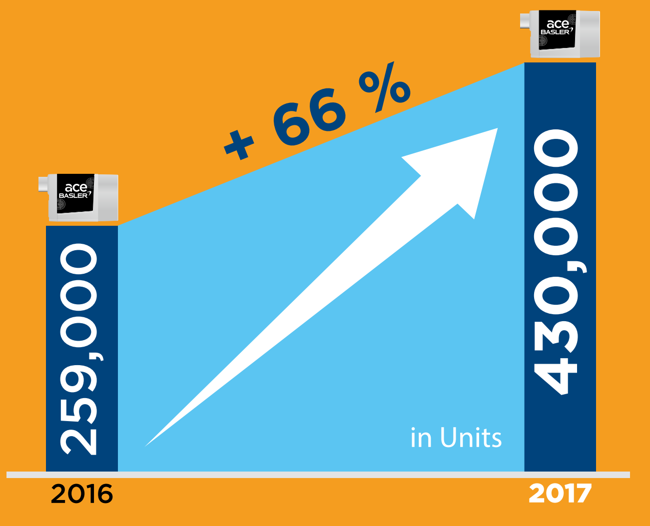
BASLER

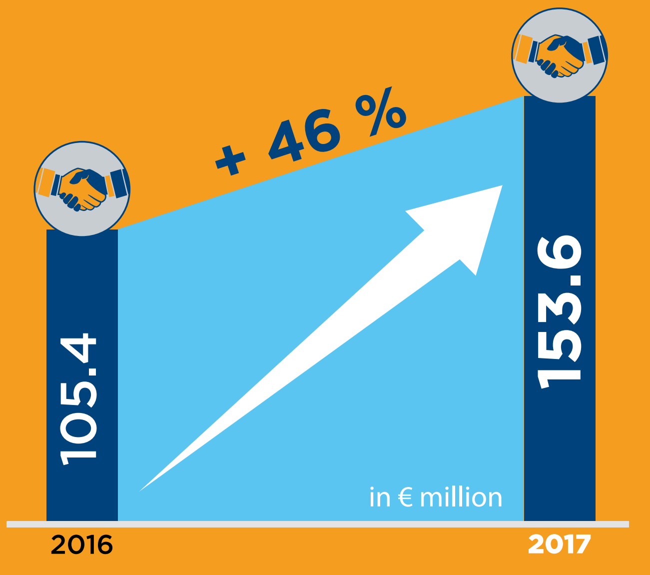
Annual Report 2017

HIGHLIGHTS 2017

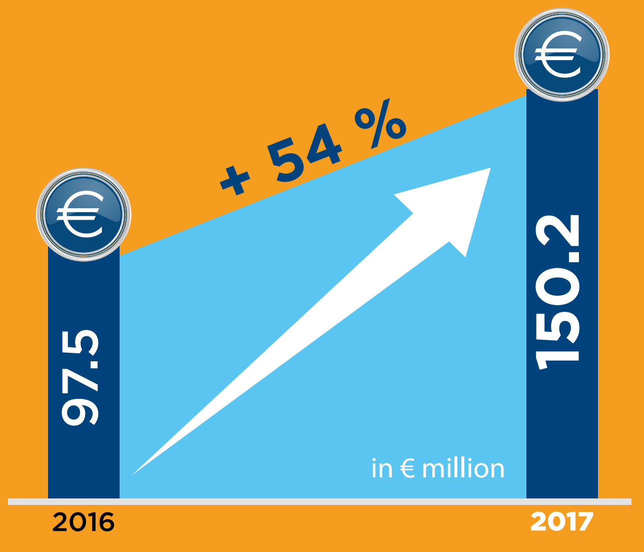
CAMERA UNIT GROWTH:



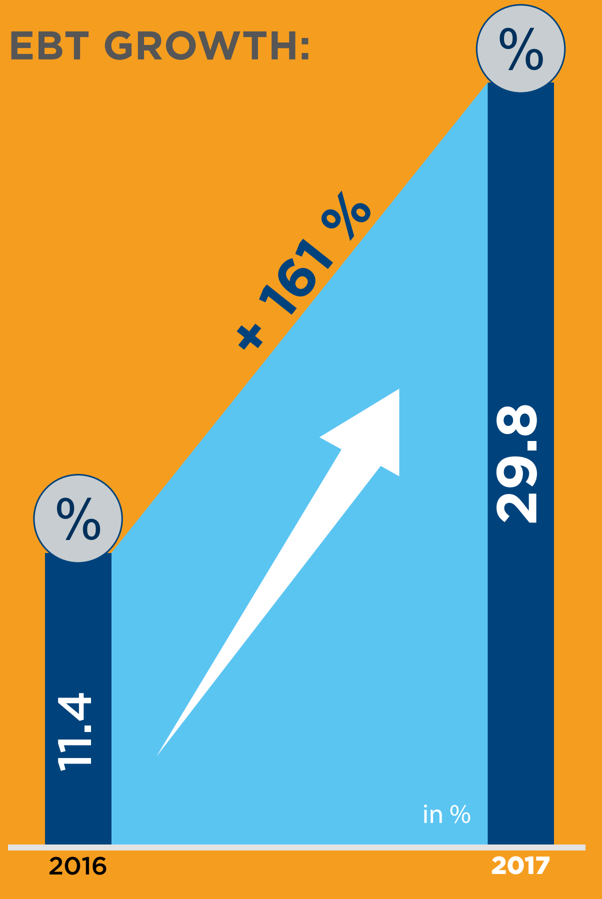
ORDER GROWTH:



SALES GROWTH:



EBT GROWTH:



KEY FIGURES

in € m*	2015	2016	2017	Changes in %
Sales revenues	85.4	97.5	150.2	54 %
Incoming orders	83.0	105.4	153.6	46 %
Gross results	40.7	47.5	74.0	56 %
Gross profit margin	47.7 %	48.7 %	49.3 %	0.6 Pp.
Full costs for research and development	12.0	13.2	16.0	21 %
Research and development ratio	14.1 %	13.5 %	10.7 %	-2.8 Pp.
EBITDA	16.0	18.8	40.0	113 %
EBIT	10.0	12.2	30.5	150 %
EBT	9.1	11.4	29.8	161 %
Net income	6.2	7.9	21.6	173 %
Weighted average number of shares	3,209,466	3,230,943	3,209,430	-1 %
Result per share (€)	1.94	2.45	6.74	175 %
Cash flow from operating activities	12.9	16.1	28.4	76 %
Cash flow from investing activities	-9.3	-8.0	-9.8	23 %
Free Cash flow	3.6	8.1	18.6	130 %

in € m*	12/31/15	12/31/16	12/31/17	Changes to previous year
Total assets	76.7	90.4	117.7	30 %
Long-term assets	42.5	43.9	45.9	5 %
Equity	45.2	50.0	65.6	31 %
Liabilities	31.5	40.4	52.1	29 %
Equity ratio	58.9 %	55.3 %	55.7 %	0.4 Pp.
Net cash	6.6	8.8	25.0	184 %
Working Capital	15.8	18.6	19.8	6 %
Number of employees for the fiscal year (full time equivalents)	438	457	504	10 %
Share price (XETRA) in €	43.43	60.37	195.05	223 %
Number of shares in circulation	3,241,363	3,215,247	3,211,136	0 %
Market capitalization	140.8	194.1	626.3	223 %

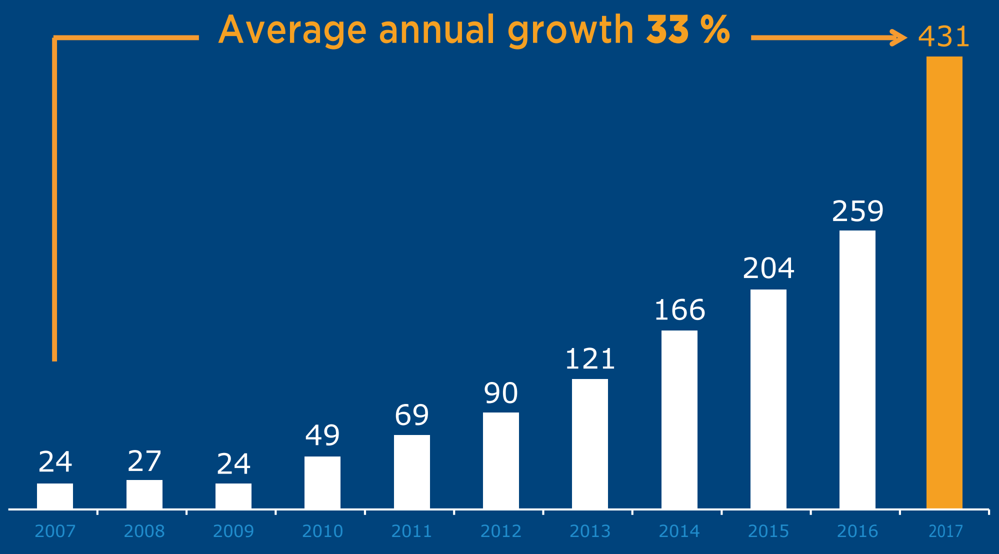
*unless otherwise stated

CONTENT

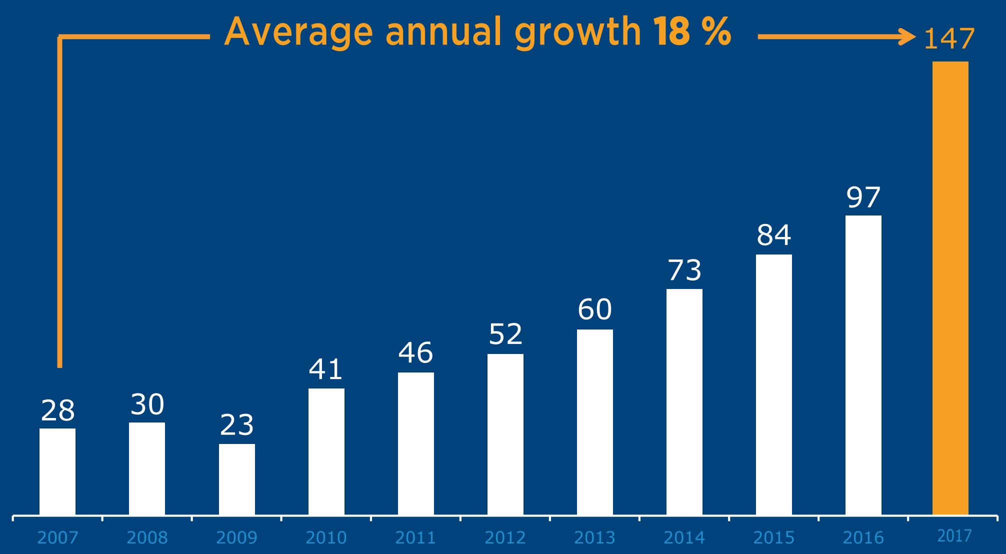
You find the image movie under: http://info.baslerweb.com/video

BASLER GROWTH STORY

Camera Units (in k Units)



Camera Revenue (in € million)

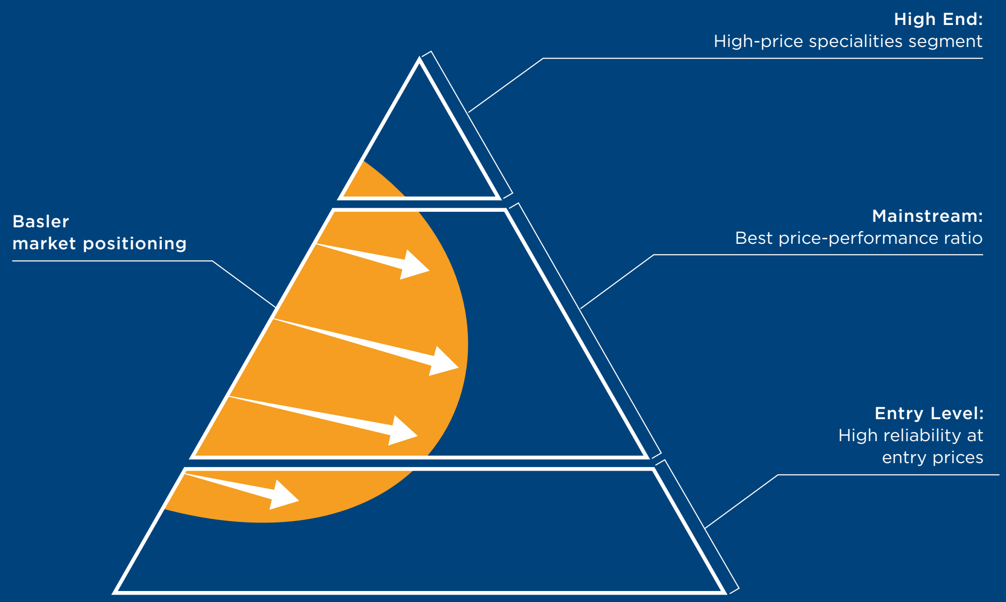


GROWTH STRATEGY UNTIL 2022

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

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

OUR MARKET MODEL:



Our volume strategy is based on:

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

We achieve this through lean innovation and lean operations.

REPORT OF THE MANAGEMENT BOARD

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

For Basler AG, the fiscal year 2017 was extraordinarily successful and challenging at the same time. The consistent execution of our volume strategy in the past years as well as a flourishing market resulted in a fifty percent increase in incoming orders – in the first half year incoming orders even doubled. The tremendous commitment of our employees and the continuous optimization of our processes enabled us to convert these incoming orders successfully into sales. The considerable economies of scale not only led to new records in sales, result, and cash flow, but also to rates of return far above our strategic guidelines. Driven by this substantial progress as well as the positive market perspective, the market capitalization of Basler AG tripled in the course of the year. In the present report, we would like to give you detailed information about the very positive fiscal year 2017.

For many years, sales growth, pre-tax return, and free cash flow have been the most important performance indicators for steering the company. In 2017, we significantly exceeded the goals for these indicators:

→ Our sales increased by 50 % and thus grew significantly faster than the very active market for industrial cameras (market growth: 24 %, source: VDMA, Verband Deutscher Maschinen- und Anlagenbau, German Engineering Federation). Thus, Basler AG's global market share further increased. With these results, we clearly exceeded our own medium-term sales growth target of 15 % per year. Sales growth was particularly driven by mainstream and entry level products. Based on a large-scale growth in numerous vertical markets and applications, we achieved substantial sales increases in the field of investment goods for semiconductors and electronic engineering. Regionally, Asia showed by far the highest growth dynamics – in particular China and Korea. Our business in Asia increased disproportionately by more than +60 % compared to the previous year and now accounts for 47 % of our total sales.

→ We reached a pre-tax return rate of 20 %, which is far above our target rate of 12 %. This particularly pleasing result is due to the combination of sales that were significantly above budget and the subsequent economies of scale of the manufacturing and operating costs.

→ In this way, in 2017 we clearly took again into account our efforts to finance our growth from own resources. With a strong free cash flow of € 17.4 million, our cash balance at the end of the year increased to € 36 million and gives us a solid foundation for our further growth path.

For the first time, in fiscal year 2017, we supported our organic growth path by an acquisition. Due to technological motivation, on June 1st, 2017, Basler AG acquired Mycable GmbH. The small, highly specialized Mycable GmbH with its embedded processing knowledge complements Basler AG's computer vision competence and thus accelerates our strategic expansion towards embedded vision.

Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Arndt Bake
CMO

Hardy Mehl
CFO/COO

The two essential success factors for the positive results of the past reporting period are our passionate and committed employees as well as a company culture which fosters innovation. In the elapsed fiscal year, we hired 68 new employees at a very low fluctuation rate (1,6 %). Our last years' efforts to adjust structures and procedures as well as steering mechanisms to the growing organization, led to a measurable increase of efficiency and effectiveness in 2017.

We would like to take this opportunity to thank all employees for their commitment and achievements. Without this outstanding commitment and great capacity of improvisation of our team, we would not have been able to cope with this extensive and sudden, unexpected sales growth in the reporting period. Due to these best ever results that we achieved with joined forces, in December 2017 we shared our success monetarily with our employees in the form of special payments.

We thank our customers and sales partners for the trust in our company, for using our products as well as for the continuous communication enabling us to further improve our products and services. We sincerely apologize for the temporarily increased delivery times in the course of the fiscal year and assure you that we implemented effective countermeasures in 2017 in order to keep our brand promise of short-term and reliable delivery, even in times of extraordinarily strong growth.

We would also like to thank our shareholders for the trustful and excellent cooperation in the course of the reporting period. We are extremely pleased that the value of your shares in Basler AG increased by over 200 % along the positive business development in 2017. In order to let you participate for the eight time in a row in the success of the company, we will forward a proposal to the general meeting 2018 suggesting to pay a dividend for the financial year 2017 in the amount € 2.02 per share. Should that proposal be adopted, the planned dividend payment of a total of € 6.5 million would correspond to about 30 % of the net result.

For 2018, economic research institutes and banks assume a sustained single-digit percentage growth of the engineering industry. In the field of investment goods for the semiconductor and electronic industry, growth is expected to continue, however, at decreasing growth rates compared to 2017. In principle, we share this estimation for our market environment. Based on discussions with our customers, we expect our market to grow by approximately 5 % in 2018. Crucial for this is the expectation that the demand for investment goods for the manufacturing of mobile devices normalizes on the level of the years before the record year 2017, whereas the demand in the factory as well as in adjacent markets, as for example medical and traffic, continues to increase. Independent of the market growth, we strive for gaining further market shares.

