



Quarterly Report

Q1 2005

The Quarter at a glance

- At € 10.5 million first quarter 2005 turnover 28% down on same period last year (€ 14.4 million), pre-tax earnings at € 1.1 million (Q1/2004: € 4.1 million)
- Recovery of investments in electronics and semi-conductor market expected for second quarter
- Forecasts for overall year 2005 confirmed with € 54 million turnover and pre-tax earnings of between € 7.0 – 7.5 million

	Q1/2005	Q1/2004		+/- in %
Revenues				
Group	10,5	14,4	€ mill.	-28%
Vision Systems	7,0	10,2	€ mill.	-31%
Vision Components	3,5	4,3	€ mill.	-19%
Orders				
Order Income	10,1	13,4	€ mill.	-32%
Result				
Gross Margin	52	57	%	-5%
EBITDA	2,2	5,2	€ mill.	-58%
EBIT	1,2	4,4	€ mill.	-73%
EBT	1,1	4,1	€ mill.	-74%
Net Result	0,7	2,5	€ mill.	-73%
Net Margin	6	17	%	-11%
Number of Shares	3,5	3,5	€ mill.	-
Earnings per Share	0,19	0,71	€	-73%
Cash				
Cash (as of 31.03.)	1,9	1,7	€ mill.	+12%
Balance Sheet (as of 31.03.)				
Shareholder's Equity	20,2	19,6	€ mill.	-3%
Equity Ratio	52	53	%	-1%
Member of Staff (as of 31.03.)				
Number of Staff	361	283		+28%
Revenues per Number of Staff	29	51	T€	-43%
Share (as of 31.03.)				
Share Price (XETRA)	15,72	12,00	€	+31%
Market Cap	55	42	Mio.€	+31%

Company Profile

Basler AG is one of the leading companies in the area of machine vision technology. Vision technology consists of computerbased vision systems, which automatically take decisions on the basis of picture information, and cameras (vision components), which in turn are fitted into vision systems. The number of applications for machine vision systems is already

high and will continue to grow. At present, vision technology is predominantly used in industrial production, e.g. for mechanic quality control, measurement, identification and monitoring. Together, these applications are referred to as Machine Vision. Concrete examples of applications include, among others, PCB monitoring in the electronics production field, surface inspection in the plastic sheeting production field, flat-screen monitors or wafers, optical character recognition for letter sorting and document reading, print image control in the packaging industry and residual material sorting. The uses of vision technology in industry include automatic, thorough 100% quality control, increased production efficiency and the reduction of production costs of end products.

The company, which was founded by Norbert Basler in 1988, currently employs over 360 staff and has a total of 5 sites in the USA, Europe and Asia, making it an international enterprise. The stock corporation has two divisions reflecting the current structure of our product's applications.

The Vision Systems division develops and sells turn-key quality control solutions in four sectors: optical media inspection primarily manufactures inspection systems for the production of optical data (e.g. DVDs). The display inspection unit provides customers with inspection concepts for the flat-screen production process. Sealing inspection's portfolio mainly addresses the rubber and elastomer industries. The web inspection unit delivers thorough quality assurance systems to plastic foil manufacturers.

The second division is Vision Components. This division develops and sells standard components that can be used in numerous industrial sectors largely independently of concrete applications. The core component of the division's portfolio is digital cameras used in industrial applications.

On the back of this combined system and component business, we intend to grow into one of the biggest vision technology companies worldwide. To achieve this aim, we intend to increase sales by an average 20% per year on a profitable basis involving a two-digit pre-tax margin. The two main factors leading to success on this growth path are our multi-sector strategy and sustainable investment in research and technology. Our multi-sector strategy makes us less sensitive to fluctuations in individual markets and puts us in a better position to offset demand cycles. Due to our consistently high investment in research & development, we are meanwhile generating more than half of our sales with products that are less than two years old. This high level of investment gives us advantages over our competitors and guarantees profitability.



Dear Ladies and Gentlemen,

As expected, the year 2005 had a slow start. Turnover and earnings were below the previous year's first quarter which, however, had recorded exceptionally high turnover on a low cost basis. We are maintaining our initial full-year forecast, which anticipates € 54 million turnover and € 7.0 million to € 7.5 million earnings before taxes.

