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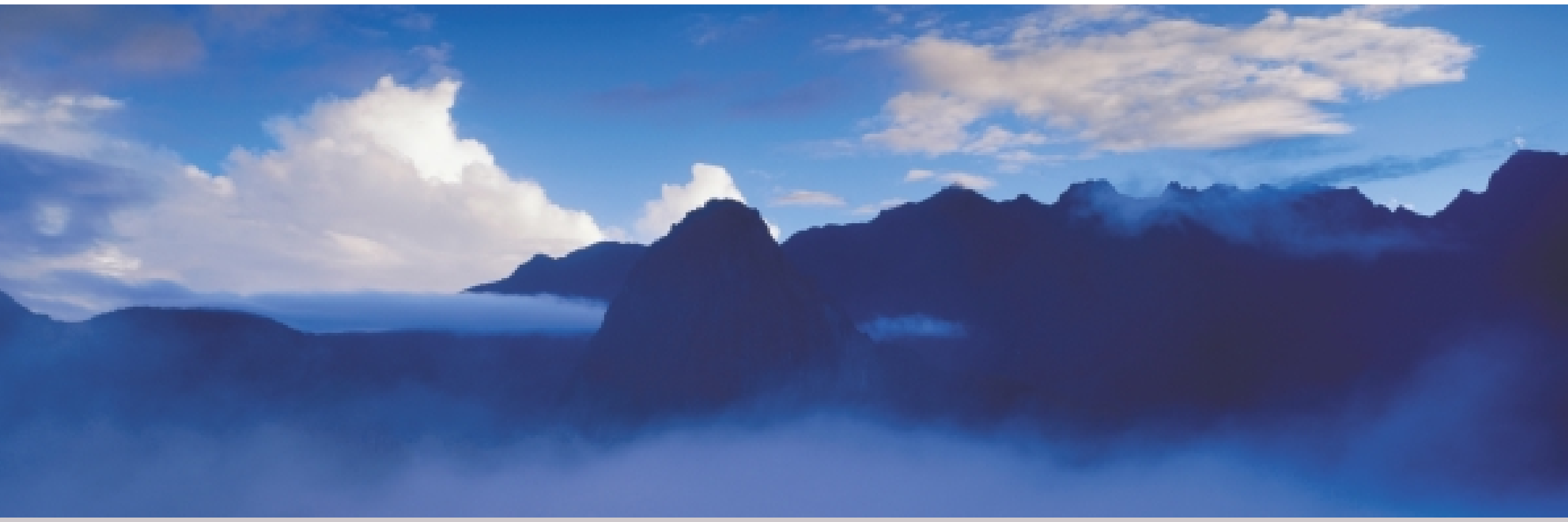
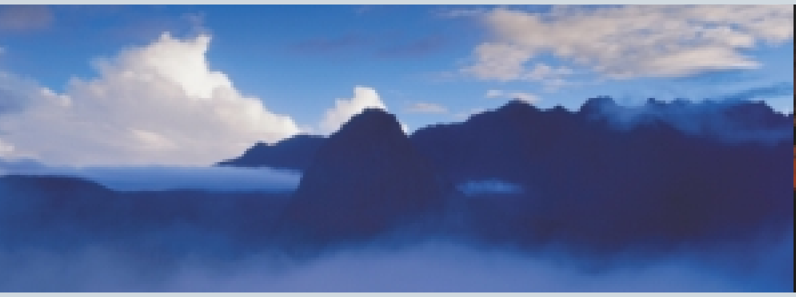
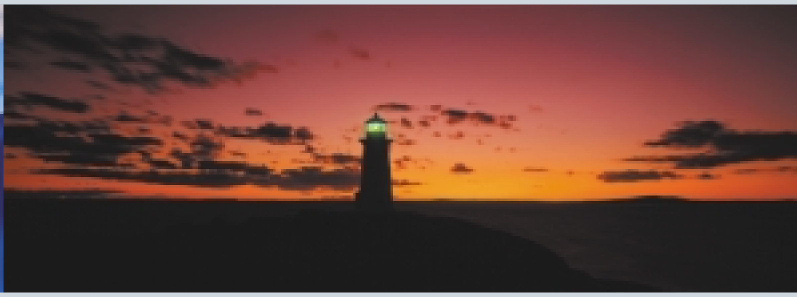


ANNUAL REPORT 2002

BASLER
VISION TECHNOLOGIES

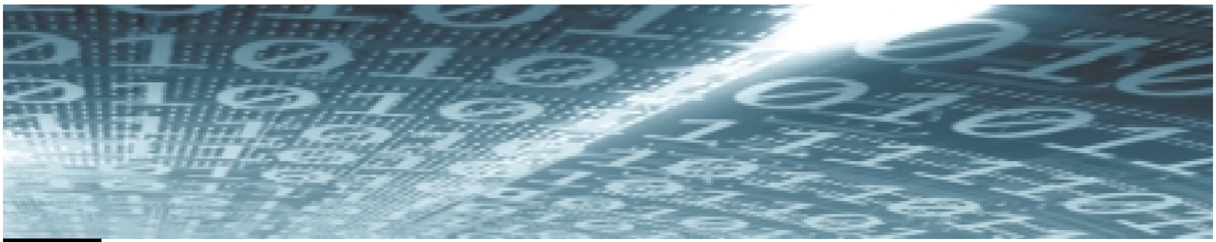
Vision Panorama

Contents

Basler overview

	2002	2001	
Sales	26.7	26.6	Mio. €
Sales Vision Systems	67	72	%
Sales Vision Components	33	28	%
Sales in Germany	24	23	%
Sales in Europe	19	19	%
Sales in the rest of the world	57	58	%
Gross profit	70	42	%
Total operating expenses	23.4	25.8	Mio. €
Operating expenses ratio	87	97	%
EBITDA	-3.3	-12.9	Mio. €
EBIT	-4.4	-14.1	Mio. €
EBT	-3.5	-22.3	Mio. €
Net result	-3.5	-22.1	Mio. €
Net margin	-13	-83	%
Number of shares	3.5	3.5	Mio.
Result per share	-1.00	-6.31	€
Order income	29	22.9	Mio. €
Cash (as of 31st December)	0.4	4.6	Mio. €
Balance sheet total (as of 31st December)	16.1	21.9	Mio. €
Inventory (as of 31st December)	6.1	7.6	Mio. €
Fixed capital (as of 31st December)	12.2	13.3	Mio. €
Tangible assets (as of 31st December)	3.0	3.3	Mio. €
Liabilities (as of 31st December)	12.0	14.3	Mio. €
Debt ratio (as of 31st December)	65	65	%
Shareholders' equity (as of 31st December)	4.1	7.6	Mio. €
Equity ratio (as of 31st December)	26	35	%
Staff (as of 31st December)	261	259	
Personnel expenditure ratio	51	58	%
Employees in R&D (as of 31st December)	41	42	%
Share price (as of 31st December)	3.30	2.10	€
Market capitalisation (as of 31st December)	11.6	7.4	Mio. €
Share price/sales ratio (as of 31st December)	0.4	0.3	



This is how Vision Technology works…

Vision Technology, the technology of artificial vision, is a key technology with practically universal significance which is used in many applications. Basler AG has successfully harnessed this important technology. Optical media, flatscreen displays, sealing rings for ABS systems or plastic webs – vision systems offer solutions for a wide variety of tasks in quality inspection, measuring, identification and surveillance.

The fundamental principle of Vision Technology is very simple: a digital camera captures an image of the product that is to be inspected. These data are passed on to a computer where they are compared with reference parameters; a computer uses a mathematical algorithm to calculate the qualitative and quantitative differences and determines the number and type of faults.

Based on these inspection data Basler vision systems compile product statistics which then enable the system to recognize faulty products. With the aid of clear graphics and tables, the operator of a production line can see what percentage of a specific production run is free of faults, and what faults have been detected in how many products. Basler vision systems also use these process data for effective yield management. For example, when the two halves of a DVD are bonded with the resin layer, a divergence in width of as little as a few thousands of a millimetre can determine whether the optical media the plant is outputting are functional or faulty. Basler's intelligent software processes information about defective products and, using a feedback process, enables automatic corrections to be made or production to be halted.

In addition to the wide range of in-line inspection tasks carried out during production, separate off-line reject testing may be necessary if the process time is too swift to allow complete in-line inspection or if manufacturers wish to enhance inspection effectiveness still further. Basler makes systems that can check rejects, for instance DVDs, for optical characteristics, deformations, mechanical imbalances and microscopic defects. Such information is essential, as it helps to identify error sources and eliminate them before the next batch hits the production line.

Letter to our Shareholders

Our Sights are set

Dear Shareholders,

in the third quarter of 2002 Basler reported a profit for the first time in two years. Our aim for 2003 is to lead the Group back into the profit zone for the entire year by implementing a successful turnaround in the face of the exceedingly difficult overall economic environment. We firmly believe that this goal is attainable, particularly in light of the progress we have made and our continued, successful, efforts to cut back costs and increase efficiency. Notwithstanding, achieving sustained turnaround remains a strong challenge.

In 2002 our first quarter results were marred by the reluctance to invest that prevailed in our target markets. The ensuing disappointing sales were the main cause for our quarterly loss of € -2.8 million.

The following quarters displayed a gratifying increase in sales and orders as compared with the same period of the previous year. Our total loss in these nine months was only € -0,7 million. For the year 2002 the company reported turnover of € 26.7 million and a net loss of € -3.5 million.

We are pleased to report that the Group's result has improved dramatically from last year's € -22.1 million. This is largely the result of the effective cost saving measures that were implemented and which have had the effect we anticipated. Judging by the impact that these measures have had, we are confident that we will be able to report a net profit for 2003.

Our confidence that we will successfully complete turnaround in 2003, and thus make a profit for the year, is based on four factors:

(1) Development of market potential

One of the cornerstones of our turnaround strategy is the company's ability to tap into additional market potential. A prerequisite for this is the continuation of investment in the development of existing products and new ones. Despite our cost cutting measures, we managed to keep our R&D ratio for 2002 at a comparatively high level of 21% (2001:28%).

We underscored our innovative drive with an expansion of our international sales presence. In addition to our existing sales and service subsidiaries in the USA, Taiwan and Singapore, Basler opened a further sales office in Shanghai in 2002. Our distributor network for the Vision Components division has also been tightened to give greater coverage.

on Turnaround

Dr. Dietmar Ley – Chief Executive Officer (center)
Dr. Dietmar Ley (39) was appointed CEO of Basler in February 2000. In addition to overseeing the Group's general and strategic development, he is responsible for the operative business units. Following several positions in Research and Development at Philips GmbH, Siemens AG and Alcatel AG, Dietmar Ley joined Basler AG in 1993 where he held a number of positions in technical management. In 1996, he became a member of Basler's executive management team.

Axel Dancker – Chief Operations Officer (left)
The responsibilities of Axel Dancker, industrial engineer, include Production, Logistics, Purchasing, Service, IT, Facility and Human Resources. The 44-year-old, Hamburg-born engineer has more than 15 years of experience in service, logistics and management. Prior to joining Basler he was in charge of worldwide service logistics at Heidelberger Druckmaschinen AG.

Peter Krumhoff – Chief Financial Officer (right)
A graduate of the European Business School in Oestrich Winkel, Peter Krumhoff (41) is responsible for Finances, Controlling and Investor Relations. Before joining Basler, he was head of Finance & Controlling at Leica Camera AG. In addition to his sound commercial expertise, which includes the preparation of financial statements and annual reports, conceptualization and implementation of integrated group planning, he has an extensive background in corporate finance.

The reinforcement of our sales competence is also reflected in our staffing structure. As of December 31, 2002, 19% of Basler's staff were employed in Sales and Marketing; this increased to 21% as of December 31, 2002.

From the beginning of the second quarter these measures generated a substantial increase in the number of orders compared to the same period last year. The value of the orders received for the year, € 29 million, lay significantly above the company's turnover and was substantially higher than last year (€ 22.9 million).

(2) Enhanced efficiency throughout the organization

The changes to our organizational structure that were introduced in 2001 unfolded their full cost-cutting effectiveness in the year under review. The key component of this package of measures was the restructuring of the company into two core divisions: Vision Systems and Vision Components. As part of this package we set up centralized development departments, as opposed to the former separate departments, which enables us to benefit from valuable synergies as well as facilitating the introduction of technology platforms.

(3) Increased process efficiency

In the year under review we substantially expanded our quality management system, which is certified under DIN ISO 9001: 2000. In 2001 all value chain processes were defined and documented, and were then certified; in 2002 our quality management system was further optimized, expanded to include more processes, and was firmly anchored in the company's operations. This enabled us to enhance the efficiency of our value added process. Initial investment in the new quality management system has paid off insofar as it gives us a significant competitive edge when approaching new major customers.

(4) Cost reduction

In fiscal years 2001 and 2002 we succeeded in reducing our operating costs substantially. In 2000 our operating costs amounted to € 28.1 million; this had been cut back to € 23.4 million by the end of 2002. The following measures have contributed to this successful reduction:

- Compared to December 31, 2000, the company had 15% fewer employees as of December 31, 2002, generating a 17% reduction in personnel expenditure.
- Office units currently not used in our leased Ahrensburg facility were marketed within the framework of a Technology Park concept (www.tech-park.de), and have made a contribution towards increasing our other operating income.
- Inventories of raw materials and supplies were reduced by 23% during the course of 2002.

The success of these measures is a strong motivation for management and staff at Basler to continue unremittingly in their mission to improve the company's earnings situation, to ceaselessly identify revenue-generating potential and to continue to implement effective measures swiftly and consistently.

Ahrensburg, March 2003

The Management Board

Supervisory Board Report

In the financial year 2002, the Supervisory Board fulfilled the duties incumbent on it by law and under the corporation's statutes and regularly supervised and advised the Management Board. The Supervisory Board regularly received verbal and written reports from the management on the financial situation of Basler AG and its foreign subsidiaries and reviewed the enterprise's economic situation in detail. The Supervisory Board held four routine meetings in the year under review: on February 26, June 12, September 03 and December 03, 2001. Standing committees as defined in the 2nd sentence of paragraph 2 of Section 171 of the German Corporation Law were not formed.

The Management Board and the Supervisory Board work closely together to the benefit of the enterprise. This cooperation is characterised by an open dialogue based on mutual trust. The Supervisory Board discussed the company's strategic planning with the Management Board and was informed at regular intervals about the implementation of these issues. The Supervisory Board was included in all key decisions impacting on basic corporate policy and was regularly informed by the Management Board concerning all matters relevant to the company's development and any risks it faces.

