BASLER

Annual Report 2016

KEY FIGURES

in € m*	2014	2015	2016	Changes in %
Sales revenues	79.2	85.4	97.5	14 %
Incoming orders	82.7	83.0	105.4	27 %
Gross results	41.0	40.7	47.5	17 %
Gross profit margin	51.8 %	47.7 %	48.7 %	1 Pp.
Full costs for research and development	11.0	12.0	13.2	10 %
Research and development ratio	13.9 %	14.1 %	13.5 %	-1 Pp.
EBITDA	18.0	16.0	18.8	17 %
EBIT	12.5	10.0	12.2	22 %
EBT	11.1	9.1	11.4	25 %
Net income	8.2	6.2	7.9	27 %
Weighted average number of shares	3,219,331	3,209,466	3,230,943	1 %
Result per share (€)	2.54	1.94	2.45	26 %
Cash flow from operating activities	16.0	12.9	16.1	25 %
Cash flow from investing activities	-8.6	-9.3	-8.0	-14 %
Free Cash flow	7.4	3.6	8.1	125 %

in € m*	12/31/14	12/31/15	12/31/16	Changes to previous year
Total assets	72.3	76.7	90.4	18 %
Long-term assets	38.8	42.5	43.9	3 %
Equity	37.3	45.2	50.0	11 %
Liabilities	35.0	31.5	40.4	28 %
Equity ratio	51.6 %	58.9 %	55.3 %	-4 Pp.
Net cash	4.5	6.6	8.8	33 %
Working Capital	17.1	15.8	18.6	18 %
Number of employees for the fiscal year (full time equivalents)	375	438	457	4 %
Share price (XETRA) in €	38.66	43.43	60.37	39 %
Number of shares in circulation	3,181,136	3,241,363	3,215,247	-1 %
Market capitalization	123.0	140.8	194.1	38 %

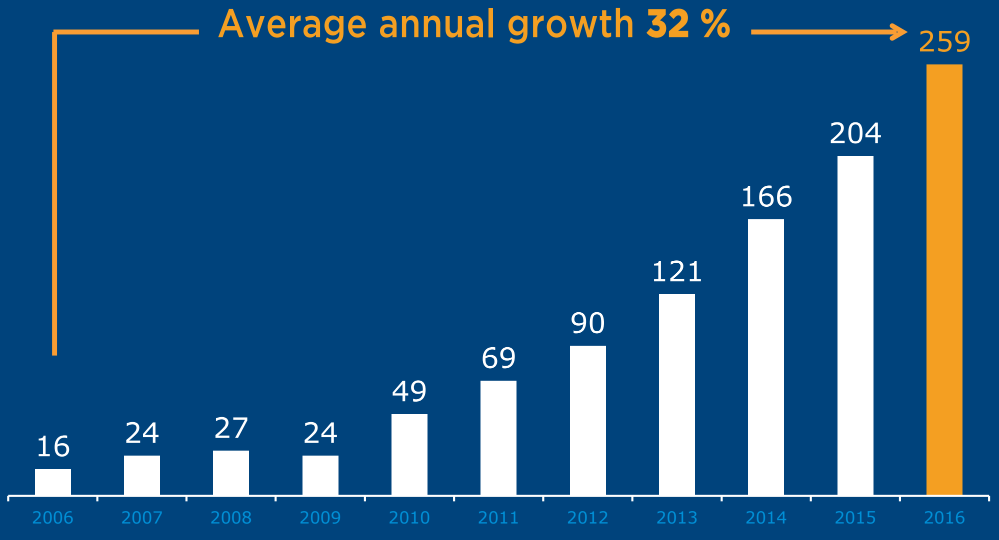
*unless otherwise stated

CONTENT

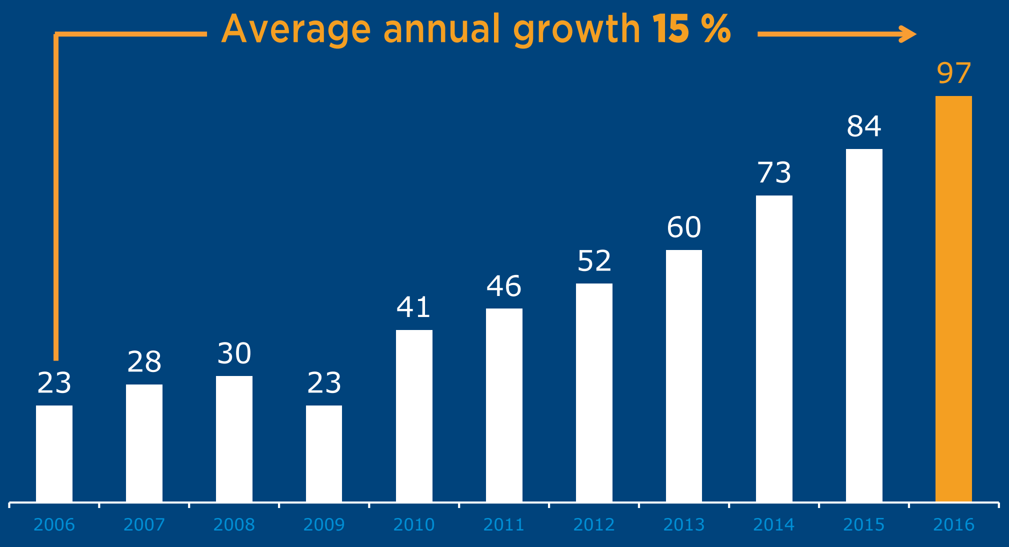
You find the image movie under: http://info.baslerweb.com/video

BASLER GROWTH STORY

Camera Units (in k Production Units)



Camera Revenue (in € million)

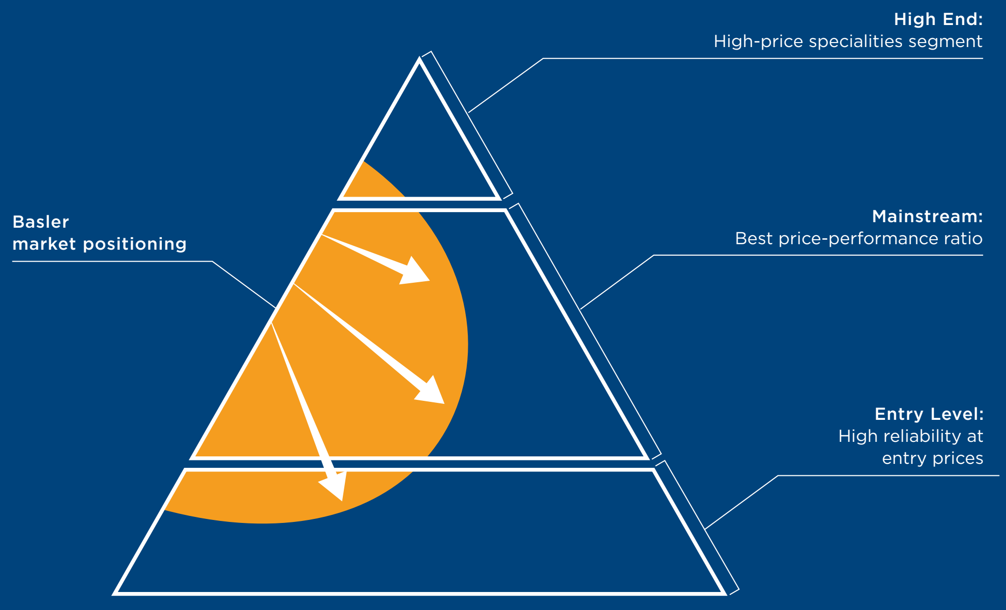


GROWTH STRATEGY UNTIL 2020

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 € 150 million by 2020; raising the number of produced cameras to over 500,000 pieces at a pre-tax return of 11 %.

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,

We are pleased that we set new records for incoming orders, sales, as well as profit in 2016 and thus reached further important milestones in the implementation process of our self-financed, profitable growth strategy. In the present report we would like to give you detailed information about the very positive business development of Basler AG in 2016.

Following the upturn of the business situation towards the end of 2015, group sales increased by 14 % in the financial year 2016. We grew by approximately ten percentage points more than the market for industrial cameras and again significantly gained market shares and further extended our market leadership (source: VDMA, Verband Deutscher Maschinen- und Anlagenbau, German Engineering Federation). In addition to the sales growth according to plan, we reached a pre-tax return rate of 11.7 %, thus above the target rate of 10 %. In 2016, we also clearly took into account our efforts to finance our growth from own resources. With a strong free cash flow of € 8.1 million and after the distribution of a dividend and the acquisition of additional own shares, we increased our net liquidity by € 2.2 million to € 8.8 million compared to the previous year. The high liquidity gives us a solid foundation for our further growth path.

Sales growth was particularly driven by mainstream and entry level products. Regionally, Asia showed by far the highest growth dynamics – in particular in China and Korea. Our business in Asia increased clearly disproportionately by more than 40 % compared to the previous year. Thus, in 2016, Asia became the biggest and most important sales region for Basler. In addition to the Asian region, the German market developed disproportionately higher showing a growth rate of 23 %.

Our passionate and committed employees as well as a company culture which fosters innovation are two essential success factors for the positive results of the past reporting period. In the elapsed fiscal year, we hired 21 new employees with a very low fluctuation rate (2.4 %). In the past two financial years, we intensively worked on adjusting structures and procedures as well as steering mechanisms to the strongly growing organization in order to improve the organization's efficiency and effectiveness and thus create the foundations for a sustainable profitable growth. Already in the elapsed fiscal year, these efforts led to a significant increase in productivity. In the interest of maintaining our company culture, in 2016 we set a high value on the successful integration of new colleagues, as well as on the further development of our executives' competency.

We would like to take this opportunity to thank all employees for their commitment and the achievements.

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

Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Arndt Bake
CMO

Hardy Mehl
CFO/COO

We would also like to thank our shareholders for the trustful and excellent cooperation in the course of the reporting period. With the given above business figures and the progress made we increased the value of your shares in Basler AG by 34 % in fiscal year 2016. The positive results of the fiscal year enable us to let you participate for the seventh time in a row in the success of the company. We will therefore forward a proposal to the general meeting 2017 suggesting to pay a dividend for the financial year 2016 in the amount of 0.74 € per share. Should that proposal be adopted, the planned dividend payment of a total of € 2.4 million would correspond to about 30 % of the net result.

For 2017, economic research institutes and banks assume a moderate growth of the engineering industry. In principle, we share this estimation, however, we assume a more positive development for the image processing components industry. Based on discussions with our customers and forecasts of associations and market research institutes we expect our market to grow by 8 – 10 % in 2017, thus better than in the previous year. Irrespective of the market growth, we strive to gain further market shares. Important factors for the growth will be sales with new products, diversification in application fields outside of industrial mass production, and gains in market shares in important regional markets. Also in 2017, we expect sales growth in the Asian markets to be disproportionate.

Based on the market assessment and the good start into the new fiscal year, for the financial year 2017, we expect sales revenues for the group to be in a corridor between € 120 and 130 million and a pre-tax return between 13 and 15 %. We expect a very strong first half-year followed by a good third quarter and a seasonal weakening in the 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 2017. 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 are very optimistic that we will exceed the sales threshold of € 100 million in financial year 2017.