Incoming orders

In the first quarter 2005, incoming orders across the group amounted to € 10.1 million (Q1/2004: € 13.4 million, -24%).

This decline in incoming orders is predominantly due to a lack of investment by the industry supplying producers of optical storage media (see Divisional Information).

Turnover

In the first quarter 2005, turnover amounted to € 10.5 million. This corresponds to a 28% decline compared to the previous year's first quarter (€ 14.4 million).

On one hand, the decline in turnover is due to the cyclical weakness of the optical storage media production market and, on the other hand, a slight restraint in investment activities on the semi-conductor and electronics market causes a temporary decline in turnover in our Vision Components business (see Divisional Information).

Earnings

Despite the decline in turnover the first quarter's result before taxes adds up to € 1.1 million. The earnings margin before taxes thus amounts to 10%. In the previous year's quarter, the result before taxes totalled € 4.1 million (29%). After taxes, the Q1/2005 earnings amount to € 0.7 million (Q1/2004: € 2.5 million). This translates into an earnings-per-share figure of € 0.19 (Q1/2004: € 0.71). The decline in the earnings compared to the previous year is predominantly due to the fact that, at the start of the previous year, turnover rose significantly on a low cost basis. In the course of the year, the cost structure was adjusted to a higher turnover level in order to cope with the increase.

Divisional Information

The **Vision Systems Division** generated € 7.0 million turnover in the first quarter. This corresponds to a 31% decline compared to the previous year's first quarter (Q1/2004: € 10.2 million).

Compared to the previous year, incoming orders also declined in the Vision Systems Division: at € 6.7 million, this is a decline

of 26% compared to the previous year's first quarter (Q1/2004: € 9.1 million).

Divisional earnings before interest, taxes and dividends amounted to € 0.6 million (EBIT margin: 8%) compared to € 3.0 million in the previous year's first quarter (30%).

In the past quarter, the turnover and earnings trend in the Vision Systems Division was dominated by a significant restraint in investment activities in the industry supplying producers of optical storage media. Following substantial investments in production equipment for the manufacture of recordable DVDs, existing production capacities appear to be sufficient for the current demand. In the medium term, we expect further growth impulses in this cyclical market, in particular from the new HD-DVD and Blu-Ray media which have storage capacities of up to 30 and 60 Giga Byte respectively. Given the imminent introduction of digital TV in the USA and subsequently in Asia and Europe, demand for this type of high-performance storage media will rise significantly.

Our business involving inspection systems for flat screen monitors continued to develop positively. Incoming orders more than doubled compared to the previous year's first quarter. The development of our business with inspection systems for the sealing and foil industry remained stable.

In the first quarter 2005, turnover in the **Vision Components Division** declined by 19% to € 3.5 million (Q1/2004: € 4.3 million). At € 3.4 million incoming orders declined on a similar level compared to the previous year's first quarter (Q1/2004: € 4.3 million, -20%).

Hence, the divisional earnings before interest, taxes and dividends declined to € 0.6 million in the first quarter 2005 (Q1/2004: € 1.3 million). Despite this decline in earnings, at 18%, the EBIT margin stayed on a high level (Q1/2004: 30%).

The division's turnover trend is dominated by a slight decline in demand in the electronics and semi-conductor market. Due to imminent projects in the second half of 2005, we expect a recovery leading to a renewed rise in turnover and earnings.

Research & Development

In the first quarter 2005, R&D expenses adjusted by capitalization of intangible assets amounted to € 1.0 million.

This corresponds to a slight decline (12%) compared to the previous year's first quarter (€ 1.1 million). Consistent high investment in R&D is an essential precondition for further growth.

Staff

As of 31 March 2005, the number of staff amounted to 361 – a 28% rise compared to the previous year (Q1/2004: 283). The majority of our staff is employed at the company's headquarters in Ahrensburg (319, Q1/2004: 257). Basler Inc. in the USA employed 13 staff as of 31 March 2005 (Q1/2004: 15). Basler Asia Pte. Ltd. in Singapore employed 7 staff (Q1/2004: 5) and Basler Vision Technologies Inc. in Taiwan 17 (Q1/2004: 14). The representations in Shanghai and South Korea employed 3 and 2 members of staff respectively.