The Chairman of the Supervisory Board regularly contacted the Chairman of the Management Board and was advised by the latter of all current developments and extraordinary events. The Supervisory Board passed the resolutions for which it held competence in accordance with the legal regulations and the provisions of the Articles of Association. These included decisions and measures that have a decisive impact on the company's assets, financial situation, earnings and performance. Key topics were:

- examination and approval of the 2001 financial statements and proposals for the Annual General Meeting;

Prof. Walter Kunerth – Chairman of the Supervisory Board (center)

The Chairman of the Supervisory Board is self dependent Industry Adviser. He studied engineering science at the University of Stuttgart. After gaining his doctorate, Walter Kunerth worked from 1966-1976 at the IPA Institute of the Frauenhofer-Gesellschaft in Stuttgart. In 1976, he went to Siemens AG where he was appointed to the Central Management Board.

Norbert Basler – Deputy Chairman of the Supervisory Board (left)

Norbert Basler was born in Berlin on June 19, 1963. From 1983 to 1988, he studied mechanical engineering at the Clausthal Technical University, majoring in electrical information technology. During his college years, Norbert Basler and a fellow student founded Basler und Berendsen GmbH in the Lübeck Technology Centre; this enterprise later became Basler AG. Norbert Basler now provides entrepreneurial advice to young technology companies.

Bernd Priske – Member of the Supervisory Board (right)

Bernd Priske is Chief Executive Director of M.A.X. Holding AG, Munich, and former board member of Fortas AG. Until 2000, he was Executive Director of IKB Beteiligungsgesellschaft mbH.

- the impact of economic and market-specific developments on the company's financial results and sales;
- measures required to achieve turnaround.

The auditor was present at the Supervisory Board meeting held on March 04, 2003, to discuss the management report and financial statements for the fiscal year under review, and reported on the main results of his examination.

The corporate accounts, the financial statements as of December 31, 2002, the management report of Basler AG and also the consolidated financial statements as of December 31, 2002, and the management report on the group's situation have been examined by the auditor, BDO Deutsche Warentreuhand AG, Lübeck, who found that they complied with the law and with the corporation's statutes and accordingly issued an unqualified audit certificate. The Supervisory Board noted the results of the audit with approval.

As required by law, the Supervisory Board has itself examined the financial statements for Basler AG, the consolidated financial statements and the management reports for both Basler AG and the Group. This examination gave rise to no objections and as a result the Supervisory Board has approved the financial statements of Basler AG and the Group prepared by the management and therefor ascertained the financial statement of Basler AG.

Over the past year, the Group again tackled great internal and external challenges. Without the energetic efforts and dedication of its staff and management the Group would not have been able to master this difficult situation. The Supervisory Board wishes to thank all members of the Management Board and all executives and employees of Basler AG for their valuable work during the past fiscal year.

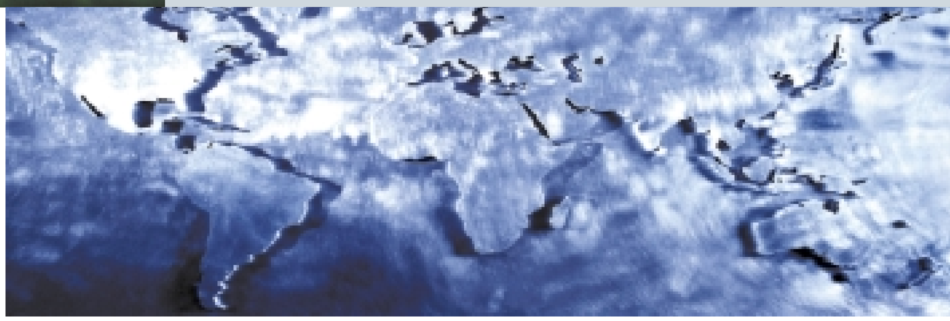
Ahrensburg, March 2003

For the Supervisory Board:

Prof. Dr.-Ing. Walter Kunerth – Chairman

Markets and innovations – Growth in Sight

Swiftly evolving, ever-changing technology markets demand ceaseless innovation and a high degree of entrepreneurial flexibility. Basler AG invests continuously in the development of new products, and around half of the company's turnover is generated by products that are no older than two years. Effectively this means that Basler's product portfolio undergoes a complete renewal every four years.



Vision Systems

The Vision Systems division develops and markets inspection systems for use in industrial production processes. These systems monitor quality control during production, using cameras to give the customer objective, reproducible control data and allowing defective products to be clearly identified and rejected. The systems also provide the customer with data which can be used to automatically enhance optimization potential in future production runs, and ultimately eliminate faults entirely.

For manufacturers of mass products minuscule changes of less than one percent in production output can help to boost tight margins and thus secure the company's competitive edge. The use of Vision Systems helps to optimize production processes and enables manufacturers to cut back production costs. This chain of events is manifest in the DVD market, where production and production cost have been continuously optimized, mainly through the use of inspection systems, thus clearing the way for the DVD format and enabling it to supersede the video tape.

The services and products offered by Basler's Vision Systems division address four markets: the flatscreen display industry (Display Inspection); the industry for optical storage media (Optical Media Inspection); the rubber and elastomer industries (Sealing Inspection), and the plastics industry (Web Inspection).

Display Inspection

Display Inspection addresses the flat-screen market, a market that has been expanding at breathtaking speed. The largest and most promising segment is the market for TFT (Thin Film Transistor) displays, which has a volume of around US $30 billion. Experts anticipate that in two years sales of flatscreen TVs will outstrip those of conventional picture tube sets. Inspection systems play a key role in driving this development because they can provide the data needed to optimize flatscreen production. An improvement in production yield – presently 50% of all flatscreen displays made are scrapped due to production faults – is an essential requirement before flatscreen displays can successfully conquer our living rooms.

The Display Inspection product portfolio concentrates on very specific production stages: the inspection of the basic component, the glass substrate, and the inspection of coated glass, e.g. colour filters. The Display Inspection division was launched on the market powered by a leading technology and an innovative yield management concept for efficiency optimization. High-speed cameras and image processing components ensure enhanced production throughput and give better resolution. Another major benefit of this technology is that inspection takes place in-line, i.e. at production speed.

Camera-based inspection can detect faults only 0.01 mm in size, half the thickness of a human hair. The only other method of attaining test results as fine as these is to use off-line microscopes.

Optical Media Inspection

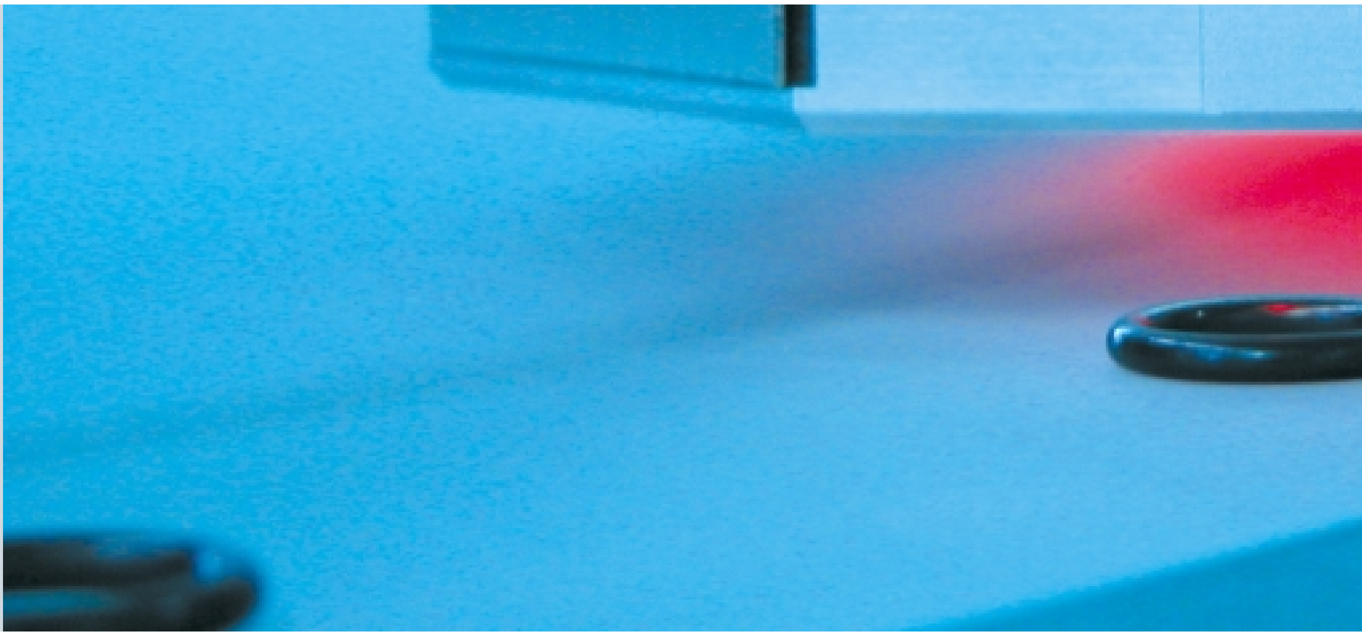
The CD format is currently the most widespread optical disc format for audio and software distribution, and the write-once CD has become the standard medium for data archiving. However, gradua-lly this format is being replaced by the DVD format, which offers more than ten times the data storage capacity. Typical applications for these new formats are film and video game software distribution.

The optical disc market undergoes format shifts at regular intervals. A new format inevitably makes new demands on the production process and involves a learning process, two factors where it soon pays off to have effective inspection systems. The resulting cost savings can be passed on to the customer and serve to accelerate consumer acceptance for the new format.

The Optical Media Inspection division has a global market share of approx. 35% and is clearly positioned as a key supplier of inspection systems. The division supplies products to major media companies such as Sony and AOL Time Warner.

The Optical Media Inspection product portfolio seamlessly covers most of the inspection technology needed in customers' value added chains. The product range comprises products that scan optical discs, either fully integrated in the production line (Basler S3), or off-line, like the Basler REFERENCE, a stand-alone off-line test system which delivers highly detailed quality information on the basis of random checks. The Basler REFERENCE, a new product, achieved a true market breakthrough in 2002 and now every second DVD produced worldwide is inspected by a Basler system.

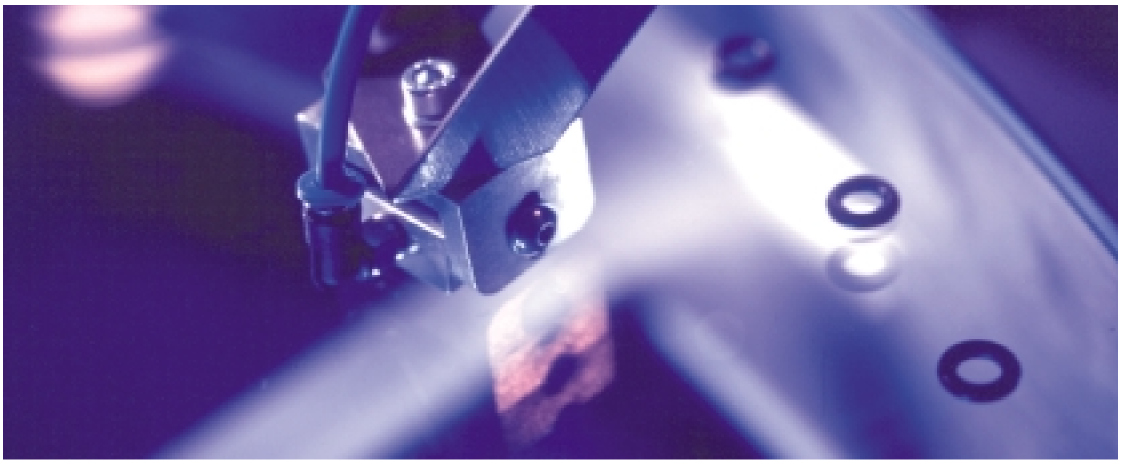
The Ident Code Reader product range checks the barcodes on CDs and DVDs, guaranteeing correct printing and packaging; it operates at a speed of up to 130 discs per minute. As the final stage in the production process, Basler's Label Inspection L Series checks the quality of the printed images on CDs and DVDs.

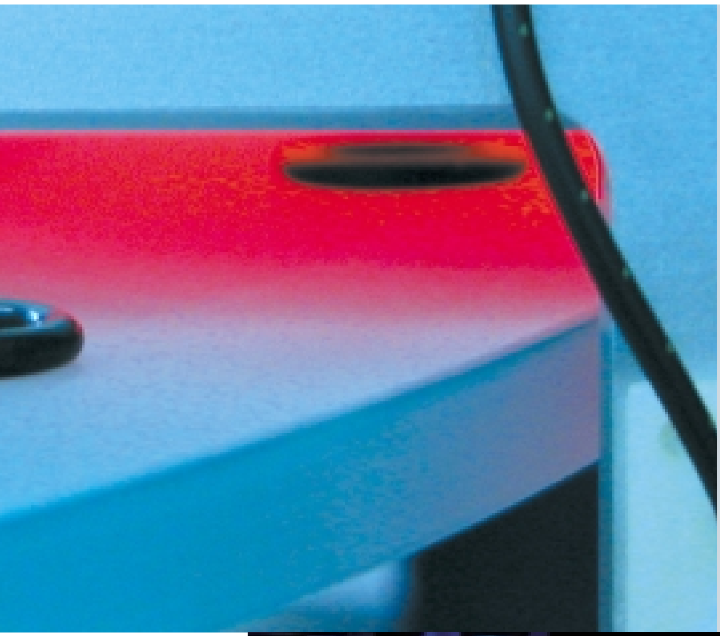


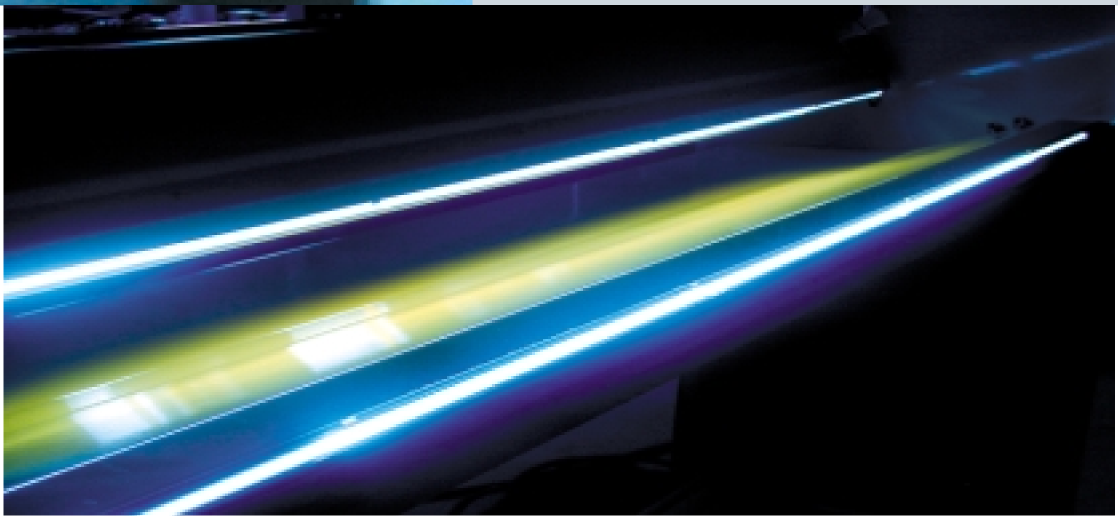
Sealing Inspection

Sealing Inspection focuses on the rubber and elastomer industries, an attractive niche market for inspection equipment. As supplier of automatic inspection systems for O-rings, used as seals in safety-critical applications such as braking systems, the division has succeeded in capturing a global market share of over 70%. The division's customers, which include the Freudenberg Group, buy inspection systems for two main reasons: firstly, sealing rings are used in safety-critical applications, such as braking systems or turbines, making 100% quality assurance absolutely essential. Secondly, these systems deliver high quality data about the production process, thus giving the customer the dual benefit of quality assurance and effective yield management, which translates into lower production costs.

