ANNUAL REPORT 2008

BASLER
VISION TECHNOLOGIES

CONTENTS

Dear shareholders, business partners and friends,

Basler AG has consistently improved results in 2008 compared to the previous year and has significantly exceeded the goals set at the beginning of the fiscal year:

The group's turnover rose by 9.6 % to the record value of € 56.5 million, pre-tax profit rose by 57 % to € 2.85 million. The free cash flow amounted to € 4.6 million and therewith rose by € 6.3 million compared to the previous year. The debt to equity ratio of the group decreased from 44,9% as at 12/31/2007 to 44,2% as at 12/31/2008. We also made good progress in implementing the strategic actions described in the annual report for fiscal year 2007. Furthermore, at the end of 2008, financing of our company is as sound as it has ever been since the initial public offering in spring of 1999.

Our **"Basler Components"** components business has added yet another chapter to its success story in 2008. Turnover of almost € 29.7 million represents a new record level. With respect to improving the gross margin, which was the most important goal for 2008, we were able to make greater progress than planned. Therefore, the result remained constant for the components business despite major investments for a new business area. The biggest market success in the industrial business of "Basler Components" was marked by the consolidation of the market leadership in the Gigabit Ethernet cameras growth segment. Our number one position in this sector is undisputed throughout the world. The most important strategic milestone in fiscal year 2008 was our market entry into the promising market of digital video surveillance in the spring of 2008. We expect this business to generate significant growth in sales in the coming years.

We were also successful in 2008 in our **"Basler Solutions"** solutions business. Our turnover increased by a double-digit percentage to € 26.8 million compared to 2007. At the same time we reduced costs significantly from the previous year and achieved a positive result after losses in 2007. With that, the "Basler Solutions" team was successful in bringing about the earnings turnaround in 2008 and making a positive contribution to the group's result. The highlights of the first half-year were several were major orders in the LCD industry. Here, we were able to beat the established competitors with our new Vision solutions for the inspection of color-filters and we were able to capture market leadership in this segment. In the course of the year, we extended our product portfolio for the solar industry and entered into important cooperation with leading vision industry related engineering and plant construction companies.

Although sales and earnings forecasts were increased twice during the fiscal year, the price of the Basler share approximately halved during the last four months of fiscal year 2008 from its price at the beginning of the year. We attribute this disappointing development to the global financial crisis and to the resulting pull-out of many investors from the stock market. The Management Board strongly thanks all investors for their confidence in our company who are invested in Basler shares despite the great uncertainty in the financial markets.

Apart from the trend in the stock market, the Management Board is very satisfied with the results attained in fiscal year 2008 and thanks all employees and our business partners expressly for their excellent achievements.

We anticipate a difficult economic environment for the investment goods industry in 2009 due to the current global economic crisis. For the next year we expect lower turnover and earnings compared to 2008. Accordingly, we have initiated steps in Q4 of 2008 to adjust our costs to the foreseeable decreased demand.

The Management Board is confident that Basler AG will emerge from the current global economic crisis in a strengthened state due to its novel and innovative product portfolio, its sound financing and above all due to the firm solidarity among its employees.

Dear Ladies and Gentleman,

In the fiscal year 2008, the Supervisory Board has fulfilled its incumbent obligations according to the law and the company's articles of incorporation, and has continuously monitored and advised the Management Board in its management activities. In the process, 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 2008, four regularly occurring Supervisory Board meetings took place, which all members of the Supervisory Board attended. The meetings were held on February 27, 2008, May 20, 2008, September 23, 2008, and December 18, 2008. In addition, two more meetings were held where specific or current issues were discussed. All members of the Supervisory Board were present also in each of these extraordinary meetings. Committees as set forth in § 171, Section 2, Clause 2 of the Stock Corporation Act were not formed, due to the size of the Supervisory Board (three persons).

The Management Board and the Supervisory Board cooperate closely for the benefit of the company. The basis for this co-operation 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 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. 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 in the elapsed fiscal year were:

- Consultation on and conclusion of the annual balance sheet for 2007 and of the proposals for the general meeting
- Cyclical and market specific developments and their effects on the company's result and turnover
- Further development of the corporate strategy
- Planning and budget for the segments and for the group for fiscal year 2008

REPORT OF THE SUPERVISORY BOARD

- Development of new business via strategic partnerships or acquisitions
- IT security
- Four year plan for 2008 to 2011
- Methods and results of customer satisfaction surveys
- Planning of the cash flow
- Act to Modernize Accounting Law (Bilanzmodernisierungsgesetz)
- Committment to and alterations according to the Corporate Governance Code

The BDO Deutsche Warentreuhand AG, Lübeck, which was selected as annual auditor by the general meeting on May 20, 2008, was commissioned by the chairman of the Supervisory Board to perform the audit by a letter of October 30, 2008. The annual auditor participated in the Supervisory Board meeting on March 5, 2009, where the presented annual balance sheet was discussed, and the essential results of the audit were reported.

The accounting, the annual balance sheet as of December 31, 2008, and the situation report for Basler AG, along with the group's annual balance sheet as of December 31, 2008, and the group's situation report have been audited by the annual auditor, the BDO Deutsche Warentreuhand AG, Lübeck, they have been found to be compliant with 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 as prepared by the Management Board.

In accord with the Corporate Governance Code, the Supervisory Board regularly reviewed the efficiency of its work and enhanced it in connection with useful modifications related to the preparation and the document design for its meetings.

The Supervisory Board members do not act as consultants to or hold officer positions in executive bodies of clients, suppliers, creditors or other business partners. Consequently, conflicts o f interest did not arise with their mandates during the past fiscal year.

The report compiled by the Executive Board according to § 312 of the Public Limited Companies Act (Aktiengesetz) on relations with affiliate companies was audited by the annual auditor and furnished with the following audit certificate:

„Following our due 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 Executive Board's statements on relations with affiliate companies. In the elapsed fiscal year, the following change has occurred in the Supervisory Board: Former vice-chairman Prof. Dr. Eckart Kottkamp, Großhansdorf, was reappointed to his office for a fife year term by the general meeting on May 20, 2008.

Successful business development and good positioning for dealing with future challenges are characteristic for Basler AG in the twentieth year of its existence.

Within the Solutions business, significantly increased revenue was primarily driven by temporarily increased demand in the Display Inspection product division. The Components business was able to continue its positive development. Very satisfying progress was achieved with respect to market and to internal performance. The entry into the IP camera business is also developing successfully.

Altogether, Basler AG was able to achive a good annual result with turnover and revenue above plan.

While the elapsed fiscal year may thus be designated an operationally successful anniversary year, all further considerations focus on the effects of the global financial and economic crisis and on the fitness of the company for coping with the resulting challenges and opportunities.

As an obvious and immediate consequence of the events in the financial market the value of the Basler share has developed negatively, despite overachievement of the goals for the year. However, in addition to the improved financial results it is important to note that measures that were introduced in the last years within the scope of the modified corporate strategy, had the following beneficial effects: The company was rendered more independent from fluctuations in demand of individual markets, the efficiency of market development was increased, and the robustness relative to global influences was increased.

Very timely, favorable conditions were created for future persistence particularly also under fluctuating and difficult boundary conditions, by a distinct extension of the Components business, by extending these activities into the market of security and surveillance technology, by a modified disposition in the Solutions business, and by an overall increase in cost-efficiency.

Today, the company possesses a very good financial and balancing structure, high flexibility, an extremely up-to-date technology and product portfolio, an excellent market position, and highly motivated and dedicated staff..

The management and staff of Basler AG are aware of the great challenges ahead and they will strive to master them, given the favorable internal conditions created in the meantime. At the same time however, the current conditions also open new opportunities that can be recognized and exploited with the same seriousness. We assume that Basler AG will emerge in a strengthened state from the current general crisis.

2008 was therewith altogether a good fiscal year. The ambitious goals were more than accomplished and the company sets forth into the future well prepared. Thanks to all involved this was accomplished simultaneously. The Supervisory Board expressly thaks all employees, executives, and the members of the Executive Board of Basler AG for the work they have accomplished in the elapsed fiscal year.

Ahrensburg, March 2009
For the Supervisory Board

Norbert Basler
Chairman of the Supervisory Board

THE STOCK AND CORPORATE GOVERNANCE

The Basler Share

Fiscal year 2008 was characterized by massive stock market losses worldwide and likewise, the stock market valuation for Vision Technology shares has developed negatively throughout. The Basler share was not able to evade this trend, despite a good business development and the forecasts for turnover and results having been raised twice.

Capital market environment

In hindsight, 2008 must be called an exceptionally bad fiscal year. The standard indices of the western industrial nations lost universally 40-50 % of their values. In the U.S.A., the worst price losses occurred since the Great Depression in 1929-1932. In China and Russia, share prices fell by more than 70 %. The stock market indices in Germany and Europe almost halved.

Almost all Vision Technology companies listed on the stock market suffered significant share price losses last year. Therefore, the development of share prices in 2008 was as disappointing for investors in the Vision Technology sector as in the other sectors of the stock market

The Basler share

In the first half of 2008, the price of the Basler share developed in parallel with the company's business development. Following a downturn in the first quarter, that we attribute predominantly to the results of fiscal year 2007 that were below the results of the preceding year, the share price rose until the beginning of September to the year high of € 11.25. This was in accord with the positive results of Q1 and Q2. During the following four months, the full extent of the effects of the global financial crisis became apparent. Investors divested largely from small shares. Despite very good results for Q3 and the forecasts for turnover and results having been raised again, the Basler share lost more than one half of its value during this phase. The share closed at € 5.60 in the end of 2008 after a year low in mid-December of € 5.05.
In the middle of this turbulent fiscal year Abrias SICAV and the Andreas Müller-Hermann Holding invested in Basler shares transgressing the 3 % threshold of shares.

Communikation

Against the backdrop of the very unfavorable capital market environment, we have put special emphasis on informing our investors promptly - beyond the normal reporting dates - and frankly about the situation of the company.

We have carried out two road shows for investors in France and in Germany. In addition, the Management Board took part in the German Equity Forum in Frankfurt in November. We presented the results of Q3 to the investors and further expanded on the information given in personal conversations. We explained to our investors and to analysts the results of fiscal year 2007and the financial statements of Q1-Q3 of 2008 in four telephone conferences. In addition, we were in regular contact with analysts and investors from the institutional and private sectors via telephone and e-mail.

During the past year, a total of two analysts from different banks and research institutions monitored the company (three in the preceding year). You can find the actual recommendations via
www.baslerweb.com/share
in the section Share >> Analyst studies.

As regards trade, our company is supported on the capital market by Close Brothers Seydler Bank AG (so-called designated sponsoring). Close Brothers Seydler Bank AG is a leading provider of this service in Germany and regularly earns top ranks by Deutsche Börse.
The general meeting took place in the Hamburg Chamber of Commerce on May 20, 2008. The investors present represented 63 % of the capital entitled to vote. At least 99.09 % of the voters present voted in favor of each of the presentations for decision as prepared by the management.

Contact details:

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Regular information:

Please use our contact form if you want to receive information about our company regularly www.baslerweb.com/aktie/ or directly contact our investor relations department.

Share-related information

ISIN: DE0005102008
Kürzel: BSL
Prime Standard Branche: Industrial
Industriegruppe: Advanced Industrial Equipment
Zulassungssegment: Prime Standard / Regulierter Markt
Designated Sponsors: Close Brothers Seydler AG
Anzahl der ausgegebenen Aktien: 3.500.000
Mitglied in den Indices: CDax, Prime AllShare, Technology AllShare, GEX*

* GEX is the index for the performance of medium-sized companies on the stock market

Shareholder structure:

Norbert Basler	51%
Dietmar Ley	4%
Abrias Sicav	3%
Andreas Müller-Hermann Holding	3%
Free float	39%

Share price key figures:

	2008	2007	2006	2005
Market capitalization in € m (as of 12/31)	19.6	38.5	46.27	40.1
Annual closing price in € (as of 12/ 31)	5.60	11.00	13.22	11.45
Year high in €	11.25 (09/01)	14.85 (02/23)	15.15 (05/05)	18.29 (02/07)
Year low in €	5.05 (12/22)	10.54 (11/09)	10.60 (01/26)	11.00 (12/22)
Annual development	-51%	-17%	+16%	-23%

Chart - relative price development in 2008 compared to TecDax

You will find more information and explanations at: *www.baslerweb.com/share.*

General meeting 2008

The general meeting, held on May 20, 2008, proceeded entirely in accord with the management's wishes. All applications made by the management were accepted with a majority of over 99 %.

Approval of the Management Board's acts was granted as clearly as of the Supervisory Board's acts (99.9 % and 99.6 %, respectively, of the voters present).

Mr Prof. Dr. Eckart Kottkamp (Großhansdorf) was re-elected for the Supervisory Board. The former chairman of the Management Board of Hako Werke GmbH (Bad Oldesloe) has been Vice Chairman of the board since 2006 and keeps further mandates in the Supervisory Board of Lloyd Fonds AG (Hamburg) and in the Advisory Board of C. Mackprang Holding GmbH (Hamburg).

