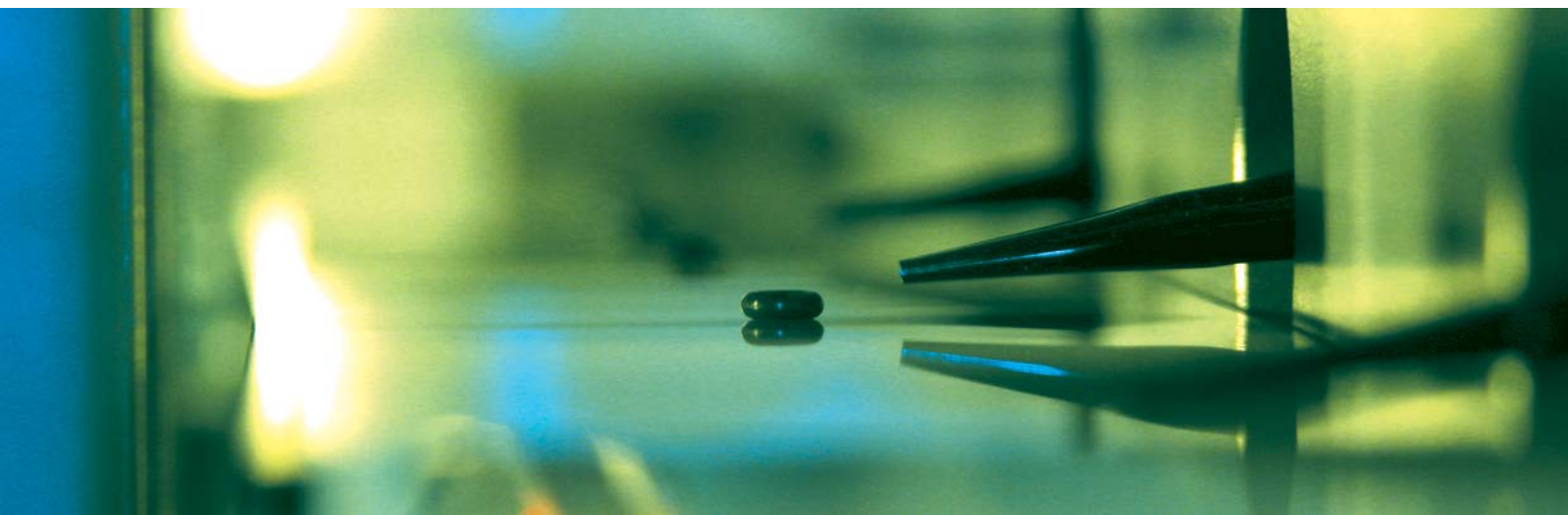


# QUARTERLY REPORT

## Q2 2003



## Quarterly Report Q2/2003

### The Quarter and First Half 2003 at a Glance

- Balanced quarterly based results with a slightly improved turnover
- Sales up 28% and new order up 11% over prior-year period



	Q2 2003	Q2 2002		+/-
<b>Sales</b>	<b>8,5</b>	<b>8,1</b>	<b>Mio. €</b>	<b>+5%</b>
Vision Systems	5,7	5,5	Mio. €	+4%
Vision Components	2,8	2,5	Mio. €	+12%
<b>Order income</b>	<b>9,4</b>	<b>9,7</b>	<b>Mio. €</b>	<b>-3%</b>
<b>Result</b>				
Gross margin	58%	74%		-16%
Operating result	0,3	-0,3	Mio. €	+200%
Net result	0,1	-0,4	Mio. €	+125%
Net margin	1%	-5%		+6%
Number of Shares	3,5	3,5	Mio.	
Result per share	0,02	-0,11	€	+125%
EBITDA	0,6	0,1	Mio. €	+500%
EBIT	0,3	-0,2	Mio. €	+250%
EBT	0,1	-0,4	Mio. €	+125%
<b>Cash</b>	<b>0,9</b>	<b>1,2</b>	<b>Mio. €</b>	<b>-25%</b>
<b>Balance sheet</b>				
Capital employed	11,9	12,4	Mio. €	-4%
Shareholder's equity (economic)	9,8	10,0	Mio. €	-2%
Equity ratio	58	55%		+3%
<b>Staff</b>				
Number of staff	258	256		+1%
Sales per number of staff	33	31	T€	+6%
Personnel expenses ratio	42%	43%		
<b>Share</b>				
Share price (XETRA) as of reporting date	3,18	2,91	€	+9%
Market capitalization	11,1	10,2	Mio. €	+9%

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 \$5.9 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

Inspection systems for the

- Electronic/Display Industry (Display Inspection)
- Optical Media 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.

