

QUARTERLY REPORT
Q3 2002



Business Performance in Q3/2002

Dear Ladies and Gentlemen,

This third quarter of 2002 marks Basler AG's first return to profitability in eight quarters. We accomplished this by continuing a strict cost-management program within an overall worsening economic environment, which saw business picking up only slightly in some of our target markets. We will continue moving forward along this path so that we can return to sustained profitability in the course of the overall 2003 fiscal year.

New Orders

Groupwide third-quarter new orders as of the 30 September 2002 reporting date totaled € 5,7 million, up 39% from last year's level (€ 4,1 million).

This means that the total of all new orders for the first nine months of 2002 was € 21,5 million, a figure that is € 2,5 million or 13% better than the € 19 million from a year ago.

Sales Revenues

Sales in third quarter totaled € 8,8 million for an increase of 29% over the year-earlier quarter (€ 6,8 million).

Total year-to-date sales revenues for the first nine months of 2002 amounted to € 20,3 million, approximating last year's level (€ 21,4 million) despite slipping some 5% due to poor sales in the first quarter of this year.

Profit/Loss

This was the first time in eight quarters that the Basler Group posted a quarterly profit.

This year's third-quarter net profit was € 0,15 million, or earnings of 4 euro cents per share. In the same quarter a year ago, the company



Vision technology is the technology of artificial vision and is the foundation for computer-based vision systems capable of making decisions automatically based on image information. Primary applications are currently found in the field of industrial manufacturing, such as for quality control, where this technology helps optimize production effectiveness. The market for vision technology had a worldwide sales volume of approximately \$5.8 billion in 2001. And yet only 20-25% of all identified potential industrial uses have been developed. New applications – including those in consumer-related fields – will be added in the coming years, while existing markets continue getting bigger. Today Basler has two corporate divisions that address five target markets:

Vision Systems Division

- Electronics/display industry (Display Inspection)
- Optical data medium industry (Optical Media Inspection)
- Rubber/elastomere industry (Sealing Inspection)
- Plastics industry (Web Inspection)

Vision Components Division

- Machine vision industry (Camera Components)

The company's strategy is to become a worldwide leading provider of vision technology.



recorded a loss of € 13,7 million, which was attributable for the most part to amortization from the sale of an interest in Photobit, as well as from a one-time charge of € 11,2 million on a write-down of inventories.

In spite of having achieved this turnaround in net profit, we still have to report a loss for the fiscal year so far. The cumulative loss for the first nine months of the fiscal year was € 3,0 million (or a per-share loss of 86 euro cents). Compared to the same period last year (€ -17,5 million), we succeeded in reducing the loss by 83%.

Segment Information and Geographical Analysis

Fiscal year 2002 marks the first time that Basler has applied SFAS Nr. 131 "Disclosures About Segments of an Enterprise and Related Information". The Deutsche Börse AG had exempted Basler from preparing segment reporting up until 31 December 2002.

The company now prepares its segment reporting based on business divisions in line with its internal organizational and reporting structure. Within this

organizational structure, the company differentiates between the two divisions Vision Systems and Vision Components. Vision Systems encompasses the sales, development, installation and maintenance of vision systems. This division consists of four organizational elements (Display Inspection, Optical Media Inspection, Sealing Inspection and Web Inspection) that are included together because of their like opportunities and risks. The Vision Components division includes the marketing and development of component products used to build vision systems. For the most part, this involves camera components, at least one of which is contained in any vision system.

loss for the first nine months of 2002 down to € 2,4 million.

The Vision Components division and its products generated sales of € 2,3 million (Q1-Q3/2002: € 6,5 million) in third quarter with net earnings of T€ 200 (Q1-Q3/2002: T€ 47).

There is no comparative data available from the prior year, since segment reporting was only initiated at the beginning of 2002.

