BASLER
the power of sight

ANNUAL REPORT

2019

KEY FIGURES

in € m*	2017	2018	2019	Changes to previous year in %
Sales revenues	150,2	150,0	162,0	8 %
Incoming orders	153,6	154,0	166,5	8 %
Gross results	79.7	80.2	82,0	2 %
Gross profit margin	53.0 %	53.5 %	50,6 %	-2.9 Pp.
Full costs for research and development	16,0	20,1	23,1	15 %
Research and development ratio	10,7 %	13,4 %	14,3 %	0,9 Pp.
EBITDA	40,0	36,0	30,0	-17 %
EBIT	30,5	24,8	17,0	-31 %
EBT	29,8	24,5	16,9	-31 %
Net income	21,6	17,0	12,9	-24 %
Weighted average number of shares	9,628,289	9,642,198	9,942,657	3 %
Result per share (€)	2,25	1,76	1,29	-27 %
Cash flow from operating activities	31,8	27,0	24,7	-9 %
Cash flow from investing activities	-9,8	-25,7	-34,4	34 %
Free Cash flow	22,0	1,3	-9,7	<-100 %

* unless otherwise stated

in € m*	12/31/2017	12/31/2018	12/31/2019	Changes to previous year in %
Total assets	117,7	139,0	181,2	30 %
Long-term assets	45,9	63,5	93,5	47 %
Equity	65,6	75,5	103,0	36 %
Liabilities	52,1	63,5	78,2	23 %
Equity ratio	55,7 %	54,3 %	56,8 %	2,5 Pp.
Net cash	25,0	8,0	16,0	100 %
Working Capital	19,8	31,4	28,8	-8 %
Number of employees for the fiscal year (full time equivalents)	504	610	806	32 %
Share price (XETRA) in €	65,02	41,33	54,40	32 %
Number of shares in circulation	9,633,408	9,617,157	10,007,757	4 %
Market capitalization	626,3	397,5	544,4	37 %

CONTENT

COMPANY PROFILE

Basler 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. Furthermore, Basler continuously expands its product range by supplementing image processing components and thus gradually develops to become a full provider of hardware components for image processing.

Basler products are recognized for innovation, high reliability, simple integration and an outstanding price performance ratio. 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 mainly supported by 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), they 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 recurring business.

REPORT OF THE MANAGEMENT BOARD

Dear shareholders, employees, customers, and business partners of Basler AG,

The financial year 2019 was challenging. After many years of continuous growth in the industry, already in the middle of 2018 the wind started to turn and became stronger in 2019. While the industry recorded a decrease by 10 %, we sailed closed to the wind and mainly stayed on our strategic investment target, integrated two companies that we acquired, and secured our annual forecast.

The group's sales grew by 8 % to Euro 162 million, primarily due to acquisitions. Beyond this growth, we made considerable progress in our transformation from a camera maker to a fullrange provider for vision hardware components. Silicon Software GmbH was successfully integrated in the group structure and first new frame grabber cards were launched on to the market under the Basler brand. Furthermore, we significantly expanded our product range of accessories flanked by digital selection tools. The takeover of the machine vision business of our longtime Chinese distribution partner MVLZ was effective on January 1st, 2019. Since the beginning of 2019, approximately 120 new employees provide more than thousand customers with direct support in the biggest and the strongest growing regional market, China. Also in the sector of newly emerging embedded vision technologies we made important steps forward. We are proud to start as "Registered Partner" of NXP into the new fiscal year.

Due to the strong organizational expansion in combination with very weak market conditions, we soundly and profitably closed the financial year within our forecast. However, the pre-tax return rate of 10.4 % was below our long-term target of approximately 12 %. Despite a difficult market environment, we sticked to main strategic investments in order to sustainably increase our competitiveness beyond the temporary weakness of the market.

In the past year, our employees did an extraordinary job again. We would like to take this opportunity to thank them for their passion and commitment. We as the Basler team are very pleased about the trust of our customers and sales partners and about the use of our products. Furthermore, we say thank you for the valuable exchange to improve and develop our product range. We would also like to thank our shareholders for the trustful and excellent cooperation. In this year we would like to let you again participate in the success of the company and will forward a proposal to the general meeting 2020 suggesting to pay a dividend for the financial year 2019 in the amount € 0.26 per share. Should that proposal be adopted, the planned dividend payment of a total of € 2.6 million would correspond to about 20 % of the net result. With this proposal, we are 10 % below the company's dividend strategy and would like to use the scope to adequately prepare for a potential corona-related long-term downturn.

After six weak quarters in a row and a year of a 10 % declining market in 2019, for the financial year 2020, the Basler group assumed until beginning of March a stabilization of the market at a low one-digit growth rate. The coronavirus outbreak at the turn of the year and its pandemic spreading causes a sharp change in the economic outlook and brings with it a serious risk of recession. Even if the sales and procurement market situation of the Basler group was relatively stable until mid-March, the management expects noticeable effects over the coming quarters. The effects on sales as well as on procurement markets cannot yet be quantified due to the uncertainty of the current events.

Because of these uncertainties, we have decided to initially provide a forecast for the first half of the year. We present an outlook for the entire financial year with the publication of the semi-annual report. For the first half of 2020,

Dr. Dietmar Ley
CEO

Arndt Bake
CMO

John P. Jennings
CCO

Hardy Mehl
CFO/CO

we expect a sales corridor of € 70-78 million with a pre-tax return between 6 % and 10%. With this forecast, we assume that the situation in China will gradually improve over the course of the second quarter and that demand in the regions of Europe and North America will weaken significantly in the second quarter.

Against the background of the weak industry development in 2018/19 and the current market influences from the Corona crisis and the associated high uncertainties regarding economic development, we are also adjusting our medium-term planning. From now on, we plan to reach sales of € 250 million at the earliest in 2023.

With an increased number of employees, unique market access, solid liquidity, and a significantly extended product portfolio, Basler AG is well positioned and highly motivated for the financial year 2020. Despite the current economic weakness, we continue to vigorously implement our profitable, self-financed growth strategy.

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

Ahrensburg, March 27, 2020

The Management Board

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


LENS MADE IN
1:2.8
ZOOM LENS
20-35 mm

Norbert Basler

Founder & Chairman of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,

In the elapsed fiscal year 2019, 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 2019, five regularly occurring supervisory board meetings took place. These were held on March 18, 2019, May 16, 2019, September 9, 2019, November 13, 2019, and December 11, 2019. All members of the supervisory board attended the meetings, except for the meeting on December 11, 2019, in which Mr. Basler and Mr. Garbrecht were unable to participate. Moreover, after the annual shareholders' meeting on May 16, 2019, an additional short meeting took place in which Norbert Basler was elected chairman of the supervisory board. All members of the supervisory board attended this meeting.

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 has 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 2018 and the proposals for the shareholders' meeting
- Dividends for fiscal year 2018 including the proposal for the shareholders' meeting
- Decision on a capital increase and the subsequent issuance of free shares
- 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
- IT strategy
- Patent strategy
- M&A activities
- Transfer and integration of the MVLZ machine vision business in China to Basler China

Prof. Dr. Eckart Kottkamp
Supervisory Board

Horst W. Garbrecht
Supervisory Board

- Integration of Silicon Software GmbH
- Further development of the company organization
- Expansion of business premises in Ahrensburg
- Transfer prices between Basler AG and its subsidiaries
- Investments
- Corporate financing and banking relationships
- Liquidity and working capital
- Company taxes
- Investor Relations
- Share buyback program
- Corporate planning and budget for the group for fiscal year 2020
- 4-year-planning for the group 2020 - 2023
- Dividend policy
- Correctness and effectiveness of the internal control system (IKS)
- Correctness and effectiveness of the risk management system (RMS)
- Correctness and effectiveness of the compliance management system (CMS)
- Changes of legal requirements
- Adjustment catalogue of business transactions requiring approval

- Sustainability reporting
- Commitment to and amendments of the Corporate Governance Code
- Selection procedure for the statutory auditor
- Remuneration of the management board
- Efficiency of the supervisory board's work

The BDO AG Wirtschaftsprüfungsgesellschaft which was selected as annual auditor by the shareholders' meeting on May 16, 2019, was commissioned by a letter of September 23, 2019 by the chairman of the supervisory board's audit committee, Dr. Mirja Steinkamp, to perform the audit. The annual auditor participated in the supervisory board meeting on March 27, 2020, in which the presented annual balance sheet and the reported essential results were discussed.

The accounting, the annual balance sheet as of December 31, 2019, and the situation report for Basler AG, along with the group's annual balance sheet as of December 31, 2019, 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 notice 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 performed on its own authority education and training measures required to perform its duties.

Prof. Dr. Mirja Steinkamp
Supervisory Board

Dorothea Brandes
Employee Representative on the Supervisory Board

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.

Maintain the course – within the strategy exploit opportunities that come along with change

The elapsed fiscal year 2019 was exceptionally challenging for everyone involved. With remarkable commitment, much has been simultaneously achieved in a difficult market environment: The further development of the company's strategy without major economic compromises, two extensive post merger integration processes, and the protection of the company's results within the published forecast.

With a great willingness to change, the company accepted these challenges, learned a lot and continued to noticeably develop its abilities. The mastery of growing complexity and the consistent implementation of the full range strategy, resolved in 2018, are the essential prerequisites to react to the changing environment in an agile way during increasingly turbulent times, and to make use of the opportunities of an accelerated change. Against the backdrop of the corona pandemic, the company faces new extraordinary challenges.

The expired fiscal year was a milestone in the transformation process from being the leading manufacturer of industrial cameras to become a leading computer vision company. The supervisory board is convinced that Basler AG will make full use of the computer vision market's potential and continue its successful development 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 27, 2020

For 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
Employee Representative on the Supervisory Board

Dr. Marco Grimm
Employee Representative on the Supervisory Board

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Employee Representative on the Supervisory Board

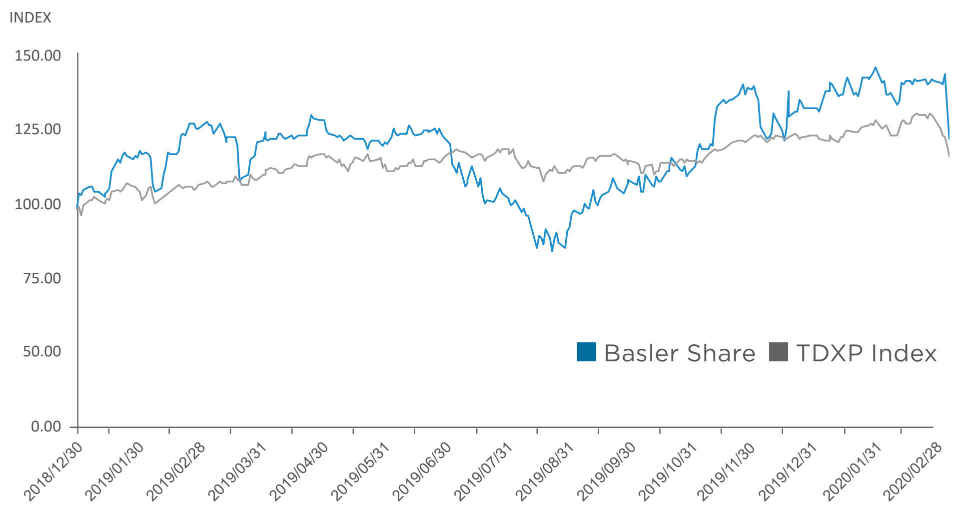
THE BASLER SHARE

At the beginning of 2019, the Basler share opened at € 125.60. In the first weeks of the year, it increased to over € 160.00 until the end of February / the beginning of March due to high market expectations. After publication of the annual report together with the conservative forecast for 2019 on March 21, the price decreased for a short period of time to € 132,00. A few days after the reporting date, the share price increased again and settled between € 150.00 and € 160.00 until the 1st quarter reporting. After the implementation of the shareholders's meeting 2019 resolution to increase the capital from € 3.5 million to € 10.5 million and to concurrently issue bonus shares in a ratio of 1:2 as of June 1, 2019 – two new shares were allocated to one old share - the share price consequently divided by three to € 49.07. After that, the share price developed sideways until the beginning of July and then decreased to € 40.00 at the end of July. After publication of the 2nd quarter results mid August, the share price recorded its lowest level of the year at € 33.70 and soon afterwards stabilized for many weeks on a level of approximately € 40.00. While the forecast remained stable, the uncertainties in the markets due to the trade conflicts between China and the USA were significant and boosted the share's volatility.

The sustained political and economic uncertainties that led to minimal movement in the share price during the summer months, continued in September and October showing a slight upward trend that started shortly before the reporting at the beginning of November and continued until the end of the year. The year closed at € 54.40. In this period of time, the share price reached its annual high of € 57.20 on November 20. The forecast published at the beginning of the year was confirmed in the 3rd quarter reporting at the beginning of November and further specified as the year progressed. Obviously, the reliability in uncertain markets was honoured by investors.

SHARE PRICE DEVELOPMENT 2019

Basler (Xetra) vs. TecDax



SHAREHOLDERS' MEETING

The shareholders' meeting took place in the Hamburg Chamber of Commerce on May 16, 2019.

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 2018. After a general debate, all items were approved by more than 99 % of the voters present.

Please find detailed information about the general meeting 2019 here http://www.baslerweb.com/en/investors/annual-general-meeting

DIVIDEND 2019 € 0.26

SHARE BUYBACK PROGRAM

By May 15, 2024, 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 purchased shares together with the other treasury shares owned by the company or are attributable to it in accordance with Sections 71a ff. AktG, to be treated as such in accordance with sections 71a et seq of the German Stock Corporation Act, may at no time exceed 10 % of the share capital of the company. The authorization may be exercised in whole or for partial amounts, once or several times, for one or more purposes; but also by dependent companies or enterprises in which the company has a majority shareholding, or by third parties for its or their account. It must not be used for the purpose of trading with own shares.