Cash

Throughout the first quarter 2005, liquid funds declined from € 3.3 million as of 1 Jan. 2005 to € 1.9 million. The reason for this development was substantial investment in the realization of future sales revenue. The net cash flow in the first quarter 2005 thus amounted to € -1.4 million (Q1/2004: € -2.0 million).

The Share

As of 31 March 2005, the Management Board and the Supervisory Board held the following shares and options:

	Shares		Options	
	31.03. 2005	31.12. 2004	31.03. 2005	31.12. 2004
Supervisory Board				
N. Basler (Chairman)	2.0 Mio.	2.0 Mio.	106,907	106,907
B. Priske (Vice-Chairman)	-	-	-	-
K. Ellegast	3,000	3,000	-	-
Managing Board				
D. Ley (Chairman)	132,500	132,500	23,800	23,800
J. P. Jennings	-	-	3,000	3,000
P. Krumhoff	500	500	4,557	4,557

As of 31 March 2005, the following employee options were in circulation in connection with the 2000 employee participation programme and the convertible bond of 31 July 2004:

	2000	2004
Issued	82,000	159,036
In circulation as of 31.12.2004	32,415	159,036
Granted	-	-
Exercised	-	-
Expired since 31.12.2004	518	-
In circulation as of 31.03.2004	41,072	159,036

Corporate Governance -

Declaration regarding the financial year 2004

The Management Board and the Supervisory Board hereby declare that, in the financial year 2004, the company complied with the corporate conduct recommendations issued by the Federal government codex commission in the version of May 2003 and that, with the exception of the following recommendations, the company will comply with these recommendations in the future:

Number 5.3.1.

The Supervisory Board shall not form any committees. Due to the size of the company, Basler AG's Supervisory Board consists of three persons. This size ensures efficient work and is too small to form separate committees (usually consisting of a minimum of three members).

Number 5.4.5.

The articles of association set out the remuneration of the Supervisory Board members. The Chair and the Deputy Chair are taken into account. Due to the level of the current fixed remuneration, the company currently does not intend to add a variable component to Supervisory Board members' remuneration.

Numbers 4.2.3. and 4.2.3.

The Management Board remuneration consists of variable and fixed components. These components as well as the total remuneration level are set out for the entire Management Board in the Appendix to the management report. We do not provide a breakdown of individual Management Board salaries. The Management Board and the Supervisory Board intend to offer the largest possible degree of transparency to capital market players while honouring both the company's interests and individual interests. In times of increasingly strict data protection regulations, the company considers it inappropriate to publish personal data which may lead to possible disadvantages for the persons concerned and/or their families.

The declaration of commitment to, and compliance with, the Codex is continuously updated and can be accessed under Investor Relations on the company's website. If you have any questions regarding the Corporate Governance Codex, please do not hesitate to contact our Compliance officer:

Christian Höck, Tel. +49 4102-463 175,
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Prospects

The interruption in the company's growth in the 1st half of 2005 is due to cyclical weakness of the storage media industry. A substantial improvement in this situation is not expected before the second six months of 2005. The restrained investment activities in the Vision Components segment in the global electronics and semi-conductor market are likely to be overcome within Q2.

At Basler, innovation activities are continuing unabated. All divisions are planning to launch new innovative products on the market in the coming months. Some of these products have significant future market and turnover potentials. Our innovation activities are still geared towards generating over 50% of turnover with products that are less than two years old.

Taking into account the slow start to the new year, we confirm our initial full-year forecast, which anticipates a € 54 million turnover and € 7 million to € 7.5 million earnings before taxes. These figures corroborate our strategy which aims to achieve a long-term average growth rate of 20%; allowing us to record profitable growth at a higher rate than the market.

The Management Board

Dietmar Ley John P. Jennings Peter Krumhoff

Dr. Dietmar Ley - John P. Jennings - Peter Krumhoff

Notes to the consolidated financial statements

General information

1. Compliance with IFRS

Concerning the IFRS conversion as per 31 December 2005, we discussed our accounting and consolidation methods according to IFRS with our auditors. Accounting and consolidation methods according to IFRS cannot be finally determined before the first annual accounts according to IFRS have been approved as of 31 December 2005, since until this date, any changes to the standards must be taken into account retroactively. However, we assume that a change in our accounting and consolidation methods will not be necessary.