What follows are the most important figures for each of the segments (in thousand Euro):

	Vision Systems		Vision Components		Reconciliation		Total Group	
	Q3/2002	Q1-Q3/2002	Q3/2002	Q1-Q3/2002	Q3/2002	Q1-Q3/2002	Q3/2002	Q1-Q3/2002
Euro thousand								
Sales revenues	6.429	13.797	2.334	6.481	0	17	8.763	20.295
Germany	407	1.892	1.037	2.217	0	7	1.444	4.116
Foreign	6.022	11.905	1.297	4.264	0	10	7.319	16.179
External sales with a single client accounting for more than 10% of the segment's sales	1.713	3.803	874	874	0	0	2.587	4.677
Number of clients	3	3	1	1	0	0	4	4
Segment results							0	0
(before interest, taxes and equity)	51	-2.390	200	47	32	-474	283	-2.817
of which depreciation/amortization	208	533	65	246	6	6	279	785
Segment assets								
Noncurrent assets		183		311		2.355		2.849
Fixed-assets investments	29	39	29	50	171	241	229	330
Inventories		3.241		1.949		1.718		6.908
Receivable		4.721		958		486		6.165
Total assets								15.922
of which outside Germany								5.932

The company's products are developed and manufactured in its headquarters facilities in Ahrensburg. Worldwide sales are predominantly made directly (through a direct-sales structure with subsidiaries in the United States, Singapore and Taiwan), as well as through independent agents and distributors.

The information included in the following overviews stems directly from internal reporting that is used by operational decision makers to guide and direct the business. An assessment of the divisions regarding their financial debt and related interest expenditures is not made for internal directing purposes and is therefore not included in the segment reporting. The differences in results within the reconciliation account are attributable to valuation differences between German commercial law and U.S. GAAP. Since internal control and direction is based on commercial-law valuations, no allocations were made to the divisions.

The Vision Systems division posted sales of € 6,4 million in third quarter 2002, resulting in revenues of € 13,8 million for the first nine months of 2002. Third-quarter net earnings were T€ 51, bringing the

Research & Development

Expenditures for research and development in third quarter 2002 totaled € 1,3 million (31% less than the € 1,8 million of the same quarter a year ago). The R&D rate of 20% (€ 4,0 million) for the first nine months of 2002 was below last year's level of 27% (€ 5,8 million).

Staff

The company had 264 employees (29 of whom work in the subsidiaries in the United States, Taiwan and Singapore) as of 30 September 2002, a level that is about the same as the 256 employees of the prior quarter (+3%), but is 13 people less (-5%) than in the same quarter last year (277).

Code of Corporate Governance

Since publishing its results for the second quarter 2002, Basler AG became one of the first companies listed on the Neuer Markt to commit itself to adhering to the German Code of Corporate Governance. This code, which was prepared by a government commission under the direction of Dr. Gerhard Cromme, sets forth significant legal regulations for the management and oversight of

German publicly listed companies and contains both nationally and internationally recognized standards of good and responsible corporate management. It is also designed to promote the trust and confidence of domestic and international investors, clients, employees and the public in the leadership and oversight of German public stock corporations.

Through its commitment, Basler AG wants to publicly demonstrate how the Managing Board and Supervisory Board intend to exercise responsible corporate leadership and control that is geared toward increasing the value for its stakeholders. Doing so will encourage and enhance the trust and confidence of today's and tomorrow's shareholders, customers, employees and other interested parties from the general public.

This commitment to the German Code of Corporate Governance operates on the principle of "comply or explain". Basler AG will issue a statement every quarter outlining the extent to which corporate management is in compliance with the code's provisions. Any deviation from the code will be appropriately justified. Implementing the code will also be a part of the management report and thus a verifiable component of the annual audit.

Basler AG's executive management is in almost total compliance with the code, whose contents are set out within the annual management report, the standing rules of the Managing Board and Supervisory Board, as well as in the formal statement of commitment to the code.