Since from today's perspective it is uncertain whether and to what extent a presumably lower demand for investment goods for the manufacturing of mobile devices can be overcompensated by growth in other market segments, for the time being, we expect sales revenues for the group to be in a corridor between € 145 and 160 million in fiscal year 2018. We will make use of our expected consolidation phase

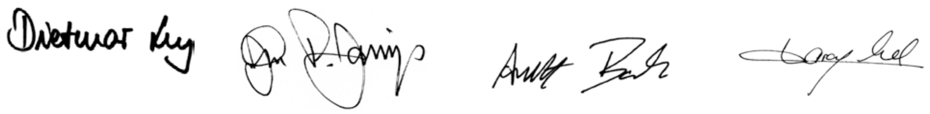
scaling the company further and thus adequately exploit our medium-to-long term market opportunities. Consequently, step by step the pre-tax return rate will decrease towards the strategic target of 12 %. According to what we know now, we assume a pre-tax return rate between 13 and 15 % for the fiscal year 2018. For the course of the year, we expect a strong first half year followed by a good third quarter and a seasonally slightly weaker fourth quarter.

With a high level of orders, an increased number of employees, unique market access, solid liquidity, and a very attractive product portfolio, Basler AG is well positioned for the financial year 2018. The risk profile of our business model is well-balanced due to a large number of customers and target markets. Besides the high level of customer loyalty in the design-in business, we underpin the sustainability of our business model by diversification in applications outside the factory. We are motivated to further implement our growth strategy and now – having achieved our old medium-term planning ahead of time - intend to exceed the sales threshold of € 250 million within the upcoming five years.

We look forward to working together with you shaping the growth of Basler AG.

Ahrensburg, March 2018

The Management Board



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

REPORT OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,

In the elapsed fiscal year 2017, 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 2017, five regularly occurring supervisory board meetings took place. These were held on March 29, 2017, May 17, 2017, September 12, 2017, November 15, 2017, and December 13, 2017. All members of the supervisory board attended these meetings with one exception – Mr. Garbrecht could not attend the meeting on November 15, 2017.

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

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

- Consultation on and conclusion of the annual balance sheet for 2016 and the proposals for the shareholders' meeting
- Dividends for fiscal year 2016 including the proposal for the shareholders' meeting
- Economic and market-specific developments
- Situation of the relevant markets and Basler AG's position in these markets
- Advancement of the corporate strategy
- New Business Development
- M&A-activities
- Acquisition and integration of Mycable GmbH

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

- Company organization
- Expansion of business premises
- Transfer prices between Basler AG and its subsidiaries
- Investments
- Corporate financing and banking relationships
- Currency hedges
- Liquidity and working capital
- Investor relations
- Share buyback program
- Corporate planning and budget for the group for fiscal year 2018
- 4-year-planning 2018 - 2021
- Adjustment catalogue of business transactions requiring the approval of the supervisory board
- Adjustment of rules of procedure of the supervisory board
- Set-up of an audit committee and a nominating committee
- Preparation of one third employee participation in the supervisory board
- Dividend policy
- Correctness and effectiveness of the internal control system (IKS)
- Correctness and effectiveness of the risk management system (RMS)
- Compliance issues
- Changes of legal requirements
- Commitment to and amendments of the Corporate Governance Code
- Selection procedure for the statutory auditor
- Remuneration of the management board
- Further development of supervisory board composition and organization
- Efficiency of the supervisory board's work

The BDO AG Wirtschaftsprüfungsgesellschaft which was selected as annual auditor by the shareholders' meeting on May 17, 2017, was commissioned by the chairman of the supervisory board's audit committee, Prof. Dr. Mirja Steinkamp, to perform the audit by a letter of September 21, 2017. The annual auditor participated in the supervisory board meeting on March 19, 2018, in which the presented annual balance sheet and the reported essential results were discussed.

The accounting, the annual balance sheet as of December 31, 2017, and the situation report for Basler AG, along with the group's annual balance sheet as of December 31, 2017, and the group's situation report have been audited by the annual auditor, the BDO AG Wirtschaftsprüfungsgesellschaft, they have been found to be compliant with the applicable laws and the company's articles of incorporation, and they have each been furnished with an unconditional audit certificate. The supervisory board took consenting note of the audit result.

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

In accord with the Corporate Governance Code, the supervisory board regularly reviewed the efficiency of its work and improved it. Furthermore, the supervisory board perceived on its own authority education and training measures required to perform its duties.

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

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

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

- the actual information given in the report is correct

and

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

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

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

The supervisory board of Basler AG has set itself objectives concerning among other things its composition and the competences to be covered. In this backdrop, the supervisory board was expanded to four members utilizing the changed regulations with regard to the number of supervisory board members and in preparation of the expected application of the one third employee participation in the supervisory board. Prof. Dr. Mirja Steinkamp (auditor, tax consultant) complements the competences already represented in the board by bringing in to the supervisory board's work her knowledge and experiences including – inter alia - accounting, annual audit, and IFRS.

Now that the supervisory board consists of more than three persons, consequently the mandatory audits have been formed: Prof. Dr. Mirja Steinkamp as a financial expert has been elected as chairman of the audit committee. Norbert Basler as the chairmann of the supervisory board is the chairman of the nomination committee.

Finally, in the elapsed fiscal year, the supervisory board prepared for the expected application of the one third employee's participation. After having achieved the necessary size criteria, the election of employee representatives in the supervisory board has been initiated. The members of the supervisory board of Basler AG look forward to this expansion of the body.

Strategy and Company Culture – Basics for Today's and Tomorrow's Success

Even having in mind the continuously pleasing course of business in the past years, 2017 was a particularly satisfactory period for Basler AG in a number of ways.

In the first half year, there was an unexpected strong increase in incoming orders and sales due to a very strong demand that mainly came from the rapidly expanding Asian markets and the market leading position which Basler AG reached in recent years. Despite the demand coming closer back to budget level in the second half year, the revenues increased by 50 % compared to 2016. In a market for industrial cameras that is growing by approximately 20 %, this result means a repeated gain of market shares and thus an expansion of market leadership.

In the past years, Basler AG substantially invested in the organizational development, in structures, and processes. Thanks to these long-term efforts and the particular culture of dealing with each other in the company, this clearly above expectation surge in demand was not only mastered but also turned into a relative and absolute record result.

The long-term orientation in thinking and planning was also apparent in the strategic development in 2017. In the way the fruits of courageous and strategy-driven decisions are harvested today, the desired continuation of this growth path requires at least the same high level of willingness to change, courageous decisions, as well as an amended strategy carrying the company through the upcoming years. In the elapsed fiscal year, this was exactly what the management dealt with in a very systematic and intensive way. The result of this is a new medium-term planning including the consistent advancement of today's core business combined with the development of various new business areas. This planning will be the guiding principle for activities and decisions in the upcoming years and sets a realistic basis for future growth.

The first business acquisition in almost 30 years of Basler AG history is consistent with this strategic approach: Convinced that embedded vision technology will enable the use of imaging processes in various additional applications, the acquisition of Mycable GmbH as a specialist in this area strengthens the good starting position of Basler AG in this major market.

Thus, the elapsed fiscal year is characterized by a high operational capacity as well as a far-sighted strategic development. These are good preconditions for the implementation of the continuously ambitious planning aiming for profitable sales growth.

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 extraordinarily successful and challenging at the same time.

Ahrensburg, March 2018

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

THE BASLER SHARE

At the beginning of 2017, the price of the Basler share opened at € 61.35, it moderately increased during the first weeks of the year and then even decreased to an annual low of € 58.57 in mid-February. After publication of the preliminary results of 2016 and the announcement of strong order entries in the first weeks of the year, the price recovered quickly and closed the first quarter at € 73.40.

After extremely strong order entries in the first quarter, the share price rapidly rose to over € 100.00 upon publication of the first quarter results at the beginning of May. The steady flow of good news from the company with the acquisition of Mycable GmbH at the beginning of June as well as the forecast increase at the end of June, led to a closing price of € 128.50 in the second quarter. Anticipating good quarterly results that were to be published at the beginning of August, the share price rose to over € 150.00 in mid-July and closed the quarter at € 179.05 on September 30, 2017.

Due to continuing strong incoming orders and sales in the first nine months, the share price developed towards the mark of € 200.00. After another raising of the forecast on October 24, this development turned into a constantly decreasing share price down to a level of below € 160.00 shortly before Christmas.

For the first time in the company history the year-end rally delivered a share price of over € 200.00 and the highest intraday price ever of € 228.70. This development calmed down by the end of the year and the share price closed the year at € 195.05. Thus, the Basler share price increased by almost 218 % over the course of the year.

General Meeting

The general meeting took place in the Hamburg Chamber of Commerce on May 17, 2017.

The investors present were given an extensive company presentation by the management board informing them about the strategic alignment of the company and the course of business in 2016. After a general debate, all items were approved by more than 93 % of the voters present.

Please find detailed information about the general meeting 2017 here www.baslerweb.com/en/investors/annual-general-meeting.

Share Buyback Program

The general meeting of June 4, 2014, authorized the company to buy back own shares amounting to a total of up to 10 % of the share capital of the corporation existing at the time the resolution was adopted. The resolution reads as follows:

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

Convinced that sales and results would continuously improve over forthcoming reporting periods, in September 2011, the management board first decided to buy back shares. In the course of the past five years, another five share buyback programs followed. After the buyback was suspended since mid-2015, on April 21, 2016, due to the solid liquidity development during the first nine months of financial year 2016, the management board and the supervisory board decided for another buyback of own shares up to a volume of 10 % of the share capital or up to a maximum amount of € 3.5 million authorized by the general meeting.

At the reporting date December 31, 2017, Basler AG held 288,864 own shares corresponding to almost 8.3 %. These were bought at an average share price of € 22.00.

Dividend and Appropriation of Earnings

Due to the positive business development in the fiscal year 2017, the management board of Basler AG has decided to propose to the general meeting 2018 to pay a dividend.

On this base, the proposal will be made in the general meeting of 2018 to pay a dividend for the fiscal year 2017 of € 2.02 per share.

Basler AG pursues a growth oriented and sustained dividend policy, corresponding to the company development and the respective business situation.

Also in the future, Basler AG wants to let its shareholders participate in the positive development. It is planned to pay approximately 30 % of the net result as a dividend, however, always depending on the business development and investments planned in growth and the future of the company.

Keyfact

€ 2.02

Dividend

Capital Market Communication

Continuous and open communication with all capital market participants is very important to Basler AG. Therefore, we value the direct contact to analysts, investors, and private shareholders. We communicate with institutional investors via conference calls, individual meetings, and roadshows or at capital market conferences. It is during the 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 nine (previous year: five) roadshows and six (previous year: three) capital market conferences. Due to the increased share price level, many investors sought direct contact with the company. We addressed this interest via conference calls and videoconferences or in the form of company tours.

As a listed family company, in 2017 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 fiscal year. Due to this clear orientation as well as the very positive business development in 2017, the quality and quantity of our investors' meetings considerably improved. After these positive experiences made in the elapsed fiscal years, we will continue and further improve this strategy in 2018.

In the previous year, the analysts of Warburg Research and Oddo BHF Aktiengesellschaft as well as Matelan Research regularly prepared studies about Basler AG (previous year: 2). Furthermore, in August 2017 the Berenberg Bank started coverage for Basler AG. 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:

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Fax +49 4102 46346 101
ir@baslerweb.com
www.baslerweb.com/Investors

Regular Information

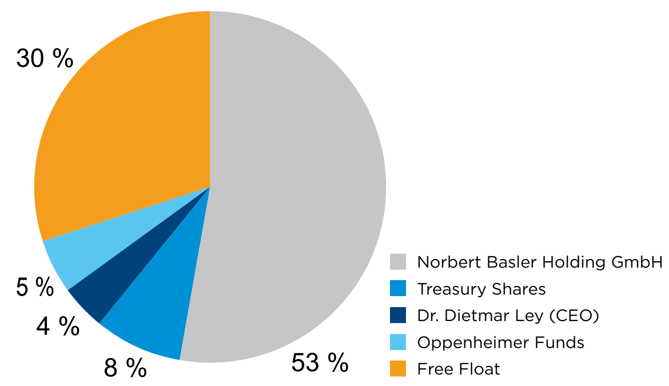
If you wish to receive information about our company regularly, please contact our investor relations department via www.baslerweb.com/Investors.

Share-related Information

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

As regards trade, our share is supported on the capital market by Oddo Seydler AG (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



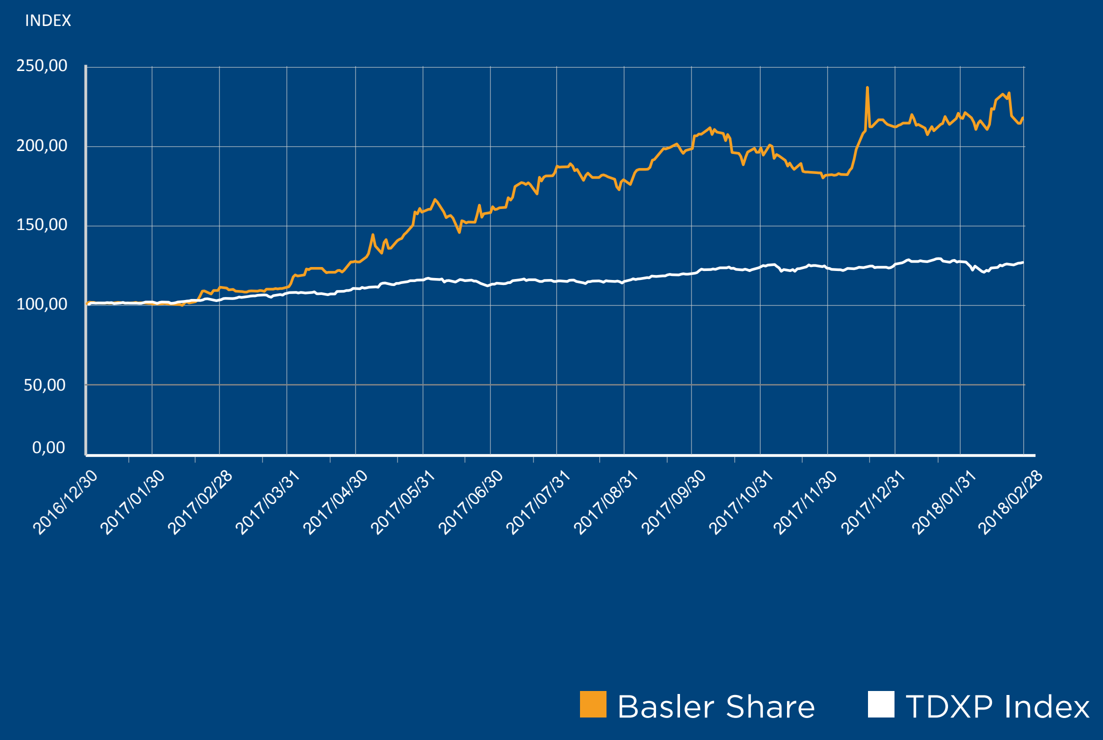
Keyfact
€ 228.70
Annual High 2017

Share Price Key Figures

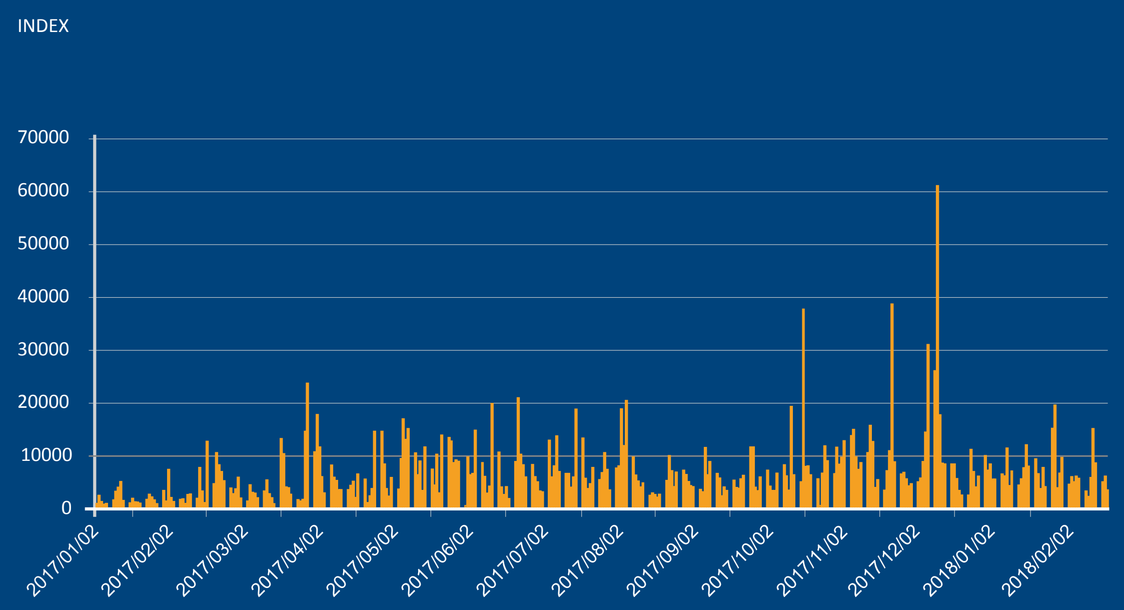
	2017	2016	2015	2014
Market capitalization in € million (as of 12/31)	626.3	194.1	140.8	123.0
Annual closing price in € (as of 12/31)	195.05	60.37	43.43	38.66
Year high in €	228.70	63.85	62.00	43.85
Year low in €	58.57	43.51	37.46	28.21
Annual development	+218 %	+34 %	+12 %	+35 %

SHARE PRICE DEVELOPMENT 2017

Basler (Xetra) vs. TecDax



DEVELOPMENT TRADE VOLUME 2017



CORPORATE GOVERNANCE

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

The management board and the supervisory board of 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 the Basler group in gaining the trust of shareholders, business partners, employees, and of 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 the Basler Group.