In the shareholders' meeting 2019, the resolution on the authorization to purchase and use own shares and on the exclusion of the subscription and disposal right was renewed – please see further details of this resolution under point 8 following link:
www.baslerweb.com/fp-1554727856/media/downloads/documents/investors/hauptversammlung_2016/Tagesordnung_HV_2019_final.pdf
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 eight years, further share buyback programs followed.

On March 29, 2019, the current buyback program was terminated with immediate effect. Right after that, the company sold 3.72 % (130,200 pieces) of the treasury shares owned by Basler to 7 Industries B. V. at a price of € 160.00 per share. 7 Industries B. V. is a family office owned by Ms Ruthi Wertheimer and invests for the long run in leading industrial and life science technology companies.

At the reporting date December 31, 2019, Basler AG held 492.243 own shares corresponding to almost 4.7 % of total shares. These were bought at an average share price of € 10.00.

DIVIDEND AND APPROPRIATION OF EARNINGS

Due to the solid business development in the fiscal year 2019, the management board of Basler AG has decided to propose to the general meeting 2020 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 the general meeting of 2020 the proposal will be made to pay a dividend for the fiscal year 2019 of 0.26 Cent per share. With this proposal, we are 10 % below the company's dividend strategy and would like to use the scope to adequately prepare for a potential corona-related long-term downturn.

CAPITAL MARKET COMMUNICATION

Continuous and open communication with all capital market participants is very important to Basler AG. 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 general meeting, at smaller conferences, as well as in personal discussions where we inform private investors about the development of the company.

In the elapsed fiscal year, Basler AG participated in seven (previous year: eight) roadshows and seven (previous year: six) capital market conferences. Furthermore, many investors sought direct contact with the company. We addressed this interest via conference calls or in the form of company tours.

As a listed family company, in 2019 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 three fiscal years. Furthermore, with an increasing market capitalization, the capital increase should have a positive impact on the trade volume in the medium term, due to the issue of bonus shares. Due to this clear orientation as well as the very stable business development in 2019, 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 2020, despite the currently volatile times in the capital markets.

In the previous year, the analysts of Warburg Research, Oddo BHF Aktiengesellschaft, Berenberg Bank, Jeffries 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 general 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 463 108
ir@baslerweb.com
www.baslerweb.com/Share

REGULAR INFORMATION

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

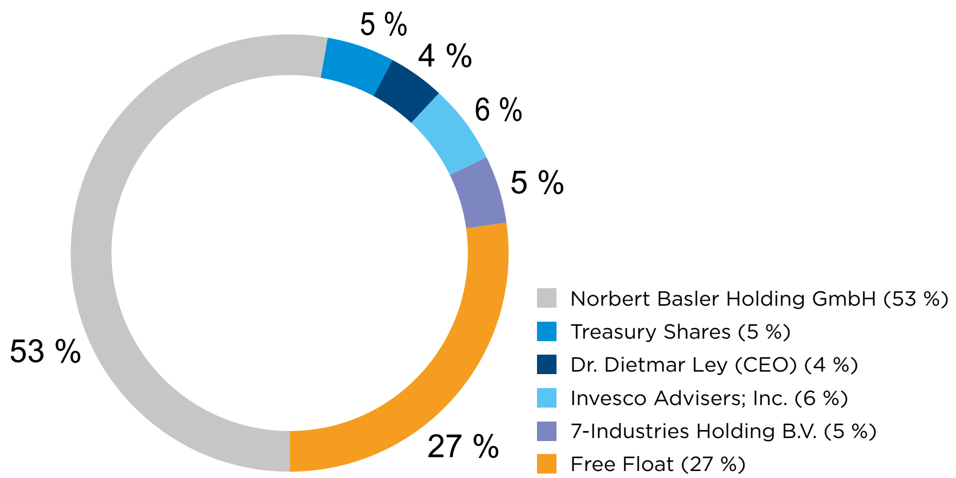
SHARE-RELATED INFORMATION

ISIN: DE0005102008
Abbr.: BSL

Prime Standard branch: Industrial
Industry group: Advanced Industrial Equipment
Admission segment: Prime Standard / Regulated Market
Designated sponsor: Oddo Seydler AG
Number of shares: 10,500,000
Member of the following indices: CDax, Prime All Share (performance and share price)
DAXsubsector Advanced Industrial Equitpment (performance and share price)

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



YEAR HIGH 2019 € 57.20

SHARE OWNERSHIP BY THE MEMBERS OF MANAGEMENT BOARD AND SUPERVISORY BOARDS

	12/31/2019 Number of Shares	12/31/2018 Number of Shares
Supervisory Board		
Norbert Basler	-	-
Dorothea Brandes	-	-
Horst W. Garbrecht	-	-
Dr. Marco Grimm	-	-
Prof. Dr. Eckart Kottkamp	-	-
Prof. Dr. Mirja Steinkamp	-	-
Management Board		
Dr. Dietmar Ley	377,382	377,382
John P. Jennings	13,500	13,500
Arndt Bake	1,650	1,200
Hardy Mehl	4,600	3,600

SHARE PRICE KEY FIGURES

	2019	2018	2017	2016
Market capitalization in € million (as of 12/31)	544.40	397.50	626.3	194.1
Annual closing price in € million (as of 12/31)	54.40	124.00	195.05	60.37
Year high in €	57.20	218.70	228.70	63.85
Year low in €	33.70	120.40	58.57	43.51
Annual development	+30 %	-36 %	+218 %	+34 %

CORPORATE GOVERNANCE

REPORT ON THE CORPORATE GOVERNANCE 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 has a two-part management and monitoring structure shared between the bodies of the management board and the supervisory board.

MANAGEMENT BOARD

In 2019, 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 annual 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 general 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 general 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 and shareholdings 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 general 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 general 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, GCGC or 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 measures to overcome risks and to avoid them. 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 notes "Non-financial statement".

Since 2018, the regular risk inventory includes also the consideration of opportunities.

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 general meeting selected BDO AG Wirtschaftsprüfungsgesellschaft as auditor and group auditor for the 2019 fiscal year. On March 27, 2020, 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 ANNUAL GENERAL MEETING

Shareholders can assert their rights and exercise their voting rights at the general 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 annual general 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 a 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 annual general 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 general 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).

The first level of management beneath the Management Board is the divisional management and below it follows the department management. As of December 31, 2019, 33.33 % of the executives and 21.05 % of department heads employed at the Basler AG were female. The targets for promoting the participation of women in decision-making have not yet been met at the end of the reporting period. This is due to the M&A transactions of smaller companies with have mostly males in management positions in the past 36 months. The possibilities in the context of organic growth over the short period of time were not sufficient to compensate for this effect.

The company offers a special training program (high potential program) in order to qualify talented employees for leadership roles. The 2020 program sequence focusses on the promotion of women in leadership positions. It is planned, inter alia, to fill half of the program with female participants and to deal with the question of different gender roles in management positions. The goal is to identify and promote suitable managers in order to sustainably increase the percentage of women in management positions.

DECLARATION OF CONFORMITY 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 2019, 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 general 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, sentence 2, GCGC, 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 19, 2020

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
Employee Representative on the Supervisory Board

Dr. Marco Grimm
Employee Representative on the Supervisory Board

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. Furthermore, Basler continuously expands its product range and thus gradually develops to become a full provider for image processing components. Basler products are recognized for innovation, high reliability, simple integrationand an outstanding price performance ratio. 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 mainly supported by Basler 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 (socalled design-in), they 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 recurring business.

Basler AG owns subsidiaries in Germany, the USA, 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, Malaysia, 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 longterm 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 pretax return. Furthermore, the economic value creation is controlled via the return of capital employed (ROCE).

The strategy process concludes with a qualitative and quantitative mid- and long-term 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 socalled "daily management" or "shop floor management" where teams discuss their daily work progress and continuous improvements. Thus, potential deviations from the targets are recognized at an early stage on different hierarchic levels and addressed by appropriate counter- and preventive measures.

In order to ensure a high quality, robustness and reliability of the manufactured products and of the corporate processes applied, Basler has implemented a worldwide quality management system (QM system). On a regular basis 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 ISO 9001:2015 and ISO 13485:2016 (Medical Norm). Furthermore, an ICS audit is conducted in business areas selected by the supervisory board, yearly.

1.3 RESEARCH AND DEVELOPMENT

As a technology company, Basler relies on an early recognition of technological trends and their fast integration in product development. Since image processing technology develops 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:

- Controlled innovation management
- 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 customization of products
- Maintenance of existing products

Within innovation management; the collection, valuation, testing and selection of innovative ideas follows a special process. The principle "fail fast, learn fast" is applied during the entire process. In the framework of the process, technological as well as commercial aspects are considered, so if successful, a qualified product or business idea is identified at the end of the innovation process.

The predevelopment process examines technologies that seem to be reasonable for integration in future products. As far as possible, Basler aims to master new technologies prior to platform or product developments in order 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 platform and product development, the following measures in the financial year 2019 should be particularly pointed out:

- Development of new platform technologies:
  - Development of two new platforms for industrial cameras (ace 2 and boost) including a joint new firmware platform.
  - Development of embedded vision camera modules as well as the compatibility to NXP processors
  - Restructuring and feature extension of pylon software development kits (SDK)
  - Development of a second camera generation based on 3D time-of-flight (TOF) technology (blaze)
  - Development of a new platform for frame grabber specially designed for Basler boost cameras
- Product development:
  - Expansion of the ace product line with new CMOS sensors and new features
  - Expansion of the MED ace camera line by new sensors and features especially designed for customer requirements from the medical market

- First product variants of the new ace 2 and boost camera lines
- Introduction of embedded vision kits with Qualcomm processor technology
- Development of complementary accessories particularly in the area of lighting in cooperation with the Japanese market leader CCS.

For confidentiality reasons this report does not go into more detail regarding innovations and predevelopments.

Compared to the previous year, the expenses for R&D (personnel costs, depreciation, other operating expenses as well as directly attributable overhead) slightly increased from € 20.0 million to € 23.1 million and amounted to 14.3 % of sales. Due to new hirings, the number of fulltime equivalent employees in research and development increased from 188 (December 31, 2018) to 196 (December 31, 2019).

The expenses include thirdparty services in the amount of € 396 thousand (previous year: € 655 thousand). The capitalized investments in own developments amounted to € 12.1 million (previous year: € 8.6 million). The amount of depreciation for own developments amounted to € 7.1 million (previous year: € 7.6 million).

At the end of fiscal year 2019, Basler was the owner of 66 patents and patent applications, 28 are granted, 38 are in the process of application. Furthermore, Basler is the owner of 4 utility models and 13 designs.

Silicon Software GmbH was owner of 2 patents, both of them are granted, as of the end of fiscal year 2019.

2 ECONOMIC REPORT

2.1 BASIC CONDITIONS

In 2019, the economic conditions were the worst since the financial crisis 2008/09. The environment was characterized by political crises, particularly the trade war between the USA and China as well as a significant global slowdown of the demand for investment goods for the production industry. This difficult environment led to a weaker economic development than expected. The global economic growth of 2.4 % was below the initial expectations of 2.6 %. Whereas China with 6.2 % economic growth was slightly above the forecasts, the USA economy developed by 2.3 % which was slightly below expectations. The euro zone recorded a decrease to 1.2 % (previous year: 1.8 %) and developed below the forecasts. In 2019, Germany achieved an economic growth of 0.5 % (previous year: 1.5 %). (Source: Berenberg, Economy and Financial Markets, Outlook 2020).

The market for machinery and plant engineering that is relevant for Basler developed significantly weaker than expected. The industry recorded decreases in sales in Germany of 2 %, in Europe of 1 %, and in the USA of 1 %. Also the Asian region outside of China recorded an average decrease of 1 %. The machinery and plant engineering in China recorded a sales growth of 4 % (source: VDMA, Verband Deutscher Maschinen- und Anlagenbau, Prognosespiegel International Dec. 2019). Compared to the previous year, the market for components for the image processing industry was even harder hit and strongly declined. Incoming orders recorded a decrease of 7 %, whereas revenues decreased by 10 %. (source: VDMA Statistic Dec. 2019).

2.2 BUSINESS DEVELOPMENT

After a stable business development in fiscal year 2018, for fiscal year 2019 Basler strived for a onedigit to low double-digit growth. Already in the forecast at the beginning of the year, a weak market environment was anticipated and considered in the forecasted sales corridor of € 160 million to € 180 million. In the course of the financial year, the market environment and the group's sales developed stably, but at the lower edge of assumptions. Already in the second quarter, the management reacted and reduced the speed of new hiring's. Additionally, Basler increased sensitivity regarding the cost management. However, the management board stuck with major strategic investments in order to sustainably increase competitiveness beyond the temporary market weakness. Due to the early stage measures a pretax return rate of 10.45 % was achieved lying at the upper edge of the corridor of 7 to 11 % forecasted at the beginning of the year. Sales decreases from cyclical industries were largely compensated by growth with customers from less cyclical industries and thus, the structure of sales improved in favor of a lower dependence on the electronics industry. At increasing average revenues, the number of camera units sold of approximately 399,000 in 2018, decreased to 360,000 in 2019. The key factors for the increase of average revenues were the lack of price-sensitive major projects from the electronics industry as well as an increase of revenues due to the acquisition of the Chinese distribution business.