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

Ahrensburg, March 2017

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 2016, 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 2016, five regularly occurring supervisory board meetings took place, which all members of the supervisory board attended. The meetings were held on March 15, June 3, September 13, November 16, and December 14. 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 2015 and the proposals for the shareholders' meeting
- Dividends for fiscal year 2015 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
- 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

Norbert Basler
Founder & Chairman of the Supervisory Board

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

Horst W. Garbrecht
Supervisory Board

- Investor relations
- Share buyback program
- Corporate planning and budget for the group for fiscal year 2017
- 4-year-planning 2017 – 2020
- 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
- IT security and IT costs
- 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 June 3, 2016, was commissioned by the chairman of the supervisory board to perform the audit by a letter of October 10, 2016. The annual auditor participated in the supervisory board meeting on March 29, 2017, in which the presented annual balance sheet and the reported essential results were discussed.

The accounting, the annual balance sheet as of December 31, 2016, and the situation report for Basler AG, along with the group's annual balance sheet as of December 31, 2016, 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.

Planning targets exceeded - focus on challenges

In 2016, Basler AG recorded a strong sales growth, an even stronger increase of incoming orders, gains in market shares, and a record business result. The high demand for Basler products (particularly from Asia) and the company's internal performance led to very satisfactory results in the elapsed fiscal year. The investments of recent years in strategy, market development, technology, organization, and company culture noticeably pay off.

In the seventh consecutive year now (after the world economic crisis in 2008 / 2009 is overcome), Basler AG annual results reach or exceed the ambitious targets for growth and profitability. The company's profitability not only allowed for a continuously good business result but also for the distribution of a dividend to the shareholders and above all continuously strong investments in the sustainability of the company.

These investments in connection with ongoing organizational adjustments are to continue to actively shape addressed markets and to maintain competitiveness. In view of an increasing competitive pressure from Asia and the uncertainties of worldwide economic policies, these two factors are becoming more and more important.

Overall, 2016 was a good and successful financial year for the customers, for the employees, and for the shareholders of Basler AG. Looking to financial year 2017 and beyond, the supervisory board believes the company to be well-positioned in order to turn the expected changes in the vision technology market into further profitable growth along the adopted strategy.

We expressly thank all employees, executives, and the members of the management board of Basler AG for the excellent and successful work they have accomplished.

Ahrensburg, March 2017

For the Supervisory Board

Norbert Basler
Founder & Chairman of the Supervisory Board

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

Horst W. Garbrecht
Supervisory Board

THE BASLER SHARE

After Basler AG increased its profit forecast for 2015 during the early days of the new year and confirmed this increase by the publication of the preliminary 2015 business figures in February 2016, the Basler share price increased very quickly from € 44.99 to over € 50.00. The interest in the share slightly decreased in March and April resulting in a share price of less than € 50.00.

At the beginning of the strongest selling months, the investors' interest increased again so that the Basler share closed at a price of € 53.69 at the end of May. The month of June 2016 that was characterized by the Brexit for many companies – even though fundamentally unfounded – led to a short-term intraday annual low of € 39.50. However, the share price recovered rapidly. After increase of the annual guidance at the beginning of July, the share closed the month at a price of € 51.03.

After a share price of slightly over € 50.00 during the entire month of August, it continuously increased to € 60.00 in the months of September and October. After the guidance was raised again at the end of October, the share price increased to its intraday annual high of € 65.47 on November 10th. By the end of the year, the share price settled slightly above € 60.00 and closed the year at € 60.37. Thus, the Basler share price increased by 34 % over the course of the year.

General Meeting

The general meeting took place in the Hamburg Chamber of Commerce on June 3, 2016.

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 2015. After a general debate all items were approved by more than 98 % of the voters present.

Please find detailed information about the general meeting 2016 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.

At the reporting date December 31, 2016, 284,753 own shares corresponding to almost 8.1 % were held by Basler AG. These were bought at an average share price of almost € 22.00.

Dividend and Appropriation of Earnings

Due to the positive business development in the fiscal year 2016, the management board of Basler AG has decided to propose to the general meeting 2017 to pay a dividend.

Keyfact

€ 0.74

Dividend 2016

Our dividend strategy provides for a combination of a reliable base dividend, to be paid independently of the company's result and an additional dividend depending on the company's success.

On this base, the proposal will be made in the general meeting of 2017 to pay a dividend for the fiscal year 2016 of € 0.74 per share consisting of a base dividend of € 0.20 per share and an additional dividend amounting to € 0.54 per share.

Capital Market Communication

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

In the elapsed fiscal year, Basler AG participated in five roadshows and 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 2016 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. Due to this clear orientation, the quality of our investors' meetings considerably improved and, along the improving figures, enabled us again to gain new investors for Basler AG in 2016. After these positive experiences made in the elapsed fiscal years, we will continue this strategy in 2017.

In the previous year, the analysts of Warburg Research and Oddo Seydler Bank AG regularly prepared studies about 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

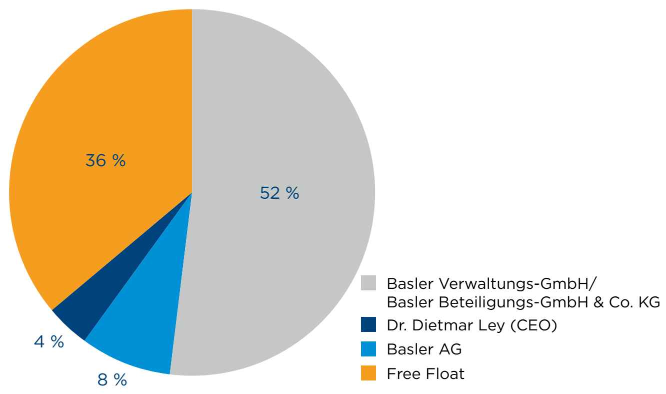
Keyfact

€ 63.85

Year high 2016

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

Shareholder Structure

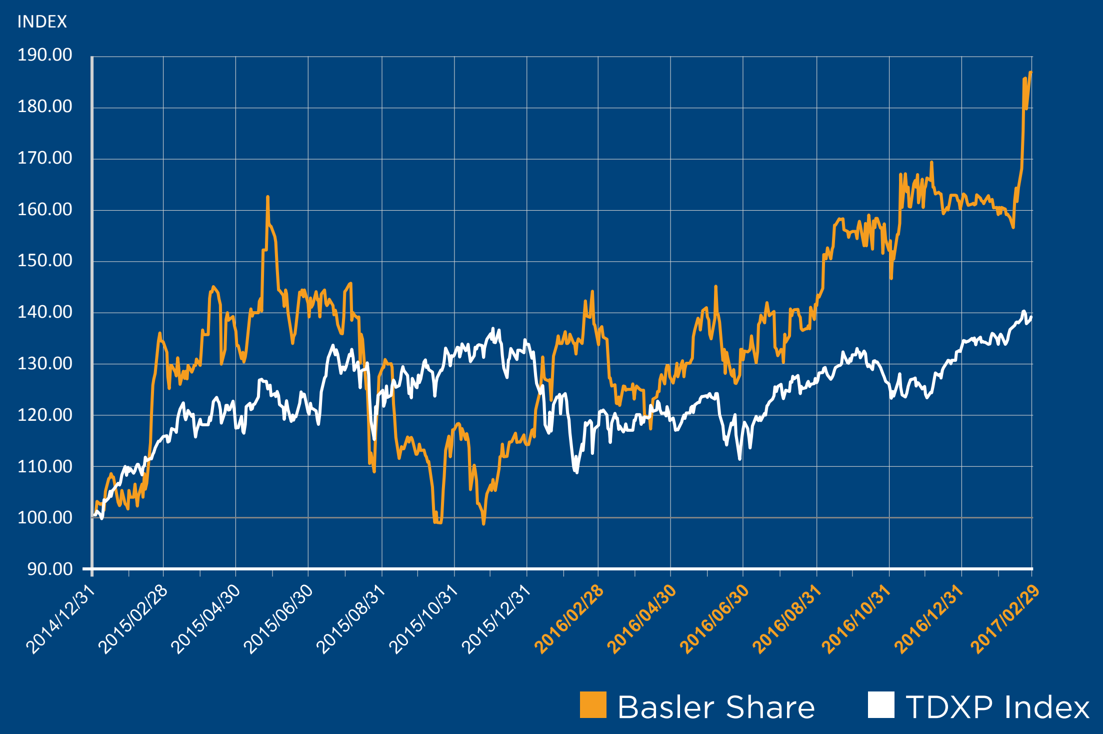


Share Price Key Figures

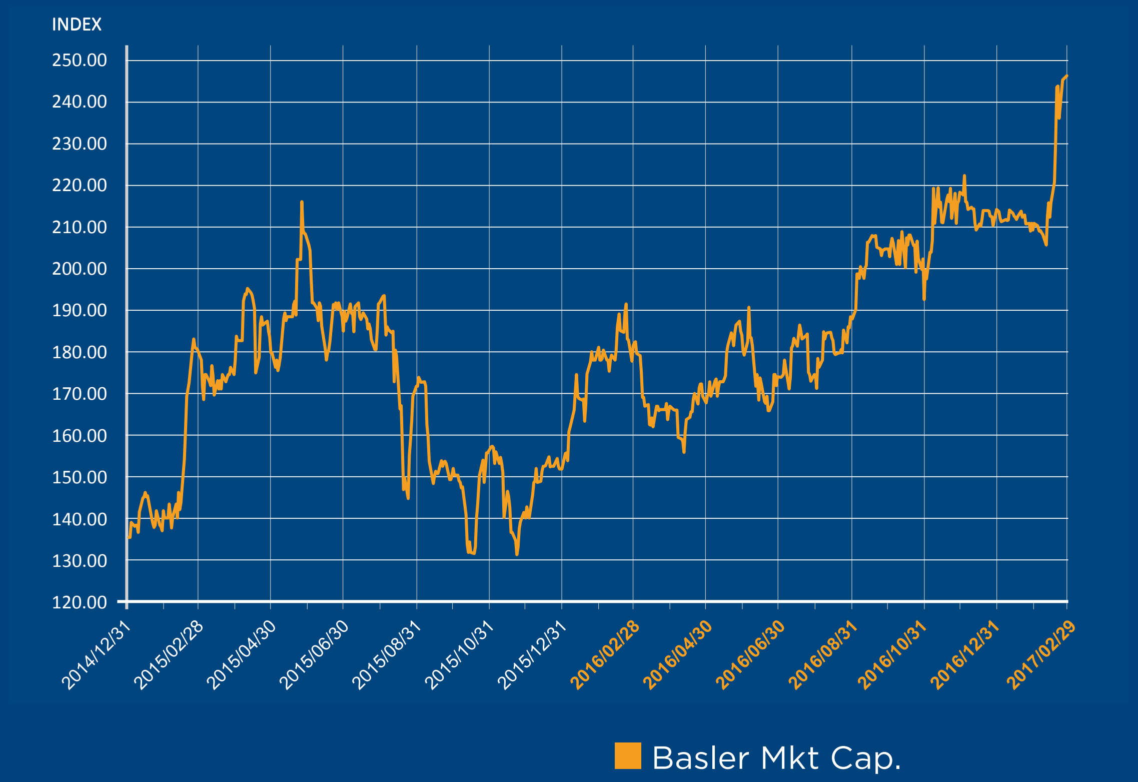
	2016	2015	2014	2013
Market capitalization in € million (as of 12/31)	194.1	140.8	123.0	93.9
Annual closing price in € (as of 12/31)	60.37	43.43	38.66	28.62
Year high in €	63.85	62.00	43.85	31.05
Year low in €	43.51	37.46	28.21	13.47
Annual development	+34 %	+12 %	+35 %	+110 %

SHARE PRICE DEVELOPMENT 2015/2016

Basler (Xetra) vs. TecDax



DEVELOPMENT MARKET CAPITALISISATION 2015/2016



CORPORATE GOVERNANCE

The management board and the supervisory board of Basler AG are committed to responsible, long-term and substantial development of the company. Good Corporate Governance is one key component of this. The following Declaration of Conformity refers to the recommendations of the Government Commission for the German Corporate Governance Code as amended on May 5, 2015.

