	230	66,771
Liabilities			
Deferred tax liabilities	7,933	95	8,028

01/01/2018-12/31/2018 (in € k)	Note	As reported	Adjustments	Amounts without application of IFRS 15
Sales revenues	4, 24	150,003	111	150,114
Tax expenses	8	7,509	95	7,604

5. Other Operational Profit

The operational profit includes the following:

in € k	2018	2017
Rental income	5	104
Subsidies for research and development	13	195
Income from the release of provisions	96	79
Others	396	323
	510	**701**

The other operational profit includes € 189 (previous year: € 259 thousand) for self-developed manufacturing tools.

6. Research and Development and Other Expenses

The other expense includes the following:

in € k	2018	2017
Full costs for research and development	20,052	15,969
Capitalization of own development costs	-8,476	-5,141
Unscheduled depreciations on capitalized developments	749	581
Premises costs	146	116
Further other expense	898	8
	13,369	**11,533**

7. Financial Result

in € k	2018	2017
Interest income from cash in bank	0	2
Interest income from discounting	-8	39
Interest expense on bank loans	-308	-269
Other interest expenses	-36	-2
Interest expense from derivative financial instruments	-197	-244
Capitalization of interest pursuant to IAS 23	119	155
Mark-to-market evaluation of derivative financial instruments	125	248
Interest expense for finance lease	0	-616
	-305	**-687**

In 2018, the average financing cost rate considered in accordance with IAS 23 was 1.89 % (previous year: 2.10 %).

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.

in € k	2018	2017
Current taxes from consolidated companies	6,827	6,594
Deferred taxes from consolidated companies	617	1,525
Other taxes	65	45
Tax expense	**7,509**	**8,164**

Calculation deferred tax expenses:

in € k	2018	2017
Deferred tax expenses or income from losses carried forward (continuously)	0	1,387
Deferred tax expenses or income from temporary differences	617	138
Deferred tax expense	**617**	**1,525**

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 13.30 % (previous year: 13.30 %), amounting to a combined statutory tax rate of 29.13 % (previous year: 29.13 %):

Tax reconciliation in € k	2018	2017
Net profit / loss for the year before income taxes	24,522	29,792
Applicable tax rate	29.13 %	29.13 %
Expected tax expense / income	7,143	8,679
Reconciliation:		
Effects from deviating tax rates	-979	-870
Tax effect from non-deductible expenses and tax-free earnings	222	176
Effects of previous years due to an external audit	1,427	0
Other	-304	179
Actual tax expense / income	7,509	8,164
Group tax rate	30.62 %	27.4 %

As per December 31, the following tax loss carry forwards existed:

in € k	2018	2017
Germany, corporate income tax	83	0
Germany, trade income tax	275	0

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. From today's view, a utilization of these loss carry forwards is not probable.

9. Additional Information

9.1 Scheduled and Unscheduled Depreciations

In fiscal year 2018, unscheduled value adjustments were made on capitalized product developments in an amount of € 749 thousand (previous year: € 581 thousand). The depreciations included discontinued products or products that are not expected to have sufficient economic benefit.

The unscheduled depreciations on the capitalized developments were recorded with the other expense. The depreciations and unscheduled depreciations are included in the following areas:

in € k	2018	2017
Cost of service performed	8,510	6,523
Sales and marketing costs	310	209
General administration costs	1,574	1,477
Other expense	1,143	959
	11,537	**9,168**

9.2 Personnel Expenditures

in € k	2018	2017
Wages and salaries	43,777	41,187
Social security contributions	7,993	6,701
	51,770	**47,888**

The expenses for the contribution-based pension schemes amounted to € 3,595 thousand (previous year: € 3,057 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.

9.3 Material Expenditures

in € k	2018	2017
Expenses for raw, auxiliary, and operating supply items as well as purchased goods	51,053	51,223
Expenses for purchased services	2.009	2.065
	53,062	**53,288**

In the year 2018, costs for guarantees amounted to € 864 thousand (previous year: € 909 thousand).

9.4 Reconciliations for Result per Share

	2018	2017
Earnings diluted / undiluted in € k	17,013	21,628
Weighted average number of ordinary shares	3,214,066	3,209,430
Result per Share (€)	**5.29**	**6.74**

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

On December 31, 2018, the purchase commitments for tangible assets amounted to € 2,502 thousand (previous year: € 1,677 thousand).

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 12/31/2018 (in € k)	Useful Lives (in Years)
New camera platform mainstream / upper mainstream	5,285	5
Development of camera modules for the use with embedded processors	2,664	3
Camera development 3D ToF technology	1,482	3

As of December 31, 2017, the following intangible assets were important:

Description of the Intangible Asset	Book value 12/31/2017 (in € k)	Useful Lives (in Years)
Expansion of the ace camera line with new CMOS sensors	2,801	5
Development of camera modules for the use with embedded processors	1,433	3
Camera development 3D ToF technology	969	3

11. Deferred Taxes

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

in € k	12/31/2018	12/31/2017
Deferred tax assets		
Sales realization	95	0
Holdings	88	0
Inventories	123	114
Financial instruments	101	172
Other	230	225
Offsetting	-565	-472
	72	**39**

in € k	12/31/2018	12/31/2017
Deferred tax liabilities		
Capitalization of development	6,288	5,883
Finance lease	499	0
PPA capitalized developments	1,402	0
PPA KD-order volume	177	0
Tangible assets	84	89
Other	48	25
Offsetting	-565	-472
	7,933	**5,525**

12. Inventories

The inventories include the following:

in € k	12/31/2018	12/31/2017
Finished products	5,990	4,651
Semi-finished products	1,527	2,470
Raw materials, supplies, and operating materials	12,525	12,810
Merchandize	991	898
	21,033	**20,829**

As of December 31, 2018, inventories were subject to range deductions amounting to € 942 thousand (previous year: € 832 thousand).