With a sales growth of 8 %, the Basler business significantly developed above the market level of -10 % (VDMA, Verein Deutscher Maschinen- und Anlagenbau, German Engineering Association). Thus, Basler gained further market shares in 2019. The growth mainly resulted from acquisition of companies and businesses. The acquisition of Silicon Software GmbH in 2018 as well as the acquisition of the MVLZ Sanbao Xingye distribution business led to an increase in sales. The sales revenues increased due to the collection of former distribution margins and the takeover of business with complementary image processing components (trade goods). Furthermore, due to the takeover of an organization of approximately 120 employees in China at the beginning of the year, a step up in fixed expenses for personnel and material costs occurred. In fiscal year 2019, good progress was made in the integration of both companies. However, in some parts of the organization this led to considerable extra work and to onetime personnel and material costs. The strategic competitive advantages striven for with both acquisitions are still valid. Some of them were realized already in fiscal year 2019. Thus, Basler took a major step in its development from a camera maker to a full service provider of image processing components and strengthened its position by a significant direct sales organization in the Chinese growth market.

Incoming orders and sales were very stable throughout the financial year 2019. Compared to the previous year, sales and incoming orders continuously increased since the second quarter and the financial year closed with a positive book-to-bill ratio of 1.03 %.

2.3 PROFIT SITUATION

Compared to the previous year, we reclassified the depreciations on capitalized own developments (R&D) and adjusted the previous year's figures accordingly. We properly allocated these costs to the R&D costs, thus, they are now in the expenses and no longer in the costs of service performed.

in € million	**2019**	**2018**	**Change**	**in %**
Sales revenues	162.0	150.0	12.0	8 %
Currency result	-0.4	0.3		>-100 %
Costs of service performed	-79.4	-70.0	-9.4	14 %
Gross result	**82.0**	**80.3**	**1.7**	**2 %**
Other operating income	0.8	0.5	0.3	60 %
Expenses	-65.9	-56.0	-9.9	18 %
Operative profit	**17.0**	**24.8**	**-7.8**	**-31 %**
Financial result	-0.1	-0.3	0.2	-67 %
Earnings before tax	**16.9**	**24.5**	**-7.6**	**-31 %**
Taxes	-4.0	-7.5	3.5	-47 %
Group's annual surplus	**12.9**	**17.0**	**-4.1**	**-24 %**

With revenues in an amount of € 162.0 million, 2019 sales increased by € 12.0 million compared to the previous year. The material costs increased accordingly from € 70.0 million in 2018 to € 79.5 million. Compared to the previous year, the gross margin (gross result / sales) decreased from 53.5 % to 50.7 %. This was largely due to lower margins in China on inventories taken over at cost prices

SALES REVENUE 2019 € 162,0 million

FREE CASH FLOW 2019 € -9,6 million

from the distributor. The price pressure in the Asian market had a small impact on the gross margin.

The personnel costs developed from € 51.8 million in 2018 to € 65.6 million in 2019. They include a general market-oriented salary increase and the increase of the number of employees, particularly due to the subsidiary in China. The average number of employees increased by 200 employees in 2019. The material expenses decreased by € 0.7 million compared to 2018.

With a pre-tax result of € 16.9 million (previous year: € 24.5 million) and a pre-tax margin (pre-tax result / sales) of 10.45 % (previous year: 16.3 %), Basler closed the financial year at the upper end of the original forecast (7 – 11 %), despite the difficult market conditions.

The tax expense for financial year 2019 amounted to € 4.0 million corresponding to a tax ratio of 23.7 % (previous year: 30.6 %). The reduction of the tax ratio is based on the reversal of provisions that were posted in 2018 as a result of findings of the last external audit. In 2019 the facts were clarified – the provisions are no longer required. Furthermore, reduction of the tax expenses occurred due to the recognition of foreign withholding taxes, also as a result of the last external audit.

The after-tax result decreased from € 17.0 million in 2018 to € 12.9 million and corresponds to an after-tax return of 8 %.

Basler starts into the upcoming year with a volume of orders of € 27.7 million (previous year: € 23.1 million).

2.4 FINANCIAL SITUATION

The liquidity management of the group is aimed at meeting the demand for capital such that the organic growth is sustainably self-financed by a positive free cash flow and that acquisitions are partially financed by loans. In doing so, maturity risks, ratings of the creditors as well as costs of equity and the costs of debt are appropriately balanced striving for independence from outside creditors. Furthermore, the dividend policy provides for a constant distribution ratio of 30 % of the earnings after tax, under normal economic circumstances. The management board proposes for the fiscal year 2019 merely a distribution of 20 % in order to use the scope to adequately prepare for a potential corona-related long-term downturn.

In the financial year 2019, a positive cash flow of € 24.7 million (previous year: € 27.0 million) was generated from current business activity. In the reporting period, the cash flow from investing activities amounted to € -32.5 million (previous year: € -25.7 million) and included considerable cash outflows for the takeover of the distribution business of MVLZ Sanbao Yingye. The parties have agreed not to disclose information on the purchase price. Moreover, the Chinese transaction affected the operating cash flow due to additional personnel and material costs as well as the initial increase of receivables from goods and services as well as local finished goods.

The free cash flow calculated as the sum of cash flows from operational activity and investment summed up to € -9,6 million (previous year: € 1.3 million).

On the financing side, liabilities to banks in an amount of € 1.4 million were paid off in 2019. The subsidiary in China took out a loan in the amount of € 1.9 million. At the balance sheet date, unused credit lines with banks amounted to € 9.0 million plus further KFW loans of € 11.8 million that could be taken out in 2020.

By the sale of own shares at the beginning of the financial year, equity capital in the amount of € 20.8 million were generated. Considering dividend payments and the sale of the block of shares, the total of the positive cash flow from financing activities amounted to € 12.1 thousand (previous year: € -5.5 million).

At the end of the financial year, liquid assets amounted to € 35.2 million (previous year: € 31.8 million). The liquidity of the group was secure at all times.

PRE-TAX MARGIN 2019 10.45 %

LIQUIDITY/CASH 2019 € 35,2 million

2.5 ASSET SITUATION

in € million	2019	2018	Change	in %
Intangible assets	62.0	40.8	21.2	52 %
Tangible assets	12.3	10.6	1.7	16 %
Buildings and land in finance lease	18.4	12.0	6.4	53 %
Deferred tax claims	0.8	0.1	0.7	
Long-term assets	**93.5**	**63.5**	**30.0**	**47 %**
Inventories	20.9	21.0	-0.1	0 %
Receivables from deliveries and services	19.4	18.2	1.2	7 %
Other short-term assets	12.2	4.5	7.7	171 %
Cash in bank and cash in hand	35.2	31.8	3.4	11 %
Short-term asseats	**87.7**	**75.5**	**12.2**	**16 %**
Total assets	**181.2**	**139.0**	**42.1**	**30 %**
Equity	**103.0**	**75.5**	**27.5**	**36 %**
Long-term interest bearing bank liabilities	14.4	17.7	-3.3	-19 %
Liabilities from finance lease	13.8	8.5	5.3	62 %
Other long-term liabilities	3.4	6.0	-2.6	-43 %
Deferred taxes	9.4	7.9	1.5	19 %
Long-term liabilities	**41.0**	**40.1**	**0.9**	**2 %**
Current financial debt	5.3	1.8	3.5	194 %
Short-term provisions	5.1	4.4	0.7	16 %
Liabilities from finance lease	3.2	1.8	1.4	78 %
Current other financial debt	23.6	15.4	8.2	53 %
Current financial debt	**37.2**	**23.4**	**13.8**	**59 %**
Total liabilities	**181.2**	**139.0**	**42.2**	**30 %**

The intangible assets increased to € 62.0 million (previous year: € 40.8 million) due to the receipt of a goodwill from the subsidiary Basler Vision Technology (Beijing) Co.,Ltd. in China. For more details regarding the ownership structures please see the notes. Furthermore, the IFRS effect from own developments (activations minus depreciation) increased by € 3.6 million compared to the previous year due to a shorter time-to-market in product development.

Investments in tangible assets amounted to € 5.1 million (previous year: € 4.5 million), much of which was attributable to reconstructions in office spaces, the construction of a new kitchen building for the company-internal bistro, the relocation of the camera assembly to new additional production areas as well as initial investments in operating and building equipment at Basler China.

Due to the new accounting principle pursuant to IFRS 16 which took effect on January 1, 2019, all rental agreements for office spaces are accounted for as land and buildings in finance lease leading to an increase of this balance sheet item by € 6.4 million. Analogous to this, liabilities from finance lease increased on the liabilities side.

Inventories remained on the previous year’s level. There are no devaluation risks. Additionally, the direct market access in China led to an increase in receivables by 7 % to € 19.4 million. The other short-term assets increased to € 12.2 million (previous year: € 4.5 million), particularly due to tax refund claims.

Financial resources showed a balance that was € 3.4 million higher than in the previous year, despite the China acquisition. Beyond the positive operating cash flow the bank cash was positively impacted by the sale of own shares. In comparison to the previous year, the total assets increased by 30 % to € 181.2 million.

In comparison to the previous year, equity increased by 36 % to € 103.0 million. This increase in equity is due to the annual group‘s surplus plus the neutral sale of own shares minus the distribution of a dividend of € 5.1 million.

In the course of the financial year, the subscribed capital changed due to a capital increase in which two bonus shares were issued for each existing share. Thus, the subscribed capital increased from 3.5 million non-par bearer shares to 10.5 million nonpar bearer shares. As deduction of this, the nominal value of own shares in the amount of € 0.5 million (previous year: € 0.29 million) is taken into consideration.

In the elapsed fiscal year, only Basler China took out a loan in the equivalent of approximately € 1.9 million reducing the long-term liabilities to banks to € 14.4 million due to repayments made.

The other short-term liabilities increased by 53 %. This is particularly due to the increase of liabilities from deliveries and services.

At the reporting date, the sum of order commitments amounted to € 12.6 million (previous year: € 11.5 million). There have been no premature payment obligations in the elapsed fiscal year.

2.6 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). In the financial year 2019, the result per employee decreased from € 59.4 thousand in the previous year to € 37.2 thousand. The growth of the organization in financial years 2018 / 19 developed disproportionately to sales due to the weakness of the market. The current size of the organization is prepared for sales in the amount of approximately € 180 million. Until the achievement of this sales level, the management will very selectively build up additional personnel capacities. Since a significant proportion of the organization is working on the future of the company, this is to be considered as anticyclical investment in the medium-term future of the company in order to take further steps within the transformation from a camera maker to a vision hardware toolbox company. In the financial year, 196 positions for full time equivalents (FTE) were created compared to the previous year. Within the group-wide lean management system, we are continuously working on further increasing the efficiency of our processes.

The gross profit margin (gross result / sales) decreased from 53.5 % in the previous year to 50.7 %. 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.

in € million	2019	2018
EBIT	**17.0**	**24.8**
Inventories	20.9	21.0
Receivables from deliveries and services	19.4	18.2
Liabilities from deliveries and services	-10.6	-7.4
Fixed assets	93.5	63.5
Capital employed	**123.2**	**95.3**
ROCE (EBIT/ Capital employed)	**14 %**	**26 %**

At the end of the financial year, the ROCE amounted to 14 % (previous year: 26 %). The reduction of the figure results from the increase of the fixed assets, particularly due to a higher capitalization of own developments and the increase of the goodwill due to the Basler China subsidiary.

Despite considerable investments in the future, the management assumes an overall return of approximately 20 % 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 € 29.7 million (previous year: € 31.8 million) at the end of the financial year. This reduction is particularly due to the increase of the liabilities from deliveries and services. For the upcoming years, the Basler group strives for a working capital level of around 17 - 19 % of sales. For achieving this target, an interdisciplinary team is working on measures for continuously optimizing the working capital.

EQUITY RATIO 2019 **56.8 %**

DIVIDEND 2019 **€ 0.26**

The equity ratio (equity / balance sheet total) increased from 54.4 % in 2018 to 56.8 % at the end of the elapsed fiscal year.

2.7 OVERALL STATEMENT

The weakness of the market that started in the second half year of 2018 considerably intensified in 2019 and led to a decline in the image processing industry for the first time since the financial crisis 2008. According to the VDMA (VDMA, Verein Deutscher Maschinen- und Anlagenbau, German Engineering Association) the German industry for industrial image processing components shrank by 10 %. In this difficult market environment, at a growth rate of 8 % Basler gained further market shares and closed the year within the forecast given at the beginning of the year. The business developed relatively even over the quarters in the absence of the typical project business from the electronic industry in the first half year. Compared to the previous year's quarters, growth rates in incoming orders and sales increased in the course of the year. This is mainly due to a base effect (weak 2nd and 3rd quarter in 2018). In total, the Basler group generated sales of € 162.0 million and incoming orders of € 166.5 million. Due to the extensive recruiting program and the acquisitions in the product area (frame grabber cards; Silicon Software GmbH) and market access (China; MVLZ Sanbao Xingye), the costs for the organization developed disproportionately to sales. Consequently, the pre-tax return was at 10.5 % and thus below the previous year's figure and below the long-term goal of 12 % providing for an even balance between short-term profitability and sustainable growth. The management endeavours to return to a pre-tax return rate of at least 12 % upon recovery of the market. Already in the course of the financial year, the speed of new hiring was reduced in order to come back to this level. In general, the management adhered to its investment path since, according to their assessment it is a temporary market weakness and not a structural change. Due to the considerable investments, Basler developed further competitive advantages in the financial year 2019. As a result of the continuous expansion of the product portfolio and the sales and marketing organization, at the end of 2019, Basler has a broad product range and one of the best market accesses in its industry. The Basler brand has the leading brand awareness and stands for high reliability, ease of use and a very good price-performance-ratio. The VSD study "Brand Awareness" names Basler as one of the top 10 providers for vision technology and as the top provider in the area of industrial cameras. Basler products are also stated to be the most often purchased ones. Highly motivated and continuously striving for achieving more, the Basler group plans to reach a sales level of € 250 million in the absence of exogenous shocks until 2023. Besides a further expansion of the strong market position in factory automation, adjacent markets like medical, traffic, logistics, and retail 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 continue to 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 solid business results in 2019 the proposal will be made to this year's shareholders' meeting in May 2020 to pay a dividend in the amount of € 0.26 (previous year: € 1.59) per share eligible for subscription (corresponds to € 2,6 million). The number of eligible shares has increased due to the stock split in 2019, which is reflected in the payout per share. Should the shareholders' meeting vote for the proposal, 20 % of the annual surplus would be distributed to the shareholders.

