



Annual Report 2003

From Turnaround to Profitable Growth

Key Indicators

	2003	2002		+/-
Turnover	35.7	26.7	mill. €	+34%
Turnover Vision Systems	22.7	17.9	mill. €	+27%
Turnover Vision Components	13.0	8.7	mill. €	+49%
Turnover percentage Germany	21	24	%	-3%
Turnover percentage Europe	15	19	%	-4%
Turnover percentage in the rest of the world	64	57	%	+7%
Incoming orders	44.9	29.0	mill. €	+55%
Incoming orders Vision Systems	31.3	20.6	mill. €	+52%
Incoming orders Vision Components	13.6	8.4	mill. €	+62%
Gross operating result	21.0	18.6	mill. €	+13%
Gross margin	59	70	%	-11%
Total operating expenditure	20.2	23.4	mill. €	-13%
Ratio of operating expenditure	57	87	%	-30%
Operating earnings	0.7	-4.8	mill. €	+116%
EBT	0.7	-3.5	mill. €	+121%
Earnings margin before tax	2	-13	%	+15%
Earnings Vision Systems	0.5	-4.3	mill. €	+112%
Earnings Vision Components	1.4	-0.2	mill. €	+700%
Net Earnings	3.0	-3.5	mill. €	+185%
Number of shares	3.5	3.5	mill.	
Earnings per share	0.85	-1.00	€	+185%
EBITDA	2.8	-3.3	mill. €	+185%
EBIT	1.5	-4.4	mill. €	+134%
Liquid assets	3.7	0.3	mill. €	+1200%
Balance Sheet				
Balance sheet total	23.9	16.1	mill. €	+48%
Fixed capital	12.3	12.1	mill. €	+2%
ROCE (Return on Capital Employed)	11	-31	%	+42%
Liabilities and reserves	16.7	12.0	mill. €	+39%
Equity	7.1	4.1	mill. €	+73%
Equity rate	30	26	%	+4%
Number of employees as of 31.12.2003	265	261		+2%
Turnover per employee	136	103	T€	+33%
Staff expenditure rate	40	51	%	-11%
Share price (XETRA) on cut-off date	10.80	3.20	€	+238%
Market capitalization	37.8	11.2	mill. €	+238%

Glossary

AIA

Automated Imaging Association – professional organisation of the US machine vision companies

Algorithm

Systematic process of problem solution; in the area of image processing a software process which takes on specific tasks of image processing (e.g. surface inspection)

Images per Second

Unit of measurement for the speed with which a digital camera takes pictures

Picture Element (Pixel)

Light-sensitive elements of the image sensor

BluRay-Disc ©

Medium of the future for archiving digital data; 3rd generation of optical storage media

Book-to-Bill-Ratio

Ratio of incoming orders and turnover; describes a company's growth dynamic

CCD

Charge-Coupled Device; previous technological principle of most image sensors

CD

Compact Disc, 1st generation of optical storage media

CD-R

Write-once CD format for archiving digital data (CD-Recordable)

CMOS

Complementary Metal Oxide Semiconductor; technological principle of most semiconductor memories

Color Filter

Structured layering on flatscreen substrates; enables the display to show the colours blue, red or green

Corporate Governance Kodex

Code of behaviour for better monitoring and management of investment companies

Deutscher Aktienindex; German stock index**DIN**

Deutsches Institut für Normung e.V.; German Institute for Industrial Standards

Display Inspection

Basler business activity addressing the flatscreen industry with ready-to-use solutions

Transmitted Light Procedure

Common process of image processing enabling size measurements through transmitted light

DVD

Digital Versatile Disc – 2nd generation of optical storage media

DVD-R

Write-once DVD format for archiving digital data (DVD-Recordable)

EasyTeach Function

Simple calibration tool of the Basler WEBSIGHT in the business division Web Inspection

EBIT

Earnings before Interests and Taxes – Ergebnis vor Zinsen und Steuern

EBITDA

Earnings before Interests, Taxes, Depreciation and Amortisation

EBIT

Earnings before Interests and Taxes

Feedback Loop

System for feeding identified defects back to the production equipment

Flatscreen Generation

Production year of a specific size of flatscreen

Area Scan Camera

Camera with area sensor which delivers a complete 2-dimensional picture

Glass Substrate

Initial product in flatscreen production

Investor Relations

Organizing the relations of a company quoted on the stock market to its stockholders

ISO

International Standardization Organization

Classification Software

Software for sorting and classifying defects according to specified types

Price-Earnings Ratio

Ratio of the price per share to the earnings per share

Machine Vision

Industry of processing images for industrial use

Marketing Mix

Tools (product, sales channel, communication and price) for achieving the company objectives

Market Capitalization

Number of shares multiplied by the price per share – equal to the stock market value of the company

Surface Inspection

Common image processing application in many industries – recognition and classification of surface defects, for example on optical storage media or flatscreens

Optical Media Inspection

Basler business activity addressing the industry for the production of optical storage media

O-Ring Seals

Commonly used circular industrial seal

Sealing Inspection

Basler business activity addressing the rubber and elastomere industry

TecDax

German stock index for technology securities

TFT

Thin Film Transistor – technological principle for small to medium-sized flatscreens

Turnaround

Management process to guide a company from the loss to the profit zone within a year

VDMA

Verband Deutscher Maschinen- und Anlagenbau e.V.; German Federation of the Engineering Industries

Vision Technology

Technology of industrial image processing

Vision Systems

Basler business segment providing ready-to-use solutions (Optical Media Inspection, Sealing Inspection, Display Inspection and Web Inspection)

Vision Components

Basler business segment providing image processing components (e.g. cameras)

Web Inspection

Basler business activity addressing the plastics industry

Yield Management

Management process for increasing the effectivity of a production plant

Line Scan Camera

Camera with line sensor, for which a complete picture is compiled out of several consecutive image lines

Vision Technology

Basler AG is one of the leading companies in the field of vision technology – the technology of artificial sight. Vision technology stands for computer-based sight systems (Vision Systems) which make automatic decisions on the basis of image information, and cameras (Vision Components) which are in turn built into vision systems.

The fields of application for automatic vision systems are already very numerous and will continue expanding in the future. Vision technology is currently used in industrial production in particular, e.g. for automatic quality inspection, measurement, identification or monitoring. This group of applications is referred to as machine vision. Specific applications include, for example, inspecting printed circuit boards in electronics production, inspecting surfaces in the production of plastic sheets, flatscreens or wafers, optical character recognition for sorting letters or reading documents, print quality inspection in the packaging industry or waste sorting.

Important objectives for the use of vision technology in the industrial context are to carry out a complete, automatic 100% quality inspection, to increase production efficiency and to reduce production costs of the end products.

Vision und Mission

There will be intelligent machines in all areas of our lives.
We make them see!

Strategy

We provide our customers with the technology of artificial vision in the form of components, systems and services optimally geared to our customers' application requirements.

We operate worldwide, on fast-growing markets with leading technology.

We achieve and maintain high growth rates and sustainable profitability through permanent innovation, process improvements and customer orientation.

We make long-lasting investments in research and development, securing our leading technological position.

We intensify our technological competence through a well-targeted transfer of know-how with subsidiary companies, leading universities and strategic partners.

Structure

Basler addresses the vision technology market with two company segments:

- Vision Systems develops and markets ready-to-use systems for quality inspection in mass production for the following industries:
 - Optical data storage industry
 - Rubber/elastomere industry
 - Electronics/display industry
 - Plastics industry
- Vision Components develops and sells standardized camera components for vision technology, addressing a number of further industries at the same time.

Turnaround

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"Earnings and cash-flow are positive again, assets are extremely valuable and the Return On Capital Employed (ROCE) is already in double figures. We will continue to work in the interest of our investors and financial partners, to make sufficient outside capitalization possible, and to make our share even more attractive."

Foreword

Off to new shores after turnaround

Dear Ladies & Gentlemen

after three difficult years in total, and despite a negative overall economic situation, we have managed to turn the company around in the past financial year of 2003. Our return to the profit zone is not only the result of strict cost discipline, but also particularly due to the fact that we continually worked on new products and improved our processes during the crisis. This combination of an improved cost ratio and increasing turnovers led to us achieving a good result, even at an approximately 20% worse Dollar/Euro exchange rate.

We have always aspired to be a leading technological growth company in vision technology. This is the route we want to follow with you, now that we have laid a solid basis with the return to profitability. Our motto is no longer "Turnaround", but now, "Off to new shores".

As one of Europe's largest vision technology companies, we have the largest know-how pool for vision technology in this region, with over 100 developers. We translate this knowledge potential into profitable turnover by providing customer-oriented applications via special Sales and Marketing units on various markets and market niches. Our two business segments – Vision Systems and Vision Components – show great potential:

Vision Systems:

- Inspection systems for flat displays (Display Inspection) will be one of the company's greatest growth factors.
- Inspection of optical storage media (Optical Media Inspection) has particular potential for the future through new formats such as DVD-R & "BluRay"™ disks.

- Systems for inspecting safety-relevant sealing rings (Sealing Inspection) will remain indispensable for the automobile industry and aeroplane construction.
- Inspection systems for examining plastic foils (Web Inspection) offer a wide range of application possibilities for diverse industries and markets.

Vision Components:

- In this segment we address the entire vision technology market with our digital camera solutions (for example for inspecting electronic components or semiconductors).

In 2003 all our activities developed in conformance with our strategy and made a substantial contribution to the turnover and earnings growth. Turnover rose 34% in contrast to 2002, to € 35.7 mill. Earnings before tax improved to € 0.7 mill., following losses of € -3.5 mill. in 2002. The net earnings after tax were € 3.0 mill. (€ -3.5 mill. in 2002). The unusually high tax result of € 2.2 mill. is due to the fact that all losses brought forward from the past three years are activated at the level of the corresponding tax burden. In strict interpretation of the regulations, this does not take place in 2003 until the losses brought forward can be regarded as useable with the turnaround. Profits will not be taxed in the following years, as enough losses brought forward exist. The calculated tax burden of these profits reduces deferred tax assets and will be disclosed in the tax result of the following years.

The financial years 2001, 2002 and 2003 were characterized by permanent balancing of cost savings on one hand and investments for the future on the other. As a result, each of our business divisions has introdu-



Axel Dancker – Managing Board, Operations (centre)
(Production, Personnel, Infrastructure)

“Our staff has worked wonders this year. Production performance was significantly increased by the same number of employees. Thanks to our staff’s creativity, further productivity increases will follow.”

Dietmar Ley – Chairman of the Managing Board (right)

“The applications of vision technology are varied and promising for the future. We have achieved a very good starting position with our business divisions and intend to extend this through further qualitative growth.”

ced new products onto the market, despite total savings of € 7.9 mill. on operative expenses since 2000. In 2003, over 45% of our products were less than 24 months old.

Our staff worked extremely hard to cope with the turn-over growth in 2003. In production in particular, they worked extra shifts and temporary staff was employed. We benefited from our staff’s extreme flexibility and also from the working time models we introduced. The company was thereby able to make up for market-related capacity variations. In harmony with the increasingly positive business course, the price of Basler stock also went up. This is also down to our constantly intensive investor relations work, which strengthened investor trust on the basis of a conservative, reliable information policy.

We are in a confident mood for the future,

- in the short term, because incoming orders showed a continually positive development in the past year, in contrast to previous seasonality.
- in the medium term, because we can now better balance out the risks of our markets and better exploit their potential, due to our broad product basis. This lays an essential foundation for continually profitable growth.

- in the long term, because all experts expect the vision technology market to continue opening up new applications, prompting average growth of 10% per year, so that we can maintain and further extend our leading position on the markets.

We would like to thank you for the trust you have placed in us, and particularly for your loyalty in difficult times. It remains our objective to keep you informed on our course of business in a transparent and up to date form, and to reliably keep our promises to you.

Dietmar Ley

Axel Dancker

Peter Krumhoff



Supervisory Board Report

Dear Ladies & Gentlemen

During the past financial year of 2003 the Supervisory Board fulfilled its duties according to the laws and the articles of association, serving as advisor and monitoring the actions of the Managing Board. The Managing Board kept the Supervisory Board regularly informed of the financial situation of Basler AG and its foreign subsidiaries in verbal and written form, and discussed the economic situation at length. Four routine meetings took place in the financial year 2003, at which all members of the Supervisory Board were present, with a single exception: on 4 March, 17 June, 16 September (Mr. Priske was unable to attend this meeting) and 12 December 2003. Standing committees as defined in § 171 para. 2 sentence 2 of the German corporation law were not formed due to the size of the Supervisory Board (three members).

The Managing and Supervisory Boards worked in close cooperation based on open and trusting discussion, for the benefit of the company. The Managing Board coordinated the company's strategic direction with the Supervisory Board and presented regular reports on the status of its implementation. The Supervisory Board was involved in all key decisions affecting the company. The Managing Board informed the Supervisory Board regularly on all issues relevant to business development and the risks faced by the company. The chairman of the Supervisory Board is in regular contact with the chairman of the Managing Board, who informs him of all current developments and unusual events. The Supervisory Board passed the resolutions for which it held competence according to law and articles of association. These include decisions and measures of significant importance for the

company's assets, financial situation and earnings. Subjects of importance were:

- examination and approval of the Annual Report 2002 and the proposals for the Annual General Meeting
- general economic and market-specific developments and their effects on the company's earnings and turnover
- measures for implementing turnaround
- identification and application of further potentials on the vision technology market
- 4-year plan and budget in the segments and the group
- company financing
- affirmation of the Code of Corporate Governance

The statutory auditor was present at the Supervisory Board meeting of 27 February 2004 on the Annual Report under review, and reported on the basic findings of his audit.

The Basler AG company accounts, the Annual Report of 31 December 2003, the Management Report, the Group Financial Report of 31 December 2003 and the Consolidated Annual Report were examined by the auditor, BDO Deutsche Warentreuhand AG, Lübeck, found to conform with law and articles of association and issued with an unqualified auditing certificate. The Supervisory Board took note of the result of the audit with approval.

Supervisory Board Report

Nobert Basler (Vice Chairman, left)

Prof. Walter Kunerth (Chairman, centre)

Bernd Priske (right)

The Supervisory Board also examined the Annual Report and the Group Financial Report, the Management Report and the Consolidated Annual Report, as legally required. No objections were raised. The Supervisory Board approved and thus adopted the Basler AG Annual Report drawn up by the Managing Board.