### Calendar

5 November 2003

Publication of Q3/2003 Results

### Accounting Principles

This quarterly report has been prepared in accordance with the same accounting principles as the annual report according to Accounting Principles Board (APB) Opinion 28 "Interim Financial Reporting".

*Dear Ladies and Gentlemen,*

Basler AG continued performing right on track during this first half year of 2003. As the second quarter closed with balanced results, losses were reduced in the first half 2003 against pre-year period by 75%. Sales revenues improved by 28% over the same period a year ago, while new orders grew 11%.

Operating expenses for the first fiscal half of 2003 declined at the same time to € 9.1 million from € 11.4 million (1st. half of 2002). It was this rise in sales and drop in costs that sparked a vast improvement in earnings, despite the adverse effect the weak dollar had on margins during these first six months.

#### **New Orders**

Groupwide new orders totaled € 9.4 million in second quarter 2003, which is a plus of 15% over the previous quarter (€ 8.2 million). Still, the value of incoming orders diminished 3% (€ 9.7 million) compared to the prior-year quarter. This is because last year some big orders expected for third quarter had already been booked by the end of second quarter.

Orders valued at € 17.6 million were placed during these first six months, which is an 11% improvement over last year's first half (€ 15.8 million).

#### **Sales Revenues**

Sales revenues in second quarter rose to € 8.5 million for an improvement of 5% over the same period a year ago (€ 8.1 million) and an increase of 29% from the previous quarter (€ 6.3 million).

Basler achieved sales revenues of € 14.8 million in this first half of 2003, bettering its revenues of the same period last year (1st. half of 2002: € 11.5 million) by 28%.

The key factors behind this remarkable sales trend is the fact that target markets are growing and that Basler was able to pick up greater market shares. Each division made a positive contribution (see segment information).

#### **Profit/Loss**

Increasing sales and uninterrupted strict cost management resulted in Basler posting its first quarterly net profit since third quarter last year.

The positive net earnings of € 62 thousand generated in second quarter 2003 are a major improvement compared to the loss of € 368 thousand in the year-earlier period and the previous quarter's loss of € 863 thousand.

These earnings have helped diminish the losses that accumulated in first quarter, thus bringing losses for the first half year down to € 801 thousand. This marks an improvement of 75% compared to the same period a year ago (€ -3.2 million).

#### **Segment Information**

Both Basler AG business divisions contributed to increased sales and improved earnings during this second quarter.

The **Vision Systems** division posted second-quarter sales of € 5.7 million, or an increase of 4% over the same quarter last year (€ 5.5 million). This boosts total sales for this division for the first half of 2003 to € 9.6 million - a solid improvement of 30% over the same period a year ago (€ 7.4 million).

The segment loss before interest in this first half of 2003 was € 0.7 million, which is a € 1.7 million improvement over the results for the first six months of last year (1st. half of 2002: € -2.4 million).

At € 6.5 million, the level of new orders in this second quarter of 2003 is 7% below the prior-year quarter (€ 7.0 million), but is nevertheless 16% better than first quarter (€ 5.6 million), which reflects the usual seasonality. When compared on a semiannual basis, new Systems orders climbed 5% to € 12.1 million from € 11.5 million a year ago.

All the units within Vision Systems did their part to increase total sales revenue.

**Sealing Inspection** (inspection systems for rubber/elastomere seals) captured additional market shares and upped its sales more than 31% over the prior quarter.

**Display Inspection** (inspection systems for flatscreens) successfully concluded two major projects.

**Optical Media Inspection** (inspection systems for CDs/DVDs) profited from excellent selling in the DVD-manufacturing industry.

**Web Inspection** had no sales to report during this period last year, but has posted revenues of € 0.2 million so far this first half of the year.

Here are the most important financial indicators for each segment (in thousands of euros):

	Vision Systems		Vision Components		Reconciliation		Group	
	1st H 2003	1st H 2002	1st H 2003	1st H 2002	1st H 2003	1st H 2002	1st H 2003	1st H 2002
Euro thousand								
<b>Sales revenues</b>	<b>9.587</b>	<b>7.368</b>	<b>5.228</b>	<b>4.147</b>		<b>17</b>	<b>14.815</b>	<b>11.532</b>
Germany	1.028	1.485	1.476	1.180		7	2.504	2.672
Foreign	8.559	5.883	3.752	2.967		10	12.311	8.860
External sales with a single client accounting for more than 10% of the segment's sales		2.090		0	0	0	0	2.090
Number of clients		3		0	0	0	0	3
<b>Segment results</b>								
(before interest, taxes and equity)	-658	-2.441	282	-153	2	-506	-374	-3.100
of which is depreciation/amortisation	355	325	173	181			528	506
<b>Segment assets</b>								
Noncurrent assets	350	181	240	337	2.134	2.517	2.724	3.035
Fixed-assets investments	27	10	20	21	104	70	151	101
Inventories	4.070	3.728	2.150	2.133	1.219	1.796	7.439	7.657
Receivable	2.641	2.577	1.435	1.660	365	567	4.441	4.804
Total assets	7.061	6.486	3.825	4.130	3.718	4.880	14.604	15.496