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

Leadership Structure and Company Structure

Basler AG has a two-part management and monitoring structure with the two bodies of the management board and the supervisory board.

Management Board

Compared to the previous year, in 2016 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 the strategic direction of the company and implements this strategy. The management board ensures the adherence to legal provisions and company-internal guidelines, and works to achieve compliance throughout the group. The management board 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 which may materially affect the net asset situation, financial situation, 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 three 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 in the supervisory board's report, in the notes, as well as in the management report.

You will find the individual supervisory board mandates of the supervisory board members as well as the shareholdings of the supervisory and the management board in the notes of the annual report.

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 year 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 € 150 million, 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 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
- → 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 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 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.

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 2016 fiscal year. On March 29, 2017, 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 annual 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 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. The supervisory board decided not to increase the women quota until June 30, 2017. Further information on this subject are given in the declaration of conformity (5.4.1).

DECLARATION OF CONFORMITY 2016 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 2016 Basler AG complied with the recommendations for conduct as amended on May 5, 2015, by the "Government Commission of the German Corporate Governance Code" (hereinafter called "code") with the following exceptions:

Clause 5.4.1 – Composition of the Supervisory Board

For nominations to the general meeting, the supervisory board will also in the future 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 its 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 the completion of the reports.

Ahrensburg, March 29, 2017

Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Arndt Bake
CMO

Hardy Mehl
CFO/COO

Norbert Basler
Founder & Chairman of the Supervisory Board

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

Horst W. Garbrecht
Supervisory Board

MANAGEMENT REPORT

CONTENT

1 Basic Company Information

1.1 Business Model

Basler is headquartered in Ahrensburg near Hamburg (Germany) and develops and manufactures high-quality digital cameras for professional users that are mainly used in industrial mass production, medical technology, traffic control and many other applications. 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 one of world's biggest provider of digital industrial cameras measured in terms of the number of sold units.

In addition to research and development as well as the production of cameras, Basler has a globally leading 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.

This 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, and Taiwan. The subsidiaries are fully consolidated in the consolidated financial statements. Further representative offices are located in Japan, South Korea, China, Poland, UK, Finland, 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 Basler AG are sales and the pre-tax return. 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, 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 of the manufactured products and of the corporate processes applied, Basler has implemented a quality management system (QM system). In the course of the financial year, internal audits are conducted to find out whether the processes within the operational practice are compatible with the process descriptions of the QM system. Once a year, an external audit is conducted in order to verify whether the QM system is applied according to the provisions of the DIN ISO 9000/2008 and DIN ISO 9000/2000. In the financial year 2016, Basler AG was successfully audited for the first time according to the provisions of the new DIN ISO 9001:2015.

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 14 % of sales. 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 2016 should be particularly pointed out:

In predevelopment, Basler made further steps towards the development of a three-dimensional camera technology. First series products based on the so-called "time-of-flight-technology" were realized and their marketing was intensified. Due to the early market phase, the aim is to use agile methods in order to make the product development quick and flexible. Within predevelopment it was inter alia additionally worked on the 'embedded vision' topics as well as on concepts for a new mainstream platform. Further details regarding the predevelopment are not given in this report due to confidentiality reasons.

In the platform development, the platform for the ace product line was technically expanded in order to enable the emerging CMOS sensors to be robustly integrated and to ensure additional features. Furthermore, the entry level dart product line was supplemented by an additional data interface (BCON) in order to provide the customer with a direct connection to small powerful embedded processors. Moreover, the function of the pylon software development kit (SDK) was continuously extended. Finally, major components of a successor ace platform were developed.

In product development, the ace, dart, and pulse product lines were supplemented by further sensors and a special product line for microscopy applications was developed and launched on the market. In financial year 2016, according to Basler AG expectations the demand for cameras with the new USB 3.0 interface developed very positively. Thus, Basler AG will primarily develop and market further products with USB 3.0 interface in addition to the established GigE interface. In addition to the original camera development, in 2016 investments were made in the development of the portfolio for complementary accessories. The aim of offering accessories is to further leverage the established market access and to increase opportunities for differentiation.

In addition to the development of new products, 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.

Based on total sales, the expenses for research and development amounted to 14 % (previous year: 14 %). Compared to the previous year, overall, the costs (personnel expenses, depreciations, other operating expenses, as well as directly attributable overhead) increased from € 12.2 million to € 13.2 million in 2016.

Basler ToF Camera

The expenses include third-party services in the amount of € 194 thousand (previous year: € 690 thousand). The capitalized investments in own developments amounted to € 5.3 million (previous year: € 6.4 million) which corresponds to a decrease of 17 % compared to 2015. The amount of depreciations for own developments amounted to € 3.8 million (previous year: € 3.0 million). As of December 31, 2016, the number of full-time equivalent employees in research and development was 121 (previous year: 108).

At the end of fiscal year 2016, Basler is the owner of 30 patents and patent applications: 10 are granted, 20 are in the process of application. Furthermore, Basler is the owner of one utility model, seven designs, and 88 trade names. Further trade names are in the process of application.

2 Economic Report

2.1 Basic Conditions

Global economic growth of 2.2 % was slightly below the expected growth of 2.5 %. Whereas China with 6.7 % and Japan with a 0.9 % economic growth were slightly above the forecasts, the USA economy grew by only 1.6 %. The euro zone developed as expected and recorded a 1.6 % growth (previous year: 1.5 %). Despite political changes and currents opposing a liberally oriented world trade order the upturn continued. In 2016, Germany achieved an economic growth of 1.8 % (previous year: 1.5 %). (Source: Berenberg, Economy and Financial Markets, Outlook 2017).

Basler Lenses

Basler´s relevanrt market of machinery and plant engineering showed a stagnating sales development in 2016. While Germany and the EU achieved zero growth rates, the sales in the USA reduced by 2 %. In China, sales in the machinery sector grew by 3 % compared to the previous year, thus growth was on the lowest level in the past ten years. (Source: Verband Deutscher Maschinen- und Anlagenbau, VDMA, International Economic Situation). The German image processing industry again developed better than the sector average and recorded sales increases by 4 % as well as an increase in incoming orders of 14 %. (source: VDMA Statistic Nov. 2016).

2.2 Business Development

After a rather moderate growth of incoming orders and a series of quarters showing a negative book-to-bill ratio in 2015, in the fourth quarter of 2015, the trend shifted positively and Basler AG started the financial year 2016 with a positive momentum. In the course of the financial year, the positive trend became increasingly stronger. Particularly supported by the regional markets in China, South Korea, and Germany, the business of Basler AG generated new record values in incoming orders, and sales. Compared to the market, Basler AG generated record values in incoming orders and sales and grew by 10 percentage points above market and thus again gained market shares and significantly expanded its market leading position. Compared to the growth of the German image processing industry of approximately 4 %, Basler was able to increase its sales with industrial cameras by 14 %. In absolute terms, sales for the Basler group increased from € 85.4 million in 2015 to the new record value of € 97.5 million in the financial year 2016.

Keyfact

14 %

Sales camera growth 2016

Due to the alignment of the camera business to high-volume segments (mainstream and entry level) the number of sold units of approximately 203,000 in the previous year was increased to approximately 258,000 units in 2016.

This growth in number of units clashed with a shortage of image sensors on the procurement markets caused by an excessive workload of a semiconductor factory in Israel and the damage of a semiconductor factory in Japan due to an earthquake. Particularly in the first three quarters of the financial year, this led to a considerable extension of delivery times and to a high work load in supply chain management. Despite this difficult situation, substantial sales losses as well as increases in material costs were avoided.

As in the previous year, the main driver of growth on the product side was the ace camera family that showed an increase in sales by over 31 %. In particular, the ace models with Gigabit Ethernet interface and meanwhile also the ace models with USB interface largely contributed to the sales growth. Also the higher priced camera products of the racer and Basler beat series as well as the entry level dart product line recorded substantial sales growth. According to our expectations, the demand for sensor technologies continued to strongly develop towards CMOS sensors. In the design-in process, the clear majority of customers decided for cameras with CMOS sensors.

The sales from accessories again increased slightly disproportionately in the financial year 2016. This sales development is due to the strategic expansion of the portfolio by complementary products; in particular by lenses and cables.

Keyfact

40 %

Sales growth in Asia 2016

Regionally, the Asia business generated the largest sales growth of 40 %. The national markets in China and South Korea considerably contributed to the strong sales increase in Asia. Whereas sales revenues in Germany increased by 23 %, the sales figures in the remaining EMEA region decreased by 11 %. This development in the remaining EMEA region is mainly due to an individual key customer whose business in 2016 was cyclically considerably below the level of the previous years. The sales volume in America was on the same level as in the previous year.

2.3 Profit Situation

in € million	2016	2015	change	in %
Sales revenues	**97.5**	**85.4**	**12.1**	**14 %**
Cost of service performed	-50.1	-44.7	-5.4	12 %
Gross results	**47.4**	**40.7**	**6.7**	**16 %**
Other internal income	1.6	2.7	-1.1	-41 %
Expenses	-36.9	-33.4	-3.5	10 %
Operative profit	**12.1**	**10.0**	**2.1**	**21 %**
Financial result	-0.7	-0.9	0.2	-22 %
Earnings before profit tax	**11.4**	**9.1**	**2.3**	**25 %**
Taxes	-3.5	–2.9	-0.6	21 %
Group´s annual surplus	**7.9**	**6.2**	**1.7**	**27 %**

Keyfact

11.7 %

Pre-tax margin 2016

Compared to the previous year, sales increased by € 12.1 million (+ 14 %) to € 97.5 million. Along with the sales growth, the costs of service performed increased. Their increase of 12 %, however, was under proportionate due to positive economies of scale and, compared to the previous year, led to an increase of the gross margin by 1 % to 48.6 %. Other operational costs climbed by 10 % to € 36.9 million. Personnel expenses increased from € 34.8 million in 2015 to € 39.3 million in 2016 and include a general increase in wages of 2.9 % as well as a profit-sharing for employees, executives, and management board amounting to € 1.5 million. The operating expenses increased from € 13.3 million in the previous year to € 14.9 million in 2016.