The Sealing Inspection product portfolio comprises a wide range of off-line systems, which vary according to the seal dimensions, inspection speed, and the inspection parameters. The premium product in the range, the Basler VARIO, has an inspection speed of up to six rings per second and can check all surfaces of the seals and their dimensions.







Web Inspection

Web Inspection, which was set up in 1999, addresses the plastic film industry with an array of tailored services and products. This highly competitive sector is greatly dependent on continually creating a competitive edge. Product quality can be a key advantage. In addition to competition considerations, certain industry standards require production processes to be quality controlled.

The main task of Web Inspection products lies in inspecting the surfaces of plastic films. Basler systems provide an objective assessment of the process quality and serve to optimize the effectiveness of production facilities. The use of Vision Technology in the plastic film industry offers particular benefits to manufacturers of safety-critical films, such as those used in laminated glass. The core product of the Web Inspection division, Basler WEBSIGHT, can detect and analyse defects only millimetres in length at a production speed of up to 500 metres per minute.

Vision Components

The Vision Components corporate division experienced rapid growth in 2002. The division, which was founded in 1997, reported a 30% increase in sales in the year under review, despite the difficult market environment. Over the past three years sales have multiplied dramatically, rising from € 700,000 to € 8.7 million.

Vision Components develops and sells high-performance digital cameras which are used in many highly sensitive industrial applications. The demand for these components comes from a variety of different sectors, including the semiconductor industry, the electronics industry and medical technology. Vision Components also addresses markets that service consumer needs, e.g. the traffic sector.

Industry surveys show that Vision Technology remains one of the world's most dynamic technology markets. The market volume in 2002 was around € 6 billion. Annual growth in Germany is estimated to be around 20%. Although it was founded only a few years ago, Vision Components has already succeeded in capturing a 4% share of the market – and there's every sign that this will increase further due to the company's clear positioning as quality and technology leader.

Every camera that leaves the facility in Ahrensburg has been stringently checked with Basler's „Camera Test Tool“. This inspection system not only checks the functions of all the camera components, like the sensor and the ports, it also simulates a variety of application situations, including different lighting environments. This automatic function check helps to save time and money by eliminating potential faults at source.

In addition to aiming to produce the highest possible quality, the Vision Components division is striving for market leadership in all subsectors of the market. We want to ensure that the division's two main product ranges – line scan cameras (which view one line of the object at a time, with the image building line by line; such cameras are frequently used in „running“ or „flowing“ production processes, e.g. film or paper), and area scan cameras (which view the entire object at a specific point in time) – are established as clear technology leaders.

In 2002, Vision Components again unveiled numerous important innovations. One of the highlights of the year was the A500 series of high-speed area scan

Potholes and road damage are things that most motorists have experienced at first hand, and sometimes it can take months before repair work starts. These delays are often the result of poor planning and implementation. Using Basler cameras, the US company International Cybernetics Corporation (ICC) has developed a method that automatically detects damage to road surfaces or markings and defines the precise position on the route, thus clearing the way for the optimum deployment of road-work teams.

Looking for potholes – with Basler's high-performance cameras

The basic principle is as easy as it is effective; it involves a vehicle equipped with several cameras. A Basler L104b line scan camera profiles the road markings. Even at high speeds the camera delivers high-resolution images of the road surface. Simultaneously, two Basler A101fc area scan cameras generate pictures of the road signs. Specially developed software automatically evaluates the condition of the markings and the signs, while a positioning system defines the exact location of the vehicle. The resulting data give the road construction department a seamless overview of existing damage which enables optimized planning and scheduling of the necessary repair work.

cameras. Capable of taking 500 frames per second at full resolution (1.3 megapixels), these cameras are used in motion analysis, such as crash tests, and human motion studies, e.g. in sport science. Additionally, these advanced cameras can be used for data storage, for instance 3-D holograms or complex documents and images.

A further climax was the launch of a new area scan camera, the A600 series. This miniature camera, no larger than a matchbox, is a low-cost alternative to analog cameras while delivering vastly superior technology. Analog cameras are still frequently used in industrial manufacturing to handle very simple tasks, e.g. inspecting the dimensions of a product. In terms of resolution and speed digital cameras offer far greater benefits. Until now, the lower price for analog cameras has been the main factor in favour of the older technology, particularly for simple routine tasks.

With the A600 Vision Components has the first true alternative that is superior to analog technology but which comes at a comparable price. This opens up a vast number of new application fields for Vision Components, for instance in biometrics or microscopy.

Basler Share and Corporate Governance – Providing Insight

The key challenge for Investor Relations in 2002 lay in stabilizing the company's course in exceptionally difficult market conditions, and at the same time drawing the attention of investors to the turnaround measures we have implemented and the palpable results they have achieved.

In a year characterized by a deep-seated loss of confidence in the Neuer Markt, the Basler share stood out by displaying stable performance throughout the year. There are several factors which have contributed to this gratifying performance, not least the consistently high level of transparency we have provided, and the exceptional dedication of the Supervisory and Management Boards, who demonstrated their confidence in the company's future growth by purchasing substantial share packages, an active signal intended to underscore their belief that the company is undervalued on the stock market. We continued to provide a consistently high standard of reporting in the year under review. We kept analysts and institutional investors up to date about the company's activities and news, either in personal meetings or at conferences and conference calls. One of the key events in 2002 was an analyst conference, held at the main trade show for the optical media industry, to which we invited a number of companies, including Singulus Technologies AG, Steag Hamatech AG and Pfeiffer Vacuum AG. The business and financial press also received in-depth information about the company's activities, again either in person or at conferences.

With the publication of the second quarter results for 2002, Basler's Supervisory Board and Management Board announced that the company would in future be adhering to the German Code of Corporate Governance, and was the first company listed on Neuer Markt to do so. This code, which was prepared by a government commission headed by Dr. Gerhard Cromme, lays down legal regulations for the management and supervision of publicly listed German companies and contains both nationally and internationally recognized

standards of good and responsible corporate management.

Through its commitment, Basler AG aims to demonstrate clearly how the Management Board and Supervisory Board intend to exercise responsible corporate leadership and control that is geared towards increasing the value for its stakeholders. Doing so will encourage and enhance the trust and confidence of current and future shareholders, the general public and the company's employees.

Fulfilment of the German Code of Corporate Governance is ruled by the principle of „comply or explain“. Each quarter, Basler AG will issue a statement outlining the extent to which corporate management is in compliance with the code’s provisions. Any deviation from the code will be appropriately explained and justified. Furthermore, fulfilment of the code will in future form part of the annual audit and therefore will be an integral part of the Notes (see Data and Key Facts). The formal declaration of intent pertaining to the code and related compliance issues are continually updated and can be accessed in the Investor Relations section of the corporate website at www.baslerweb.com.

In the Basler AG annual financial statements for 2002 we are very pleased to accentuate that the company's corporate management almost fully complies with the code's regulations. Basler AG's corporate management departs from the code in two points only:

- The Supervisory Board of Basler AG comprises only three members, as befits the size of company. This number ensures that the tasks at hand can be accomplished efficiently. For this reason, no committees or review boards will be established within the Supervisory Board or any future audit committee.
- Remuneration for members of the Supervisory Board is stipulated in the company bylaws. The remuneration policy takes into consideration the responsibilities inherent in the position of chairman and deputy chairman of the Supervisory Board. In line with the company's statutes there are currently no plans to introduce a variable remuneration component for members of the Supervisory Board.

Throughout 2003 the company will continue to focus on a combination of intensive communication work and a high level of transparency. Effective from the beginning of 2003, the German Stock Exchange was reorganized into two segments. In a move to demonstrate our commitment to transparency Basler successfully applied for admission as from January 1, 2003, to the Prime Standard segment which has much higher transparency requirements. A survey conducted in 2002 by the Basler Investor Relaions Team shows that our commitment to transparency is acknowledged and approved: almost 90% of the journalists and analysts rated the company's communications work as good or excellent.

Staff – A glimpse of the future

„Our employees are our most important capital“ is a formula that can be found in many annual reports. Basler has the figures to prove that for us this is much more than just a cliché.

Basler spends more money on human resources (51% of sales) than it spends on manufacturing (30% of sales).

Fixed assets were only 17% of the balance sheet total, a fairly low figure compared with rest of the industry. For the most part know-how and capacities flowed into the development of new products or into sales and marketing. 40% of the company's staff are employed in product development; 21% work in sales and marketing. A further 22% work in production, 5% in service and only 11% in administration. Basler has young, highly qualified employees. The average age at Basler is 35.1 years.

Basler's staff contributed significantly to cost reduction in 2002 with a comprehensive package of measures. As in the previous year, staff did not take a pay rise, a gesture which enabled the company to avoid further redundancies. Entire departments have introduced part-time schemes, which has helped to reduce personnel expenditure perceptibly without forcing valuable skills and expertise to leave the company.

In total, personnel expenditure has been lowered by 20% over the past two years, with only 15% of jobs being cut.

This flexible approach to the unfortunate obligation to cut costs shows just how strong the entrepreneurial spirit of Basler's staff is. This attitude plays a key role in shaping the way we work together. For instance, in 2002 staff tested ways of implementing a new form of team-based problem solving within the framework of the

Fast Improvement Team project (FIT). This approach involves allowing an interdisciplinary team to develop solutions for a clearly defined problem within a specific amount of full working time, i.e. without the distraction of other tasks, and then implementing these solutions as swiftly as possible. The objective of the FITs is to define new standards, and not simply to provide short-time solutions.

The Group's international structure is also reflected in its staff. This requires the swift, simple transfer of information across continents. One of the main aims in 2002 was to expand the company's intranet into a standard, international communication platform. We succeeded in doing this and now Basler's nearly 30 employees in the subsidiaries in Taiwan, Singapore and the United States can be fully incorporated in the internal flow of information within the company.

The opening of the Ahrensburg Technology Park brought more life into the company headquarters. A lively exchange of expertise and information has developed between Basler and the staff of the companies that have relocated here and new start-up businesses. With these new neighbours and institutions, we expect that there will be an increase in the number of events held in the building which in turn will create additional stimuli.

Contents

Data & Key Facts 2002

Condensed Management Report for the Financial Statements and Consolidated Financial Statements of Basler AG 2002

1. Vision Technology

Basler AG is a global leader in Vision Technology – the technology of artificial vision. Vision Technology encompasses computer-based Vision Systems, which make automated decisions on the basis of visual data, and cameras (Vision Components), which are integrated in Vision Systems.

There are already a vast number of applications for Vision Technology and these fields are increasing constantly. Vision Systems are currently predominantly utilized in industrial manufacturing, for instance in automatic quality control, measuring, identification, surveillance and monitoring. These applications are grouped under the term Machine Vision. Practical examples of the technology in use are in production control of electronic components; surface inspection during the production of plastic films, flatscreen displays or wafers; optical character recognition in mail sorting and document scanning; print control in the packaging industry or sorting waste materials. The main aim in utilizing Vision Technology is to enhance manufacturing effectiveness (Yield Management) and thus lower production costs.

2. The Vision Technology market

2.1. Market segments

From a supplier's point of view, the Vision Technology market can be divided into two main segments:

a) Vision Components manufacturers

- Cameras, lighting fixtures, optics, software, frame grabbers

b) Vision Systems manufacturers

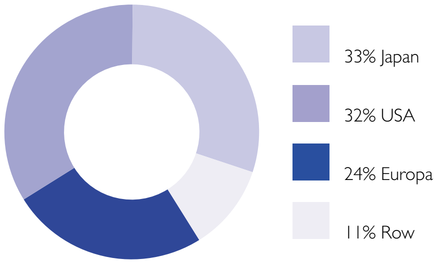
- Configurable, cross-application Vision Systems
- Application-oriented Vision Systems
- Application-oriented Vision Solutions

In addition to Machine Vision, which is currently the most developed and largest market segment, there are also several new, emerging segments in medical technology, traffic control, and in consumer-oriented segments, such as security technology and the automotive industry.

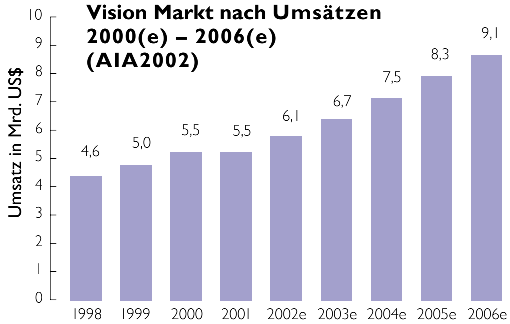
2.2. The global market development of Machine Vision

The global market for Machine Vision focuses primarily on the highly developed industrial regions: the United States, Europe, Japan, and the emerging industrial nations, China, South Korea and Taiwan. According to statistics published by the American association for the Machine Vision industry, the Automated Imaging Association (AIA), the United States and Japan are the largest markets for industrial image processing, accounting for 32% and 33% respectively. One quarter of the global sales volume of Machine Vision products is generated in Europe.

2002 (e) (AIA 2002)

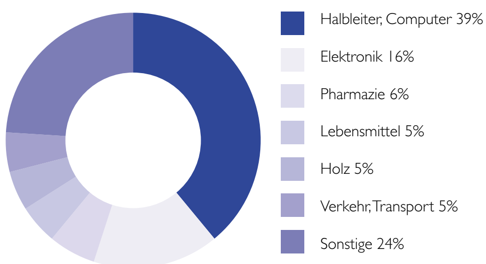


According to the AIA, the average annual worldwide growth of the Machine Vision market is expected to be at least 11% for the next five years. The AIA estimated that global sales of the Machine Vision products in 2002 was US $6.1 billion. By 2006, sales are expected to rise by 66% to US $9.1 billion.