There are two areas where Basler AG's corporate management deviates from the code:

- Because of the size of the company, the Supervisory Board of Basler AG is comprised of only three individuals, which is a number that ensures efficient work. For this reason, committees will not be formed within the Supervisory Board. The same is true for boards of review.



- Compensation for members of the Supervisory Board is stipulated in the company bylaws. The amount of compensation takes into consideration the responsibilities inherent in the position of chairman and deputy chairman. In light of the current fixed remuneration levels, no variable compensation component is planned for members of the Supervisory Board.

The formal statement of commitment to the code and regular updates on related compliance issues are available in the Investor Relations section of the corporate website www.baslerweb.com. The Basler AG Compliance Officer is available to assist you should you have any questions about this Code of Corporate Governance:

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Stock

The members of the Managing Board and Supervisory Board held the following shares and stock options as of 30 September 2002:

	Shares		Options	
	30.06. 2002	30.09. 2002	30.06. 2002	30.09. 2002
Supervisory Board				
Prof. W. Kunerth (Chairman)	349	349	-	-
N. Basler (Dep. Chairman)	1,76 Mio.	1,95 Mio.	-	-
B. Priske	-	-	-	-
Managing Board				
Dr.-Ing. D. Ley (Chairman)	132.500	132.500	4.482	4.482
A. Dancker	2.000	3.000	-	-
P. Krumhoff	500	500	-	-

Outlook

With the turnaround in this third quarter, Basler AG has achieved an important milestone on its way to sustained profitability. The ongoing program of strict cost management succeeded in reducing operating expenses. The Vision Components segment posted some extremely satisfying market successes. Within the systems business, the Optical Media Inspection and Sealing Inspection elements contributed to sales revenues in line with the budget. Web Inspection and Display Inspection lagged somewhat behind expectations.

We anticipate the economic situation in our target markets to worsen somewhat through the remainder of 2002 with sales leveling off at € 25-27 million for the year as a whole. We will continue with the same manner of cost management as before and expect the net result for the fiscal year to be virtually the same as for these first nine months.

The Managing Board



Consolidated Statement of Operations for the third quarter 2002 in Euro thousand (according to US-GAAP)*

	Q3/2002 01.07.- 30.09. 2002	Q3/2001 01.07.- 30.09. 2001	9-Month report 2002 01.01.- 30.09. 2002	9-Month report 2001 01.01.- 30.09. 2001
Sales	8.763	6.781	20.295	21.378
Cost of sales	-3.093	-7.355	-6.431	-13.830
Gross profit	5.670	-574	13.864	7.548
Operating expenses				
Research and development	-1.260	-1.834	-4.031	-5.847
Selling and marketing expenses	-2.072	-1.181	-5.487	-5.185
General and administrative expenses	-2.054	-2.406	-7.239	-7.095
Total operating expenses	-5.386	-5.421	-16.757	-18.127
Operating loss	284	-5.995	-2.893	-10.579
Interest income	7	12	33	22
Interest expenses	-153	-175	-447	-383
Depreciation of investments	0	-7.572	0	-7.572
Income from affiliated companies	0	0	204	0
Other income	0	56	77	1.045
Result before income taxes	138	-13.674	-3.026	-17.467
Income tax	9	8	21	-24
Net result	147	-13.666	-3.005	-17.491
Weighted average number of shares (basic)	3.500	3.500	3.500	3.500
Weighted average number of shares (diluted)				
Authorized capital	1.750	1.750	1.750	1.750
Conditional capital	350	350	350	350
Net result per share (basic)	0,04	-3,90	-0,86	-5,00