The major part of the cost increase of personnel and other expenses relates to investments made in the implementation of our medium-term planning providing for sales revenues amounting to € 150 million at a minimum pre-tax return rate of 11 %. All functional areas actively worked on the implementation of the strategy, met the requirements relative to the organizational structures and procedures, and acquired the necessary know how in order to achieve this target. Compared to the previous years, the moderate increase in personnel, the completed training and integration of new employees in the past two years, as well as the continuous development of lean activities led to a considerable increase of personnel productivity.

With a pre-tax result of € 11.4 million (previous year: € 9.1 million) and a pre-tax margin of 11.7 % (previous year: 10.7 %), Basler AG closed the financial year above a pre-tax return rate of 10 % aimed for in the company strategy.

Compared to the previous year, the financial result improved by € 0.2 million, particularly due to the positive market price development of an interest rate swap concluded in 2011.

The tax expense for financial year 2016 amounted to € 3.5 million corresponding to a tax ratio of approximately 30.7 % (previous year: 31.5 %). The deferred tax expenses amounted to € 1.4 million (previous year: € 1.4 million).

The group's annual surplus increased by 27 % and amounted to € 7.9 million (previous year: € 6.2 million).

With a high order backlog of € 20.3 million (previous year: € 9.4 million), Basler AG starts the year 2017 with a positive momentum.

2.4 Financial Situation

The liquidity management of the group is aimed at meeting the demand for capital such that the growth is 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 2016, 114 % of the long-term assets were covered by equity (previous year: 106 %).

In the financial year 2016, a positive cash flow of € 16.1 million (previous year: € 12.9 million) was generated from current business activity. In 2016, the cash flow from investing activities amounted to € -0.8 million (previous year: € -9.3 million). The free cash flow calculated as the sum of cash flows from operational activity and investment summed up to € 8.1 million (previous year: € 3.6 million). Besides the increase in earnings, the significant increase of the free cash flow represents a further indicator for the strong increase in productivity in the financial year 2016.

On the financing side, liabilities to banks in an amount of € 0.6 million were paid off. For the long-term KFW loan amounting to € 5 million taken out in 2015, retrievals were made in the amount of € 3.8 million in 2016. At the balance sheet date, unused credit lines with banks amounted to € 3.6 million.

Considering dividend payments and the purchase of own shares, the total cash flow from financing activities amounted to € -2.7 million (previous year: € -2.3 million).

At the end of the financial year, liquid assets amounted to € 19 million. This means an increase of freely available liquidity by € 5 million, compared to the previous year. The liquidity of the group was secure at all times.

2.5 Asset Situation

in € million	2016	2015	Change	in %
Intangible assets	22.5	20.8	1.7	8 %
Tangible assets	6.7	6.3	0.4	6 %
Buildings and land in finance lease	14.6	15.3	-0.7	-5 %
Deferred tax claims	0.0	0.1	0.0	-56 %
Long-term assets	**43.9**	**42.5**	**1.4**	**3 %**
Inventories	14.6	10.8	3.8	35 %
Receivables from deliveries and services	10.4	7.8	2.6	33 %
Other short-term assets	2.1	1.6	0.5	31 %
Cash in bank and cash in hand	19.4	14.0	5.4	39 %
Short-term assets	**46.5**	**34.2**	**12.3**	**36 %**
Total assets	**90.4**	**76.7**	**13.7**	**18 %**
Equity	**50.1**	**45.2**	**4.9**	**11 %**
Long-term interest bearing bank liabilities	9.8	6.8	3.0	44 %
Liabilities from finance lease	8.6	10.1	-1.5	-15 %
Other long-term liabilities	6.3	4.8	1.5	31 %
Long-term liabilities	**24.7**	**21.7**	**3.0**	**14 %**
Current financial debt	1.5	1.6	-0.1	-5 %
Short-term provisions	3.5	1.9	1.6	84 %
Liabilities from finance lease	2.2	2.2	0.0	0 %
Current other financial debt	8.4	4.2	4.2	100 %
Current financial debt	**15.6**	**9.8**	**5.8**	**59 %**
Total liabilities	**90.4**	**76.7**	**13.7**	**18 %**

In the elapsed fiscal year, investments in intangible assets decreased to € 5.4 million (previous year: € 6.9 million). These mainly included own developments and services purchased for research and development. Due to a conversion of the product development process as well as the composition of the project landscape, the activation rate decreased from 56.5 % in the previous year to 40.9 % in financial year 2016. The new product development process implemented at the beginning of the year leads to a later start of the capitalization of development costs and thus directly reduces the activation rate. For the upcoming financial year, Basler AG expects an activation rate of 40 – 45 %. 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 € 1.7 million to € 22.5 million.

Investments in tangible assets amounted to € 2.0 million (previous year: € 2.5 million), much of which was attributable to reconstructions in the logistics area, the purchase of machines for the production as well as a new telephone system. The expenses for the finance lease of buildings and land reduced by € 0.7 million due to scheduled depreciations. In comparison to the previous year, long-term assets increased by 3 %.

Inventories increased by € 3.8 million to € 14.6 million, compared to the previous year. Receivables from deliveries and services increased by € 2.6 million to € 10.4 million. At the reporting date, the inventory levels as well as the level of receivables from deliveries and services were above targeted values. This was mainly due to high business activity at the turn of the year and the difficult situation on the procurement markets. Against this background, priority was given to delivery reliability over the optimization of working capital.

Keyfact

55.3 %

Equity ratio 2016

Cash in bank and cash in hand showed a balance that was € 5.4 million higher than in the previous year. Compared to 2015, current assets increased by 36 %. In comparison to the previous year, the total assets increased by 18 % to € 90.4 million.

In comparison to the previous year, equity increased by € 4.9 million to € 50.0 million. This increase in equity is due to the annual surplus minus the distribution of a dividend of € 1.9 million as well as the purchase of own shares in the amount of € 1.4 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: 0.26 million) is shown. In comparison to the previous year, the retained earnings including the consolidated result increased by € 4.7 million to € 43.6 million. As of the reporting date, a hidden reserve amounting to € 13.7 million resulted from the volume of own shares.

The long-term interest bearing bank liabilities increased by € 3.0 million due to additional KFW innovation loans. The cash values of the lease liabilities decreased to € 10.8 million (previous year: € 12.3 million) due to scheduled repayment. € 8.6 million of this (previous year: € 10.1 million) were long-term liabilities.

The short-term liabilities increased by € 5.8 million to € 15.6 million. This is particularly due to short-term provisions for variable compensations and employee profit participation since business in 2016 developed clearly above budget.

The liabilities from deliveries and services increased due to measures taken to improve working capital. Furthermore, the strong demand situation at the turn of the year had positive effects on the liabilities. At the reporting date, the sum of order commitments amounted to € 13.7 million (previous year: € 6.5 million). There have been no premature payment obligations in the elapsed fiscal year.

2.6 Financial and Non-Financial Performance Indicators

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

Inter alia, we measure productivity of the company on the basis of the result per employee (EBITDA). In the fiscal year 2016, it increased by 13 % to € 40.1 thousand (previous year: € 35.4 thousand) compared to the previous year. This was particularly due to the strong sales growth as well as the continuous development of the lean management system. After a decrease in financial year 2015 because of the significant staff increase in 2014 and 2015, in 2016 Basler AG returned to its strategic path regarding profitability per employee.

The gross profit margin increased from 47.7 % in the previous year to 48.6 %. The main reasons for this were economies of scale of indirect overhead costs in the areas of material and production. The management seeks to stabilize the gross margin on a level of 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 18.9 % (previous year: 16.9 %). The working capital (without liquid assets) amounted to € 18.7 million (previous year: € 15.8 million) at the end of the financial year. This increase is particularly due to the sales growth. The continuous optimization of the working capital proceeded by interdisciplinary cooperation led to further structural improvements and successes in 2016.

The equity ratio decreased from 58.9 % in 2015 to 55.4 % at the end of the elapsed fiscal year. This is due to the taking out of additional loans in the amount of € 3.8 million and the increase of liabilities from deliveries and services by € 3.5 million at the end of the financial year.

Keyfact

2.4 %

Employees fluctuation 2016

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 2.4 % (previous year: 0.8 %).

In 2016, the average number of employees of the group was 494 (previous year: 473), 37 % of them are female. Converted to the number of equivalents of full-time employment the average number of employees was 457 (previous year: 438). Please find any further details concerning the employee structure in the notes.

Keyfact

6.1 %

Training ratio 2016

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 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 € 515 thousand in 2016.

2.7 Overall Statement

Basler started positively in the financial year 2016. This trend continued to gather momentum in the course of the financial year so that the target figures for incoming orders, sales, and result were clearly overachieved by new record values. Sales revenues amounting to € 97.5 million were clearly above the corridor of € 90 million to € 92 million forecasted at the beginning of the fiscal year. The pre-tax return of 11.7 % exceeded the strategic benchmark of 10 % and also the forecasted corridor of 9 - 10 %. Basler again succeeded in growing clearly above market regarding both; incoming orders and sales by approximately 14 percentage points. Thus, Basler could expand its market leadership and develop further towards the medium-term sales target of € 150 million. With the leading market access and the broadened product portfolio we reach more customers and applications than just a few years ago. Gradually, Basler expands its strong market position by adding new market fields, like medical, traffic, or logistics. Due to the continuous extension of the sales organization and the expansion in further regions Basler has one of the highest quality and most expanded market access in the industry. The Basler brand is very well-known and customers appreciate the high reliability and excellent price-performance ratio. Because of the results of the elapsed fiscal year, Basler management feels confident in its strategic direction looking to the future with confidence.

Keyfact

€ 0.74

Dividend 2016

The goal of Basler AG 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 2016 and the existing dividend policy (base dividend 20 cents per share plus an optional additional dividend depending on the company's performance summing up to a total of maximum of 30 % of the EAT) the proposal will be made to this year's shareholders' meeting in May 2017 to pay a dividend in the amount of 74 cents (previous year: 58 cents) per share eligible for subscription (corresponds to € 2.4 million). Should the shareholders' meeting vote for the proposal, approximately 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.

4 Forecast Report

Despite the uncertainties due to the Brexit and the election results in the USA, the German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, VDMA) expects the four most important engineering regions China, USA, Japan, and Germany to grow moderately by 1 to 3 percent in 2017. The Chinese government's strategy “Made in China 2025” gave significant momentum for growth. However, it is questionable in what extent foreign companies will participate in the Chinese economic growth since there are clear protectionist tendencies coming from the government. In the USA positive stimuli are expected from the expanding branches chemicals, life sciences, and aerospace. However, uncertainties are expected also for these two most important foreign markets and the exports to China could decline. For Germany and the EU partner countries a continuation of the recovery is expected (Source: VDMA International Economic Development, Nov.). Compared to 2016, the Association of Manufacturers of Machinery and Equipment for the Semiconductor Industry (SEMI) assumes an increase of sales figures of 10.6 % for 2017 (source: Market Study SEMI).

Keyfact

€ 120-130 mill.