Leadership Structure and Company Structure

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

Management Board

In 2017, 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

The supervisory board consists of four members. It 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 supervisory board is 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 rules of procedures of 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 under 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 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.Therefore, the supervisory board does not give concrete targets according to clause 5.4.1, paragraph 2, DCGK (Deutscher Corporate Governance Kodex, German Corporate Governance Code) nor does it set a limit for the length of service or an age limit for members of the supervisory board as recommended in clause 5.4.1 paragraph 2, sentence 21, DCGK, in the version dated May 5, 2015.

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 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.

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

Opportunities and Risks Report as well as Compliance

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

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

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

Essential parts of the opportunities and risk management system are the risk strategy, the risk atlas, the risk matrix, and the risk coping. In 2013, a risk strategy was adopted and software for a standardized collection and measurement of risks was implemented. Again, in the elapsed fiscal year, the risk inventory was conducted. Here, risks were identified and quantified according to occurrence probability and monetary amounts and measures were defined in order to minimize 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.

More informations of the compliance management system can be found under 4.1.3 in the declaration of the conformity 2017.

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 2017 fiscal year. On March 19, 2018, 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).

In March 2018, the management board and the supervisory board decided that until the end of 2021 at the latest a women quota of 30 % should be achieved in executive functions as well as on head of department level at Basler AG. On September 30, 2017, 25 % of the company's executive functions as well as 28 % of the head of departments were female. On January 1, 2018, the quota of female executive employees increased to 30 %. The first management level below the management board is the divisional management followed by the department heads.

DECLARATION OF CONFORMITY 2017 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 2017, 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:

back

Clause 4.1.3. – Compliance Management System

Due to the risk situation of the company resulting from the size and nature of business, in accordance with its function, the management board ensured that all provisions of law and the company's internal policies are complied with and endeavored to achieve their compliance by the group entities, without having set up a formal compliance management system so far. This has been achieved inter alia by the company organization and the existing procedural landscape as well as the active shaping of the company culture. By the end of 2018, a compliance management system will be implemented.

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 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, sentence 1 as of May 5, 2015. 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.

Clause 7.1.2 – Financial Reporting and Audit of the Annual Financial Statements

The supervisory board regularly discusses the quarterly and half-year figures with the management board. In terms of lean processes, half-year, quarterly or monthly figures are being made available to the supervisory board but not discussed again with the management board after completing the reports.

Ahrensburg, March 19, 2018

Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Arndt Bake
CMO

Hardy Mehl
CFO/COO

Norbert Basler
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

MANAGEMENT REPORT CONTENT

1 Basic Company Information

1.1 Business Model

Basler is headquartered in Ahrensburg near Hamburg (Germany) and develops and manufactures digital cameras for professional users that are mainly used in industrial mass production, medical technology, traffic control as well as logistics. Basler cameras are recognized on the market for innovation, excellent quality, simple integration, compact housings, and an outstanding price performance ratio. These factors make Basler the world's biggest provider of digital industrial cameras measured in terms of the number of sold units as well as sales volume.

In addition to research and development as well as the production of cameras, Basler has a leading global sales organization and market leading brand awareness. Target customers are national and international manufacturers of investment goods (OEM customers), integrating Basler cameras in their own products. Cameras from Basler can be generically used in many applications - with the OEM customers' system integration they become part of an application-specific solution. After the customer's successful integration of the camera within its development (so-called design-in), the Basler camera becomes a firm part of the bill of materials of the specific customer system. If the customer successfully markets its system, the design-in phase will typically be followed by perennial business. The obstacles to change are relatively high, thus, the customer is highly resistant to change the camera supplier along the life cycle.

Despite this standardized product business, this value added structure results in an intensive consultative selling process for Basler followed by ongoing sales. The customers are supported by an own direct sales organization and/or by regional sales partners (distributors).

Basler has 100 % owned subsidiaries in the USA, Singapore, Taiwan, and Neumünster. The subsidiaries are fully consolidated in the financial statements. Further representative offices are located in Japan, South Korea, China, Poland, UK, Finland, France, and the Netherlands. The foreign subsidiaries and representative offices mainly provide sales and service activities. Additionally, there is a production site in the Singapore subsidiary for the supply of the local Asian markets.

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

Markets
Industry & Production
Biomedical Microscopy
Medical & Life Sciences
Traffic & Transport
Retail

1.2 Control System

An annually conducted 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 for managing the self-financed, profitable growth strategy of Basler AG are sales and pre-tax return. Furthermore, the economic value creation is controlled via the return of the capital employed (ROCE). The strategy process concludes with a qualitative and quantitative four-year planning as well as with a budget for the upcoming fiscal year.

Performance indicators that are essential for the group management are derived from both planning perspectives and summarized in a balanced score card system (BSC) with derived scorecards for key value added processes. The central BSC figures are sales, gross margin, pre-tax return (EBT margin), free cash flow, profitability, and rate of return (ROCE). Employees' satisfaction, the growth of the number of website visitors, the development of the customer portfolio and the sales of new products to new markets serve as early indicators. Further key figures of the corporate management are mentioned in the economic report. The BSC figures and the underlying scorecards are updated once a month and discussed within the management team. Furthermore, the executive management team meets every two weeks in order to discuss the current situation of the company and the progress of strategic initiatives. Additionally, on the operational level there is a so-called "daily management "or" shop floor management" where teams discuss their daily work progress. This enables the recognition of potential deviations from the targets and the initiation of appropriate countermeasures on different hierarchic levels.

In order to ensure a high quality, robustness as well as a high reliability of the manufactured products and of the corporate processes applied, Basler has implemented a worldwide quality management system (QM system). Every four months, a quality management review is conducted in which the management board together with the process owner check the effectiveness of the existing management system 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 conducted in order to verify whether the QM system is applied according to the provisions. In November 2016, Basler AG was successfully audited for the first time according to the provisions of the new DIN EN ISO 9001:2015.

For better addressing the requirements of the medical market, in 2017 the quality management system was prepared for DIN EN ISO 13485 (Medical Norm), in order to be able to develop, manufacture, and deliver selected products according to the requirements of this guideline as of the second quarter of 2018. A separate production line has been set up in Ahrensburg that is planned to be put into operation in the first quarter of 2018.

1.3 Research and Development

As a technology company, Basler relies on an early recognition of technological trends and their fast integration in product developments. Since camera technology develops fast and Basler pursues a sustainable growth strategy, Basler's average annual investment in research and development (R&D) amounts to approximately 13 % of sales. Due to the unexpectedly strong sales in 2017, this value amounted to only 11 % (previous year: 14 %). However, the R&D investment quota is to be led back to approximately 13 % in the future, in order to adequately support the sustained growth strategy by current technology. R&D activities are structured as follows:

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

The target of the predevelopment is the examination of technologies that seem to be reasonable for integration in future products. As far as possible, Basler aims to master new technologies and application fields prior to platform or product developments and to have sufficiently analyzed possible risks before the start of the realization phase. In this way, product developments can be conducted more closely 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 mentioned above categories, the following measures in the financial year 2017 should be particularly pointed out:

In predevelopment, Basler made further steps towards the development of three-dimensional camera technology. The further development was pushed forward by using agile methods in a fast and flexible way in order to quickly consider feedback from the market. Besides the 3D camera technology, within predevelopment it was inter alia worked on new low cost camera modules based on embedded vision technology as well as on basic technologies for a new industrial camera platform. Further details regarding the predevelopment are not given in this report due to confidentiality reasons.

In the elapsed fiscal year, in the platform development it was intensively worked on a new platform for industrial cameras as well as embedded vision camera modules. Furthermore, the existing industrial camera platform was expanded regarding the integration of high solution CMOS sensors. Moreover, the scope of functions of the pylon software development kit (SDK) was continuously expanded.

In product development, the ace and dart product lines were supplemented by a number of modern CMOS sensors and new features. First product variants of the so-called ace L were launched on the market in 2017. Furthermore, the dart series was equipped with the new BCON for LVDS data interface, in order to enable our customers a direct and cost-efficient camera connection to embedded processors. In 2017, besides the original camera development, additional investments were made in the development of complementary accessories. Basler would like to offer an easier image generation to its customers by combining the actual camera with compatible

Basler ToF Camera

Basler Lenses

and reliable accessory products, and thus differentiate from the competition and make better use of the established market access.

Approximately one fifth of the R&D budget is invested in the ongoing maintenance of products in order to ensure the availability of products in series production and continuously optimize manufacturing costs.

Compared to the previous year, the expenses for R&D (personnel costs, depreciation, other operating expenses as well as directly attributable overhead) increased from € 13.2 million to € 16.0 million in 2017. After the unscheduled R&D quota decrease to 11 % of sales due to the high 2017 sales level, in the upcoming years a R&D quota of approximately 13 % of sales will be targeted in order to keep the company's innovation power continuously high.

The expenses include third-party services in the amount of € 4 thousand (previous year: € 194 thousand). The capitalized investments in own developments amounted to € 5.1 million (previous year: € 5.3 million). The amount of depreciation for own developments amounted to € 6.2 million (previous year: € 3.8 million). As of December 31, 2017, the number of full-time equivalent employees in research and development was 128 (previous year: 121).

At the end of fiscal year 2017, Basler was the owner of 30 patents and patent applications: 15 are granted, 15 are in the process of application. Furthermore, Basler is the owner of one utility model, seven designs, and 99 trade names. Further trade names are in the process of application.

2 Economic Report

2.1 Basic Conditions

Global economic growth of 2.8 % was slightly above the expected growth of 2.6 %. Whereas China with 6.9 % and Japan with a 1.8 % economic growth were slightly above the forecasts, the USA economy grew by 2.2 % and thus remained slightly below the forecast. The euro zone developed much more positively than expected and recorded a 2.3 % growth (previous year: 1.6 %). Despite political changes and currents opposing a liberally oriented world trade order the upturn continued. In 2017, Germany achieved an economic growth of 2.5 % (previous year: 1.8 %). (Source: Berenberg, Economy and Financial Markets, Outlook 2018).

In 2017, Basler's sales coming from the market for machinery and plant engineering increased after a sideways movement in 2016. While the industry in Germany achieved an increase in sales of 3 %, Europe grew by 4 %. Sales in the USA increased by 3 %, whereas China again grew disproportionately by 6 %. (source: VDMA, Verband Deutscher Maschinen- und Anlagenbau, International Economic Situation). The market for components for the image processing industry again developed better than the sector average and recorded sales increases of 24 % as well as an increase in incoming orders of 19 %. (source: VDMA Statistic Dec. 2017).

Keyfact

54 %

Sales growth 2017

2.2 Business Development

After a moderate increase of incoming orders in the second half year of 2016, Basler AG dynamically started the financial year 2017. In the first quarter, incoming orders unexpectedly shot up to a new record level of € 60 million, representing an increase of approximately 260 % compared to the same quarter of the previous year. Measured in units, incoming orders rose almost three fold. This extraordinary increase is mainly due to a combination of three effects: First, a positive market development of the global capital goods industry in the factory automation. Second, a very strong investment cycle of the Chinese and South Korean consumer goods industries in machinery and equipment for manufacturing mobile devices. Here Basler gained particularly high market shares in the past years. Third, early order placements of around € 10 million as an answer to the rapidly increased delivery times. The highest level of incoming orders ever in the first months of the new financial year was a great operational challenge for the company. The high level of flexibility and great commitment of the employees almost doubled the monthly production output up to a level of almost the maximum machine capacity. Also the necessary material was made available. Thus, the tense delivery situation was stabilized in the course of the second quarter. In the course of the third quarter, delivery times and order backlog returned to normal. Due to the high dynamic of the first half year, incoming orders in the fourth quarter were slightly damped, stocks of some sales partners were still above their normal level due to early order placements. However, at the end of the year, these effects leveled and Basler AG started fiscal year 2018 without considerable effects on demand.

In total, Basler's sales increase of 54 % is approximately twice as high as the increase of the German image processing industry (+24 %) and thus further increased its globally leading market share. In absolute terms, sales of the Basler group increased from € 97.5 million in 2016 to a new record value of € 150.2 million in fiscal year 2017.

The number of units sold rose by around 67 % from approximately 258,000 in 2016 to around 430,000 in 2017. This disproportionately strong growth in units led to a considerable extension of delivery times in the first half year. Despite the temporary production bottlenecks, substantial losses of sales and sustainable damages in customer relations were avoided. In order to prevent a new bottleneck situation in the future and to better fulfill the brand promise of short and reliable delivery times, the production capacity in the camera assembly was expanded by almost 50 % and the personnel in the production area was considerably increased and qualified in the fourth quarter of 2017.

As in the previous year, the main driver of growth was the ace camera family that showed an increase in sales by over 71 %. In particular, the ace models with Gigabit Ethernet and USB 3.0 interface largely contributed to the sales growth. Also the higher priced camera products of the racer and Basler beat series recorded substantial sales growth. According to our expectations, the demand for sensor technologies continued to develop towards CMOS sensors.

The sales from accessories again increased slightly disproportionately by 79 % in the financial year 2017. This sales development is due to the strategic expansion of the portfolio by complementary products; in particular by lenses and cables.

Regionally, the Asia business generated the largest sales growth of 60 %. Within Asia, the regional markets in China and South Korea contributed most to the sales increase. The sales revenues in Germany increased by 29 %, the sales figures in the remaining EMEA region (Europe, Middle East, Africa) even grew by 74 % - driven by the business with major customers whose business benefited from the investment cycle in the Asian consumer electronic industry. Sales revenues in America increased by 28 %.

In order to support Basler AG's growth strategy, on June 1, 2017, Basler acquired 100 % of the shares of Mycable GmbH, a highly specialized consultancy in the area of embedded computing systems based in Neumünster. Basler AG relies on the embedded vision trend and assumes in the long run the dominating PC architecture in current vision systems to be noticeably substituted by embedded processor architectures. Furthermore, due to their compact housing, low power consumption, and low cost, embedded vision systems provide the opportunity to open up new application fields for computer vision. To make this possible, the current integration effort for embedded technologies needs to be considerably reduced. Against this background, the technological expertise of Mycable perfectly supplements the competence profile of Basler AG.

2.3 Profit Situation

in € million	2017	2016	Change	in %
Sales revenues	**150.2**	**97.5**	**52.7**	**54 %**
Currency result	-0.5	0.1		-600 %
Cost of service performed	**-75.7**	**-50.0**	**-25.7**	**51 %**
Gross results	74.0	47.6	26.4	55 %
Other internal income	0.7	0.4	0.3	75 %
Expenses	**-44.2**	**-35.9**	**-8.3**	**23 %**
Operative profit	30.5	12.1	18.4	152 %
Financial result	**-0.7**	**-0.7**	**0.0**	**0 %**
Earnings before profit tax	29.8	11.4	18.4	161 %
Taxes	**-8.2**	**-3.5**	**-4.7**	**134 %**
Group's annual surplus	**21.6**	**7.9**	**13.7**	**173 %**

For reasons of transparency and a cause-specific allocation, we decided to show the currency result as net position in the gross result. In the previous years, the currency gain was shown under other operating income and the currency expense under general administration expenses. In our view, the currency result dilutes the significance of these two positions in the profit and loss statement. According to this, we adjusted the previous year's result to this new accounting.

Compared to the previous year, sales significantly increased by € 52.7 million (+ 54 %) to € 150.2 million. The costs of service rose less, since the continuous measures for reducing the manufacturing costs as well as the relative digression of fixed costs due to the high utilization rate overcompensated the market price decline, the extra costs for additional shifts as well as the profit participation. Subsequently, compared to the previous year, the gross margin (gross result / sales) again increased by 0.5 percentage points to 49.3 %. The other operational costs were subject to considerable economies of scale and, compared to the sales, developed strongly

Keyfact

19.8 %

Pre-tax margin 2017

underproportionally by increasing by 23 % to € 44.2 million. The personnel costs increased from € 39.3 million in 2016 to € 47.9 million in 2017 and include a general market-oriented salary increase of 2.7 % as well as a significant profit participation for employees, executives, and the management board amounting to € 7.2 million. The operating expenses increased from € 14.9 million in the previous year to € 16.5 million in 2017.

With a pre-tax result of € 29.8 million (previous year: € 11.4 million) and a pre-tax margin (pre-tax result / sales) of 19.8 % (previous year: 11.7 %), Basler AG closed the financial year 2017 far above the pre-tax margin of 11 % as striven for in the budget and the medium-term planning. The sales volume of € 150.2 million was mainly realized with an organization designed for sales of about € 110 million. In order to make use of the company's sustainable growth opportunities in the upcoming years, and to prevent the organization from fatigue, the management board and the supervisory board do not want to conserve this highly profitable operating point, but scale the organization adequately. Therefore, the new medium-term planning strives for a pre-tax margin of 12 to 14 %.

The tax expense for financial year 2017 amounted to € 8.2 million corresponding to a tax ratio of approximately 27.5 % (previous year: 30.6 %). The deferred tax expenses amounted to € 1.5 million (previous year: € 1.4 million).

The group's annual surplus increased by 173 % and amounted to € 21.6 million (previous year: € 7.9 million). Thus, the result per share increased from € 2.45 to € 6.74.

The solid order backlog of € 14.8 million (previous year: € 20.3 million) makes Basler AG start the upcoming year with confidence.

2.4 Financial Situation

The liquidity management of the group is aimed at meeting the demand for capital such that the organic growth is self-financed achieving an appropriate balance between maturity risk, rating of the creditors, cost of equity and the cost of debt. At the end of the financial year 2017, 143 % of the long-term assets were covered by equity (previous year: 114 %).