* unaudited



Consolidated Statement of Cash Flow in Euro thousand as of September 30, 2002*

	For the period 01.01.- 30.09.2002	For the period 01.01.- 30.09.2001
Cash flow from operating activities		
Net loss	-3.005	-17.490
Depreciation of fixed assets and intangible assets	755	8.478
Gains on disposal of equipment	15	16
changes in:		
Inventories	791	2.819
Trade accounts receivable	-1.743	-151
Accrued Expenses	-123	-446
Other current assets and prepaid expenses	143	947
Deferred tax asset	-36	-26
Foreign currency translation adjustment	194	0
Notes payable to shareholders	8	0
Advanced payments received	33	-1.214
Trade accounts payable	491	454
Other current liabilities	34	-112
Net cash used for operating activities	-2.443	-6.725
Cash flow from investing activities		
Proceeds from sales of equipment	30	138
Purchase of equipment	-474	-906
Net cash from investing activities	-444	-768
Cash flow from financing activities		
Increase in cash received by bank loan	0	3.129
Decrease in cash/repayment of bank loan	-908	2.963
Cash received by shareholder's loan	0	0
Cash received by silent partnerships	511	0
Net cash provided by financing activities	-397	6.092
Net change in cash	-3.284	-1.401
Cash, beginning of year	4.633	1.805
Cash, end of period	1.349	404
additional notes		
payments for:		
interest	447	367
income tax	14	24

* unaudited



**Consolidated Balance Sheet as of September 30, 2002
in Euro thousand (US-GAAP)***

Assets	For the period 01.01.- 30.09.2002	Year-ended 01.01.- 31.12.2001
Current Assets		
Cash	1.349	4.633
Trade accounts receivable, net	5.718	3.976
Inventories		
Finished goods and commodities	1.359	1.128
Work in process	1.610	1.833
Raw materials and supplies	3.807	4.607
Total inventories	6.776	7.568
Other current assets and prepaid expenses	495	638
Total current assets	14.338	16.815
Property and Equipment		
Technical equipment and IT	2.927	2.537
Fixtures, fittings, tools and equipment	3.155	3.436
Accumulated depreciation	-3.184	-2.922
Total property and equipment	2.898	3.051
Intangible Assets		
Software and licences	1.048	1.050
Accumulated depreciation	-702	-532
Total intangible assets	346	518
Investments (in Euro)	1	1
Deferred tax asset	1.513	1.478
Total Assets	19.095	21.862

* unaudited



**Consolidated Balance Sheet as of September 30, 2002
in Euro thousand (US-GAAP)***

Liabilities and Shareholder's Equity

	For the period 01.01.- 30.09.2002	Year-ended 01.01.- 31.12.2001
Current Liabilities		
Notes payable to shareholders	4.136	4.128
Short term liabilities to banks	3.556	4.464
Trade accounts payable	1.140	650
Advanced payments received	1.297	1.264
Accrued expenses	1.672	1.794
Other current liabilities	543	510
Total current liabilities	12.344	12.810
Commitments and Contingencies		
Silent Partnership	511	0
Total liabilities	12.855	12.810
Shareholder's Equity		
Common stock	3.500	3.500
Additional paid-in capital	22.299	22.299
Accumulated deficit	-19.603	-16.598
Accumulated foreign currency translation adjustment	44	-149
Total shareholder's equity	6.240	9.052
Total Liabilities and Shareholder's Equity	19.095	21.862

* unaudited

**Consolidated Statement of Changes in Shareholder's Equity in Euro thousand
(according to US-GAAP)***

	Authorized capital	Conditional capital	Number of shares (in thousand)	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated foreign currency translation adjustment	Consolidated shareholder's equity	Comprehensive Income
Balance, January 1, 2001	1.750	350	3.500	3.500	25.711	558	-201	1.687	
Net loss						-20.568			514
Transfer from capital reserve						3.412			0
Foreign currency translation adjustment							52		52
Comprehensive Income								0	-20.516
Balance, December 31, 2001	1.750	350	3.500	3.500	22.299	-16.598	-149	9.052	
Net loss						-3.005			-3.005
Foreign currency translation adjustment							193		193
Comprehensive Income								0	-2.812
Balance, 01.01.-30.09.2002	1.750	350	3.500	3.500	22.299	-19.603	44	6.240	

* unaudited

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