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

Of the receivables from deliveries and services in the amount of € 18,247 thousand (previous year: € 11,066 thousand) € 18,247 thousand (previous year: € 11,066 thousand) are due within one year.

The value of the receivables from deliveries are not adjusted (previous year: € 2 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 necessary value adjustments have been below € 10 thousand for years. There have not been any major losses of receivables in the past years due to the accounts receivable management. Due to relevance, no value adjustment was made after the lifetime expected loss.

The age of the receivables from deliveries and services after their individual value adjustment is as follows:

in € k	Book value as of 12/31	Of which as of 12/31 neither impaired nor past due	Of which not impaired and up to 60 days past due	Of which not impaired and up to 61 days past due
2018	18,247	16,924	1,276	47
2017	11,066	10,047	1,019	0

The sum of advance payments received amounts to € 466 thousand (previous year: € 2,022 thousand).

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 of 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

in € k	12/31/2018	12/31/2017
Derivative Financial Instruments	87	0
Other	0	304
Loans to third party	1,627	1,362
Other short-term financial assaets	1,714	1,666
Accrued expenses	1,110	815
Advance payments made	574	225
Other short-term assets	1,682	1,040
Total	**3,396**	**2,706**

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 € 694 thousand (previous year: € 859 thousand) and the reclaim of taxes paid in advance on income and profit amounting to € 304 thousand (previous year: € 311 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. Financial Resources

Liquid assets include bank deposits and cash balances in the amount of € 31,830 thousand (previous year: € 36,025 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:

in € k	12/31/2018	12/31/2017
Land	2,228	2,278
Buildings	9,693	10,203
	11,971	**12,481**

The development is recorded separately in the fixed asset schedule.
The liabilities from the finance lease are as follows:

in € k	Minimum lease payments		Cash value of the minimum lease payments	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
With a residual term of up to one year	1,822	2,224	1,804	2,224
With a residual term of more than one year and up to five years	9,110	9,110	8,454	8,454
With a residual term of more than five years	0	1,822	0	1,804
	10,932	**13,156**		
Minus: Future financing costs	-674	-674		
Cash value of the minimum lease payments	10,258	12,482	10,258	12,482
Recorded in the group's annual balance sheet as				
Short-term liabilities from financing lease			1,804	2,224
Long-term liabilities from financing lease			8,454	10,258

The earnings from subleases amounted to € 5 thousand (previous year: € 104 thousand) in the reporting period. The last subleasing contract ended on December 31, 2017.

17.2 Operating Lease

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	€ k
2019	1,007
2019-2021	4,828

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 € 917 thousand (previous year: € 748 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, 2018 amounted to 3,211,136 and on December 31, 2018 to 3,205,719. In the reporting year, 20,941 own shares were acquired for € 3,284 and 15,524 shares were given away.

18.2 Authorized Capital

The shareholders´ meeting of May 17, 2017, authorized the management board, subject to approval by the supervisory board, to increase the share capital by May 16, 2022, 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.

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:

	12/31/2018			12/31/2017		
in € k	Earnings before taxes	Taxes	Net	Earnings before taxes	Taxes	Net
Currency conversion of foreign subsidiaries	220	0	220	-438	0	-438
Total	220	0	220	-438	0	-438

18.4 Dividend Payment

On May 7, 2018, a dividend was paid amounting to € 2.02 per share (total dividend: € 6,487 thousand).

18.5 Balancing Finance Lease

Since the existing lease contract for the company building in Ahrensburg expired at the end of 2018 and Basler plans an expansion of the company building, in the elapsed fiscal year a new long-term lease contract was concluded, in order to sustainably secure the location. Therefore, from the financial side, the existing building in finance lease and the liabilities from finance lease had to be adjusted to the new contract. The remaining value of the building was renegotiated and is the basis for the new contract. Also, the financing of the lease is already secured by the lessor. The cash value of the right of use as well as the leasing liabilities from the newly concluded contract amount to Euro 12.5 million. The adjustment of the balance sheet items "Land and buildings" and "Liabilities from finance lease" in an amount of Euro 3.4 million was made through equity on a result-neutral basis.

19. Financial Liabilities

€ 17,723 thousand of this are related to long term interest bearing bank liabilities (previous year: € 9,912 thousand). Furthermore, derivative financial liabilities of € 347 thousand (previous year: € 473 thousand), the short-term repayment portion of the financial liabilities of € 1,426 thousand (previous year: € 1.117 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. A transition of the liabilities movements to the cash flow from financing activities according to IAS 7 is shown separately.