Forecast sales 2017

Keyfact

13-15 %

Forecast pre-tax return 2017

In consideration of the mentioned above market outlooks and due to Basler's increased competitiveness with its broadened product portfolio and a strong sales organization as well as the opening of new sales regions and application fields, the management board of Basler expects a clearly double digit percentage sales growth in 2017. Based on the good order backlogs at the turn of the year an the strong incoming orders in the first weeks of fiscal year 2017, the management board plans for group sales revenues within a corridor of approximately € 120 to 130 million. Cameras with CMOS image sensors and GigE Vision or USB3 Vision interface standard are expected to be the main drivers of growth. Regionally, the strongest growth is again expected in Asia. Should this forecast be correct, the pre-tax return for 2017 is expected within a corridor of 13 - 15 %. In this case, fiscal year 2017 would clearly deviate upwards of the strategic growth path, regarding both, sales and result.

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 € 150 million, 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 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

→ 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 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 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 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, the company has been aligned to its main value streams 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.

As a technology company, Basler AG is heavily depending on the knowledge of its employees. Therefore, as already mentioned under 2.6 – various measures are taken for staff retention and further development. Furthermore, it is actively worked on maintaining innovation fostering structures, processes, behavior patterns, and cultures – despite an increasing size of the company. It is strived 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.

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

Keyfact

0.02 %

Average default ratio 2016

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 0.02 % in 2016 is again low in terms of the receivables from deliveries and services. In the fiscal year 2016, 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 with banks

Keyfact

€ 19.4 mill.

Bank balances 2016

In past years, the company generated a positive cash flow from operating activities, from which investments could be financed in addition to financial liabilities and, moreover, that resulted in bank balances at the reporting date amounting to € 19.4 million. The total of cash in hand, positive free cash flow, and freely available lines with credit institutions cover the future financial needs of Basler 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 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. Currency derivatives are exclusively used 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, there were supply bottlenecks for image sensors due to under capacities and natural disasters. 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

An ongoing weakening of the camera market growth is not foreseeable. 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 or medical. Since Basler continuously expands its product portfolio and pushes the diversification of possible applications, the business model is estimated to be scalable and future-proof.

Due to its broad portfolio mix of industries and customers, as well as its design-in characteristics, the volatility of the camera business in the capital goods markets is relatively low. Due to 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. Although broadly diversified activities also experience declines in sales in times of economic crisis, in general, they are less strongly affected than businesses depending on cyclical individual industries.

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.

Keyfact

45 %

Asia 2016 strongest sales region

Regionally, Basler largely depends on the development of the capital goods market in the Asian region. This region accounted for 45 % of total sales in the elapsed fiscal year and will continue to develop disproportionately in the foreseeable future.

The intensity of competition in the industrial camera market continued to be high in the year just ended. The competitive landscape changed due to takeovers from both inside and outside the industry as well as due to new Chinese competitors and will thus further intensify in the foreseeable future. Compared to the majority of the competitors, Basler 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 (Canada), FLIR (USA), Allied Vision (Germany), Toshiba-Teli (Japan), and IDS (Germany).

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 company`s founder as direct 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 284, 753 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.

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 2016, the product development process from the idea to series production was significantly revised and improved in order to shorten project lead times and to be able to identify technological risks as early as possible.

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 quality of the products is monitored in the framework of an integrated quality management system. This system includes the certification according to DIN ISO 9001:2015 and the annual supervision by external auditors. This is supplemented by internal audits. The operational management of the production, logistics and supply chain was considerably professionalized by the implementation of shop floor / daily management in the course of financial year 2016.

5.7 Overall Statement

As manufacturer of cameras for the investment goods industry the management board of Basler AG assesses 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. Furthermore, the trade associations for the global camera market expect continuous growth in the coming years. Finally, in the medium term, banks and economic research institutes mainly assume the global economic development to be stable to slightly positive.

Since Basler continuously 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 show the highest growth rates in the upcoming years. Due to its good market access and the alignment of the product portfolio, Basler 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. The management of Basler tries to meet this tension by a balanced investment policy and by ensuring a sustainable and profitable growth for the company.

The management of Basler annually reviews the business model and the multi-year planning. The achievement of quantitative and qualitative goals for the respective fiscal year is monitored on a monthly basis in a balanced score card system and discussed by the management team. Additionally, once a month a comprehensive report is made available to the executive management team. Furthermore, the executive management and the management board meet every two weeks in order to discuss the current company situation and the progress made in the strategic change initiatives as well as to agree on counter measures in case of deviations from the budget.

Insofar, in the absence of macroeconomic crises, the management assumes to be able to achieve the sales threshold of € 150 million with a pre-tax return margin (EBT margin) of at least 11 % in the medium term (by 2020).

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

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

The closing processes are almost completely automated wherever possible and are governed by appropriate computer based workflows. The completeness and correctness of accounting data are regularly reviewed by sampling inspections, 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 12/31/2016, the market value amounted to € -721 thousand. In fiscal year 2016, a profit of € 270 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 (§ 289 and § 315 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 chairmen.“

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. Thus, on December 31, 2016, Basler Beteiligungs-GmbH & Co. KG 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 30, 2017 with the supervisory board's approval by the issuing of up to 1,750,000 new bearer stock certificates against cash contributions and/or contributions in kind. In doing so, shareholders are entitled to subscription rights. However, the management board is authorized, subject to approval by the supervisory board, to exclude subscription rights 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 Coporation 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.

Within the implementation of the law for an equal participation of women and men in management positions in the private and public industry of March 6, 2015, the supervisory board shall define targets for achieving gender quotas in the supervisory board and the management board. The supervisory board resolved that by June 30, 2017, no increase of the female quota shall be achieved neither in the supervisory board nor the management board. You will find further details to this issue under point 5.4.1 of the declaration of conformity.

On May 15, 2015, the management board decided that by September 30, 2017, a female quota of 30 % shall be achieved within the executive staff and the department managers.

On December 31, 2016, 29 % of the company`s executives are female and also 29 % of the company`s heads of departments are female.

9 Declaration regarding Corporate Governance (§ 315, paragraph 5 of the German Commercial Code, HGB)

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

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.

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

10.1.4 Targets

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

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

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

Profitability and growth are equally important targets. However, in case of doubt the demand for profitability is more imperative than the demand for continuous growth. Thus, lacking profitability shall not be compensated by unrestrained growth. Accordingly, the degree of achievement for growth is limited to 400 %. 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.

Ahrensburg, March 10, 2017

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, 2016 to December 31, 2016

in € k	Notes	01/01/ - 12/31/2016	01/01/ - 12/31/2015
Sales revenues	4	**97,538**	**85,433**
Cost of sales		-50,061	-44,691
- of which depreciations on capitalized developments	10	-3,810	-2,985
Gross profit on sales		**47,477**	**40,742**
Other operating income	5	1,562	2,683
Sales and marketing costs		-16,928	-15,818
General administration costs		-11,535	-10,960
Research and development		-7,936	-6,079
Other expenses	6	-474	-591
Operating result		**12,166**	**9,977**
Financial income	7	276	325
Financial expenses	7	-1,016	-1,226
Financial result		**-740**	**-901**
Earnings before tax		**11,426**	**9,076**
Income tax	8	-3,496	-2,863
Group´s year surplus		**7,930**	**6,213**
of which are allocated to			
shareholders of the parent company		7,930	6,213
non-controlling shareholders		0	0
Average number of shares	9.5	3,230,943	3,209,466
Earnings per share diluted / undiluted (€)		2.45	1.94

Consolidated Statement of Comprehensive Income

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

in € k	Notes	01/01/ - 12/31/2016	01/01/ - 12/31/2015
Group's year surplus		7,930	6,213
Result from differences due to currency conversion, directly recorded in equity (under specific conditions to be reclassified to the consolidated profit and loss statement in the future)	18.3	167	348
Surplus/ Net loss from cash flow hedges	18.3	0	0
Total result, through profit or loss		**167**	**348**
Total result		**8,097**	**6,561**
of which are allocated to			
shareholders of the parent company		8,097	6,561
non-controlling shareholders		0	0

Consolidated Cash Flow Statement

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

in € k	Notes	01/01/ - 12/31/2016	01/01/ - 12/31/2015
Operating activities			
Group's year surplus		7,930	6,213
Increase (+) / decrease (-) in deferred taxes		1,369	1,393
Payout/ incoming payments for interest		1,196	1,335
Depreciation of fixed assets		6,591	5,563
Change in capital resources without affecting payment		167	348
Increase (+) / decrease (-) in accruals		2,570	-2,514
Profit (+) / loss (-) from asset disposals		-11	96
Increase (-) / decrease (+) in intentories		-3,814	1,787
Increase (+) / decrease (-) in advances from demand		126	-164
Increase (-) / decrease (+) in accounts receivable		-2,576	-830
Increase (-) / decrease (+) in other assets		-552	-354
Increase (+) / decrease (-) in accounts payable		3,503	454
Increase (+) / decrease (-) in other liabilities		-397	-416
Net cash provided by operating activities		**16,102**	**12,911**
Investing activities			
Payout for investments in fixed assets		-7,992	-9,397
Incoming payments for asset disposals		26	50
Net cash provided by investing activities		**-7,966**	**-9,347**
Financing activities			
Payout for amortisation of bank loans		-588	-888
Repayment of silent participation		1	0
Payout for amortisation of finance lease		-1,507	-1,414
Incoming payments for borrowings from banks		3,800	0
Interest payout		-1,196	-1,335
Incoming payment for sale of own shares		0	3,773
Payout for own shares		-1,374	-247
Dividends paid		-1,878	-2,222
Net cash provided by financing activities		**-2,742**	**-2,333**
Change in liquid funds		**5,394**	**1,231**
Funds at the beginning of the fiscal year		0	0
Funds at the end of the fiscal year		**5,394**	**1,231**
Composition of liquid funds at the end of the fiscal year			
Cash in bank and cash in hand	16	0	0
Payout for taxes		0	0

Group Balance Sheet

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

in € k	Notes	12/31/2016	12/31/2015
Assets			
A. Long-term assets			
I. Intangible assets	10	22,505	20,859
II. Fixed assets	10	6,711	6,276
III. Buildings and land in finance lease	17	14,624	15,316
IV. Other financial assets		5	5
V. Deferred tax assets	11	28	64
		43,873	**42,520**
B. Short-term assets			
I. Inventories	12	14,577	10,763
II. Receivables from deliveries and services and from production orders	13	10,370	7,793
III. Other short-term financial assets	14	505	233
IV. Other short-term assets	14	741	521
V. Claim for tax refunds	15	847	791
VI. Cash in bank and cash in hand	16	19,437	14,043
		46,477	**34,144**
		90,350	**76,664**

in € k	Notes	12/31/2016	12/31/2015
Liabilities			
A. Equity	18		
I. Subscribed capital		3,215	3,241
II. Capital reserves		2,443	2,443
III. Retained earnings including group's earnings		43,648	38,944
IV. Other components of equity		710	543
		50,016	**45,171**
B. Long-term debt			
I. Long-term liabilities			
1. Long-term liabilities to banks	19	9,825	6,825
2. Liabilities from finance lease		8,610	10,117
II. Non-current provisions	20	946	748
III. Deferred tax liabilities	11	5,379	4,046
		24,760	**21,736**
C. Short-term debt			
I. Other financial liabilities	19	1,521	1,579
II. Short-term accrual liabilities	20	3,507	1,970
III. Short-term other liabilities			
1. Liabilities from deliveries and services		6,234	2,732
2. Other short-term financial liabilities		1,192	1,194
3. Liabilities from finance lease	17	2,159	2,156
IV. Current tax liabilities		961	126
		15,574	**9,757**
		90,350	**76,664**