Keyfact

€ 18.6 million

Free cash flow 2017

In the financial year 2017, a positive cash flow of € 28.4 million (previous year: € 16.1 million) was generated from current business activity. In the reporting period, the cash flow from investing activities amounted to € -9.8 million (previous year: € -8.0 million) and included impacts from the acquisition of Mycable GmbH in Neumünster. 20 % of the consideration was paid in Basler shares and 80 % were paid in cash. The free cash flow calculated as the sum of cash flows from operational activity and investment summed up to € 18.6 million (previous year: € 8.1 million). Besides the increase in earnings, the significant rise of the free cash flow is another indicator for the strong increase in productivity in financial year 2017.

On the financing side, liabilities to banks in an amount of € 0.8 million were paid off. For the long-term KfW loan amounting to € 5 million taken out in 2015, all outstanding retrievals were made in an amount of € 1.2 million in 2017. At the balance sheet date, unused credit lines with banks amounted to € 6.9 million plus another KfW loan of € 5.0 million to be paid out in 2018.

Considering dividend payments and the purchase of own shares, the total cash flow from financing activities amounted to € -2.0 million (previous year: € -2.7 million).

Keyfact

€ 36 million

Liquid assets 2017

At the end of the financial year, liquid assets amounted to € 36 million. This means an increase of freely available liquidity by € 17 million, compared to the previous year. The liquidity of the group was secure at all times.

2.5 Asset Situation

in € million	2017	2016	Change	in %
Intangible assets	24.6	22.5	2.1	9 %
Tangible assets	8.8	6.7	2.1	31 %
Buildings and land in finance lease	12.5	14.7	-2.2	-15 %
Deferred tax claims	0.0	0.0	0.0	
Long-term assets	**45.9**	**43.9**	**2.0**	**5 %**
Inventories	20.8	14.6	6.2	42 %
Receivables from deliveries and services	11.1	10.4	0.7	7 %
Other short-term assets	3.9	2.1	1.8	86 %
Cash in bank and cash in hand	36.0	19.4	16.6	86 %
Short-term assets	**71.8**	**46.5**	**25.3**	**54 %**
Total assets	**117.7**	**90.4**	**27.3**	**30 %**
Equity	**65.6**	**50.0**	**15.6**	**31 %**
Long-term interest bearing bank liabilities	9.9	9.8	0.1	1 %
Liabilities from finance lease	10.3	8.6	1.7	20 %
Other long-term liabilities	1.9	1.0	0.9	90 %
Deferred taxes	5.5	5.4	0.1	100 %
Long-term liabilities	**27.6**	**24.8**	**2.8**	**11 %**
Current financial debt	1.6	1.5	0.1	7 %
Short-term provisions	3.8	3.5	0.3	9 %
Liabilities from finance lease	2.2	2.2	0.0	0 %
Current other financial debt	16.9	8.4	8.5	101 %
Current financial debt	**24.5**	**15.6**	**8.9**	**57 %**
Total liabilities	**117.7**	**90.4**	**27.3**	**30 %**

In the elapsed fiscal year, investments in intangible assets of € 5.3 million (previous year: € 5.4 million) were on the previous year's level. These mainly included own developments and services purchased for research and development. Due to the composition of the project landscape, the activation rate decreased from 41 % in the previous year to 33 % in financial year 2017. For the upcoming financial year, Basler AG assumes an activation rate of 40 %. Due to the less research and rather product related development activity as well as the long product lifecycles (between 8 – 12 years), in the future, there will be further hidden reserves in the balance sheet item of intangible assets. Intangible assets increased by € 2.1 million to € 24.6 million including also the company value of the Mycable GmbH subsidiary acquired in 2017.

Investments in tangible assets amounted to € 4.2 million (previous year: € 2.0 million), much of which was attributable to reconstructions in office spaces, the purchase of new PCs, the expansion of the production and logistics area as well as the expansion of machine capacity.

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

Inventories increased by € 6.2 million to € 20.8 million, compared to the previous year. The slightly disproportionate development of inventories is due to the very dynamic sales development. Against this background, priority was given to delivery reliability over the optimization of working capital. In relation to sales, we see potential for reducing inventories in the upcoming financial year. There are no devaluation risks. Receivables from deliveries and services slightly increased by € 0.7 million to € 11.1 million.

Cash in bank and cash in hand showed a balance that was € 16.6 million higher than in the previous year. In comparison to the previous year, the total assets increased by 30 % to € 117.7 million and thus developed slower than sales and result.

Keyfact

55.7 %

Equity ratio 2017

In comparison to the previous year, equity increased by € 15.6 million to € 65.6 million. This increase in equity is due to the annual surplus minus the distribution of a dividend of € 2.4 million, the purchase of own shares in the amount of € 0.7 million as well as the adjustment of the leasing contract of € 3.4 million.

The subscribed capital – consisting of 3.5 million non-par bearer shares - amounts unchanged to € 3.5 million. As a deduction of this, the par value of own shares in an amount of € 0.29 million (previous year: 0.29 million) is considered. In comparison to the previous year, the retained earnings including the consolidated result increased by € 16.1 million to € 59.0 million. As of the reporting date, a hidden reserve amounting to € 56.3 million resulted from the volume of own shares.

The long-term interest bearing bank liabilities increased by € 0.1 million. Retrievals of additional KfW innovation loans amounting to € 1.2 million were faced by repayments of almost the same amount. Due to the adjustment of the new leasing contract, the cash values of the lease liabilities increased to € 12.5 million (previous year: € 10.8 million). € 10.3 million of this (previous year: € 8.6 million) were long-term liabilities.

The short-term liabilities increased by € 8.9 million to € 24.5 million. This is particularly due to an increase of the liabilities from deliveries and services at the end of the year in order to be able to serve the expected high order entry in the first quarter of 2018 without an increase of delivery times. At the reporting date, the sum of order commitments amounted to € 18.9 million (previous year: € 13.7 million). There have been no premature payment obligations in the elapsed fiscal year.

2.6 Financial and Non-Financial Performance Indicators

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

Keyfact

95 %

Increase result per emloyee 2017

Inter alia, we measure productivity of the company on the basis of the result per employee (EBITDA divided by FTEs). In the fiscal year 2017, it significantly increased by 95 % to € 78.0 thousand, compared to the previous year (previous year: € 40.1 thousand). This was particularly due to the strong sales growth as well as to the continuous development of the lean management system. In the elapsed fiscal year, the organization's achievements were extraordinary. The number of employees was designed for a sales level of € 110 million, however, sales revenues of approximately € 150 million were generated. In the upcoming years, the management will continue to plan with a high result per employee, however, on a lower level than in 2017, in order to prevent the organization from overload and to adequately make use of the company's growth opportunities in the medium term. Notwithstanding the above, the lean management system is continuously improved in order to continuously increase Basler AG's efficiency.

The gross profit margin increased from 48.8 % in the previous year to 49.3 %. The main reasons for this were economies of scale of indirect overhead costs in the areas of material and production as well as a fixed cost degression on depreciations for development activities. The management seeks to stabilize the gross margin on a level of 48 - 50 % in order to sustainably push ahead the volume strategy with great innovative power.

At the end of the financial year, the ROCE amounted to 45 % (previous year: 19 %) and was far above the targeted value of >18 %.

	2017	2016
EBIT	**30.5**	**12.2**
Inventories	20.8	14.6
Receivables from deliveries and services	11.1	10.4
Liabilities from deliveries and services	-10.1	-6.2
Fixed assets	45.9	43.9
Capital employed	**67.7**	**62.7**
ROCE (EBIT/ Capital employed)	**45 %**	**19 %**

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

The working capital (inventories plus receivables from deliveries and services minus liabilities from deliveries and services) amounted to € 21.8 million (previous year: € 18.7 million) at the end of the financial year. This increase is particularly due to the dynamic sales growth and relatively high inventories at the end of the year. The continuous optimization of the working capital proceeded by interdisciplinary cooperation led to further structural improvements and successes in 2017.

The equity ratio (equity / balance sheet total) increased from 55.4 % in 2016 to 55.8 % at the end of the elapsed fiscal year, not including the hidden reserve of own shares with a price of € 195.05 per share at the closing date, summing up to a total of € 56.3 million.

The satisfaction of the employees is very important to the management of Basler and essential for the success of the company. Therefore, Basler provides a flexible and family friendly working environment, reconciling the demands of work and family life. In addition to various part-time models and flexible working time, Basler AG offers child care services for emergencies, during special working hours, and during school holidays. In 2013, Basler set up a separate room in Ahrensburg for child care services. In 2011, Basler AG was audited by the Hertie Foundation within the "Work and Family" initiative and certified as "family-friendly company". The employees' satisfaction is reflected in a low fluctuation rate of 1.6 % (previous year: 2.4 %).

Keyfact

1.6 %

Employee fluctuation rate 2017

In 2017, the average number of employees of the group was 545 (previous year: 494), 38 % of them are female. Converted to the number of equivalents of full-time employment the average number of employees was 504 (previous year: 457). Please find any further details concerning the employee structure in the notes.

Basler gives special attention to own in-house trainings of young people, in order to find suitable junior staff, but also in order to confirm the regional social commitment. The training ratio at the end of the financial year amounted to 4.2 % (previous year: 6.1 %).

Another key aspect of the personnel policy is the continuous development of the employees through internal and external seminars, courses, on the job trainings, or self-study. Once a year, development reviews with the employees are conducted in which employee and manager agree on development objectives. The progress is measured quarterly. The costs for basic and further training amounted to € 712 thousand in 2017.

2.7 Overall Statement

Based on a broad, positive market development for investment goods in combination with a very strong investment cycle in the semiconductor and electronics industry (particularly mobile devices), the Basler group started the financial year 2017 very dynamically and with historically high incoming orders. The doubling of incoming orders in the first half year posed considerable operational challenges for the group. In the course of the year, these challenges were overcome and the output quantity was gradually increased and led to very high sales revenues in the second and third quarter. In the fourth quarter, incoming orders and sales came back to normal. In total, the fiscal year 2017 was extraordinarily successful for the Basler group. The goals for incoming orders, sales, and result were considerably exceeded and showed new record values. Sales revenues amounting to € 150.2 million were clearly above the corridor of € 120 million to € 130 million forecasted at the beginning of the fiscal year. Due to significant economies of scale, the pre-tax return of 19.8 % exceeded our strategic benchmark of 12 % and also the forecasted corridor of 13 - 15 %. Due to the path of a volume strategy chosen a few years ago, the strong positioning in Asia, and especially the great team spirit of all employees, the Basler group succeeded to grow two times faster than the market in incoming orders and sales. Thus, the Basler group continued to expand its market leadership and to considerably increase the lead over its biggest competitors. The medium-term sales target planned for 2020 of € 150 million was achieved within only one year. Today more than some years ago, Basler addresses considerably more customers and applications due to the leading market access and the broadened product portfolio. As a result of the continuous expansion of the sales organization and the expansion into further regions, the group has the best quality and the farthest-reaching market access in its industry. The Basler brand has a leading brand awareness and customers appreciate the high reliability and excellent price performance ratio. Motivated by this success and continuously striving for more, in its medium-term planning the Basler group intends to achieve a sales level of € 250 million within the upcoming five years. In addition to a further expansion of the strong market position in factory applications, adjacent markets, as for example medical, traffic, and logistics, should be opened up, and technological opportunities of embedded vision technology and 3D camera technology should be developed. Because of the results of the elapsed fiscal year as well as the opportunities in the market and technology, Basler management feels confident in its strategic direction looking to the future with confidence.

The goal of Basler is to let the shareholders participate in the success and, at the same time, maintain sufficient liquidity in order to continue the growth course. Based on the positive business results in 2017 and the existing dividend policy, the proposal will be made to this year's shareholders' meeting in May 2018 to pay a dividend in the amount of € 2.02 (previous year: € 0.74) per share eligible for subscription (corresponds to € 6.5 million). Should the shareholders' meeting vote for the proposal, 30 % of the annual surplus would be distributed to the shareholders.

3 Supplementary Report

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

Keyfact

€ 145-160 million

Group sales revenues 2018

Keyfact

13-15 %

Pre-tax return 2018

4 Forecast Report

After a very dynamic financial year with extraordinarily high growth rates, the Basler group assumes a stabilization of the 2017 sales level in the upcoming year. This estimation is based on the assumption that the 2018 investment cycle for mobile devices will be weaker than in the previous year, however, this decrease can be compensated by additional business in other market segments and business with new customers. The management board follows the estimations of industry associations and macroeconomists according to which economic trends continue to show positive signs. The Berenberg Bank assumes in its annual outlook a real GDP growth of 3 %. The VDMA (Verband Deutscher Maschinen- und Anlagenbau, VDMA) expects the four most important engineering regions China, USA, Japan, and Germany to grow moderately by 2 to 3 percent. For Germany and Europe a continuation of growth of approximately 3 % is expected. Due to the general economic revival and the recently weaker USD, in the USA further demand for exports is expected. The Chinese government's strategy "Made in China 2025", the increase of personnel costs, and the orientation towards digitization of working processes gave significant momentum for growth for the automation and the image processing sector. However, it has to be considered that increasingly local Chinese companies will participate in this trend (please see also risk report 5.4) and the growth of foreign suppliers may slow down (Source: VDMA International Economic Development, Nov.). Compared to 2017, the Association of Manufacturers of Machinery and Equipment for the Semiconductor Industry (SEMI) assumes an increase of sales figures of 11 % for 2018 (source: Market Study SEMI).

In consideration of the mentioned above market outlooks, the management board of Basler AG expects a stabilization of the sales level achieved in 2017, and plans for group sales revenues within a corridor of approximately € 145 to 160 million. Cameras with CMOS image sensors and GigE or USB 3 interface are expected to be the main drivers of growth. Regionally, the strongest growth is again expected in Asia.

Considering the medium-term goal of exceeding the sales threshold of € 250 million in 2022, for the time being the management board prioritizes profitable sales growth versus a separate optimization of the profitability, and expects a medium-term pre-tax return of 12 % along the continuous expansion of the organization. For fiscal year 2018, we plan a pre-tax return within a corridor of 13 to 15 %. Any further profits will be reinvested - on a priority basis for additional personnel in the functional areas of sales, marketing, and research and development - in order to ensure a sustainable sales growth within the coming years.

5 Opportunities and Risks Report

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

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

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

Essential parts of the opportunities and risks management system are the risk strategy, the risk atlas, the risk matrix, and the risk coping. In 2013, a risk strategy was adopted and software for a standardized collection and measurement of risks was implemented. Again, in the elapsed fiscal year, the risk inventory was conducted. Here, risks were identified and quantified according to occurrence probability and monetary amounts and measures were defined in order to minimize risk. The number of identified risks has been compared to the defined risk cover amount (available capital for covering risks). The risk capacity of the group was not exceeded. These measures will be flanked by the internal control system (IKS), the internal quality management system and finally by the annual external audit in the frame of the DIN EN ISO 9001:2015.

5.1 Internal Organization

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

The company is organized by functions and the foreign subsidiaries directly report to the management board. Flat hierarchy and short decision making processes are intended to maintain the flexibility and the exchange among employees despite increasing growth. In order to adequately manage the growing organization, measures for building up the organization and processes were taken. In the frame of a lean management initiative started in the financial year 2015, we began to align the company to its main value streams and to increase their efficiency. Furthermore, a strategy deployment process has been set up ensuring a breakdown of the company strategy to an operational level. These organizational methods were applied in financial year 2016 and further professionalized and supplemented by a so-called shop floor management or daily management. In the upcoming years, the lean program will be focused on the development of the organization in order to continuously increase the competitiveness of Basler including its increasing market maturity and company size.

As a technology company, Basler is heavily depending on the knowledge and commitment of its employees. Therefore, as already mentioned under 2.6 – various measures are taken for staff retention and further development. Furthermore, we actively work on maintaining innovation fostering structures, processes, behavior patterns, and cultures – despite an increasing size of the company. We are striving for an organization that is able to operate the existing business in a highly optimized way and to pursue new technologies and markets in an agile and innovative manner.

One main challenge in the coming years will be to shape the process of the increasing number of employees in a creative and effective way at all group locations. Due to the high sales level, the management will particularly focus on the expansion of the Asian organization. Furthermore, more and more internal and external processes need to be digitalized. Regarding IT and information procurement we refer to point 6 of the management report.

The gender mainstreaming is part of Basler AG's company culture. Basler AG supports its employees in a number of ways for reconciling the demands of work and family life. The family and life phase friendly personnel policy is regularly audited by the Hertie Foundation within the "Work and Family" initiative. Below the main components:

Basler AG offers flexible working hours without core time. Furthermore, individual part-time agreements are possible that are not subject to any guidelines regarding scope and time. In December 2017, more than 30 % of the Basler employees had part-time contracts. In order to make longer leaves from work possible, in 2016 Basler AG concluded a company agreement on "sabbaticals".

Furthermore, in many areas, in some even predominantly, it is possible to work from home. Thus, we can support employees to reconcile more easily family matters and professional duties. For facilitating the work life of employees with children, Basler AG offers child care services for emergencies in cooperation with the Mehrgenerationenhaus Oase e.V.

Basler AG is not tariff-bound and does not refer to existing tariff agreements for remuneration matters. Basler AG together with the works council implemented a remuneration system regulating the remuneration of employees. This system is based on job descriptions that are set up independently of individuals and evaluated by an external institute. Thus, a gender neutral and independently of individuals classification is granted. This remuneration structure is disclosed in the company and thus transparent for all employees. It shows starting salaries and reference salaries for currently 167 job descriptions. The company agreement describes after which period of experience time new job holders achieve the reference remuneration. In addition to reference remunerations, performance bonuses can be paid.