The Vision Components division continues to deliver exceptional performance. Sales rose by 12% to € 2.8 million during the second quarter 2003 (Q2/2002: € 2.5 million). The division's revenues for the first half year now total € 5.2 million, or 26% more than during the same period of last year (Q2/2002: € 4.1 million).

New orders at Vision Components in second quarter totaled € 2.9 million for an increase of 7% over the year-earlier quarter (€ 2.7 million). Compared on a semiannual basis, new orders surged 28% to € 5.5 million from € 4.3 million a year ago.

Vision Components is currently making market inroads with its area scan cameras, whose applications include integration in systems used for inspecting semiconductors and electronics, quality testing of the manufacturing process, traffic control and foods inspection. One of the highlights of the quarter was the start of series production of the new A600 camera. Thanks to its superb cost-to-benefits ratio, this camera is the first to offer a technologically superior digital alternative to today's industrial users of analog cameras.

#### Research & Development

Expenditures for research and development totaled € 1.2 million in second quarter 2003, which is a slight drop of 14% compared to the prior quarter (€ 1.4 million). Improved productivity is the predominant reason behind this.

#### Staff

The total number of employees as of 30 June 2003 was 258 and is virtually unchanged from that of 30 June 2003 (256).

The majority of the staff (229, Q2/2002: 231) works in Ahrensberg where the headquarters is located. Basler Inc. in the United States employed 15 people as of 30 June 2003 (Q2/2002: 14). Basler Asia Pte. Ltd. in Singapore maintained a staff of 5

(Q2/2002: 5) while Basler Vision Technologies Inc. in Taiwan und Shanghai employed a total of 9 people (Q2/2002: 6).

#### Cash

The company enjoys a stable financial situation with a total of € 899 thousand in cash and cash equivalents. Cash flows in the first half year 2003 totaled € 526 thousand compared to a negative cash flow of € 3.5 million for the same period last year. In June Basler signed an agreement with its banks and senior shareholders for long-term financing of planned organic growth. The agreement runs until the end of 2004 and includes both new lines of credit and provisions to extend or increase existing shareholder loans.

#### Stock

The members of the Management Board and Supervisory Board held the following shares and stock options as of 30 June 2003:

	Shares		Options	
	30.06. 2003	30.06. 2002	30.06. 2003	30.06. 2002
<b>Supervisory Board</b>				
Prof. W. Kunerth (Chairman)	349	349	-	-
N. Basler (Dep. Chairman)	1,99 Mio.	1,98 Mio.	-	-
B. Priske	-	-	-	-
<b>Managing Board</b>				
Dr.-Ing. D. Ley (Chairman)*	135,282	135,282	4,482	4,482
A. Dancker	3,000	3,000	-	-
P. Krumhoff	500	500	-	-

\* The amount of Dr. Dietmar Ley's stock holdings has been corrected from those stated in past interim reports.

The following employee stock options from the 1999 and 2000 employee stock-options programs were still outstanding as of 30 June 2003:

	1999	2000
<b>Issued</b>	78,000	82,000
<b>Outstanding as of March 2003</b>	41,444	52,288
Granted	0	0
Exercised	0	0
Expired	44,390	35,174
<b>Outstanding as of 30 June 2003</b>	33,610	46,829

## Code of Corporate Governance

Basler AG commits itself to adhering to the German Code of Corporate Governance. This code 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.

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 as of 30 June 2003:

- 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. 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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## Shareholders' Meeting

The annual general meeting was held at the Parkhotel Ahrensburg on 17 June 2003. All of the voting was in line with management's wishes. The Management Board was discharged as decidedly as was the Supervisory Board. The overwhelming majority of

the shareholders present also approved revising the company's charter to bring it in line with the latest legislative changes and the principles of corporate governance. The shareholders also clearly voted in favor of including the creation of new approved capital in the charter. And finally, the general meeting appointed BDO Deutsche Warentreuhand AG of Lübeck to be the auditors for the entire 2003 fiscal year. Here are the voting results in detail:

	Yes	No	Abstained
Grant discharge to Managing Board *)	2.261.930	210	1.683
Grant discharge to Supervisory Board *)	413.277	336	1.683
Create new approved capital	2.400.222	200	1.723
Modification of the articles	2.400.196	200	1.683
Appoint BDO, Lübeck, as auditor	2.219.543	126	1.783

\*) Shares held by members of the Managing Board and Supervisory have no voting rights on these decisions

## Outlook

The results achieved in this first half of 2003 show that we are capable of increasing revenues for the full year to over € 30 million and ultimately posting a modest profit. The growth in sales and earnings planned for the remainder of the fiscal year are based primarily on sustained favorable performance by both corporate divisions. Current on-hand orders and future prospects both speak in favor of this happening.