The market for Vision Technology can be divided into numerous industry-specific segments. The 2002 AIA study breaks down the market for Machine Vision products by sector as follows:

Vision Markt 2002(e) nach Abnehmerbranchen in den USA (AIA 2002)



Only approximately 20-25% of all known industrial uses and applications for Vision Technology have been developed so far. New applications are emerging day by day and existing markets will continue to grow. The market for Vision Technology still has a vast growth potential.

Basler addresses the Vision Technology market with two corporate divisions:

- Vision Systems develops and markets turn-key solutions for use in mass production in the following industries:
  - Optical media industry
  - Rubber / elastomer industry
  - Electronics / display industry
  - Plastics industry
- Vision Components develops and distributes standardized components (cameras) for Vision Technology, thus supplying the needs of a wide variety of other sectors.

3. Basler Group Operational Review for the year ended December 31, 2002

3.1. Sales revenues

In the year ended December 31, 2002, the consolidated gross revenues of the Basler Group totaled € 26.7 million (Basler AG: € 23.3 million). Sales revenues have remained on a par with last year (Group: € 26.6 million; Basler AG: € 24.2 million, -4%).

3.1.1. Sales revenues by segment

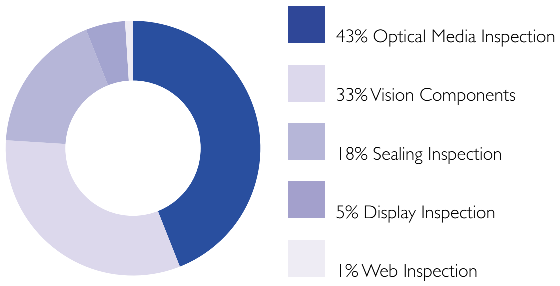
In fiscal 2002 Basler applied SFAS No. 131 „Disclosures About Segments of an Enterprise and Related Information" for the first time. The Group was exempted from segment reporting until December 31, 2001, by Deutsche Börse AG. The Group has structured its segment reporting according to corporate division, in line with its internal organizational and reporting structure. Within this organizational structure the Group differentiates between its two divisions Vision Systems and Vision Components. Segment reporting was only introduced in fiscal year 2002, which is why the sales and earnings figures for the two divisions are incomplete for the last year.

The Group's consolidated gross turnover for 2002 remained stable on a par with the previous year. This is largely the result of the gratifying growth of the Vision Components division. The Vision Components corporate division reported product sales of € 8.7 million in 2002, which is 19% up on 2001 sales of € 7.3 million. The net loss in 2002 was € 0.3 million.

Sales revenues in the Vision Systems division were € 17.9 million in 2002. This is a decrease of 7.3% against the previous year (Group 2001: € 19.3 million); the net loss in 2002 was € -4.3 million.

The group's strong dependency in past years on the optical media industry as a source of revenues decreased further in 2002. In 2001, the Optical Media Inspection division accounted for around 45% of sales, while Vision Systems accounted for 72%; in 2002 this declined slightly to 43% and 67% respectively. In the year under review the Vision Components division was able to increase its share of total sales from 28% to 33%.

Divisions by percentage of total sales, 2002

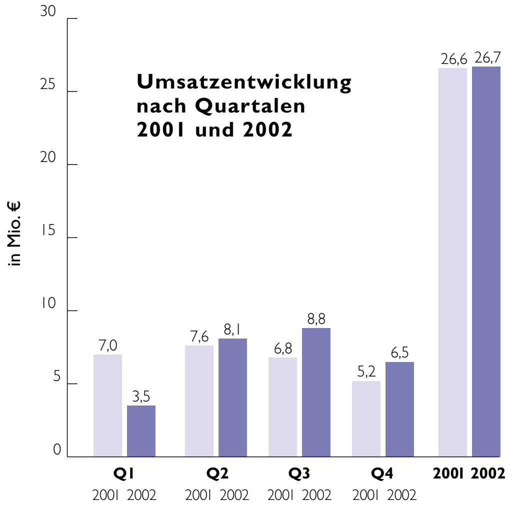


3.1.2. Sales distribution in the regions remains virtually unchanged

Basler continued the Group's global strategy in 2002: 24% of sales were generated in Germany (2001: 23%), 19% in the rest of Europe (2001: 19%) and 57% in the rest of the world (2001: 58%).

3.1.3. Sales subject to the customary seasonal fluctuations

The development of sales in the four quarters of the year under review was in line with the customary seasonal fluctuations, with weaker first and forth quarters and stronger second and third quarters. In Q1 and Q2 sales were € 3.5 million (2001: € 7.0 million) and € 8.1 million (2001: € 7.6 million) respectively. Sales in Q3 were € 8.8 million (2001: € 6.8 million) and € 6.5 million (2001: € 5.2 million) in Q4.

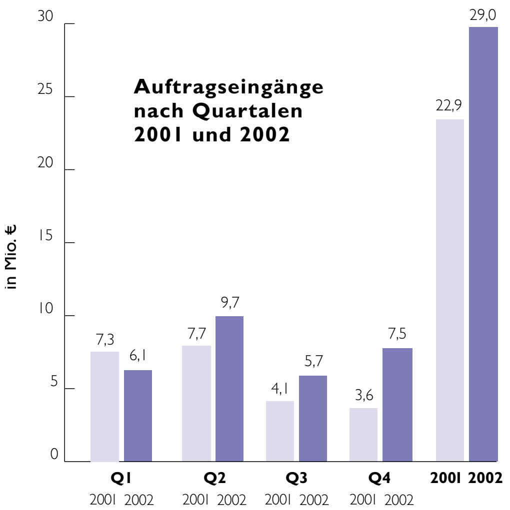


3.1.4. Evenly spread customer base

As in 2001, the year under review saw a continuation of the evenly spread customer structure. The largest individual customer accounted for 7% of sales (2001: 11%). The largest three customers accounted for almost 16% of sales in 2002 (2001: 22%); while the largest ten customers accounted for 35% (2001: 41%). In 2002, Basler succeeded in further reducing the Group's dependency on individual customers. This is chiefly the result of increased sales in the Vision Components division and the very broad customer base that this division services.

3.2. Development of orders received outstrips sales

The orders received by the Group increased at a greater rate than sales. In Q1, orders worth € 6.1 million (2001: € 7.3 million) were reported, rising to € 9.7 million (2001: € 7.7 million) in Q2. In Q3, orders went down to € 5.7 million (2001: € 4.1 million). Orders for Q4 were € 7.5 million (2001: € 3.6 million). In total, orders worth € 29 million (2001: € 22.9 million) were reported for 2002, an increase of 27% against the previous year.

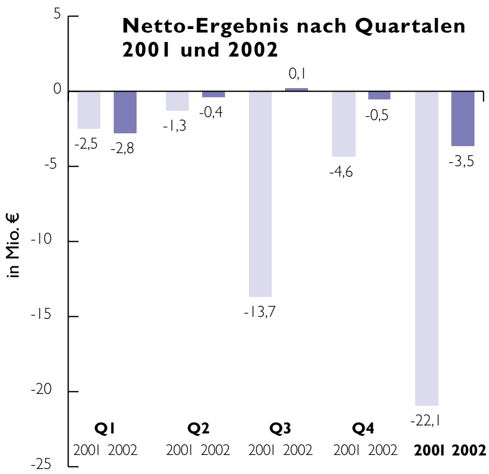


3.3. Group earnings rise

In the year under review the Group succeeded in increasing earnings substantially compared to 2001. For the first time in two years, the Group reported a quarterly profit in the third quarter of 2002. Sales in the Display Inspection division were lower than projected, and resulted in the Group missing its target of making a profit in the year under review.

Further progress was made in reducing the Group's expenditure. The Group continued to cut back operating expenses, and this item accounted for € 23.4 million in 2002, down from € 25.8 million in 2001 and € 28.1 million in 2000. These cost reductions had a decisive impact on increasing the Group's earnings.

The Group's operational result in the year under review was € -4.8 million, compared with € -14.6 million in 2001. After tax and interest, the Group incurred a loss of € -3.5 million (Basler AG: € -3.4 million), compared with € -22.1 million in 2001 (Basler AG: € -21.3 million).



As a result of the losses incurred, the company's liquidity was threatened in 2002. Through consistent debt reduction and rigorous cost saving measures the Group was able to secure liquidity.
A silent investment by Mittelständische Beteiligungsgesellschaft (amounting to € 1 million) and a linked loan from the Investitionsbank Schleswig-Holstein for € 511,000 aided the group's R&D investments. In the last quarter the final installment of € 1.5 million stemming from the proceeds of the sale of Basler's Photobit participation in 2001 was received.

The total cash balance as of December 31, 2002, was € 373,000, which is 92% down on the year-end cash balance for 2001 of € 4.6 million.

3.4. Fixed capital reduced

The group's balance sheet total for the year under review was reduced to € 16.1 million (2001: € 21.9 million). This was achieved on the assets side by decreasing inventories by 20% to € 6.1 million (31.12.2001: € 7.6 million). On the liabilities side equity went down 46% from € 7.6 million (31.12.2001) to € 4.1 million (31.12.2002). This takes the Group's equity ratio to 26% in 2002 (2001: 35%). In consideration of the silent investment the economic shareholder's equity amounts to 5.1 € Mio. (31.7%). Liabilities to banks were reduced substantially to € 1.5 million from the 2001 level of € 4.5 million.

3.5. Procurement structure optimized

The aim of all procurement activities in 2002 was to adjust existing supply and framework contracts to match the Group's sales situation. This was achieved by setting up a number of strategic alliances, which have also led to a reduction in delivery times. The Group's own ability to supply swiftly and consistently is to be increased with the aid of improved supply chain management.

In 2002, the Group's largest supplier was responsible for 6.1% of the total procurement volume (2001:11.4%), with the ten largest suppliers accounting for 28.5% (2001:43.7%).

3.6. Stringent focus on the ability to innovate

Technical innovations and developments are absolutely essential for a company that is active in strongly technology-driven markets. In the year under review, Research and Development was again the target of the major proportion of investments.

Consolidated Group expenditure for R&D in 2002 amounted to € 5.7 million (2001: € 7.5 million), bringing the R&D ratio up to 21% (2001:28%), which is well above the industry average.

3.6.1. Vision Systems

In the Vision Systems corporate division the Optical Media Inspection unit successfully defended its position as one of the main two suppliers of inspection equipment for the optical media producing industry. The products sold by this unit range from equipment for inspecting optical media, either fully integrated in the production line (Basler S3) or off-line, like the Basler REFERENCE, a stand-alone off-line test system which delivers highly detailed quality information on the basis of random checks. The Basler REFERENCE, a new product, achieved a true market breakthrough in 2002 and now every second DVD produced worldwide is inspected by a Basler system

The Ident Code Reader product range checks the barcodes on CDs and DVDs, guaranteeing correct printing and packaging; it operates at a speed of up to 130 discs per minute. As the final stage in the production process, Basler's Label Inspection L Series checks the quality of the printed images on CDs and DVDs.

The Display Inspection division product portfolio comprises the Basler SENSIC GSI (Glass Substrate Inspection), used for inspecting coated and ITO (Indium Tin Oxyde) coated glass substrates, and the Basler SENSIC CFI (Color Filter Inspection), used for inspecting color filter layers on glass substrates. Both of these core products have been enhanced and now include new features, including a patented air cushion handling system which transports the glass without touching it and therefore prevents damage caused by dirt.

In the year under review the Sealing Inspection division focused primarily on marketing existing products, following the complete renewal of the product portfolio in 2000 and 2001. The core product is the Basler VARIO inspection unit, which can inspect the surfaces and dimensions of up to five rings per second. The portfolio also includes inspection solutions for small sealing rings (Basler MICRO), for multiple inspection tasks (Basler COMPACT), and in-line inspection (Basler INLINE).

In the Web Inspection division the year was dedicated to driving forward market penetration of the Basler WEBSIGHT. New orders were taken and successfully processed. Furthermore, the division gained its first manufacturer of plastic production machines as a new customer; in future the Basler WEBSIGHT will be fitted in all production lines operated by this manufacturer.

3.6.2. Vision Components

In 2002 the Vision Components corporate division again unveiled a large number of innovative products. The market reception of the new A500 series of high-speed cameras was particularly good. Based on a CMOS sensor these area scan cameras can take up to 10,000 pictures per second, depending on the image section. Applications for the series include dynamic motion analysis (crash tests), data storage of 3D holograms, and human motion studies (sport science).

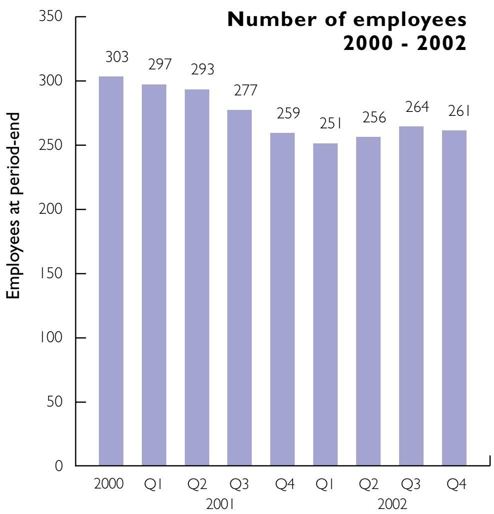
Vision Components successfully penetrated the mass market for industrial cameras with its area scan camera series A600. This camera presents a digital alternative to analog cameras – which still dominate in terms of sheer numbers – and it offers excellent value for money. Cameras such as these are, for instance, used for quality inspection in various industries, including semi-conductors, mechanical engineering and the food industry. There is also a strong demand for these image processing components in biometrics or microscopy.

3.6.3. Patents secure the ability to innovate

Patents secure Basler's ability to innovate and are an essential part of the company's development ability. As of December 31, 2002, Basler held 15 patents, some worldwide (2001:12), with a further 8 pending (2001:11), in addition to 2 registered designs („miniature patents") (2001:2).

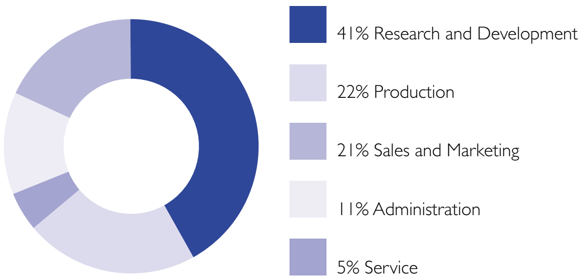
3.7. Staff make a valuable contribution to cost reduction

After the company was forced to trim back the number of jobs by 15% in 2001, the staff headcount was kept at this level in 2002. Personnel expenditure was cut back by 11% to € 13.7 million (2001: € 15.5 million) on top of the 6% reduction effected last year (2000: € 16.5 million).



As of December 31, 2002, Basler Group had 261 employees (Basler AG: 232 employees). The average number of employees for the year was 259 (Basler AG: 229 employees), compared with an average of 286 in 2001.