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. If the customer fails settling an outstanding invoice that has reached dunning level two, in general no further deliveries will be made. Default risks are countered through individual and general valuation allowances. In total, the average default ratio of 0.01 % in 2017 is again low in terms of the receivables from deliveries and services. In the fiscal year 2017, individual value adjustments and write-offs on accounts receivables were posted in the amount of € 2 thousand (previous year: € 2 thousand). Even if the Asian business will increase further in the future, there will be no substantial changes for the group in the credit default risk.

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

In past years, the group generated a positive cash flow from operating activities, from which investments could be financed in addition to financial liabilities and, moreover, that resulted in a bank balance at the reporting date amounting to € 36.0 million. The total of cash on hand, positive free cash flow, and freely available lines with credit institutions cover the future financial needs of the Basler group for a foreseeable period. In addition to this, as a medium-sized technology company with significant investments in research and development and a positive rating, Basler AG gets low interest KfW loans.

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

Currency risks are minimized by so-called natural hedges. As far as possible, sales revenues in foreign currencies - particularly in USD and JPY - are used for covering material and personnel expenses in these currencies. Remaining surpluses are partially secured via forward exchange contracts or foreign exchange options. We use currency derivatives exclusively as hedging instruments. Interest rate risks exist to a lesser extent due to loans at fixed interest rates.

5.3 Procurement Market

In principle, there is a risk of a certain dependence on suppliers of technological components. On the suppliers' side, we reduce the risk by establishing long-term business relationships and regular supplier audits, and by regularly observing the procurement markets. As far as technically possible and economically useful, a second source is built up. Furthermore, processes and systems are implemented in order to ensure the short-term availability and the adherence to delivery dates of components. In the course of the past financial year, the supplier industry in the semiconductor and electronics industry further consolidated. Furthermore, due to a strong semiconductor and electronics cycle, there were supply bottlenecks and an excess demand for various semiconductor and electronics components that were averted by Basler AG by an effective supply chain management. 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, a broad product portfolio, and a further expansion of market leadership and / or an improvement of the negotiation position.

5.4 Sales Market

The strong double-digit market growth in the particularly strong fiscal year 2017, will most likely decrease considerably. The forecasts coming from associations and market research institutes assume a sustainable growth in a single digit percentage range for applications in industrial mass production and a double digit percentage growth in newer sales markets, like for example traffic, logistics and medical. Since Basler AG continuously expands its product portfolio and pushes the diversification of possible

applications, the business model is estimated to be scalable and future-proof.

Due to its broad portfolio mix of industries and customers, as well as its design-in characteristics, the volatility of the camera business in the capital goods markets is relatively low. Due to the focusing on the high-volume mainstream and entry level segments, the share of sales with customers outside industrial mass production increases, and thus improves the sales risk structure. In 2017, enormous investments in new machinery and equipment for the production of mobile devices counteracted this trend so that sales with cameras for applications in the industrial mass production considerably increased compared to the previous years. We assume that the long-term market trends will correct this development in the upcoming years.

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 foreseeable future. However, temporarily there will be moderate fluctuations in demand in individual target markets. This applies in particular to capital goods markets in the semiconductor and electronics industry.

Regionally, Basler group largely depends on the development of the capital goods market in the Asian region, particularly on China. This region accounted for 47 % of total sales in the elapsed fiscal year and will continue to develop disproportionately in the foreseeable future. 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, a further localization will be necessary in order to grant a close proximity to the main sales markets.

The intensity of competition in the industrial camera market increased in the year just ended. The competitive landscape particularly changed due to takeovers of important competitors by larger companies from outside the industry due to aggressive investments of Chinese competitors from the video surveillance industry. Compared to the competitors, the Basler group is ahead regarding product portfolio, market access, and brand recognition. The volume strategy's target is to gain market shares in existing target markets and to develop new applications with considerable volumes faster than the competition. In order to achieve this target continuous investments are made in marketing, sales, as well as research and development. Furthermore, the company pursues the strategy to gradually increase the value creation in Asia and develop from a German company with an international sales organization to a global company. If this strategy can successfully be implemented, Basler will strengthen its market position relative to the competition. The competitive environment is highly fragmented and characterized by many small niche suppliers. The top five competitors of Basler are: Teledyne-Dalsa/e2V (Canada), FLIR (USA), Allied Vision (Germany), Toshiba-Teli (Japan), and IDS-Imaging (Germany). The Chinese competitors HIK Vision and Dahua that are new to the market currently show a significantly lower sales level for industrial cameras, however, the management of Basler AG classifies them as serious competitors due to their financial power and competence.

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

Given the current shareholder structure with the Norbert Basler Holding GmbH as indirect majority shareholder, a hostile takeover of Basler AG can almost be excluded. The shareholder structure is nonetheless constantly checked for changes. At the end of the elapsed fiscal year, Basler AG held 288,864 pieces of its own shares.

5.5 Political and Legal Risks

Due to the regional diversification of the camera business in almost 60 countries of which 20 countries belong to the OECD, the risk of political events with catastrophic effects on the business is considered as manageable. Possible impacts due to Brexit have been examined and considered to be low. In the elapsed fiscal year, sales with customers from Great Britain were on a lower one-digit million Euro level. Material purchases from Great Britain amount to several million Euro, however, they are mainly supplied by an international group that can also deliver from locations outside Great Britain and their invoices are in Euro.

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

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

5.6 Operating Risks

Another essential success factor is an on time and high quality product development in order to face the risk of strategic mistakes as far as technology is concerned. The implemented processes and planning instruments are continuously reviewed and adjusted so that development processes can be concluded on schedule and according to budget. In the financial year 2017, the average lead time of product developments were considerably reduced based on the product development process improved in 2016.

The production corresponds to modern standards and is oriented to manage variations of incoming orders, as well as to be able to implement an appropriate capacity utilization of employees and machines. The unexpected growth of incoming orders in the first quarter of 2017 of about 300 % in units exposed the production system to its limits. Therefore, for fiscal year 2018 the maximum machine capacity was increased by nearly 50 % to 900,000 units (calculation based on a three-shift-operation). Thus, the production system will be able to cushion an increased production of at least 30 % versus budget planning. In view of the experiences from fiscal year 2017, the management consciously accepts manageable idle times for securing the delivery capability.

The quality of the products is monitored in the framework of an integrated quality management system. This system includes the certification according to DIN EN ISO 9001:2015 and the annual supervision by external auditors. This is supplemented by internal audits and management reviews by the management board. In the upcoming fiscal year some camera products will be developed and produced according to a special medical norm DIN EN ISO 13485. The preparatory measures were implemented in fiscal year 2017 within an extensive organization project.

5.7 Overall Statement

As manufacturer of cameras for the investment goods industry the management board of Basler assess the corporate strategy risk to be low. This assessment is based on the fact that comprehensive superseding 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. 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 to 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. Furthermore, the trade associations expect continuous growth for the global camera market in the coming years. Finally, in the medium term, banks and economic research institutes mainly assume the global economic development to continue to be mostly positive.

Since Basler focuses on activities regarding new products and the development of new markets and application fields and thus continuously broadens its sales opportunities, the risk of a below average development of the company in comparison to the camera market is considered to be manageable. By broadening the target markets, the already low dependences 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 upcoming years. Due to its good market access and the alignment of the product portfolio, Basler AG is very well positioned to benefit from this trend. On the one hand, there is the opportunity of disproportionate growth rates, and on the other hand there is the risk of an increasing reliance on relatively competitive and cyclical Asian markets. It is to be expected that financially strong Chinese competitors will enter the market and the intensity of competition will further increase in the future. The management of Basler tries to meet this tension by a balanced investment policy and by ensuring a sustainable and profitable growth for the company.

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

The accumulated expectation value of the ten largest risks amounts to € 11 million. Since these risks are actively managed, we do not expect them to occur.

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

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

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

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

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

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

7 Risk Reporting related to the Use of Financial Instruments

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

In order to hedge long-term sales revenues against exchange rate fluctuations, occasionally currency option transactions are concluded. Spot exchange transactions, forward currency transactions and currency option transactions are not used for speculative purposes, but are used to minimize risks of foreign currencies. As of the balance sheet date, there were no derivative transactions in foreign currencies.

In 2011, Basler AG concluded a payer swap intended to serve as hedge for a planned company acquisition. Since the transaction did not take place, the evaluation unit was dissolved in fiscal year 2012 and since then the swap has been balanced at its market value. As of 12/31/2017, the market value amounted to € -473 thousand. In fiscal year 2017, a profit of € 248 thousand was booked due to the market valuation and the reduction of the nominal value.

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

8 Information Concerning Takeovers (§ 289a and § 315a of the German Commercial Code, HGB)

The management board of Basler consists of four members who are responsible for the following assignment of functions: Dr. Dietmar Ley is responsible for research and development as well as personnel and organizational development, John P. Jennings is responsible for sales, market communications, and the subsidiaries, Arndt Bake is responsible for marketing and new business, and Hardy Mehl is responsible for production, purchasing and logistics, finance, legal and investor relations.

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

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

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

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

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

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

"The management board is authorized to increase the company's capital stock once or several times up to a total of € 1,750,000 by May 16, 2022 with the supervisory board's approval by the issuing of up to 1,750,000 new bearer stock certificates against cash contributions and/or contributions in kind. In doing so, shareholders are entitled to subscription rights. However, the management board is authorized, subject to approval by the supervisory board, to exclude subscription rights for the shareholders for fractional amounts. Furthermore, with the supervisory board's approval, the management board may exclude the shareholders' subscription rights in order to be able to offer the new shares of the company to third parties against subscription in kind for the purpose of acquiring companies or participating in companies or claims against the company or affiliated companies. The exclusion of the subscription right by the management board is permissible with the supervisory board's approval, even if the increase in capital against cash subscription does not exceed 10 % of the capital stock of the amount of € 3,500,000.00 and the issue amount does not fall considerably short of the officially reported price of the already quoted stock of similar funding at the time of ultimately determining the issue price (§ 203 Sec. 1 sentence 1 in connection with § 186 Sec. 3 sentence 4 German Stock Corporation Act (AktG)). The market price is the arithmetic average of the closing prices of the company stock in electronic trading at the Frankfurt Stock Exchange (XETRA trade) or a successor system during the last ten trading days prior to exercising the authorization.

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

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

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

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

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

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

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

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

9 Group Declaration regarding Corporate Governance (§ 315d of the German Commercial Code, HGB), Corporate Governance Report

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

10 Principles of the Remuneration System

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

10.1 Remuneration of the Management Board

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

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

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

10.1.1 Own Requirements on the Remuneration System

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

- Long-term perspective
- Profitability
- Growth
- Equity strength

- Performance orientation
- Efficiency of implementation
- Transparency for all parties concerned

This results in the following requirements on the remuneration system:

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

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

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

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

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

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

10.1.3 Performance Indicators

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

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

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

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

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

10.1.4 Targets

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

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

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

Profitability and growth are equally important targets. However, in case of doubt the demand for profitability is more imperative than the demand for continuous growth. Thus, lacking profitability shall not be compensated by unrestrained growth. Accordingly, the degree of achievement for growth is limited to 400 %. The degrees of achievement are balanced at a ratio of 50 % to 50 %. Adding up both weighted degrees of achievement for profitability and growth results in the level of the total target achievement for the fiscal year.

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

10.1.5 Bonus

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

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

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

10.1.6 Total Remuneration

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

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

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

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

10.1.7 Limits of the Model and Intervention of the Supervisory Board

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

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

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

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

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

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

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

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

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

- Individual and adequate remuneration
- Focus on sustainable corporate development
- Breakdown into fixed and variable components
- Multi-year assessment basis
- Consideration of positive and negative developments
- Avoidance of disincentives with regard to unreasonable risks

- Relevant and ambitious targets and key figures
- Exclusion of subsequent changes of performance targets
- Limitation of variable remuneration
- Supervisory board's power to intervene in the case of extraordinary developments

10.2 Remuneration of the Supervisory Board

Remuneration of the members of the supervisory board is set forth in the Articles of Incorporation. Chairmanship and vice chairmanship of the supervisory board are given consideration by extra pays of 200 % and/or 50 %. Given the current level of fixed remuneration, the addition of a performance related component to remuneration is not considered. For the members of the nominating committee and the audit committee an additional remuneration is paid. The total remuneration can be seen in the notes.

Ahrensburg, March 19, 2018

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

Consolidated Profit and Loss Statement

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

in € k	Notes	01/01/ - 12/31/2017	01/01/ - 12/31/2016
Sales revenues	4,24	**150,201**	**97,538**
currency earnings	5	**-488**	**129**
Cost of sales		-75,672	-50,061
- of which depreciations on capitalized developments	10	-5,610	-3,810
Gross profit on sales		**74,041**	**47,606**
Other operating income	5	701	474
Sales and marketing costs		-19,635	-16,928
General administration costs		-13,095	-10,576
Research and development	6	-10,827	-7,936
Other expenses	6	-706	-474
Operating result		**30,479**	**12,166**
Financial income	7	291	276
Financial expenses	7	-978	-1,016
Financial result		**-687**	**-740**
Earnings before tax		**29,792**	**11,426**
Income tax	8	-8,164	-3,496
Group´s year surplus		**21,628**	**7,930**
of which are allocated to			
shareholders of the parent company		21,628	7,930
non-controlling shareholders		0	0
Average number of shares	9.5	3,209,430	3,230,943
Earnings per share diluted / undiluted (€)		6.74	2.45

Consolidated Statement of Comprehensive Income

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

in € k	Notes	01/01/ - 12/31/2017	01/01/ - 12/31/2016
Group's year surplus		21,628	7,930
Result from differences due to currency conversion, directly recorded in equity	18.3	-438	167
Surplus/ Net loss from cash flow hedges	18.3	0	0
Adjustment Finance Lease w/o income effect	18.5	-3,378	0
Total result, through profit or loss		**-3,816**	**167**
Total result		**17,812**	**8,097**
of which are allocated to			
shareholders of the parent company		17,812	8,097
non-controlling shareholders		0	0

Consolidated Cash Flow Statement

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

in € k	Notes	01/01/ - 12/31/2017	01/01/ - 12/31/2016
Operating activities			
Group's year surplus		21,628	7,930
Increase (+) / decrease (-) in deferred taxes		136	1,369
Payout/ incoming payments for interest		1,125	1,196
Depreciation of fixed assets		9,168	6,591
Change in capital resources without affecting payment		-3,817	167
Increase (+) / decrease (-) in accruals		1,454	2,570
Profit (+) / loss (-) from asset disposals		-16	-11
Increase (-) / decrease (+) in intentories		-5,779	-3,814
Increase (+) / decrease (-) in advances from demand		1,568	126
Increase (-) / decrease (+) in accounts receivable		-525	-2,576
Increase (-) / decrease (+) in other assets		-1,755	-552
Increase (+) / decrease (-) in accounts payable		3,762	3,503
Increase (+) / decrease (-) in other liabilities		1,444	-397
Net cash provided by operating activities		**28,393**	**16,102**
Investing activities			
Payout for investments in fixed assets		-8,091	-7,992
Incoming payments for asset disposals		225	26
Expenses for acquisitions less cash acquired		-1,897	0
Net cash provided by investing activities		**-9,763**	**-7,966**
Financing activities			
Payout for amortisation of bank loans		-800	-588
Payout for amortisation of finance lease		1,712	-1,506
Incoming payment for borrowings from banks		1,200	3,800
Interest payout		-1,125	-1,196
Payout for own shares		-658	-1,374
Dividends paid		-2,371	-1,878
Net cash provided by financing activities		**-2,042**	**-2,742**
Change in liquid funds		**16,588**	**5,394**
Funds at the beginning of the fiscal year		19,437	14,043
Funds at the end of the fiscal year		**36,025**	**19,437**
Composition of liquid funds at the end of the fiscal year			
Cash in bank and cash in hand	16	36,025	19,437
Payout for taxes		5,322	1,292

Group Balance Sheet

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

in € k	Notes	12/31/2017	12/31/2016
Assets			
A. Long-term assets			
I. Intangible assets	10	21,476	22,505
II. Fixed assets	10	8,784	6,711
III. Buildings and land in finance lease	17	12,481	14,624
IV. Goodwill	29	3,139	0
V. Other financial assets		5	5
VI. Deferred tax assets	11	39	28
		45,924	**43,873**
B. Short-term assets			
I. Inventories	12	20,829	14,577
II. Receivables from deliveries and services and from production orders	13	11,066	10,370
III. Other short-term financial assets	14	1,666	505
IV. Other short-term assets	14	1,040	741
V. Claim for tax refunds	15	1,170	847
VI. Cash in bank and cash in hand	16	36,025	19,437
		71,796	**46,477**
		117,720	**90,350**

in € k	Notes	12/31/2017	12/31/2016
Liabilities			
A. Equity	18		
I. Subscribed capital		3,211	3,215
II. Capital reserves		3,119	2,443
III. Retained earnings including group's earnings		59,028	43,648
IV. Other components of equity		272	710
		65,630	**50,016**
B. Long-term debt			
I. Long-term liabilities			
1. Long-term liabilities to banks	19	9,912	9,825
2. Other financial liabilities		542	0
3. Liabilities from finance lease	17	10,258	8,610
II. Non-current provisions	20	1,406	946
III. Deferred tax liabilities	11	5,525	5,379
		27,643	**24,760**
C. Short-term debt			
I. Other financial liabilities	19	1,590	1,521
II. Short-term accrual liabilities	20	3,802	3,507
III. Short-term other liabilities			
1. Liabilities from deliveries and services		10,107	6,234
2. Other short-term financial liabilities		4,776	1,192
3. Liabilities from finance lease	17	2,224	2,159
IV. Current tax liabilities		1,948	961
		24,447	**15,574**
		117,720	**90,350**