In addition, the voting proposal on the purchase of own shares was accepted and the BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (Hamburg) was appointed as auditor for fiscal year 2008.

The agenda and the proceedings of the general meeting 2008 can be seen at *www.baslerweb.com* in the Investor Relations section.

Director's Dealings 2008

In fiscal year 2008 the following director's dealings occurred :

Mr John Jennings has purchased 3,500 shares at the price of € 9.50 on May 29, 2008.

Mr Norbert Basler has taken 106,907 units of the issued convertible bond at the price of € 14.00 from his wife Nicola-Irina Basler on July 24, 2008.

Declaration concerning the Corporate Governance Code

The Management Board and the Supervisory Board of Basler AG declare that the recommendations issued by the „Government Commission of the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette (eBundesanzeiger) are complied with. This Code presents essential statutory regulations for the management and supervision of German listed companies and contains internationally and nationally recognized standards for good and responsible corporate governance. It is also intended for promoting the trust of international and national investors, customers, employees, and the general public in the management and supervision of listed German stock corporations.

By this declaration of undertaking, the Management Board and the Supervisory Board want to demonstrate to the public their intent of implementing responsible corporate management and control so as to increase shareholder value. This measure is to build and enhance trust among current and future shareholders, customers, other interested members of the public, and employees.

Declaration of conformity pursuant to Sec. § 161 of the German Stock Corporation Act [Aktiengesetz - AktG]

The Management Board and the Supervisory Board hereby declare that the recommendations for conduct as amended on June 6, 2008, by the „Government Commission of the German Corporate Governance Code" appointed by the German Government have been complied with in fiscal year 2008 apart from two exceptions and that said recommendations will be complied with in the future apart from two exceptions.

The following recommendations are excepted:

Clause 5.3 - Establishment of committees within the Supervisory Board

The Supervisory Board of Basler AG does not establish any committees. The Supervisory Board of Basler AG comprises three persons. This ensures efficient work in all matters of the Supervisory Board at any time. Furthermore, establishing committees is not considered meaningful, the generally accepted minimum size for a committee being a membership of three.

Clause 5.4.7 - Remuneration of the members of the Supervisory Board

Remuneration of the members of the Supervisory Board is set forth in the Articles of Incorporation. Chairmanship and vice chairmanship are given consideration as regards the amount of remuneration. Given the current level of fixed remuneration, the addition a variable component to remuneration is not provided for.

Dietmar Ley	N. Basler
For the Management Board Dr. Dietmar Ley (Chairman)	For the Supervisory Board Norbert Basler (Chairman)

MANAGEMENT REPORT

of the Consolidated Financial Statements 2008

MANAGEMENT REPORT

1 Group Status Report

1.1 Group Structure and Business Operations

The Basler Group develops, produces, and markets capital goods for Vision Technology (the Technology of Machine Vision) worldwide. The public company listed on the Frankfurt Securities Exchange with its head office in Ahrensburg (Germany) has subsidiaries in Singapore, Taiwan and the USA, as well as marketing and service branches in China, Japan and South Korea. Development and production are performed at its headquarters in Germany. Marketing and performance of services are provided at all of the group's sites.

The Basler Group is represented in the market by two divisions:

- Basler digital cameras for automatic image acquisition. Our target customers are producers of capital goods (OEM customers). They install our cameras in their products – that is in machinery, systems and equipment. Our customer's products primarily are used in industrial mass production, medical technology, life sciences and intelligent traffic systems. Basler generates 49% of its camera sales in the European market and 27% of sales in the North American market. The remaining 24% of divisional sales go to customers from the Asiatic region. Basler is currently the world's third largest producer of cameras for industrial applications.

  During the 2008 reporting year, Basler entered a new market, namely that of digital video surveillance cameras, so-called IP cameras. Important applications for IP cameras exist in the segments security technology, remote maintenance and in the retail trade. As a newcomer to the video surveillance market, by the end of 2008, Basler did not yet post a significant market share.

- **„Basler Solutions"** group offers turnkey solutions for automatic quality control in industrial mass production. The most important application for our solutions currently is fast service inspections of sheet glass. The most important industries to our customers are the LCD industry and the solar industry. With its solutions, Basler primarily approaches manufacturers of machinery and systems (OEM customers). In addition, the solutions are sold to large commodity producers (and consumers). 75% of the sales of the Basler Solutions group go to the Asiatic region, 21% of sales are realised in the European market and the remaining 4% of divisional sales go to customers in North America. With its four established product lines, the Basler Solutions group consistently holds one of the top three positions in the world market.

In 2008, Basler participated in a total of 18 national and international trade fairs in order to present its products.

- Basler cameras for industrial applications of were presented at 11 trade fairs. Two of these were held in Europe, two in North America and seven in Asia. The most important events were ‚Vision', the European leading trade fair in Stuttgart, the Japanese leading trade fair ‚ITE Show' in Yokohama in December, as well as ‚Vision Show East' held in Boston in May.
- Since the market launch in May, our new video surveillance cameras were introduced at three trade fairs in Europe and two in the USA. The most significant European events were held in May in the UK (‚IFSEC Show', Birmingham) and in October in Germany (‚Security' Trade Fair, Essen). In the USA the ‚ASIS Show' in Atlanta was the pivotal trade fair event of 2008.
- In 2008, the Basler Solutions group participated in seven trade fairs. Of these, two were held in Europe and five in Asia. The important events were the ‚23rd EU PVSEC' in July held in Valencia, Spain, as well as the ‚PV Expo' in February held in Tokyo and the ‚PV Forum & Exhibition Taiwan'08' in Taiwan.

The Basler Group is managed by two board members. The CEO, Dr. Dietmar Ley, is responsible for the two business segments, Research & Development and Finance & Administration. John Jennings is responsible for Sales & Marketing, as well as the Group's subsidiaries. The two directors have been working for the company for more than 15 and 10 years respectively.

1.2 Corporate Control, Targets and Strategy

Basler set itself the goal of applying the power of machine vision to make a) industrial production more efficient, b) medical treatment more effective and less costly, and c) our society safer. Along the way, we want to increase our

sales with sound profitability

Our strategy is based on four pillars:

a) Market leadership with superior consulting competence and innovative, easy-to-operate products and solutions
b) Sales growth through focus on high-volume vision technology markets
c) Earnings growth through lowering production costs, focusing on core competencies and use of platform technologies
d) Securing competitiveness through continuous learning and improvement

a) Market leadership with superior consulting competence and innovative, easy-to-operate products and solutions

With its product lines, Basler has achieved a top three position in the market. One of the two deciding factors of success is its leading consulting competence. In recent years we have massively invested in the expansion and quality of our Sales & Marketing organisation to be able to better understand our customers' needs and to target our solutions exactly on this demand. The two key factors for success have been innovative and easy-to-operate products and solutions. For Basler, innovation means presenting measurable and relevant additional customer benefits and offering them to the market in the form of new products when the underlying technologies have matured. Additional benefits, for example, may be higher efficiency or lower costs. Simple operability is gaining importance because products with intuitive operation pay themselves off faster.

b) Sales growth through focus on high-volume vision technology markets

As early as 2007we decided that we needed to realize more sales in markets with a global sales volume of over EUR 50 million and whose average annual growth rate exceeded 5%. We are convinced that investments in Research & Development, as well as Sales & Marketing, show better returns in these markets than in small market niches.

Our existing components business with digital cameras for industrial applications addresses a ‚large' vision technology market. We want to increase the earnings potential of this business by expanding the product range and market segments in order to become a market leader in the medium term. The video surveillance market also represents a ‚large' vision technology market. In this business, we see a large growth opportunity for Basler, and therefore entered this market in the spring of 2008.

The restructuring of our solutions business is one result of this strategy. During the past 18 months, we have consistently reduced our investments in smaller markets in favor of expanding our activities in the solar market, which we consider a ‚large' market of the future.

Because of the company's focus on large markets, the growth in sales of Basler AG will be propelled more effectively in the medium term by the camera business than the solutions business. Consequently, investments in new products will be effected more extensively in the components business than the solutions business. The influence of volatile demand in individual industries on the development of group sales and earnings will thus decrease gradually in the coming years.

c) Earnings growth through lowering production costs, focusing on core competencies and use of platform technologies

The highest priority for us is the continuous reduction of manufacturing costs for our products and solutions. We have increased our acquisition resources in order to make faster progress in optimizing the costs of materials, cooperating with our suppliers and seeking out more competitive sources. In the course of development, we work on being able to produce new products faster and simpler than their predecessors. In production, we continuously improve our processes and procedures to enable us to produce components and solutions faster, with less waste and more smoothly in the future than today.

Furthermore, in the technology area, we want to focus more on our core competencies. The emphasis is on disciplines in which we decidedly differ from the competition – that is, the development of software, electronics hardware and system design. In other non-core technology areas we increasingly cooperate with partnerships. In 2008, for example, in the course of implementing large-scale projects in the LCD industry, we realised tasks in the engineering industry with partnerships from Asia. Further, the increasingly stronger focus of our solution business on OEM customers follows this strategy, since most of our customers in this segment are mechanical engineering and construction companies.

In addition, we work on increasing the share of the platform technologies in our products. By this means, we want to reduce the expenditure involved in new developments and shorten the time interval from the start of development to market launch.

d) Securing competitiveness through continuous learning and improvement

We work in all corporate functions to continuously increase productivity and thus reduce personnel costs in relation to sales. In this context, our total quality management program ‚Q-Advanced' is of decisive significance. All employees participate in improving the quality of our products and processes and in increasing their productivity.

In order to be able to evaluate the progress in the implementation of our strategy, we have developed an internal control system in the form of so-called ‚Balanced Score Cards' (BSC). These BSCs contain key figures subdivided according to the categories 1) finance, 2) customers and markets, 3) processes and organisation and 4) employees. The development of our key figures and measures for their improvement are discussed monthly by management. The central finance key figures at group and business segment levels are sales growth, yield, invested capital and cash flow.

1.3 Research and Development

The expenditure for Research & Development (R&D) at group level increased by 13.0% of sales in 2007 to 14.2% in 2008.

In 2008, the expenditure of in our camera segment developed according to plan, which was in the amount of € 4.4 million (+7% compared with 2007). In 2008, the R&D expenditure for our Solutions group was in the amount of € 3.3 million (2007: € 3.9 million) and thus decreased by 15% compared with the previous year. In the segment of digital cameras for industrial applications, Basler expanded its product lines in 2008 again in order to be able to cover a larger part of the market . In the Gigabit Ethernet cameras segment, the product families ‚Basler Scout' and ‚Basler Pilot' were extended by new members and variants and a completely new product line of Gigabit Ethernet line scan cameras was introduced with the ‚Basler Runner'. In addition, during the prior business year our offer for the high-end application market segment was expanded: Our ‚Basler Sprint' family of line scan cameras was expanded by products with longer and shorter line sensors and a pallet of fast color line scan camera models. With ‚Basler Aviator', we presented a further completely new camera line, which is positioned above the ‚Basler Scout' and ‚Basler Pilot' families.

Another focus of R&D activities for our camera group was the development of the first family of cameras for the video surveillance market, the ‚Basler IP CAM'. The first members of this new product line were introduced to in May 2008.

In 2008, the Basler Solutions group primarily invested in the expansion of our product portfolio for the solar market since we feel that the greatest sales potential for our solutions business lies in this segment. In detail, new versions of our inspection solutions for micro crack recognition with solar wafers were completed, which in terms of recognition performance were considerably more efficient. On a parallel level in cooperation with several OEM customers, we developed completely new inspection solutions by means of which solar wafers during the production cycle can be checked for electrical efficiency and potential damage in the structure of material and be tracked throughout the production process (so-called wafer tracking). Towards the middle of the business year, we started with the further development of our family of inspection solutions for thin-film solar modules, and during the 4th quarter focused on developing additional inspection solutions for solar wafers, which will be launched in 2009.

In addition, in the course of the year, we further developed our inspection solutions for the LCD industry. Of particular significance was the work on our color filter inspection systems, for which we were able to win several large contracts because of significantly reduced production costs and an improved test function.
The Basler Solutions group started developing a new software platform, which in future will be the basis of new product developments in the solutions business.