20. Provisions

in € k	01/01/2018	Allocation	Utilizations	Liquidations	Interests	Currency differences	12/31/2018
Long-term provisions							
Personnel costs	1,406	0	-260	0	7	0	1,153
Long-term provisions	**1,406**	**0**	**-260**	**0**	**7**	**0**	**1,153**
Short-term provisions							
Personnel costs	2,495	2,887	-2,474	-29	0	6	2,885
Commissions	1	0	0	-1	0	0	0
Warranty	675	211	-110	-21	0	0	755
Legal- and consultancy costs	107	131	-103	0	0	1	136
Other	524	618	-487	-43	0	3	615
Short-term provisions	**3,802**	**3,847**	**-3,174**	**-94**	**0**	**10**	**4,391**
Total	**5,208**	**3,847**	**-3,434**	**-94**	**7**	**10**	**5,544**

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. The allocations include € 535 thousand from the first-time consolidation of Silicon Software GmbH.

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 and JPY 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.

USD	12/31/2018 (previous year)
Nominal value in € k	1,685 (0)
Foreign currency amount in k USD	1,930 (0)
Fair value in € k	87 (0)
Positive	3 (0)
Negative	83 (0)

In the previous year, no valuation units were formed.

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 income shown in the financial result resulting from valuation at fair value in fiscal year 2018 amounted to € 125 thousand (previous year: Income € 248 thousand).

	12/31/2018	12/31/2017
Nominal value in € k	4,546	5,455
Fair value in € k		
Positive	-	-
Negative	347	473

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

Category	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 Amortized 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

The book values of the financial instruments as of December 31, 2018, are as follows:

in € k	12/31/2018 (12/31/2017)					
Assets	Category of measurement according to IAS 39	New valuation category according to IFRS 9	Book value	Amor-tized cost	Fair value, affecting net income	Fair value
Remaining financial assets	AfS	FVTPL	5 (5)	5 (5)		
Long-term assets			**5 (5)**			**5 (5)**
Receivables from deliveries and services	LaR	Amortized costs	18,247 (11,066)	18,247 (11,066)		
Short-term financial assets			**18,247 (11,066)**			**18,247 (11,066)**
Short-term derivative assets	FVTPL	FVTPL	87 (0)		87 (0)	
Remaining other short-term financial assets	LaR	Amortized costs	1,714 (1,666)	1,714 (1,666)		
Other short-term financial assets			**1,801 (1,666)**			**1,801 (1,666)**
Liquid assets	LaR	Amortized costs	31,830 (36,025)	31,830 (36,025)		
Cash and cash equivalents			**31,830 (36,025)**			**31,830 (36,025)**
			51,883 (48,762)			
Liabilities						
Liabilities to credit institutions	FLAC	Other financial liabilities	17,723 (9,912)	17,723 (9,912)		
Liabilities from finance lease	FLAC	Fair value	8,454 (10,258)	8,454 (10,258)		
Long-term financial liabilities			**26,177 (20,170)**			**26,177 (20,170)**
Other financial liabilities	FLAC	Other financial liabilities	1,426 (1,117)	1,426 (1,117)		
Short-term derivative assets	FVTPL	Fair value	347 (473)		347 (473)	
Liabilities from deliveries and services	FLAC	Other financial liabilities	7,391 (10,107)	7,390 (10,107)		
Liabilities from finance lease	FLAC	Other financial liabilities	1,805 (2,224)	1,805 (2,224)		
Remaining other short-term financial liabilities	FLAC	Other financial liabilities	4,743 (2,754)	4,743 (2,754)		
Short-term liabilities			**15,712 (16,675)**			**15,712 (16,675)**
			41,889 (36,845)			

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

in € k	Level 1	Level 2	Level 3	Total
Financial assets of "Market value affecting profit and loss"				
Short-term derivative assets	0 (0)	87 (0)	0 (0)	87 (0)
Total	**0 (0)**	**87 (0)**	**0 (0)**	**87 (0)**
Financial liabilities of "Market value affecting profit and loss" category				
Short-term derivative assets	0 (0)	347 (473)	0 (0)	347 (473)
Total	**0 (0)**	**347 (473)**	**0 (0)**	**347 (473)**

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 yield 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. Essential observable input parameters are not present.

Except for the described instrument, Basler AG considers the book values for financial assets and debts to be a good approach to the fair value.

Please refer to notes 7 and 13 for the recording of impairments and net profits / losses of the stated financial assets and financial liabilities.

III. ADDITIONAL INFORMATION

22. Type 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, and 15 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 that an increase of the interest yield curve by 0.5 percentage points would have a positive effect on earnings before taxes of € 37.7 thousand; a decrease of the interest yield curve by 0.5 percentage points would have a negative effect on earnings before taxes of € 37.8 thousand.

22.3 Currency Risk

An analysis of the sensitivity of all receivables and liabilities in foreign currency of all group entities regarding a decreasing and / or increasing exchange rate by 10 percentage points each as of the balance sheet date would result in the following effects on profit (in € thousand):

	Exchange rate +10 %	Exchange rate -10%
USD	-223	265
JPY	105	-12
SGD	19	-17
	-99	**236**

In doing so, the main foreign currencies were taken into consideration.

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.

in € k	12/31/2018	12/31/2017
Borrowed capital without finance lease and deferred taxes	45,236	34,083
Unused credit lines	21,200	11,900
Total	**66,436**	**45,983**
Short-term receivables	18,247	11,066
Inventories	21,033	20,829
Remaining receivables and other financial assets	3,386	2,706
Liquid assets	-31,830	-36,025
Total	**10,836**	**-1,424**

This strategy was not changed compared to the previous year.