Staff by tasks 2002



As of December 31, 2002, the majority of staff were employed in Research and Development (41%), followed by Production and Logistics at 22%, Sales and Marketing with 21%, Administration at 11% and Service at 5%. The percentage of female employees at year-end 2002 was 23.7% (2001:25%). As of December 31, 2002, 232 members of staff were employed at the Ahrensburg site (2001:234); 15 (14) in the USA; 6 (6) in Singapore and 8 (5) in Taiwan. The average age in 2002 was 35.1 years (2201:34.2). More than half of all employees have an academic degree, of which 7% have a doctorate. As in 2001, Basler employed 6 trainees and 3 students from the Academy of Business Management in 2002.

3.8. Positioning through marketing

Marketing and Sales activities were again stepped up significantly in the year under review. Consolidated Group expenditure in 2001 was € 8.2 million, or 31% of turnover (2001: € 7.2 million). The organization and focus of sales activities varied from division to division. While the Vision Systems segments primarily utilize direct sales, Vision Components tend to work with value added resellers or distributors. All divisions use a comprehensive mix of marketing and communications activities, including adverts, trade show presentations, mailing campaigns and newsletters. The focus was on product launches in the corporate divisions and positioning the company in new applications and regional markets.

3.9. Environmental protection

Environmental protection plays an important role at Basler. The Group's efforts in this area include the incorporation of a water-efficient system in the new extension which ensures that water is used consciously. The new building was constructed using only environmentally friendly materials, including halon and chlorofluorocarbon free cables for the 300 km cable network. Basler's waste management and disposal program is based on the strict separation of reusable materials into plastics, bio-waste, cardboard and paper, batteries. Hazardous materials are disposed of by experts.

4. Risk report

4.1. Market and industry risks

A market risk lies in the issue as to when and to what extent the technology markets will revive. Although recovery tendencies have not been calculated into the 2003 budgets, these market conditions nevertheless have an impact on Basler's procurement markets and target markets.

Up until now, a certain market risk for Basler was presented by the development of the optical media market. In 2003 the Group's dependency on this specific target market will decrease further. The percentage of sales contributed by any one market will – as in 2002 – be considerably lower than 50%, which reduces the risk of becoming dependent on individual markets.

Management and Sales utilize predictions compiled by industry associations, market research institutes and capital market analysts to assess the company's target markets. Additionally, regular meetings are held with customers in order to forecast impending changes on the market well in advance of their occurrence.

4.2. Corporate strategy risks

Basler's corporate strategy is completely focused on penetrating the growth market of Vision Technology. The risk presented by this strategy is that some or all of the company's business activities could become simultaneously obsolete should a technology change occur. An extension of business activities towards exploiting a value chain would reduce this risk, but this would necessitate a stronger split of Basler's core competencies, bringing with it the risk of defocusing.

Experts are unanimous that Vision Technology has a vast potential and that there is no alternative to this technology in sight. Accordingly, the risks inherent in the corporate strategy can be considered to be fairly limited.

4.3. Performance, financial and economic risks

Should Basler AG not succeed in returning the company back to profitability on an annual basis in fiscal 2003 then appropriate cost-cutting measures will have to be taken. Depending on their scope, these measures could impact the Group's future earnings potential. Should turnaround take longer than anticipated then it may be necessary to provide additional capital to bridge this period of operative losses.

Basler also depends on the fact that the existing shareholder loans as well as the bank's loans will be at disposal beyond there agreed due-date.

All operating risks are closely monitored with the aid of an advanced financial and management information systems. The tools utilized include a 52-week rolling sales, revenue and financial plan for all business areas, comprehensive monthly reporting for all cost centers and a business figures system that gives greater detail than that used in previous years.

In light of Basler Group's high proportion of exports, the development of exchange rates presents an individual risk, in particular the exchange rate of the euro to the US dollar. To limit such risks the Group uses specific measures to protect the company against exposure to currency risk in all large deals drawn up in a foreign currency.

4.4. Staff risks

Should Basler Group's markets develop much better than anticipated then the Group could experience staffing shortages in order processing. This risk can be countered by the targeted extension of business alliances, as well as by the employment of outside and temporary staff.

5. Outlook

Basler Group has used the difficult fiscal year 2002 to implement significant improvements to the Group's cost structures and processes, as well as strengthening the company's sales competencies. The Group is well-prepared to face the challenges of the new fiscal year 2003. A major objective for the Board in 2003 is to lead the company back into the profit zone for the entire year with a successful turnaround. Following the modest profits reported in the third quarter and the increase in the number of orders received as compared with the previous year, the Board is optimistic that sales in 2003 will increase by a low double digit percentage and that the company will generate a reasonable profit.

Growth impulses are expected to come primarily from the Vision Components division. However, based on the company's present performance, it is to be expected that sales revenues in the divisions Display Inspection, Optical Media Inspection, Sealing Inspection and Web Inspection will increase against last year's level.

Strict cost management in conjunction with improved control tools will help to ensure that the company ceases to operate at a loss. With the Group's projected business development the number of employees will remain stable, as will the employee structure with its focus on Research & Development and Sales, Marketing and Service.

Basler has used fiscal 2002 to continue making the company fit for the future. In light of the forecast recovery of customer markets, Vision Technology – the technology of artificial vision – again offers Basler attractive growth potential for the next few years. As one of the largest Vision Technology enterprises in Europe, Basler aims to play a key role in shaping this market.

Ahrensburg, January 2003

The Management Board

Basler AG

Dr. Dietmar Ley, Axel Dancker,
Peter Krumhoff

Consolidated Statement of Operations 2002 (US-GAAP)

(in € thousand; except shares and earnings per share)

	2002	2001*
SALES	**26.702**	**26.621**
Cost of sales	-8.100	-15.476
Gross profit	18.602	11.145
Operating expenses		
Research and development	-5.669	-7.500
Selling and marketing expenses	-8.169	-7.184
General and administrative expenses	-9.522	-11.070
Total operating expenses	-23.360	-25.754
OPERATING LOSS	**-4.758**	**-14.609**
Interest income	46	30
Interest expenses	-612	-557
Deprecation of investments	0	-7.614
Income from affiliated companies	1.537	0
Other income	312	465
LOSS BEFORE INCOME TAXES	**-3.475**	**-22.285**
Income tax	-20	217
NET PROFIT / NET LOSS	**-3.495**	**-22.068**
Weighted average number of shares (basic)	3.500.000	3.500.000
Weighted average number of shares (diluted)		
authorized capital	1.750.000	1.750.000

* A non capitalized depreciation of anticipated losses has made a restatement of the financials statements 2001 necessary (see Notes, 2)

Consolidated Segment Information 2002 (US-GAAP)

(in € thousand)

	Vision Systems	Vision Components	Reconciliation	Total Group
SALES REVENUES	**17.924**	**8.714**	**64**	**26.702**
Germany	2.474	2.704	42	5.220
Foreign	15.450	6.010	22	21.482
External Sales with a single client accounting for more than 10% of the segment's sales	2.373	874	0	3.247
Number of clients	1	1	0	2
SEGMENTRESULTS (BEFORE INTERESTS, TAXES, AND EQUITY)	**-4.262**	**-261**	**-235**	**-4.758**
of which is depreciation/amortization	714	319	32	1.065
SEGMENT ASSETS				
Noncurrent assets	472	286	2.273	3.031
Fixed-assets Investments	425	90	526	1.041
Inventories	4.611	2.124	-644	6.051
Receivable	3.264	808	519	4.591
Total assets				13.673
of which outside Germany				3.892

Consolidated Cash Flow Statement (US-GAAP)

(in € thousand)

CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	-3.495	-22.068
Cash received by asset deal regarding Photobit Corporation	-1.537	0
Depreciation of fixed, financial and intangible assets	1.194	8.833
Gains on disposal of equipment	15	-4
changes in:		
Inventories	1.516	3.335
Trade accounts receivable	-617	870
Accrued Expenses	-459	1.400
Other Current Assets and prepaid expenses	116	1.339
Deferred tax asset	-47	0
Foreign currency translation adjustment	49	52
Notes payable to shareholders	8	0
Advanced payments received	-726	-807
Trade Accounts payable	350	-540
Other current liabilities	-14	-295
NET CASH USED FOR OPERATING ACTIVITIES	**-3.647**	**-7.885**
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of equipment	53	233
Purchase of equipment	-723	-911
Cash received by asset deal regarding Photobit Corporation	1.537	7.273
NET CASH FROM INVESTING ACTIVITIES	**867**	**6.595**
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in cash received by bank loan	512	2.247
Decrease in cash/repayment of bank loan	-3.015	-2.257
Cash received by shareholder's loan	0	4.128
Cash received by silent partnerships	1.023	0
NET CASH PROVIDED BY FINANCING ACTIVITIES	**-1.480**	**4.118**
NET CHANGE IN CASH	**-4.260**	**2.828**
CASH, BEGINNING OF YEAR	**4.633**	**1.805**

* A non capitalized depreciation of anticipated losses has made a restatement of the financials statements 2001 necessary (see Notes, 2)

Consolidated Balance Sheet as of December 31,2002 (US-GAAP)

(in € thousand)

Assets

	as of 31.12.2002	as of 31.12. 2001*
CURRENT ASSETS		
Cash& Cash equivalents	373	4.633
Trade accounts receivable, net	4.591	3.976
Inventories		
Finished goods and commodities	733	1.128
Work in process	1.004	1.833
Raw materials and supplies	4.314	4.607
TOTAL INVENTORIES	**6.05**	**7.568**
Other current assets and prepaid expenses	522	638
Total current assets	**11.537**	**16.815**
PROPERTY AND EQUIPMENT		
Technical equipment and IT	2.912	2.537
Fixtures, fittings, tools and equipment	3.017	3.436
Accumulated depreciation	-3.243	-2.922
Total property and equipment	**2.686**	**3.051**
INTANGIBLE ASSETS		
Software and licences	1.106	1.050
Accumulated depreciatetion	-761	-532
Total intangible assets	**345**	**518**
INVESTMENTS	**0**	**(EUR 1.00)**
DEFERRED TAX ASSET	**1.525**	**1.478**

* A non capitalized depreciation of anticipated losses has made a restatement of the financials statements 2001 necessary (see Notes, 2)

Consolidated Balance Sheet as of December 31,2002 (US-GAAP)

(in € thousand)

Liabilities and Shareholder’s Equity

	As of 31.12.2002	As of 31.12. 2001*
CURRENT LIABILITIES		
Notes payable to shareholders	4.136	4.128
Short term liabilities to banks	1.450	4.464
Trade accounts payable	1.000	650
Advanced payments received	537	1.264
Accrued expenses	2.836	3.294
Other current liabilities	496	510
Total current liabilities	10.455	14.310
COMMITMENTS AND CONTIGENCIES		
Long Term liabilities	511	0
Silent Partnerships	1.023	0
TOTAL LIABILITIES	**11.989**	**14.310**
SHAREHOLDER'S EQUITY		
Common stock	3.500	3.500
Additional paid-in capital	995	22.299
Accumulated deficit	-291	-18.098
Accumulated foreign currency translation adjustment	-100	-149
Total shareholder's equity	4.104	7.552
TOTAL LIABILITIES AND		

* A non capitalized depreciation of anticipated losses has made a restatement of the financials statements 2001 necessary (see Notes, 2)

Consolidated Statement of Changes in Shareholder's Equity as of December 31, 2002

(in € thousand)

	Authorized capital	Conditional capital	Number of shares	Common stock	Additional paid-in capital	Accum. Deficit/ Retained earnings	Foreign currency translation adjustment	Consolid. share-holder's equity	Compre-hensive Income
BALANCE, JANUARY 1, 2001	**1.750**	**350**	**3.500.000**	**3.500.000**	**25.711**	**558**	**-201**	**1.687**	
Net loss						-20.568		514	-20.568
Transfer from capital reserve					-3.412	3.412		0	
Foreign currency transl. adjustment							52	52	52
Comprehensive income								0	-20.516
BALANCE, DEC. 31, 2001	**1.750**	**350**	**3.500**	**3.500**	**22.299**	**-16.598**	**-149**	**9.052**	
Net loss						-3.495		-3.495	-3.495
Restatement 2001						-1.500		-1.500	
Transfer from capital reserve					-21.304	21.304		0	
Foreign currency transl. adjustment							49	49	49
Comprehensive income								0	-3.446
BALANCE, DEC. 31, 2002	**1.750**	**350**	**3.500**	**3.500**	**995**	**-289**	**-100**	**4.106**	

Notes to the consolidated financial statements 2002

1. The Company

Basler AG and its daughter companies develops, manufactures and distributes vision technology – the technology of artificial vision. The company's systems and components for quality assurance play a key role in the optimization of industrial production processes.

The corporation operates in five different markets: The CD/DVD industry, the rubber and elastomer industry, the flatscreen industry, the plastic film industry, and the machine vision components industry. The Company has subsidiaries in the US (Basler Inc.), Taiwan (Basler Vision Technologies Inc.) and Singapore (Basler Asia Pte. Ltd.). In addition to domestic revenues, Basler generates sales revenues primarily in the USA and Asia. The Company's key customers are active in the industrial sector.

Basler AG has been listed on the Neuer Markt segment of the Frankfurt Stock Exchange since March 23, 1999.

2. Interruption of accounting consistency

In 2001, provisions amounting to € 1.500,000 in accordance with the German Commercial Code (HGB) were made to cover anticipated losses stemming from the rentals and in part vacancy of property in the leased building (see passivation commandment). In accordance with the interpretation of the internationally accepted US GAAP principles, in 2001 these provisions were not deemed to be necessary (passivation forbiddance). The Company later became aware that under the terms of US GAAP there was already an obligation to capitalize. The Company's financial statements in accordance with US GAAP have been adjusted according to APB 20:

- Administrative expenses: +1.500.000
- Provisions: +1.500.000

This adjustment takes the consolidated annual loss for 2001 from € -20.568.000 to € -22.068.000.

There shareholder's equity was reduced accordingly. The changes were declared according to APB 9.18 as retroactive treatment in the pre-year figures of the condensed financial statements 2001.

3. Summary of significant accounting policies

3.1. Base of presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with the generally accepted accounting principles in the United States, US GAAP.

The Company maintains its financial records in accordance with the German Commercial Code, which represents the accounting principles generally accepted in Germany (German GAAP). Generally accepted accounting principles in Germany vary in certain significant respects from US GAAP. Accordingly, the Company has made certain adjustments in order to bring these financial statements in line with US GAAP.

3.2. Consolidation methods

The consolidated financial statements include the annual financial statements of Basler AG and its fully consolidated subsidiaries. All intragroup transactions have been eliminated in the course of consolidation. In the course of debt consolidation, intragroup accounts receivable and liabilities have been eliminated in the consolidated financial statements as well as intermediate results with corresponding inventories, and intragroup income and expenses. Income tax effects have been taken into account and deferred taxes are recognized in the consolidation procedures relating to revenue results.