In accordance with the Code of Corporate Governance, the Supervisory Board regularly reviewed the efficiency of its work. Furthermore, the individual members of the Supervisory Board do not hold any advisory or executive function for customers, suppliers or other business partners, causing no conflicts of interests with their function for Basler AG in the past financial year.

In the past financial year, the company conquered great internal and external challenges to achieve turnaround and work towards further growth potential for the future. This would not have been possible without the vigorous performance and commitment of the staff, management and the Managing

Board of Basler AG. The Supervisory Board expresses its thanks to all members of staff, the management and the members of the Managing Board of Basler AG for all their work over the past financial year.

Ahrensburg, February 2004

On behalf of the Supervisory Board



Prof. Dr.-Ing. Walter Kunerth
Chairman of the Supervisory Board



Our Business Segments



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Our Business Model

Exploiting the Diversity of Vision Technology

Our business model has proved its effectivity: by dominating the basics of vision technology, we intend to make comprehensive use of the diverse industrial applications of the technology through market-specific, technologically advanced systems, components and services. Following this model, we can grow overproportionally and profitably within an already growing industry.

Vision technology is the technology of machine vision. It enables us to translate the human sense of sight into industrial applications. With the help of vision technology, machines can inspect the quality of products within the manufacturing process, control robots in the production process, measure objects or shapes, recognize codes and symbols. The technology's uses in industry are diverse and almost unlimited. New applications are continually emerging.

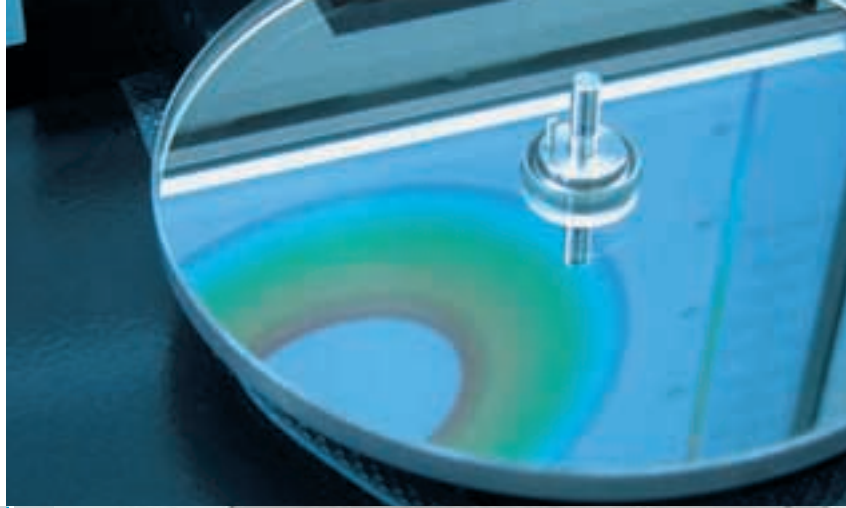
Experts anticipate that the global vision technology market will grow by approx. 10% per year in the years to come. According to estimates, the overall world market for vision technology reached a volume of US\$ 6.1 billion in 2003. We want to exploit this potential.

The lynchpin of our business model is dominating the "cross-section discipline" of vision technology. Over 100 developers work on the further development of the technology, strengthening the company's know-how in the important individual disciplines of camera technology, lighting, optics, electronics, software/algorithms and mechanical construction. Our Sales and Marketing units make good use of this know-how to open up and serve promising markets or market niches with our products and services. We thus combine two essential conditions for market success: technology know-how and customer orientation.

We are currently concentrating on two business segments: firstly, turnkey – "Vision Systems" – which control product quality in selected industrial manufacturing processes. Secondly, the segment "Vision Components" supplies high-performance digital cameras to producers of machines and plants in other industries. These components are then used in our customers' products, for example for identification, measurement, recognition or inspection.

This business model has the advantage of exploiting the potential of the entire vision technology market. Any existing risks on individual customer markets are also better tempered by growth in other areas.

Vision Systems



Production efficiency is increased
using defect analysis.



The “State of the Art” of Surface Inspection

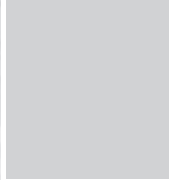
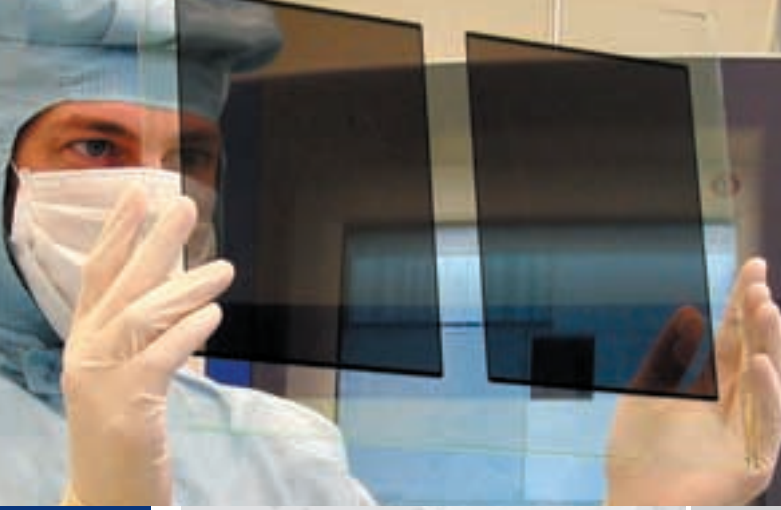
In the business segment “Vision Systems” we focus on systems for surface inspection. The process of surface inspection is similar for all products: the material or product under examination is inspected at the end of the production process or after certain stages of production. High-performance cameras and special lighting and lenses create digital images and transfer these to a computer unit. This data set, up to 50 gigabytes in size, is inspected for faults on the surface of the product using software algorithms. Any defects found are assigned to fault types and statistically evaluated. Typical defects can be holes, scratches, oil stains, grains of dust or bubbles. As well as detecting local surface defects, these systems are also capable of measuring layer thickness, large-scale misshapes or optical qualities, for example, and comparing these with pre-set tolerance levels.

On the basis of this analysis, the vision system decides whether the product is rejected or not. As well as the simple inspection and good/bad decision, inspection data is collected

and statistically processed in a protocol. Quality data from several production lines can also be collated. This quality data can be used to help automatically regulate production settings of the equipment, so that defects may be avoided completely. Thus production efficiency is increased, while product quality is simultaneously guaranteed.

In the area of surface inspection we currently serve four markets:

- Flatscreen industry (Display Inspection),
- Optical media industry (Optical Media Inspection),
- Rubber and elastomere industry (Sealing Inspection),
- Plastics industry (Web Inspection).



Defects smaller than a grain of dust are found on a large glass substrate in less than 20 seconds.

Display Inspection – Boom in Asia

Display Inspection was the fastest growing business division at Basler in 2003. Following the first years of the pilot project phase, substantial market shares were gained in 2003.

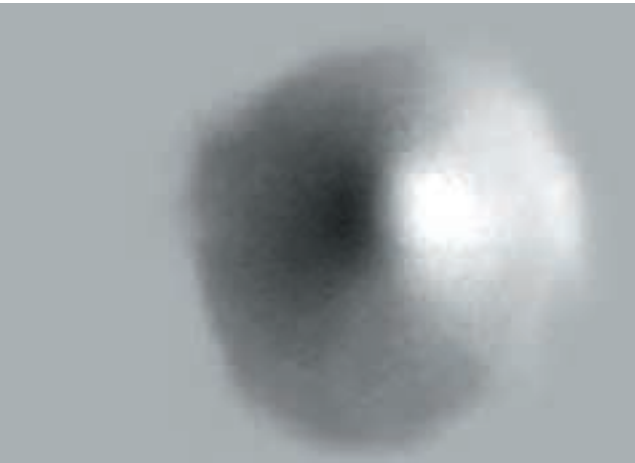
In Display Inspection we market inspection solutions and services for display glass, the most important initial product for the flatscreen industry. The production process for these screens takes place in several stages, at which different inspection services are needed by the manufacturers. We are currently concentrating on quality control in the first stages of production, i.e. inspecting the non-structured bare glasses and colour-filter coated glasses. The task of inspecting these materials is to reliably recognize defects at a size of less than 20 µm on up to four square metre-large glass substrates. This can be compared to a human finding every defect the size of a grain of dust on a football field in 20 seconds, and categorizing them according to important characteristics.

Display Inspection is currently particularly profiting from the flatscreen industry's high investments in manufacturing lines known as generations 5, 6 and 7. With each of these generations, the dimensions of the glass substrates increase (generation 7: 1900 x 2200 mm), making production increasingly cost-effective. The glass substrate is only cut to the correct format of the end products (e.g. televisions, PC monitors, PDA displays, mobile telephone displays) after all the coating processes have been completed.

As the spoilage rate in flatscreen production is still extremely high, retail prices for large flatscreen appliances (e.g. LCD televisions) are still well above those of products using conventional cathode ray tube technology. This price disparity should be reduced as quickly as possible, through targeted reduction of spoilage rates in the production process. Automatic image processing inspection plays a central role in this development.

Prominent manufacturers from the USA, Korea and Taiwan are customers of Display Inspection. These customers' investments have already contributed to turnover growth of over 100% in this area in 2003. Incoming orders from these long-term projects showed an even more positive trend in the course of the year, so that the majority of the Display Inspection sales budget for 2004 is already secured by advance orders.

The flatscreen market will continue its positive development in the medium term. 2003 was the first year in which more monitors using flatscreen technology were sold on the worldwide computer market than conventional monitors. If prices for large flatscreens in particular fall as anticipated, the majority of households will be equipped with flatscreen televisions within only a few years.



Dents like this mean the defective disk is rejected (highly magnified).

Vision Systems

 www.baslerweb.com/omi

Optical Media Inspection – Rush for DVD-Rs

Optical Media Inspection has been supplying inspection systems to the optical storage media production industry for more than ten years. We are one of two pioneers in the quality control of optical storage media, with over 5000 installed systems on the market. What was once seen as an almost revolutionary technology, when the compact disc was first introduced, has now become the dominant medium for storage, archiving or transmission of digital data, in its various forms of CD-R, DVD or DVD-R.

Inspection systems on the basis of vision technology have played an important role in this success. Every CD or DVD undergoes an optical inspection at the end of the production process or after certain production stages. This rejects defective items at an early stage, and feedback loops help to continually optimize the production process, so that large-scale faults hardly occur any more. Although the spoilage rate in CD production in the early 1990s was at a level of up to 20%, it has now fallen to approx. 1%. These cost savings in the production process mean the end retail price of optical storage media may also be reduced.

In 2003 the Optical Media Inspection division profited in particular from the high level of investment in machines and equipment for manufacturing write-once DVDs, the DVD-R. Turnover was increased by 24%. The DVD-R will be the format of the future for archiving large data sets. With a storage capacity of up to 17 gigabytes, the DVD-R will be used to save media data or software from computers and especially for recording films from television. DVD burners have now

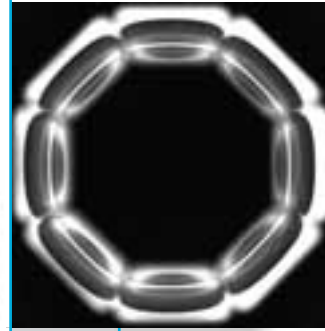
become standard equipment for new computers. The number of DVD recorders capable of recording from television sold is constantly rising, as prices fall rapidly.

With these trends in view, companies manufacturing blank DVDs are currently making intensive investments in new production plants, including inspection equipment. The Chinese market is becoming increasingly important in this context, as the trade fair Replication EXPO in Shanghai proved at the end of 2003. A growing number of new companies are being founded there, constructing production facilities very quickly and able to manufacture on attractive terms. As we have been represented by a Sales and Service Office in Shanghai since early in 2002, we expect to further profit from this positive trend.

The inspection systems business for optical storage media has always been strongly influenced by the development and introduction of new formats. Industry observers expect the current extensive investment in the market's latest successful format – the DVD-R – to continue apace. Additional formats based on the existing technology will be introduced in the coming year (e.g. the dual layer DVD-R with 9 gigabytes of storage capacity), prompting further investment in production equipment. And a completely new format is beginning to appear on the horizon: the "BluRay® disk". This data format has an as yet unequalled storage capacity of approx. 23 gigabytes, later increasing to 48 gigabytes, and is currently in the trial phase. Experts predict it will be introduced worldwide from 2006 on. The "BluRay® disk" will add a further chapter to the success story of optical storage media.



The size of the ring is measured in a transmitted light procedure. The picture shows up any rips, ridges or other defects..



The outer surface of a sealing ring is inspected using a total of eight mirrors.

Sealing Inspection – One Hundred Percent Assurance

The Sealing Inspection division has been generating stable sales and results for Basler since it was founded in 1996. The most technologically advanced and reliable products, and a worldwide-operating service network have helped this business division become the global market leader, with a market share of over 80%. The Sealing Inspection products inspect mostly O-ring seals, used in brakes or ABS systems for automobiles or in aeroplane construction, for example.

The entire surface of each O-ring is inspected before the packaging stage of the manufacturing process. The cameras are capable of inspecting 100% of the surface, using a mirror lens developed by Basler. The rings' dimensions are also examined for conformity to the required standards. Depending on the inspection requirements, up to 6 rings can be inspected per second – in high-resolution mode faults smaller than 50 µm (50 thousandths of a millimetre) can be identified.

As well as a constant inspection focus level, Sealing Inspection's products provide considerable cost reduction potentials for our customers. In contrast to manual inspection, previously the most common procedure, automatic inspection is much faster, with an absolutely unvarying focus level.

The economic trend in the rubber and elastomere industry was definitely on the upturn in 2003. Investments in production equipment thus increased. The extension of the Sealing Inspection product portfolio also opened up new sales potentials. A mobile system for inspecting incoming and outgoing seals – the Basler AUTOGAUGE – was successfully brought onto the market. The standard product Basler VARIO celebrated its one hundredth delivery in 2003, to an Italian customer.