On the reporting date, Basler had access to credit lines amounting to € 21,200 thousand (previous year: € 11,900 thousand) including € 6,8 thousand earmarked loan commitments. 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 € thousand):

	Total amount	< 1 Year	> 1 Year	Of which > 5 Years
Bank debt	19,149	7,188	11,961	4,725
	(11,029)	(1,117)	(9,912)	(1,563)
Liabilities from deliveries and services	7,391	7,391	0	0
	(10,107)	(10,107)	(0)	(0)
Other current financial and tax liabilities	7,500	7,500	0	0
	(4,720)	(4,720)	(0)	(0)
Liabilities from finance lease	10,259	1,805	8,454	1,804
	(12,482)	(2,224)	(10,258)	(3,564)

The interest swap shown under other financial liabilities is in total allocated to short-term liabilities.

According to the longest possible redemption period the following maturities of derivative financial instruments would occur:

in € k	Up to 1 year	2 to 5 years	More than 5 years	Total
2018	1.212	3.334	0	4.546
2017	1.212	4.243	0	5.454

24. Segment Report

The reporting neither differentiates between segments nor is coporate management based on those.

Customers of Basler are global players. In the following statement of turnover per region / 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.

in € k	2018	2017
Germany	18,680	15,382
EMEA	39,487	41,516
Americas	23,766	22,151
Asia	68,070	71,152
Total	**150,003**	**150,201**

In 2018, a revenue share of more than 10 % (€ 34.2 million and € 14.9 million) was generated with a total of two customers (one trading partner and one direct customer).

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

in € k	12/31/2018	12/31/2017
Germany	62,677	45,138
USA	66	67
Asia	635	680
	63,378	**45,885**

25. Number of Employees

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

Number (FTE*)	2018	2017
Production	186 (177)	164 (154)
Sales	185 (177)	157 (148)
Development	174 (165)	138 (130)
Administration	97 (82)	86 (72)
	642 (601)	**545 (504)**

* Full Time Equivalent

26. Remuneration of the Auditors

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

in € k	2018	2017
Audit fees	63	63
Tax consultancy services	0	3
	63	**66**

27. Relations to Closely Affiliated Persons

In fiscal year 2018, there were no business relationships with related parties except for the remuneration of the management board and the remuneration of the supervisory board.

Overview

28. Management Board and Supervisory Board

28.1 Management Board

In 2017, the management board consisted of the following members:

- Dr. Dietmar Ley, Chief Executive Officer, responsible for research and development, organization development, and human resources
- John P. Jennings, Chief Commercial Officer, responsible for sales, market communication, and subsidiaries
- Arndt Bake, Chief Marketing Officer, responsible for strategic marketing, product management and new business
- Hardy Mehl, Chief Financial and Operations Officer, responsible for finance, controlling, SAP and IT, legal and patents, investor relations, facility management, production and supply-chain-management

28.2 Supervisory Board

In 2018, the supervisory board consisted of the following members:

Norbert Basler	Chairman of the Supervisory Board Entrepreneur
Prof. Dr. Eckart Kottkamp	Vice Chairman of the Supervisory Board Consultant
Horst W. Garbrecht	Member of the Supervisory Board Chairman of the Management of Metabowerke GmbH
Prof. Dr. Mirja Steinkamp	Member of the Supervisory Board Professor for auditing and corporate accounting at NORDAKADEMIE
Dorothea Brandes (From May 7, 2018)	Member of the Supervisory Board Employee representative, Organizational developer, Basler AG
Dr. Marco Grimm (From May 7, 2018)	Member of the Supervisory Board Employee representative, Team leader Software development for quality control, Basler AG

Additional mandates held by the supervisory board members in 2018, compliant with § 285 No. 10 HGB:

Norbert Basler
Member of the Supervisory Board, Plato AG, Lübeck
Member of the Supervisory Board, Dr. Födisch Umweltmesstechnik AG, Markranstädt
Member of the Supervisory Board, Beruf und Familie in HanseBelt gGmbH, Bad Oldesloe
Vice Chairman of the Advisory Board, Zöllner Holding GmbH, Kiel

Prof. Dr. Eckart Kottkamp
Menber of the Supervisory Board, KROMI Logistik AG, Hamburg

Horst W. Garbrecht
Member of the Advisory Board, Fischerwerke GmbH & Co. KG, Waldachtal
Regional Advisory Board, south and southwest, Commerzbank AG, Frankfurt am Main

Prof. Dr. Mirja Steinkamp
Vice Chairman of the Supervisory Board, Alper & Schetter AG, Neuss

back

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

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 2018, a total of € 1,924 thousand was paid out allocated as follows:

2018	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
Transfer (in € k)	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Member of Management Board since	**1998**	**2006**	**2011**	**2014**
Fixed Remuneration	315	265	210	255
Additional Benefits (incl. Pension expenses)	19	60	22	20
Total	**334**	**325**	**232**	**275**
Multi-year variable Remuneration (incl. Payouts from bonus bank)	226	206	156	170
Total Remuneration	**560**	**531**	**388**	**445**

The claim to variable compensation components of the financial year 2018 amounting to € 349 thousand was transferred to the bonus bank and will be paid out within the next years according to the process described in the management report.

Multi-year variable Remuneration (incl. Transfers to bonus bank)	105	88	70	85

In 2018, the amount of granted benefits to the management board amounted to € 1.514 thousand.