The consolidated financial statements and the financial statements of the subsidiary companies included are prepared as of December 31, 2002, the closing date for the parent company's financial statements.

The Company's accounting and valuation principles correspond with the methods used to prepare the individual financial statements.

Valuation adjustments made for tax reasons are not reflected in the consolidated financial statements. The accounting and valuation methods applied are the same as applied in the previous year.

3.3. Use of estimates

The preparation of financial statements in compliance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from these estimates.

3.4. Foreign currency conversion

The functional currency of the Company's operations outside of Germany is the currency of the local country. Consequently, assets and liabilities of operations outside Germany are converted into Euro using the exchange rate applicable on the last day of each reporting period. Revenues and expenses are converted at the average rate of exchange for the period. Cumulative translation gains and losses are reported as a separate component of shareholder's equity.

Transactions in foreign currencies are converted at the rate of exchange valid on the date of the transaction. For the years ended December 31, 2002 and December 31, 2001, the Company's foreign currency transaction gains were € 149,000 and € 136,000 respectively, while losses were € 882,000 and € 124,000 respectively. Gains and losses stemming from exchange rates are recognized in the consolidated financial statement of operations and are included in general and administrative expenses for the respective periods.

The fixed Euro conversion rates are applied to all transactions within the European Union. The exchange rate of the euro to the other significant currencies in the consolidated financial statements is as follows:

	Rate at year-end	
	31.12.2002	**31.12.2001**
1 €	1.04150 US $	0.88200 US $
1 €	1.80860 Singapore $	1.63350 Singapore $
1 €	36.29610 New Taiwan $	30.94000 New Taiwan $

	Average exchange rates	
	31.12.2002	**31.12.2001**
1 €	0.95060 US $	0.89220 US $
1 €	1.69610 Singapore $	1.60210 Singapore $
1 €	32.786 New Taiwan $	30.155 New Taiwan $

3.5. Cash

Cash comprises cash on hand and cash accounts at banks.

3.6. Concentration of credit risk

Financial instruments that potentially subject the Company to a concentrated credit risk consist primarily of accounts receivable. The Company performs ongoing credit evaluations of its customers' credit ratings; the risk presented by trade receivables is further mitigated by the fact that the Company's customer base is diversified. The Company uses a precisely defined tracking system for accounts receivables.

3.7. Fair value of financial instruments

The book values of the Company's financial instruments, including cash, accounts receivable, accounts payable and long-term debt, reflect their fair values. All accounts receivable balances are due within one year.

3.8 Property and equipment

Property and equipment are stated at cost. Assets are depreciated over an estimated useful life (between 3 and 5 years for technical equipment, and IT and 10 years for fixtures, fittings, tools and equipment) using the straight line method. Cost either comprises cost of acquisition or cost of conversion, including all direct and indirect costs. Cost includes all major expenditure and replacements which extend the object's useful life or increase its capacity; maintenance and repair costs are expensed as incurred. For all periods presented interest costs allocable to these projects were insignificant and have not been capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the appropriate accounts. Any gains or losses generated by the disposal of such assets are reported under other income or expense. Fully depreciated assets are retained in tangible fixed assets and depreciation accounts until they are removed from service.

3.9. Intangible assets

Software and licenses are stated at cost and are depreciated over an estimated useful life using the straight line method. Fully depreciated assets are retained in software and license asset and depreciation accounts until they are removed.

3.10. Long-lived assets

The Company periodically evaluates the recoverability of the book value of its long-lived assets in accordance with Statement of Financial Accounting Standards No. 121 „Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of". Whenever events or changes in circumstances indicate that the book values of those assets may not be recoverable, the Company will compare the undiscounted net cash flows which these assets are estimated to generate with the book value of these assets. If the undiscounted cash flows are lower than the book value of the assets, the Company will record impairment losses to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to generated from the assets. During the years ended December 31, 2001 and December 31, 2002, management has no record of such impairment.

3.10.1. Investments

Investments represent shares in a non-public company. They are accounted for at cost subject to impairment (Note 5).

3.10.2. Allowances for doubtful accounts

Management regularly assesses the value of accounts receivable and an allowance for doubtful accounts is provided. In 2002 three debtors filed for bankruptcy. For this reason Basler made a provision of € 3,000 (2001: € 191,000). A provision of € 222,000 was also made for a disputed transaction.

All accounts receivables are pledged to Norddeutsche Landesbank Girozentrale (Nord LB), Hannover.

3.10.3. Inventories

Inventories consist of raw materials, work in process and finished goods. Inventories are shown at the lower of cost or market price. Raw materials are reported at actual cost, using the weighted average method. Manufacturing cost is used to value finished goods and work in process. Manufacturing cost includes direct labor, raw materials and manufacturing overheads. Obsolete, damaged and excess inventories are carried at the lower of cost or net selling prices.

All inventories are pledged to NordLB.

3.11. Advertising costs

Advertising costs are expensed as incurred. Advertising expenses of € 677,000 and € 1.200,000 were reported under marketing expenses for 2002 and 2001 respectively.

3.12. Revenue recognition

Revenues are mainly generated through sales of finished products. These are „inspection systems for optical media" and individual „vision components".

Revenues generated by vision components are recognized when persuasive evidence of an arrangement exists, delivery of the products has occurred, the price for the transaction is fixed and determinable, and the customer's ability to pay is reasonably assured within one year of invoice date. Revenues are reported net of sales incentives, such as discounts, customer bonuses and rebates.

Agreements for inspection systems for optical media consist of the delivery of a specific system and the partial installation of these systems. Systems specifications are arranged with the customer during sales negotiations. In accordance with Basler's General Terms and Conditions of Contract the risk of loss or damage is transferred to the customer on the date of delivery when the product leaves the Company's facility in Ahrensburg. Installation requires the customer's specific agreement. Revenues are recognized when persuasive evidence of an arrangement exists, delivery of the products has occurred and/or installation is completed, the price for the transaction is fixed and determinable, and the customer's ability to pay is reasonably assured. Revenues are reported net of sales incentives, such as discounts, customer bonuses and rebates.

3.13. Sales incentives

Provisions are made to cover the costs of warranties and similar obligations. Dispatch and handling costs are reported under selling expenses.

3.14. Earnings per share

Basic net loss per common share is reported in accordance with the Statement of Financial Accounting Standards No. 128 „Earnings Per Share" for all periods presented. Basic net loss per share is computed using the weighted-average number of vested outstanding shares of common stock. Diluted net loss per share is computed using the weighted-average number of vested shares of common stock outstanding and, when dilutive, unvested common stock outstanding, potential common shares from options and warrants, convertible debt and contingently issuable shares. Since dilution would result in a decrease in loss per share only basic earnings per share is reported.

3.15. Stock options

The Company accounts for stock-based awards to employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, „Accounting for Stock Issued to Employees". Compensation cost for stock options granted to employees is measured as the excess of the quoted market price of the Company's stock on the evaluation date over the amount an employee must pay to acquire the stock (the „intrinsic value"), and is recognized over the vesting period. The intrinsic value of the options for which the evaluation date has not been reached is evaluated on the basis of the current market value of the Company's stock at the end of each period.

3.16. Segment information and geographic division

In fiscal 2002 Basler applied SFAS No. 131 „Disclosures About Segments of an Enterprise and Related Information" for the first time. The Group was exempted from segment reporting until December 31, 2001, by Deutsche Börse AG.

The Group has structured its segment reporting according to corporate division, in line with its internal organizational and reporting structure. Within this organizational structure the Group differentiates between its two divisions: Systems and Components. The Systems division comprises the development, sales and installation of optical inspection systems. The Systems division is divided up into four units (Optical Media Inspection, Web Inspection, Display Inspection and Sealing Inspection), which, as they face similar opportunities and risks, are grouped together. The Components Division comprises the sale of individual product components, chiefly cameras. The Company's products are predominantly developed at the Basler facility in Ahrensburg, and are then sold through direct sales channels, the subsidiaries (USA, Singapore and Taiwan) and independent distributors in Europe North America, Australia, Japan and Asia.

All details given in the summarized reports are taken directly from the Company's internal reporting system, which is used for management purposes by the Company's top strategic decision-makers. The debts and interest burden generated by each division is not included in the internal reporting assessment, and as such will not be included in the segment reports.

The earnings differences in the reconciliation accounts are the result of the valuation differences between German commercial law and US GAAP. As internal reporting is conducted on the basis of commercial valuation no distribution to the individual divisions was made.

4. Prepaid expenses and other assets

Prepaid expenses and other assets comprised the following (in € '000):

	As of December 31	
	2002	2001
Tax office receivables	265	292
Trade show prepayments	0	165
Prepaid expenses	157	76
Other	100	105
	522	638

5. Property and equipment

Property and equipment comprised the following (in € '000):

	2001	Additions	Disposals	2002
Technical equipment and IT	2.537	541	-165	2.913
Fixtures, fittings, tools and equipment	3.436	116	-535	3.017
Subtotal	**5.973**	**657**	**-700**	**5.930**
Acc. depreciation	2.922	957	-635	3.244
Property and equipment, net	**3.051**	**-300**	**-65**	**2.686**

6. Investments

In 1999 Basler acquired a 14.7% stake in Photobit Corporation, Pasadena/USA for an acquisition cost of € 11,351,000. In 2000 Photobit increased its capital by shareholder contributions. Accordingly, Basler contributed € 3,536,000 without increasing its voting rights. In 2001 the American semiconductor manufacturer, Micron Technology, Inc., acquired all of the assets and certain liabilities of Photobit Corp. under the terms of an asset deal.

The cash received by Basler under the terms of this asset deal amounted to € 7,273,000. As the entire business has been sold, Photobit cannot generate future earnings. Accordingly, the book value of this investment was adjusted from € 7,614,000 to € 7,273,000 in the third quarter of 2001.

In the forth quarter of 2002 the proceeds of the liquidation were distributed to the shareholders. Basler AG received € 1,537,000.

In the year under review Basler held no investments in other companies.

7. Accruals and other current liabilities

Accrued liabilities are mainly capitalized for outstanding costs in economic connection with recognized revenues and for warranties, as well as for anticipated losses stemming of unused offices in the leased building (see Note 2,Restatement 2001).

Other current liabilities comprised the following (in € '000):

	As of December 31	
	2002	**2001**
Social security	264	299
Payroll taxes payable	168	198
Employee compensation	1	0
Other	63	13
	496	**510**

8. Short-term debts to banks

The Company has lines of credits at NordLB amounting to € 3,000,000 which expire on June 30, 2003. As of December 31, 2002, the company had drawn down € 1,450,000 of this amount. On January 15, 2003, a fixed loan amounting to € 2,500,000 was taken up. The interest rate for this loan is 5.61 p.a.

9. Related party transactions

Loans payable to shareholders

During 2001, the Company entered into loan agreements for € 4,090,000 with the following three shareholders and/or related parties:

	T€
Monika Proske-Ley	204,5
Nicola-Irina Basler	1.840,7
IKB Beteiligungsgesellschaft mbH, Düsseldorf	2.045,2

Each of these loans are subject to a subordination agreement. The interest rate is 9.0% p.a. These loans are due on June 30, 2003.

As of December 31, 2002, interest payable to shareholders amounted to € 46,000.

10. Commitments and contingencies

10.1. Operating Leases

The Company's facilities and specific items of furniture and equipment are leased under operating leases. Future annual leasing payments are as follows:

	As of December 31
	€ '000
2003	2.781
2004	2.205
2005	2.183
2006	2.164
2007	2.150
Thereafter	23.647

Rent and leasing expenditure in the year under review was € 2,725,000 (2001: € 2,908,000).

In 1999 the company entered into a rent agreement with a fixed rent period of 20 years for the premises at Ahrensburg. The total investment in the property by the owner at this time amounted to € 26,331,000. This was financed by several loans from Kreditanstalt für Wiederaufbau, Frankfurt (KfW) and IKB.

If the company had invested its own capital in this property (land and buildings), then this would have had to be disclosed on the balance sheet. The annual lease payments for the years 2002 – 2007 are € 2,150,000, and € 2,015,000 for the years 2008 – 2018. The resulting impact on the Company's profit and loss accounts, compared to the impact of the lease payments, would have been negligible.

10.2. Legal matters

The Company is involved in a small number of legal disputes arising from normal operations. After consultations with legal experts, the Management Board believes that the ultimate resolution of these matters will not have a material effect on the consolidated financial statements, or are already fully covered in these financial statements.

11. Shareholder's equity

11.1. Stock compensation plans

The Company has devised stock option plans for the Company's employees. The objectives of these schemes include attracting and retaining personnel and promoting the success of the Company by giving staff the opportunity to purchase common stock.

Under the 1999 stock option plan (the „1999 Plan") the Company is authorized to issue and has issued 80,094 option rights for the subscription of Basler shares to employees of Basler AG, Ahrensburg, and its affiliated companies by March 22, 1999. The option rights entitle the bearer to purchase shares in the Company at a price of € 57.00 and vest in four installments approximately after two, three, four and five years.

The options can only be exercised if at certain specified dates the increase in the value of Basler stock – based on the average price of the share during the last five trading days before the first exercise period against the IPO price – at least equals the performance of the Neuer Markt index.

Under the 2000 stock option plan (the „2000 Plan") the Company is authorized to issue and has issued 78,000 option rights for the subscription of Basler shares to employees of Basler AG, Ahrensburg, and its affiliated companies by June 17, 2000. The option rights entitle the bearer to purchase shares in the Company at a price of € 75.00 (the average of the last 5 trading days in October when the program was initiated) and vest in four installments approximately after two, three, four and five years.

The options can only be exercised if at certain specified dates the increase in the value of Basler stock – based on the average price of the share during the last five trading days before the first exercise period against the strike price of the options – at least equals the performance of the Neuer Markt index.

All options from both programs not exercised after the last vesting period will expire.

The status of the Company's stock option plans as of December 31, 2002 is as follows:

	Plan 1999	Plan 2000
Outstanding on January 1, 2002	41.444	54.194
Granted	-	-
Exercised	-	-
Expired	6	13
Outstanding December 31, 2002	41.438	54.181

None of the outstanding options as of December 31, 2002 are exercisable. All options vest between June 29, 2001 and May 25, 2005.

Due to the immaterial amounts of the intrinsic value of the options granted, the Company has elected not to disclose the fair value of the options granted as the fair value is presumed to be immaterial. Accordingly, no pro forma disclosure of the compensation cost for these grants has been made as determined in accordance with Statement of Financial Accounting Standard No. 123, „Accounting for Stock-Based Compensation".

Stock-based compensation:

The Company applies Accounting Principles Board (APB) Opinion No. 25, „Accounting for Stock Issued to Employees," and related Interpretations in accounting for its stock-based compensation plans. At the grant date the fair market value, determined by applying SFAS 123, no compensation cost was recognized. This has no impact on the Company's net loss and net loss per share.