3 SUPPLEMENTARY REPORT

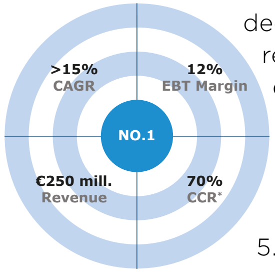
There are no relevant events affecting the annual financial statement to report after the reporting date.

GROUPS SALES REVENUES 1ST HY 2020 € 70 - 78 million

PRE-TAX RETURN 1ST HY 2020 6 - 10 %

4 FORECAST REPORT

After six weak quarters in a row and a year of a 10 % declining market in 2019, for the financial year 2020, the Basler group assumed until beginning of March a stabilization of the market at a low one-digit growth rate. This estimation was based on the assumption that factory automation markets would not considerably recover, however, the equipment investments in the semiconductor and electronics industry would slightly improve in 2020. In the area of medical and logistics applications, Basler AG assumed stable growth rates. The management board followed the estimations of industry associations and macroeconomists according to which growth in the largest economies would continue to slow down, however, would not develop to a recession in 2020. The Berenberg Bank assumed in its annual outlook a real GDP growth of 2.4 %. Also in 2020, the VDMA (Verband Deutscher Maschinen- und Anlagenbau, VDMA; German Engineering Association) expected moderate sales decreases of 1 – 2 % for the most important engineering regions as USA, Japan, and Germany, whereas China was expected to grow by only 2 % (Source: VDMA International Economic Development, Dec. 2019). The Association of Manufacturers of Machinery and Equipment for the Semiconductor Industry (SEMI) however assumed a recovery of the economic situation and an increase by 5.5 % compared to 2019 (source: Market Study SEMI).



The coronavirus outbreak at the turn of the year and its pandemic spreading causes a sharp change in the economic outlook and brings with it a serious risk of a worldwide recession. Even if the sales and procurement market situation of the Basler group was relatively stable until mid-March, the management expects noticeable effects over the coming quarters. The effects on sales as well as on procurement markets cannot yet be quantified due to the uncertainty of the current events.

In consideration of the above mentioned market outlooks and uncertainties, Basler AG plans for group sales revenues within a corridor of approximately € 70 to 78 million. Furthermore, due to the current special market situation, the management will postpone reaching the mid-term goal for a year. The sales threshold of € 250 million shall now be reached in 2023. For the time being and despite the current market situation the management board prioritizes profitable sales growth to a separate optimization of the profitability because the fundamental growth trends for the computer vision market remain intact. For fiscal year 2020, Basler plans a pre-tax return within a corridor of 6 to 10 %.

5 OPPORTUNITIES AND RISKS REPORT

The growth strategy pursued by Basler 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 business and
- to create scopes of action, however to avoid risks that are unacceptable or 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 measures for risk management. Again, in the elapsed fiscal year, the risk inventory was conducted. Here, risks were identified and quantified according to their occurrence probability and monetary amounts, and measures were defined in order to minimize risk. The sum 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. The risk management system is flanked by the internal control system (IKS), the internal quality management system and finally by the annual external audit in the frame of the EN ISO 9001:2015.

The accumulated expected value of the top ten risks (without growth risks) amounts to € 17 million. The expected value is the estimated probability of occurrence multiplied by the possible impact. This is in contrast to opportunities amounting to € 8 million. The active management of the probabilities of occurrence reduces the risks. The group's risk-bearing capacity is put at € 53 million.

5.1 INTERNAL ORGANIZATION

The subject of this category is the business model, organizational structures and processes, IT and communications, 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 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. It continuously works on maintaining innovation fostering structures, processes, behavior patterns, and cultures – despite an increasing size of the company. Basler is striving for an organization that is able to further optimize the existing business and at the same time explore new technologies and markets in an agile and innovative manner.

One main challenge in the coming years will be to shape the process of increasing employee productivity at all group locations. For this, more and more internal and external processes need to be digitized. Regarding IT and 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 and Silicon Software 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 objective classification is achieved. This remuneration structure is disclosed in the company and thus transparent for all employees. The company agreement regulates the duration of experience after which new job holders reach the reference salary. 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 are stopped. Outstanding debts are subject to a three-stage default action. Default risks are countered through individual valuation allowances. In the fiscal year 2019, individual value adjustments and write-offs on accounts receivables were posted in the amount of € 6 thousand (previous year: € 0 thousand).

Liquidity is controlled in collaboration between accounting, controlling, sales, and strategic purchasing. Based on the four-year plan 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. As of the balance sheet date, there were unused credit lines with banks in the amount of € 18.8 million.

As a medium-sized technology company with significant expenses for research and development and a positive rating, Basler gets low interest KFW loans.

Basler management currently does not see a liquidity risk.

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, as well as 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 our negotiation position.

Although the situation of procurement and the delivery capability is secured through the preventive measures described and a powerful management system until the finalization of this report, the spreading of the coronavirus brings a significantly higher risk for the procurement markets. Due to the topicality of the events these risks cannot be quantified yet. Separated production plants and value chains in Ahrensburg and Singapore combined with an increased stock level of finished products will reduce the risk but with high probability will not rule out effects on the delivery capacity of the group in the coming months.

5.4 SALES MARKET

There is a risk of a lack of a short-term market growth or a growth rate notably below the mid-term growth rate of 7 % due to the macroeconomic and geopolitical situation and especially due to the coronavirus pandemic.

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 traffic, logistics and medical. Since Basler 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 Basler's focusing on the volume segments of the market for image processing components in conjunction with active work on new application fields, the share of sales with customers outside industrial mass production increases in the long run, 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 fluctuations in demand in individual target markets. This applies in particular to capital goods markets in the semiconductor and electronics industries.

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. Due to the relatively high China sales share, the trade conflict between China and the USA presents an ongoing risk.

The intensity of competition in the industrial camera market further increased in 2019. In the past years, the competitive landscape particularly changed due to takeovers and aggressive investments of Chinese competitors from the video surveillance industry. Also the distribution landscape gradually becomes part of the consolidation trend. Regional distributors are taken over by new entrants or larger acting distributors or manufacturers. 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 and for transferring from a camera maker to a full range provider. The competitive environment is still 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 entered the market a couple of years ago, currently show a significantly lower sales level for industrial cameras, however, they grow disproportionately in Asia and the management of Basler AG classifies them as serious competitors due to their financial power, competence and aggressive appearance.

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. There are increasingly better opportunities for differentiation that arise from the positioning as a full range provider due to well-coordinated single components and an additional consultancy service. Additionally, the direct market access in important sales regions (USA, China, Germany) leads to relative competitive advantages and a strengthening of the gross revenues.

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 none-theless constantly checked for changes. At the end of the elapsed fiscal year, Basler AG held 492,243 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 manageable. Possible first row Brexit effects on Basler's revenues are estimated to be low due to the limited sales as well as to alternative supply chains. 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. Basler further minimized this risk with a second production site in Singapore as well as an own sales company in China and the USA.

Legal risks are mitigated by appropriate insurances. 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.

There is also a risk of patent infringement. Basler counters this with a multi-stage examination procedure in the development process. The legal department performs the check.

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. The implemented processes and planning instruments in product development are continuously reviewed and adjusted so that development processes can be concluded on schedule and according to budget. In the financial year 2019, the project portfolio was considerably characterized by major platform projects in the core business and by fundamental developments in the area of embedded vision technology. So far, there were higher technological risks compared to the usual mix of development projects. The platform developments will be concluded in 2020 and provide a highly modern basis for generating product variances.

Furthermore, an efficient sales organization is indispensable in order to increase sales. Thus, in 2019, Basler started a program for increasing the efficiency of the sales organization. This includes comprehensive trainings and an enhanced transparency and aims at building relationships with customers who are interested in Basler products in a much faster and very focused way.

Due to the ISO certification and the lean management approach, 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 2019, 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. 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 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, an open company culture, as well as possibilities to reconcile work and family life.

The successful integration of the acquired companies represents an operational challenge for Basler. They are accompanied by dedicated project and change management. Meanwhile, MyCable GmbH is fully integrated and the legal merger into Basler AG was completed in 2019.

5.7 OVERALL STATEMENT

As manufacturer of cameras for the investment goods industry the management board assesses the corporate strategy risk still to be low. This assessment is based on the fact that comprehensive sub-stituting 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 for the 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 product categories 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 diversifying in new application fields, the already low dependencies on single vertical markets further decrease 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, particularly due to the establishment of Basler China, the takeover of the sales organization of the former distributor, 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 and the ongoing consolidation of Western competitors will continue to increase the competition intensity in the future. The management of Basler meets this tension by a balanced investment policy and by ensuring a sustainable and profitable growth for the company.

The risk of a furthern economic slowdown continues grows because of the current coronavirus pandemicto. The management board meets this risk by a liquidity policy that is based on a solid cash balance and a high equity ratio. Furthermore, it strives for a positive free cash flow and an even balance between investments in growth that are effective in the long run, and mainly personnel expenses and short-term profitability.

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 or by the ERP system Yonyou in China that include 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 CNY, USD and JPY occurred. Foreign currency balances are always exchanged into Euro. Furthermore, 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.

Basler exclusively concludes derivative transactions with its principal banks. The management board considers the risk of a default of the counterparty to be very low.

Basler conducts derivative transactions exclusively with its bank. The Management Board considers the risk of a default of the counterparties to be very low.

8 REPORT CONCERNING §315a 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, IT and facility.

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 € 10.5 million is divided into 10.5 million of no-par-value bearer shares.

On December 31, 2019, Norbert Basler Holding GmbH was holding 52.67 % of the voting rights in Basler AG, which corresponds to 5,530,152 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 share-holders for fractional amounts. Furthermore, with the supervisory board’s approval, the management board may exclude the share holders’ 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 € 10,500,000,00 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 amount.“

The management board is in addition authorized to buy own shares not exceeding 10 % of the current share capital until May 15, 2024. 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/Investors/Corporate Governance) the group declaration of compliance with the Corporate Governance Code, the corporate governance report, explanations regarding the practices of corporate governance, and a description of the working practices of the management board and the supervisory board.

10 PRINCIPLES OF THE REMUNERATION SYSTEM (§ 315a ABS. 2 HGB)

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 long-term 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

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, comparable 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 Group 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.

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

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 (25 % of the agreed 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 longevity 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 peformance. 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 2019 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. The criteria for 2019 are not met, so that no shares will be paid out.

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 GCGC, 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 inappropriate with regard to stress on the staff or partners. The management board members‘ basic claim for payout remains intact.

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

If the bonus bank shows a negative balance at the time of termination of office as member of the management board, it will be cleared by the company. In return, in the case of a positive balance the employment contracts provide that this balance remains in the bonus bank and thus is subject to the risk of decrease in the following years, analogous to the entitlement calculations of the remaining members of the management board in that year. However, after resigning from the management board no new positive claims will be transferred to the bonus bank. Payouts by the bonus bank to the remaining members of the management board are made at the scheduled regular dates. Thereby, one third each is paid out of the balance existing at the two scheduled regular dates subsequent to the resigning 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 long-term corporate development
- Breakdown into fixed and variable components
- Multi-year assessment basis
- Consideration of positive and negative developments
- Avoidance of disincentives with regard to unreasonable risks
- Relevant and ambitious targets and key figures
- Exclusion of subsequent changes of performance targets
- Limitation of variable remuneration
- Supervisory board‘s power to intervene in the case of extraordinary developments

10.2 REMUNERATION OF THE SUPERVISORY BOARD

Remuneration of the members of the supervisory board is set forth in the Articles of Incorporation. Chairmanship and vice chairmanship of the supervisory board are given consideration by extra pay of 200 % and/or 50 %. In accordance with the recommendation of the DCGK a performance related component to remuneration is not considered. Additional remuneration is paid for the mem-bership 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 to set up a non-financial statement for financial year 2019. 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). Unless otherwise specified, the report essentially relates to the German company locations. We aim to implement the standards in the foreign subsidiaries taking into account country-specific circumstances in the coming years.

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 2019 Annual Report, chapter “Basics of Consolidation”). Concepts only applying to individual areas or locations are marked as such.

The reporting follows guidelines of the Global Reporting Initiative (GRI Standards) 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 multistep process with the participation of members of the management and specialist departments. 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	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

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.

Business Model

Please find a description of Basler AG's business model under point 1.1 in the management report.

Employee Matters

Qualified, motivated and healthy employees are the basis for Basler's success. Therefore, the management of Basler attaches particular importance to offer an attractive working environment to its employees including opportunities for a continuous training and education. The basis for this is a safe work environment in the administration and commercial area.

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 at minimum. They are recorded in a safety manual that is accessible to all employees in the intranet. Furthermore, an annual work safety training takes place in the commercial area. 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, legally prescribed 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 work 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.

Furthermore, Basler AG has a cooperation with the Fürstenberg Institute which supports the company in the health management focusing on the prevention of stress factors.

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 6.06 % (previous year: 5.6 %).

Retention and Qualification of Employees

Aim:

The recruitment and retaining of qualified managers and specialists for increasing the competitiveness and for an efficient growth are of central importance.

Key Measures & Due Diligence Processes:

The satisfaction of the employees has a great influence on the efficiency and the period of employment and thus on success of the company. For this, a good reconciliation of work and family life is of major importance. Therefore, Basler AG fosters the reconciliation of the demands of work and family life, particularly by enabling a continuous professional activity beyond different phases of family life or getting support in looking after parents. Thus, take responsibility within the family and pursue a career at the same time. In addition to various part-time models and flexible working time, Basler AG offers child care services for emergencies and during special working hours. This may be made use of in the company childcare room or at home. 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 and cultural embedding of the reconciliation of work and family at Basler AG. Furthermore, the company offers the option of sabbaticals to its employees.