In 2017, a total of € 1,598 thousand was paid out allocated as follows:

2017	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
Transfer (in € k)	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Member of Management Board since	**1998**	**2006**	**2011**	**2014**
Fixed Remuneration	278	255	192	246
Additional Benefits (incl. Pension expenses)	18	59	22	20
Total	**296**	**313**	**214**	**267**
Multi-year variable Remuneration (incl. Payouts from bonus bank)	153	158	107	91
Total Remuneration	**449**	**471**	**320**	**358**

The claim to variable compensation components of the financial year 2017 amounting to € 1,295 thousand was transferred to the bonus bank and will be paid out within the next years according to the process described in the management report.

Multi-year variable Remuneration (incl. Transfers to bonus bank)	370	339	256	329

In 2017, the total remuneration of the management board amounted to € 2,384 thousand.

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 Remuniration of the Supervisory Board

The total remuneration of the members of the supervisory board amounted to € 137 thousand (previous year: € 108 thousand) in the year 2018. There was no performance-related remuneration:

	Profit-neutral remuneration in € k	
	2018	2017
Norbert Basler	51.8	49.2
Prof. Dr. Eckart Kottkamp	26.6	25.1
Horst W. Garbrecht	16.1	15.6
Prof. Dr. Mirja Steinkamp	24.5	18.5
Dorothea Brandes	9.1	-
Dr. Marco Grimm	9.1	-

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/Singapore	100
Basler Korea, Jungwon-gu/Korea	100
Basler Japan KK, Minato-ku/Japan	100
Basler Vision Technologies Taiwan Inc., Jhubei City/Taiwan	100
Mycable GmbH, Neumünster/Germany	100
Silicon Software GmbH, Mannheim/Germany	100
Silicon Software America Inc., Laval/Canada	100
Silicon Software Inc., Nashua/USA	100
Basler Vision Technology (Beijing) Co. Ltd., Beijing/China	100

On July 10, 2018, Basler AG signed a joint venture agreement with its distributor Beijing Sanbao Xingye Image Tech. co. Ltd. ("MVLZ") for acquiring its machine vision business in China on January 1, 2019. For some twenty years, MVLZ has been Basler AG's distribution partner in China. MVLZ sells image processing components of all sorts and advises Chinese customers for using these components in the industrial image processing area (machine vision), as well as in the area of scientific imaging. Both companies agreed to transfer MVLZ's machine vision business to the newly established Basler Vision Technology (Beijing) Co., Ltd. with its headquarters in Beijing and subsidiaries in Shenzhen and Shanghai. The transfer includes the machine vision customer base, approximately 100 qualified employees, the necessary office and business equipment, as well as inventories. The transfer should be implemented by January 1, 2019. Within a capital increase, Beijing Sanbao Xingye (MVLZ) Image Tech. Co. Ltd. receives minority shares in Basler Vision Technology (Beijing) Co., Ltd.. These will be gradually repurchased by Basler AG by the end of 2021.

On July 19, 2018, Basler acquired 100 % of the shares in Silicon Softare GmbH located in Mannheim, a leading global manufacturer of frame grabber cards and software for the graphic programming of vision processors. With over 50 employees, the company manufactures and distributes standard products as well as customized OEM solutions for image processing applications in the factory automation and medical business. Silicon Software's product portfolio supplements the Basler product portfolio and will significantly support the company implementing its expansion strategy towards the performance segment of the computer vision market in the upcoming years.

In the six months until December 31, 2018, Silicon Software contributed sales revenues amounting to € 4,896 thousand and a loss of € 114 thousand to the consolidated results. If the acquisition had been made on January 1, 2018, according to the management board's assumption, the group's sales revenues for the year would have amounted to € 154,728 thousand and group's earnings to € 17,153 thousand.

Considerations transferred:

in € k	
Means of payment	9,263
Equity instruments (15,524 shares)	2,648
Contingent consideration	4,732
Total consideration transferred	**16,643**

Issued equity instruments:

The fair value of the issued number of shares based on the stock market price of the company on July 19, 2018, of € 170.60 per share.

Costs associated with the company merger:

For Basler AG, costs of € 159 thousand occurred associated with the company merger. These included legal fees and due diligence costs. They are recorded in the administration expenses.

Goodwill:

in € k	
Consideration transferred	16,643
Fair value of identifiable net assets	7,042
Goodwill	**9,601**

Identifiable assets acquired and assumed liabilities:

in € k	
Fixed assets	119
Intangible assets	5,729
Inventories	2,382
Receivables from deliveries and services	795
Cash and cash equivalents	1,556
Other short-term assets	290
Long-term financial liabilities	(1,145)
Deferred tax liabilities	(1.756)
Liabilities from deliveries and services and other liabilities	(393)
Provisions	(535)
Total identifiable net assets acquired	**7,042**

Another participation exists in Beruf und Familie HanseBelt gGmbH, Bad Oldesloe:

Company name	Proportion of stake in % (Dec. 31, 2018)	Equity (Dec. 31, 2017)*	Result (2017)*
Beruf und Familie im HanseBelt gGmbH, Bad Oldesloe	20	€ 28 thousand	€ 22 thousand

*) Financial statement as at Dec. 31, 2018, was not available on the date of report generation.

Further participating interests are not held.

30. Corporate Governance

Pursuant to § 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/.

31. Approval of the Annual Balance Sheet

The annual balance sheet is expected to be released for publication by the supervisory board on March 18, 2019.