11.2. Authorized and conditional capital

As of December 31, 2002, the Company

had authorized and conditional capital amounting to € 1,750,000 and € 350,000. Authorized capital is equivalent to additional authorized shares for acquisitions or sales of common stock with the approval of the Company's Supervisory Board.

12. Income taxes

Income tax expense (rebate) comprises the following (in € '000):

	As of Dec. 31, 2002	As of Dec. 31, 2001
Current taxes	67	(109)
Deferred taxes	(47)	(108)
	20	**(217)**

In October 2000, the German government passed a legislation that reduces the corporate income tax rate for all corporations in Germany from 40.0 % to 25.0% effective January 1, 2001. A lower rate for distributed profits was abolished. Including the impact of the solidarity surcharge the enacted federal corporate income tax rate amounts to 26.4 % effective January 1, 2001. Including trade tax the total income tax rate for years subsequent to December 31, 2001 is assumed to be 36.7%. This tax rate was applied to determine applicable deferred tax assets and deferred tax liabilities as of December 31, 2002.

The Company accounts for income taxes using an asset and liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which taxes become payable.

The components of the deferred tax asset were as follows (in € '000);

	2002	2001
Net operating loss carry forwards	1,550	1,550
Tax asset on net operating loss for the year	1,395	4,768
Valuation allowance	-1,395	-4,768
Other	-25	-72
Net deferred tax asset	1,525	1,478

A reconciliation of income taxes determined using the German corporate tax rate of 26.4 % plus the rate for trade taxes taking the respective tax deductibility for corporate tax benefits into consideration resulting in a combined statutory rate of 36.7 % is as follows:

	As of Dec. 31, 2002	As of Dec. 31, 2001
Loss before income tax	(3,495)	(20,785)
Tax rate	36.7%	36.7%
Expected income tax expense (rebate)	(1,283)	(7,628)
Effect of non tax-deductible expenses	0	2,800
Differences in foreign taxation	52	0
Changes in valuation allowance	1,283	4,768
Other	-32	(157)
Actual income tax expense (rebate)	20	(217)

A valuation allowance has been recorded for the deferred tax asset on the net losses of 2002, as a result of uncertainties regarding the realization. For the year ended December 31, 2002, the Company had net operating loss carry forwards for tax reporting purposes in various tax jurisdictions as follows (€ '000):

	As of 31.12.2002	As of 31.12.2001
Germany	18.531	15.433
USA	0	371
Taiwan	111	245
Singapore	326	240
Total	**18.968**	**16.289**

The German net operating loss carry forwards for tax purposes relates to corporate income tax and trade tax and carry forward indefinitely. The Tax Reform Act of 1986 and German tax law contains provisions which may limit the net operating loss and tax credit carry forwards to be used in any given year upon the occurrence of certain events, including a significant change in ownership interest.

13. Income statement

Material and personnel expenditure comprise the following (€ '000):

	2002	2001
Cost of raw material, supplies and goods for resale	6.715	9.749
Cost of purchased services	566	550
	7.281	**10.299**

	2002	2001
Wages and salaries	11.616	13.071
Social security costs	2.100	2.452
	13.716	15.523

14. Local disclosure requirements

In 2002 the following were members of the Management Board:

Dr. Dietmar Ley, Ahrensburg, Chairman

Axel Dancker, Ahrensburg, Operations

Peter Krumhoff, Bad Homburg, Finances

In 2002 the following were members of the Supervisory Board:

Prof. Dr. Walter Kunerth, Chairman

Norbert Basler

Bernd Priske

14.1. Board remuneration

In 2002 remuneration for the members of the Supervisory Board totaled € 34,000 (2001: € 34,000) and fixed remuneration for the Management Board was € 414,000 (2001: € 358,000). Variable remunerations for the Management Board amount to € 138,000 in 2002.

14.2. Investments

The following table lists the Company's directly held investments that are included in the consolidated financial statements as of December 31, 2002:

	Share%
Basler Inc., Exton/USA	100%
Basler Asia Pte. Ltd., Singapore	100%
Basler Vision Technologies Taiwan Inc., Taipei/Taiwan	100%

14.3. Employees

In 2002 the Group had an average of 261 employees (2001: 286).

15. Differences between US GAAP and German law

15.1. General

The consolidated financial statements of Basler AG, Ahrensburg (the „Company" or „Basler"), as of December 31, 2002, were prepared as exempting consolidated financial statements in accordance with Section 292a of the German Commercial Code (HGB) in conformity with US GAAP and on the basis of the German Accounting Standards No. 1 (GAS 1) issued by the German Standardization Committee (Deutscher Standardisierungsrat DRSC e.V.).

The provisions of the German Commercial Code (HGB) and German Stock Corporation Law (AktG) differ from US GAAP in certain respects. The main differences that are relevant to the evaluation of the net worth, financial position, and the results of the Company are described below: Pursuant to HGB, all items in the balance sheet and income statement must be set out in the form and order laid down in Sections 266, 275 HGB. US GAAP requires a different presentation, in which the balance sheet items are presented with more liquid items first. According to US GAAP, the short term portions of long-term receivables and liabilities are shown in a separate balance sheet item. The portion that falls due in less than one year is treated as short term.

15.2. Funds with an equity portion

Under US GAAP, repayable capital transfers are in future to be shown separately from the formally deferred Stockholders' Equity. As the dormant equity holding by Gesellschaft für Wagniskapital Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH, Kiel, may be regarded as equity from an economic point of view due to its subordinate nature and the fact that returns depend on results, these funds are added in again in order to produce „equity according to US GAAP and funds with an equity portion" (equity capital).

The display of the shareholder's equity is strictly undertaken according to US GAAP. The silent investment is displayed as special item between shareholder's equity and debts in the financial statements for Basler AG according to HGB.

15.3. Deferred taxes on loss carry forwards

According to HGB, deferred tax refund claims arising from loss carry forwards may not be shown on the balance sheet as expected future tax savings are deemed to be not yet realized. According to

US GAAP, these types of future tax reduction claims are to be capitalized. Their value depends upon the probability of the loss carry forwards being utilized within the required period. The Company has partly recorded a valuation allowance for its deferred tax asset due to uncertainties regarding the realization of the asset.

16. Further details

The Company has issued a Declaration of Intent for the German Corporate Governance Code as required by Section 161 of the German Company Law (AktG). This Declaration can be accessed by shareholders on the Company's website at www.baslerweb.com.

17. Use of annual loss

The Management Board of Basler AG proposes that the results for 2002 be carried forward.

Ahrensburg, January 2003

The Management Board

Dr. Dietmar Ley
Axel Dancker
Peter Krumhoff

Auditor's report

We have audited the consolidated financial statements, consisting of the consolidated balance sheet, the group income statement, statement of changes in shareholders' equity, cash flow statement, and notes to the consolidated financial statements of Basler Aktiengesellschaft for the fiscal year from January 1, 2002 to December 31, 2002. The legal representatives of the company are responsible for the accounting system and preparation of the consolidated financial statements and group management report in compliance with German commercial law and the supplementary regulations in the articles of incorporation. Our responsibility is to express an opinion, based on our audit, on the compliance of the consolidated financial statements, including the accounting system, and on the group management report, with US GAAP (US Generally Accepted Accounting Principles).

We conducted our audit of the consolidated financial statements pursuant to Sec. 317 of the German Commercial Code (HGB) and in compliance with generally accepted German standards for the audit of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the net worth, financial position and results of operations as conveyed by the consolidated financial statements, in compliance with generally accepted accounting principles, and by the group management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipated. In the course of the audit, the effectiveness of the system of internal accounting controls was assessed, and the disclosures made in the books and records, consolidated financial statements and group management report were verified, mainly on a test basis. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present a true and fair view of the Company's net worth, financial position, results of operations and monetary transactions in accordance with US GAAP in the year under review.

Our audit based on the consolidated financial statements prepared by the Management Board for the fiscal year from January 1, 2002 to December 31, 2002, gave no cause for qualification. The Company has exercised its right to combine the company's management report and the consolidated management report. In all material respects, the management report together with all other details presented in the financial statements accurately presents the situation of the Company and the risks to its future development. We also confirm that the consolidated financial statements and the group management report for the fiscal year from January 1 to December 31, 2002, meet the requirements for the company to be exempted from the obligation to prepare consolidated financial statements and a management report for the Group under German law

Without restricting or qualifying this assessment, we draw attention to the details given in the Management Report, where it is stated that should Basler AG not succeed in implementing turnaround in fiscal 2003 then appropriate cost-cutting measures will have to be taken. Should turnaround take longer than anticipated then it may be necessary to source additional capital to bridge this period of operative losses. We also wish to draw attention to the fact that Basler AG presently has short-term financing through three subordinated shareholder loans amounting to € 4.1 million and limited to June 30, 2002 and September 30, 2004 respectively. The Company believes that it will require and have access to this external funding after the due dates mentioned above.

Lübeck, February 3, 2003

BDO Deutsche Warentreuhand Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

signed Auditor	signed Auditor
Dr. Probst	Schmoller

Basler AG –
Statement of Operations 2002 (HGB)

(in € thousand)

	2002	2001
SALES	**23.262**	**24.185**
Increase or decrease in finished goods inventories and work in process	-560	-511
Own work capitalized	382	303
Other operating income	1.047	837
Cost of materials		
Cost of raw materials, consumables and supplies and of purchased goods	-6.758	-9.443
Cost of purchased services	-1.041	-577
Personnel expenses		
Wages and salaries	-10.078	-11.205
Social security and other pension costs	-1.860	-2.089
Depreciation		
– on intangible assets, property, plant and equipment and on capitalized start-up	-994	-971
– on current assets	0	-3.602
Other operating expenses	-7.937	-10.212
Income out of investments	1.537	0
Other interest and similar income	189	154
– of which from affiliated companies: € 132.491,11 (prior year: € 150.424,38)		
Depreciation on investments		-7.614
Interest and other expenses	-612	-557
RESULT FROM ORDINARY ACTIVITIES	**-3.423**	**-21.302**
Income taxes		
Other taxes	-4	-2
NET RESULT	**-3.426**	**-21.304**
Profit brought forward from prior year	-21.304	-3.412
Transfer from capital reserve	21.304	3.412
ACCUMULATED LOSS	**-3.426**	**-21.304**

Basler AG –
Statement of Cash Flow (HGB)

(in € thousand)

		2002	2001
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss	-3.426		-21.304
Cash received by asset deal regarding			
Photobit Corporation	-1.537		0
Depreciation of investments	0		7.628
Depreciation on fixed assets	994		971
Increase/decrease in accruals	-302		1.467
Profit/loss from disposal of fixed assets	14		-4
changes in:			
Inventories	1.683		3.356
Trade accounts receivable	768		418
Other assets not attribubutable to investment			
or financing activities	-38		783
Advanced payments received	-1.132		-833
Trade accounts payable	-430		-202
Interest payable to shareholders	8		38
Other liabilities not attributable to investment			
and financing activities	-38		-271
NET CASH USED FOR OPERATING ACTIVITIES		**-3.435**	**-7.955**
Cash flow from investing activities			
Proceeds from sales of equipment	9		136
Purchase of equipment	-668		-760
Cash received by asset deal regarding Photobit Corporation	1.537		7.272
Additions to finacial assets	0		-37
NET CASH FROM INVESTING ACTIVITIES		**878**	**6.612**
Cash flow from financing activities			
Increase in cash received by bank loan	511		0
Cash received by shareholder's loan			4.090
Cash received by silent partnerships	1.023		0
Decrease in cash/repayment of bank loan	-3.014		-10
NET CASH PROVIDED BY FINANCING ACTIVITIES		**-1.480**	**4.081**
NET CHANGE IN CASH		**-4.037**	**2.738**
CASH, BEGINNING OF YEAR		**4.059**	**1.321**

* A non capitalized depreciation of anticipated losses has made a restatement of the financials statements 2001 necessary (see Notes, 2)

Basler AG –
Balance Sheet as of 31. December 2002 (HGB)

(in € thousand)

Assets

	31.12.2002	31.12.2001
FIXED ASSETS		
Intangible assets		
Franchise, trademarks, patents, licenses and similar rights	339	506
Property, plant and equipment		
Technical equipment and machines	1.159	1.176
Other equipment, factory and office equipment	1.354	1.520
Payments on account and assets under construction		0
	2.513	2.695
Financial assets		
Shares in affiliated companies	112	112
Investments		0
	112	112
	2.965	3.313
CURRENT ASSETS		
Inventories		
Raw materials, consumables and supplies	3.652	4.775
Work in process	1.003	1.833
Finished goods and merchandise	856	585
Payments on account	17	62
	5.527	7.256
Receivables and other assets		
Trade receivables	2.146	2.574
Receivables from affiliated companies	3.737	3.404
Other assets	219	198
	6.102	6.176
CASH IN HAND AND BANK BALANCES	**22**	**4.059**
	11.651	17.490
	145	63

Basler AG –
Balance Sheet as of 31. December 2002 (HGB)

(in € thousand)

Liabilities and Shareholder's Equity

	31.12.2002	31.12.2001
SHAREHOLDER'S EQUITY		
Shareholder's equity		
Subscribed capital	3.500	3.500
Capital reserve	3.452	24.756
Accumulated loss	-3.426	-21.304
	3.526	**6.952**
SILENT INVESTMENT	**1.023**	**-**
ACCRUALS		
Other accruals	2.729	3.031
LIABILITIES		
Liabilities to banks	1.961	4.464
– of which due within one year: € 1.961.098,57		
(prior year: € 4.463.969,73)		
Payments received on account of orders	105	1.237
– of which due within one year: € 105.172,65		
(prior year: € 1.236.748,40)		
Trade payables	848	585
– of which due within one year: € 848.124,43		
(prior year: € 584.698,82)		
Other liabilities	4.569	4.599
– of which due within one year: € 3.035.396,61		
(prior year: € 4.598.596,88)		
– of which due within more than five years: € 511.292		
– of which taxes: € 168.665,53		
(prior year: € 197.549,96)		
– of which for social security: € 260.807,43		
(prior year: € 290.929,90)		
	7.484	**10.884**
	14.761	**20.867**

Basler AG
Fixed Assets Movements 2002 (HGB)

(in € thousand)

	At cost			
	01.01.2002	additions	disposals	31.12.2002
INTANGIBLE ASSETS				
Franchise, trademarks, patents, licenses and similar rights	1.024	65	-7	1.082
PROPERTY, PLANT AND EQUIPMENT				
Technical equipment and machines	2.431	530	-144	2.816
Other equipment, factory and office equipment	2.454	73	-376	2.151
Payments on account and assets under construction	0			0
	4.885	**603**	**-521**	**4.968**
FINANCIAL ASSETS				
Shares in affiliated companies	112		0	112
Investments	(€ 1)		(€ -1)	0
	112		(€ -1)	112
	6.021	**668**	**-528**	**6.162**

Accumulated depreciation				Net book values	
01.01.2002	additions	disposals	31.12.2002	31.12.2002	31.12.2001
518	231	-7	743	339	506
1.255	525	-122	1.658	1.159	1.176
934	237	-375	797	1.354	1.520
0			0	0	0
2.189	**762**	**-498**	**2.454**	**2.513**	**2.695**
0			0	112	112
0			0	0	(€ 1)
0			0	112	112
2.708	**994**	**-505**	**3.197**	**2.965**	**3.313**

Notes to the financial statements for Basler AG 2002

1. General

Basler AG's financial statements have been prepared in accordance with accounting principles defined in the German Commercial Code. The provisions of the German Corporation Law were also observed.