Continuing to pursue and refine our system of cost management will augment this encouraging trend in sales. We also expect to garner additional savings in materials costs of about 20% for 2003.

From today's perspective, which is based on rising sales and advancements in productivity, and assuming the general economic situation remains unchanged with no worsening in the dollar-euro exchange rate, Basler AG can return to sustained profitability over the short to medium term and grow its position as a leading company in the vision technology market.

*The Managing Board*



Dr. Dietmar Ley - Axel Dancker - Peter Krumhoff



## Consolidated Statement of Operations for the Second Quarter 2003 in Euro thousand (US-GAAP)\*

	II. Quarter 2003	II. Quarter 2002	I. Half 2003	I. Half 2002
<b>Sales</b>	<b>8.498</b>	<b>8.060</b>	<b>14.815</b>	<b>11.532</b>
Cost of sales	-3.566	-2.074	-6.219	-3.338
<b>Gross profit</b>	<b>4.932</b>	<b>5.986</b>	<b>8.596</b>	<b>8.194</b>
<b>Operating expenses</b>				
Research and development expenses	-1.233	-1.455	-2.625	-3.415
Selling and marketing expenses	-750	-1.922	-2.364	-2.771
General and administrative expenses	-2.676	-2.912	-4.134	-5.185
<b>Total operating expenses</b>	<b>-4.659</b>	<b>-6.289</b>	<b>-9.123</b>	<b>-11.371</b>
<b>Operating result</b>	<b>273</b>	<b>-303</b>	<b>-527</b>	<b>-3.177</b>
Interest income	5	3	6	26
Interest expenses	-184	-138	-344	-294
Depreciation of investments	0	0	0	204
Income from affiliated companies	0	0	0	77
Other income	-12	70	86	0
<b>Result before income taxes</b>	<b>82</b>	<b>-368</b>	<b>-779</b>	<b>-3.164</b>
Income tax	-20	0	-22	12
<b>Net result</b>	<b>62</b>	<b>-368</b>	<b>-801</b>	<b>-3.152</b>
<b>Weighted average number of shares (basic)</b>	<b>3.500</b>	<b>3.500</b>	<b>3.500</b>	<b>3.500</b>
<b>Weighted average number of shares (diluted)</b>				
Authorized capital	1.750	1.750	1.750	1.750
Conditional capital	350	350	350	350
Net result per share (basic)	-0,02	-0,11	-0,23	-0,90

\* unaudited



## Consolidated Statement of Cash Flow as of June 30, 2003\* in Euro thousand

	For the period 01.01.- 30.06.2003	For the period 01.01.- 30.06.2002
<b>Cash flow from operating activities</b>		
Net loss	-801	-3.152
Depreciation of fixed assets and intangible assets	0	572
Gains on disposal of equipment	543	0
Changes in:	0	6
Inventories	-1.383	-90
Trade accounts receivable	151	-262
Accrued Expenses	-1.174	-106
Other current assets and prepaid expenses	382	71
Deferred tax asset	0	-24
Foreign currency translation adjustment	34	-7
Notes payable to shareholders	-46	-38
Advanced payments received	431	141
Trade a accounts payable	552	427
Other current liabilities	56	4
<b>Net cash used for operating activities</b>	<b>-1.255</b>	<b>-2.458</b>
<b>Cash flow from investing activities</b>		
Proceeds from sales of equipment	11	58
Purchase of equipment	-150	-101
<b>Net cash from investing activities</b>	<b>-139</b>	<b>-43</b>
<b>Cash flow from financing activities</b>		
Increase in cash received by bank loan	1.050	0
Decrease in cash/repayment of bank loan	0	-964
Increase of cash received by shareholder's loans	870	0
<b>Net cash provided by financing activities</b>	<b>1.920</b>	<b>-964</b>
<b>Net change in cash</b>	<b>526</b>	<b>-3.465</b>
<b>Cash, beginning of year</b>	<b>373</b>	<b>4.633</b>
<b>Cash, end of period</b>	<b>899</b>	<b>1.168</b>
<b>additional notes</b>		
payments for:		
interest	338	156
income tax	15	0