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	6	5,229	2,657	502	30	-167	4	3,026	2,203	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**	**17**	**16,358**	**8,341**	**1,539**	**30**	**-277**	**13**	**9,646**	**6,712**	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**	**17**	**90,281**	**40,108**	**6,234**	**357**	**-277**	**13**	**46,435**	**43,846**	**42,456**

Development of Fixed Assets for Fiscal Year 2015

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2015 to December 31, 2015

	Acquisition and production costs						Depreciations						Net book value	
in € k	As at 01/01/2015	Additions	Transfers	Disposals	Exchange rate differences	As at 12/31/2015	As at 01/01/2015	Additions	Unscheduled depreciations	Disposals	Exchange rate differences	As at 12/31/2015	As at 12/31/2015	Previous year
Intangible assets														
Software, trademark rights, patents, and licenses	5,101	446	451	-84	0	5,914	4,112	498	0	-3	0	4,607	1,307	989
Finished own developments	19,489	0	5,994	0	0	25,483	13,270	2,985	0	0	0	16,255	9,228	6,219
Own developments in process	9,855	6,353	-5,994	0	0	10,214	0	0	0	0	0	0	10,214	9,855
Payments for third-party developments	316	110	-316	0	0	110	0	0	0	0	0	0	110	316
Total intangible assets	**34,761**	**6,909**	**135**	**-84**	**0**	**41,721**	**17,382**	**3,483**	**0**	**-3**	**0**	**20,862**	**20,859**	**17,379**
Tangible Assets														
Land and buildings on third-party land	1,669	199	108	0	5	1,981	707	124	0	0	5	836	1,145	962
Technical equipment and machinery	6,644	763	946	-220	10	8,143	4,206	792	0	-158	8	4,848	3,295	2,438
Other furniture, fixtures, and equipment	3,867	521	118	-135	13	4,384	2,325	459	0	-133	6	2,657	1,727	1,542
Assets under construction	424	992	-1,307	0	0	109	0	0	0	0	0	0	109	424
Total tangible assets	**12,604**	**2,475**	**-135**	**-355**	**28**	**14,617**	**7,238**	**1,375**	**0**	**-291**	**19**	**8,341**	**6,276**	**5,366**
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	10,200	692	0	0	0	10,892	13,499	14,191
Total Buildings and Land under finance leases	**26,208**	**0**	**0**	**0**	**0**	**26,208**	**10,200**	**692**	**0**	**0**	**0**	**10,892**	**15,316**	**16,008**
Other financial assets	5	13	0	0	0	18	0	0	13	0	0	13	5	5
Total other financial assets	**5**	**13**	**0**	**0**	**0**	**18**	**0**	**0**	**13**	**0**	**0**	**13**	**5**	**5**
Total Assets	**73,578**	**9,397**	**0**	**-439**	**28**	**82,564**	**34,820**	**5,550**	**13**	**-294**	**19**	**40,108**	**42,456**	**38,758**

Consolidated Statement of Changes in Equity

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

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 01/01/2015	**3,181**	**0**	**33,931**	**195**	**0**	**195**	**37,307**
Total result			6,213	348	0	348	6,561
Share salesback	66	2,443	1,264			0	3,773
Share buyback	-6		-242			0	-248
Dividend payout*			-2,222			0	-2,222
Shareholders´equity as of 12/31/2015	**3,241**	**2,443**	**38,944**	**543**	**0**	**543**	**45,171**
Total result			7,930	167		167	8,097
Share salesback	0	0	0			0	0
Share buyback	-26	0	-1,348			0	-1,374
Dividend payout**	0	0	-1,878			0	-1,878
Shareholders´equity as of 12/31/2016	**3,215**	**2,443**	**43,648**	**710**	**0**	**710**	**50,016**

* 0.70 € per share
** 0.58 € per share

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. GENERAL INFORMATION

1. The Company

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

Basler Beteiligungs-GmbH & Co. KG is holding 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, 2015, set up in the course of the annual improvements of the IFRS (cycle 2011 - 2013) regarding IFRS 1, IFRS 3, IFRS 13, and IAS 40 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, 2016, 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

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, 2016. The application of these standards presumes that they will be taken over by the EU within the scope of the IFRS endorsement procedure:

Amendment / Standard / Interpretation	Date of Publication	Date of Incorporation into EU Law	Date of Application (EU)
IFRS 14 Regulatory Deferral Accounts	Jan. 30, 2014	The European Commission has decided to skip the takeover procedure of this intermediate standard and to wait for the final standard instead.	
IFRS 16 Leases	Jan. 13, 2016	H2 / 2017	Jan. 1, 2019
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 IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	Jan. 19, 2016	Q2 / 2017	Jan. 1, 2017
Amendments of IAS 7: Disclosures Initiative	Jan. 29, 2016	Q2 / 2017	Jan. 1, 2017
Clarification to IFRS 15: Revenues from contracts with customers	April 12, 2016	Q2 / 2017	Jan. 1, 2018
Amendments of IFRS 2: Classification and Measurement of share-based Payment Transactions	June 20, 2016	H2 / 2017	Jan. 1, 2018
Amendments of IFRS 4: Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	Sept. 12, 2016	2017	Jan. 1, 2018
Annual Improvements to IFRS (AIP) – Cycle 2014-2016	Dec. 8, 2016	H2 / 2017	Jan. 1, 2018 / Jan.1, 2017
IFRIC Interpretation 22: Foreign Currency Transactions and Advance	Dec. 8, 2016	H2 / 2017	Jan. 1, 2018
Amendments of IAS 40: Transfers of properties held us financial investment	Dec. 8, 2016	H2 / 2017	Jan. 1, 2018

Based on results of a first preliminary study in which all contractual relationships to customers were examined, it can be reported that from the Basler group perspective, the application of the new IFRS 15 will not have significant effects on the amount of sales revenues. In particular the effects of IFRS 9 will be reviewed by the group in 2017. Also regarding the new IFRS 16, a comprehensive analysis of all leasing relationships will be made in 2017.

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.

This is why the equity capital increased by € 167 thousand (previous year: increased by € 348 thousand) in the fiscal year.

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 2016, profits amounting to € 1,088 thousand (previous year: € 1,799 thousand) and expenses amounting to € 959 thousand (previous year: € 1.602 thousand). The income is reported under other operating income and the expenses under general administrative expenses in the respective annual financial statements.

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

	Applicable exchange rates as of	
	12/31/2016	12/31/2015
1 Euro	US dollar 1,0541	US dollar 1,0887
1 Euro	New Taiwan dollar 33,76450	New Taiwan dollar 35,95921

	Average exchange rates	
	2016	2015
1 Euro	US dollar 1,10690	US dollar 1,10950
1 Euro	New Taiwan dollar 35,69770	New Taiwan dollar 35,22120

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

Capital consolidation principles

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

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

3.2 Earnings Realization

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

Sale of goods and products

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

Earnings from customer-specific manufacturing across periods are recorded as earnings according to the degree of completion (percentage-of-completion method). The degree of completion is determined according to the costs accrued on the balance sheet date. The degree of completion is expressed as percentage of the estimated total costs of the related project. Earnings are recorded only to the amount of the accrued reimbursable expenses if the result of an order cannot reliably be estimated. 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 and 14
Other equipment, operational and office equipment	3 to 15
Parking garages	20
Commercial and office buildings	38 to 40

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

3.10 Intangible Assets

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

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

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

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

The following useful lives are assumed:

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

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

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

3.11 Liquid Assets and Cash Equivalents

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

3.12 Leases

A lease is classified as 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 7.58 % (previous year: 8.3 %). 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 13.0 % and/or an expected decline of the gross profit by 7.4 % would lead to a devaluation of the assets.

II. ITEMS OF THE ANNUAL FINANCIAL STATEMENTS

NOTES TO THE PROFIT AND LOSS STATEMENT

4. Sales Revenues

The sales revenues 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:

	2016	2015
Currency exchange gains	1,088	1,799
Rental income	156	477
Subsidies for research and development	60	139
Income from the release of provisions	94	117
Other	164	151
	1,562	**2,683**

6. Research and Development and Other Expenses

Expenses include the following:

	2016	2015
Full costs for research and development	13,218	12,230
Capitalization of own development costs	-5,282	-6,150
Unscheduled depreciations on capitalized developments	327	0
Premises costs	110	526
Further other expense	37	64
	8,410	**6,670**

7. Financial Result

	2016	2015
Interest income from cash in bank	1	3
Interest income from derivative financial instruments	0	2
Interest income from discounting	4	0
Interest expense on bank loans	-196	-202
Other interest expenses	0	-18
Interest expense from derivative financial instruments	-285	-312
Interest expense from discounting	0	-21
Capitalization of interest pursuant to IAS 23	180	202
Mark-to-market evaluation of derivative financial instruments	271	259
Interest expense for finance lease	-715	-803
Other interest expense	0	-11
	-740	**-901**

In 2016, the average financing cost rate considered in accordance with IAS 23 was 1.87 % (previous year: 2.90 %).

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.

	2016	2015
Current taxes from consolidated companies	2,098	1,477
Deferred taxes from consolidated companies	1,370	1,383
Other taxes	28	3
Tax expense	**3,496**	2,863

	2016	2015
Deferred tax expenses or income from losses carried forward (continuously)	439	135
Deferred tax expenses or income from losses carried forward (adjustment)	0	119
Deferred tax expenses or income from temporary differences	931	1,129
Deferred tax expense	**1,370**	**1,383**

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: 12.25 %, amounting to a combined statutory tax rate of 29.13 % (previous year: 28.08 %):

Tax reconciliation	2016	2015
Net profit / loss for the year before income taxes	11,426	9,076
Applicable tax rate	29.13 %	28.08 %
Expected tax expense / income	3,328	2,548
Reconciliation:		
Effects from deviating tax rates	210	30
Tax effect from non-deductible expenses and tax-free earnings	138	112
Tax effect from tax audit adjustments	0	119
Other	-180	54
Actual tax expense / income	3,496	2,863
Group tax rate	30.6 %	31.5 %

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

	2016	2015
Germany, corporate income tax	6,000	7,476
Germany, trade income tax	3,486	5,161
USA, nationwide	0	83

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.

As of the reporting date Basler capitalized deferred tax assets on corporate income tax and trade income tax loss carryforwards amounting to € 1,377 thousand (previous year: € 1,816 thousand), since due to the tax four-year planning sufficiently taxable income is expected in the future. In this planning, we assume low double-digit sales growth rates as well as stable result margins. Of these, corporate income tax and trade income tax loss carry forwards extant in Germany, amounting to € 6.0 million and € 3.5 million can be utilized without limit.

9. Additional Information

9.1 Production Orders

As of December 31, 2016, there were no ongoing customer-specific production orders.