*Development of Fixed Assets for Fiscal Year 2017

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

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

*Notes appendix:
[1] Including opening balance acquisiton Mycable June 1st, 2017 (€475 thousand)
[2] Including accumulated write-offs acquistion Mycable June 1st, 2017 (€277 thousand)

Development of Fixed Assets for Fiscal Year 2016

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2016 to December 31, 2016

	Acquisition and production costs						Depreciations						Net book value	
in € k	As at 01/01/2016	Additions	Transfers	Disposals	Exchange rate differences	As at 12/31/2016	As at 01/01/2016	Additions	Unscheduled depreciations	Disposals	Exchange rate differences	As at 12/31/2016	As at 12/31/2016	Previous year
Intangible assets														
Software, trademark rights, patents, and licenses	5,914	340	79	0	0	6,333	4,607	519	0	0	0	5,126	1,207	1,307
Finished own developments	25,483	0	8,027	0	0	33,510	16,255	3,484	327	0	0	20,066	13,444	9,228
Own developments in process	10,214	5,462	-8,027	0	0	7,649	0	0	0	0	0	0	7,649	10,214
Payments for third-party developments	110	174	-79	0	0	205	0	0	0	0	0	0	205	110
Total intangible assets	**41,721**	**5,976**	**0**	**0**	**0**	**47,697**	**20,862**	**4,003**	**327**	**0**	**0**	**25,192**	**22,505**	**20,859**
Tangible Assets														
Land and buildings on third-party land	1,981	159	10	0	5	2,155	836	141	0	0	5	982	1,173	1,145
Technical equipment and machinery	8,143	733	24	-115	6	8,791	4,848	896	0	-110	4	5,638	3,153	3,295
Other furniture, fixtures, and equipment	4,384	863	153	-177	5	5,228	2,657	502	30	-167	4	3,026	2,202	1,727
Assets under construction	109	261	-187	0	0	183	0	0	0	0	0	0	183	109
Total tangible assets	**14,617**	**2,016**	**0**	**-292**	**16**	**16,357**	**8,341**	**1,539**	**30**	**-277**	**13**	**9,646**	**6,711**	**6,276**
Buildings and Land under finance leases														
Land of finance lease	1,817	0	0	0	0	1,817	0	0	0	0	0	0	1,817	1,817
Buildings of finance lease	24,391	0	0	0	0	24,391	10,892	692	0	0	0	11,584	12,807	13,499
Total Buildings and Land under finance leases	**26,208**	**0**	**0**	**0**	**0**	**26,208**	**10,892**	**692**	**0**	**0**	**0**	**11,584**	**14,624**	**15,316**
Other financial assets	18	0	0	0	0	18	13	0	0	0	0	13	5	5
Total other financial assets	**18**	**0**	**0**	**0**	**0**	**18**	**13**	**0**	**0**	**0**	**0**	**13**	**5**	**5**
Total Assets	**82,564**	**7,992**	**0**	**-292**	**16**	**90,280**	**40,108**	**6,234**	**357**	**-277**	**13**	**46,435**	**43,845**	**42,456**

Consolidated Statement of Changes in Equity

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

in € k	Subscribed capital	Capital reserve	Retained earnings incl. group's earnings	Other components of equity: Differences due to currency conversion	Other components of equity: Reserves for cash flow hedges	Other components of equity: Sum of other components of equity	Total
Shareholders´ equity as of 01/01/2016	**3,241**	**2,443**	**38,944**	**543**	**0**	**543**	**45,171**
Total result			7,930	167		167	8,097
Share salesback			0				0
Share buyback	-26		-1,348				-1,374
Dividend payout*			-1,878				-1,878
Shareholders´equity as of 12/31/2016	**3,215**	**2,443**	**43,648**	**710**	**0**	**710**	**50,016**
Total result		676	17,574	-438		-438	17,812
Share salesback			831				831
Share buyback	-4		-654				-658
Dividend payout**			-2,371				-2,371
Shareholders´equity as of 12/31/2017	**3,211**	**3,119**	**59,028**	**272**	**0**	**272**	**65,630**

* 0.58 € per share (payout in 2016 for 2015)
** 0.74 € per share (payout in 2017 for 2016)
*** sec. 18.5 notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. GENERAL INFORMATION

1. The Company

The Basler group develops, manufactures, and sells on a world wide scale industrial goods in the area of Vision Technology - the technology of machine vision. The Basler corporation has its headquarters in 22926 Ahrensburg (Germany), An der Strusbek 60-62 (local court Lübeck HRB 4090AH), and maintains subsidiaries in Singapore, Taiwan, the USA, and Neumünster (Germany) as well as sales and service offices in Japan, South Korea, China, Finland, Poland, the Netherlands, Canada and the UK. Development and manufacturing are carried out in the German headquarters. In July 2014, a further production line was opened in the Singapore subsidiary. The production in Asia exclusively manufactures cameras for the Asian market and is currently concentrating on selected camera types.

The shares of Basler AG have been listed at the Frankfurt Stock Exchange since March 23, 1999. The Basler AG has subjected itself to the Prime Standard regulations. The Norbert Basler Holding GmbH is holding more than 50 % of the voting rights in Basler AG.

2. Basics of Accounting

2.1 Compliance with IFRS

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

2.2 Standards with no Effect on the Consolidated Financial Statements

The changes effective January 1, 2017, set up in the course of the annual improvements of the IFRS (cycle 2011 – 2013 and cycle 2014 - 2016) regarding IAS 28, IFRS 1, IFRS 3, and IFRS 12, as well as the modifications of IAS 12 and IAS 7 have no effects on the consolidated financial statements of Basler AG. The guidelines according to IFRIC 21 are not applicable.

2.3 Approved but not yet Adopted Standards

The following IFRS incorporated into EU law were issued as at December 31, 2017, 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)
IFRS 15 Revenues from contracts with customers (incl. amendments of IFRS 15 Time of entry into force of IFRS 15)	Sept. 11, 2015	Sept. 22, 2016	Jan. 1, 2018
IFRS 9 Financial Instruments	July 24, 2014	Nov. 22, 2016	Jan. 1, 2018
IFRS 16 Leases	Jan. 13, 2016	Oct. 31, 2017	Jan. 1,2019
Clarification for IFRS 15 Revenues from contracts with customers	Apr. 12,2016	Oct. 31, 2017	Jan. 1,2018
Amendments of IFRS 4: Application of IFRS 9 'financial instruments' together with IFRS 4 insurance contracts'	Sep. 12,2016	Nov. 3,2017	Jan. 1,2018

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, 2017. The application of these standards presumes that they will be taken over by the EU within the scope of the IFRS endorsement procedure:

Amendments /Standard / Interpretation	Date of Publication	Date of Incorporation into EU Law	Date of Application (EU)
IFRS 14 Regulatory Deferral Accounts	January 30, 2014	The European Commission has decided to skip the takeover procedure of this intermediate standard and to wait for the final standard instead..	
Amendments of IFRS 10 and IAS 28:Sales or Contributions of Assets between an Investor and its Associate or Joint Venture	Sept. 11, 2014	Postponed	Postponed for an indefinite period
Amendments of IFRS 2: Classification and Measurement of share-based Payment Transactions	June 20, 2016	Q1 / 2018	January 1, 2018
Annual Improvements to IFRS (AIP) – Cycle 2014-2016	December 8, 2016	Q1 / 2018	January 1, 2018 / January 1, 2017
IFRIC 22 Foreign Currency Transactions and Consideration paid in Advance	December 8, 2016	Q1 / 2018	January 1, 2018
Amendments of IAS 40: Transfer of Real Estates held as Finance Investment	December 8, 2016	Q1 / 2018	January 1, 2018
IFRS 17 Insurance Contracts	May 18, 2017	n/a	January 1st, 2021
IFRIC 23 Uncertainties concerning the Income Tax Consideration	June 7, 2017	2018	January 1st, 2019
Amendments of IFRS 9: Prepayment Provisions with negative financial Compensation	October 12, 2017	2018	January 1st, 2019
Amendments of IAS 28: Long-term Participation in associated Companies and Joint Ventures	October 12, 2017	2018	January 1st, 2019
Annual Improvements to IFRS (AIP) – Cycle 2015-2017	December 12, 2017	2018	January 1st, 2019

When analyzing the customer contracts, the extended warranty was identified as a separate benefit obligation according to IFRS 15.

The extended warranty constitutes a „service-type-warranty" with the effect that a separate benefit obligation has to be split off so that this part of the transaction price is to be delimited over the warranty period.

The legal warranty is an "assurance-type-warranty" for which an accrual according to IAS 37 has to be created.

Upon conversion to IFRS 15, in the consolidated financial statement it is intended to apply the amended retrospective methods according to which the accumulated adjustments are recorded from January 1, 2018.

It is assumed that the retained earnings will be decreased by € 221 thousand as of January 1st, 2018, upon application of the amendment when recording the customer contracts.

For the classification and measurement of financial instruments, Basler does not expect effects on value changes of financial assets valuated at fair value and shown in category "available-for-sale financial assets" according to IAS 39. Concerning the new IFRS 16, a comprehensive analysis of all lease relationships will be carried out in 2018.

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

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

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

2.4 Use of Estimates

The preparation of the consolidated financial statement in accord with IFRS requires the management to make estimates and assumptions regarding the recognition and amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the reporting date, and regarding the amount of turnover and expenses reported during the period under review. The actual results can deviate from these assessed values. Critical accounting estimates arise as to the evaluation of tangible assets concerning the useful life as well as to the evaluation of internally generated intangible assets concerning the useful life and to expected sales. The book values of the tangible and intangible assets result from the development of the fixed assets. The management board is of the opinion that the book value of the internally generated intangible assets despite possibly low sales volumes will be entirely realized.

3. Accounting and Valuation Methods

3.1 Foundations for Consolidation

All major subsidiaries that are directly or indirectly controlled by Basler AG as provided by IFRS 10 are included in the group's annual balance sheet. For a list of subsidiaries and investments, see note III, 29.

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

Currency conversion
The functional currency of the subsidiaries is the currency of the respective country, except for Basler Asia Pte. Ltd., which prepares the balance in euro. Consequently, on the balance sheet date, assets and liabilities are converted into euros using the applicable exchange rate on the reporting date. Sales and expenses are converted using the average exchange rate of the period under review. Accumulated exchange rate gains and losses are reported as a separate component of the equity capital. In the fiscal year, equity capital was decreased by € 438 thousand (previous year: increased by € 167 thousand).

Business transactions made in foreign currencies in the individual financial statements of the consolidated companies were converted at the exchange rates applicable on the reporting dates of the transactions. In fiscal year 2017, profits amounting to € 1,259 thousand (previous year: € 1,088 thousand) and expenses amounting to € 1,747 thousand (previous year: € 959 thousand) occurred. The currency result is shown as currency result in the gross result of sales. This change in the reporting provides a clearer presentation of the gross margin.

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

	Applicable exchange rates as of	
	12/31/2017	12/31/2016
1 Euro	US dollar 1.1993	US dollar 1.0541
1 Euro	New Taiwan dollar 35.56595	New Taiwan dollar 33.76450

	Average exchange rates	
	2017	2016
1 Euro	US dollar 1.12970	US dollar 1.10690
1 Euro	New Taiwan dollar 34.35344	New Taiwan dollar 35.69770

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

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

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

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

3.2 Earnings Realization

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

Sale of goods and products
Earnings for goods and products are recorded after the relevant opportunities and risks related to the ownership of the goods and products sold were transferred to the buyer. Generally, this applies at the time of shipment of the goods and products.

Earnings from customer-specific manufacturing across periods are recorded as earnings according to the degree of completion (percentage-of-completion method). The degree of completion is determined according to the costs accrued on the balance sheet date. The degree of completion is expressed as percentage of the estimated total costs of the related project. Earnings are recorded only to the amount of the accrued reimbursable expenses if the result of an order cannot reliably be estimated. In the reporting period, no customer-specific production was conducted.

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

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

3.3 Taxation

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

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

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

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

→ Deferred tax liabilities due to a first-time valuation of goodwill or an asset or debts resulting from a business transaction other than a business combination that has - at the time of the business transaction - neither bearing on the profit for the period under German commercial law nor on the taxable result.

→ Deferred tax liabilities due to taxable temporary differences related to investments in subsidiaries, associates and stakes in joint ventures if the temporal course of the reversal of temporary differences can be controlled and if it is probable that the temporary differences will not reverse in the foreseeable period.

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

→ Deferred tax assets due to deductible temporary differences related to a first-time valuation of an asset or debts resulting from a business transaction other than a business combination that has - at the time of the business transaction - neither bearing on the profit for the period under German commercial law nor on the taxable result.

→ Deferred tax assets due to deductible temporary differences related to investments in subsidiaries, associates and stakes in joint ventures if it is probable that the temporary differences will not reverse in the foreseeable period or no sufficient taxable result will be available against which the temporary differences can be applied.

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

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

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

3.4 Government Grants

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

In the case of non-monetary grants to the group, the assets and the grants are recorded at their nominal values and, if possible, are reversed and recognized 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 capital reserve.

3.6 Financial Assets and Liabilities

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

3.7 Derivative Financial Instruments

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

3.8 Inventories

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

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

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

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

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

3.9 Tangible Assets and Buildings and Land in Finance Lease

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

The scheduled linear depreciations of fixed assets are largely based on the following useful lives:

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

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

3.10 Intangible Assets

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

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

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

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

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

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

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

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

3.11 Liquid Assets and Cash Equivalents

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

3.12 Leases

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

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

3.13 Borrowing Costs

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

3.14 Financial Debt

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

3.15 Provisions

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

3.16 Applicable Fair Value

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

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

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

3.17 Impairment of Assets

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

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

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

For intangible assets with indefinite useful life the impairment test will be made on the level of camera families as CGU. The recoverable amount will be determined on the basis of the calculation of a utility value based on cash flow forecasts. The cash flow forecasts are based on financial plans approved by the management for a period of four years. The planning period reflects the assumptions for short- to mid-term market developments. The group assumes a sales growth in the lower double-digit percentage range for 2017 and the following years. The gross profit margin is expected to decline slightly. Cash flows arising after the planning period are not considered. The discount factor before taxes used for the cash flow forecasts is 8.5 % (previous year: 7.6 %). It is based on the concept of weighted average capital costs. In the calculation of the utility value as well as of the fair value less cost to sell (using DCF method) there are uncertain estimates for the underlying assumptions, particularly with regard to:

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

A discount interest rate of more than 17 % and/or an expected decline of the gross profit by 10.4 % would lead to a devaluation of the assets.

If there are indications for a devalutation of fixed assets in the course of the year, these will be examined and -if necessary- a value adjustment is made.

II. ITEMS OF THE ANNUAL FINANCIAL STATEMENTS

NOTES TO THE PROFIT AND LOSS STATEMENT

4. Sales Revenues

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

5. Other Operational Profit

The operational profit includes the following:

in € k	2017	2016
Rental income	104	156
Subsidies for research and development	195	60
Income from the release of provisions	79	94
Other	323	164
	701	**474**

The other operational profit includes € 259 thousand for self-developed manufacturing tools. Until 2016, also the currency exchange gains were shown under the other operational profit. By December 31, 2017, this was changed and the currency gains are now shown in the gross result. The previous year's figures were adjusted. This change serves a clearer representation of the gross margin. The currency result is largely attributable to the valuation of the difference between sales revenues and material expenses in foreign currencies.

6. Research and Development and Other Expenses

The other expense includes the following:

in € k	2017	2016
Full costs for research and development	15,969	13,218
Capitalization of own development costs	-5,141	-5,282
Unscheduled depreciations on capitalized developments	581	327
Premises costs	116	110
Further other expense	8	37
	11,533	**8,410**

7. Financial Result

in € k	2017	2016
Interest income from cash in bank	2	1
Interest income from discounting	39	4
Interest expense on bank loans	-269	-196
Other interest expenses	-2	0
Interest expense from derivative financial instruments	-244	-285
Capitalization of interest pursuant to IAS 23	155	180
Mark-to-market evaluation of derivative financial instruments	248	271
Interest expense for finance lease	-616	-715
	-687	**-740**

In 2017, the average financing cost rate considered in accordance with IAS 23 was 2.10 % (previous year: 1.87 %).

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	2017	2016
Current taxes from consolidated companies	6,594	2.098
Deferred taxes from consolidated companies	1,525	1,370
Other taxes	45	28
Tax expense	**8,164**	**3,496**

Calculation deferred tax expenses:

in € k	2017	2016
Deferred tax expenses or income from losses carried forward (continuously)	1,387	439
Deferred tax expenses or income from losses carried forward (continuous adjustment)	0	0
Deferred tax expenses or income from temporary differences	138	931
Deferred tax expense	**1,525**	**1,370**

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

Tax reconciliation in € k	2017	2016
Net profit / loss for the year before income taxes	29,792	11,426
Applicable tax rate	29.13 %	29.13 %
Expected tax expense / income	8,679	3,328
Reconciliation:		
Effects from deviating tax rates	-870	210
Tax effect from non-deductible expenses and tax-free earnings	176	138
Other	179	-180
Actual tax expense / income	8,164	3,496
Group tax rate	27.4 %	30.6 %

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

in € k	2017	2016
Germany, corporate income tax	0	6,000
Germany, trade income tax	0	3,486

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

9. Additional Information

9.1 Production Orders

As of December 31, 2017, there were no ongoing customer-specific production orders.