We expect the economic upturn in the rubber/elastomere industry to continue in 2004, and intend to further improve our market position. This is a realistic assessment, as leading automobile component suppliers have already announced their intention of integrating Basler systems into the production of rubber seals on a standard basis. The Asian markets and the Chinese market in particular provide further potential. Manual inspection – even in low-wage countries – appears to be making way for automatic 100% inspection for more and more sealing products, a development we are sure to profit from.



 www.baslerweb.com/wi_e

Vision Systems

The inspection system provides important data material for optimizing production.

Web Inspection – Intelligent Inspection

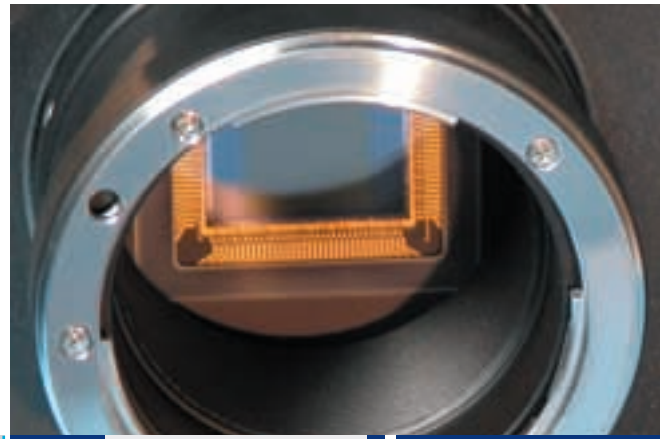
Web Inspection is the newest business division at Basler – we have been supplying inspection products and services for the plastic foils manufacturing industry since the year 2000.

Foils are becoming increasingly complex products, made up of up to seven layers. This means that inspection plays an ever-increasing role in manufacturing. Foils for use in the food or medicine sector must be of particularly high quality. However, even simpler plastic foil products must have a reliably defined quality. The Web Inspection division supplies products which address these varying market demands and provide flexible, exact and reliable quality inspection.

Foils are manufactured at a speed of up to 500 metres per minute. At the end of the manufacturing process, before the

foils are cut to size, Basler inspection systems examine these foils at full production speed. A special user function called the EasyTeach function allows users to make their machines learn new defect categories at a click of the mouse. Inspection data is taken into account when cutting the foils into shape, so that defective sections can be automatically rejected.

Web Inspection successfully implemented several different projects in the special foils area in 2003. One manufacturer of separator foils for use in car batteries, for example, introduced our automatic inspection system. Our inspection equipment is also used to examine condenser foils in the electronics industry. We are confident of medium-term turnover development in Web Inspection. We expect additional impulses in 2004 from the world trade fair "K" taking place in Düsseldorf in October and held every three years.



Vision Components

Image sensors can record and transmit up to 10,000 images per second.

Camera Technology at the Highest Level

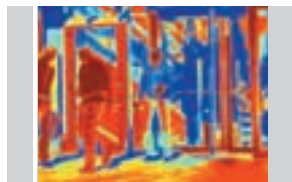
1997 saw the start of Basler's industrial digital camera business. The strategic decision in favour of this component sector was taken on the basis of predicted turnover and growth potentials for these components on the continually expanding vision technology market. The Vision Components segment was a success story from the very beginning: sales growth rates have been in double figures year after year, on a profitable basis.

What are the causes of this dynamic growth? Firstly, Vision Components is one of very few suppliers providing both line scan cameras (the picture is produced line for line by moving the object past the camera) and area scan cameras (like in a photo, all the lines of the picture are exposed at the same time). The cameras differ additionally within this broad portfolio with regard to picture speed and resolution. Our range of cameras is very large, consisting of a total of almost 50 products. These include the current Vision Technology "workaholic", the Megapixel Camera with 1.4 million picture elements at a speed of 15 images per second, and high-performance cameras that are either very fast (e.g. up to 10,000 images per second) or simultaneously fast and high-resolution (e.g. 50 images per second at a resolution of 4 million pixels).

The continually growing product portfolio of Vision Components increases the number of possible customer applications and thereby also the sales potentials of the segment. Our cameras are used for analyzing crash tests, for inspecting road surfaces or for analyzing wood panelling, for example.

The second reason behind the positive development of Vision Components over a period of years is our innovative technology. Picture sensors, for example, play a central role in this context. Vision Components makes increasing use of new CMOS image sensors (CMOS = Complementary Metal-Oxide Semiconductor) alongside the standard CCD image sensors (CCD = Charge Coupled Devices). The new sensors are more suitable for certain applications and have a greater technological potential. Basler has also made a name for itself on the market as an innovator in the field of data interfaces for vision cameras. We were one of the first suppliers on the market to introduce the now dominant digital interface technologies "Camera Link" and "IEEE 1394" ("FireWire").

The final success factor is the high quality of our cameras. Every camera is examined in a separate inspection process



The Vision Components product portfolio covers a comprehensive range of line scan and area scan cameras.

before delivery. A global support team of staff in the USA, Europe and Asia ensures that our customers can work with our products quickly and efficiently.

Vision Components increased turnover by 49% in 2003. As well as growth with existing customers, new customers played an important role in this success. New customers in 2003 included electronic board manufacturers, for example, who equipped their production lines with Basler cameras. The increased number of new customers is partly due to newly introduced products in 2003. These include the compact camera family "Basler A600", already the most popular Vision Components cameras in the year of their introduction, as they combine high-performance data (up to 100 images per second) with a low price. Once again, Vision Components is setting a new trend on the market with this camera family – "analogue goes digital" – addressing applications currently still equipped with the slightly less expensive, but also lower performance analogue cameras. Another new

product is the "Basler A400", capable of creating over 4 million pixel resolution per second, making it particularly suitable for fast and high-resolution requirements, for inspecting electronic components for example.

The worldwide markets for these innovative compact cameras are served by a global, close-knit network of independent distributors and their own sales and service companies. Building and maintaining valuable, long term customer relations is the key to marketing these products.

Experts predict a positive future for the market for digital high-performance cameras. Over 10% turnover growth p.a. is anticipated on this market, not only in the USA, but also in Europe and Asia. Vision Components will continue to place important new products on the market in the future, making us confident for the further development of this segment. In 2004 we may well be able to maintain turnover growth in double figures and gain further market shares once again.

Staff

Highly Flexible Staff with Increasing Productivity

The staff at Basler once again worked wonders in 2003. Thanks to their high level of working hours flexibility and strict cost discipline, productivity was significantly increased, an essential prerequisite for the successful turnaround implemented last year.

Following an expectedly modest start to the year 2003, turnover and incoming orders rose increasingly, finally reaching their highest levels at the end of the year. Basler coped with this increase in labour input and intensity using an extremely efficient flexitime model. The staff flexitime accounts can be built up and worked off at high levels and with extreme flexibility. This model makes optimal use of quiet periods and peak times, especially in production. This was illustrated by the number of manufacturing hours worked in the course of the year, which vary by up to 30% from month to month, not including additional costs. Temporary workers were also brought in to cover absolute operating peaks.

As in past years, staff also made a decisive contribution to cost management in 2003. Our employees identified savings potential in their direct working environment in particular, effectively allowing the further operating expenses – material expenses – to remain at the same level despite sales increases. The employees' high level of identification with their working environment is reflected in the high number of sugges-

tions for improvement they made and implemented during the year. Numerous members of staff also waived their overtime pay, previous year's annual leave and salary dues, and were prepared to take part time work or unpaid leave. These measures avoided redundancies, quickly reduced personnel costs and kept important know-how within the company, which was urgently needed again for the growth in the second half of the year. At the end of the year, many of the part time agreements were renegotiated due to the positive business course.

Both the high level of working hours flexibility and the significant cost savings led to Basler increasing turnover per employee by 32% from € 103,000 to € 136,000, and gross operating results per employee by 25% from € 73,000 in 2002 to € 98,000 in 2003.

Additional measures to promote staff motivation and job satisfaction further supported this productivity increase. A staff satisfaction analysis was carried out for the first time in 2003, which uncovered our potential for improvement in the design of the working environment and cooperation within the company. Every senior employee holds an average of two development and evaluation meetings with each of their subordinate colleagues every year, to trace the employees' development and point out potential for improvement.

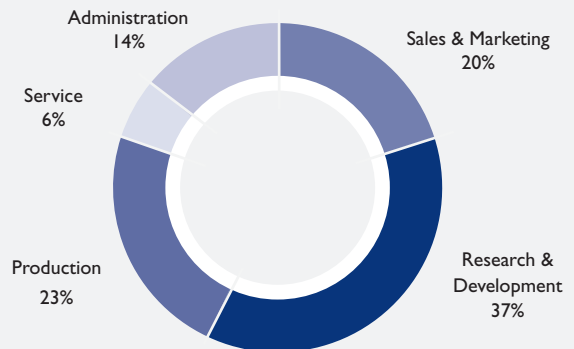


 www.baslerweb.com/careers

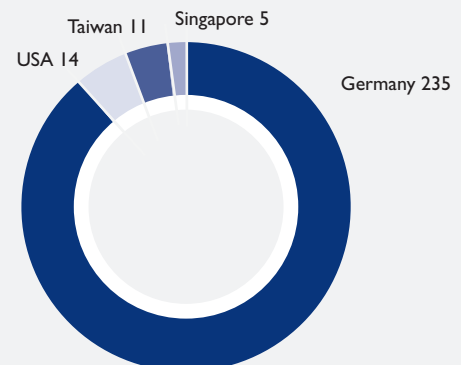
A system of performance-related bonuses helps us to pay our staff according to their individual performance. All the measures taken were developed and implemented in cooperative and constructive collaboration with the staff council. Basler employs well-trained staff with an average age of 35. Many of them have gained a further qualification after their initial vocational training or have a university or polytechnic degree. Our good contacts to the research and teaching departments of German and international universities help us to further develop our employees' competence, even at times when our budget is tight. Graduates completing their final projects at Basler and students carrying out internships as part of their degrees also provided important additional competence impulses.

In 2003 the first Basler training programme was completed. A total of 3 commercial college students and 4 technical and administrative trainees passed their final examinations. We were very pleased that we were able to take on almost all the former trainees who wanted to stay with the company as full members of staff. In view of our positive experience of the first training programme, 6 new trainees will be starting at Basler in the coming year.

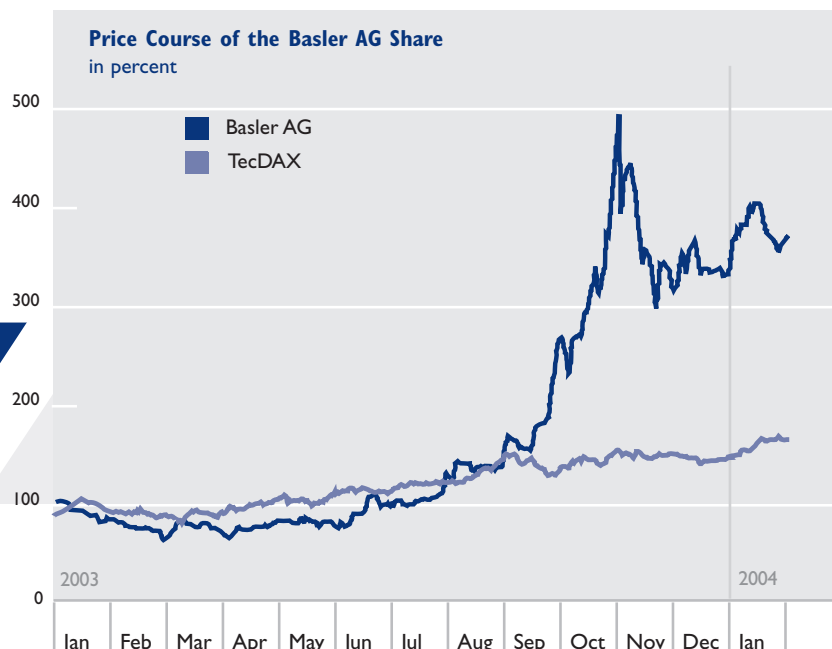
Staff Structure
in percent



Staff by Region
to 31.12.2003



The Stock



The Stock – Strong Price Upturn and Great Potential

Basler's stock rose 238% in the course of 2003, a significantly better development than the capital market as a whole. This is a visible sign of Basler's continually improving earnings and intensive, solid investor relations (IR) work.

After the weak years 2001 and 2002, the financial markets showed a more healthy development in 2003. The DAX rose from 3,105.04 to 3,965.16, an increase of 28%. This is not least a sign of an optimistic assessment of the future economic situation, from which the technology securities profited in particular. The TecDax rose over-proportionally to the other indices in the course of the year by 42%, from 382.26 to 541.31. In this improved atmosphere, Basler stock was one of the securities to profit particularly, and outperformed both indices by far. While the share was still quoted at € 3.20 at the start of the year, the price rose to €10.80 as of 31.12.2003, a total increase of 238%.

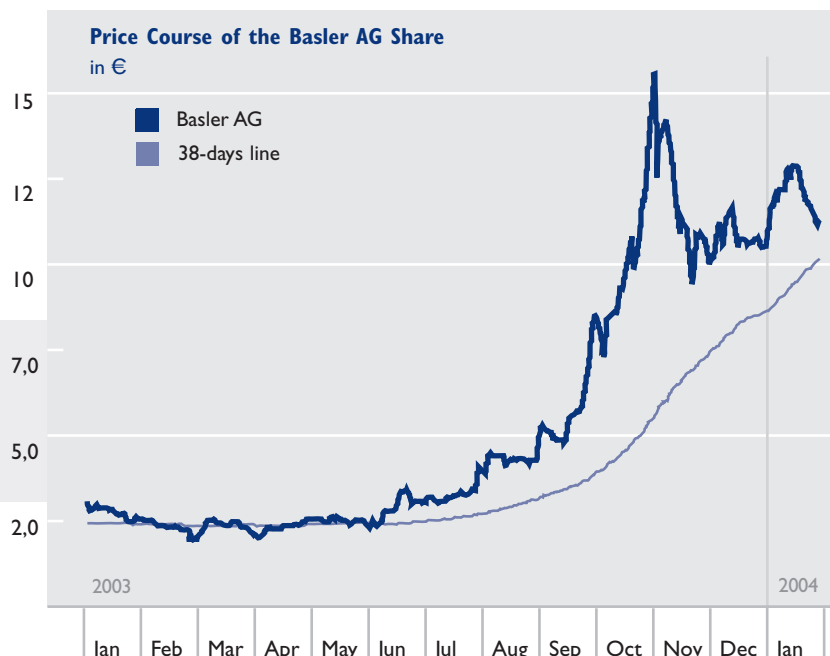
The high level of interest in the stock was reflected in the increased liquidity in 2003. This particularly pleasing development is due to the fact that Basler showed success in its efforts to turn the company around, quarter after quarter. The positive development of turnover and incoming orders led directly to an improvement in the net income situation. The

risk of a lasting, capital-eroding loss phase at Basler, still taken into account in the share price at the beginning of the year, was visibly reduced. The capital market therefore let down its former caution and started investing in the share again.