9.2 Scheduled and Unscheduled Depreciations

In fiscal year 2016, unscheduled value adjustments were made on capitalized product developments in an amount of € 327 thousand (previous year: € 0 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:

	2016	2015
Cost of service performed	4,329	3,770
Sales and marketing costs	147	176
General administration costs	1,399	1,230
Other expense	716	374
	6,591	**5,550**

9.3 Personnel Expenditures

	2016	2015
Wages and salaries	33,476	29,580
Social security contributions	5,788	5,253
	39,264	**34,833**

The expenses for the contribution-based pension schemes amounted to € 2,608 thousand (previous year: € 2,420 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

	2016	2015
Expenses for raw, auxiliary, and operating supply items as well as purchased goods	33,121	29,078
Expenses for purchased services	1,120	1,494
	34,241	**30,572**

In the year 2016, costs for guarantees amounted to € 936 thousand (previous year: € 707 thousand).

9.5 Reconciliations for Result per Share

	2016	2015
Earnings diluted / undiluted in k €	7,930	6,213
Weighted average number of ordinary shares	3,230,943	3,209,466
Result per Share (Euro)	**2.45**	**1.94**

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 12/31/2016, Basler used fully depreciated fixed assets representing an acquisition value of € 21,974 thousand (previous year: € 17,057 thousand). For more details about the development of fixed assets, we refer to the separate explanation. In the finacial year the technical equipment, machines, and fixtures and fittings amounting to € 38 thousand (previous year: € 313 thousand) are assigned as collaterals to credit institutions.

On Dec. 31, 2016, the purchase commitments for tangible assets amounted to € 465 thousand (previous year: € 186 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 12/31/2016 (in k €)	Remaining 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

As of December 31, 2015, the following intangible assets were important:

Description of the Intangible Asset	Book value 12/31/2015 (in k €)	Remaining useful Lives (in Years)
Expansion of pylon SDK	991	3
Expansion of the ace camera line with sensors of the CMOSIS company and the USB interface	829	6
Development of the ace camera line	545	5
Expansion of the ace camera line by 1.3 & 2 MP sensors of the e2V company	360	3
Development of USB interface for ace product line	2,716	5

11. Deferred Taxes

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

	12/31/2016	12/31/2015
Deferred tax assets		
From tax loss carry forwards	1,377	1,816
Inventories	62	93
Financial instruments	202	278
Other	179	213
Offsetting	-1,792	-2,336
	28	**64**

	12/31/2016	12/31/2015
Deferred tax liabilities		
Capitalization of development	5,923	5,459
Finance lease	1,082	855
Tangible assets	63	0
Other	103	68
Offsetting	-1,792	-2,336
	5,379	**4,046**

12. Inventories

The inventories include the following:

	12/31/2016	12/31/2015
Finished products	2,059	1,865
Semi-finished products	1,555	1,219
Raw materials, supplies, and operating materials	9,989	7,196
Merchandise	974	483
	14,577	**10,763**

As of 12/31/2016, unscheduled value adjustments were made on the inventories to the amount of € 807 thousand (previous year: € 728 thousand). Of which an increase of € 79 thousand applied to fiscal year 2016 (previous year: € 93 thousand).

Finished products and merchandize include devices made available to customers temporarily for testing, on loan, and for demonstration purposes worth € 167 thousand (previous year: € 194 thousand). This manner of reporting facilitates the handling of the future sale to the customer. Devices used for demonstration purposes over an extended period, e.g. for trade fairs and exhibitions, are stated under fixed assets and are depreciated over their useful lives amounting to three years.

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

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

	12/31/2016	12/31/2015
Receivables from deliveries and services	10,370	7,793
	10,370	7,793

Of the receivables from deliveries and services in the amount of € 10,370 thousand (previous year: € 7,793 thousand) € 10,370 thousand (previous year: € 7,793 thousand) are due within one year.

The values of the receivables from deliveries and services are adjusted by € 0 thousand (previous year: € 6 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
2016	6	0	0	6	0	0
2015	12	0	2	6	2	6

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
2016	10,370	9,873	497	0
2015	7,793	6,842	951	0

The sum of advance payments received amounts to € 142 thousand (previous year: € 16 thousand), of which € 0 (previous year: € 0) are deducted from the receivables arising from long-term production. 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

	12/31/2016	12/31/2015
Derivative Financial Instruments	327	0
Other	178	233
Other short-term financial assets	505	233
Accrued expenses	619	514
Advance payments made	122	7
Other short-term assets	741	521
Total	1.246	754

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 € 439 thousand (previous year: € 453 thousand) and the reclaim of taxes paid in advance on income and profit amounting to € 408 thousand (previous year: € 338 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 € 19,437 thousand (previous year: € 14,043 thousand).

17. Lease

17.1 Finance Lease

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

	12/31/2016	12/31/2015
Land	1,817	1,817
Buildings	12,807	13,499
	14,624	15,316

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

	Minimum lease payments		Cash value of the minimum lease payments	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
With a residual term of up to one year	2,221	2,218	2,159	2,156
With a residual term of more than one year and up to five years	9,638	11,859	8,610	10,117
With a residual term of more than five years	0	0	0	0
	11,859	14,077		
Minus: Future financing costs:	-1,090	-1,804		
Cash value of the minimum lease payments	10,769	12,273	10,769	12,273
Recorded in the group's annual balance sheet as:				
Short-term liabilities from financing lease			2,159	2,156
Long-term liabilities from financing lease			8,610	10,117

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

Fiscal year	€ k
2017	104
From 2018	-

The earnings from subleases amounted to € 156 thousand in the reporting year (previous year: € 477 thousand). Basler has the option of purchasing the building at the end of the lease.

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

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
2017	654
2018-2020	932

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 € 523 thousand (previous year: € 597 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, 2016 amounted to 3,241,363 and on December 31, 2016 to 3,215, 247. In the reporting year, 26,116 own shares were acquired.

The shares in circulation developed as follows:

	12/31/2016		12/31/2015	
	Own shares	Shares in circulation	Own shares	Shares in circulation
January	258,637	3,241,363	322,723	3,177,277
February	258,637	3,241,363	325,056	3,174,944
March	258,637	3,241,363	325,056	3,174,944
April	258,637	3,241,363	325,056	3,174,944
May	261,359	3,238,641	325,056	3,174,944
June	264,495	3,235,505	271,390	3,228,610
July	271,230	3,228,770	270,555	3,229,445
August	277,483	3,222,517	258,637	3,241,363
September	278,975	3,221,025	258,637	3,241,363
October	281,779	3,218,221	258,637	3,241,363
November	284,484	3,215,516	258,637	3,241,363
December	284,753	3,215,247	258,637	3,241,363

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

18.2 Authorized Capital

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

18.3 Components of the Residual Total Income

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

	12/31/2016			12/31/2015		
	Earnings before taxes	Taxes	Net	Earnings before taxes	Taxes	Net
Currency conversion of foreign subsidiaries	167	0	167	348	0	348
Cash flow hedges	0	0	0	0	0	0
Total	167	0	167	348	0	348

18.4 Dividend Payment

On June 6, 2016, a dividend was paid amounting to € 0.58 per share (total dividend: € 1,878 thousand).

19. Financial Liabilities

Basler reports the following financial liabilities as at December 31, 2016 (in € k):

Description	Interest condition	Interest rate	End of term	Repayment amount
ERP-bank loan 2012 tranche I	Fixed	2.15 %	12/30/2022	€ 2,925 k (previous year: € 3,413 k)
ERP-bank loan 2012 tranche II	Fixed	2.45 %	12/30/2022	€ 3,900 k (previous year: € 3,900 k)
ERP-bank loan 2015	Fixed	1.50%	06/30/2025	€ 3,800 k (previous year: € 0 k)

€ 9,825 thousand of this are related to long term interest bearing bank liabilities (previous year: € 6,825 thousand).

Furthermore, derivative financial liabilities of € 721 thousand (previous year: € 992 thousand), the short-term repayment portion of the financial liabilities of € 800 thousand (previous year: € 888 thousand) are shown under other financial liabilities.

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

20. Provisions

	01/01/2016	Allocation	Utilizations	Liquidations	Interests	Currency differences	12/31/2016
Long-term provisions							
Personnel costs	748	202	0	0	-4	0	946
Long-term provisions	**748**	**202**	**0**	**0**	**-4**	**0**	**946**
Short-term provisions							
Personnel costs	1,228	2,839	-1,276	-45	0	10	2,756
Commissions	3	11	-3	0	0	0	11
Guarantee	336	368	-336	0	0	0	368
Legal- and consultancy costs	131	57	-67	-9	0	1	113
Other	272	182	-157	-40	0	2	259
Short-term provisions	**1,970**	**3,457**	**-1,839**	**-94**	**0**	**13**	**3,507**
Total	**2,718**	**3,659**	**-1,839**	**-94**	**-4**	**13**	**4,453**

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

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

21. Derivative Financial Instruments and Other Financial Instruments

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

USD	12/31/2016	12/31/2015
Nominal value in k €	-	-
Foreign currency amount in k USD	-	-
Fair value in k €		
Positive	-	-
Negative	-	-

JPY	12/31/2016	12/31/2015
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 2016 amounted to € 271 thousand (previous year: Income € 259 thousand).

	12/31/2016	12/31/2015
Nominal value in k €	6,667	8,182
Fair value in k €		
Positive	-	-
Negative	721	992

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 Amortised Cost	Financial liabilities measured at amortized cost	At amortized cost
FVTPL	At Fair Value Through Profit or Loss	At fair value through profit or loss	Fair value (with effect on net income through profit or loss)
HtM	Held to Maturity	Financial investments held to maturity	At amortized cost
LaR	Loans and receivables	Loans and receivables	At amortized cost

The book values of the financial instruments as of December 31, 2016, are as follows:

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		327	
Remaining other short-term financial assets	LaR	178	178		
Other short-term financial assets		**505**			**505**
Liquid assets	LaR	19,437	19,437		505
Cash and cash equivalents		**19,437**			**19,437**
		30,317			
Liabilities					
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 assets	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**

Comparative values as of December 31, 2015:

12/31/2015					
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	7,793	7,793		
Receivables from production orders	LaR				
Short-term financial assets		**7,793**			**7,793**
Remaining other short-term financial assets	LaR	233	233		
Other short-term financial assets		**233**			**233**
Liquid assets	LaR	14,043	14,043		
Cash and cash equivalents		**14,043**			**14,043**
		22,074			
Liabilities					
Liabilities to credit institutions	FLAC	6,825	6,825		
Other financial liabilities	FLAC	0	0		
Liabilities from finance lease	FLAC	10,117	10,117		
Long-term financial liabilities		**16,942**			**16,942**
Other financial liabilities	FLAC	588	588		
Short-term derivative assets	FVTPL	992		992	
Liabilities from deliveries and services	FLAC	2, 732	2,732		
Liabilities from finance lease	FLAC	2,156	2,156		
Remaining other short-term financial liabilities	FLAC	1,178	1,178		
Short-term liabilities		**7,646**			**7,646**
		24,587			

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	992	0	992
Total	**0**	**992**	**0**	**992**

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. Types and Management of Financial Risks

22.1 Counterparty Risk

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

22.2 Interest Rate Risk

All longer-term financial liabilities stated as of the balance sheet date are valued at amortized cost and are not subject to interest rate risk within the meaning of IFRS 7 due to existing fixed-interest agreements. The sensitivity analysis in connection with the interest rate risk from the interest rate swap showed that an increase of the interest yield curve by 0.5 percentage points would have a positive effect on earnings before taxes of € 94 thousand; a decrease of the interest yield curve by 0.5 percentage points would have a direct negative effect on earnings before taxes of € 94 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	-219	157
JPY	0	0
SGD	11	-12
	-208	**145**

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.