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 social commitment in the Ahrensburg region.

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 regularly.

In the company’s headquarters in Ahrensburg, the topic of work and integration is of great importance. There is a works council as well as representation for disabled employees, the barrier-free conversion of the building is constantly driven forward. Free of charge fruits, coffee, tea and mineral water is available for employees. Basler AG subsidizes lunch for all employees in the company bistro in Ahrensburg.

Results:

Due to the measures that were taken, Basler AG ensured an appropriate qualification of its employees and an attractive working environment. Additionally, new employees were hired. The employees’ satisfaction is reflected in a low fluctuation rate of 1.13 % (previous year: 1.57 %).

In 2019, the average number of employees of the group was 853 (previous year: 653), 36.85 % (previous year: 33.5 %) of them are female. Converted to the number of equivalents of full-time employment the average number of employees was 610 (previous year: 504).

At the end of the financial year, the number of apprentices and trainees at Basler AG was 23 (previous year: 27).

The expenses for training of the Basler group amounted to € 680 thousand in financial year 2019 (previous year: € 756 thousand).

The costs for the lunch subsidy for employees of Basler AG amounted to € 103 thousand in 2019 (previous year: € 101 thousand).

Diversity and Equal Opportunities

Aim:

In order to offer an attractive and effective working environment, diversity and equal opportunities are to be supported.

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.

In the context of implementing the law for equal participation of women and men in executive positions in the private industry and public services, 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.

With Prof. Dr. Mirja Steinkamp as well as Dorothea Brandes as employees' representative member of the supervisory board, 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 (before the acquisitions of Silicon Software and Basler China), 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.

Results:

As of December 31, 2019, Basler AG employed 33.33 % female managers and 21.05 % female department heads. The first management level below the management board is the divisional management and below this is the departmental management.

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 female proportion in leadership positions.

Social Concerns

Social Responsibility

Basler AG bears social responsibility. This is particularly valid for the headquarters in Ahrensburg with the majority of the employees.

Aim:

Basler AG's aim is to promote the local economic and social development considering interests of local stakeholder 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 headquarters in Ahrensburg 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 Hackerthons for young computer programmers, supports local refugee programs as well as social projects.

Result:

Basler AG's commitment fosters the local and national economy and society. Special attention is given to new talents.

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 the corporate values. Basler attaches greates importance to integrity, trust as well as the respectful and considerate interaction with each other, both internally and externally. Basler assumes 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 2019, no cases of corruption and bribery or violations of human rights emerged at Basler AG.

Environmental Concerns

Corporate Environment Management

Basler AG recognizes its responsibility towards society and future generations and takes measures in order to reduce the emission of greenhouse gases and to deal responsibly with resources. 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 and continuously develop it further.

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.

Basler AG purchases its electricity from the public utility in Ahrensburg. They issue a yearly confirmation that the delivered electricity is 100 % from renewable energy sources. A continuous maintenance of our technical equipment as well as the use of latest technologies and environmental standards ensure the highest possible energy efficiency; for example, the conversion of existing lights to LED.

In its manufacturing process, Basler only uses low hazardous substances (for example soldering paste) if this is necessary. Before using these substances, a substitution check is conducted, meaning that it is verified whether there is a more sustainable alternative.

Basler AG's employees in Germany separate waste that is generated in the office premises and the production areas. 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.

Furthermore, in summer 2019, Basler AG again participated in the "City Cycling" campaign. The goal of this campaign is to cycle as many kilometers as possible privately and for business for promoting cycling, climate protection, and quality of life in the communities – and ultimately enjoy cycling.

Result:

Basler AG fulfills legal requirements regarding emissions, energy consumption and dangerous goods and converts to newest technologies where possible.

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 27, 2020

The Management Board

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, 2019 to December 31, 2019

in € k	Notes	01/01/ - 12/31/2019	01/01/ - 12/31/2018
Sales revenues	4,24	**161,961**	**150,003**
Currency earnings	3,1	**-425**	**281**
Cost of sales		-79,519	-70,067
Gross profit on sales		**82,017**	**80,217**
Other operating income	5	831	510
Sales and marketing costs		-31,540	-22,961
General administration costs		-15,816	-12,735
Research and development	6	-17,921	-18,780
Other expenses	6	-551	-1,424
Operating result		**17,020**	**24,827**
Financial income	7	956	155
Financial expenses	7	-1,059	-460
Financial result		**-103**	**-305**
Earnings before tax		**16,917**	**24,522**
Income tax	8	-4,045	-7,509
Group´s year surplus		**12,872**	**17,013**
of which are allocated to			
shareholders of the parent company		12,872	17,013
non-controlling shareholders		0	0
Average number of shares	9,4	9,942,657	9,642,198
Earnings per share diluted / undiluted (€)		1,29	1.76

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2019 to December 31, 2019

in € k	Notes	01/01/ - 12/31/2019	01/01/ - 12/31/2018
Group's year surplus		12,872	17,013
Result from differences due to currency conversion, directly recorded in equity	18,3	46	220
Adjustment Finance Lease w/o income effect / IFRS 15	18,5	-1,180	-214
Total result, through profit or loss		**-1,134**	**6**
Total result		**11,738**	**17,019**
of which are allocated to			
shareholders of the parent company		11,738	17,019
non-controlling shareholders		0	0

CONSOLIDATED CASH FLOW STATEMENT

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2019 to December 31, 2019

in € k	Notes	01/01/ - 12/31/2019	01/01/ - 12/31/2018
Operating activities			
Group's year surplus		12,872	17,013
Increase (+) / decrease (-) in deferred taxes		644	624
Payout/ incoming payments for interest		1,014	506
Depreciation of fixed assets		12,944	11,142
Change in capital resources without affecting payment		46	6
Increase (+) / decrease (-) in accruals		-53	610
Profit (-) / loss (+) from asset disposals		-45	-3
Increase (-) / decrease (+) in reserves		88	2,178
Increase (+) / decrease (-) in advances from demand		520	-1,615
Increase (-) / decrease (+) in accounts receivable		-1,141	-6,386
Increase (-) / decrease (+) in other assets		-7,833	-236
Increase (+) / decrease (-) in accounts payable		3,197	-2,887
Increase (+) / decrease (-) in other liabilities		2,492	6,046
Net cash provided by operating activities		**24,745**	**26,998**
Investing activities			
Payout for investments in fixed assets		-19,982	-18,026
Incoming payments for asset disposals		135	61
Expenses for acquisitions less cash acquired		-14,503	-7,706
Net cash provided by investing activities		**-34,350**	**-25,671**

in € k	Notes	01/01/ - 12/31/2019	01/01/ - 12/31/2018
Financing activities			
Payout for amortisation of bank loans		-1,425	-1,222
Payout for amortisation of finance lease		-2,082	-2,223
Incoming payment for borrowings from banks		1,755	8,200
Interest payout		-1,014	-506
Incoming payment for sale of own shares		20,822	0
Payout for own shares		0	-3,284
Dividends paid		-5,104	-6,487
Net cash provided by financing activities		**12,952**	**-5,522**
Change in liquid funds		**3,347**	**-4,195**
Funds at the beginning of the fiscal year		31,830	36,025
Funds at the end of the fiscal year		**35,177**	**31,830**
Composition of liquid funds at the end of the fiscal year			
Cash in bank and cash in hand	16	35,177	31,830
Payout for taxes		-5,983	-5,272

GROUP BALANCE SHEET

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2019 to December 31, 2019

in € k	Notes	01/01/ - 12/31/2019	01/01/ - 12/31/2018
Assets			
A. Long-term assets			
I. Intangible assets	10	34,506	28,100
II. Fixed assets	10	12,601	10,562
III. Buildings and land in finance lease	3,9, 17	18,041	11,971
IV. Goodwill		27,474	12,740
V. Other financial assets		5	5
VI. Deferred tax assets	11	846	72
		93,473	**63,450**
B. Short-term assets			
I. Inventories	12	20,945	21,033
II. Receivables from deliveries and services and from production orders"	13	19,388	18,247
III. Other short-term financial assets	14	4,578	1,714
IV. Other short-term assets	14	1,625	1,682
V. Claim for tax refunds	15	6,025	998
VI. Cash in bank and cash in hand	16	35,177	31,830
		87,738	**75,504**
		181,211	**138,954**

in € k	Notes	01/01/ - 12/31/2019	01/01/ - 12/31/2018
Liabilities			
A. Equity	18		
I. Subscribed capital		10,008	3,206
II. Capital reserves		22,398	5,286
III. Retained earnings including group's earnings		70,037	66,541
IV. Other components of equity		538	492
		102,981	**75,525**
B. Long-term debt			
I. Long-term liabilities			
1. Long-term liabilities to banks	19	*14,362*	*17,723*
2. Other financial liabilities		*2,634*	*4,840*
3. Liabilities from finance lease	17	*13,743*	*8,454*
II. Non-current provisions	20	880	1,153
III. Deferred tax liabilities	11	9,351	7,933
		40,970	**40,103**
C. Short-term debt			
I. Other financial liabilities	19	5,282	1,773
II. Short-term accrual liabilities	20	5,131	4,391
III. Short-term other liabilities			
1. Liabilities from deliveries and services		*10,588*	7,391
2. Other short-term financial liabilities		*10,844*	*5,209*
3. Liabilities from finance lease	17	*3,178*	*1,805*
IV. Current tax liabilities		2,237	*2,757*
		37,260	**23,326**
		181,211	**138,954**

DEVELOPMENT OF FIXED ASSETS FOR FISCAL YEAR 2019

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2018 to December 31, 2019

in € k	Acquisition and production costs					
	As at 01/01/2019	Additions*	Transfers	Disposals	Foreign exchange differentials	As at 12/31/2019
Intangible assets						
Software, trademark rights, patents, and licenses	12,741	1,643	-4,815	-83	-6	9,480
Goodwill	12,740	14,734	0	0	0	27,474
Finished own developments	45,101	0	9,595	-63	0	54,633
Own developments in process	9,950	12,459	-4,677	0	0	17,732
Payments for third-party developments	0	556	-103	0	0	453
Total intangible assets	**80,532**	**29,392**	**0**	**-146**	**-6**	**109,772**
Tangible Assets						
Land and buildings on third-party land	3,771	1,784	0	-7	3	5,551
Technical equipment and machinery	11,413	1,284	196	-142	1	12,752
Other furniture, fixtures, and equipment	8,096	1,435	173	-602	8	9,110
Assets under construction	173	585	-369	0	0	389
Total tangible assets	**23,453**	**5,088**	**0**	**-751**	**12**	**27,802**
Buildings and Land under finance leases						
Land of finance lease	2,278	0	0	0	0	2,278
Buildings of finance lease	22,480	7,934	0	-15	0	30,399
Total Buildings and Land under finance leases	**24,758**	**7,934**	**0**	**-15**	**0**	**32,677**
Other financial assets	18	0	0	0	0	18
Total other financial assets	**18**	**0**	**0**	**0**	**0**	**18**
Total Assets	**128,761**	**42,414**	**0**	**-912**	**6**	**170,269**

* Appendix to the notes
*1: including intitial stocks at take-over SiSo 07/01/18 (6,250,678.31)
*2:including accumulated depreciation take-over SiSo 07/01/18 (€ 394,352,30)

Depreciation							Net book value	
As at 01/01/2019	Additions**	Unscheduled depreciations	Disposals	Foreign exchange differentials	As at 12/31/2019	12/31/2019	As at 12/31/2019	Previous year
6,228	1,100	0	-443	0	-1	6,884	2,596	6,513
0	0	0	0	0	0	0	27,474	12,740
33,263	6,889	240	316	200	0	40,908	13,725	11,838
200	0	0	0	-200	0	0	17,732	9,750
0	0	0	0	0	0	0	453	0
39,691	**7,989**	**240**	**-127**	**0**	**-1**	**47,792**	**61,980**	**40,841**
1,343	399	0	-8	0	3	1,737	3,814	2,428
6,805	1,515	56	-141	0	2	8,237	4,515	4,608
4,744	898	0	-417	0	2	5,227	3,883	3,352
0	0	0	0	0	0	0	389	173
12,892	**2,812**	**56**	**-566**	**0**	**7**	**15,201**	**12,601**	**10,561**
0	0	0	0	0	0	0	2,278	2,278
12,787	1,848	0	0	0	0	14,635	15,764	9,693
12,787	**1,848**	**0**	**0**	**0**	**0**	**14,635**	**18,042**	**11,971**
13	0	0	0	0	0	13	5	5
13	**0**	**0**	**0**	**0**	**0**	**13**	**5**	**5**
65,383	**12,649**	**296**	**-693**	**0**	**6**	**77,641**	**92,628**	**63,378**

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

	Acquisition and production costs					
in € k	As at 01/01/2018	Additions*	Transfers	Disposals	Foreign exchange differentials	As at 12/31/2018
Intangible assets						
Software, trademark rights, patents, and licenses	6,325	6,426	0	-10	0	12,741
Goodwill	3,139	9,601	0	0	0	12,740
Finished own developments	42,312	0	2,789	0	0	45,101
Own developments in process	4,143	8,596	-2,789	0	0	9,950
Payments for third-party developments	0	0	0	0	0	0
Total intangible assets	**55,919**	**24,623**	**0**	**-10**	**0**	**80,532**
Tangible Assets						
Land and buildings on third-party land	2,277	802	691	0	1	3,771
Technical equipment and machinery	9,145	2,041	335	-112	4	11,413
Other furniture, fixtures, and equipment	6,561	1,209	407	-86	5	8,096
Assets under construction	1,196	409	-1,433	0	1	173
Total tangible assets	**19,179**	**4,461**	**0**	**-198**	**11**	**23,453**
Buildings and Land under finance leases						
Land of finance lease	2,278	0	0	0	0	2,278
Buildings of finance lease	22,480	0	0	0	0	22,480
Total Buildings and Land under finance leases	**24,758**	**0**	**0**	**0**	**0**	**24,758**
Other financial assets	18	0	0	0	0	18
Total other financial assets	**18**	**0**	**0**	**0**	**0**	**18**
Total Assets	**99,874**	**29,084**	**0**	**-208**	**11**	**128,761**