Basler's business model proved its effectivity once and for all in 2003. It continues to create solid growth opportunities, from which the share also profits.

Our IR work improved on the high standard previously set in 2003. Basler aspires to keep up intensive contact to investors in an active and transparent way, in good times and in bad.

The IR measures undertaken in 2003 included further extending our internet presence through additional facts & figures, information on the Code of Corporate Governance and an improved service section. Investors can now not only access current information, but also find out about Basler's financial calendar, for example. Various IR events were also held in 2003. These included two press and analyst conferences and the Annual General Meeting, which took place at company headquarters in Ahrensburg and was enthusiastically received. These events were complemented by individual discussions with institutional investors at roadshows in Frankfurt,



Düsseldorf and London. Finally, stockholders had the opportunity to gain an insight into Basler's current situation from various reports in the financial and business press, or to contact the IR team directly by telephone or e-mail, who provided extensive information quickly and efficiently.

The Managing and Supervisory Boards expect further positive developments for Basler in the future. The extensive stock purchases made by the executive bodies throughout the year are a good sign of this. A total of 37,457 shares were purchased by members of the executive boards and their families; none were sold. This is a clear expression of the Managing and Supervisory Boards' conviction that Basler's business will develop positively in the medium and long term, and that the stock will profit correspondingly.

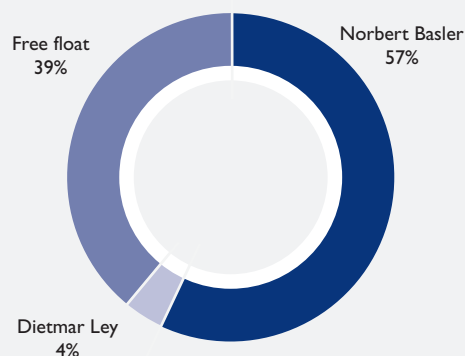
Shares Figures:

Number of shares issued	3,500,000
Nominal value	1
Price at beginning of 2003	3.20 (XETRA closing price)
Closing price 2003	10.80
Percentage development	+238%
Price/earnings ratio 2003 (before tax)	51
Market capitalization as of 31.12.2003	€ 37.8 mill.
ISIN	DE0005102008
Abbreviation	BSL
Designated Sponsor	HSBC Trinkaus & Burkhardt

IR contact person:

Christian Höck
Tel. 04102-463 175
Fax 04102-463 108
christian.hoeck@baslerweb.com

Shareholders' Structure in percent







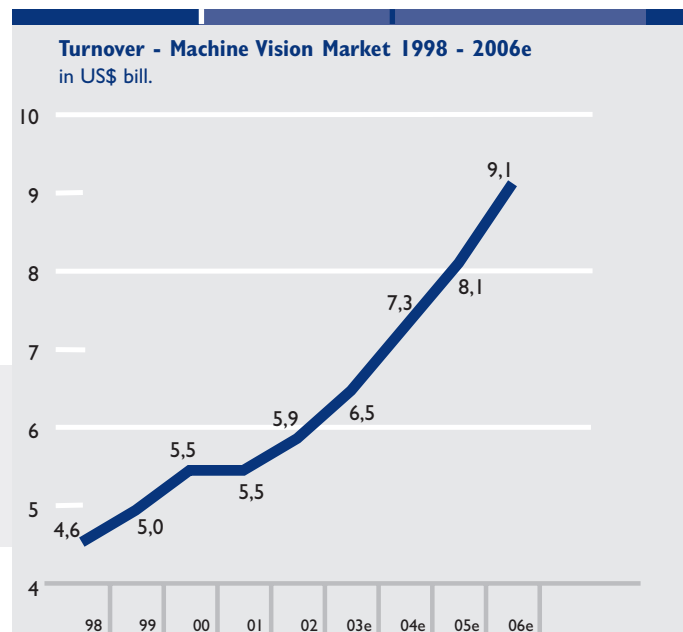


Concise Management Report

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Business Report

Vision Technology

Two of Basler's company segments serve the Vision Technology market:

Vision Systems develops and markets turn-key-systems for quality control in mass production for the following industries:

- Optical media industry
- Rubber/elastomere industry
- Electronic/display industry
- Plastics industry

Vision Components develops and sells standardized camera components for Vision Technology, thus also addressing a variety of different industries.

Business Environment and Industry Development

Global Economic Situation

Economic developments in 2003 were marked by the beginning of a slight global recovery. Setting the pace of this recovery process were China, the USA and Japan in particular, and towards the end of the year Europe started to join their ranks. The upturn, supported by the USA's expansive monetary and fiscal policy at the beginning of 2003, gained momentum by the end of the year. Important growth factors were

the lively demand for consumer goods in the USA, given strong impulses by tax reductions, and corporate investment and the very strong export market at the end of 2003, particularly in Japan.

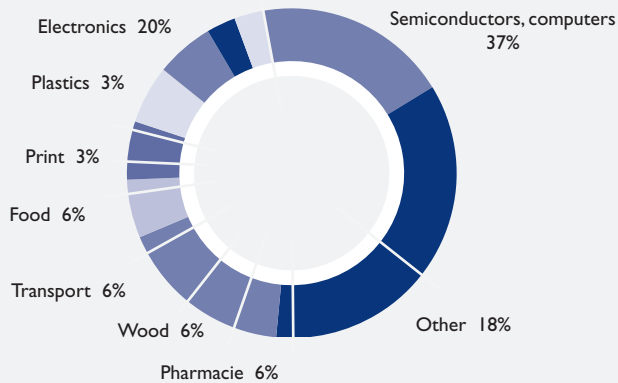
The economy in the Euro area overcame its low point in the middle of the year 2003 and even showed an increase in gross domestic product in the third quarter, for the first time since Autumn 2002. This development was primarily supported by more lively export demand.

Global Market Development – Machine Vision

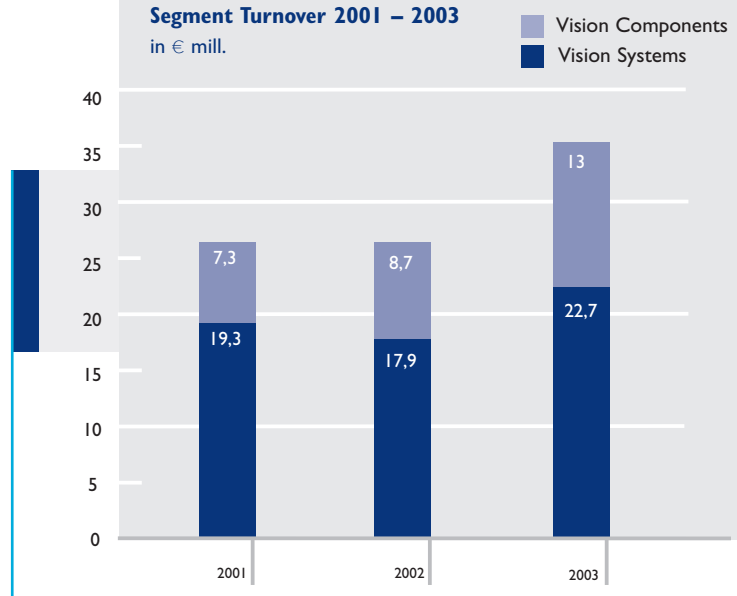
According to statistics from the American umbrella organization for the machine vision industry, Automated Imaging Association (AIA), the total turnover of all machine vision companies in 2003 amounted to US\$ 6.5 billion. The worldwide machine vision market has thus grown by 10.2% over the past year (2002: US\$ 5.9 billion). The AIA anticipates that turnover from machine vision products will undergo an increase of 40% by 2006, to a level of US\$ 9.1 billion. This would be the equivalent of an average annual growth rate of 13%. The global market for machine vision products is primarily concentrated in the highly developed industrial regions of North America, Europe and Japan and the emerging nations of China, South Korea and Taiwan. According to AIA statistics, Japan is the largest single national market for industrial image processing, at 36%. The USA and Europe take second and third place with 29% and 25%. The rest of the world accounts for approximately 10% of international sales volumes for machine vision products.

The market for vision technology is divided into various industry-related sub-markets (see graphics).

Machine Vision Market by Customer Industries
in percent



Segment Turnover 2001 – 2003
in € mill.



Competition on the vision technology market is extremely fragmented. In the systems sector, the overwhelming majority of vision companies focuses on a few highly specialized niche markets, whereas many companies in the components sector address many different target markets with a specialized product range. Coupled with the fact that the technology is still very young, this leads to a low average size for companies within the industry.

So far, only around 20-25% of all known possibilities for industrial applications of vision technology have been developed. New applications are continually emerging and existing markets will continue to grow. The market for vision technology thus has a great overall growth potential.

Sales Development and Incoming Orders

Turnover Increased by 34 %

In 2003, the Basler Group generated a turnover of € 35.7 million (Basler AG: € 32.9 mill.). This is equivalent to an increase of 34% on the previous year (Basler Group 2002: € 26.7 mill., Basler AG 2002: € 23.3 mill.). The turnover prognosis, already corrected from € 30 to 34 mill. in November, was even exceeded.

All business segments contributed to this turnover growth. Vision Components generated € 13.0 mill. with its products in 2003. This is equivalent to an increase of 49% on the 2002 performance of € 8.7 mill. The business segment Vision Systems generated turnover of € 22.7 mill. in 2003. This is equivalent to an increase of 27% compared to the previous year (Basler Group 2002: € 17.9 mill.).

There are several factors behind the turnover growth in 2003. Vision Components grew over-proportionally in comparison to the market. This was initially a result of the general growth of the machine vision market, but for the most part also due to the continued high speed of innovation of new products in this area. In the Vision Systems segment, investments have risen in the target markets. This applies especially to the flatscreen industry, but also to the rubber and elastomere industry and manufacturers of optical storage media. The positive effects of the sales offensive begun in 2002 also contributed to our success.

Diversification Strategy Still Successful

Due to the growth of other activities, the past clear dependence of group turnover on dealings with inspection systems for optical storage media was further reduced in 2003.

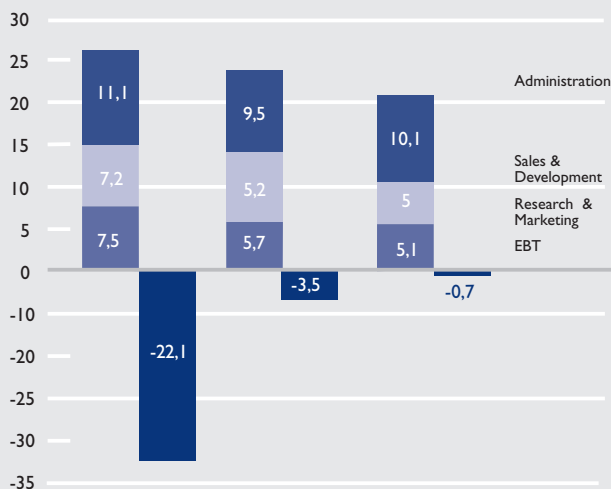
Regional sales distribution has shifted away from Germany, which now accounts for a 21% turnover share (2002: 24%) and Europe with 15% (2002: 19%), towards the rest of the world with 64% (2002: 57%).

Turnover Seasonality Reduced

Unlike in past years, when sales tended to be concentrated on certain times of the year, turnover was continually increased over the quarters in the course of the year. This is an expression of the altered turnover structure mentioned above. The seasonality in the segment of Optical Media Inspection, with relatively low turnover in the first and fourth quarters and relatively high turnover in the second and third quarters, was balanced out by the other business segments. The year 2003 started with a moderate turnover of € 6.3 mill. (Q1/2002: € 3.5 mill. +82%) in the 1st quarter. In the 2nd

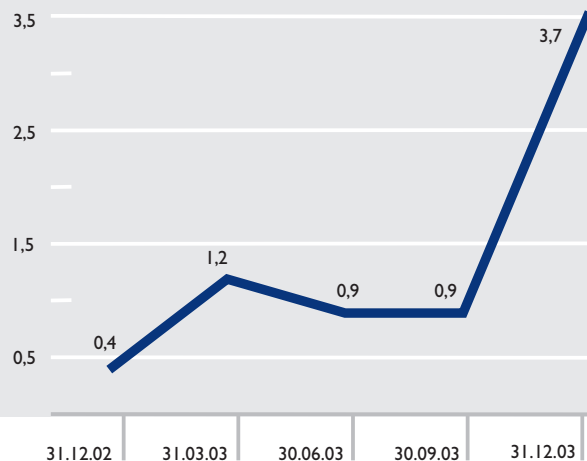
Costs and Earnings Development 2001 – 2003

In € mill.



Development of Liquid Assets 2003

in € mill.



Business Report

quarter, turnover increased by 35% to € 8.5 mill. (Q2/2002: € 8.1 mill. 5%), and there was a further 16% increase to € 9.9 mill. in the third quarter (Q3/2002: € 8.8 mill. 13%). Turnover in the fourth quarter amounted to € 11.0 mill., 71% above the previous year's performance (Q4/2002: € 6.4 mill.).

More Balanced Customer Structure

As in 2002, the customer structure became more balanced. The largest single customer accounted for 10% of turnover in 2003 (2002: 7%). The three largest customers made up a turnover share of just under 19% in 2003 (2002: 16%), the ten largest customers represented a sales share of 32% (2001: 35%).

Incoming Orders Looking Much More Positive

Incoming orders increased more than turnover in 2003, reaching a record level. Overall, incoming orders increased by 55% compared to the previous year, to € 44.9 mill. for the entire group (2002: € 29.0 mill.).