1.4 Overview of the Business Trend

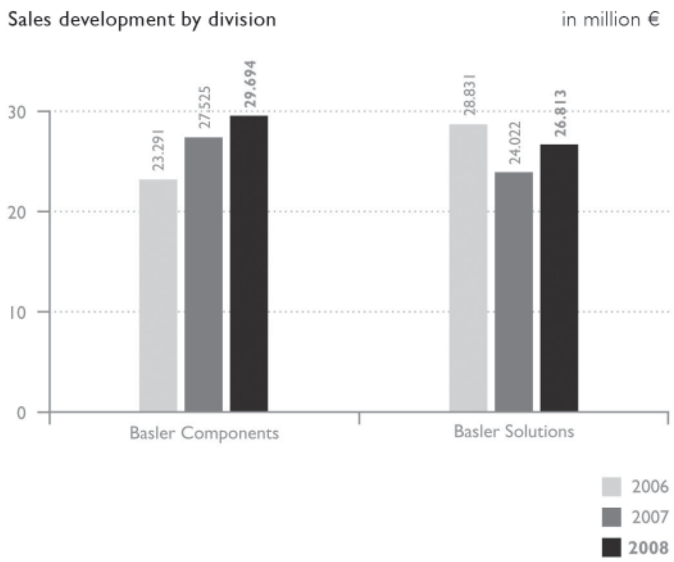
The global economy in 2008 grew by approx. 3.7 % (Source: VDMA). Global investments in new equipment goods in 2008 were just under 3% above the values realized in 2007 (Source: VDMA).

While the demand for capital goods during the first half of the business year still was above that of the prior year's value, investments in equipment successively declined during the second half-year as a result of the increasingly cooling business trend and during the 4th quarter of the business year moved to below last year's level (Source: VDMA).

At regional level, the demand situation was uneven as well. While investments in so-called BRIC countries (Brazil, Russia, India and China) significantly increased, the growth in equipment investment in Europe barely exceeded previous year's level of 3%. In the USA and Japan, investments stagnated compared with the prior year's level.

The exchange rate between the Euro and US dollar changed in 2008 on average in favor of producers in Euro countries. The average yield compared with the previous year was not subject to exchange rate-related erosions. The basic framework conditions for producers of vision technology equipment were relatively favorable during the first six months of the 2008 business year. During the second half of 2008, the the business environment deteriorated continuously based on the expanding global economic crisis. Especially sharp declines in demand of vision technology solutions were recorded for the automotive, semi-conductor, electronics and LCD industries. The latest market studies of leading industry associations of the vision technology industry in the USA (Automated Imaging Association, AIA), Europe (European Machine Vision Association, EMVA) and German (Verband Deutscher Maschinen- und Anlagenbau, VDMA), which were published in the Spring of 2008, projected a medium single-digit percentage range in terms of sales growth for the global vision technology market in 2008. For Basler, the economic environment is similar to the entire vision technology sector:

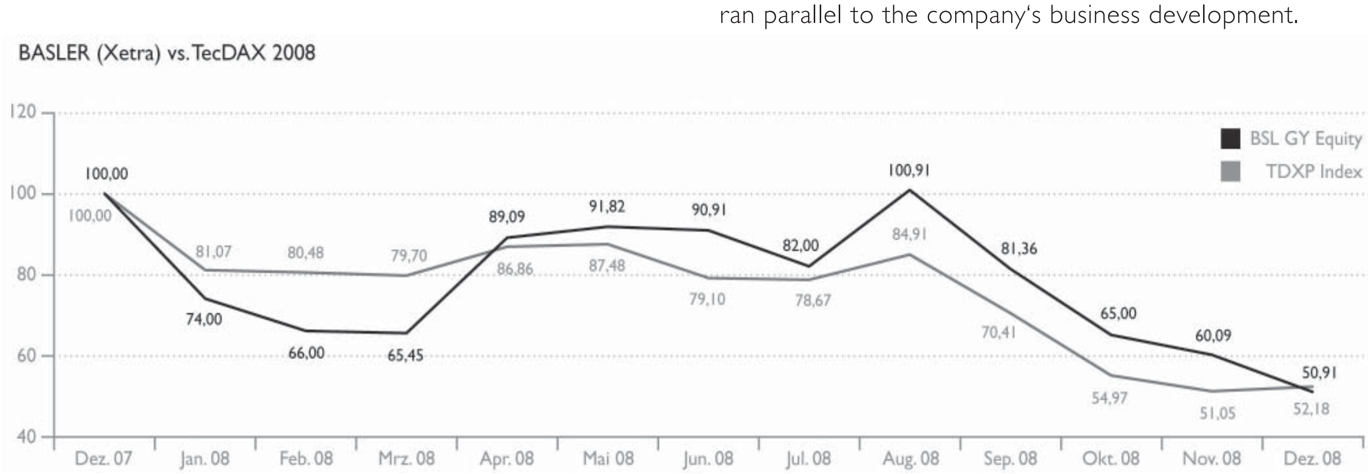
For Basler cameras, the first half-year of 2008 showed a sales growth of 12%, compared to the prior year's period. Furthermore, an unchanged, weak demand from the Asian market, compared with the second half-year 2007, was in keeping with high growth rates in European and the North American market. As of the third quarter, the globally declining business trend also had an effect on business in Europe and in the USA. In spite of declining orders in connection with the short order processing periods in the camera business, which average four weeks, the sales growth during the second half of 2008 still was around 5%. Overall, in 2008, we were able to realize sales growth of 7.9% with our camera business.



During the first half-year of 2008, the strong demand – above all in the core business with inspection solutions for the LCD industry – reached its peak, which had continued since the second half of 2007. As the result of two large orders for color filter inspection solutions, during the first half-year the order entry increased by € 24.7 million to more than double the prior year's value. Because of the regular order processing times ranging between six and nine months in the solutions business, during the first six months sales merely increased by around 11%, compared with the previous year. During the second half-year, the course of incoming orders was in sharp contrast to the situation during the first six months. Because of faster than expected price drops and increasing inventories with consumer electronics, the LCD industry placed minimal orders for expansion investments. The solar industry, which until then had heavily expanded, experienced a marked decline in reinvestments during the second half-year, as financing new solar power plants has become more difficult. Due to these effects, the incoming orders at ‚Basler Solutions' declined during the second half-year by € 5.4 million to at least one-half of the previous year's value, while sales during the same period still increased by 12% compared with the prior year.

Throughout the entire business year, both group sales (+ 10%) and group-wide order placements (+11%) increased compared with 2007.

In the first half of the year, the price of the Basler stock ran parallel to the company's business development.



Subsequent to a downward trend during the first quarter, which we attribute to the results of the 2007 business year, the stock price increased until early September, similar to the positive results achieved during the first and second quarter to the annual high of € 11.05 per share. During the following four months, the effects of the global financial crisis became evident to its full extent. Consequently, investors largely withdrew from small listed companies. During this phase, in spite of very good third quarter results and a continued increase in sales and profit forecasts, the Basler stock lost more than half of its value and closed the year 2008, following an annual low of € 5.05 in mid-December with a share price of € 5.60.

With the exception of the stock price development, the 2008 business year was positive for Basler AG. The realized results on the sales and earnings side are in keeping with our expectations communicated at the beginning of the year. The two-fold increase in our sales and profit forecast reflects a gratifying development. Compared with the previous year, we were able to improve on our key figures in almost all areas.

The successful work of our two business segments and the increase in productivity in our administration must be emphasized. The greatest success in our camera business is the strong sales growth with Gigabit Ethernet cameras – in this segment we have expanded our global market leadership even further – while achieving a significant increase in gross margin. Furthermore, upon introducing our new cameras for the video surveillance market, we took the first step to develop a very attractive, high-growth adjacent market for Basler and laid the foundation for the first significant sales in 2009. In our solutions business, we achieved a true breakthrough with color filter inspection solutions for the LCD industry where we became the market leader. Furthermore, in the solar market, we were able to lay the foundation for further sales growth in the coming years with new products and the successful acquisition of permanent OEM customers. Within the Group, administrative costs increased by 5.0%, while our sales volume increased by 9.6%.
In view of the new 2009 business year, it should be noted that the clearly declining inflow of orders in both business segments during the second half of 2008 will ensure that our sales during the first half of 2009 will be below comparative values of the 2008 business year. We therefore have already started during the fourth quarter of 2008 to adjust our cost structures to the deteriorating economic scenario.

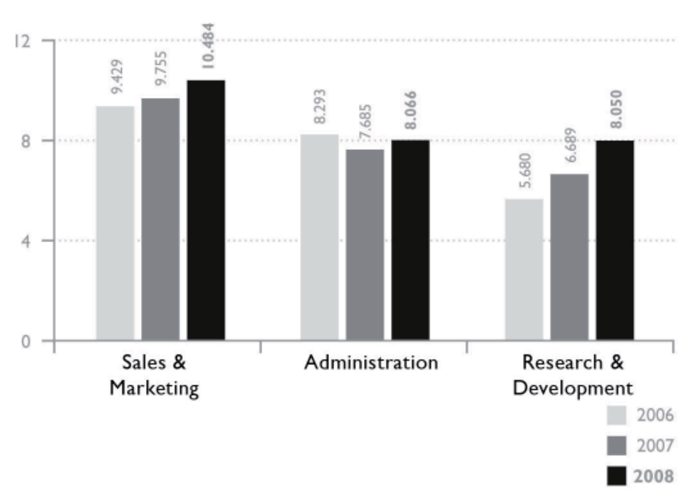
2 Earnings Situation, Financial Condition and Net Assets

2.1 Earnings Situation

In the 2008 business year, sales in both business segments developed positively. Basler cameras realized revenue in the amount of € 29.7 million (+8%; 2007: € 27.5 million). The Basler solutions group' realized € 26.8 million (+12%) after € 24.0 million in 2007. The Group recorded an excellent increase in sales by 9.7% to € 56.5 million after € 51.5 million in 2007.

Profit before taxes increased disproportionately to sales by 61.1% to € 2.9 million after € 1.8 million in 2007. The profit before taxes margin rose by 3.5% of sales (2007) to 5.1% of sales (2008).
The gross result in proportion to sales increased by 49.1% in 2007 to 49.4% during the 2008 business year, and thus contributed greatly to improving the result. Operating expenses at group level increased disproportionately to sales by 10.4% from € 24.1 million in 2007 to € 26.6 million. While the expenses for marketing and management declined in relation to sales, the costs for Research & Development increased from 13.0% of sales in 2007 to 14.2% in 2008.

Development by operational expenditures in million €



2.2 Financial Condition

2.2.1 Principles and Goals of Financial Management

The financial management of the Basler Group is targeted to meet the capital demand, so that the maturity risks, evaluation of lenders and costs for capital are in a reasonable ratio to one another. As in the previous year, the long-term assets of the Basler Group are completely financed by equity capital, so that the financing structure is unchanged and sound.

2.2.2 Financing Sources and Costs

During the third quarter of 2007, the financing of short-term fixed loan advances by our traditional primary banks on a loan from the ERP Innovation Program of Kreditanstalt für Wiederaufbau (KfW) was changed in the amount of € 7.5 million. This loan consists of two tranches, one of which, being of a value of € 4.5 million, is secondary.

In order to cover a potential short-term financing need, Basler has sufficient credit lines in the amount of € 3.3 million with traditional primary banks, which were not used by the reporting date. The availability of these lines is linked to covenants, which Basler received during the last business year, as well as the year before.

At 31.12.2008 the availability of Basler Group's liquid funds was in the amount of € 7.7 million (previous year: € 3.9 million).

The equity coverage of the investment assets at the reporting date was comparable with 160% of the previous year's value (2007: 148%). The equity capital quota improved to 56% at 31.12.2008 due to the positive 2008 result of 55% at 31.12.2007. With this quota, we move within the target range, since both the credit standing and the financing of assets are secured at reasonable costs.

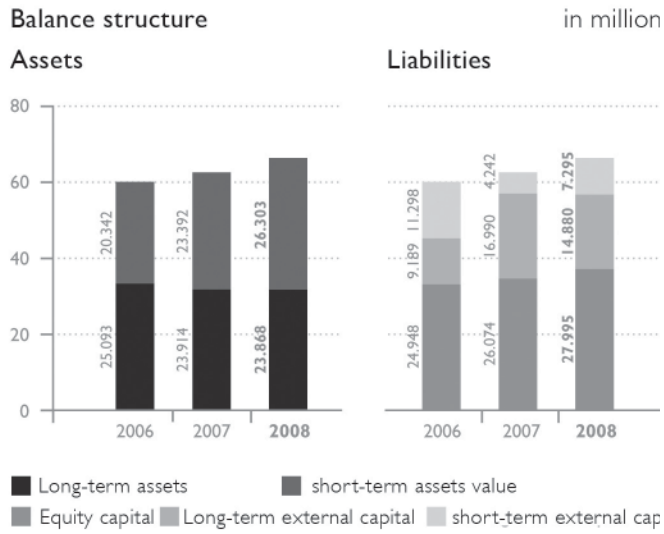
2.2.3 Cash Flow

The operative cash flow improved disproportionately to the sales growth and increased in by 83% in 2007 from € 6.7 million to € 12.3 million in 2008.
Following net investments in the amount of € 7.6 million (previous year: € 8.3 million), the free cash flow was in the amount of € 4.7 million (2007: -€ 1.6 million).