* Appendix to the notes
*1: including intitial stocks at take-over SiSo 07/01/18 (6,250,678.31)
*2:including accumulated depreciation take-over SiSo 07/01/18 (€ 394,352,30)

Depreciation							Net book value	
As at 01/01/2018	**Additions****	**Unscheduled depreciations**	**Disposals**	**Foreign exchange differentials**	**As at 12/31/2018**	**12/31/2018**	**As at 12/31/2018**	Previous year
5,046	1,185	0	-3	0	-1	6,228	6,513	1,279
0	0	0	0	0	0	0	12,740	3,139
26,258	6,456	549	0	0	0	33,263	11,838	16,054
0	0	200	0	0	0	200	9,750	4,143
0	0	0	0	0	0	0	0	0
31,304	**7,641**	**749**	**-3**	**0**	**-1**	**39,691**	**40,841**	**24,615**
1,128	214	0	0	1	3	1,343	2,428	1,149
5,719	1,175	0	-93	4	2	6,805	4,608	3,426
3,548	1,247	0	-54	3	2	4,744	3,352	3,013
0	0	0	0	0	0	0	173	1,196
10,395	**2,636**	**0**	**-147**	**8**	**7**	**12,892**	**10,561**	**8,784**
0	0	0	0	0	0	0	2,278	2,278
12,277	510	0	0	0	0	12,787	9,693	10,203
12,277	**510**	**0**	**0**	**0**	**0**	**12,787**	**11,971**	**12,481**
13	0	0	0	0	0	13	5	5
13	**0**	**0**	**0**	**0**	**0**	**13**	**5**	**5**
53,989	**10,787**	**749**	**-150**	**8**	**6**	**65,383**	**63,378**	**45,885**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2019 to December 31, 2019

				Other components of equity			
in T€	Subscribed capital	Capital reserve	Retained earnings incl. group's earnings	Differences due to currency conversion	Reserves for cash flow hedges	Sum of other components of equity	Total
Shareholders´ equity as of 01/01/2018	**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 outpayment*			-6,487				-6,487
Shareholders´equity as of 12/31/2018	**3,206**	**5,286**	**66,541**	**492**	**0**	**492**	**75,525**
Total result		0	11,692	46		46	11,738
Share salesback	130	16,784	3,908				20,822
Capital increase from company funds	6,672	328	-7,000				0
Dividend outpayment**			-5,104				-5,104
Shareholders´equity as of 12/31/2019	**10,008**	**22,398**	**70,037**	**538**	**0**	**538**	**102,981**

* 2.02 € per no-par-value share (dividend payout in 2018 for 2017), 0.67 € after stock split

** 1.53 € per no-par-value share (dividend payout in 2019 for 2018), 0.59 € after stock split

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). It maintains subsidiaries in Singapore, Taiwan, the USA, China, Japan, South Korea, Canada, and Germany as well as sales and service offices in China, Finland, Poland, the Netherlands, and UK. Development and manufacturing are carried out in the German headquarters. In July 2014, a second production line was opened in the Singapore subsidiary.

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 € (€ thousand).

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

2.2 STANDARDS WITH NO EFFECT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The changes effective January 1, 2019, set up in the course of the annual improvements of the IFRS (cycle 2015 - 2017) regarding IAS 12, IAS 23, IFRS 3/ IFRS 11 as well as modifications of IAS 19, IAS 28 and IFRIC 23 have no effects on the consolidated financial statements of Basler AG. Impacts of the initial application of IFRS 9 / IFRS 16 are shown under 3.6 and 21 respective 3.9, 3.12, and 18.5.

2.3 APPROVED BUT NOT YET ADOPTED STANDARDS

The following IFRS incorporated into EU law were issued on December 31, 2019, 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)
Amendments of references to Frame Concept in IFRS standards	March 29, 2018	November 29, 2019	January 1, 2020
Amendments IAS 1 and IAS 8: Definition of essential	October 31, 2018	November 29, 2019	January 1, 2020
Amendments of IFRS 9, IAS 39 and IFRS 7: Reform of Interest Rate Benchmark	September 26, 2019	January 2020	January 1, 2020

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, 2019. The application of these standards presumes that they will be taken over by the EU within the scope of the IFRS endorsement procedure:

Amendment / Standard	Date of Publication	Date of Incorporation into EU Law	Date of Application (EU)
IRFS 17 Insurance Contracts	May 18, 2017	open	January 1, 2021
Amendment of IFRS 3 Company Mergers: Definition of a Business Operation	October 22, 2018	Q1/2020	January 1, 2020

2.4 USE OF ESTIMATES

The preparation of the consolidated financial statements in accord with IFRS requires 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 will be entirely realized despite possibly low sales volumes.

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 IV, 29.

MyCable Neumünster (100%-share) was merged with the Basler AG in the year under review and is therefore no longer included in the scope of consolidation.

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.

Income 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 € 46 thousand (previous year: € 220 thousand).

Balance sheet positions made in foreign currencies in the individual financial statements are converted at the exchange rates applicable on the reporting dates of the transactions. In fiscal year 2019, profits amounting to € 1,427 thousand (previous year: € 1,608 thousand) and expenses amounting to € 1,852 thousand (previous year: € 1,327 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 Rate as of		Average Exchange Rates	
12/31/2019	12/31/2018	2019	2018
US dollar 1.123	US dollar 1.145	US dollar 1.120	US dollar 1.181
New Taiwan dollar 33.650	New Taiwan dollar 34.953	New Taiwan dollar 34.593	New Taiwan dollar 35.553
Chinese Yuan 7.821	Chinese Yuan 7.875	Chinese Yuan 7.736	Chinese Yuan 7.808

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

Consolidation Principles

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 for longterm liabilities (using the effective interest method). Interest income is reported in the statement of comprehensive income as part of the financial income.

3.3 TAXATION

Ongoing income taxes

The ongoing 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. Current tax claims and tax liabilities are offset against each other if the Group has an enforceable right to offset the actual tax refund claims against actual tax liabilities and these relate to income taxes of the same taxable entity, which are levied by the same tax authority. 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 law nor on the taxable result, and
- 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

Receivables and other financial assets are capitalized at acquisition costs on the settlement date. If a receivable is in danger of not being recoverable due to a customer‘s illiquidity, specific allowance is used to the full amount of the receivable. When the fair values of financial assets or liabilities are assessed or stated, they are on principle based on the market values or stock exchange values. In the absence of an active market the fair values are assessed based on accepted methods of financial mathematics.

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 2019. These would have to be shown as separate positions in the comprehensive income statement. As in 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 € 5 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. Due to low loss of receivables (2015 – 2019 a total of group-wide € 8 thousand at a sales level of € 645,366 thousand) no value adjustments were made according to IFRS 9.

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).

Please see 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

On principle, tangible assets are valued 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 and 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. The useful lives for assets that are accounted for under IFRS 16 vary depending on the respectively expected contractual useful lives of the leased asset. For details see 3.12.

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 expenses. 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 developments received against payment	3 to 7

The amortization expenses of the capitalized development costs are included in the research and development expenses in the consolidated income statement, those of the software and paid for product developments are included in the sales and marketing costs as well as in the general administration costs.

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. Instead, once a year and in case of indications for a value reduction they are subject to an impairment test according to IAS 36 and, if necessary, devaluated to their recoverable amount.

According to IAS 36.80 the goodwill is attributable to the CGU (Cash Generating Unit) which presumably will benefit from the synergy effects of the merger. The CGU in question shall not be bigger than an operating segment. Viewed downwards within the company hierarchy, the lowest intragroup reporting level is mentioned where the goodwill is systematically monitored. At Basler this is the group including its total business. Thus, the goodwill is tested on corporate level.

If impairment is identified, first of all a possibly existing goodwill of the cash generating unit in question is value-adjusted. Afterwards, a residual amount is allocated pro rata to the other assets of the respective cash generating unit on the basis of the residual book value of each individual asset at the balance sheet date. If the reason for an impairment recorded in the previous year no longer applies, with the exception of goodwill, assets are written up to their scheduled carrying amount. The growth rates on which the discounted cash flow calculation is based in the detailed planning period 2020 - 2024 of external sales are 15 % (previous year: 15 %), those of earnings before taxes (EBT) are 21 - 50 % (previous year: 20 - 25 %). A growth rate of 1 % is taken into account for the cash flows after the planning period.

Discounting was carried out taking into account a uniform risk-equivalent capitalization interest rate of 10.5 % (2018: 8.5 %). Sensitivity analyzes have shown that there is no need for impairment of goodwill even if there are significant assumptions that differ within a realistic framework. When quantifying the sensitivity analysis, a reduction in the future EBT result of 10 % was assumed, since a change up to this amount is reasonably possible. Based on past experience, major changes are not likely. The impairment tests carried out showed no evidence of a need for impairment.

3.11 LIQUID ASSETS AND CASH EQUIVALENTS

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

3.12 LEASES

In principle, all leases and the associated contractual rights and obligations are now to be accounted for under IFRS 16 in the lessee's balance sheet. Thus, the differentiation between finance and operating leases so far shown under IAS 17 no longer applies.

On January 1, 2019, IFRS 16 was initially applied. The initial application was effected as of January 1, 2019, according to the modified retrospective conversion method. As mentioned in the 2018 annual report, within the initial application, all property leases were shown as economic ownership, covering 98 % of the total leases. A lease exists if a corresponding contract allows the use of an identified asset against payment of a fee for a specified period of time.

Leases that are not related to properties, of low value and for short-term agreements with a duration of less than 12 months, the facilitation of IFRS 16.5 is used. The expense is recorded on a systemic base throughout the duration. Leases expiring on December 21, 2019, at the latest, were accounted for as short-term leases regardless of the original contract term.

For these leases, future lease payment obligations liabilities are passivated. Simultaneously, rights of use for the underlying assets are activated. These correspond to the cash value of future lease payments plus initial direct costs, advance payments, and reinstatement costs as well as minus incentive payments received.

The subsequent accounting is made according to the effective interest method. The applicable interest rate was determined in a country specific manner. During the term of the lease, leasing liabilities are updated in a financial mathematic way, similar to the previously applicable regulation according to IAS 17 for finance leases. The right of use is amortized according to plan.

As lessee, Basler accounts for according to the right-of-use-model pursuant to IFRS 16.22 leases, regardless of economic ownership of the leasing object in question at the beginning of the term. Rights of use and liabilities are shown separately in the balance sheet. If events or changed circumstances suggest an impairment, an impairment test will be carried out according to IAS 36.

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 interest effect resulting from a discounting is material, provisions are discounted at a pre-tax interest 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 financial 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 tangible and 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 is determined at the level of the cash-generating unit (CGU) to which the respective asset is allocated. At Basler AG, the allocation is made at the level of product 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 the higher amount of the fair value less costs 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 that cannot be used yet the impairment test will be made at the level of product families as CGU (cash generating unit). 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 2020 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 10.5 % (previous year: 8.5 %). The increase compared to the previous year mainly results from uncertainties of the macroeconomic overall situation including a market risk premium. The discount rate 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 19.1 % and/or an expected decline of the planned sales revenues by 9.7 % would lead to a devaluation of certain intangible assets.

If there are indications of a devaluation of fixed assets in the course of the financial year, 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 camera and frame grabber business. We refer to the classification shown under point 24.

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. Sales are measured based on a consideration determined in a contract with a customer. The following table provides information about receivables and liabilities resulting from contracts with customers:

In € k	2019	2018
Accounts receivable	18,993	17,922
Liabilities	-395	-325

The contractual obligations relate to the extended warranty that is a separate service obligation (service-type-warranty) and that has to be cut off over the warranty period of three years.

In the financial year 2019, € 71 thousand (previous year: € 0 thousand) were cut off as contractual obligations in sales.

5. OTHER OPERATIONAL PROFIT

The other operational profits include the following:

In € k	2019	2018
Rental Income	12	5
Subsidies for research and development	25	13
Income from the release of provisions	113	96
Others	681	396
	831	**510**

The other operational profit includes € 192 thousand (previous year: € 189 thousand) for self-developed manufacturing tools.

6. RESEARCH AND DEVELOPMENT AND OTHER EXPENSES

The expenses include the following:

In € k	2019	2018
Full costs for research and development	23,104	20,052
Capitalization of own development costs	-12,312	-8,477
Depreciations on capitalized developments	7,129	7,205
	17,921	**18,780**

In 2019, a reclassification of the depreciations on capitalized developments was carried out. For following IAS 8.14b. a clearer presentation of the gross margin, the depreciations on capitalized developments were reclassified from the gross result to the operating result under research and development (including an adjustment of last year's reports). This leads to a ancrease (adjustment) of the gross profit margin by 4.2 % (previous year: 4.6 %). Thus, the gross result only includes costs of sales. The depreciations on capitalized developments include other expenses in the amount of € 279 thousand (previous year: € 378 thousand).

7. FINANCIAL RESULT

In € k	2019	2018
Non-period income from adjustment Earn Out	752	0
Market price valuation of derivative financial instruments	182	125
Other interest income	88	0
Interest income discounting	-64	-8
Financial income	**956**	**117**
Interest expences for finance lease	-441	0
Interest expences on bank loans	-428	-308
Non-period expense from adjustment Earn Out	-210	0
Interest expense from derivative financial instruments	-149	-197
Other interest expense	21	-36
Capitalization of interests pursuant to IAS23	148	119
Financial expenses	**-1,059**	**-422**
	-103	**-305**

In 2019, the average financing cost rate considered in accordance with IAS 23 was 1.23 % (previous year: 1.89 %).

