

QUARTERLY REPORT

Q3 2003



Quarterly Report Q3/2003

The Quarter at a Glance

- Sales up 13% over prior-year quarter
- New orders more than doubled compared to Q3/2002
- Earnings clearly positive at €700 thousand



	Q3 2003	Q3 2002		+/-
Sales	9,9	8,8	Mio. €	+13%
Vision Systems	6,1	6,4	Mio. €	-5%
Vision Components	3,8	2,3	Mio. €	+61%
Order income	11,8	5,7	Mio. €	+106%
Result				
Gross margin	54%	65%		-11%
Operating result	0,6	0,3	Mio. €	+113%
Net result	0,7	0,1	Mio. €	+369%
Net margin	7%	2%		+5%
Number of Shares	3,5	3,5	Mio.	
Result per share	0,20	0,04	€	+396%
EBITDA	1,7	1,1	Mio. €	+50%
EBIT	0,9	0,4	Mio. €	+143%
EBT	0,7	0,1	Mio. €	+404%
Cash	0,9	1,3	Mio. €	-32%
Balance sheet				
Capital employed	13,1	13,7	Mio. €	-5%
Shareholder's equity (economic)	10,5	10,9	Mio. €	-4%
Equity ratio	59%	57%		+2%
Staff				
Number of staff	259	264		-2%
Sales per number of staff	38	33	T€	+15%
Personnel expenses ratio	34%	39%		-5%
Share				
Share price (XETRA) as of reporting date	7,62	2,60	€	+193%
Market capitalization	26,7	9,1	Mio. €	+193%

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 March 2004	Release of annual report 2003 Press conference
5 May 2004	Release of 1st quarter results 2004
3 June 2004	Annual shareholder meeting in Ahrensburg
12 August 2004	Release of 2nd quarter results 2004
5 November 2004	Release of 3rd quarter results 2004

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,

for Basler the turnaround on a full-year basis is in sight. By increasing sales in the first nine months by 22% over the same period a year ago, we were able to significantly improve second quarter's marginal net profit to € 689 thousand in third quarter. This corresponds to a gross margin of 7%. Because the surge in new orders was particularly strong, and more than doubled (+106%) in third quarter compared to the prior-year period, we are convinced that we outnumber the sales and net income projections we made at the beginning of the year.

New Orders

Groupwide new orders in third quarter 2003 totaled € 11.8 million and improved +106% over Q3/2002 (€ 5.7 million).

Orders valued at € 29.3 million were received in the first nine months of 2003 for an increase of 36% over the same period last year (€ 21.5 million).

This rise is attributable to positive developments within all the business divisions and most notably to growth in the Vision Components and Display Inspection elements (see Segment Information).

Sales Revenues

Sales revenues in second quarter improved to € 9.9 million. This represents an increase of 13% over the year-earlier quarter (€ 8.7 million).

In the first nine months of the year 2003, Basler generated sales of € 24.7 million - an increase of 22% over the same period last year (Q1-Q3 2002: € 20.3 million).

This positive sales performance is the result of a rising demand within our target markets, the introduction of new products and the gains made in market share. Each business division did its part (see Segment Information).

Profit/Loss

Increasing sales and the sustained application of strict cost management have helped Basler significantly improve profitability following last quarter's return to the profit zone. Positive net earnings of € 689 thousand were posted in third quarter 2003 – a major improvement both

over the prior-year quarter (€ 147 thousand) and the preceding quarter (€ 62 thousand). And so, third quarter closed with a net gross margin of 7%, which is above the industry average of 3-5%.

Segment Information

The Vision Systems Division posted third-quarter sales of € 6.1 million for a slight drop of -5% compared to the same quarter a year earlier (€ 6.4 million). Sales revenues for this division in the first nine months of the 2003 fiscal year totaled € 15.7 million - a major jump of 14% over the first nine months of last year (€ 13.8 million).

The segment earnings before interest again improved remarkably to € +0.3 million (Q1-3/2003: -0.4 Mio. €, Q1-Q3/2002: € -2.4 million).