	12/31/2016	12/31/2015
Borrowed capital without finance lease and deferred taxes	24,186	15,174
Unused credit lines	3,600	7,400
Subtotal	**27,786**	**22,574**
Short-term receivables	10,370	7,793
Inventories	14,577	10,763
Remaining receivables and other financial assets	1,246	754
Liquid assets	-19,437	-14,043
Subtotal	**6,756**	**5,267**
Financial reserve	**411 %**	**429 %**

This strategy was not changed compared to the previous year.

On the reporting date, Basler had access to credit lines amounting to € 3,600 thousand (previous year: € 7.400 thousand) including € 1,200 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):

	2017	2018	2019 to 2021	From 2022
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

As per 12/31/2015, the following maturity structure ensued:

	2016	2017	2018 to 2020	From 2021
Bank debt	750	638	3,139	3,667
Liabilities from deliveries and services	2,732	-	-	-
Other current financial and tax liabilities	1,304	-	-	-
Liabilities from finance lease	2,218	2,221	9,638	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:

	Up to 1 year	2 to 5 years	More than 5 years	Total
2016	293	426	2	**721**
2015	354	598	40	**992**

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.

	2016	2015
Germany	11,891	9,634
EMEA	23,859	26,875
Americas	17,259	17,160
Asia	44,529	31,764
Total	**97,538**	**85,433**

Essentially, sales allocated (more than 5 % of total revenues) to the following countries:

	2016	2015
China	17,851	10,456
USA	16,395	15,381
Germany	11,892	9,634
South Korea	10,570	6,247
Japan	6,800	6,233
Others	34,031	37,482
Total	**97,538**	**85,433**

Sales revenues of € 17,851 thousand (more than 10 % of total revenues) were generated with one customer in 2016.

The sales revenues of the Basler group are structured as follows:

	2016	2015
Sales Camera Business	91,938	80,225
Sales Solutions	878	1,271
Sales Accessories	4,722	3,937
Total	**97,538**	**85,433**

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

	12/31/2016	12/31/2015
Germany	43,227	41,747
USA	79	88
Singapore	517	593
Taiwan	23	28
	43,846	**42,456**

25. Number of Employees

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

	2016	2015
Production	113	113
Sales	149	144
Development	127	115
Administration	105	101
	494	**473**

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:

	2016	2015
Production	107	106
Sales	140	136
Development	119	108
Administration	91	88
	457	**438**

26. Remuneration of Auditors

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

	2016	2015
Audit fees	62	74
Tax consultancy services	13	18
Other services	0	3
	75	**95**

27. Relations to Closely Affiliated Persons

In fiscal year 2016, 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 2016, 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 2016, 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

Additional mandates held by the supervisory board members in 2016, compliant with § 285 No. 10 HGB:

Norbert Basler
Member of the Supervisory Board, Plato AG, Lübeck
Member of the Supervisory Board, Technikzentrum Fördergesellschaft mbH, Lübeck
Member of the Supervisory Board, Technikzentrum-Grundstücksgesellschaft mbH, Lübeck (since June 7, 2016)
Vice Chairman of the Advisory Board, Zöllner Holding GmbH, Kiel

Prof. Dr. Eckart Kottkamp
Chairman of the Advisory Board, Mackprang Holding GmbH & Co. KG, Hamburg (until Oct. 31, 2016)
Chairman of the Advisory Board, ACTec Holding GmbH, Freiberg
Chairman of the Supervisory Board, Lloyd Fonds AG, Hamburg
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
Member of the Regional Advisory Board south and southwest, Commerzbank AG, Frankfurt am Main

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

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

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

2016	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Transfer	**since 1998**	**since 2006**	**since 2011**	**since 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	136,14.92	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**

Mr. Jennings draws his salary in USD. Since the amounts are stated in Euro, the increase is due to currency effects.

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 granted benefits for the management board amounted to € 1,748,666.05, and are allocated as follows:

2016	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Granted Benefits	**since 1998**	**since 2006**	**since 2011**	**since 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 2015, a total of € 1,528,214.78 was paid out allocated as follows:

2015	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Transfer	**since 1998**	**since 2006**	**since 2011**	**since 2014**
Fixed remuneration	270,529.50	273,003.93	187,138.13	220,162.50
Additional benefits	15,425,51	54,210.44	21,102.98	15,843.80
Total	**285,955.01**	**327,214.37**	**208,241.11**	**236,006.30**
One-year variable remuneration	0.00	0.00	0.00	0
Multi-year variable remuneration	154,049.05	148,056.60	107,839.32	49,496.00
Payout bonus bank	154,049.05	148,056.60	107,839.32	49,496.00
Other	0.00	0.00	0.00	0.00
Total	**440,004.06**	**475,270.97**	**316,080.43**	**285,502.30**
Pension expenses	1,742.48	8,114.55	0.00	1,500.00
Total payout	**441,746.54**	**483,385.52**	**316,080.43**	**287,002.30**

The claim to variable compensation components of the financial year 2015 amounting to € 357,564.75 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 2015, the total remuneration of the management board amounted to € 1,426,338.57, allocated as follows:

2015	Dietmar Ley	John P. Jennings	Arndt Bake	Hardy Mehl
	Chairman of the Management Board (CEO)	Management Board Sales (CCO)	Management Board Marketing (CMO)	Management Board Finance (CFO) and Operations (COO)
Granted Benefits	**since 1998**	**since 2006**	**since 2011**	**since 2014**
Fixed remuneration	270,529.50	273,003.93	187,138.13	220,162.50
Additional benefits	15,425.51	54,210.44	21,102.98	15,843.80
Total	**285,955.01**	**327,214.37**	**208,241.11**	**236,006.30**
One-year variable remuneration	0.00	0.00	0.00	0.00
Multi-year variable remuneration	101,734.03	102,664.55	70,374.28	82,791.89
Of which transferred to the bonus bank	101,734.03	102,664.55	70,374.28	82,791.89
Total	**387,689.04**	**429,878.92**	**278,615.39**	**318,798.19**
Pension expenses	1,742.48	8,114.55	0.00	1,500.00
Total remuneration	**389,431.52**	**437,993.47**	**278,615.39**	**320,298.19**
Possible minimum amount - reduction bonus bank	-90,176.50	-91,001.31	-62,379.38	-73,387.50
Possible maximum amount – transfer to bonus bank	360,706.00	364,005.24	249,517.50	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.

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

28.4 Remuneration of the Supervisory Board

The total remuneration of the members of the supervisory board amounted to € 67 thousand in the year 2016:

	Fixed remuneration 2016	Performance-related remuneration for 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

The total remuneration of the members of the supervisory board amounted to € 54 thousand in the year 2015:

	Fixed remuneration 2015	Performance-related remuneration for 2015	Total 2015
Norbert Basler	24,000.00	0,00	24,000.00
Prof. Dr. Eckart Kottkamp	18,000.00	0,00	18,000.00
Konrad Ellegast	4,700.00	0,00	4,700.00
Horst W. Garbrecht	7,300.00	0,00	7,300.00

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

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

	12/31/2016 Number of shares	12/31/2015 Number of shares
Dr. Dietmar Ley	145,794	144,794
John P. Jennings	5,500	5,500
Arndt Bake	700	700
Hardy Mehl	800	550

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

	12/31/2016 Number of shares	12/31/2015 Number of shares
Norbert Basler	-	-
Prof. Dr. Eckart Kottkamp	-	-
Horst W. Garbrecht	-	-

In 2015, Mr. Norbert Basler transferred his shares to Basler Beteiligungs GmbH & Co KG, which held 1,843,384 shares of Basler as of December 31, 2016.

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

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

Company name	Proportion of stake in % (Dec. 31, 2016)	Equity (Dec. 31, 2015)	Result (2015)
Beruf und Familie HanseBelt GmbH, Bad Oldesloe	20	€ 6 thousand	€ -39 thousand

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/investors.

31. Approval of the Annual Balance Sheet

The annual balance sheet is expected to be released for publication by the supervisory board on March 29, 2017.

32. Recommendation for the Appropriation of Profit

The management board recommends the distribution of a dividend amounting to € 0.74 per share corresponding to an amount of € 2,379,282.78.

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 10, 2017

The Management Board

Dr. Dietmar Ley
CEO

John P. Jennings
CCO

Arndt Bake
CMO

Hardy Mehl
CFO/COO

AUDITORS' AUDIT OPINION (GROUP)

We have audited the consolidated financial statements of Basler Aktiengesellschaft, Ahrensburg, — consisting of balance sheet, profit and loss statement, statement of comprehensive income, statement of changes in equity, cash flow statements, and notes — and the group management report for the business year from January 1, 2016 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional provisions stated in Section 315a Para. 1 HGB (German Commercial Code) are the responsibility of the company's legal representatives. It is our responsibility to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Lübeck, March 10, 2017

BDO AG
Wirtschaftsprüfungsgesellschaft

Herbers	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 10, 2017

The Management Board

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

EVENTS 2017

IR-Events

Date	Event	Venue
10/05/2017	Publication 3-month report 2017	Ahrensburg, Germany
17/05/2017	Shareholders' meeting 2017	Hamburg, Germany
09/08/2017	Publication 6-month report 2017	Ahrensburg, Germany
08/11/2017	Publication 9-month report 2017	Ahrensburg, Germany
11/27 - 29/2017	Deutsches Eigenkapitalforum 2017 (Germany equity forum)	Frankfurt am Main, Germany

Shows and Conferences

Date	Event	Venue
01/18-20/2017	A3 Business Forum	Lake Buena Vista, Florida, USA
31/01-02/02/2017	SPIE Photonics West	San Francisco, USA
02/21-22/2017	Europäischer Polizeikongess	Berlin, Germany
03/05-09/2017	Pittcon	Chicago, USA
03/14-16/2017	Vision China, Shanghai	Shanghai, China
03/14-16/2017	embedded world 2017	Nürnberg, Germany
03/29-31/2017	Korea Vision Show / Automation World	Seoul, Korea
04/03-04/2017	Automate	Chicago, USA
04/19-21/2017	MEDTEC Japan	Tokio, Japan
04/25-27/2017	SEMICON Southeast Asia	Penang, Malaysia
05/22-25/2017	NI Week	Austin/Texas, USA
06/07-09/2017	Exhibition on Sensing via Image Information Japan	Yokohama, Japan
06/14-16/2017	Photonics Festival in Taiwan/OPTO Taiwan	Taipei, Taiwan
06/28-30/2017	Vision China, Shenzhen	Shenzhen, China
09/06-09/2017	Taipei Int'l Industrial Automation Exhibition	Taipei, Taiwan
10/11-13/2017	Vision China, Beijing	Beijing, China
12/06-08/2017	International Technical Exhibition on Image Technology and Equipment Japan	Yokohama, Japan

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