2.3 Net Assets

2.3.1 Balance Sheet Structure

The Group's net assets continued to be sound during the last business year. Overall, the group balance sheet total increased by 6% to € 50.2 million at 31.12.2008 (31.12.2007: € 47.3 million).



Based on the net income for the year, the equity capital at 31.12.2008 increased by 7% to € 28.0 million (31.12.2007: € 26.1 million).

2.3.2 Investitionen

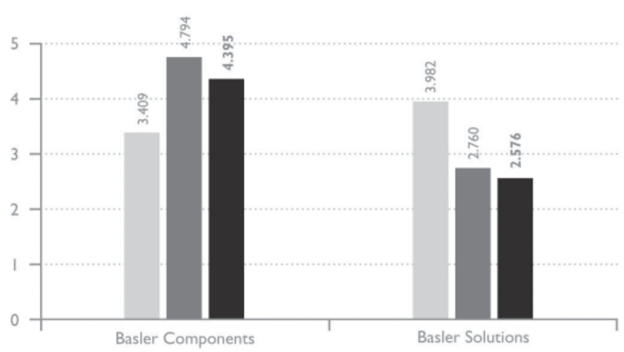
According to our corporate strategy, the growth in sales of the Basler Group over the coming business years will predominantly be through the development of the camera business. For this reason, investments in the camera segment again prevailed (2008: € 4.4 million, 2007: € 4.8 million, -8,3%). In 2008, we invested in our segment ‚Basler Solutions' € 2.6 million (2007: € 2.8 million -7,1%).

In terms of content, during the 2008 business year, the investment activity focused on the further development and expansion of the product portfolio. We implemented development projects in the amount of € 6.0 million (2007: € 6.0 million) internally, and in addition acquired development services valued at € 0.3 million (2007: € 0.4 million) from development partners.

In 2008, our investments in tangible assets were in the amount of € 0.8 million (2007: € 1.5 million). Of these, the largest shares went to production tools and IT infrastructure. In addition, software and other immaterial asset items were acquired in the total value of € 0.5 million (2007: € 0.4).

During the 2008 business year, the Basler Group entered into new leasing obligations for intangible assets in the amount of € 0.1 million (2007: € 0.5 million).

Investments in million €



Based on the information available, at the time of writing this Status Report, the net asset, financial and earnings situation has stabilised.

3 Supplementary Report

No relevant events occurred for the period after the reporting date.

4 Risk Report

As a technology company, Basler AG is exposed to a multitude of risks. For a medium-sized company, such as Basler, it is not possible to influence or control encroaching fundamental risks. We therefore consider risk management primarily as a corporate responsibility either to control risks or use opportunities. It is the management's responsibility and that of all employees to optimize the probability of occurrence of both factors within the meaning of the company.

4.1 Risk and Opportunity Management

4.1.1 Internal Monitoring System

The focus of our internal monitoring is a meaningful, impervious separation of functions. This is ensured by the organizational structure, job descriptions and processes. They are defined in the certified Quality Management Manual and are checked regularly for compliance. This is done on a regular basis by interdisciplinary audit teams consisting of employees from various functions and hierarchy levels.

The safety concept of the IT infrastructure is continuously refined and examined regularly by an external proxy. This equally applies to compliance with data protection regulations.

By applying processes whose formulation represents a balanced mixture of formal requirements and communicative freedom, it is ensured that opportunities are communicated speedily to the corresponding decision-makers. In the follow-up, these opportunities are systematically compared with corresponding risks and then evaluated.

4.1.2 Controlling

Strategic, operative and functional controlling is performed at all corporate levels. Regular strategy checks, as well as the creation of balanced scorecards and product road maps form the basis. This produces a systematic formulation of long and short-term business goals up to divisional level and/or cost center level.
The achievement of objectives (projected/actual comparison) is examined at all management levels during regular meetings in which control measures are negotiated, centrally maintained and examined in terms of their effectiveness.

4.1.3 Early Warning Systems

Information on future developments are documented, exchanged and evaluated by all levels through regular meetings, reports and records. This is to ensure that internal and external information can be examined promptly for risk relevance and the results are implemented to cross-company action.

4.2 Individual Risks

4.2.1 Business Environment Risks

Business environment risks exist for Basler in the development of target markets, the competition and the capital market.

Today, a permanent weakening of the growth in the vision technology market is not foreseeable. Significant fluctuations in demand, however, occur regularly in individual industries. In particular, this applies to consumer-related mass-production industries, such as, for example, the semiconductor, electronics and LCD industry. Global economic downturns, as were observed during the second half of 2008, affect the vision technology market insofar as they are related to declining investments in equipment. For 2009, it can be assumed that the business environment risk will significantly increase due to the current recession, compared with 2008.

With Basler, the camera business, which in recent years increased to more than 50% of Group sales with a relatively broad industry mix, reduces the dependence on the demand of individual industries, which traditionally existed in our solutions business. In principle, this increases the predictability of our business. In times of global economic crises, in which almost all industries are affected, even widely diversified activities, such as our camera business, will not be spared declining sales. In most cases, these declines are less severe than in cyclical individual industries. For this reason, the Management Board decided as early as in 2007 to expand the camera business primarily until further notice and consciously limit investments in markets that are known to be cyclical. The entry into the video surveillance camera market during the 2008 business year is an important step in that direction.

Even though the decline in demand affects the company‘s earnings power, this will not create risks threatening the company‘s existence so long as the cost structures can be adjusted to the lower turnover expectations. Therefore, in 2007, the Management Board decided to make personnel costs more flexible due to a higher portion of outside employees and employees with limited contracts. Furthermore, the Management Board decided that in terms of technology the company should focus more on core competencies than in previous years, and cooperate increasingly with partner companies in the marginal disciplines of vision technology. This strategy also contributes to reducing the turnover‘s share of fixed personnel expenses.

The competitive intensity in the vision technology market remained high during the previous year. Basler‘s expenses for innovation, marketing, cost reduction and quality increases during 2008 take this fact into account.
The consolidation process in the vision technology industry, which is characterized by small and medium-sized companies, continued in 2008. For 2009, it can be expected that the consolidation will accelerate due to an increasingly more difficult market environment. As one of Europe‘s largest vision technology companies, we intend to actively participate in this process. A hostile takeover of Basler AG, however, cannot be excluded in view of the current shareholder structure. The shareholder structure is continuously being checked for shifts.

3.2.2 Operative Risks

The risks of reducing sales and earnings can often be deduced early on the basis of customer satisfaction scores. Determining the customer value, therefore, is at the core of evaluating the market and development activities. In 2008, Basler measured customer satisfaction in both business segments and now is optimizing its marketing mix among other things on the basis of these results.
In a growth company, the availability of existing and new knowledge plays an important role. Basler regularly performs personnel planning in order to cover the required resources either internally or via external partners. In addition, regular development and performance evaluation meetings are held for the purpose of employee commitment at all levels.

Very fast-changing technology markets make high demands on a company‘s capability, its capacity to be able to adapt fast and efficiently to fluctuating demands. By means of a flexible working hour model, we are in a position to balance order fluctuations. Within certain limits, we are thus able to „work“ with the market.

A timely and high-quality product development is the backbone of a successful technology company. We clearly have defined processes and responsibilities in the field of development, as well as introducing planning tools that contribute to the majority of development projects being concluded within the planned time and cost frame. The availability of acquisition components of higher technological quality here and there plays a decisive role in the delivery time of our products. The continuous observation and analysis of procurement markets are critical competencies for technology companies. Furthermore, it is necessary to know which vendor parts at what time and in what quantities must be available. In recent years, we developed processes for both tasks by means of which we have reduced our delivery times and have increased our delivery reliability. At the same time, the constantly increasing expectations of our customers in these areas demand continued further improvement of these key figures.

In the meantime, one of our customer's standard requirements is examining and warranting the quality of our products and processes within the scope of an integrated quality management system. Since 2001, we have been DIN ISO 9000/2000-certified and once a year we are audited by external auditors. Moreover, we perform internal audits during the year for the purpose of checking and improving our processes.

The development and cultivation of a brand image is a major component of a successful product policy. The name and logo of Basler Vision Technologies are registered and protected trademarks, and thus protected again unlawful use.

4.2.3 Financial Risks

Fluctuating currency correlations influence the market success and gross earnings of exporting companies. 74% of our sales are realised outside the Euro zone as a result of which exchange rate relations influence the overall company result. In order to limit these risks, suitable risk hedges are in place for the business volume transacted in foreign currencies.

Liquidity-related tax risks are not discernible. A strict claims management guarantees liquidity. A clearly formulated and strictly implemented claims management system secures Basler the availability of the necessary liquidity and planning ahead of impending investments. Transparent monthly reporting and a stable balance sheet structure also contribute to limiting financing risks. This is supported by an early detection system in the form of a) a rolling sales and finance planning regarding all segments and b) a comprehensive key figure system. It thus enables borrowing requirements to be balanced and provided by lenders. Our bank partners are integrated into our partner concept for suppliers and service providers. They correspondingly are subject to selection criteria, evaluations and permanent verifications regarding partnering capability and efficiency. Consequently, we will reduce the risk of short-term calls by those financial institutions that frequently are subject to strategic changes.

4.2.4 Strategic Risks and Opportunities

The Basler Group as before focuses on the further development of the vision technology market. Based on the cyclical demand in important segments of this market, next year the predominant part of our growth will be realised through our widely diversified camera business. Spare parts technologies for vision technology are not on the horizon. The strategic risk thus can still be considered to be low.

The business models of the segments are regularly checked for consistency with corporate strategy. The results are entered in the company's target hierarchy, which is realized in the form of a balanced scorecard system (BSC). These balanced scorecards contain strategic targets for the Group, its segments and for the departments, as well as measures by means of which these targets can be realized. Once yearly, the medium-term planning is updated at corporate and segment level. A budget is created twice yearly. By this method, strategic risks are recognized early and counter-measures taken in good time.

4.3 Overall Statement

Basler AG maintains a risk management system by means of which it addresses the risks relevant to our company. The economic forecast of leading economic research institutes and industrial federations for the years 2009 and 2010, which were published at the end of 2008, are characterized by great uncertainty and scepticism in view of the uncertain length and intensity of the current global economic crisis (sources: IMF, HWWI, VDMA, Economics Council of the German Government). There is agreement that global equipment investments in the coming years will be below those of 2008. The VDMA assumes that the turnover in the German engineering industry during 2009 will drop below that of the 2008 level. The revival in demand is expected at the earliest during the second half of 2009.

For Basler AG, this means that the declining orders during the second half of 2008 experienced by both segments will result in lower sales during the first half of 2009. The Management Board started as early as during the fourth quarter of 2008 to adjust the company to a less favorable turnover and earnings situation. These measures are to ensure that the company also will be able to operate profitably at the onset of potential business environment risks. In view of this extensive packet of measures, which has already been implemented to a large extent, there are no discernible risks threatening the company.
No significant events have occurred that can be attributed to the company's regular operation, and which are not described in the Status Report.

5 Forecast Report

The International Monetary Fund forecasts that the 2009 growth of the world economy of 2.2% (source: IMF) will be clearly below the values realized in previous years, in which the prospects for almost all industrial countries are almost consistently negative. In 2009, all large economic areas will be confronted by declining demand. A recovery of the global economy is not anticipated before the end of 2009. Currently, there is great uncertainty as to exactly when the upturn will start, and as to the dynamics that will unfold as a consequence. The boom of recent years with equipment investments has for the time being come to a halt with the onset of the global recession.
In 2009, the global investment goods industry can at best expect a minor growth of around 1%. There is the considerable risk of dropping sales. Investments in the BRIC countries, which had grown tremendously in recent years, will have cooled down significantly. The equivalent investments in the Euro area are expected to drop by around 3%. For the US engineering industry, which has been suffering from weak internal demands since 2007, a decline of more than 4% is feared. The prospects for the Japanese equipment goods market with –9% is particularly gloomy. In major Asian consumer goods industries, such as the semiconductor, electronics or LCD industry, the demand for equipment goods – also in the field of vision technology – will in part be two percentage points below the 2008 levels. For 2010, economic institutions expect equipment investments to recover. This expectation is based on the assumption that the recession in the USA will slow down by the end of 2009, and result in an increase in demand for consumer goods. This then would result in an increase in demand for new equipment and systems

The leading industry associations in North America (Automated Imaging Association, AIA), Europe (European Machine Vision Association, EMVA) and Germany (Verband Deutscher Maschinen- und Anlagenbau, VDMA) in their latest forecast for the global vision technology market in 2009 start out predicting stagnation. As most of these forecasts, however, were published before the cooling of the economy during the fourth quarter of 2008, we can expect a downward correction.
Based on the potentially low market volume in 2009, it can be expected that competitive intensity will increase, compared with 2008, and the average earnings will drop faster than in normal years.

5.1 Sales and Earnings Forecast

Based on the unfavorable business environment conditions in 2009, Basler is adjusting itself to declining demand in both segments. For 2010, we start out with a normalization of equipment investment. In connection with an increasing market share, this will again result in sales and earnings growth.