At € 7.5 million, the value of new orders was almost double (96%) that of the prior-year quarter (€ 3.8 million). The volume of new orders during these first nine months improved by a dramatic 28% over that of last year (Q1-3/2003: € 19.6 million, Q1-3/2002: € 15.3 million).

Across the board, all the elements within the **Vision Systems** corporate segment have shown a positive performance trend:

After a sluggish start this year, **Sealing Inspection** (inspection systems for rubber/elastomer seals) posted major gains not only in the second quarter, but especially the third quarter when incoming orders climbed 18% over the year-earlier quarter.

Display Inspection (inspection systems for flatscreens) won additional strategically important orders from major clients in Taiwan and Korea. New orders within this field during these first nine months increased more than four-fold over those of the same period a year ago.

Optical Media Inspection (inspection systems for CDs/DVDs) profited from the launch of new products and bolstered demand for capital goods for the production of write-once DVD media (DVD-R) in the Asia region. It was because of these two factors that Optical Media Inspection was able to increase its full-year sales on a year-on-year basis for the first time in two years.

Web Inspection further expanded its European client base thanks to new orders.

The **Vision Components** Division continues to perform exceptionally well. Sales revenues soared 61% to € 3.8 million (Q3/2002: € 2.3 million). In these first nine months the division posted € 9.0 million in sales or 39% more than the same period a year ago (Q1-3/2002: € 6.5 million). This revenue growth is attributable primarily to having gained market shares, since industry experts estimate that

This is a data rate the likes of which have never before been attained in the 4-megapixel-camera market segment. The target markets for this new camera can be found in the electronics and semiconductor industries. Because of the tremendous pressure on prices, the mass production of printed boards, for example, is one area in particular that is constantly searching for solutions that allow increasingly more precise inspections at ever shorter test intervals.

	Vision Systems		Vision Components		Reconciliation		Group	
	Q1-Q3 2003	Q1-Q3 2002	Q1-Q3 2003	Q1-Q3 2002	Q1-Q3 2003	Q1-Q3 2002	Q1-Q3 2003	Q1-Q3 2002
Euro thousand								
Sales revenues	15.723	13.797	8.990	6.481		17	24.713	20.295
Germany	2.422	1.892	2.620	2.217		7	5.042	4.116
Foreign	13.301	11.905	6.370	4.264		10	19.671	16.179
External sales with a single client accounting for more than 10% of the segment's sales		3.803		874	0	0	0	0
Number of clients		3		1	0	0	0	0
Segment results (before interest, taxes and equity)							0	0
of which is depreciation/amortisation	-351	-2.390	967	47	-164	-474	452	-2.817
	147	533	122	246	531	6	800	785
Segment assets								
Noncurrent assets	35	39	167	50	277	70	479	159
Fixed-assets investments	347	183	357	311	1.981	2.517	2.685	3.011
Inventories	4.321	3.241	1.987	1.949	1.567	1.718	7.875	6.908
Receivable	2.781	4.721	1.738	958	0	486	4.519	6.165
Total assets	7.449	8.145	4.082	3.218	3.548	4.721	15.079	16.084

the worldwide machine-vision market will grow only by some 10% this year.

New orders in third quarter totaled € 4.3 million, which is an increase of 127% over the year-earlier quarter (€ 1.9 million). In the first nine months of the 2003 year new orders within the Vision Components division improved 58% over the same period last year (Q1-3/2002: € 6.2 million, Q1-3/2003: 9.8).

The Vision Components segment earnings before interest were € 0.685 million in third quarter. This results succeeded the pre-year and pre-quarter results strongly. (Q3/2002: € 0.2 million, Q2/2003: € 0.066 million).

Basler introduced a new 4-megapixel camera (Basler A400) in conjunction with the "Vision" trade show, Europe's premier exhibition for vision technology. This camera, building on a CMOS sensor, reaches speeds of up to 48 images per second with a resolution of 2350x1720 pixels. This means that ca. 2 gigabytes of image data is generated each second.