32. Recommendation for the Appropriation of Profit

The management board recommends the distribution of a dividend amounting to € 1.59 per share corresponding to an amount of € 5,097,093.21.

33. Supplementary Report

No events occurred after the balance sheet date that had an impact on the consolidated financial statements of the group.

Ahrensburg, March 15, 2019

Management Board

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

AUDIT CERTIFICATE OF THE INDEPENDENT STATUTORY AUDITOR

NOTE ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We reviewed the consolidated financial statements of Basler Aktiengesellschaft, Ahrensburg and its subsidiaries (the Group) – consisting of the consolidated balance sheet as of December 31, 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for financial year January 1, 2018 to December 31, 2018 as well as the notes to group financial statements, including a summary of significant accounting policies. In addition we reviewed the group management report of Basler Aktiengesellschaft for financial year January 1, 2018 to December 31, 2018. In accordance with German statutory provisions we did not review the contents of the components of the group management report specified under “Other Information”.

In our opinion based on the findings of our audit

- the accompanying consolidated financial statements comply in all material respects with international financial reporting standards [IFRS], as they are to be applied in the European Union, as well as supplementary German statutory provisions in accordance with Section 315e Paragraph 1 of the German Commercial Code [HGB] and, in compliance with these rules, provide an accurate view of the net assets and financial situation of the company as of December 31, 2018 and its earnings situation for the financial year from January 1, 2018 to December 31, 2018 and
- the accompanying group management report provides a true picture of the group's situation. In all material respects this group management report is consistent with the consolidated financial statements, complies with German statutory provisions and accurately presents the risks and opportunities of future development. Our audit opinion on the group management report does not include the content of the components of the group management report specified under “Other Information”.

In accordance with Section 322 Paragraph 3 Sentence 1 of the German Commercial Code [HGB] we declare that our audit resulted in no objections to the adequacy of the consolidated financial statements and the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and the group management report in accordance with Section 317 of the German Commercial Code [HGB] and the EU regulation regarding statutory auditors (No. 537/2014; hereinafter referred to as “EU-APrVO”) as well as in observance of the specified German principles of proper auditing as laid down by the Institute of German Certified Public Accountants [IDW]. Our responsibility in accordance with these regulations and principles is further described in the section “Responsibility of the Auditor for Auditing the Consolidated Financial Statements and Group Management Report” of our auditor’s certificate. Independently of the group companies we are in accordance with the European and German commercial and professional regulations and have fulfilled our other German professional duties in accordance with these requirements.

Furthermore, in accordance with Article 10 Paragraph 2 Letter f) of EU-APrVO we declare that we have not provided any prohibited non-audit services as specified in Article 5 Paragraph 1 of EU-AprVO.

We believe that the audit evidence that we have obtained is sufficient and suitable for providing a basis for our audit opinions with regard to the consolidated financial statements and the group management report.

PARTICULARLY IMPORTANT AUDIT ISSUES IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Particularly important audit issues are those issues which, in duty bound, were the most significant in our audit of the consolidated financial statements for the financial year from January 1, 2018 to December 31, 2018. These issues were taken into consideration in connection with our audit of the consolidated financial statements as a whole and in forming our opinion thereon; we do not express a separate opinion with regard to these matters.

We have identified the following matters as particularly important audit issues:

1. Valuation of inventories

2. Initial consolidation of Silicon Software GmbH acquired in 2018

3. Recoverability of the capitalized development costs

1. VALUATION OF INVENTORIES

FACTS

Inventories in the amount of EUR 21 million (15 % of the balance sheet total) are reported in the consolidated financial statements of Basler Aktiengesellschaft. Inventories are assessed at the lower value from initial or manufacturing costs and the net realizable value. Assessment of the recoverability and marketability of inventories requires a large number of discretionary decisions by the legal representatives. These discretionary decisions relate in particular to the estimation of future sales volumes and sales prices for determining the net realizable value as well as the application of coverage discounts. Due to the degree of uncertainty in estimation associated with the valuation of inventories and the amount of the balance sheet item, valuation of the inventories was a particularly important item for us within the scope of our audit.

The information provided by Basler Aktiengesellschaft on the valuation of inventories is contained in Subclause 3.8 and 12 of the Notes to the Consolidated Financial Statements.

AUDITOR'S RESPONSE

We reviewed the assessment of the legal representatives with regard to the recoverability and marketability of the inventories. For this we considered the approach of the legal representatives for determining the net realizable value and were convinced of the suitability of this approach. For finished and unfinished products we critically reviewed calculation of the production costs used for the balance sheet target date valuation. In addition, we scrutinized the expectations of the legal representatives with regard to future sales volumes and sales prices based on past experience. We also checked whether the inventories were suitably adjusted while taking their coverage into consideration. To this end we verified the plausibility of the inventory coverage analyses of the legal representatives and compared the valuation discounts used in the year under review with the discounts from previous years and checked them for plausibility.

2. INITIAL CONSOLIDATION OF SILICON SOFTWARE GMBH ACQUIRED IN 2017

FACTS

In the financial year under review Basler Aktiengesellschaft acquired all of the shares in Silicon Software GmbH and fully consolidated it. The acquired assets and liabilities are reported at the fair value of EUR 7.0 million on the date of acquisition. Taking the net assets attributable to Basler Aktiengesellschaft into account this results in acquired goodwill of EUR 9.6 million. Due to the large number of discretionary decisions required in the valuation of assets and liabilities within the scope of the purchase price allocation, initial consolidation of the acquired company was a particularly important audit issue.