In the camera business, we assume that sales for industrial applications will be below last year's level due to globally declining investments in equipment. Because of our young and highly competitive camera product portfolio we aim for increases in market share in 2009, which we will be able to convert into accelerated sales growth, when demand normalizes . For our video surveillance camera business, started in 2008, we expect sales in 2009 that are in the high six-digit range. For 2010, we expect marked sales increases in our IP camera business. Our solutions business also will realise lower sales proceeds than in the previous year. The reason is that since the start of the second half of 2008, there has been a sharp decline in equipment investments in the

LCD industry, and financing new solar power plants has become more difficult. Based on the preliminary work in 2008, in our business with the solar industry, we assume that sales will increase in 2009, compared with 2008. This growth, however, is insufficient to compensate for the considerable decline in business within the LCD industry. We expect that the investments in additional LCD product capacities will increase again significantly in 2010. In the solar industry, the negative effects of the financial crisis will wane in 2010. In connection with the increasing prices for raw materials, this will result in accelerated reinvestments in solar power plants. With our product lines for the rubber/elastomer industry and the optical disc industry, we expect stagnating and/or slightly declining sales over the next two years. Because of the deteriorating conditions in the economic environment since the second half of 2008, we consider it possible that during the current business year, sales at Group level will decline to the lower two-digit percentage range. Upon the onset of the current underlying assumptions, i.e., no further deterioration of the general economic setting, we are projecting a balanced input tax result.
On the cost side

o in our camera business, we are projecting

- slightly declining gross margin of our products compared with 2008,
- slightly increasing operative costs based on the further expansion of the sales and marketing organization and the increasing expenses for our new business with IP cameras,
- mit leicht steigenden Erträgen aus in 2009 zu aktivierenden F&E-Leistungen und höheren Abschreibungen auf in der Vergangenheit aktivierte bzw. auf in 2009 fertig zu stellende F&E-Leistungen;

o in our solutions business

- slightly increasing gross earnings margins, compared with 2008,
- reduced operating costs,
- slightly increased earnings from R&D performances to be activated in 2009, and declining depreciations on our R&D performances than activated in the past and/or to be completed in 2009;
- with declining investments in tangible assets, and
- with reducing general administration costs.

For the 2010 business year, we expect an increase in equipment investments, which will have a general positive effect on the sales development of our two segments. Furthermore, we expect an increasing market share in the components business with cameras for industrial application, as well as increasing sales of IP cameras and inspection solutions for the solar industry.

6 Other Information

6.1 Sites

In the 2008 business year, the Group made no changes in its branches and companies and currently has marketing and service branches with sites in the USA, Singapore, Taiwan, Korea, Japan and China as well as the central office in Germany.

6.2 Employees

6.2.1 Number of Employees

Basler supports a family-friendly and flexible work environment. This is highly appreciated by employees. Compared with other companies, Basler has an above-average number of part-time employees. To enable a comparison of employee productivity with other companies, we quoted the number of employees in this report as full-time equivalents.

The number of full-time equivalents during the reporting

year 2008 averaged 308. This is in keeping with last year's level (2007: 308).

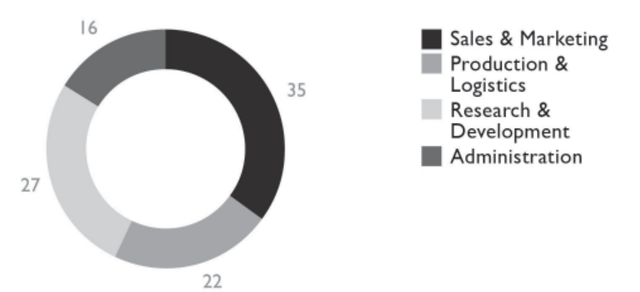
During the last business year, the fluctuation was 3% (2007: 4%). The formerly separated system operations were organizationally combined in the solutions group segment . Furthermore, until now, the previously centrally organised administrative service functions were moved to our two segments. New jobs were created in the camera segment with a focus on sales, marketing and production. Many of these positions were filled internally with qualified staff from the solutions group segment.

In the annual employee development meetings, short, medium and long-term development goals were negotiated between executives and employees. On this basis, courses of introduction, seminars, on-the-job training and private study qualifications were updated and expanded. As in previous years, Basler AG to a large extent focuses on the know-how and competence conveyed by its own highly skilled and didactic employees. The fulfilment of highly prioritized employee development goals is a strategic goal in the company's balanced scorecard.

6.2.2 Personnel Structure

The personnel structure within the Basler Group did not markedly change during the 2008 business year. The distribution at 31.12.2008 was a follows:

Personnel structure in %



At the end of the year, a total of 11 trainees in technical and business professions, as well as two students from the economics academy were employed. This corresponds to a training quota of 4%.

The regional personnel distribution is presented as follows:

	2007	2008
Ahrensburg (Germany)	288	296
Exton (USA)	16	16
Jhubei City (Taiwan), including branches in Shanghai (China)	17	17
Singapur (Singapore)	8	9
Seoul und Cheonan City (South-korea)	3	3
Yokohama (Japan)	1	2

6.2.3 Management Board and Other Information According to Sec. 315 (4) German Commercial Code

The Management Board consists of two members. The CEO, Dr. Dietmar Ley is responsible for both segments and the areas of finance, product creation and personnel. John Jennings signs for sales and marketing and is responsible for the subsidiaries.

For the appointment and revocation of Board Members, the bylaws of Basler AG stipulate the following:
‚The appointment of members of the Management Board, the revocation of their appointment and the conclusion, modification and termination of employment contracts with members of the Management Board is effected by the Supervisory Board. The same applies to the appointment of a CEO to chairman and other members of the Board to deputy chairman.'

The bylaws of Basler AG can be amended only by the General Meeting and only when three quarters of the capital stock is represented during the passing of a resolution.

The bylaws regulate the Board's authorization with respect to issuing or buying back stock held in treasury as follows:

‚The Board is authorised to increase the company's capital stock once or several times up to a total of EUR 1,750,000.00 by 20 May 2012 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.

With the Supervisory Board's approval, the Board, however, is authorized to exclude residual amounts from the shareholders' subscription right. Further, with the Supervisory Board's approval, the Board may exclude the shareholders' subscription right in order to be able to offer 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 Board is permissible with the Supervisory Board's approval, even if the increase in capital against cash subscription of 10% of the capital stock does not exceed the amount of EUR 3,500,000.00 and the issue amount does not considerably fall short of the officially reported price of the already quoted stock of similar funding at the time of ultimately determining the issue price (Sec. 203 (1) sentence 1 in connection with Sec. 186 (3) sentence 4 German Stock Corporation Act). The market price is the arithmetic average of the closing prices of the company stock in electronic trading at the Frankfurt Securities Exchange (XETRA Trade) or a successor system during the last ten trading days prior to exercising the authorisation.

With the Supervisory Board's approval, the Board is authorised to determine the details of the increase in capital stock and the conditions of issuing shares, in particular in determining the issue price.

Furthermore, the Board is authorized to acquire stock held in treasury up to a share in the capital stock, which may not exceed 10%. The acquisition price paid by the company may not exceed the arithmetic mean value of the closing price (without incidental charges) by more than 10% as determined by the Frankfurt Securities Exchange during the last 30 trading days prior to acquisition of the stock. The authorisation may be exercised in whole or in part. The Board is authorised to withdraw own shares of the company, which are acquired on the basis of this authorization, without the withdrawal requiring a further resolution by the General Meeting. The Board is authorized to acquire stock of the company by 19.11.2009, in order to offer stock held in treasury to third parties within the scope of amalgamating with companies or within the scope of requiring companies or holdings, in which the subscription right of shareholders to stock held in treasury is excluded. The authorization is limited to the acquisition of a share in the stock capital, which may not exceed 10%. The authorisation may be exercised in whole or in part.

Basler AG's capital stock in the amount of EUR 3.5 million is subdivided into 3.5 million non-par bearer shares. Mr. Norbert Basler notified the company according to Sec. 21 Securities Trading Act that he holds more than 50% of the stock of Basler AG.

Other circumstances according to Sec. 315 (4) German Commercial Code do not exist.

6.3 Remuneration System of the Board According to Sec. 289 German Commercial Code

According to the following information regarding the Board's remuneration, it concerns legally stipulated enclosure information in accordance with the Commercial Code, as well as information based on the standards of the Corporate Governance Code.

The remuneration of Board Members consists of a variety of components. Based on the employment contracts concluded with them, the Board Members are entitled to a fixed and annually variable remuneration, as well as fringe benefits. The structure of the remuneration system for the Board and the appropriateness of the remuneration is regularly examined and determined by the Supervisory Board.

When achieving all goals, the overall remuneration basically is so structured that three-quarters is paid in the form of a fixed salary and about one-quarter as variable salary. The portions unrelated to success consist of the fixed salary and fringe benefits, while the success-related components are implemented as variable efficiency remuneration. The fixed pay is determined for all Board Members in accordance with the requirements under the Stock Corporation Act in consideration of customary pay. The annual variable pay of Board Members is determined in accordance with the degree of achieving the objectives requested with which Board Members were instructed at the start of the business year. The achieving of objectives will be determined by the Supervisory Board upon approval of the annual accounts for the respective business year. Furthermore, the Supervisory Board in its due consideration may remunerate extraordinary services of individual Board Members in the form of special efficiency fees. In keeping with market and group policy, the company grants all Board Members additional benefits from its contracts, which in part are non-cash benefits, and taxed correspondingly, above all allowing the use of a company vehicle and providing accident insurance. Secondary occupations basically are subject to approval.

The terms of the contracts of the employees on the Board are linked to the appointment of employees to the Board. If the company is justified in terminating the appointment without constituting a so-called ‚cause' under civil law for the simultaneous termination of the employment contract, the Board Member shall be entitled to a contractually stipulated settlement. The contracts of the Board Members stipulate a post-contractual prohibition to compete. Members of the Board are contractually prohibited from rendering services to or for a competitor for a period of one-and-one-half years after retiring from the Board.

6.4 Report According to Sec. 312 German Stock Corporation Act

According to Sec. 312 German Stock Corporation Act, we have prepared a report on the relations to affiliated companies. This report concludes with the following declaration by the Board:

‚We declare that under the circumstances that were known to us at the time of executing the legal transactions, Basler AG, Ahrensburg, received reasonable considerations for the legal transactions executed in the report regarding the relations with affiliated companies and persons, and that we were not disadvantaged. Other measures within the meaning of Sec. 312 German Stock Corporation Act were neither taken nor omitted.'

6.5 Future-Related Statements

This status report contains statements related to the future development of Basler AG, as well as economic and political developments. These statements represent assessments we made on the basis of all information at our disposal at this time. Should the underlying assumptions not occur or additional risks occur, the actual results may vary from the currently anticipated results. Therefore, we are unable to accept a guarantee for these statements.

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2008 to December 31, 2008

Consolidated profit and loss statement

in €k	Notes		2008		2007
	4				
Income from sales			**56,507**		**51,547**
Cost of sales			-28,597		-26,253
Gross profit on sales			**27,910**		**25,294**
Research and development					
Full costs		-8,003		-6,933	
Activation of intangible assets		6,025		6,027	
Depreciation on activated intangible assets		-6,072	**-8,050**	-5,783	
Sales and marketing costs			-10,484		-9,755
General administration costs			-8,066		-7,686
			-26,600		**-24,130**
	5				
Other internal income			2,123		1,280
Operative profit	7		**3,433**		**2,444**
Interest expense			-575		-630
Financial result			**-575**		**-630**
Annual surplus for profit tax	8		**2,858**		**1,814**
Profit tax			-795		-733
Group net profit			**2,063**		**1,081**
Number of shares			3,500,000		3,500,000
Number of shares (diluted)			3,668,882		3,668,882
Earnings diluted (T€)			2,158		1,177
Operating profit per share (Euro)			0.59		0.31
Completely diluted operating profit per share (Euro)			0.59		0.32

Consolidated Changes in Statement of Shareholder‘s Equity

(IFRS not subject to the audit)

			Retained earnings		
in €k	Nominal capital	Capital reserve	Equation of currency exchange	Accumulated earnings	Total
Shareholder´s equity as of 01/01/2007	**3,500**	**1,268**	**114**	**20,066**	**24,948**
Difference from currency conversion			93		93
Group net profit for period				1,081	1,081
Others		-48			-48
Shareholder´s equity as of 31/12/2007	**3,500**	**1,220**	**207**	**21,147**	**26,074**
Difference from currency conversion			-52		-52
Group net profit for period				2,063	2,063
Others		-89			-89
Shareholder´s equity as of 31/12/2008	**3,500**	**1,131**	**155**	**23,210**	**27,996**