Research & Development

Expenditures for research and development totaled € 1.2 million in third quarter 2003. This is a drop of 9% from the year-earlier quarter (€ 1.3 million) and is primarily the result of increased productivity and declining overhead costs. The performance during these first nine months of the year also confirm this trend as costs fell 6% to € 3.8 million from the € 4.0 million for the same period last year.

Staff

The total number of employees as of 30 September 2003 was 259 and is virtually unchanged from that of the same period a year ago (-2% compared to Q3/2002: 264).

The majority of the staff works at the main offices in Ahrensburg (230, -2% compared to Q3/2002: 235). Basler Inc. in the United States employed 14 people as of 30 September 2003 (Q3/2002: 14). Basler Asia Pte. Ltd. in Singapore had a staff of 5 (Q3/2002: 6), while Basler Vision Technologies Inc. in Taiwan and Shanghai employed a total of 10 people (Q3/2002: 9).

Cash

The company's liquidity improved since the beginning of the year despite the strong growth in sales. At the end of third quarter liquid funds totaled € 905 thousand (€ 373 thousand as of 31 December 2002). The net cash flow during the first nine months of the year amounted to € 532 thousand, which is a marked improvement over the prior-year period's € -3.3 million.

This third quarter marks the first time this year that a positive operational cash flow, here in the amount of € 292 thousand, was also recorded. The pre-year operational cash flow was € 15 thousand.

Stock

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

	Shares		Options	
	30.09. 2003	30.06. 2003	30.09. 2003	30.06. 2003
Supervisory Board				
Prof. W. Kunerth (Chairman)	349	349	-	-
N. Basler (Dep. Chairman)	2.0 Mio.	1.99 Mio.	-	-
B. Priske	-	-	-	-
Managing Board				
Dr.-Ing. D. Ley (Chairman)	135,282	135,282	4,482	4,482
A. Dancker	3,000	3,000	-	-
P. Krumhoff	500	500	-	-

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

	1999	2000
Issued	78,000	82,000
Outstanding as of March 2003	33,610	46,826
Granted	0	0
Exercised	0	0
Expired	45,344	35,901
Outstanding as of 30 June 2003	32,656	46,099

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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Outlook

The results of these first nine months of fiscal year 2003 show a remarkable upwards trend compared to last year. Sales rose by 22%, new orders even more at 36% and the year-to-date loss as of 30 September was reduced to € -112 thousand. Against the background of this favorable performance we reckon, that sales will increase up to approx. € 34 million (2002: 26.7) and a positive net income margin of approx. 1% will be achieved (2002: € -3.5 million).

Over the past two years we have renewed our product portfolio, tightened up our organizational procedures, embedded a system of successful cost management and optimized our balance-sheet structure. From today's perspective we see our markets developing in a positive direction. On this basis, Basler AG can further improve its sales in earnings in the future.

The Managing Board



Dr. Dietmar Ley - Axel Dancker - Peter Krumhoff



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

	III. Quarter 2003	III. Quarter 2002	9-Month report 2003	9-Month report 2002
Sales	9.897	8.763	24.712	20.295
Cost of sales	-4.545	-3.093	-10.764	-6.431
Gross profit	5.352	5.670	13.948	13.864
Operating expenses				
Research and development expenses	-1.155	-1.260	-3.780	-4.031
Selling and marketing expenses	-1.237	-2.072	-3.601	-5.487
General and administrative expenses	-2.355	-2.054	-6.489	-7.239
Total operating expenses	-4.747	-5.386	-13.870	-16.757
Operating result	605	284	78	-2.893
Interest income	1	7	7	33
Interest expenses	-183	-153	-572	-447
Depreciation of investments	0	-204	0	0
Income from affiliated companies	0	127	0	204
Other income	273	77	359	77
Result before income taxes	696	138	-83	-3.026
Income tax	-7	9	-29	21
Net result	689	147	-112	-3.005
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)	0,20	-0,04	-0,03	-0,86