The information provided by Basler Aktiengesellschaft on the acquisition during the financial year is contained in Clause 29 of the Notes to the Consolidated Financial Statements.

AUDITOR'S RESPONSE

Within the scope of our audit of the balance sheet presentation of the initial consolidation we first examined the contractual agreements for acquisition of the company, reconstructed these and reconciled the purchase price paid as consideration for the shares received with the evidence submitted to us with regard to the payments made. We examined whether the acquisition was completely and correctly reflected in the financial statements. For the assets and liabilities identified as part of the purchase price allocation we then reconstructed the respective determination of fair value. To this end we verified the appropriateness of the valuation methods and verified the plausibility of the required assumptions. In addition, the use of checklists ensured that the disclosures required by IFRS 3 are complete.

3. RECOVERABILITY OF THE CAPITALIZED DEVELOPMENT COSTS

FACTS

As of December 31, 2018 the company reported “Intangible Assets” (including goodwill) in the amount of EUR 41 million (29 % of the balance sheet total) in the consolidated financial statements. A total of EUR 22 million thereof is attributable to capitalized development costs. The book values of the Group's own developments are reviewed at each balance sheet target date for indications of impairment. If there are indications of impairment, then the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Capitalized developments that are still in progress are also subjected to an annual impairment test. The assessment of recoverability requires a large number of discretionary decisions on the part of the legal representatives. The assessment is based on the present values of the expected future cash flows of the cash-generating unit to which the development costs were allocated. The assumed future cash flows are derived from budgeting accounting prepared by the legal representatives. Expectations about future market developments are also taken into account. The present values are determined using discounted cash flow models. They are highly dependent on how the legal representatives estimate future cash inflows and on the respectively employed discount interest rates. Due to the uncertainty associated with discretionary decisions and estimates and the amount of the balance sheet items, the recoverability of the capitalized development costs was a particularly important issue for us within the scope of our audit.

The information provided by Basler Aktiengesellschaft regarding the capitalized development costs is contained in Subclauses 3.10 and 3.17 of the Notes to the Consolidated Financial Statements.

AUDITOR'S RESPONSE

We reviewed the assessment on the part of the legal representatives with regard to recoverability of the capitalized development costs. First, we evaluated the appropriateness of the valuation methods used in the impairment tests. We then scrutinized the assumptions on which the planning was based and examined them for plausibility. In order to do so we started the planning process, evaluated adherence to the planning and reviewed the existing plans for consistency while taking the economic market environment into account. Since even minor changes in the discount interest rate used can have a significant impact on the recoverable amount of the respective cash-generating unit, we consulted our valuation experts in assessing the discount interest rate, who then examined the appropriateness of the parameters used on the basis of market data – among other things, market risk premiums and beta factors. In addition, the completeness of the required disclosures in the notes, including the sensitivity analysis, was verified by means of checklists.

MISCELLANEOUS INFORMATION

The legal representatives are responsible for miscellaneous information. Miscellaneous information includes:

- the separately published declaration on Corporate Governance referred to in Clause 9 of the Group Management Report;
- the non-financial statement shown in Clause 11 of the Group Management Report;
- the other parts of the annual report, with the exception of the audited consolidated financial statements and the Group management report and our auditor's certificate.

Our auditor's opinion with regard to the consolidated financial statements and the group management report does not include miscellaneous information and thus we neither provide an audit opinion nor any other form of conclusion with regard to these matters.

In connection with our audit we are responsible for reading the miscellaneous information and to assess whether the miscellaneous information

- exhibits material inconsistencies with the consolidated financial statements, with the group management report or with our knowledge gained during the audit; or
- otherwise appears substantially misrepresented.

RESPONSIBILITY OF THE LEGAL REPRESENTATIVES AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The legal representatives are responsible for preparation of the consolidated financial statements which corresponds to the international financing reporting standards [IFRS] as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e Paragraph 1 of the German Commercial Code [HGB] in all material respects and for ensuring that the consolidated financial statements present a true and fair view of the company's net assets, financial position and results of operations in accordance with these requirements. In addition, the legal representatives are responsible for the internal reviews which they have determined to be necessary for preparation of consolidated financial statements that are free from material misstatements, whether intentional or not.

In preparing the consolidated financial statements the legal representatives are responsible for assessing the Group's ability to continue as a going concern. Moreover, wherever relevant, they are responsible for disclosing matters related to continuation of the company's activities. In addition, they are responsible for preparing the balance sheet on the basis of the going concern principle, unless opposed by actual or legal circumstances.

Furthermore, the legal representatives are responsible for preparation of the group management report which as a whole provides an accurate view of the group's position and which in all material respects is consistent with the consolidated financial statements, corresponds to German statutory provisions and suitably presents the risks and opportunities of future development. Moreover, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary in order to prepare a group management report in accordance with the applicable German statutory provisions and to provide sufficient suitable evidence for the statements in the group management report.

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

AUDITOR'S RESPONSIBILITY FOR AUDITING THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Our aim is to obtain reasonable assurance as to whether the consolidated financial statements as a whole is free from material misstatements, whether intended or not, and whether the group management report as a whole provides a suitable view of the Group's position and, in all material respects, is in agreement with the consolidated financial statements and the findings of our audit, complies with German statutory provisions and suitably presents the risks and opportunities of future development as well as to issue an audit's certificate that contains our opinions regarding the consolidated financial statements and the group management report.