Incoming orders increased over-proportionally to turnover in all business segments in 2003. Vision Components received orders at a value of € 13.6 mill. in 2003. This is equivalent to an increase of 62% compared to 2002 with € 8.4 mill. The business segment Vision Systems generated incoming orders at a volume of € 31.3 mill. and realized 52% more orders than in the previous year (2002: € 20.6 mill.).

Incoming orders ran parallel to turnover throughout the year, but at a higher level. In the 1st quarter they amounted to € 8.3 mill. (2002: € 6.1 mill., +36%), increasing by 13% in the 2nd quarter to € 9.4 mill. (2002: € 9.7 mill., -3%). In the 3rd quar-

ter, incoming orders improved by 26% to € 11.8 mill., equivalent to more than double the previous year's level (2002: € 5.7 mill., +106%), and incoming orders increased once again in the fourth quarter by 32% to € 15.6 mill. (2002: € 7.5 mill., +109%).

Profit Situation

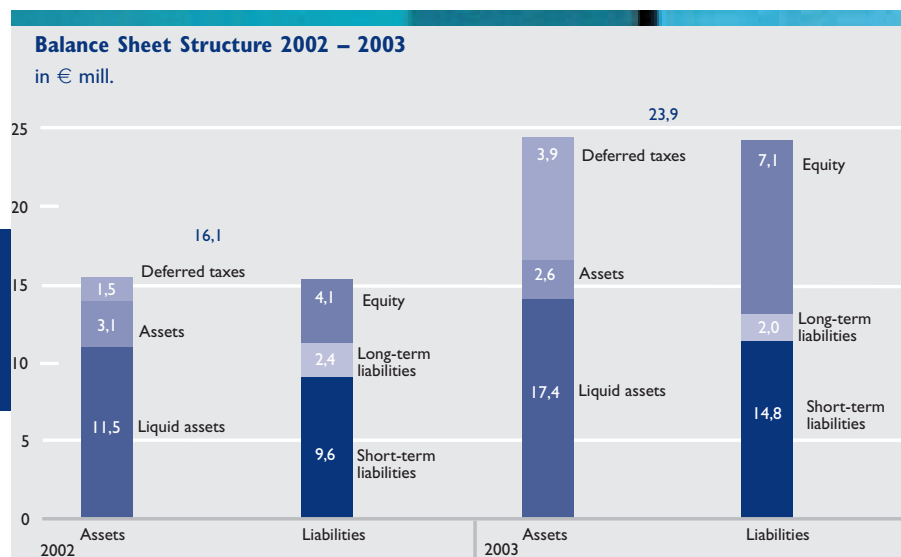
Turnaround Achieved

After three years of losses, the Basler Group achieved turnaround in 2003, despite partly negative general conditions, and generated positive results.

Applying the accounting regulations for the Group Financial Report, this means that all losses brought forward over the past three years are activated at the level of the corresponding tax burden. In strict interpretation of these regulations, this does not take place in 2003 until the losses brought forward can be regarded as useable with the turnaround. The tax result thus amounts to +€ 2.2 mill.. Profits will not be taxed in the following years, as enough losses brought forward exist. The calculated tax burden of these profits reduces deferred tax assets and will be disclosed in the tax result of the following years.

In order to adjust this effect for comparison to the previous year, this is switched to earnings before tax (EBT).

The EBT for the entire year amounted to + € 742,000 € (2002: - € 3.5 mill.) and was continually improved throughout the year. After a loss in the first quarter of -€ 0.9 mill. (Q1/2002: -€ 2.8 mill.), the profit zone was reached in the



Concise Management Report

second quarter with + € 0.1 mill. (Q2/2002: - € 0.4 mill. €). The third quarter built on this result with + € 0.7 mill. (Q3/2002: + € 0.1 mill.), while the EBT for the fourth quarter was at € 0.8 mill. (Q4/2002: - € 0.5 mill.).

The net earnings per share amounted to € 0.85 for the entire year (2002: - € 1.00).

The net earnings per share amounted to € 0.85 for the entire year (2002: - € 1.00).

The group achieved turnaround for the year 2003 through increased sales, an improved gross operating result and cost reductions due to a strict cost management program.

Gross Operating Result Extremely Improved, Margin Slightly Reduced

In 2003 the gross operating result for the group rose 13% compared to the previous year to € 21.0 mill. (2002: € 18.6 mill.). The gross margin fell by 70% to 59%, which can be put down to the weak dollar and increasing business with China. Basler generated approx. 60% of its turnover outside the Euro zone, which meant the fall in the price of the US-Dollar against the Euro by over 20% in the course of the year was clearly felt. The share of business done with Asia increased by approx. 30% compared to 2002, to 40%.

Costs Further Reduced

In view of the deteriorating gross margin, it was important to increase turnover and also further reduce operating expenses, without risking sales potentials. Operating expenditure

fell overall by 13% from € 23.4 mill. (2002) to € 20.2 mill. Almost all business sectors contributed to this reduction. Research and development costs fell, despite strongly increased productivity, to € 5.1 mill. (2002: € 5.7 mill., -10%), Sales and marketing costs were reduced to € 5.0 mill. (2002: € 8.2 mill., -39%) and administration costs were the only area to show a slight increase of 6% to € 10.1 mill. (2002: € 9.5 mill.).

The operating result was improved by 116% to € 744,000 (2002: - € 4.8 mill.), due to further reduced costs and the improved gross operating result.

At the company's General Meeting on 3 June, the Managing and Supervisory Boards will suggest carrying forward the profit made to a new account, to finance further growth.

Financial Situation

Stabilization Achieved

The Basler Group's financial situation was further stabilized in the course of 2003. For the first time in three years, a positive operative cash-flow was generated. Liquid assets amounted to € 373,000 at the beginning of the year, by 31.12.2003 they came to € 3.7 mill. The change in liquid assets in the report year thus amounted to € 3.4 mill. (2002: - € 4.3 mill.). This increase is made up of operative cash-flow of € 2.3 mill. (2002: - € 3.6 mill.), the financing activities by taking on new partner loans of € 2.0 mill. € (2002: - € 1.5 mill.) and the investment activity yielding - € 0.9 mill. (2002: € 0.8 mill.).

Concise Management Report



Business Report

Asset Situation

Balance Sheet Ratios Further Improved

The group's balance sheet total grew by 48% to € 23.9 mill. as of 31.12.2003 (31.12.2001: € 16.1 mill.).

Assets: Warehouse Turnover Frequency Increased

On the assets side of the balance sheet, accounts receivable for sales and services increased only insignificantly from € 4.6 mill. (31.12.2002) to € 4.7 mill. As of 31.12.2003, deposit payments received increased during the same period. The inventories increased by 40% from € 6.1 mill. (31.12.2002) to € 8.4 mill.. The production warehouse's turnover speed was more than doubled: production inventories were turned over nearly five times in the report year (2002: 2.3 times). The reduction of fixed capital results from improved cooperation between the Sales, Production, Logistics and Accounting departments, thus enabling growth to be self-financing for the most part.

Liabilities: Equity Strengthened

Equity was at € 7.1 mill. as of 31.12.2003 (31.12.2002: € 4.1 mill.). This is equivalent to an equity rate of 35% (31.12.2002: 26%).

Economic equity was at € 13.6 mill. as of 31.12.2003 (31.12.2002: € 9.8 mill.). This figure includes the equity, stockholder loans equipped with lower priority at a level of € 5.0 mill. (31.12.2002: € 4.1 mill.) and a silent partnership and related long-term loan of € 1.5 mill. (31.12.2002: € 1.5 mill.). This is equivalent to an economic equity rate of 67% (31.12.2002: 61%).

The long-term liabilities amounted to € 1.5 mill. as of 31.12.2003, as in the previous year. The short-term liabilities increased, in part due to borrowing new stockholder loans as of 31.12.2003, to € 11.4 mill. (31.12.2002: € 10.5 mill.).

Investments and Financing

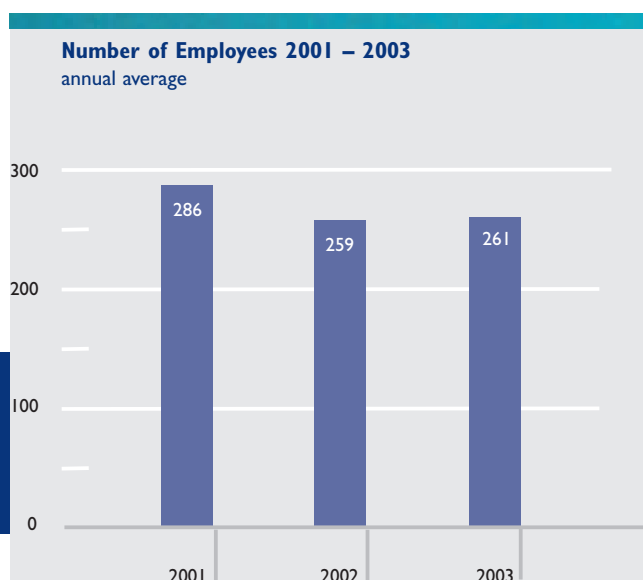
In the past business year, the focus of investment activities was on technical equipment, IT hardware, office furniture and equipment and software. Less depreciations, € 2.2 mill. were invested in tangible assets as of 31.12.2003 – 20% less than the previous year's figure of € 2.7 mill. Net investments in intangible assets came to € 342,000, remaining almost identical to 31.12.2002.

The investments were made for the most part by taking over new short-term liabilities with terms of less than one year, and from the positive operative cash-flow.

Purchasing

Delivery Loyalty Increased

Purchasing's objective for 2003 was to intensify the partnerships in delivery relationships. By completing basic agreements and quality agreements with selected suppliers, purchasing made further progress along this route. This led to a significant improvement of delivery loyalty of 17% and an increase in the quality of deliveries. Orders increased by 46%, thanks to the turnover growth in the report year.



Staff

Number of Employees Increased

The number of employees rose continually over the quarters in the report year, in the course of the turnover increases. As of 31.12.2003, Basler employed 265 members of staff. This is equivalent to an increase of 2% compared to the same date in the previous year (31.12.2002: 261 employees). The average number of employees for the year 2003 was 261, 1% more than the previous year (2002: 259 employees).

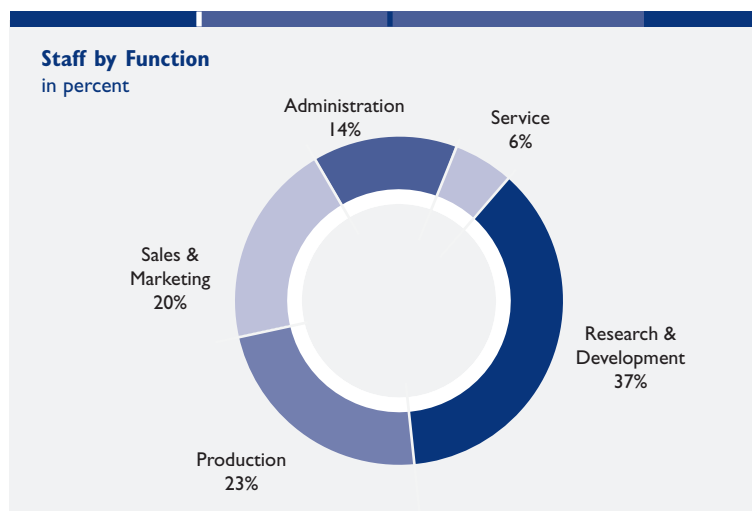
The regional distribution was as follows: 235 staff were employed in Ahrensburg as of 31.12.2003 (2002: 232). At the same point in time, Exton (USA) had 14 employees (2002: 14) and there were 11 employees in Taiwan (2002: 8). In Singapore there were 5 employees as of 31.12.2003 (2002: 6).

Staff Structure with Emphasis on Research & Development

The largest group of employees at Basler works in the area of Research and Development at 37%, (2002: 39%), while 23% are employed in Production & Logistics (2002: 21%) and 20% in the area of Sales & Marketing (2002: 20%). 14% work in Administration (2002: 14%), and 6% in Service (2002: 5%). Women make up 26% of all employees (2002: 24%).

Marketing

Expenditure for Marketing and distribution amounted to € 5.0 mill. across the group – 14% of turnover (2002: € 8.2 mill., 31%).



All marketing activities aim to increase customer advantage and build up and maintain long-term customer relations. Elements of the marketing mix are oriented to the individual needs of our customers, based on each separate target market. Along with product, price and distribution policy, promotion measures accounted for the majority of activities. All relevant activities of Distribution, Public Relations, Direct Marketing, Sales Promotion and Advertising are structured in the sense of an integrated marketing-communication mix.

Research and Development Report

The core of Basler's business strategy is an innovative product portfolio to the advantage of our customers, and this forms the basis of our market success. Basler meets this requirement by carrying out continual development work, either oriented to the customers' needs or taking the most recent technological trends into account.

All business segments introduced new products onto the market in 2003. Vision Components presented a series of new cameras. The technological highlight was the camera "Basler A400", which has an image rate of up to 48 frames per second, despite extremely high spatial resolution (4 megapixels), making it particularly suitable for electronics and semiconductor inspection. In the Vision Systems segment the area of Optical Media Inspection presented a new scanner, the "Basler S300", with a particular emphasis on extremely simplified operation via a touch-screen. Sealing Inspection introduced the system "Basler Autogauge" onto the market, and both Web Inspection and Display Inspection presented new and improved products for their customers.

Expenditure for research and development fell slightly in the report year by 10% to € 5.1 mill. (2002: € 5.7 mill.), amounting to 14% of turnover (2002: 21%). In contrast: the average research and development rate in the machine construction industry was 2.8% (2002).

The company's innovation rate accelerated in the report year. The share of turnover generated by new products not older than 24 months was increased from 33% in 2002 to 45%.

Patents secure Basler's innovation activities and are an indispensable aspect of our technology strategy. A total of 15 patents was awarded by the end of 2003 (worldwide) (2002: 15), 13 more are pending (2002: 8) and 3 registered designs ("mini patents") were confirmed (2002:2).