In cases where it is permissible to show data either in the accounts or in the notes to the accounts, the option to show references in the accounts was exercised.

The full cost procedure was used in the preparation of the statement of income.

The company is listed on the stock exchange and is definable as a large corporation within the interpretation of Section 267, paragraph 3 of the German Commercial Code.

The currency in which the financial statements have been prepared is Euro.

2. Significant accounting policies including tax-relevant items

2.1. Accounting and valuation principles

Acquired intangible fixed assets have been valued at cost of acquisition less scheduled depreciation where applicable.

Tangible fixed assets have been valued at acquisition or manufacturing cost less scheduled depreciation where applicable.

Low-cost items valued individually at not more than € 410.00 are written off in the year of acquisition.

Depreciation was spread over the anticipated useful life of the assets and was charged on a straight-line basis in accordance with tax regulations.

Financial assets (interests and shares in affiliated companies) are carried at cost of acquisition. The valuation basis for interests and shares in other companies has been depreciated to reflect exceptional items.

Inventories are valued at the lower of acquisition/manufacturing cost or value on the closing day.

Manufacturing costs include not only directly applicable costs but also overheads and depreciation resulting from manufacturing activities.

Depreciation has been applied to avoid valuation risks in connection with excess inventories and slow disposal of these inventories. The valuation adjustment to raw materials, consumables and supplies, and to semi-finished products was carried out on the basis of anticipated sales.

Depreciation for the named assets amount to € 3.6m in 2001, which is shown at depreciation of current assets as they do not exceed the depreciation of this corporation by usual terms. This depreciation amounts as of Dec. 31st 2002 to € 2.3m.

All discernible risks have been taken into account in the valuation of accounts receivable. A lump-sum reserve equivalent to 1% of total net accounts receivable was created to cover the general credit and collection risk.

Other accruals have been created to cover all discernible risks relating to contingent liabilities and depreciation of anticipated losses.

Liabilities have been shown at the higher of the amount repayable or the amount outstanding on the closing day.

2.2. Method of conversion of foreign currencies into euro

The financial statements include items denominated in foreign currencies and converted into Euro.

Accounts receivable denominated in foreign currencies have been translated into euro at the lower of the rate applying at the time of the transaction or the rate applying on the closing day. Accounts payable have been translated into euro at the higher of the rate applying at the time of the transaction or the rate applying on the closing day.

3. Notes and explanations on individual items in the balance sheet and the statement of income

3.1. Fixed and financial assets

We refer to Appendix A to the Notes (page 48) for details of classification and movements of fixed assets.

3.2. Receivables from affiliated companies

The receivables from affiliated companies are trade receivables amounting to € 3,737,000 and are provided with subordination up to € 1,600,000. The collectability of these receivables is still assured.

3.3. Other accruals

These are mainly provisions for anticipated losses presented by leases on property, warranties, leave, overtime and outstanding invoices.

The contingent losses arising from the leasing agreement concerning the building for each year of the rental time (until December 31, 2018) were discounted with a factor of 5% on the closing date.

3.4. Liabilities to banks

Bank loans have been secured by the transferal of inventories and accounts receivable.

3.5. Other liabilities

Other liabilities amounting to € 4,136,000 (2001: € 4,128,000) reflect loans granted to the company by shareholders including the resulting interest payments.

3.6. Other financial commitments

The company has the following commitments under rental, lease and service agreements:

	€ '000
falling due 2003:	2.745
falling due 2004-2007:	8.702
	11.447

These are mainly commitments under leasing agreements for the office and production buildings in Ahrensburg.

3.7. Sales

By region	**€ '000**
Germany	6.409
Remaining Europe	4.959
Rest of the world	11.894
	23.262

By division	**€ '000**
Vision Systems	16.233
Vision Components	7.029
	23.262

4. Other mandatory information

4.1. In 2002 the following were members of the Management Board:

Dr. Dietmar Ley, Ahrensburg, Chairman

Axel Dancker, Ahrensburg, Operations

Peter Krumhoff, Bad Homburg, Finances

4.2. In 2002 the following were members of the Supervisory Board:

Prof. Dr. Walter Kunerth, Chairman of the Supervisory Board

Senior Advisor Mergers & Acquisitions at Lazard & Co. GmbH, Frankfurt/Main

Norbert Basler, Deputy Chairman, Diplom-Ingenieur

Bernd Priske, Member of the Board, Diplom-Betriebswirt,

Member of the Board, Fortas AG, Düsseldorf, CEO M.A.X. Holding AG, München

Other Supervisory Board directorships held in accordance with Section 285, Item 10 of the German Commercial Code

Prof. Dr. Walter Kunerth,
Chairman of Supervisory Board of Götz AG, Regensburg

Chairman of Supervisory Board of Suspa Holding GmbH, Altdorf

Chairman of Supervisory Board of Paragon AG, Delbruch

Member of Supervisory Board of Gildemeister AG, Bielefeld

Member of Board of Directors of Autoliv Inc., Stockholm

Norbert Basler,
Member of Advisory Council of IKB Deutsche Industriebank AG, Düsseldorf

Member of Advisory Council of Kuhnke GmbH, Malente

Deputy Chairman of Supervisory Board of Plato AG, Lübeck

Bernd Priske,
Member of the Advisory Council of Genius Fenster und Türen GmbH, Toisdorf

4.3. Remuneration of Management Board and Supervisory Board

The fixed remuneration paid to members of the Management Board for fiscal year 2002 was € 419,000 (2001: € 358,000) and to the members of the Supervisory Board € 34,000 (2001: € 34,000). The variable remuneration of the Management Board amount to € 138,000 in 2002.

4.4. Shares held by the Management Board and Supervisory Board

	December 31, 2002
	Numbers of shares
Supervisory Board	
Prof. Dr. Walter Kunerth (Chairman)	349
Norbert Basler (Deputy Chairman)	1.980.000
Bernd Priske	-
Management Board	
Dr. Dietmar Ley (Chairman)	132.500
Axel Dancker	3000
Peter Krumhoff	500

4.5. Interests constituting more than 20% of shareholder's equity in other companies

The following stockholdings in other companies are declared in accordance with Section 285, Item 11 of the German Commercial Code:

Company name	Share-holding in %	Net income 2002 € '000	Shareholder's equity € '000
Basler Inc., Exton, USA	100	69	77
Basler Asia Pte. Ltd., Singapore	100	-86	-215
Basler Vision Technologies Taiwan Inc., Taipei/Taiwan	100	-107	-254

To avoid exposing the subsidiaries to excessive indebtedness subordinated shareholder loans have been granted.

4.6. Shareholder's equity

The company's shareholder equity is € 3,500,000 in the form of 3,500,000 no par bearer shares.

To ensure coverage of the loss reported in the 2001 balance sheet € 21,303,853.16 has been taken from the additional paid-in capital.

4.7. Authorized capital

The Management Board has been authorized, subject to the consent of the Supervisory Board, to increase the parent company's subscribed capital by a total of € 1,750,000 on or before March 2004 by one or more issues of new stock subscribed either in cash or in kind.

The Management Board is authorized, subject to the consent of the Supervisory Board, to restrict the preemptive rights of the stockholders as follows:

a) to a share of the subscribed capital up to a total amount of € 350,000 against payment of a price not substantially lower than the quoted share price in cases where the new stock is issued at an issue price

and/or

b) to a share of the subscribed capital up to a total amount of € 700,000 in the case of stock issues for the purpose of acquiring companies or interests in companies where such acquisition is considered beneficial to the company's interests.

If the Management Board should fail to invoke the aforementioned authorizations to restrict stockholders' preemptive rights, restrictions in stockholders' preemptive rights shall only apply to maximum amounts.

The Management Board shall determine, subject to the consent of the Supervisory Board, the other terms attaching to individual rights issues.

4.8. Conditional capital

The stockholders' meetings held on March 3 and March 19, 1999, approved conditional capital increases totaling € 350,000 of which € 100,000 must be used exclusively for the granting of stock option rights under a staff stock option scheme.

Stock option rights on 100,000 shares have been granted in accordance with the provisions of Section 192, paragraph 2, Item 3 of German Company Law (AktG). The options cannot be exercised before the spring of 2001 or 2002 and then only partially.

Stock option rights have not been exercised yet.

4.9. Average number of employees in the fiscal year under review

	2002	2001
Management	3	2
Staff	232	239
	235	241

4.10. Information on the Group

Basler AG, Ahrensburg, is the parent company of the companies listed under Item 4 of the Notes on the Financial Statements in accordance with Section 292a of the German Commercial Code, and they are affiliated companies as defined in Section 271, paragraph 2 of the German Commercial Code.

The consolidated financial accounts are available on request from the company's Ahrensburg office.

4.11. Shareholdings in Basler AG exceeding 5%

Norbert Basler owns more than 5% of Basler AG shares.

4.12. Further details

The Company has issued a Declaration of Intent for the German Corporate Governance Code as required by Section 161 of German Company Law (AktG). This Declaration can be accessed by shareholders on the Company's website at www.baslerweb.com.

Ahrensburg, January 2002

The Management Board

Dr. Dietmar Ley

Axel Dancker

Peter Krumhoff

Auditors Report

We have audited the financial statements, including the accounting system, and the management report of Basler Aktiengesellschaft for the fiscal year from January 1, 2002 to December 31, 2002. The Company has exercised its right to combine the company's management report and the consolidated management report. The legal representatives of the Company are responsible for the accounting system and preparation of the financial statements and management report in compliance with German commercial law. Our responsibility is to express an opinion, based on our audit, on the financial statements, including the accounting system, and on the management report. We conducted our audit of the financial statements pursuant to Sec. 317 of the German Commercial Code (HGB) and in compliance with the generally accepted German standards for the audit of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the net worth, financial position and results of operations as conveyed by the financial statements, in compliance with generally accepted accounting principles, and by the management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipated. In the course of the audit, the effectiveness of the system of internal accounting controls was assessed, and the disclosures made in the books and records,
financial statements and management report were verified, mainly on a test basis. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

In our opinion the financial statements present a true and fair view of the Company's net worth, financial position and results of operations in accordance with generally accepted accounting principles. In all material respects, the management report accurately presents the situation of the Company and the risks to its future development.

Without restricting or qualifying this assessment, we draw attention to the details given in the Management Report, where it is stated that should Basler AG not succeed in implementing turnaround in fiscal 2003 then appropriate cost-cutting measures will have to be taken. Should turnaround take longer than anticipated then it may be necessary to source additional capital to bridge this period of operative losses. We also wish to draw attention to the fact that Basler AG presently has short-term financing through three subordinated shareholder loans amounting to € 4.1 million and limited to June 30, 2002 and September 30, 2004 respectively. The Company believes that it will require and have access to this external funding after the due dates mentioned above.

Lübeck, February 3, 2003

BDO Deutsche Warentreuhand Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

signed Auditor	signed Auditor
Dr. Probst	Schmoller

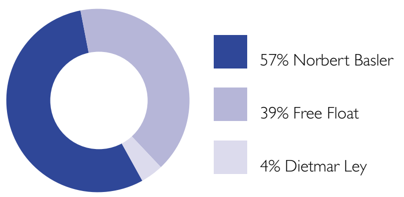
Dates 2003

06. March 2003	Release of Annual Report 2002
13. May 2003	Release of 1st Quarter Results 2003
17. June 2003	Annual Shareholder Meeting 2001
06. August 2003	Release of 2nd Quarter Results 2003
05. November 2003	Release of 3rd Quarter Results 2003

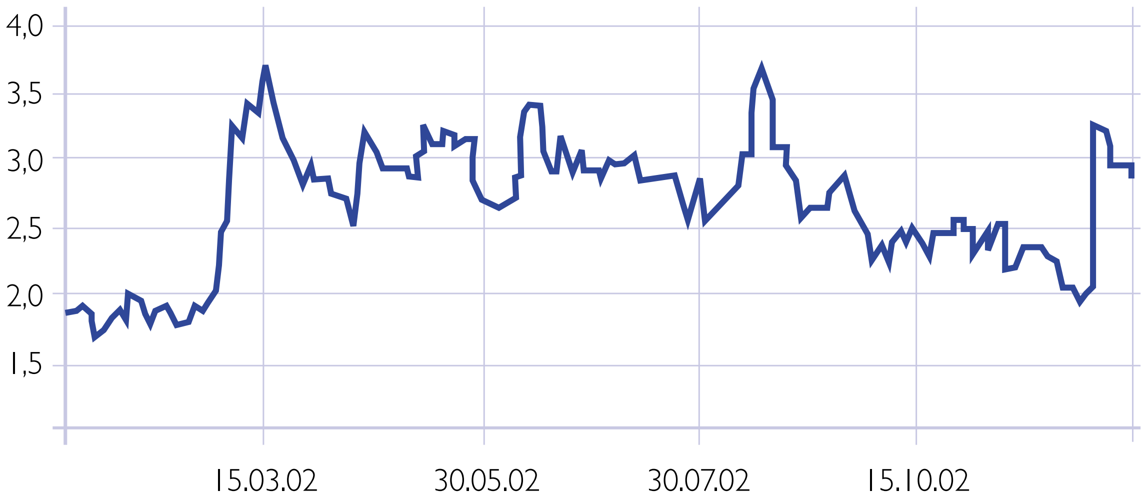
Share Information

ISIN DE 000 510 2008
SE-Code: BSL
Market issued/marketplace: Prime Standard, Frankfurt
Designated Sponsor: HSBC Trinkaus & Burghardt
Underwriters: Dresdner Bank AG, West LB, BHF-Bank AG
1st trading day (Neuer Markt): March 23rd, 1999
Issue price: Euro 57,00
1st price (Neuer Markt): Euro 95,00
IPO Volume: 700.000 stocks without par value
Greenshoe (exercised on March 31, 1999): 100.000 shares
Capital stock: Euro 3.500.000
Authorized Capital: Euro 3.850.000
End of financial year: 31.12.

Shareholder Structure



Share price development 2002



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