Sufficient assurance is a high degree of assurance, but not a guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code [HGB] and the EU Audit Regulation [EU-APrVO], as well as the specified German principles of proper auditing as laid down by the Institute of German Certified Public Accountants [IDW], will always reveal a material misstatement. Misstatements may result from violations or inaccuracies and are considered material if it could reasonably be expected that they will affect the individual or overall economic decisions of addressees made on the basis of these consolidated financial statements and the group management report.

During the audit we act with discretion and in duty bound while maintaining a critical attitude. Furthermore,

- we identify and assess the risks of material misstatements, whether intentional or not, in the consolidated financial statements and in the group management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and suitable for serving as the basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies because violations may involve fraudulent collaboration, falsification, intentional diminution, misleading representations and/or the inoperativeness of internal controls.
- we obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant to the audit of the Group management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of expressing an opinion with regard to the effectiveness of these systems.
- we assess the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values and related disclosures presented by the legal representatives.

- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty in connection with events or circumstances that could raise significant doubts about the Company's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, then we are obliged to draw attention to the relevant information in the consolidated financial statements and the Group management report in our audit certificate or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions based on evidence obtained by the date of our audit certificate. However, future events or circumstances may prevent the Group from continuing its business activities.
- we express an opinion on the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a way that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with international financing reporting standards [IFRS] as adopted by the EU and the additional requirements of German statutory provisions as specified in Section 315e Paragraph 1 of the German Commercial Code [HGB].
- we obtain sufficient suitable audit evidence on the accounting information of the companies or business activities within the Group in order to express an opinion on the consolidated financial statements and the Group management report. We are responsible for the guidance, supervision and execution of the audit of the consolidated financial statements. We are solely responsible for our audit opinions.
- we evaluate the conformity of the group management report with the consolidated financial statements, its conformity with the law and the group's position as presented by it.
- we perform audit procedures on the forward-looking statements presented by the legal representatives in the group management report. On the basis of sufficient suitable audit evidence we follow in particular the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the proper derivation of the future-oriented statements from these assumptions. We do not provide an independent audit opinion with regard to the forward-looking statements or the underlying assumptions. There is a significant unavoidable risk that future events substantially deviate from the forward-looking statements.

Among other things we discuss the planned scope and schedule of the audit with the parties responsible for monitoring as well as any significant audit findings, including any deficiencies in the internal control system that we determine during our audit.

We provide a declaration to the parties responsible for monitoring indicating that we have complied with the relevant independence requirements and discuss all relationships with them and other matters that may reasonably be expected to affect our independence and the safeguards taken in this regard.

On the basis of the matters we discussed with the parties responsible for monitoring we determine the matters that were most significant in auditing the consolidated financial statements for the current reporting period and which thus represent particularly important audit matters. We describe these matters in the auditor's certificate unless laws or other statutory provisions rule out public disclosure of the facts.

MISCELLANEOUS STATUTORY AND OTHER LEGAL REQUIREMENTS

OTHER DISCLOSURES IN ACCORDANCE WITH ARTICLE 10 OF THE EU AUDIT REGULATION [EU-APRVO]

We were appointed as statutory auditors by the General Meeting of Shareholders on May 7, 2018. We were commissioned by the Audit Committee on June 17, 2018. We have served as the statutory group auditors of Basler Aktiengesellschaft without interruption since financial year 2002.

We declare that the audit opinions contained in this audit certificate agree with the additional report to the Audit Committee of the Supervisory Board in accordance with Article 11 of EU-APrVO (Audit Report).

RESPONSIBLE AUDITOR

Dr. Ralf Wißmann is responsible for the audit.

Lübeck, March 15, 2019

BDO AG

Wirtschaftsprüfungsgesellschaft

signed Lüthje	signed Dr. Wißmann
Auditor	Auditor

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 15, 2019

The Management Board

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

EVENTS 2019

IR-Events

Date	Event	Venue
05/09/2019	Publication 3-month report 2019	Ahrensburg, Germany
05/16/2019	Shareholders' meeting 2019	Hamburg, Germany
08/07/2019	Publication 6-month report 2019	Ahrensburg, Germany
11/05/2019	Publication 9-month report 2019	Ahrensburg, Germany
11/25/2019-11/27/2019	Deutsches Eigenkapitalforum 2019 (Germany equity forum)	Frankfurt/Main, Germany

Shows and Conferences

Date	Event	Venue
02/02/2019-02/07/2019	Photonics West	San Francisco, USA
02/27/2019-03/01/2019	embedded world	Nuremberg, Germany
03/20/2019-03/22/2019	Vision Show Shanghai	Shanghai, China
04/01/2019-04/05/2019	Hannover Messe	Hanover, Germany
04/08/2019-04/11/2019	Automate	Chicago, USA
04/25/2019-04/26/2019	IoT Tech Expo Global	London, UK
05/20/2019-05/23/2019	Embedded Vision Summit	Santa Clara, USA
05/20/2019-05/23/2019	NI Week	Austin, USA
06/16/2019-06/21/2019	CVPR	Long Beach, USA
08/2019	Vision China	Beijing China
10/10/2019-10/12/2019	Vision China	Shenzhen, China
11/18/2019-11/21/2019	COMPAMED / MEDICA 2019	Düsseldorf, Germany

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