\* unaudited



**Consolidated Balance Sheet as of June 30, 2003  
in Euro thousand (US-GAAP)\***

**Assets**

	<b>As of 30.06.2003</b>	<b>As of 31.12.2002</b>
<b>Current Assets</b>		
Cash & Cash equivalents	899	373
Trade accounts receivable, net	4.441	4.591
<b>Inventories</b>		
Finished goods and commodities	1.009	733
Work in process	1.505	1.004
Raw materials and supplies	4.919	4.314
<b>Total inventories</b>	<b>7.433</b>	<b>6.051</b>
Other current assets and prepaid expenses	140	522
<b>Total current assets</b>	<b>12.913</b>	<b>11.537</b>
<b>Property and Equipment</b>		
Technical equipment and IT	2.981	2.912
Fixtures, fittings, tools and equipment	3.014	3.017
Accumulated depreciation	-3.626	-3.243
<b>Total property and equipment</b>	<b>2.369</b>	<b>2.686</b>
<b>Intangible Assets</b>		
Software and licences	1.133	1.106
Accumulated depreciation	-876	-761
<b>Total intangible assets</b>	<b>257</b>	<b>345</b>
<b>Investments (in Euro)</b>	<b>0</b>	<b>1</b>
<b>Deferred tax asset</b>	<b>1.525</b>	<b>1.525</b>
<b>Total Assets</b>	<b>17.064</b>	<b>16.093</b>

\* unaudited





**Consolidated Balance Sheet as of June 30, 2003  
in Euro thousand (US-GAAP)\***

**Liabilities and Shareholder's Equity**

	<b>As of 30.06.2003</b>	<b>As of 31.12.2002</b>
<b>Current Liabilities</b>		
Notes payable to shareholders	4.960	4.136
Short term liabilities to banks	2.500	1.450
Trade accounts payable	1.552	1.000
Advanced payments received	968	537
Accrued expenses	1.662	2.836
Other current liabilities	552	496
<b>Total current liabilities</b>	<b>12.194</b>	<b>10.455</b>
<b>Commitments and Contingencies</b>		
Long term accrued expenses	0	0
Other long term liabilities	511	511
Silent Partnership	1.023	1.023
<b>Total liabilities</b>	<b>13.728</b>	<b>11.989</b>
<b>Shareholder's Equity</b>		
Common stock	3.500	3.500
Additional paid-in capital	995	995
Accumulated deficit	-1.093	-291
Accumulated foreign currency translation adjustment	-66	-100
<b>Total shareholder's equity</b>	<b>3.336</b>	<b>4.104</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>17.064</b>	<b>16.093</b>

\* unaudited

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

	Authorized capital	Conditional capital	Number of shares in thousand	Common stock in thousand	Additional paid-in capital	Accumulated deficit	Accumulated foreign currency translation adjustment	Consolidated shareholder's equity	Comprehensive Income
<b>Balance, January 1, 2002</b>	<b>1.750</b>	<b>350</b>	<b>3.500</b>	<b>3.500</b>	<b>22.299</b>	<b>-16.598</b>	<b>-149</b>	<b>9.052</b>	
Net loss						-3.152		-3.152	-3.152
Foreign currency translation adjustment							-7	-7	-7
<b>Comprehensive Income</b>								<b>0</b>	<b>-3.159</b>
<b>Balance, June 30, 2002</b>	<b>1.750</b>	<b>350</b>	<b>3.500</b>	<b>3.500</b>	<b>22.299</b>	<b>-19.750</b>	<b>-156</b>	<b>5.893</b>	
Net loss						-345		-345	-345
Restatement 2001						-1.500		-1.500	
Transfer from capital reserve					-21.304	21.304		0	
Foreign currency translation adjustment							56	56	56
<b>Comprehensive Income</b>								<b>0</b>	<b>-289</b>
<b>Balance, December 31, 2002</b>	<b>1.750</b>	<b>350</b>	<b>3.500</b>	<b>3.500</b>	<b>995</b>	<b>-291</b>	<b>-100</b>	<b>4.104</b>	
Net loss						-801		-801	-801
Foreign currency translation adjustment							33	33	33
<b>Comprehensive Income</b>								<b>0</b>	<b>-768</b>
<b>Balance, June 30, 2003</b>	<b>1.750</b>	<b>350</b>	<b>3.500</b>	<b>3.500</b>	<b>995</b>	<b>-1.092</b>	<b>-67</b>	<b>3.336</b>	

\* unaudited

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