* unaudited



Consolidated Statement of Cash Flow as of September 30, 2003* in Euro thousand

	For the period 01.01.- 30.09.2003	For the period 01.01.- 30.09.2002
Cash flow from operating activities		
Net loss	-112	-3.005
Depreciation of fixed assets and intangible assets	801	755
Gains on disposal of equipment	0	15
Changes in:		
Inventories	-1.816	791
Trade accounts receivable	-152	-1.743
Accrued Expenses	-1.100	-123
Other current assets and prepaid expenses	393	143
Deferred tax asset	0	-36
Foreign currency translation adjustment	27	194
Notes payable to shareholders	-46	8
Advanced payments received	667	33
Trade a accounts payable	222	491
Other current liabilities	153	34
Net cash used for operating activities	-963	-2.443
Cash flow from investing activities		
Proceeds from sales of equipment	23	30
Purchase of equipment	-479	-474
Net cash from investing activities	-456	-444
Cash flow from financing activities		
Increase in cash received by bank loan	1.081	0
Decrease in cash/repayment of bank loan	0	-908
Increase of cash received by shareholder's loans	870	0
Increase of cash received by silent partnerships	0	511
Net cash provided by financing activities	1.951	-397
Net change in cash	532	-3.284
Cash, beginning of year	373	4.633
Cash, end of period	905	1.349
additional notes		
payments for:		
interest	519	447
income tax	22	14

* unaudited



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

Assets

	As of 30.09.2003	As of 31.12.2002
Current Assets		
Cash & Cash equivalents	905	373
Trade accounts receivable, net	4.742	4.591
Inventories		
Finished goods and commodities	959	733
Work in process	2.243	1.004
Raw materials and supplies	4.663	4.314
Total inventories	7.865	6.051
Other current assets and prepaid expenses	129	522
Total current assets	13.641	11.537
Property and Equipment		
Technical equipment and IT	3.078	2.912
Fixtures, fittings, tools and equipment	3.077	3.017
Accumulated depreciation	-3.816	-3.243
Total property and equipment	2.339	2.686
Intangible Assets		
Software and licences	1.275	1.106
Accumulated depreciation	929	-761
Total intangible assets	346	345
Investments (in Euro)	0	1
Deferred tax asset	1.525	1.525
Total Assets	17.851	16.093

* unaudited



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

Liabilities and Shareholder's Equity

	As of 30.09.2003	As of 31.12.2002
Current Liabilities		
Notes payable to shareholders	4.960	4.136
Short term liabilities to banks	2.531	1.450
Trade accounts payable	1.222	1.000
Advanced payments received	1.204	537
Accrued expenses	1.736	2.836
Other current liabilities	649	496
Total current liabilities	12.302	10.455
Commitments and Contingencies		
Long term accrued expenses	0	0
Other long term liabilities	511	511
Silent Partnership	1.023	1.023
Total liabilities	13.836	11.989
Shareholder's Equity		
Common stock	3.500	3.500
Additional paid-in capital	995	995
Accumulated deficit	-403	-291
Accumulated foreign currency translation adjustment	-77	-100
Total shareholder's equity	4.015	4.104
Total Liabilities and Shareholder's Equity	17.851	16.093

* 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	Accu- mulated deficit	Accumulated foreign currency translation adjustment	Consoli- dated share- holder's equity	Compre- hensive Income
Balance, January 1, 2002	1,750	350	3,500	3,500	22,299	-16,598	-149	9,052	
Net loss						-3,006		-3,005	-3,005
Foreign currency translation adjustment							193	193	193
Comprehensive Income								0	-2,812
Balance, September 30, 2002	1,750	350	3,500	3,500	22,299	-19,603	44	6,240	
Net loss						-492		-492	-492
Restatement 2001						-1,500		-1,500	
Transfer from capital reserve					-21,304	21,304		0	
Foreign currency translation adjustment							-144	-144	-144
Comprehensive Income								0	-636
Balance, December 31, 2002	1,750	350	3,500	3,500	995	-291	-100	4,104	
Net loss						-112		-112	-112
Foreign currency translation adjustment							23	23	23
Comprehensive Income								0	-89
Balance, September 30, 2003	1,750	350	3,500	3,500	995	-403	-77	4,015	

* unaudited



Notes

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