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2008 to December 31, 2008

Consolidated cash flow statement

in €k	01/01/- 12/31/2008	01/01/- 12/31/2007
Operating activities		
Group net profit	2,063	1,083
Increase(+)/decrease(-) deferred taxes	592	840
Interest outpayment/Interest inpayment	591	558
Depreciations on fixed asset objects	7,593	7,125
Change in the capital resources without affecting the payment	-52	91
Increase(+)/decrease(-) in the accruals	885	-417
Profit(+) loss(-) from the disposal of fixed asset objects	119	3
Increase(+)/decrease(-) in the reserves	-164	-242
Increase(+)/decrease(-) in the down payments received	268	-6
Increase(+)/decrease(-) in the receivables from deliveries and services	560	-1,370
Increase(+)/decrease(-) in other assets	479	-750
Increase(+)/decrease(-) in the payables from deliveries and services	-680	-144
Increase(+)/decrease(-) in other liabilities	52	-62
Net cash from operating activities	**12,306**	**6,709**
Financing activities		
Inpayment from the outflow of tangible/intangible fixed asset objects	-7,722	-8,371
Outpayments for investments in tangible/intangible fixed assets	97	33
Cash flow from the investment activity	**-7,625**	**-8,338**
Financing activities		
Balance from loan arrangement/redemption	-300	3,500
Outpayment convertible bond	-591	-558
Interest outpayment/Interest inpayment	0	-636
Cash flow from financing activity	**-891**	**2,306**
Changes in cash and cash equivalent	**3,790**	**677**
+ Funds at the beginning of the period	3,945	3,268
Funds at the end of the period	**7,735**	**3,945**
Funds available at the end of the fiscal year 2008		
Tax outpayments	181	83

Group´s annual balance sheet according to IFRS for the fiscal year from January 1, 2008 to December 31, 2008

Consolidated balance sheet

ASSETS in €k	Notes	12/31/2008	12/31/2007
A. LONG-TERM-ASSETS			
I. Fixed Assets	9		
1. Intangible assets		14,774	14,513
2. Tangible assets		2,732	3,076
II. Deferred tax assets	10	6,362	6,325
		23,868	23,914
B, Short-TERM-ASSETS			
I. Inventories	13		
1. Finished goods		1,476	1,384
2. Work in process and semi-finished goods		1,351	1,268
3. Raw materials and supplies		4,151	4,167
4. Trade goods		191	186
		7,169	7,005
II. Short-term financial assets			
1. Short-term receivables	12		
- Trade accounts receivable		4,572	5,001
- Receivables of Percentage of Completion		5,719	5,850
		10,291	10,851
2. Other short-term financial assets and accruals	14	730	1,162
III. Claim for Tax refunds	15	378	429
IV. Cash and cash equivalents	11	7,735	3,945
		26,303	23,392
Total assets		50.171	47.306

LIABILITIES in k€	Notes	12/31/2008	12/31/2007
A. SHAREHOLDER'S EQUITY	17		
I. Subscribed capital		3,500	3,500
II. Capital reserve		1,131	1,220
III. Equitation of currency exchange		155	207
IV. Accumulated earnings		23,210	21,147
		27,996	**26,074**
B. LONG-TERM DEPT			
I. Long-term liabilities			
1. Silent partnership	19	1,023	1,023
2. Convertible bond	19	0	2.139
3. Long-term liabilities to banks	19	7,111	7,711
II. Latente Steuerverbindlichkeiten	10	6,746	6,117
		14,880	**16,990**
C. SHORT-TERM DEPT			
I. Convertible bond	19	2,228	0
II. Short-term other liabilities to banks	19	600	300
III. Short-term accrual liabilities		2,398	1,514
IV. Short-term other liabilities	18		
1. Accounts payable		934	1,614
2. Other liabilities		853	563
V. Tax provisions	18	282	251
		7,295	**4,242**
Total liabilities		**50,171**	**47,306**

Consolidated Fixed Assets 2007

	Acquisition costs					
in €k	As at 01/01/2007	Additions	Disposals	Transfers	Foreign exchange differentials	As at 12/31/2007
Tangible assets						
Land and buildings on third-party land	403	103	0	0	0	506
Technical plant and equipment	3,704	876	-605	252	-11	4,216
Other furniture, fixtures and equipment	2,579	290	-48	6	-35	2,792
Assets under construction	278	200	0	-279	0	199
Total tangible assets	**6,964**	**1,469**	**-653**	**-21**	**-46**	**7,713**
IIntangible assets						
Software, trademark rights, patents and licences	2,283	439	-149	59	-2	2,630
Finished own developments	14,447	2,913	-2,354	4,244	-1	19,249
Own developments in progress	4,681	3,114	0	-4,244	0	3,551
Payments for third-party developments	735	436	0	-38	1	1,134
Total intangible assets	**22,146**	**6,902**	**-2,503**	**21**	**-2**	**26,564**
	29,110	**8,371**	**-3,156**	**0**	**-48**	**34,277**

Consolidated Fixed Assets 2008

	Acquisition costs					
in €k	As at 01/01/2008	Additions	Disposals	Transfers	Foreign exchange differentials	As at 12/31/2008
Tangible assets						
Land and buildings on third-party land	506	58	-3	168	0	729
Technical plant and equipment	4,216	598	-697	32	5	4,154
Other furniture, fixtures and equipment	2,792	142	-573	0	15	2,376
Assets under construction	199	55	0	-200	1	55
Total tangible assets	**7,713**	**853**	**-1,273**	**0**	**21**	**7,314**
IIntangible assets						
Software, trademark rights, patents and licences	2,630	494	-120	245	2	3,251
Finished own developments	19,249	3,659	-9,601	2,030	1	15,338
Own developments in progress	3,551	2,369	0	-2,030	1	3,891
Payments for third-party developments	1,134	347	-91	-245	-2	1,143
Total intangible assets	**26,564**	**6,869**	**-9,812**	**0**	**2**	**23,623**
	34,277	**7,722**	**-11,085**	**0**	**23**	**30,937**

Depreciation						Book value	
As at 01/01/2007	Additions	Disposals	Transfers	Foreign exchange differentials	As at 12/31/2007	As at 12/31/2007	Previous year
165	41	0	0	0	206	300	238
2,438	629	-597	0	-7	2,463	1,753	1,266
1,776	263	-43	0	-28	1,968	824	803
0	0	0	0	0	0	199	278
4,379	**933**	**-640**	**0**	**-35**	**4,637**	**3,076**	**2,585**
1,700	409	-148	0	0	1,961	669	583
6,641	5,783	-2,332	0	-2	10,090	9,159	7,806
0	0	0	0	0	0	3,551	4,681
0	0	0	0	0	0	1,134	735
8,341	**6,192**	**-2,480**	**0**	**-2**	**12,051**	**14,513**	**13,805**
12,720	**7,125**	**-3,120**	**0**	**-37**	**16,688**	**17,589**	**16,390**

Depreciation						Book value	
As at 01/01/2008	Additions	Disposals	Transfers	Foreign exchange differentials	As at 12/31/2008	As at 12/31/2008	Previous year
206	64	-1	0	0	269	460	300
2,463	670	-566	0	3	2,570	1,584	1,753
1,968	251	-490	0	14	1,743	633	824
0	0	0	0	0	0	55	199
4,637	**985**	**-1,057**	**0**	**17**	**4,582**	**2,732**	**3,076**
1,961	444	-120	0	-2	2,283	968	669
10,090	6,073	-9,601	0	4	6,566	8,772	9,159
0	0	0	0	0	0	3,891	3,551
0	91	-91	0	0	0	1,143	1,134
12,051	**6,608**	**-9,812**	**0**	**2**	**8,849**	**14,774**	**14,513**
16,688	**7,593**	**-10,869**	**0**	**19**	**13,431**	**17,506**	**17,589**

NOTES

to the Consolidated Financial Statements 2008

I. GENERAL INFORMATION

1. The Company

The Basler Group develops, manufactures, and sells on a world wide scale industrial goods of Vision Technology - the technology of machine vision. The Basler Corporation has its headquarters in 22926 Ahrensburg (Germany)), An der Strusbek 60-62, and maintains subsidiaries in Singapore, Taiwan, and the U.S.A. as well as sales & service offices in China, Japan, and South Korea. Development and manufacturing are carried out in the German headquarters.

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

2. Foundations for 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 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. Accordingly, the consolidated financial statements of Basler AG are also in accord with the IFRS as published by the IASB. Therefore, the term „IFRS" will be used below throughout.

The following new standards published by the IASB or revisions to existing standards, respectively, that are compulsory applicable to fiscal years beginning from July 1, 2008, have not been applied to this annual balance sheet:

- Improvements to IFRSs (published in May 2008)
- IFRS 1 - First-time Adoption of International Financial Reporting Standards (modified in May 2008)
- IFRS 2 - Share-based Payments (modified in January 2008)
- IFRS 7 - Financial Instruments: Disclosures (modified in October 2008)
- IFRS 8 - Operating Segments (published in November 2006)
- IAS 1 - Presentation of Financial Statements (modified in September 2007)
- IAS 27 - Consolidated and Separate Financial Statements (modified in January 2008)
- IAS 32 - Financial Instruments: Presentation (modified in February 2008)
- IAS 39 - Financial Instruments: Recognition and Measurement (modified in October 2008)

Compared to an earlier voluntary application, there are no significant effects to the annual balance sheet.

2.2 Changes to the methods of accounting and valuation

The methods of accounting and valuation employed correspond strictly to the methods employed in the preceding year, with the following exceptions:

Basler has applied the new and revised IFRS standards and interpretations as of January 1, 2008, listed below.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

In addition, Basler has applied the following IFRS standards and interpretations in advance as on January 1, 2008:

- IFRS 2 Share-based Payment becomes effective on January 1, 2009
- IFRS 8 Operating Segments becomes effective on January 1, 2009
- IAS 23 Borrowing Costs (amended) becomes effective on January 1, 2009
- IFRIC 13 Customer Loyalty Programmes becomes effective on July 1, 2008

The application of these standards and interpretations had no repercussions on the asset situation, financial situation, and profit situation of the group. However, additional statements were created and in some cases changes were introduced to the methods of accounting and valuation.

The major effects of the changes are as follows:

IFRS 2 Share-based Payment

The IASB has published an amendment to IFRS 2 in January 2008, where the vesting conditions are defined more precisely and where the accounting treatment of effectively cancelled commitments is regulated. The group has applied these amendments in advance as on January 1, 2008. From this, no repercussions resulted on the asset situation, financial situation, and profit situation of the group, due to the absence of events to which the amendment would have been applicable.

IFRS 8 Operating Segments

The IASB has published IFRS 8 in November 2006. From the time of coming into effect, IFRS 8 replaces IAS 14 Segment Reporting (IAS 14). The group has applied these amendments in advance as on January 1, 2008. As determined by the group, the business segments of the group as identified pursuant to IFRS 8 correspond to the business segments previously identified pursuant to IAS 14. Statements made pursuant to IFRS 8 are reported in statement 8 together with adjusted information for comparison.

2.3 Additional information

All amounts are stated in thousand Euros unless stated otherwise.

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

2.4 Consolidated companies

All major subsidiaries that are directly or indirectly controlled by Basler AG as provided by IAS 27 are included in the group's annual balance sheet. Parties under joint control within the meaning of IAS 31 (joint ventures) are consolidated proportionately.

Major associates are balanced under the equity method in accord with IAS 28 if significant influence can be exercised.

For a list of subsidiaries and investments see number III.29

2.5 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.

2.6 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 at the reporting date, and regarding the amount of turnover and expenses reported during the period under review. The actual results may deviate from these assessed values.

2.7 Currency conversion

The functional currency of the subsidiaries is the currency of the respective country, except for Basler Asia Pte. Ltd. which prepares the balance in Euros. Consequently, on the balance sheet date, assets and liabilities were converted into Euros using the applicable exchange rate on the reporting date. Turnover and expenses were converted using the average exchange rate of the period under review. Accumulated exchange rate gains and losses are reported as a separate component of the equity capital. In the fiscal year, equity capital was reduced by € 53 thousand (previous year: increased by € 93 thousand).

Business transactions made in foreign currencies in the individual financial statements of the consolidated companies were converted at the exchange rates applicable on the reporting dates of the transactions. In fiscal year 2008, profits amounting to € 1,097 thousand (previous year: € 295 thousand) and expenses amounting to € 1,165 thousand (previous year: € 163 thousand) accrued, respectively. The income is reported under Other Operating Income and the expenses under General Administrative Expenses in the respective annual financial statements.

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

	Applicable exchange rates as at	
	12/31/2008	12/31/2007
1 Euro	US dollar 1.3917	US dollar 1.4721
1 Euro	New Taiwan dollar 46.26684	New Taiwan dollar 47.89708

	Average exchange rates	
	2008	2007
1 Euro	US dollar 1.4708	US dollar 1.3705 US dollar
1 Euro	46,3252 New Taiwan-Dollar	New Taiwan dollar 45.06189

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

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

3. Accounting and valuation methods

3.1 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. 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 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 manufacture across periods are recorded as earnings according to the degree of completion. 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 rebateable expenses if the result of an order can not reliably be estimated.