Risk Report

As a technology company, Basler faces a variety of risks. It is impossible for medium-sized companies such as Basler to control large comprehensive risks. We therefore see risk management as a primary corporate task. This involves taking controlled risks on one hand and making use of opportunities on the other, optimizing the probability of both events in the sense of a balanced opportunity and risk portfolio. Early recognition and timely evaluation of risks have an equal place within this portfolio.

Integrated Risk Management System

Internal Monitoring System

The nucleus of our internal monitoring is a sensible, fixed division of functions. This is guaranteed by our organization structure, job descriptions and procedures. All these aspects are regulated in the certified quality management handbook and are regularly checked for compliance. In view of the size of the company and the installed and working control mechanisms, an internal auditing department is not necessary.

The security concept of the IT infrastructure is permanently refined and regularly reviewed by an external expert. This is also the case for adherence to the data protection regulations.

Controlling

Strategic, operative and functional controlling is carried out in all areas of the company. Regular strategy checks, product roadmaps and balanced scorecards make up the basis of this process. The result is a systematic formulation of long and short term business targets, right down to the segment and cost unit levels.

Concise Management Report

Achievement of objectives at all management levels is checked in regular meetings on the target performance / target actual comparison, where controlling measures are agreed and their effectivity in turn also checked.

Early Warning Systems

Information on future developments is exchanged on all levels of the company via regular meetings, reports and protocols, and evaluated by suitable parties. This ensures that internal and external information can be quickly examined for risk relevancy, and that the results can be put into comprehensive corporate action.

The specific risks assessed as significant from the current perspective, among the entirety of risks that we face, are as follows:

Overall Risk

All currently recognized risks, weighted by the probability of events, are secured by compensatory measures and do not recognizably endanger the company's existence. No additional risks which could endanger the company's continued existence can be recognized at this time.

Business Environment Risk

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

The intensity of competition on the vision technology market remained at a stable high level over the past year. Basler's investments in innovation, distribution, cost reduction and quality increases carried out in 2003 and planned for 2004 pay off in this context. Basler's market position improved in the past year thanks to these investments.

We do not predict a significant weakening of the growth dynamics of the vision technology market in the future. However, the occasionally extreme variations in demand in individual customer industries mask this general trend. Basler's industries mix, realized by our multi-industry approach, has now significantly reduced dependency on individual markets. In the case of a turnover reduction in one of our business areas, we do not anticipate risks to the company's existence as a whole, due to low probability of events and anticipated damage levels.

The management and Sales department make regular assessments of target markets using the available internal and external information sources, so that we can identify upcoming changes on the markets as early as possible.

We can observe a concentration process within the vision technology industry. Smaller companies are being acquired and companies are merging to increase their market chances and growth potentials. Basler is more likely to be an active participant in this process than play a passive role. A hostile takeover is almost entirely ruled out by the current stockholders' structure. As a preventative measure, the stockholders' structure is carefully reviewed at regular intervals for any possible shifts.

Concise Management Report

Risk Report

Operative Risks

Risks of reduced turnover and revenue are often recognizable at an early point in time through customer satisfaction. Tracing customer value is therefore a key element of the evaluation of marketing and development activities. Basler carries out a customer satisfaction survey in all business segments once a year, and optimizes its marketing mix on the basis of the findings.

The availability of existing or new know-how plays a very important role in a growth company. Basler carries out regular staff planning programs to ensure the necessary resources are provided by either internal or external staff. We also hold recurrent development and performance assessment meetings to ensure employee commitment at all levels.

An up-to-date and high quality product development is the backbone of every technology company. We have clearly defined processes and responsibilities in the development sector, and have introduced planning tools which help us complete development projects within the projected time and cost frame.

Fast-changing technology markets are a challenge to a company's ability to adapt capacity to varying demands quickly and efficiently. With the help of a flexi-time system, we are

able to balance out serious variations in incoming order volumes. This means that we can "breathe" with the market to a great extent.

In some cases, the availability of technologically high-quality bought-in components plays a decisive role for our products' delivery time. Permanent observation and analysis of purchasing markets are thus critical competencies for technology companies. It is also essential to know which supplied components have to be available at what time and in which amount. We have developed processes for both these tasks over the past two years, thus reducing our delivery times and improving our on-time delivery performance. However, our customers' continually increasing expectations in these areas demand that we also continually improve these figures.

It is now a standard requirement for customers that the quality of products and processes of suppliers is reviewed and guaranteed within an integrated quality management system. We have been certified according to DIN ISO 9001/2000 since 2001, and carry out an external audit and several internal audits of our processes every year.

Constructing and maintaining a brand image is an essential element of successful product policy. The name and logo of Basler Vision Technologies are registered and protected trademarks, protecting them from illegal use.

Financial Risks

Varying currency correlations influence export-oriented companies' market success and gross revenues. Approximately two thirds of our turnover is generated outside of the Euro zone, which means the exchange rates between € and US\$ have a significant influence. In order to minimize the risks involved, measures are taken to secure the exchange rate risk for business concluded in foreign currencies.

Liquidity is guaranteed by strict liability management. Basler's clearly formulated and strictly implemented system of liability management ensures the necessary liquidity, so that upcoming investments can be planned.

The existing and future sales-indexed increasing liquid assets must be financed by outside capital. In an environment in which banks grant only relatively restricted credit, liquidity risks must be kept controllable. We do this by maintaining good contacts to banks, carrying out reliable monthly reporting and using co-financing from stockholders.

An early recognition system in the form of rolling sales and financial planning over 52 weeks across all business sectors and a comprehensive ratio system help us to coordinate our financial needs with the credit-giving parties in good time, and with good chances of being successfully granted credit.

Strategic Risks

Basler's corporate strategy focuses on opening the growth market for vision technology, which experts agree is only at the beginning of its development. As replacement technologies are not yet in sight, we assess the corporate strategic risk as low.

In the course of a regular company-wide controlling and planning process, the business models in each segment are reviewed. The findings of these reviews form the basis of a balanced scorecard system (BSC) used to define measurable strategic targets and measures for achieving these objectives for every unit. The corporate and segment strategies and the BSC system are the starting point for further developing the four-year plan and the budget for the coming business year. A company-wide planning timetable ensures that all planning processes run effectively.

This system enables us to recognize strategic risks in good time and take measures against them at a sufficiently early point.

Supplementary Report

There are no significant events taking place after the date of the financial report to be reported.

On the optical storage media market, we anticipate further substantial investment in equipment for producing write-once recordable DVD-R. As in past years, the limited visibility regarding investment activities in this segment makes it difficult to produce a reliable prognosis for the second half-year. Basler plans to increase its market share against 2003 by introducing new products, independent of the course of demand.

Prognosis Report

View Ahead

Leading economic institutes and the German government anticipate a slight economic recovery for Germany in 2004, with an increase of 1.0 – 1.7 % in gross domestic product. Analyses of the vision technology market (AIA) further assume that the global market will continue expanding by approx. 12% in 2004.

On the basis of this probably positive business environment, we anticipate that all business segments will generate increasing turnover in the year to come.

The strategy of Vision Components is to gain further market shares with new products. This segment also expects to profit from the good prognoses for the machine vision industry. Display Inspection is concentrating on expanding its share of the market for production equipment for TFT screens, and gaining an interest in the substantial investments in flatscreen technology announced by major concerns.

The rubber and elastomere industry and the plastics-producing industry have a secure future. This year, the leading worldwide industry trade-fair, the "K", takes place in Düsseldorf, traditionally a source of positive impulses for the industry. Sealing Inspection and Web Inspection are attempting to increase their market shares in this arena.

In view of the overwhelmingly positive prospects in the individual business segments, we anticipate turnover growth in low double figures in 2004. The high volume of incoming orders of € 44.9 mill. in the past year and the current order situation support this prognosis.

Our expected turnover growth should lead to a good corporate result, despite increasing expenses for future growth. We have resolved to achieve a better pre-tax return in 2004 than in 2003. We intend to increase earnings by means of an increased gross operating result and further strict cost management. Operating expenditure will increase modera-

Concise Management Report

tely along with turnover growth. Cost increases benefit the areas of Research & Development, Sales and Marketing in particular.

Optimized production costs through further progress in the areas of supplier management and manufacturing processes will further contribute to improving the gross operating result.

The liquidity situation will remain stable within the planned business course. After achieving a positive operative cash-flow in 2003, we will further strengthen liquidity in 2004 by extending the operative capital flow. We do not plan to borrow additional outside capital under current conditions.

Investments will still be focused on tangible assets, infrastructure and intangible assets. The volume of investments will only slightly exceed the 2003 level.

The management strategy for 2004 is still to serve the growth market of vision technology with systems, compo-

nents and services, growing profitably and faster than the market. After successfully implementing our turnaround in 2003, Basler is well-equipped for putting this strategy into practice in the future.

Ahrensburg, January 2004
Basler AG – the Managing Board

Dr. Dietmar Ley
Axel Dancker
Peter Krumhoff

Consolidated Financial Statements 2003

Consolidated Balance Sheet

(in 1000 €)

Assets	as of 31.12.2003	as of 31.12.2002
Current assets		
Cash & Cash equivalents	3,741	373
Accounts receivable, net	4,741	4,591
Inventories		
Finished products and commodities	682	733
Work in process	2,611	1,004
Raw materials and supplies	5,064	4,314
Total inventories	8,357	6,051
Other current assets and prepaid expenses	588	522
Total current assets	17,427	11,537
Property and equipment		
Technical equipment and IT	3,357	2,912
Fixtures, fittings, tools and equipment	3,114	3,017
Accumulated depreciation	-4,310	-3,243
Total tangible assets	2,161	2,686
Intangible assets		
Software and licences	1,316	1,106
Accumulated depreciation	-974	-761
Total intangible assets	342	345
Investments	0	(Eur 1.00)
Deferred tax assets	3,931	1,525
Total assets	23,861	16,093

Consolidated Balance Sheet

(in 1000 €)

Liabilities and Shareholder's Equity	as of 31.12.2003	as of 31.12.2002
Short-term liabilities		
Liabilities due to shareholders	4,960	4,136
Short-term liabilities due to banks	2,564	1,450
Trade accounts payable	1,556	1,000
Accrued expenses	1,623	2,043
Other liabilities	735	496
Advanced payments received	3,334	537
Total short-term liabilities	14,772	9,662
Commitments and contingencies		
Long-term accrued expenses	413	793
Other long-term liabilities	511	511
Silent partnerships	1,023	1,023
Total liabilities and provisions	16,719	11,989
Shareholder's equity		
Common stock	3,500	3,500
Capital reserves	995	995
Balance sheet profit/loss	2,687	-291
Foreign currency translation adjustment	-47	-100
Total equity	7,135	4,104
Deferred tax liabilities	7	0
Total liabilities	23,861	16,093

Consolidated Financial Statements 2003

Consolidated Statement of Operations

(in 1000 €; Earning per Share in €)

	2003	2002
Sales	35,681	26,702
Cost of sales	-14,726	-8,100
Gross profit	20,955	18,602
Operating expenses		
Research and development expenses	-5,130	-5,669
Sales and marketing expenses	-4,956	-8,169
General administration expenses	-10,125	-9,522
Total operating expenses	-20,211	-23,360
Operating result	744	-4,758
Interest income	12	46
Interest expenses	-732	-612
Depreciation of investments	0	1,537
Income from affiliated companies	0	312
Other income	718	0
Result before income taxes	742	-3,475
Income tax	2,237	-20
Net result	2,979	-3,495
Number of shares (weighted average)	3,500,000	3,500,000
Number of shares (diluted)		
Authorized capital	1,750	1,750
Conditional capital	350	350
Earnings per share	0.85	-1.0

Consolidated Cash-Flow Statement as of 31.12.2003

(in 1000 €)

	01.01.– 31.12.2003	01.01.– 31.12.2002
Cash-flow from operating activities		
Group net profit / loss	2,979	-3,495
Revenue from the sale of assets of Photobit Inc.	0	-1,537
Depreciation of fixed assets and intangible assets	1,370	1,194
Gains on disposal of equipment	46	15
Changes in		
Inventories	-2,308	1,516
Trade accounts receivable	-150	-617
Accrued expenses	-800	-459
Other current assets and prepaid expenses	-66	116
Deferred tax assets	-2,398	-47
Foreign currency translation adjustment	54	49
Liabilities due to shareholders	-46	8
Advanced payments received	2,796	-726
Trade accounts payable	556	350
Other short-term liabilities	239	-14
Cash-flow from current operating activities	2,272	-3,647
Cash-flow from investment activities		
Proceeds from sales of equipment	31	53
Purchase of equipment	-919	-723
Revenue from the sale of assets of Photobit Inc.	0	1,537
Cash-flow from investment activities	-888	867
Cash-flow from financing activities		
Increase in cash received by bank loan	1,114	512
Decrease in cash /repayment of bank loan	0	-3,015
Increase of cash received by shareholder's loan	870	0
Increase of cash received by silent partnerships	0	1,023
Cash-flow from financing activities	1,984	-1,480
Net change in cash	3,368	-4,260
Cash, beginning of year	373	4,633
Cash, end of year	3,741	373
Additional information		
Payments made for:		
interest	732	447
income tax	20	14

Consolidated Financial Statements 2003

Consolidated Statement of Changes in Shareholder's Equity

(in 1000 €)

	Authorised capital	Conditional capital	Number of shares	Common stock	
Status as of 01 January 2002	1,750	350	3,500,000	3,500	
Net group loss					
Restatement 2001					
Transfer from capital reserves					
Foreign currency translation adjustment					
Total comprehensive income					
Status as of 31 December 2002	0	0	0	0	
Net group loss					
Foreign currency translation adjustment					
Total comprehensive income					
Status as of 31 December 2003	0	0	0	0	

Consolidated Segment Information

(in 1000 €)

	Vision Systems		Vision
	2003	2002	2003
Sales revenue	22,716	17,924	12,964
Germany	4,167	2,474	3,436
Foreign	18,549	15,450	9,528
External sales to a single customer accounting for more than 10% of segment sales revenue	3,474	2,373	0
Number of customers	1	1	0
Segment result			
(before interest, tax and holding results)	532	-4,262	1,394
Including depreciations	522	714	123
Segment assets			
Investments in fixed assets	262	425	177
Fixed assets	192	472	338
Inventories	3,867	4,611	1,977
Accounts receivable	2,759	3,264	1,998
Total assets	6,818	8,347	4,313

	Additional paid-in capital	Net result	Foreign currency translation adjustment	Group equity	Comprehensive Income
	22,299	-16,598	-149	9,052	
		-3,497		-3,497	-3,497
		-1,500		-1,500	
	-21,304	21,304		0	
			49	49	49
				0	-3,448
	-21,304	-291	-100	4,104	
		2,979		2,979	2,979
			53	53	53
				0	3,032
	-21,304	2,688	-47	7,136	

Components 2002	Transition		Group	
	2003	2002	2003	2002
8,714	1	64	35,681	26,702
2,704	1	42	7,604	5,220
6,010	0	22	28,077	21,482
874	0	0	0	0
1	0	0	0	0
			0	0
-261	-465	-474	1,461	-4,997
319	630	32	1,275	1,065
90	481	526	920	1,041
286	1,973	2,273	2,503	3,031
2,124	2,513	-685	8,357	6,050
808	-16	519	4,741	4,591
3,218	4,470	2,107	15,601	13,672



Notes to the Consolidated Financial Statements 2003

I The Company

Basler AG and its subsidiaries develop, produce and distribute Vision Technology – the technology of artificial sight. Our systems and components for quality control play a key role in optimizing industrial production processes.