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	2019	2018
Current taxes from consolidated companies	2,953	6,827
Deferred taxes from consolidated companies	1,029	617
Deferred tax expense	63	65
Tax expense	**4,045**	**7,509**

Determination deferred tax expenses:

In € k	2019	2018
Deferred tax expenses or income from losses carried forward (continuously)	-318	0
Deferred tax expenses or income from temporary differences	1,347	617
Deferred tax expense	**1,029**	**617**

The following is a breakdown of the effective tax burden which includes the German corporate income tax rate including the solidarity surcharge of 15.83 % (previous year: 15.83 %), and the applicable trade income tax rate of 13.37 % (previous year: 13.30 %), amounting to a total tax rate of 29.20 % (previous year: 29.13 %):

Tax reconciliation (In € k)	2019	2018
Net profit / loss for the year before income taxes	16,917	24,522
Applicable tax rate	29.20 %	29.13 %
Expected tax expense / income	4,940	7,143
Reconciliation:		
Effect from deviating tax rates	-885	-979
Tax effect from non-deductible expenses and tax-free earnings	920	222
Effect from intragroup sales	777	27
Effects of previous years due to an external audit	-1,459	1,427
Others	-248	-331
Current tax expense / income	4,045	7,509
Group tax rate	23.91 %	30.62 %

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

In € k	2019	2018
Germany, corporate income tax	1,252	83
Germany, trade income tax	893	275

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 60 % of the excess tax profit can be utilized per year.

9. ADDITIONAL INFORMATION

9.1 SCHEDULED AND UNSCHEDULED DEPRECIATIONS

In fiscal year 2019, unscheduled value adjustments were made on capitalized product developments in an amount of € 240 thousand (previous year: € 749 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 scheduled and unscheduled depreciations are included in the following areas:

In € k	2019	2018
Cost of Sales	1,804	2,057
Research and Development	7,129	7,205
Sales and Marketing Costs	1,151	310
General Administration Costs	2,233	1,574
Other Expenses	627	391
	12,944	**11,537**

9.2 PERSONNEL EXPENDITURES

In € k	2019	2018
Wages and salaries	55,308	43,777
Social security contributions	10,319	7,993
	65,627	**51,770**

The expenses for the contribution-based pension schemes amounted to € 4,400 thousand (previous year: € 3,595 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 COST OF MATERIALS

In € k	2019	2018
Expenses for raw, auxiliary, and operating supply items as well as purchased goods	60,630	51,053
Expenses for purchased services	579	2,009
	61,209	**53,062**

In the year 2019, costs for warranty services amounted to € 614 thousand (previous year: € 864 thousand).

9.4 RECONCILIATION FOR RESULT PER SHARE

	2019	2018*
Earnings diluted / undiluted in € thousand	12,872	17,013
Weighted average number of ordinary shares	9,942,657	9,642,198
Result per share (in €)	**1.29**	**1.76**

*) Prior year presentation after stock split

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. At the end of the quarter on June 30, 2019, Basler AG's share capital amounted to € 10.5 million after the implementation of the capital increase as well as the issue of bonus shares resolved on in this year's shareholders' meeting. It is now divided into 10.5 million no-par value bearer shares at € 1.00 each.

III. NOTES TO THE BALANCE SHEET

10. DEVELOPMENT OF FIXED ASSETS

On December 31, 2019, the purchase commitments for tangible assets amounted to € 679 thousand (previous year: € 2,502 thousand). In the previous year, orders were placed for major investments in fixed assets (production expansion).

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 In € k	Book value 12/31/2019 (Previous Year)	Useful Lives in years (Previous Year)
New camera platforms Mainstream/Upper Mainstream	8,968 (5,285)	5 (5)
Development of camera modules for use with embedded processors	1,378 (2,664)	3 (3)
Camera development and improvement of 3D TOF technology	2,540 (1,482)	3 (3)

11. DEFERRED TAXES

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

Deferred Tax Assets (In € k)	12/31/2019	12/31/2018
Inventories	893	189
Loss carried forward	318	0
Sales Realization	115	95
Financial Instruments	48	101
Holding	45	88
Others	44	164
Offsetting	-617	-565
	846	**72**

Deferred Tax Liabilities (In € k)	12/31/2019	12/31/2018
Capitalized Developments	7,979	6,288
PPA Capitalized Developments	1,168	1,402
Finance Lease	356	499
Tangible Assets	218	84
Holding	150	0
PPA KD-Order Volume	59	177
Other	38	48
Offsetting	-617	-565
	9,351	**7,933**

12. INVENTORIES

The inventories include the following:

In € k	12/31/2019	12/31/2018
Finished Products	6,592	5,990
Semi-finished Products	1,556	1,527
Raw materials, suppliers, and operating materials	9,927	12,525
Merchandise	2,870	991
	20,945	**21,033**

As of December 31, 2019, inventories were subject to range deductions amounting to € 955 thousand (previous year: € 942 thousand).

13. RECEIVABLES FROM DELIVERIES AND SERVICES AS WELL AS PRODUCTION ORDERS

Of the receivables from deliveries and services in the amount of € 19,388 thousand (previous year: € 18,247 thousand) € 19,388 thousand (previous year: € 18,247 thousand) are due within one year.

The receivables from deliveries and services are adjusted in the amount of € 2 thousand (previous year: € 0 thousand). 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 over the last years. There were no material bad debts in the past years due to credit management. Thus, for reasons of materiality, a value adjustment according to the lifetime expected loss was not carried out.

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 neither impaired nor overdue as of 12/31	Of which not impaired and past due up to 60 days	Of which not impaired and more than 61 days past due
2019	19,388	15,290	1,463	2,635
2018	18,247	16,924	1,276	47

The increase of receivables which are not impaired and more than 61 days past due result from receivables of Basler China which, based on the experience of our employees on site, however will not fail. The sum of advance payments received amounts to € 986 thousand (previous year: € 466 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	12/31/2019	12/31/2018
Derivative Financial Instruments	0	87
Loans to third party	4,578	1,627
Other short-term financial assets	4,578	1,714
Accrued expenses	1,245	1,110
Advance payments made	380	574
Other short-term assets	1,625	1,682
Total	**6,203**	**3,396**

The fair values do not significantly differ 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 € 1,072 thousand (previous year: € 694 thousand) and the reclaim of taxes paid in advance on income and profit amounting to € 4,952 thousand (previous year: € 304 thousand).

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

16. CASH AND CASH EQUIVALENTS

Liquid assets include bank deposits and cash balances in the amount of € 35,177 thousand (previous year: € 31,830 thousand).

17. LEASE

At the balance sheet date December 31, 2019, the rights of use in an amount of € 18,363 thousand are offset by lease liabilities with a present value of € 17,018 thousand. The short-term portion of the lease liability amounts to € 3,176. thousand. The payment obligations have the following maturity structure:

In € k	Minimum lease payments		Interest portion included		Cash values	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
With a residual term of up to one year	3,448	1,822	272	18	3,178	1,804
With a residual term of more than one year and up to two years	3,372	1,822	216	18	3,157	1,804
With a residual term of more than two years and up to three years	3,258	1,822	159	18	3,100	1,804
With a residual term of more than three years and up to four years	2,786	1,822	118	18	2,669	1,804
With a residual term of more than four years and up to five years	2,506	1,822	385	18	2,122	1,804
With a residual term of more than five years	2,844	1,822	150	584	2,685	1,238
Total	**18,214**	**10,932**	**1,300**	**674**	**16,921**	**10,258**

After expiration of the basic rental period there are customary extension options whose exercise is more than likely. On principle, leases with a value less than € 12 thousand are not classified as a finance lease in the context of the simplified application, these did not exist on the reporting date. When valuing, the present value the following interest rates were used.

Country	Interest rate	Country	Interest rate
Germany	2.7	Taiwan	3.0
USA	4.5	Japan	2.7
Singapore	2.7	Korea	3.0
China	5.3		

The interest rates come from the respective lease and / or from calculations made by resident financial institutes, thus considering any country risks as well as contract period of the respective lease.

The following reconciliation to the opening balance sheet value of the leasing liabilities on January 1, 2019 is based on the financial commitments for operating lease on December 31, 2018.

In € k	01/01/2019
Financial obligations from operating leases on December 31, 2018	5,835
- Simplified application for short-term leases	0
- Simplified application for leases for low-value assets	-22
+/- Changes due to intitial definition of leases	131
+/- Changes to renewal and termination options	0
+ Minimum lease payments (nominal value) of liabilities from finance leases on December 31, 2019	10,932
+/- Adjustments due to index and price changes vor variable payments	0
+ Non-leasing components due to the use of exemptions pursuant to IFRS 16.15	0
+ Addition from change in consolidation scope	480
+/- Other	70
= Gross lease liabilities on January 1, 2019	**17,426**
- Effects from discounting	-722
= Leasing liabilities on January 1, 2019	**16,704**
- Cash value of liabilities from finance leases on December 31, 2018	10,258
= Additional leasing liabilities due to IFRS 16 on January 1, 2019	**6,446**

18 EQUITY

18.1 SUBSCRIBED CAPITAL

The paid-up share capital of the company amounts to € 10,500,000 (previous year: 3,500,000) and is divided into 10,500,000 (previous year: 3,500,000) issued no-par-value shares. The shares are in bearer form.

Basler AG's shareholders' meeting of May 16, 2019, resolved to increase the company's share capital of € 3,500,000.00 by € 7,000,000.00 to € 10,500,000.00 in accordance with the provisions for capital increases from company funds (§§ 207 ff. of the German Stock Corporation Act – AktG). The capital increase was effected by converting retained earnings in an amount of € 7,000,000.00. On April 21, 2016, the management board and the supervisory board of Basler AG decided to buy back own shares.

On September 17, 2018, the company informed the capital market about the buyback of own shares. This share buyback program was closed on March 29, 2019. At the same day, the company sold 3.72 % (130,200 pieces) of its own shares to 7-Industries B.V. at a price of € 160.00 per share.

The own shares can be used for all purposes provided for in the authorization of the general meeting of May 18, 2010. These include, inter alia, the use of the shares as compensation in the context of the acquisitions of companies. On the reporting date, the company held 492,243 pieces (previous year: 294,281) of own shares which corresponds to € 492,243, respectively 4.7 % of the share capital. The development of treasury shares is as follows: 130,200 of the 294,281 shares were sold on 1 January 2019. Taking into account the 3:1 share split in the context of the capital increase, the stock will have 492,243 shares as of December 31, 2019.

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:

In € k	12/31/2019			12/31/2018		
	Before taxes	**Taxes**	**Net**	Before taxes	Taxes	Net
Currency conversion of foreign subsidiaries	46	0	46	220	0	220
Total	46	0	46	220	0	220

18.4 DIVIDEND PAYMENT

On May 16, 2019, a dividend was paid amounting to € 1.53 per share (total dividend: € 5,104 thousand).

19. FINANCIAL LIABILITIES

€ 14,362 thousand of the financial liabilities are related to long term interest bearing bank liabilities (previous year: € 17,723 thousand). Furthermore, derivative financial liabilities of € 166 thousand (previous year: € 347 thousand), and the short-term repayment portion of the financial liabilities of € 5,116 thousand (previous year: € 1,426 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	01/01/2019	Allocation	Utilizations	Liquidations	Interests	Currency Differences	12/31/2019
Long-term provisions							
Personnel costs	1,153	0	-338	0	65	0	880
Long-term provisions	1,153	0	-338	0	65	0	880
Short-term provisions							
Personnel costs	2,885	3,961	-2,862	-23	0	-7	3,854
Commissions	0	0	0	0	0	0	0
Warranty	755	20	-75	-17	0	0	683
Legal and consultancy costs	136	110	-92	0	0	0	154
Other	615	438	-542	-73	0	2	440
Short-term provisions	4,391	4,429	-3,571	-113	0	-5	5,131
Total	**5,544**	**4,429**	**-3,909**	**-113**	**65**	**-5**	**6,011**

The provisions for personnel costs were mainly made for variable salaries and for bonuses for the reporting year. The short-term provisions are expected to be utilized in the course of one year.

21. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER FINANCIAL INSTRUMENTS.

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

USD	**12/31/2019 (previous year)**
Nominal value € k	0 (1,685)
Foreign currency amount in USD thousand	0 (1,930)
Fair value in € thousand	0 (86)
- Positive	0 (3)
- Negative	0 (83)

In the previous year, no valuation units were formed.