9.2 Scheduled and Unscheduled Depreciations

In fiscal year 2017, unscheduled value adjustments were made on capitalized product developments in an amount of € 581 thousand (previous year: € 327 thousand). The depreciations included discontinued products or products that are not expected to have sufficient economic benefit. The unscheduled depreciations on the capitalized developments were recorded with the other expense. The depreciations and unscheduled depreciations are included in the following areas:

in € k	2017	2016
Cost of service performed	6,523	4,329
Sales and marketing costs	209	147
General administration costs	1,477	1,399
Other expense	959	716
	9,168	**6,591**

9.3 Personnel Expenditures

in € k	2017	2016
Wages and salaries	41,187	33,476
Social security contributions	6,701	5,788
	47,888	**39,264**

The expenses for the contribution-based pension schemes amounted to Euro 3,057 thousand (previous year: Euro 2,608 thousand). The employees in the group are for the most part insured under the mandatory statutory pension insurance scheme and are thus subject to a government contribution-based plan.

9.4 Material Expenditures

in € k	2017	2016
Expenses for raw, auxiliary, and operating supply items as well as purchased goods	51,223	33,121
Expenses for purchased services	2,065	1,120
	53,288	**34,241**

In the year 2017, costs for guarantees amounted to € 909 thousand (previous year: € 936 thousand).

9.5 Reconciliations for Result per Share

	2017	2016
Earnings diluted / undiluted in € k	21,628	7,930
Weighted average number of ordinary shares	3,209,430	3,230,943
Result per Share	**6.74**	**2.45**

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

NOTES TO THE BALANCE SHEET

10. Development of Fixed Assets

As at 12/31/2017, Basler used fully depreciated fixed assets representing an acquisition value of € 23,942 thousand (previous year: € 21,974 thousand). For more details about the development of fixed assets, we refer to the separate explanation. The technical equipment, machines, and fixtures and fittings amounting to € 0 thousand (previous year: € 38 thousand) are assigned as collaterals to credit institutions.

The purchase commitments for tangible assets amounted to € 1,677 thousand (previous year: € 465 thousand).

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

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

As of December 31, 2016, the following intangible assets were important:

Description of the Intangible Asset	Book value 12/31/2016 (in € k)	Useful Lives (in Years)
Expansion of the ace camera line with sensors of the CMOSIS company and the USB interface	4,804	5
Development of camera modules for the use with embedded processors	760	3
Camera development 3D ToF technology	527	3
Entry level camera platform	2,752	5

11. Deferred Taxes

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

in € k	12/31/2017	12/31/2016
Deferred tax assets		
From tax loss carry forwards	0	1,377
Inventories	114	62
Financial instruments	172	202
Other	225	179
Offsetting	-472	-1,792
	39	**28**

in € k	12/31/2017	12/31/2016
Deferred tax liabilities		
Capitalization of development	5,883	5,923
Finance lease	0	1,082
Tangible assets	89	63
Other	25	103
Offsetting	-472	-1,792
	5,525	**5,379**

12. Inventories

The inventories include the following:

in € k	12/31/2017	12/31/2016
Finished products	4,651	2,059
Semi-finished products	2,470	1,555
Raw materials, supplies, and operating materials	12,810	9,989
Merchandize	898	974
	20,829	**14,577**

As of 12/31/2017, inventories were subject to range deductions to the amount of € 832 thousand (previous year: € 807 thousand). Of which an increase of € 66 thousand applied to fiscal year 2017 (previous year: € 79 thousand).

Finished products and merchandize include devices made available to customers temporarily for testing, on loan, and for demonstration purposes worth € 177 thousand (previous year: € 167 thousand). This manner of reporting facilitates the handling of the future sale to the customer. Devices used for demonstration purposes over an extended period, e.g. for trade fairs and exhibitions, are stated under fixed assets and are depreciated over their useful lives amounting to three years.

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

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

in € k	12/31/2017	12/31/2016
Receivables from deliveries and services	11,066	10,370
	11,066	**10,370**

Of the receivables from deliveries and services in the amount of € 11,066 thousand (previous year: € 10,370 thousand) € 11,066 thousand (previous year: € 10,370 thousand) are due within one year.

The values of the receivables from deliveries and services are adjusted by € 2 thousand (previous year: € 0 thousand). Value adjustments of receivables are maintained at Basler on separate accounts. Value adjustments are performed as far as the collectability of a receivable is in danger e.g. due to insolvency. The value adjustments have developed in the following way:

in € k	Status as of 01/01	Currency differences	Allocation	Consumption	Liquidation	Status as of 12/31
2017	0	0	2	0	0	2
2016	6	0	0	6	0	0

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

in € k	Book value as of 12/31	Of which as of 12/31 neither impaired nor past due	Of which not impaired and up to 60 days past due	Of which not impaired and up to 61 days past due
2017	11,066	10,047	1,019	0
2016	10,370	9,873	497	0

The sum of advance payments received amounts to € 2,022 thousand (previous year: € 142 thousand). There are no receivables past due that would require value adjustments.

The maximum default risk corresponds to the book values stated in the balance sheet of each financial asset (less value adjustments taken into account as 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	12/31/2017	12/31/2016
Derivative Financial Instruments	0	327
Other	304	178
Loans to third party	1,362	0
Other short-term financial assets	1,666	505
Accrued expenses	815	619
Advance payments made	225	122
Other short-term assets	1,040	741
Total	**2,706**	**1,246**

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

15. Tax Refund Claims

The tax refund claims relate to input tax amounting to € 859 thousand (previous year: € 439 thousand) and the reclaim of taxes paid in advance on income and profit amounting to € 311 thousand (previous year: € 408 thousand).

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

16. Cash and Cash Equivalents

Cash and cash equivalents include cash in bank and cash in hand in the amount of € 36,025 thousand (previous year: € 19,347 thousand).

17. Lease

17.1 Finance Lease

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

in € k	12/31/2017	12/31/2016
Land	2,278	1,817
Buildings	10,203	12,807
	12,481	**14,624**

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

in € k	Minimum lease payments		Cash value of the minimum lease payments	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
With a residual term of up to one year	2,224	2,221	2,224	2,159
With a residual term of more than one year and up to five years	9,110	9,638	8,454	8,610
With a residual term of more than five years	1,822	0	1,804	0
	13,156	**11,859**		
Minus: Future financing costs	-674	-1,090		
Cash value of the minimum lease payments	12,482	10,769	12,482	10,769
Recorded in the group's annual balance sheet as				
Short-term liabilities from financing lease			2,224	2,159
Long-term liabilities from financing lease			10,258	8,610

The earnings from subleases amounted to € 104 thousand (previous year: € 156 thousand) in the reporting period. The last subleasing contract ended on December 31, 2017.

17.2 Operating Lease

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

Fiscal year	€ k
2018	504
2019-2021	491

Almost all rental and leasing options provide for final purchase options at market conditions. During the year under review, the rent/leasing expenses amounted to € 748 thousand (previous year: € 523 thousand).

18. Equity

18.1 Subscribed Capital

The paid-up share capital of the company amounts to € 3,500,000 and is divided into 3,500,000 issued no-par-value shares. The shares are in bearer form. The number of shares in circulation as of January 1, 2017 amounted to 3,215,247 and on December 31, 2017 to 3,211,136. In the reporting year, 10,681 own shares were acquired.

The shares in circulation developed as follows:

	2017		2016	
	Own shares	Shares in circulation	Own shares	Shares in circulation
January	288,878	3,211,122	258,637	3,241,363
February	295,434	3,204,566	258,637	3,241,363
March	295,434	3,204,566	258,637	3,241,363
April	295,434	3,204,566	258,637	3,241,363
May	295,434	3,204,566	261,359	3,238,641
June	288,864	3,211,136	264,495	3,235,505
July	288,864	3,211,136	271,230	3,228,770
August	288,864	3,211,136	277,483	3,222,517
September	288,864	3,211,136	278,975	3,221,025
October	288,864	3,211,136	281,779	3,218,221
November	288,864	3,211,136	284,484	3,215,516
December	288,864	3,211,136	284,753	3,215,247

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

18.2 Authorized Capital

The shareholders meeting 2012 authorized the management board, subject to approval by the supervisory board, to increase the share capital by May 30, 2017, by issuing up to 1,750,000 new no-par-value bearer shares against cash and/or non-cash contributions either once or several times by a total of € 1,750,000.00.

The shareholders 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.

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

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

18.3 Components of the Residual Total Income

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

	12/31/2017			12/31/2016		
in € k	Earnings before taxes	Taxes	Net	Earnings before taxes	Taxes	Net
Currency conversion of foreign subsidiaries	-438	0	-438	167	0	167
Total	-438	0	-438	167	0	167

18.4 Dividend Payment

On May 17, 2017, a dividend was paid amounting to € 0.74 per share (total dividend: € 2,371 thousand).

18.5 Balancing Finance Lease

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

19. Financial Liabilities

Basler reports the following financial liabilities as at December 31, 2017 (in € k):

Description	Interest condition	Interest rate	End of term	Repayment amount
ERP-bank loan 2012 tranche I	Fixed	2.15 %	12/30/2022	€ 2,438 k (previous year: € 2,925 k)
ERP-bank loan 2012 tranche II	Fixed	2.45 %	12/30/2022	€3,900 k (previous year: € 2,925k)
ERP-bank loan 2015	Fixed	1.50%	06/30/2025	€ 4,688 k (previous year: € 3,800 k)

€ 9,912 thousand of this are related to long term interest bearing bank liabilities (previous year: € 9,825 thousand). Furthermore, derivative financial liabilities of € 473 thousand (previous year: € 721 thousand), the short-term repayment portion of the financial liabilities of € 1,117 thousand (previous year: € 800 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

The provisions for personnel costs were mainly made for variable salaries and for

in € k	01/01/2017	Allocation	Utilizations	Liquidations	Interests	Currency differences	12/31/2017
Long-term provisions							
Personnel costs	946	499	0	0	-39	0	1,406
Long-term provisions	**946**	**499**	**0**	**0**	**-39**	**0**	**1,406**
Short-term provisions							
Personnel costs	2,756	2,342	-2,582	-9	0	-12	2,495
Commissions	11	1	-11	0	0	0	1
Guarantee	368	582	-273	-2	0	0	675
Legal- and consultancy costs	113	90	-89	-5	0	-2	107
Other	259	712	-370	-63	0	-14	524
Short-term provisions	**3,507**	**3,727**	**-3,325**	**-79**	**0**	**-28**	**3,802**
Total	**4,453**	**4,226**	**-3,325**	**-79**	**-39**	**-28**	**5,208**

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 and JPY currency risks, Basler uses forward exchange contracts. As these dealings are intended as security for underlying operating transactions, their terms are less than one year in each case.

JPY	12/31/2017	12/31/2016
Nominal value in € k	-	5,203
Foreign currency amount in k JPY	-	600,000
Fair value in € k		
Positive	-	327
Negative	-	-

In the previous year, no valuation units were formed.

In 2011, an interest rate swap was concluded in order to hedge future credit transactions against interest rate increases. The hedging relationship was repealed in 2012. Valuation of the interest rate swap is carried out according to the mark-to-market method. Positive fair values are stated under short-term other assets and negative fair values under short-term other financial liabilities. The income shown in the financial result resulting from valuation at fair value in fiscal year 2017 amounted to € 248 thousand (previous year: Income € 271 thousand).

	12/31/2017	12/31/2016
Nominal value in € k	5,455	6,667
Fair value in € k		
Positive	-	-
Negative	473	721

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

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

The book values of the financial instruments as of December 31, 2017, are as follows:

12/31/2017					
Assets	Category of measurement according to IAS 39	Book value	Amortized cost	Fair value, affecting net income	Fair value
Remaining financial assets	AfS	5	5		
Long-term assets		**5**			**5**
Receivables from deliveries and services	LaR	11,066	11,066		
		11,066			**11,066**
Short-term financial assets	FVTPL	0		0	
Short-term derivative assets	LaR	1,666	1,666		
Remaining other short-term financial assets		**1,666**			**1,666**
Other short-term financial assets	LaR	36,025	36,025		
Liquid assets		**36,025**			**36,025**
Cash and cash equivalents		**48,762**			
Liabilities					
Liabilities to credit institutions	FLAC	9,912	9,912		
Liabilities from finance lease	FLAC	10,258	10,258		
Long-term financial liabilities		**20,170**			**20,170**
Other financial liabilities	FLAC	1,117	1,117		
Short-term derivative assets	FVTPL	473		473	
Liabilities from deliveries and services	FLAC	10,107	10,107		
Liabilities from finance lease	FLAC	2,224	2,224		
Remaining other short-term financial liabilities	FLAC	2,754	2,754		
Short-term liabilities		**16,675**			**16,675**
		36,845			

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

	Level 1	Level 2	Level 3	Total
Financial assets of "Market value affecting profit and loss"				
Short-term derivative assets	0	0	0	0
Total	**0**	**0**	**0**	**0**
Financial liabilities of "Market value affecting profit and loss" category				
Short-term derivative assets	0	473	0	473
Total	**0**	**473**	**0**	**473**

Comparative values as of December 31, 2016:

12/31/2016					
Assets	Category of measurement according to IAS 39	Book value	Amortized cost	Fair value, affecting net income	Fair value
Remaining financial assets	AfS	5	5		
Long-term assets		**5**			**5**
Receivables from deliveries and services	LaR	10,370	10,370		
Short-term financial assets		**10,370**			**10,370**
Short-term derivative assets	FVTPL	327			
Remaining other short-term financial assets	LaR	178	178	327	
Other short-term financial assets		**505**			**505**
Liquid assets	LaR	19,437	19,437		
Cash and cash equivalents		**19,437**			**19,437**
		30,317			
Passiva					
Liabilities to credit institutions	FLAC	9,825	9,825		
Liabilities from finance lease	FLAC	8,610	8,610		
Long-term financial liabilities		**18,435**			**18,435**
Other financial liabilities	FLAC	800	800		
Short-term derivative liabilities	FVTPL	721		721	
Liabilities from deliveries and services	FLAC	6,234	6,234		
Liabilities from finance lease	FLAC	2,159	2,159		
Remaining other short-term financial liabilities	FLAC	1,051	1,051		
Short-term liabilities		**10,965**			**10,965**
		29,400			

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

	Level 1	Level 2	Level 3	Total
Financial assets of "Market value affecting profit and loss"				
Short-term derivative assets	0	327	0	327
Total	**0**	**327**	**0**	**327**
Financial liabilities of "Market value affecting profit and loss" category				
Short-term derivative assets	0	721	0	721
Total	**0**	**721**	**0**	**721**

For the calculation of the fair value of derivative instruments, discounted cash flow analyses are applied to derivatives without optional components using corresponding interest yield curves to the instruments' maturity and option pricing models are applied to derivatives with optional components. Forward foreign exchange transactions are valued based on listed forward rates and interest yield curves that are derived from listed market interest rates in view of the contracts' maturity. Interest rate swaps are valued at the cash value of the estimated future cash flows. The discounting took place using the pertinent interest yield curves derived from listed interest rates. Essential observable input parameters are not present.

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

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

III. ADDITIONAL INFORMATION

22. Type and Management of Financial Risks

22.1 Counterparty Risk

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

22.2 Interest Rate Risk

All longer-term financial liabilities stated as of the balance sheet date are valued at amortized cost and are not subject to interest rate risk within the meaning of IFRS 7 due to existing fixed-interest agreements. The sensitivity analysis in connection with the interest rate risk from the interest rate swap showed that an increase of the interest yield curve by 0.5 percentage points would have a positive effect on earnings before taxes of € 63 thousand; a decrease of the interest yield curve by 0.5 percentage points would have a direct negative effect on earnings before taxes of € 63 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 € k):

	Exchange rate +10 %	Exchange rate -10%
USD	-207	315
JPY	23	-29
SGD	27	-28
	-156	**258**

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

23. Capital Management / Liquidity Risk

Basler manages its capital with the aim of maximizing the earnings of its stakeholders by optimizing the ratio of equity capital to borrowed capital. However, it must furthermore be ensured that Basler possesses sufficient reserves to also enable short-term growth. This goal is managed using the financial reserves key figure. This key figure is calculated from the ratio of borrowed capital plus unused credit lines to short-term assets less liquid assets. A value of 125 % is targeted.

in € k	12/31/2017	12/31/2016
Borrowed capital without finance lease and deferred taxes	34,083	24,186
Unused credit lines	11,900	3,600
Total	**45,983**	**27,786**
Short-term receivables	11,066	10,370
Inventories	20,829	14,577
Remaining receivables and other financial assets	2,706	1,246
Liquid assets	-36,025	-19,437
Total	**-1,424**	**6,756**

This strategy was not changed compared to the previous year.

On the reporting date, Basler had access to credit lines amounting to € 11,900 thousand (previous year: € 3.600 thousand) including € 5,0 thousand earmarked loan commitments. These were not used or retrieved. The availability of credit lines and the granting of bank loans are partly tied to compliance with certain financial key figures. As in the previous year, Basler AG complied with the key figures.