The group operates on five different markets: CD/DVD, rubber and elastomers, flatscreens, plastics and machine vision components. It possesses subsidiaries in the USA (Basler Inc.), Taiwan (Basler Vision Technologies Inc.) and Singapore (Basler Asia Pte. Ltd.). Alongside domestic turnover, Basler makes significant revenues in the USA and Asia. Key customers come from the industrial sector.

Basler AG has been quoted on the Frankfurt stock exchange since 23 March 1999.

2 Basic Accounting and Valuation Principles

2.1 Presentation Basis

The Group Financial Report has been produced in conformity with the Generally Accepted US Accounting Principles ("US-GAAP").

The company keeps its accounts according to the principles of the German commercial code. These differ from US-GAAP in several important aspects. The company has therefore carried out several corrections to ensure that this annual report conforms to US-GAAP.

2.2 Consolidation

The Group Financial Report includes the Annual Reports of Basler AG and those of the fully consolidated subsidiaries. All transactions between the group companies have been eliminated. In the course of the debt consolidation, group-internal accounts payable and receivable in the Consolidated Annual Report were also offset against each other, as were interim results against the corresponding reserves and group-internal revenues against liabilities. The tax effects resulting from consolidations affecting net income were taken into account, and corresponding deferred taxes disclosed.

The balance sheet date of the Group Financial Report and the Annual Reports of the subsidiary companies is 31 December 2003, the balance sheet date for the Annual Report of the parent company.

The group's accounting and valuation principles correspond to the methods applied to produce the individual Annual Reports.

Tax-based valuations are not included in the Group Financial Report. The accounting and valuation processes applied have not changed since the previous year.

2.3 Use of Estimated Values

In producing the Annual Report in conformity to US-GAAP, it is necessary for the management to submit estimates and assumptions for the disclosure and level of assets and liabilities, for the publication of possible assets and liabilities at the time of the Annual Report and for the disclosed level of the turnover and expenditure disclosed in the report period. The actual results may vary from these estimates.

2.4 Currency Conversion

The functional currency of the subsidiary companies is the currency of each individual country. As a result, the corresponding assets and liabilities are converted into Euro at the valid exchange rate on the balance sheet date. Sales and expenditure are converted at the average exchange rate for the report period. Accumulated exchange rate profit and loss is disclosed as a separate aspect of equity.

Transactions in foreign currency are converted at the exchange rate on the date of the transaction. In 2003 and 2002, profits of € 382,000 and € 149,000, and losses of € 812,000 and € 882,000 were made in this way. This profit and loss is listed under general administration costs in the individual reports.

For transactions within the European Union, the valid fixed exchange rates into Euros are applied. Further important exchange rates are as follows (1 EURO equals):

Exchange rate as of

	31.12.2003	31.12.2002
1 Euro	1.26300 US-Dollar	1.04150 US-Dollar
1 Euro	2.14500 Singapur Dollar	1.80860 Singapur Dollar
1 Euro	42.83193 New Taiwan-Dollar	36.29610 New Taiwan-Dollar

Average exchange rates

	2003	2002
1 Euro	1.13120 US-Dollar	0.95060 US-Dollar
1 Euro	1.97030 Singapur Dollar	1.69610 Singapur Dollar
1 Euro	39.02491 New Taiwan-Dollar	32.78600 New Taiwan-Dollar

2.5 Liquid Assets

The liquid assets consist of cash assets and cash at banks.

2.6 Concentration of Credit Risks

Financial instruments through which the company is potentially exposed to a concentrated credit risk are primarily outstanding accounts receivable. The company carries out continual checks on its customers' credit standing, with the help of internal and external evaluations. In addition, the risk for the accounts receivable for sales and services is reduced by the fact that the company has a very diversified customer basis. There is also a precisely defined prosecution process for outstanding accounts receivable.

2.7 Economic Value of Financial Instruments

The accounting value of the company's financial instruments including liquid assets, accounts receivable and liabilities corresponds closely with the economic value of these items. All accounts receivable are due within one year.

2.8 Tangible Assets

Tangible assets are stated at purchase or manufacturing cost and thus depreciable according to the linear method over the estimated economic life (for technical equipment and hardware three to five years, for office furniture and equipment essentially ten years). The purchase or manufacturing costs consist of individual costs or of individual costs plus suitable overheads for material and production. They are accrued for the purchase, manufacture or extension of an asset, so that the economic life is extended or the capacity of these assets is raised. Maintenance and repair expenditure is disclosed as expenditure at the time of carrying out such measures. Interest for the manufacturing period was not activated in the periods under observation.

Sold, outdated and scrapped tangible assets are treated as asset disposal (purchase costs and accumulated depreciation) and therefore no longer disclosed as assets. Profit and loss from asset disposal is shown as revenue affecting net income in the current year or the year of disposal. Fully depreciated tangible assets are shown as assets until they are actually eliminated from the company's assets.

Notes to the Consolidated Financial Statements 2003

2.9 Intangible Assets

Software, licenses, rights of use and other rights are assessed at purchase cost and depreciated by the linear method over the estimated economic life. Fully depreciated intangible assets are shown under assets until they are actually eliminated from the company's assets.

2.10 Long-Lived Assets

The company regularly checks the impairment of the accounting value of its long-lived assets, in accordance with the Statement of Financial Accounting Standards No. 121 ("Accounting for the impairment of long-lived assets and for long-lived assets to be disposed of"). If events or changed circumstances indicate that the accounting value of such assets cannot be realized, the company compares the expected non-discounted net cash-flow from the future use of the assets against their accounting value. If the non-discounted net cash-flow is below the accounting value of the assets, a depreciation to the actual value of the asset, calculated from the expected non-discounted net cash-flow from its future use, is carried out. In the opinion of the company management, no such value reductions took place in the business years concluding on 31 December 2003 and 2002.

2.10.1 Holdings

Holdings represent shares in private companies not quoted on the stock market. Holdings are assessed at purchase price or the lower arranged value (cf. Note 5).

2.10.2 Reserves for Doubtful Accounts

The management regularly assesses the impairment of all accounts receivable. Value adjustments are made in the case of doubtful accounts which are unlikely to be brought in. Two debtors registered insolvency in 2003. For this reason, Basler made value adjustments at a level of € 26,000 (previous year: € 3000). A further value adjustment was made for contested transaction at a level of € 104,000 (previous year: € 222,000). All accounts are bonded to the Norddeutsche Landesbank Girozentrale (NordLB).

2.10.3 Inventories

The inventories consist of raw materials, machines and equipment, unfinished and finished products and trading goods. They are assessed at purchase or manufacturing costs or at the lower market price. Raw materials are assessed at the actual costs using the weighted average value. The finished and unfinished products are assessed at manufacturing costs. They include material, individual manufacturing and joint manufacturing costs. Outdated, damaged and surplus stock is disclosed at purchase or manufacturing costs or the lower net sale price.

All inventories are bonded to the NordLB.

2.11 Promotional Costs

Promotional costs are booked as expenditure as they arise. Promotional costs of € 690,000 and € 677,000 were disclosed for the years 2003 and 2002 under sales and marketing expenditure. The majority of this expenditure arises from costs for trade fairs.

2.12 Sales Realization

Sales revenue is generated primarily through the sale of the finished products "Inspection Systems for Optical Storage Media" and through the sale of individual "Vision Components".

Sales revenue from vision components is shown on delivery, when we have convincing proof for the existence of a corresponding contract, the price for the delivery is agreed or quantifiable and the impairment of the account is secured to a suitable extent and due within one year.

Contracts in the sector of optical inspection systems consist of the delivery of a specific system and in some cases installation of these systems. The system specification takes place during the negotiation with the customer. According to Basler's general terms of business, the risk of accidental loss is passed on to the customer on the date of delivery, on leaving the factory in Ahrensburg. The goods are delivered after acceptance by the customer. Special approval is required for the installation. Sales revenue is disclosed when we have convincing proof of an agreement, a product delivery or installation

has taken place, the price for the transaction is agreed or quantifiable and the impairment of the account is secured to a suitable extent. Sales revenue is shown less price reductions, customer bonuses and discounts granted.

2.13 Sales Incentives

Provisions are made for guarantee costs and similar consequential obligations. Postage costs are shown under the item "sales expenditure".

2.14 Earnings per Stock

The net loss per common share is disclosed for all time periods taken into account, in accordance with the Statement of Financial Accounting Standards No. 128 ("Earnings per share"). The earnings per share are calculated by dividing the earnings due to the common stockholders by the weighted average number of common shares outstanding during the year. The diluted earnings per share are equal to the earnings per share, with the exception that the weighted average number of outstanding shares during the year is larger. This results from taking such shares additionally into account which would have been in circulation, had an issue taken place, for example due to option rights. No potentially diluting shares were included in the calculation of the diluted loss per share for all time periods shown, as only losses were made. In such a disclosure, the diluted loss per share would be lower than the loss per share.

2.15 Stock Options

The company balances employee payments based on stock by ascertaining the net asset value, in accordance with Accounting Principles Board Opinion No. 25 ("Accounting for Stock Issued to Employees"). Personnel expenditure for employee stock options is calculated as a positive difference between the stock market price of the company stock at the time of ascertaining and the amount which the employee has to pay to purchase the stock (option price) ("net asset value"). This difference is disclosed over the immobilization period. The net asset value of the options for which the time of ascertaining has not yet been reached is ascertained on the basis of the valid stock market price of the company stock at the end of each time period.

2.16 Segment Information and Geographical Division

Basler applied SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" for the first time in the 2002 business year. The company was exempted from producing a segment report until 31 December 2001 by the Deutsche Börse AG.

The company draws up its segment report in business sectors, according to the internal organizational and reporting structure. The company distinguishes between two basic business sectors within this organizational structure: systems and components. The systems sector includes the development, sales and installation of optical inspection systems. The systems sector is subdivided into three further sectors (Optical Media Inspection, Display Inspection and Sealing Inspection), which have been combined because of homogenous opportunities and risks. The components sector consists of the sale of individual product components, primarily cameras. The company's products are primarily developed at the Ahrensburg location and sold via a direct distribution structure, via the subsidiary companies (USA, Singapore and Taiwan) and via independent distributors in Europe, North America, Australia, Japan and Asia.

The information in the overviews comes directly from the internal reporting structure used by the highest operative decision-makers of the company for management purposes. The business sectors are not evaluated for internal control according to financial debts and the corresponding interest expenditure, and this information is therefore not given in the segment report.

The earnings differences present in the transition calculation result from the valuation differences between German commercial code and the US-GAAP. As the internal control uses valuations regulated by the commercial code, no distribution to the sectors was undertaken.

Notes to the Consolidated Financial Statements 2003

3 Accrued Expenses and Other Liquid Assets

The accrued expenses and other liquid assets consist of the following (in 1000 €):

	Business year ending 31.12.2003	Business year ending 31.12.2002
Tax accrual	248	265
Accrued expenses	69	157
Other	271	100
	588	522

4 4 Tangible Assets

The tangible assets consist of the following (in 1000 €):

	01.01.2003	Additions	Disposals	31.12.2002
Machines and computer equipment	2,913	501	-57	3,357
Office furniture and equipment	3,017	336	-674	2,679
Sub-total	5,930	703	-731	6,036
Accumulated depreciation	3,245	1,164	-667	3,741
Net tangible assets	2,686	-327	-64	2,295

5 Financial Assets

In 1999 Basler acquired an interest in the Photobit Corporation, Pasadena (USA) by purchasing stock at a value of € 11,351,000. Photobit carried out a capital increase for cash in 2000, which increased Basler's financial assets by € 3,536,000. Voting rights were not affected by the capital increase. In 2001 the US semi-conductor company Micron Technology Inc., USA took over the primary assets and several liabilities of the Photobit Corp., of which Basler AG holds 14.7% of the circulating stock, in an asset deal.

Basler received € 7,273,000 of liquidity as a result of this asset transaction. Due to the sale of their entire business activities, Photobit will be unable to make any more profit in the future. For this reason, the accounting value was corrected by € 7,614,000 to € 7,273,000 in the third quarter of 2001.

In the fourth quarter of 2002 the proceeds of the liquidation were shared among the stockholders. Basler AG received a share of € 1,303,000.

Basler had no holdings in third parties in the year of the report.

6 Provisions and Other Liabilities

Expenditure was accrued primarily for outstanding costs in connection with already realized sales and for guarantees and anticipated losses from renting empty space in the leased building.

The other liabilities consist of the following (in 1000€):

	Business year ending 31.12.2003	Business year ending 31.12.2002
Social security insurance	351	264
Social insurance taxes	266	168
Wages and salaries	62	1
Other	56	63
	735	496

7 Short-Term Bank Credits

Basler has an open-to-borrow credit line of € 3,000,000 with the NordLB and a guaranteed credit line of € 300,000 with a term until 31 December 2004. On 30 June 2003 a fixed-rate loan of €2,500,000 was taken out. This runs up to and including 31 March 2004 at an interest rate of 4.90% p.a..