Rental income

Earnings from subleasing the office building in Ahrensburg were recorded in the period in which they arose and in accord with the regulations of the contracts concerned.

Interest income

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

3.2 Taxes

Actual income taxes

The actual tax refund claims and the tax liabilities for the 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 valuated by 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.

3.3 Government grants

Government grants are recorded if it is reasonably assured that the grants will be granted and that the company will meet the respective 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 case of non-monetary grants to the group, the assets and the grants are recorded at their nominal values and, if possible, are reversed and recognized in income in equal annual rates over the estimated useful lives of the assets concerned.

3.4 Treasury shares

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

3.5 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.
3.6 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:

- Moving averages

Finished and unfinished products

- Material costs and production costs 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.

3.7 Tangible assets

Tangible assets are valued on principle at acquisition costs or production costs less accumulated scheduled depreciation. 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 were not performed.

The acquisition costs and production costs include costs for replacing part of a tangible asset as well as borrowing costs for long-term construction projects, provided the criteria for assessment are satisfied. For realizing a large-scale inspection, costs are correspondingly capitalized as alternate according to the book value of the intangible assets, provided the criteria for assessment are satisfied. All other costs for maintenance and repair are immediately recognized as income. The cash value of the expected costs for the removal of the asset after its use is included in the acquisition costs and production costs of the related asset, provided the criteria for assessment are satisfied.

Asset	Useful life in years
Fixtures installed by the lessee	3 to 10 (end of lease agreement)
Technical equipment and machinery	3 to 5, 7 and 10
IT equipment and systems	3 to 5

3.8 Intangible assets

Intangible assets acquired against payment, mainly software, are capitalized at purchase costs and depreciated 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 modality of the asset realizing 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 less accumulated depreciations and accumulated impairment losses. Depreciation starts from the termination of the development phase and from the time when the asset can be used. Depreciation is carried out over the period for which future benefit can be expected. At least once a year and at particular instigation an impairment test is carried out during the development phase.

3.9 Cash and cash equivalents

The item "cash and cash equivalents" includes cash in hand, cash in bank, and short-term deposits with original maturities of less than three months.

3.10 Leases

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

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

3.11 Net financial debt

Net financial debt is stated at its amortized cost. This includes the silent partnership, bank debt, and the convertible bond's proportion of borrowed capital. Convertible bonds are divided into their equity and their debt components pursuant to IAS 32.31 et seq. and reported accordingly.

3.12 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.

II. ITEMS OF THE ANNUAL FINANCIAL STATEMENTS PROFIT AND LOSS STATEMENTS

4. Sales revenues

The sales revenues amounting to € 56,507 thousand (previous year: € 51,547 thousand) include revenues from customer orders determined according to the POC method in the amount of € 2,604 thousand (previous year: € 1,859 thousand). The sales revenues are almost completely derived from customer-specific production.

5. Other operating income

The other operating income includes the following:

	2008	2007
	€k	€k
Currency exchange gains	1,097	295
Rental income	889	818
Income from the release of provisions	39	93
Income from the sale of tangible assets	28	8
Other	70	66
	2,123	**1,280**

6. Finanzergebnis

	2008	2007
	€k	€k
Interest income from cash in bank	114	40
Interest expense on convertible bond and bank loans	-587	-553
Interest expense on partial profit transfer agreements	-102	-117
	-575	**-630**

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

7. Earnings taxes

Taxes paid or owed on income/revenues and deferred taxes are both stated as earnings taxes.
Any income obtained is stated as a negative amount.

	2008	2007
	€k	€k
Current taxes from consolidated companies (on earnings)	199	-94
Deferred taxes from consolidated companies (on earnings)	596	827
Tax expense/income	**795**	**733**
Deferred tax expenses or income from losses carried forward (on earnings)	371	-100
Deferred tax expenses from changes of tax rates (on earnings)	0	193
Deferred tax expenses or income from temporary differences	225	734
Deferred tax expense/income	**596**	**827**

8. Additional information

8.1 Production orders

The accumulated costs of production orders in progress on the reporting date amount to € 5,205 thousand (previous year: € 3,586 thousand), the accumulated profits reported amount to € 7,196 thousand (previous year: € 6,208 thousand).

8.2 Scheduled and unscheduled depreciations

In fiscal year 2008, unscheduled value adjustments were made on capitalized product developments to the amount of € 806 thousand (previous year: € 0 thousand). This applied to developments in the Optical Media Inspection division relating to inspection solutions for HD-DVD, where the market potential was assessed as almost nil after the industry's decision in favor of BluRay, and in the Basler Components unit a product line was discontinued.

The following depreciations are included in the costs of the individual sectors: € 347 thousand (previous year: € 280 thousand) in costs for services performed, € 6,678 thousand (previous year: € 6,253 thousand) in R&D costs, € 266 thousand (previous year: € 205 thousand) in marketing and distribution costs, and € 377 thousand (previous year: € 387 thousand) in general administrative expenses.

8.3 Personnel expenditures

	2008	2007
	€k	€k
Wages and salaries	18,082	16,934
Social security contributions	3,078	3,030
	21,160	**19,964**

8.4 Material expenditures

	2008	2007
	€k	€k
Expenses for raw, auxiliary, and operating supply items as well as purchased goods	20,221	18,576
Expenses for purchased services	273	426
	20,494	**19,002**

8.5 Reconciliations for result per share

	2008	2007
	€k	€k
Result (non-diluted)	2,063	1,081
Interest expenditures taking into account the tax effect	95	93
Result (diluted)	2,158	1,174

	2008	2007
	€k	€k
Number of equity shares	3,500,000	3,500,000
Potential number of shares from convertible bond	168,882	168,882
Number of shares (diluted)	3,668,882	3,668,882

BALANCE SHEET

9. Development of fixed assets

As at December 31, 2008, Basler used fully depreciated fixed assets representing an acquisition value of € 1,708 thousand (previous year: € 4,937 thousand).

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

10. Deferred taxes

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

	12/31/2008	12/31/2007
	€ k	€ k
Deferred tax assets		
From tax loss carryforwards	4,831	5,192
Inventories	1.524	958
Other	7	175
	6,362	6,325
Deferred tax liabilities		
Capitalization of development	3,385	3,398
Receivables	3.315	2.619
Other	46	100
	6,746	**6,117**

The following is a breakdown of the effective tax burden which includes the German corporate income tax rate of 15.83 % including solidarity surcharge, and the applicable trade income tax rate of 10.91 %, amounting to a combined statutory tax rate of 26.74 %:

Tax reconciliation	**2008**	**2007**
Net profit for the year before income taxes	2,858	1,814
Applicable tax rate	26.74%	26.74%
Tax expense expected	764	485
Tax rate deviations		
Effects from foreign subsidiaries	47	50
Effects from tax rate changes	0	193
Tax irrelevant expense/income	-16	5
Actual tax expense/income	795	733
Group tax rate	27.82%	40.41%

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

	2008	**2007**
Germany, corporate income tax	17,126	19,085
Germany, trade income tax	16,325	18,599
U.S.A., federal level	500	143
Singapore	-	-
Taiwan	841	235

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

The tax loss carryforwards in the U.S.A. are limited until 2028.

The tax loss carryforwards in Taiwan are applicable until 2013.

Based on the current business planning, Basler AG expects that the tax loss carryforwards can be offset against future profits.

11. Cash and cash equivalents

Cash and cash equivalents include cash in bank and cash in hand in the amount of € 7,735 thousand (previous year: € 3,945 thousand).

12. Receivables

The total value of receivables from deliveries and services in the amount of € 4,572 thousand (previous year: € 5,001 thousand) is due within one year, as in the previous year.

The values of the receivables from deliveries and services are adjusted by € 63 thousand (previous year: € 148 thousand). In fiscal year 2008, value adjustments credited to income amounted to € 27 thousand (previous year: € 144 thousand).

Value adjustments of receivables are maintained at Basler on separate accounts. The value adjustments have developed in the following way:

	Status as at 01/01	Exchange rate differences	Allocation	Con- sumption	Liqui- dation	Status as at 12/31
2008	148	0	27	112	0	63
2007	13		144	9		148

The aging profile of receivables from deliveries and services after specific allowanas as follows:

	Book value as on 12/31	Of which as on 12/31 neither impaired nor past due	Of which not impaired and up to 60 days past due	Of which not impaired and more than 61 days past due
2008	4.572	3.325	1.135	112
2007	5.001	3.364	1.369	268

Of the receivables, € 12,401 thousand (previous year: € 9,797 thousand) are allocated to manufacturing to order. The sum of advance payments received amounts to € 7,079 thousand (previous year: € 4,076 thousand), of which € 6,682 thousand (previous year: € 3,947 thousand) are deducted from the receivables arising from long-term production. The receivables from production orders are not impaired by specific allowances. There are no receivables past due that would require value adjustments.

The maximum default risk corresponds to the book values stated in the balance sheet of each financial asset (less value adjustments taken into account as on the balance sheet date, if applicable).
The fair values do not differ significantly from the book values.

13. Inventories

As per December 31, 2008, inventories included value adjustments of € 2,069 thousand (previous year: € 2,027 thousand) including € 42 thousand for fiscal year 2008 (previous year: € 93 thousand).

Finished products and merchandize include devices made available to customers temporarily for testing, on loan, and for demonstration purposes worth € 209 thousand (previous year: € 402 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 life which amounts to three years.

14. Other current financial assets and accruals and deferrals

	12/31/2008	12/31/2007
	€ k	€ k
Accruals and deferrals	223	164
Advance payments made	419	490
Derivative financial instruments	16	236
Other	72	272
	730	**1.162**

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 € 135 thousand (previous year: € 360 thousand) and the reclaim of taxes paid in advance on income and profit amounting to € 243 thousand (previous year: € 69 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. Operating Leasing

The company buildings and part of the furniture, fixtures, and equipment are used under operating leases. The future rental and leasing payments based on non-cancellable operating leases and rentals amount to a minimum of:

Fiscal year	€ k
2009	2,650
2010 - 2013	8,978
From 2014	10,897

During the year under review, the rent/leasing expenses amounted to € 2,837 thousand (previous year: € 2,776 thousand).

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
2009	637
2010 - 2013	395
From 2014	-

17. Equity

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

17.2 Capital reserve

The capital reserve contains mainly the share premium from the capital increase curried out in the context of the IPO in 1999.

17.3 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 20, 2012, by issuing up to 1,750,000 new no-par-value bearer shares against cash and/or non-cash contributions either once or several times by a total of € 1,750,000.00. The shareholders shall be granted a subscription right for this purpose. However, the Management Board is authorized, subject to approval by the Supervisory Board, to exclude subscription rights of the shareholders for fractional amounts.

17.4 Contingent capital

The contingent capital II amounting to € 215,000 serves to guarantee the refunding rights associated with the convertible bond. The issuance of this bond was decided on the general meeting on July 1, 2004, and its extension on the general meeting on May 21, 2007.

18. Development of short-term provisions

	01/01/ 2008	Exchange rate differen-ces	Alloca-tion	Utiliza-tions	Liqui-dation	12/31/ 2008
Personnel costs	803	7	1,572	792	18	1.572
Commissi-ons	154	1	43	154	1	43
Taxes	100		169	100		169
Guarantee	160		166	160		166
Legal and consultancy costs	92		101	92		101
Other	205	2	328	168	20	347
	1,514	**10**	**2,379**	**1,466**	**39**	**2,398**

The provisions for personnel costs were mainly made for holiday leave carried forward, for flexi-time balances, and for bonuses for the reporting year.

The tax provisions were made for the tax burden on the result for the reporting year and, if applicable, any previous years.

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

19. Financial liabilities

Basler reports the following financial liabilities as on December 31, 2008, (€ k):

Description	Interest condition	Inte-rest rate	End of term	Repay-ment amount
Silent partner-ship	Fixed	10 %	12/31/2011	1,023
Convertible bond	Fixed	5.5 %	07/31/2009	2,364
Loans	Fixed	12 %	03/30/2012	511
ERP loan,				
tranche I	Fixed	5.35 %	03/31/2013	4,500
ERP loan,				
tranche II	Fixed	4.35 %	03/31/2013	2,700

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.

For calculating the convertible bond's equity component amounting to € 136 thousand, an effective interest rate of 8.75 % p.a. was assumed.

20. 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 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.

The following items existed as at the respective balance sheet dates (in € k):

	12/31/2008	12/31/2007
Nominal volume	3,100	4,000
Fair value		
Positive	16	236
Negative	-	-

Valuation 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 net loss resulting from valuation at fair value in fiscal year 2008 amounted to € 220 thousand (previous year: profit of € 214 thousand).

As in the case of the receivables, the maximum default risk corresponds to the book values stated in the balance sheet of each financial asset (less value adjustments taken into account as at the balance sheet date, if applicable), including the derivative financial instruments. As the contractual partners for derivatives are renowned financial institutions, it can be assumed that the liabilities under derivative transactions will be met.