	12/31/2019	**12/31/2018**
Nominal value € k	3,030	4,546
Fair value in € k		
- Positive	-	-
- Negative	166	347

According to IFRS 7, the financial instruments are divided 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 Liabilties Measured at Amortised Cost	Financial liabilities measured at amortized cost	At amortized cost
FVTPL	At Fair Value Through Profit or Loss	At market 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, 2019 (previous year), are as follows:

In € k	Original Category of Measurement according to IAS 39	New Valuation Category according to IFRS 9	Book Value	Amortized Costs	Market Value, affecting Net Income	Fair Value
Assets						
Remaining financial assets	AfS	FVTPL	5 (5)	5 (5)		
Long-term financial assets		**Amortized costs**	**5 (5)**			**5 (5)**
Receivables from deliveries and services	LaR		19,388 (18,247)	19,388 (18,247)		
Short-term financial assets			**19,388 (18,247)**			**19,388 (18,247)**
Short-term derivative assets	FVTPL	FVTPL	0 (87)		0 (87)	
Remaining other short-term financial assets	LaR	Amortized costs	4,578 (1,714)	4,578 (1,714)		
Other short-term financial assets			**4,578 (1,801)**			**4,578 (1,801)**
Liquid assets	LaR	Amortized costs	35,177 (31,830)	35,177 (31,830)		
Cash and cash equivalents			35,177 (31,830)			**35,177 (31,830)**
			59,148 (51,883)			
Liabilities						
Liabilities to credit institutions	FLAC	Other financial liabilities	14,362 (17,723)	14,362 (17,723)		
Liabilities from finance lease	FLAC	Fair value	13,743 (8,454)	13,743 (8,454)		
Long-term financial liabilities			**28,204 (26,177)**			**28,204 (26,177)**
Other financial liabilities	FLAC	Other financial liabilities	5,116 (1,426)	5,116 (1,426)		
Short-term derivative liabilities	FVTPL		166 (347)		166 (347)	
Liabilities from deliveries and services	FLAC	Fair value	10,588 (7,391)	10,588 (7,391)		
Liabilities from finance lease	FLAC	Other financial liabilities	3,178 (1,805)	3,178 (1,805)		
Remaining other short-term financial liabilities	FLAC	Fair value	9,209 (4,743)	9,209 (4,743)		
Short-term liabilities			**28,255 (15,712)**			**28,255 (15,712)**
			56.459 (41.889)			

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

12/31/2019 (12/31/2018) (in € k)	Level 1	Level 2	Level 3	Total
Financial assets of „Market value affecting profit and loss"				
Short-term derivative assets	0 (0)	0 (87)	0 (0)	0 (87)
Total	**0 (0)**	**0 (87)**	**0 (0)**	**0 (87)**
Financial liabilities of "Market value affecting profit and loss" category				
Short-term derivative liabilities	0 (0)	166 (347)	0 (0)	166 (347)
Total	**0 (0)**	**166 (347)**	**0 (0)**	**166 (347)**

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 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.

IV. 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 € 21.2 thousand; a decrease of the interest yield curve by 0.5 percentage points would have a negative effect on earnings before taxes of € 21.2 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	98	-57
JPY	106	-72
SGD	16	-17
CNY	1,037	-1,268
	1,257	**-1,415**

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.

in € k	12/31/2019	12/31/2018
Borrowed capital without finance lease and deferred taxes	51,861	45,236
Unused credit lines	20,800	21,200
Total	**72,661**	**66,436**
Short-term receivables	19,388	18,247
Inventories	20,945	21,033
Remaining receivables and other financial assets	6,203	3,386
Liquid assets	-35,177	-31,830
Total	**11,359**	**10,836**

This strategy was not changed compared to the previous year.

On the reporting date, Basler had access to credit lines amounting to € 20,800 thousand (previous year: € 21,200 thousand) including € 11,800 thousand (previous year: € 6,800 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 complied with the key figures.

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

in € k (previous year)	Total amount	< 1 Year	> 1 Year	Of which > 5 Years
Bank debt	19,478 (19,149)	5,298 (7,188)	14,180 (11,961)	3,610 (4,725)
Liabilities from deliveries and services	10,588 (7,391)	10,588 (7,391)	0 (0)	0 (0)
Other current financial and tax liabilities	12,097 (7,500)	12,097 (7,500)	0 (0)	0 (0)
Liabilities from finance lease	16,921 (10,259)	3,178 (1,805)	13,743 (8,454)	2,695 (1,804)

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
2019	1,212	1,818	0	**3,030**
2018	1,212	3,334	0	**4,546**

24. SEGMENT REPORT

Within the internal reporting there is no distinction between any segments or management in segments.

Customers of Basler are global players. In the following statement of turnover per region, 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	2019	2018
Germany	20,211	18,680
EMEA	29,845	39,487
Americas	23,382	23,766
Asia	88,523	68,070
Total	**161,961**	**150,003**

In 2019, there was no customer with a sales portion of more than 10 %.

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

in € k	12/31/2019	12/31/2018
Germany	86,972	62,677
USA	436	66
Asia	5,220	635
	92,628	**63,378**

25. NUMBER OF EMPLOYEES

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

Number (FTE*)	2019	2018
Production	212 (203)	186 (177)
Sales and Marketing	293 (283)	185 (177)
Development	208 (196)	174 (165)
Administration	140 (124)	97 (82)
	853 (806)	**642 (601)**

*) Full Time Equivalent

26. REMUNERATION OF THE AUDITORS

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

in € thousand	2019	2018
Audit fees	67	63
Tax consultancy services	0	0
Other services	9	0
	76	**63**

27. RELATIONS TO CLOSELY AFFILIATED PERSONS

In fiscal year 2019, there were no business relationships with related parties except for the remuneration of the management board and the remuneration of the supervisory board.

28. MANAGEMENT BOARD AND SUPERVISORY BOARD

28.1 MANAGEMENT BOARD

In 2019, 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 2019, the supervisory board consisted of the following members::

Norbert Basler	Chairman of the Supervisory Board, Chairman of the nomination committee Entrepreneur
Dorothea Brandes	Member of the Supervisory Board Employee representative, Organizational developer, Basler AG
Horst W. Garbrecht	Member of the Supervisory Board Member of the nomination committee Chairman of the Management of Metabowerke GmbH Management Board (COO-Europe) of Koki Holdings, Japan
Dr. Marco Grimm	Member of the Supervisory Board Employee representative, Team leader Software development for quality control, Basler AG
Prof. Dr. Eckart Kottkamp	Vice Chairman of the Supervisory Board, Member of the nomination committee, member of the audit committee Consultant
Prof. Dr. Mirja Steinkamp	Member of the Supervisory Board Chairman of the audit committee chartered accountant, tax consultant Professor for auditing and corporate accounting at NORDAKADEMIE

Additional mandates held by the supervisory board members in 2019, 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

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. Eckart Kottkamp
Member of the Supervisory Board, KROMI Logistik AG, Hamburg

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

28.3 REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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

The total remuneration of the management board (inflow) is as follows:

		Dietmar Ley		**John P. Jennings**		**Arndt Bake**		**Hardy Mehl**			
	Function	Chief Executive Officer (CEO)		Chief Commercial Officer (CCO)		Chief Marketing Officer (CMO)		Chief Finance Officer (CFO) and Chief Operations Officer(COO)			
	Member of Management Board since	1998		2006		2011		2014		Total	
		2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Transfer (in € thousand)	Fixed compensatio	338	315	276	265	234	210	273	255	1,121	1,045
	fringe benefits	19	18	68	59	20	21	22	20	129	118
	Total	**357**	**333**	**344**	**324**	**254**	**231**	**295**	**275**	**1,250**	**1,163**
	One-year variable remuneration	0	0	0	0	0	0	0	0	0	0
	Multi-year variable remuneration / payout from bonus bank	186	226	174	206	128	156	142	170	630	758
	Total	**543**	**559**	**518**	**530**	**382**	**387**	**437**	**445**	**1,880**	**1,921**
	Pension expenses	1	1	8	1	1	1	1	1	11	4
	Total Remuneration	**544**	**560**	**526**	**531**	**383**	**388**	**438**	**445**	**1,891**	**1,925**

The granted benefits are allocated as follows:

	Dietmar Ley		**John P. Jennings**		**Arndt Bake**		**Hardy Mehl**			
Function	Chief Executive Officer (CEO)		Chief Commercial Officer (CCO)		Chief Marketing Officer (CMO)		Chief Finance Officer (CFO) and Chief Operations Officer(COO)			
Member of Management Board since	1998		2006		2011		2014		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**

Transfer (in € thousand)											
	Fixed compensatio	338	315	276	265	234	210	273	255	1,121	1,045
	fringe benefits	19	18	68	59	20	21	22	20	129	118
	Total	**357**	**333**	**344**	**324**	**254**	**231**	**295**	**275**	**1,250**	**1,163**
	Einjährige variable Vergütung	0	0	0	0	0	0	0	0	0	0
	Multi-year variable remuneration / payout from bonus bank	34	105	28	88	24	70	28	85	114	348
	Total	**391**	**438**	**372**	**412**	**278**	**301**	**323**	**360**	**1,364**	**1,511**
	Vorsorgeaufwand	1	1	8	1	1	1	1	1	11	4
	Gesamtvergütung	**392**	**439**	**380**	**413**	**279**	**302**	**324**	**361**	**1,375**	**1,515**
	Possible minimal amount-reduction bonus bank	-112	-105	-92	-88	-78	-70	-92	-85	-374	-348
	Possible maximum amount - transfer to bonus bank	450	420	368	353	312	280	365	340	1,494	1,393

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..

28.4 REMUNERATION OF THE SUPERVISORY BOARD

The total remuneration of the members of the supervisory board amounted to € 147 thousand (previous year: € 137 thousand) in the year 2019. There was no performance-related remuneration.

	Fixed Remuneration in € k	
	2019	**2018**
Norbert Basler	51.8	51.8
Prof. Dr. Eckart Kottkamp	26.6	26.6
Horst W. Garbrecht	16.1	16.1
Prof. Dr. Mirja Steinkamp	24.5	24.5
Dorothea Brandes	14.0	9.1
Dr. Marco Grimm	14.0	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, Jungwongu/Korea	100
Basler Japan KK, Minato-ku/Japan	100
Basler Vision Technologies Taiwan Inc.,	100
Jhubei City/Taiwan	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 effective on January 1, 2019. The transfer was completely implemented by January 1, 2019. Within the purchase price allocation no material assets were identified that were to be accounted for.

Considerations transferred:

	in € k
Means of payment	11,634
Equity instruments	0
Contingent consideration	2,869
Total consideration transferred	14,503

The contingent consideration was dependent on the degree of transfer of the business costs associated with the company merger.

Basler AG accrued costs of EUR 23 thousand for legal advice fees and due Diligence costs associated with the company merger. They are recorded in the administration expenses. In the financial year, consultancy costs amounting to € 354 thousand were charged to Basler Vision Technology (Beijing) Co.Ltd.

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

Company Name	Proportion of Stake in % (12/31/2019)	Equity (12/31/2018)*	Result (2018)*
Beruf und Familie im Hanse-Belt gGmbH, Bad Oldesloe	20	€ 71 thousand	€ 7 thousand

*) Financial statement as at Dec. 31, 2019, 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 statement of compliance was made accessible to the shareholders on the company's website at www.baslerweb.com/investors.

31. APPROVAL OF THE ANNUAL BALANCE SHEET

The annual balance sheet is expected to be released for publication by the supervisory board on March 27, 2020.

32. RECOMMENDATION FOR THE AP PROPRIATION OF PROFIT

The management board recommends the distribution of a dividend amounting to € 0.26 per share corresponding to an amount of € 2,602,016.82.

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 27, 2020

Management Board

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


LENS MADE IN
1:2.8
ZOOM LENS
20-35 mm

AUDIT CERTIFICATE OF THE INDEPENDENT STATUTORY AUDITOR

To Basler Aktiengesellschaft, Ahrensburg

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, 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for financial year January 1, 2019 to December 31, 2019 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, 2019 to December 31, 2019. 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, 2019 and its earnings situation for the financial year from January 1, 2019 to December 31, 2019 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, 2019 to December 31, 2019. 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 Beijing Sanbao Xingye Image Tech. Co. Ltd. (MVLZ), China, acquired in 2019

3. Recoverability of the capitalized development costs (incl. 'Goodwill')

1. VALUATION OF INVENTORIES

Facts

Inventories in the amount of € 21 million (12 % 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 THE BUSINESS FROM BEIJING SANBAO XINGYE IMAGE TECH. CO. LTD. (MVLZ), CHINA ACQUIRED IN 2019

Facts

In the financial year 2019, Basler Vision Technology (Beijing) Co. Ltd., China has acquired the distribution business from Beijing Sanbao Xingye Image Tech. Co. Ltd. (MVLZ), China. The consideration for the acquisition amounted to EUR 14.5 million, of which EUR 2.9 million was attributable to a contingent consideration. In the same amount, an acquired goodwill was created, since unable to be estimated values were identified in the context of the purchase price allocation. Due to the large number of discretionary decisions required in the assessment of the consideration, in particular the conditional consideration, the 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 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 and that no assets were to be recognised as part of the purchase price allocation. 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, 2019 the company reported "Intangible Assets" (including goodwill) in the amount of € 62 million (34 % of the balance sheet total) in the consolidated financial statements. A total of € 32 million thereof is attributable to capitalized development costs and € 27 million are attributed to goodwill. 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 form IAS 36 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 assessing 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 there is an intention to liquidate the group or there is no realistic alternative to it.

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 are 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 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 16, 2019. We were commissioned by the Audit Committee on September 23, 2019. 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 27, 2020

BDO AG

Wirtschaftsprüfungsgesellschaft

signed Lüthje signed Dr. Wißmann

Auditor Auditor

EVENTS 2020

IR-EVENTS

Date	Event	Venue
05/07/2020	Publication 3-month report 2020	Ahrensburg, Germany
05/26/2020	Shareholders‘ meeting 2020	Hamburg, Germany
08/06/2020	Publication 6-month report 2020	Ahrensburg, Germany
11/05/2020	Publication 9-month report 2020	Ahrensburg, Germany
11/16/2020-11/18/2020	Deutsches Eigenkapitalforum 2020	Frankfurt am Main, Deutschland

SHOWS AND CONFERENCES

Date	Event	Venue
June 2020	Vision China, Beijing	Beijing, China
07/03/2020-07/05/2020	Vision China, Shanghai	Shanghai, China
06/02/2020-06/05/2020	Integrated Automation, Motion & drives SHENZHEN (IAMD)	Shenzhen, China
10/12/2020-10/15/2020	NI Week 2020	Austin, USA
10/27/2020-10/28/2020	Collaborative Robos, Advanced Vision & AI Conference	San Jose, USA
11/10/2020-11/12/2020	VISION	Stuttgart, Germany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