8 Transactions with Close Parties

Loans from Stockholders

In the 2003 business year, the loans of € 4,090,000 existing since 2001 with the following three stockholders or close parties were extended:

	Amount in 1000 €	End of term	Interest rate 2003 p.a.
Monika Proske-Ley	204.5	31.12.2004	9%
Nicola-Irina Basler	1,840.7	31.12.2004	9%
IKB Beteiligungsgesellschaft mbH, Düsseldorf	2,045.2	30.06.2006	10%

The following new loans were taken out:

	Amount in 1000 €	End of term	Interest rate 2003 p.a.
Monika Proske-Ley	90,0	31.12.2004	9%
Norbert Basler	780,0	31.12.2004	9%

The loans are equipped with an agreement on postponement of priority.

Notes to the Consolidated Financial Statements 2003

8.1 Operating Leasing

The company building and part of the office furniture and equipment are used as part of the operating leasing. The future annual leasing payments amount to:

	Business year	1000 €
	2004	2,169
	2005	2,149
	2006	2,117
	2007	2,090
	2008	2,087
Following years		20,873

Rental and leasing expenditure for the year of the report amounted to € 2,722,000 (previous year: € 2,725,000).

The company signed a contract in 1999 obliging it to lease the company building until 31 December 2018. The lessor's total investment at this time amounted to € 26,331,000. This investment was financed by various loans from the Kreditanstalt für Wiederaufbau, Frankfurt/Main, and the IKB.

Had Basler made this investment itself (into real estate and buildings), this would have to be carried as assets in the balance sheet. The effect on the income statement arising from the depreciation would have been insignificant in comparison to the leasing payments.

The leasing payments are fixed at € 2,150,000 p.a. until 2007. The company management assumes that these payments will remain at the same level until the end of the term.

8.2 Legal Matters

In the course of our normal business activities, legal disputes can come to pass. The management has consulted legal advisors and come to the conclusion that no significant effects on the group financial report are to be expected as a result of such litigation, and that these minor effects are fully taken into account in this report.

9 Equity

9.1 Staff Equity Participation Schemes

The company has developed equity participation schemes for its staff. The objective of these schemes is to help recruit and maintain staff and to promote corporate success by offering staff the opportunity to buy stock in the company.

According to the stock option plan of 1999 ("Plan 1999"), the company was authorized to issue 80,094 options to subscribe Basler stock to the employees of Basler AG in Ahrensburg and affiliated companies up to 22. 3. 1999. This plan was put into action. The subscription rights entitle the bearer to purchase company stock at a price of € 57 and are exercisable in four tranches after approximately two, three, four and five years.

The options may only be exercised when the capital appreciation of the Basler stock is at least equal to the value development of the NEMAX at certain fixed times. This is calculated on the basis of the average stock price in the five days preceding the first exercise period, compared to the introduction price.

According to the stock option plan of the year 2000 ("Plan 2000"), the company was authorized to issue 78,000 options to subscribe Basler stock to employees of Basler AG in Ahrensburg and affiliated companies. This plan was put into action. The subscription rights entitle the bearer to purchase company stock at a price of € 75 (the average price for the last five trading days in October, at the time of the scheme's introduction) and are exercisable in four tranches after approximately two, three, four and five years.

The options may only be exercised when the capital appreciation of the Basler stock is at least equal to the value development of the Nemax at certain fixed times. This is calculated on the basis of the average stock price in the five days preceding the first exercise period, compared to the introduction price. All options from the schemes not exercised after the expiry of the final exercise period become invalid.

The status of the company's stock option schemes as of 31 December 2003 is as follows:

	Plan 1999	Plan 2000
In circulation as of 1. 1. 2003	41,438	54,181
Granted	-	-
Exercised	-	-
Invalid	9,023	9,788
In circulation as of 31. 12. 2003	32,415	44,393

None of the options in circulation as of 31 December 2003 can be exercised. The immobilization period for all options ends between 29 June 2001 and 25 May 2005.

As the level of net asset value of the subscription rights granted is insignificant, the company forgoes the disclosure of the current value of the granted subscription rights. It is assumed that this is also insignificant. Correspondingly, there will also be no pro-forma disclosure of the staff expenses for these options in accordance with SFAS 123 ("Accounting for Stock-Based Compensation").

Stock Based Compensation:

The company applies APB Opinion No. 25 and related interpretations to balance the scheme. At the time of granting the compensation, no staff expenses were assessed for the scheme on the basis of the current value calculated according to the process described in SFAS 123. There are no consequences for the net loss and net loss per share of the company.

9.2 Authorized and Contingent Capital

The company possessed authorized and contingent capital at a level of € 1.750.000 and € 350.000 as of 31 December 2002. The authorized capital is equal to the additional authorized stock for takeovers or disposal of ordinary stock with the agreement of the company's Supervisory Board.

10 Income Tax

The tax expenditure (advantage) includes the following elements (in 1000 €):

	Business year ending 31.12.2003	Business year ending 31.12.2002
Current taxes	141	67
Deferred taxes	(2,378)	(47)
	(2,237)	20

Taking the German solidarity surcharge into account, the new corporation tax rate to be paid to the German Federation from 1 January 2001 amounts to 27.96%. Including business tax, the total payable tax rate as of 31 December 2001 comes to 38.69%. This tax rate is used to calculate the deferred taxes to be booked as of 31 December 2003. The company balances deferred taxes using an asset/liability approach, according to which those taxes are declared, on the basis of the tax laws and rates, which are to be applied to the period in which the taxes are due.

Notes to the Consolidated Financial Statement 2003

The deferred taxes were built up on the following items (in 1000 €):

	Year 2003	Year 2002
Loss brought forward from operations	7,588	1,550
Inventories	277	
Accounts receivable for sales and services	42	
Other liquid assets and RAP	7	
Deferred tax liabilities on operative losses		1,395
Reserves	-4,005	-1,395
Other	15	-25
	3,924	1,525

The effective tax burden calculated on the basis of the German corporation tax rate of 27.96% plus business tax and minus tax relief, resulting in a combined legal tax rate of 38.7%, is structured as follows:

	Business year ending 31.12.2003	Business year ending 31.12.2002
Revenue / (loss) before income tax	742	(3,495)
Tax rate	38.69%	36.7%
Expected tax expenditure (revenue)	287	(1,283)
Adjustment		
Backdated change of loss brought forward	(6,845)	
Effect from non-deductible expenditure	166	0
Differences in foreign taxation	52	52
Reserves	4,005	1,283
Other	25	-32
Tax burden (revenue) according to income statement	(2,237)	20

A reserve for deferred tax liabilities was released as of 31 December 2002, as their realization is uncertain. By reaching the turnaround objective, it is assumed that the loss brought forward will be used in future. The reserves are therefore no longer necessary.

The following losses brought forward existed as of 31 December 2003 (in 1000 €):

	As of 31.12.2003	As of 31.12.2002
Germany	19,552	18,531
USA, all states	69	0
Singapore	8	326
Taiwan	327	111
Total	19,956	18,968

The losses brought forward in Germany pertain to the corporation and local business tax and are valid indefinitely. The tax reform of 1986 and the German tax laws contain regulations limiting loss brought forward and carrying forward tax credits which can be booked in a year in which certain events take place, including a significant change of ownership rights.

11 Income Statement

Expenditure for material and staff consists of the following items (in 1000 €):

	2003	2002
Expenditure for raw materials, machines and equipment and goods purchased	12,747	6,715
Expenditure for services purchased	756	566
	13,503	7,281

	2003	2002
Wages and salaries	12,198	11,616
Expenditure for social security contributions	2,250	2,100
	14,448	13,716

12 Other Statutory Information

The following individuals were members of the Managing Board in 2003:

Dr. Dietmar Ley, Ahrensburg, Chairman
 Axel Dancker, Ahrensburg, Operations Sector
 Peter Krumhoff, Bad Homburg, Finance Sector

The following individuals were members of the Supervisory Board in 2003:

Prof. Dr. Walter Kunerth, Chairman
 Norbert Basler
 Bernd Priske

12.1 Compensation of the Members of the Supervisory and Managing Boards

The annual earnings of the members of the Supervisory Board came to € 34,000 in 2003 as in the previous year, and the total earnings of the members of the Managing Board amounted to € 419,000 (previous year: € 358,000).

12.2 Holdings

The company's holdings taken into account in the group financial report as of 31 December 2003 are shown in the table below:

	Amount of stock %
Basler Inc., Exton/USA	100
Basler Asia Pte. Ltd., Singapore/Singapur	100
Basler Vision Technologies Taiwan Inc., Taipei/Taiwan	100

Notes to the Consolidated Financial Statements 2003

12.3 Staff

In 2003 the group employed an average of 261 staff (2002: 259).

13 Differences between US-GAAP and German Lawt

13.1 General Differences

The consolidated annual report of Basler AG, Ahrensburg, (referred to herewith as “the company” or “Basler”) dated 31 December 2003 was produced in accordance with §292a of the German commercial code, in agreement with the US Generally Accepted Accounting Principles (US-GAAP) and on the basis of the German Accounting Standard No. 1 (DRS 1) published by the German Standardization Committee, as an exempting group financial report.

The regulations of the German commercial code (HGB) and the German stock corporation act (AktG) differ to US-GAAP in certain aspects. The most important differences which may be relevant for assessing the equity, financial situation and the results of the company are described below. According to HGB, all items in the balance sheet and the income statement must be disclosed in the form and order set out in §§266, 257 HGB. The US-GAAP call for a different presentation, in which the balance sheet items are listed in descending order according to liquidity. According to US-GAAP, the short-term elements of long-term accounts receivable and liabilities must be disclosed as a separate balance item. Items are classified as short-term if they are due within one year.

13.2 Quasi-Equity Assets

According to US-GAAP, capital loans repayable in the future must be disclosed separately from the formally determined »Stockholders' Equity«. As the company's silent partnership in the Gesellschaft für Wagniskapital Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH –MBG –, Kiel can be regarded in an economic sense as equity, due to its lower priority and profit-dependent compensation, these assets are added back to »Equity according to US-GAAP and quasi-equity assets« (economic equity).

13.3 Deferred Taxes from Loss Brought Forward

According to HGB, deferred tax accrual from loss brought forward may not be disclosed in the balance sheet, as expected future tax savings count as not yet realized. According to US-GAAP, these cases of future entitlement to tax relief must be activated. Their value depends on their likelihood of being realized. The company released the part-reserves for deferred tax liabilities in the year of the report, as their realization was no longer uncertain.

14 Further Information

The Declaration of the German Corporate Governance Codex required by § 161 AktG was made and made available to the stockholders on the company's website www.baslerweb.com.

15 Use of the Net Profit

The Managing Board of Basler AG suggests carrying the result forward to a new account.

Ahrensburg, January 2004

The Managing Board

Dietmar Ley

Axel Dancker

Peter Krumhoff

Auditors Report

We certify the Group Financial Statement and the Group Management Report of the Basler Public Limited Company, Ahrensburg, for the financial year from 1 January 2003 to 31 December 2003 without qualification as follows:

“We have audited the Group Financial Statement of the Basler Public Limited Company, comprising the Balance Sheet, Income Statement, Changes to Equity, Cash-Flow Statement and Appendix, for the financial year from 1 January 2003 to 31 December 2003. The preparation and the content of the Group Financial Statement are the responsibility of the company. Our responsibility is to evaluate whether the Group Financial Statement accords to the US Generally Accepted Accounting Principles (US-GAAP) on the basis of our audit.

We conducted our audit of the Group Financial Statement in accordance with the German auditing regulations and under observation of the German generally accepted standards for the audit of financial statements promulgated by the Institute of Auditors (Institut der Wirtschaftsprüfer - IDW). These standards require that the audit is planned and carried out in such a way that it can be assessed with sufficient assurance whether the Group Financial Statement is free from material misstatements. Knowledge of the business activities and the business and legal environment of the group, as well as expectations of possible mistakes, are taken into account in deciding the audit activities. Evidence supporting the amounts and disclosures in the Group Financial Statement is evaluated on a test basis within the audit. The audit includes assessing the accounting principles applied and significant estimates made by the company's management, as well as evaluating the overall presentation of the Group Financial Statement. We believe that our audit provides a sufficiently secure basis for our evaluation. In our opinion, the Group Financial Statement presents a true and fair view of the assets, financial position, earnings and payments of the Group in the financial year, in accordance with the US-GAAP.

Our audit, which has also extended to the Group Management Report prepared by the Managing Board for the financial year from 1 January 2003 to 31 December 2003, led to no reservations. The company has exercised its right to combine the Group Management Report and the Management Report of the company. In our opinion, the Group Management Report and the other disclosures of the Group Financial Statement provide a suitable overall view of the group's position and suitably present the risks of the future development. We additionally confirm that the Group Financial Statement and the Group Management Report for the financial year from 1 January 2003 to 31 December 2003 fulfil the conditions for the company's exemption from its duty of preparing a Group Financial Statement and Group Management Report under German law.

Without qualifying this evaluation, we must point out that the group is currently only in possession of short-term financial means, mainly via four stockholder loans of _ 5 million with postponement of priority, which are terminable as of 31 December 2004. The Managing Board anticipates that these loans will be required beyond the above fixed terms and will be extended.”

Lübeck, 2 February 2004

BDO Deutsche Warentreuhand
Public limited auditing company

signed Dr. Probst p.p. .
audito

Schmoller
auditor

Dates

3 – 5 March 2004	Recording Media Expo, New-Delhi, India
5 March	Release of Annual Report 2003, Ahrensburg Germany
4 – 6 May 2004	Vision Show East, Boston, USA
5 May 2004	Release of 1st. Quarter Results, Ahrensburg, Germany
25 – 27 May 2004	Media Tech Expo, Frankfurt, German
3 June 2004	Annual Shareholder Meeting, Ahrensburg, Germany
15 – 18 June 2004	Automatica- Fair, München, Germany
12 August 2004	Release of 2nd Quarter Results, Ahrensburg, Germany
September 2004	Media Tech Conference, USA
20 – 27 October 2004	Plastics Fair “K”, Düsseldorf, Germany
21 – 23 October 2004	Vision-Show, Stuttgart, Germany
November 2004	Replication Expo, Peking, China
5 November 2004	Release of 3rd. Quarter Results , Ahrensburg, Germany

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The Annual Report is also available in German; in case of doubt, the German version is authoritative.

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