21. Categories of financial instruments

The book values of the financial instruments as on December 31, 2008, are as follows (in € k):

	Financial instruments at amortized cost (loans and receivables, other liabilities)	Financial instruments at fair value (held for trading)	Book value according to the balance sheet
Receivables and loans (including cash and cash equivalents)	18,026 (Previous year: 14,796)	-	18,026 (Previous year: 14,796)
Remaining financial assets	1,092 (Previous year: 1,355)	16 (Previous year: 236)	1,108 (Previous year: 1,591)
Long-term financial liabilities	8,134 (Previous year: 10,873)	-	8,134 (Previous year: 10,873)
Short-term financial liabilities	4,897 (Previous year: 2,728)	-	4,897 (Previous year: 2,728)

Please refer to notes 12 and 20 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 risksn

22.1 Derivative financial instruments/currency risk

As at the balance sheet date, US dollar forward transactions in an amount of € 3,100 thousand with residual terms of less than one year were in place for exchange hedging. The positive fair value according to the market valuation, stated under other assets, amounted to € 16 thousand.

22.2 USD sensitivity analysis

A USD exchange rate of 1.5309 (corresponding to a 10 % decline) would have a positive effect of € 203 thousand on earnings before taxes, and a USD exchange rate of 1.2525 (corresponding to a 10 % rise) would have a negative effect of € 248 thousand.

There are no further significant effects on the equity capital.

22.3 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 12, 14, 15, and 20 for statements of the maximum default risks.

22.4 Interest rate risk

All longer-term financial liabilities stated as at 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

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 available credit lines to short-term assets without liquid assets less liquid assets.
A target value of 125 % is aimed at.

	12/31/2008	12/31/2007
Borrowed capital	22,175	21,232
Unused credit lines	3,300	3,500
Subtotal	25,175	24,732
Short-term receivables	10,291	10,851
Inventories	7,169	7,005
Remaining receivables and other financial assets and accruals and deferrals	730	1,162
Liquid assets	-7,735	-3,945
Subtotal	10,455	15,073
Financial reserves	241 %	164 %

This strategy was not changed compared to the previous year.

On the reporting date, Basler had access to credit lines amounting to € 3,300 thousand (previous year: € 3,500 thousand). These were not used, as in the previous year. The credit lines are provided for the time being. Extension risks are not expected.

The availability of the credit lines is tied to the compliance with certain key figures. As in the previous year, Basler complied with the key figures at all time.
The following maturity analysis of financial liabilities (contractually agreed, non-discounted payments) indicates the influence on the group's liquidity (in € k):

	2009	2010	2011 to 2013	From 2014
Silent partnership	102	102	1,125	-
Convertible bond	2,440*	-	-	-
Bank debt	1,006	1,720	6,149	-
Liabilities from deliveries and services	934	-	-	-
Other current financial and tax liabilities	738	-	-	-

* Repayment is assumed

As per 31 December 2007, this is the maturity structure:

	2008	2009	2010 to 2012	From 2013
Silent partnership	102	102	1,228	-
Convertible bond	130	2,440*	-	-
Bank debt	729	1,005	6,826	1,063
Liabilities from deliveries and services	1,614	-	-	-
Other current financial and tax liabilities	512	-	-	-

* Repayment is assumed

24. Segment report

24.1 Primary segmentation

Basler addresses the Vision Technology market with two business units:

- Basler Components develops and sells digital camera solutions for original equipment manufacturing customers (capital goods manufacturers) in the Machine Vision, medical engineering, and intelligent traffic systems market segments.
- Basler Solutions develops and markets turn key systems for quality inspection in mass production of various industries.

The company's products are mainly developed on its premises in Ahrensburg and are sold through a direct distribution structure, through the subsidiaries (U.S.A., Singapore, and Taiwan), and through independent distributors in Europe, North America, Australia, Japan, and Asia. The information contained in the overviews is taken directly from the internal reports that are used for management purposes by the company's highest operative decision makers. The company does not evaluate individual business units on the basis of financial liabilities and related interest expenses for internal control purposes. Consequently, the segment reports do not include such evaluations.

Segment assets are direct operating receivables, inventories, and the fixed assets used for the business operations.

Segment liabilities are the received advance payments attributable to business operations, the liabilities from deliveries and services, and the provisions.

The business development is as follows during the reporting year (all statements in € k):

	Basler Solutions		Basler Components		Reconciliation		Whole group	
	01/01 - 12/31/08	01/01 - 12/31/07	01/01 - 12/31/08	01/01 - 12/31/07	01/01 - 12/31/08	01/01 - 12/31/07	01/01 - 12/31/08	01/01 - 12/31/07
Segment revenues	26,813	24,022	29,694	27,525	0	0	56,507	51,547
Segment results (EBIT)	602	-1,242	2,923	3,026	-92	660	3,433	2,444
Segment assets	14,048	16,549	18,608	16,505	2,310	2,390	34,966	35,444
Segment liabilities	560	155	5	1	-167	1,387	398	1,543
Segment investments	2,576	2,760	4,395	4,794	752	817	7,722	8,371
Segment depreciations	3,935	4,094	2,893	2,321	765	710	7,593	7,125
- there of extraordinary	663	0	233	0	0	0	896	0

24.2 Other statements, segment-independent

Basler's customers operate all over the world. In the following statement of turnover per country, the product's country of installation is considered the target country. If the country of installation is not known, the last known country of delivery is considered.

	2008	2007
Germany	8,302	7,947
Other EU countries	10,535	9,225
America	9,301	9,432
Asia	28,369	24,943
	56,507	**51,547**

The fixed assets of the Basler Group are held in the following countries:

	2008	2007
Germany	17,397	17,471
America	50	47
Asia	59	71
	17,506	**17,589**

25. Number of employees

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

	2008	2007
Production	73	72
Sales	114	114
Development	87	93
Administration	53	50
	327	**329**

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:

	2008	2007
Production	70	69
Sales	108	108
Development	84	90
Administration	46	41
	308	**308**

26. Remuneration of auditors

Das Honorar der BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft betrug 2008 wie im Vorjahr T€ 52 ausschließlich für die Abschlussprüfung.

27. Relations to closely affiliated persons

Mr. Norbert Basler holds 106,907 shares in the convertible bond issued in 2004 and extended in 2007. This corresponds to an amount of € 1,496,698.00. Each share corresponds to one stock option.

The applicable conditions are the same as those applying to third parties.

Please refer also to note 28 for our disclosures relating to the Management Board and Supervisory Board.

28. Management Board and Supervisory Board

28.1 Management board

In 2008, the Supervisory Board consisted of the following members:

- Dr.-Ing. Dietmar Ley, Ahrensburg,
  CEO, responsible for the business units, product creation, finance, and personnel
- Dipl.-Ing (MBA) John Jennings, Ambler, USA,
  Executive Director for sales and marketing

28.2 Supervisory Board

Dem Aufsichtsrat gehörten im Jahr 2008 folgende Personen an:

Norbert Basler Diplom-Ingenieur	Supervisory Board chairman Engineering graduate (Dipl.-Ing.)
Prof. Dr. Eckart Kottkamp	Supervisory Board vice-chairman Senior Advisor
Konrad Ellegast	Regular Supervisory Board member Advisor

Additional mandates held by the Supervisory Board members in 2008, compliant with § 285 No. 10 HGB:

Norbert Basler

Member of the Supervisory Board, Kuhnke AG, Malente
Member of the Supervisory Board, Plato AG, Lübeck

Prof. Dr. Eckart Kottkamp

Chairman of the Advisory Board, Mackprang Holding GmbH & Co. KG, Hamburg

Chairman of the Supervisory Board, Lloyd Fonds AG, Hamburg

Member of the Supervisory Board, Deutsche Steinzeug Cremer & Breuer AG, Alfter-Witterschlick

Member of the Supervisory Board, Elbphilharmonie Hamburg Bau GmbH & Co KG, Hamburg

Konrad Ellegast

Member of the Advisory Board, C. Mackprang Jr. GmbH & Co. KG, Hamburg

Member of the Advisory Board, RIBE Richard Bergner Verbindungstechnik GmbH, Schwabach

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

The direct total remuneration of the Management Board amounted to € 601,642.94. The individual members of the Management Board received the following remuneration in 2008 (in €):

	Fixed remuneration	Performance-related remuneration for 2008	Total
Dr. Dietmar Ley	194,246.48	135,000.00	329,246.48
John Jennings	142,405.30	129,991.16	272,396.46

The direct total remuneration of the Management Board amounted to € 466,890.07 in 2007. The individual members of the Management Board received the following remuneration in 2007:

	Base salary	Performance-related bonuses for 2007	Total
Dr. Dietmar Ley	182,437.51	0.00	182,437.51
John Jennings	154,379.01	29,617.55	183,996.56
Peter Krumhoff	100,456.00	0.00	100,456.00

The total remuneration of the members of the Supervisory Board amounted to € 39 thousand in 2008, like in the previous year.

28.4 Share ownership by the members of Management Board and Supervisory Board

	12/31/2008 Number of shares	12/31/2007 Number of shares
Dr. Dietmar Ley	135,282	135,282
John P. Jennings	5,500	2,000

	12/31/2008 Number of shares	12/31/2007 Number of shares
Norbert Basler	1,800,000	1,800,000
Konrad Ellegast	-	-
Prof. Dr. Eckart Kottkamp	-	-

Mr. Dr. Ley, Mr. Jennings, and Mr. Basler each hold shares in the convertible bond issued in 2004 and extended in 2007. Each share corresponds to one stock option. The applicable conditions are the same as those applying to third parties.

	Number of shares in the convertible bond	Amount in €
Dr. Dietmar Ley	23,800	333,200.00
John P. Jennings	3,000	42,000.00
Norbert Basler	106,907	1,496,698.00

29. List of participating interests

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

Company name	Share amount in %	Full year result 2008 [€ k]	Equity capital [€ k]
Basler Inc., Exton/U.S.A.	100	-101	-443
Basler Asia Pte. Ltd., Singapore/Singapore	100	312	646
Basler Vision Technologies Taiwan Inc., Taipei/Taiwan	100	-424	-1,154

Further participating interests are not held.

30. Corporate Governance

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

31. Approval of the annual balance sheet

The annual balance sheet was released by the Management Board on February 4, 2009, for publication.

Auditor‘s audit opinion

We have audited the consolidated financial statements of Basler Aktiengesellschaft, Ahrensburg, - consisting of balance sheet, income statement notes, statement of changes in equity, cash flow state-ments, and notes - and the group management report for the business year from January 1, 2008, to Dezember 31, 2008. The preparation of the consolidated financial statements and the group man-agement report in accordance with IFRS, as adopted by the EU, and the additional provisions stated in Section 315a Para. 1 HGB are the responsibility of the company‘s legal representatives. It is our re-sponsibility to express an opinion on the consolidated financial statements and the group manage-ment report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German standards of proper auditing of financial statements as established by the Institut der Wirt-schaftsprüfer (IDW). Those standards require that we plan and perform the audit such that inaccu-racies 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 princi-ples of proper accounting and in the group management report are detected with reasonable assur-ance. Knowledge of the business activities and the economic and legal environment of the group and evalu-ations of possible mistsatements 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 annual fi-nancial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consoli-dation principles used and significant esti-mates made by the legal representatives, as well as evaluating the overall presentation of the consoli-dated financial stements and the group management report. We believe that our audit provides a rea-sonable basis for our opinion.
Out audit has not led to any reservations.

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

Lübeck, February 25, 2009

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Beecker	Herbers
Auditor	Auditor

EVENTS

Events

Finance

March 17, 2009	Publication of fiscal year 2008 results
May 05, 2009	Publication of first-quarter results for 2009
May 07, 2009	Shareholders' meeting in Hamburg, Germany
August 06, 2009	Publication of second-quarter results 2009
November 05, 2009	Publication of third-quarter results 2009
November 09 – 11, 2009	Eigenkapitalforum, (Equity Capital Forum), Frankfurt, Germany

Trade fairs and conferences

February 10 – 12, 2009	ATX West - Anaheim, USA
March 04 – 06, 2009	Photovoltaic Technology Show Europe – Munich, Germany
March 17 – 19, 2009	Global Security Asia – Singapore
March 31 – April 02, 2009	The Vision Show – Phoenix, USA
April 01 – 03, 2009	ISC West – Las Vegas, USA
April 11 – 14, 2009	IFSEC – Birmingham, UK
June 09 – 11, 2009	Robots and Vision – Chicago, USA
June 15 – 17, 2009	Nepcon Show – Penang, Malaysia
September 21 – 24, 2009	ASIS – Anaheim, USA
September 21 – 24, 2009	24th EUPVSEC – Hamburg, Germany
November 03 – 05, 2009	Vision Show – Stuttgart, Deutschland

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