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

	2018	2019	2020 to 2022	From 2023
Bank debt	1,117	1,112	7,237	1,563
Liabilities from deliveries and services	10,107	-	-	-
Other current financial and tax liabilities	6,742	-	-	-
Liabilities from finance lease	2,224	1,822	5,466	3,644

As per 12/31/2016, the following maturity structure ensued:

	2018	2019	2020 to 2022	From 2023
Bank debt	800	1,112	5,938	2,775
Liabilities from deliveries and services	6,234	-	-	-
Other current financial and tax liabilities	2,010	-	-	-
Liabilities from finance lease	2,159	8,610	0	0

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
2017	1,212	4,242	0	5,454
2016	293	426	2	721

24. Segment Report

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

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

in € k	2017	2016
Germany	15,382	11,891
EMEA	41,516	23,859
Americas	22,151	17,259
Asia	71,152	44,529
Total	**150,201**	**97,538**

In 2017, a revenue share of more than 10 % was generated with a total of two customers (one trading partner and one direct customer). The sales revenues of the Basler group are structured as follows:

in € k	2017	2016
Sales Camera Business	140,401	91,938
Sales Solutions	1,387	878
Sales Accessories	8,413	4,722
Total	**150,201**	**97,538**

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

in € k	12/31/2017	12/31/2016
Germany	45,138	43,227
USA	67	79
Singapore	647	517
Taiwan	33	23
	45,885	**43,846**

25. Number of Employees

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

	2017	2016
Production	164	113
Sales	157	149
Development	138	127
Administration	86	105
	545	494

Compared to the previous year, there was a change in the employee categorization in functional areas for a more cause-specific presentation, resulting in a decrease in administration.

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

	2017	2016
Production	154	107
Sales	148	140
Development	130	119
Administration	72	91
	504	457

26. Remuneration of the Auditors

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

in € k	2017	2016
Audit fees	63	62
Tax consultancy services	3	13
	66	75

27. Relations to Closely Affiliated Persons

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

- Dr. Dietmar Ley, Chief Executive Officer, responsible for research and development, organization development, and human resources
- John P. Jennings, Chief Commercial Officer, responsible for sales, market communication, and subsidiaries
- Arndt Bake, Chief Marketing Officer, responsible for strategic marketing, and product management
- 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 2017, the supervisory board consisted of the following members:

Norbert Basler	Chairman of the Supervisory Board Entrepreneur
Prof. Dr. Eckart Kottkamp	Vice Chairman of the Supervisory Board Consultant
Horst W. Garbrecht	Member of the Supervisory Board Chairman of the Management of Metabowerke GmbH
Prof. Dr. Mirja Steinkamp (From April 4, 2017)	Member of the Supervisory Board Chairman of the Audit Committee Professor for auditing and corporate accounting at NORDAKADEMIE

Additional mandates held by the supervisory board members in 2017, 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 GmbH, Bad Oldesloe
Vice Chairman of the Advisory Board, Zöllner Holding GmbH, Kiel

Prof. Dr. Eckart Kottkamp
Chairman of the Advisory Board, ACTec Holding GmbH, Freiberg (until Oct. 31, 2017)
Chairman of the Supervisory Board, Lloyd Fonds AG, Hamburg (until March 31, 2017)
Member of the Supervisory Board, Elbphilharmonie Hamburg Bau GmbH & Co. KG, Hamburg (until March 31, 2017)
Member of the Supervisory Board, KROMI Logistik AG, Hamburg

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

28.3 Remuneration of the members of the management board and supervisory boards

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

In 2017, a total of € 1,598,467.05 was paid out allocated as follows:

2017	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
Transfer	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Member of Management Board since	**1998**	**2006**	**2011**	**2014**
Fixed Remuneration	277,833.96	254,518.72	192,191.04	246,480.00
Additional benefits	17,409.47	50,641.93	20,712.26	18,477.02
Total	**295,243.43**	**305,160.65**	**212,903.30**	**264,957.02**
One-year variable remuneration	0.00	0.00	0.00	0.00
Multi-year variable remuneration	153,174.63	158,103.71	106,525.41	90,935.66
Payout bonus bank	153,174.63	158,103.71	106,525.41	90,935.66
Other	0.00	0.00	0.00	0.00
Total	**448,418.06**	**463,264.36**	**319,428.71**	**355,892.68**
Pension expenses	665.52	7,966.68	665.52	2,165.52
Total payout	**449,083.58**	**471,231.04**	**320,094.23**	**358,058.20**

Since Mr. Jennings draws his salary in USD, however, since the amounts stated are converted in euro at the reporting date, the decrease of the fixed remuneration is due to currency effects.

The claim to variable compensation components of the financial year 2017 amounting to € 1,294,697.31 was transferred to the bonus bank and will be paid out within the next years according to the process described in the management report.

In 2017, the total granted benefits for the management board amounted to € 2,384,414.95, and are allocated as follows:

2017	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
Granted Benefits	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Member of Management Board since	**1998**	**2006**	**2011**	**2014**
Fixed remuneration	277,833.96	254,518.72	192,191.04	246,480.00
Additional benefits	17,409.47	50,641.93	20,712.26	18,477.02
Total	**295,243.43**	**305,160.65**	**212,903.30**	**264,957.02**
One-year variable remuneration	0.00	0.00	0.00	0.00
Multi-year variable remuneration	370,445.06	339,358.29	256,253.96	328,640.00
Of which transferred to the bonus bank	370,445.06	339,358.29	256,253.96	328,640.00
Total	**370,445.06**	**339,358.29**	**256,253.96**	**328,640.00**
Pension expenses	665.52	7,966.68	665.52	2,165.52
Total remuneration	**666,354.01**	**652,485.62**	**469,812.78**	**595,762.54**
Possible minimum amount – reduction bonus bank	-92,611.25	-84,839.57	-64,061.25	-82,160.00
Possible maximum amount – transfer to bonus bank	370,445.06	339,358.29	256,253.96	328,640.00

In 2016, a total of € 1,511,218.85 was paid out allocated as follows:

2016	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
Transfer	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Member of Management Board since	**1998**	**2006**	**2011**	**2014**
Fixed remuneration	270,529.50	281,965.06	187,137.75	220,162.50
Additional benefits	16,166.49	54,526.52	21,623.41	18,975.98
Total	**286,695.99**	**336,491.58**	**208,761.16**	**239,138.48**
One-year variable remuneration	0.00	0.00	0.00	0.00
Multi-year variable remuneration	136,042.67	136,414.92	94,958.41	60,133.25
Payout bonus bank	136,042.67	136,414.92	94,958.41	60,133.25
Other	0.00	0.00	0.00	0.00
Total	**422,738.66**	**472,906.50**	**303,719.57**	**299,271.73**
Pension expenses	1,742.48	9,339.91	0.00	1,500.00
Total payout	**424,481.14**	**482,246.41**	**303,719.57**	**300,771.73**

The claim to variable compensation components of the financial year 2016 amounting to € 664,996.45 was transferred to the bonus bank and will be paid out within the next years according to the process described in the management report.

In 2016, the total remuneration of the management board amounted to € 1,748,666.05, allocated as follows:

2016	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
Granted Benefits	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Member of Management Board since	**1998**	**2006**	**2011**	**2014**
Fixed remuneration	270,529.50	281,965.06	187,137.75	220,162.50
Additional benefits	16,166.49	54,526.52	21,623.41	18,975.98
Total	**286,695.99**	**336,491.58**	**208,761.16**	**239,138.48**
One-year variable remuneration	0.00	0.00	0.00	0.00
Multi-year variable remuneration	187,436.93	195,360.64	129,658.94	152,539.94
Of which transferred to the bonus bank	187,436.93	195,360.64	129,658.94	152,539.94
Total	**187,436.93**	**195,360.64**	**129,658.94**	**152,539.94**
Pension expenses	1,742.48	9,339.91	0.00	1,500.00
Total remuneration	**475,875.40**	**541,192.13**	**338,420.10**	**393,178.42**
Possible minimum amount - reduction bonus bank	-90,176.50	-93,988.35	-62,379.25	-73,387.50
Possible maximum amount – transfer to bonus bank	360,706.00	375,953.42	249,517.00	293,550.00

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 € 108 thousand in the year 2017. There is no performance-related remuneration.

	Fixed remuneration 2017	Performance-related remuneration 2017	Total 2017
Norbert Basler	49,213.84	0.00	49,213.84
Prof. Dr. Eckart Kottkamp	25,122.17	0.00	25,122.17
Horst W. Garbrecht	15,545.83	0.00	15,545.83
Prof. Dr. Mirja Steinkamp (since April 4, 2017)	18,112.52	0.00	18,112.52

The total remuneration of the members of the supervisory board amounted to € 67 thousand in the year 2016. There is no performance-related remuneration.

	Fixed remuneration 2016	Performance-related remuneration 2016	Total 2016
Norbert Basler	34.400,00	0,00	34.400,00
Prof. Dr. Eckart Kottkamp	19.733,33	0,00	19.733,33
Horst W. Garbrecht	13.155,58	0,00	13.155,58

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

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

	12/31/2017 Number of Shares	12/31/2016 Number of Shares
Dr. Dietmar Ley	125,794	145,794
John P. Jennings	5,500	5,500
Arndt Bake	700	700
Hardy Mehl	800	800

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

In 2015, Mr. Norbert Basler transferred his shares to Norbert Basler Beteiligungs GmbH & Co KG, and in 2017 to the Norbert Basler Holding GmbH, which held 1,843,384 shares of Basler as of December 31, 2017.

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 Vision Technologies Taiwan Inc., Jhubei City/Taiwan	100
Mycable GmbH, Neumünster/Germany (since June 1st, 2017)	100

On June 1st, 2017, Basler AG acquired 100 % of the shares of Mycable GmbH based in Neumünster and thus strategically and technologically strengthened in the embedded vision sector. Mycable GmbH is a highly specialized consultancy in the area of embedded computing systems. Founded in 2001, the employees of Mycable GmbH support their customers in selecting embedded computing architectures. According to customer requirements, prototypes and series products are developed. If required, Mycable also coordinates the production of prototypes and small batches. The customers are mainly operating in the automotive sector and the computer vision industry. In 2016, sales of Mycable GmbH amounted to approximately € 2.6 million. In fiscal year 2017, sales amounted to € 2.3 million. Within the allocation of the consideration according to IFRS 3, no assets were identified that may have led to a split of goodwill. Assets, as customer base and brands do not exist.

Mycable GmbH Initial Consolidation	Fair value (in € k)
Assets	
Intangible assets	28
Tangible assets	192
Inventories	472
Receivables and other assets	185
Liquid assets	443
Deferred income	5
Total assets	**1,325**
Liabilities	
Provisions	289
Payments received for orders	312
Liabilites from deliveries and services	111
Other liabilities	41
Total liabilities	**753**
Net identifiable assets	572

The company value from the acquisition amounted to € 3,139 thousand, means of payment in an amount of € 443 thousand were taken over. The actual cash outflow was € 1,897 thousand.

Since the date of acquisition, Mycable GmbH's contribution to sales revenues amounted to € 1,589 thousand and to the group result before taxes to € 217 thousand. If the merger was conducted at the beginning of the year, the group's sales revenues would have amounted to € 150,943 thousand and the group result before taxes to € 29,765 thousand. Costs for the group related to the company purchase amounted to € 118,650.44.

The recorded goodwill results from expected synergies, sales growth, future product developments as well as the expertise and professional skills of the existing employees of Mycable GmbH. These advantages were not considered separately from the goodwill during the allocation of the consideration, since they do not satisfy the statement regulations of intangible assets.

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

Company name	Proportion of stake in % (Dec. 31, 2017)	Equity (Dec. 31, 2016)*	Result (2016)*
Beruf und Familie im HanseBelt gGmbH, Bad Oldesloe	20	€ 6 thousand	€ -39 thousand

*) Financial statement as at Dec. 31, 2017, was not available on the date of report generation.

Further participating interests are not held.

30. Corporate Governance

Pursuant to § 161 of the German Stock Corporation Act (AktG), the declaration was made accessible to the shareholders on the company's website at www.baslerweb.com/.

31. Approval of the Annual Balance Sheet

The annual balance sheet is expected to be released for publication by the supervisory board on March 19, 2018.

32. Recommendation for the Appropriation of Profit

The management board recommends the distribution of a dividend amounting to € 2.02 per share corresponding to an amount of € 6,486,494.72.

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 19, 2018

Management Board

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

AUDIT CERTIFICATE OF THE INDEPENDENT STATUTORY AUDITOR

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

AUDIT OPINIONS

We reviewed the consolidated financial statements of Basler Aktiengesellschaft, Ahrensburg and its subsidiaries (the Group) – consisting of the consolidated balance sheet as of December 31, 2017, 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, 2017 to December 31, 2017 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, 2017 to December 31, 2017. 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, 2017 and its earnings situation for the financial year from January 1, 2017 to December 31, 2017 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, 2017 to December 31, 2017. 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 Mycable GmbH acquired in 2017

3. Recoverability of the capitalized development costs

1. VALUATION OF INVENTORIES

FACTS

Inventories in the amount of EUR 21 million (18% 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 MYCABLE GMBH ACQUIRED IN 2017

FACTS

In the financial year under review Basler Aktiengesellschaft acquired all of the shares in Mycable GmbH and fully consolidated it. The acquired assets and liabilities are reported at the fair value of EUR 0.6 million on the date of acquisition. Taking the net assets attributable to Basler Aktiengesellschaft into account this results in acquired goodwill of EUR 3.1 million. Due to the large number of discretionary decisions required in the valuation of assets and liabilities within the scope of the purchase price allocation, initial consolidation of the acquired company was a particularly important audit issue.

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

AUDITOR'S RESPONSE

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

3. RECOVERABILITY OF THE CAPITALIZED DEVELOPMENT COSTS

FACTS

As of December 31, 2017 the company reported "Intangible Assets" (including goodwill) in the amount of EUR 25 million (21% of the balance sheet total) in the consolidated financial statements. A total of EUR 20 million thereof is attributable to capitalized development costs. The book values of the Group's own developments are reviewed at each balance sheet target date for indications of impairment. If there are indications of impairment, then the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Capitalized developments that are still in progress are also subjected to an annual impairment test. The assessment of recoverability requires a large number of discretionary decisions on the part of the legal representatives. The assessment is based on the present values of the expected future cash flows of the cash-generating unit to which the development costs were allocated. The assumed future cash flows are derived from budgeting accounting prepared by the legal representatives. Expectations about future market developments are also taken into account. The present values are determined using discounted cash flow models. They are highly dependent on how the legal representatives estimate future cash inflows and on the respectively employed discount interest rates. Due to the uncertainty associated with discretionary decisions and estimates and the amount of the balance sheet items, the recoverability of the capitalized development costs was a particularly important issue for us within the scope of our audit.

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

AUDITOR'S RESPONSE

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

MISCELLANEOUS INFORMATION

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

- the separately published declaration on Corporate Governance referred to in Clause 9 of the Group Management Report;
- the 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;
- the Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code; and
- the affirmation in accordance with Section 297 Paragraph 2 Sentence 4 of the German Commercial Code [HGB] with regard to the consolidated financial statements and the affirmation in accordance with Section 315 Paragraph 1 Sentence 5 HGB with regard to the group management report.

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

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

- wesentliche Unstimmigkeiten zum Konzernabschluss, zum Konzernlagebericht oder unseren bei der Prüfung erlangten Kenntnissen aufweisen oder
- anderweitig wesentlich falsch dargestellt erscheinen.

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

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

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

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

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

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

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

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

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

- we identify and assess the risks of material misstatements, whether intentional or not, in the consolidated financial statements and in the group management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and suitable for serving as the basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies because violations may involve fraudulent collaboration, falsification, intentional diminution, misleading representations and/or the inoperativeness of internal controls.
- we obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the precautions and measures relevant

to the audit of the Group management report in order to plan audit procedures that are appropriate under the given circumstances, but not with the aim of expressing an opinion with regard to the effectiveness of these systems.

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

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

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

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

MISCELLANEOUS STATUTORY AND OTHER LEGAL REQUIREMENTS

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

We were appointed as statutory auditors by the General Meeting of Shareholders on May 17, 2017. We were commissioned by the Audit Committee on September 21, 2017. 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 19, 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

signed Prill	signed Dr. Wißmann
Auditor	Auditor

DECLARATION OF THE LEGAL REPRESENTATIVES

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

Ahrensburg, March 19, 2018

The Management Board

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

EVENTS 2018

IR-Events

Date	Event	Venue
05/02/2018	Publication 3-month report 2018	Ahrensburg, Germany
05/07/2018	Shareholders' meeting 2018	Hamburg, Germany
08/13/2018	Publication 6-month report 2018	Ahrensburg, Germany
11/05/2018	Publication 9-month report 2018	Ahrensburg, Germany
11/26/2018-11/28/2018	Deutsches Eigenkapitalforum 2018 (Germany equity forum)	Frankfurt/Main, Germany

Shows and Conferences

Date	Event	Venue
01/29/2018-01/30/2018	Photonics West	San Francisco, USA
02/26/2018-03/01/2018	Pittcon	Orlando, USA
02/27/2018-03/01/2018	embedded world	Nuremberg, Germany
03/14/2018-03/16/2018	Vision Show Shanghai	Shanghai, China
03/17/2018-03/19/2018	China Association of Clinical Laboratory Practice Expo	Chongqing, China
03/28/2018-03/30/2018	Korea Vision Show / Automation World	Seoul, Korea
04/10/2018-04/12/2018	Vision Show Boston	Boston, USA
04/10/2018-04/13/2018	Analytica	Munich, Germany
04/11/2018-04/14/2018	China International Medical Equipment Fair	Shanghai, China
05/21/2018-05/24/2018	NI Week	Austin, USA
06/27/2018-06/29/2018	Vision China	Shenzhen, China
10/10/2018-10/12/2018	Vision China	Beijing, China
10/29/2018-11/01/2018	China International Medical Equipment Fair	Shenzhen, China
10/31/2018-11/02/2018	Analytica China	Shanghai, China
11/06/2018-11/08/2018	Vision Stuttgart	Stuttgart, Germany
11/21/2018-11/23/2018	All over IP	Moscow, Russia
12/05/2018-12/07/2018	International Technical Exhibition on Image Technology and Equipment Japan	Yokohama, Japan

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