2. Valuation differences compared to the annual accounts

Construction contracts are accounted for according to the percentage-of-completion method (PoC method). The PoC method is determined on the basis of the cost-to-cost method. Contracts are either recorded on the asset side under "Receivables arising from PoC" or under the liability side under "Liabilities arising from PoC". Where the accumulated performance exceeds the advance payments, contracts are recorded on the asset side; in the opposite case, they are recorded on the liability side.

Internally produced intangible assets that provide the group with a potential future benefit and can be reliably valued are capitalized at production cost. After their completion, scheduled straight-line depreciation is applied over their useful life of three years. In accordance with IAS 36, the value maintained by the internally produced intangible assets is regularly monitored using a systematic process.



Consolidated Balance Sheet

as of 31.03.2005 according to IFRS*

Assets

in t€

	31.03.2005	31.12.2004
Current assets		
Cash and cash equivalents	1,903	3,291
Short-term accounts		
Accounts receivables, net	6,423	6,517
Accounts out of Percentage of Completion	2,085	277
	8,508	6,794
Inventories		
Finished goods and commodities	1,555	1,505
Work in process and semi-finished goods	1,548	1,687
Raw materials and supplies	4,686	5,029
Merchant's goods	607	639
	8,396	8,860
Other accounts and financial assets	517	691
	19,324	19,636
Long-term assets		
Property and equipment		
Plant and machinery	2,285	2,246
Other intangible assets	664	557
Capitalization of development	8,646	7,568
	11,595	10,371
Deferred taxes	8,355	7,083
	19,950	17,454
Total assets	39,274	37,090

* unaudited

Consolidated Balance Sheet

as of 31. 03. 2005 according to IFRS*

Liabilities

in t€

	31.03.2005	31.12.2004
Shareholder's equity		
Subscribed capital	3,500	3,500
Capital reserve	1,268	1,268
Equation of currency exchange	85	90
Accumulated earnings	15,396	14,726
	20,249	19,584
Liabilities		
Long-term liabilities		
Silent partnership	1,023	1,023
Convertible bond	2,727	2,727
Long-term loans	511	511
Long-term accrued liabilities	0	421
Other long-term liabilities	8	0
Deferred taxes	4,770	3,115
	9,039	7,797
Short-term liabilities		
Short-term liabilities to banks	4,000	2,500
Notes payable to shareholder's equity	268	97
Advanced payments received	1,125	1,528
Trade accounts payable	1,235	1,713
Other liabilities	1,233	1,220
Accrued expenses	2,125	2,651
	9,986	9,709
	19,025	17,506
Total liabilities	39,274	37,090

* unaudited

Consolidated Profit and Loss Statement

for the First Quarter 2005 according to IFRS*

in t€, result per share in €

	Q1/2005 01.01.-31.03.2005	Q1/2004 01.01.-31.03.2004
Sales	10,465	14,441
Cost of Sales	-5,045	-6,274
Gross profit	5,420	8,167
Sales and marketing expenses	-1,677	-1,856
General and administrative expenses	-1,970	-1,186
Research and development expenses		
Costs	-2,071	-1,842
Capitalization of intangible assets	1,872	1,368
Deduction for depreciation on capitalized intangible assets	-776	-628
Research and Development	-975	-1,102
Other income	373	349
Operating results	1,171	4,372
Interest results	-100	-258
Result before income taxes	1,071	4,114
Income taxes	-402	-1,630
Group net income for period	669	2,484
Number of shares	3,500,000	3,500,000
Number of shares (diluted)	3,755,875	3,576,808
Result per share	0.19	0.71
Fully diluted result per share	0.18	0.69

* unaudited

Consolidated Statement of Cash Flow

for the First Quarter 2005 according to IFRS*

in t€

	01.01- 31.03.2005	01.01- 31.03.2004
Group net profit	669	2,484
Deprecation of fixed and intangible assets	996	842
Accurate expenses	-947	42
Deferred taxes	383	1,511
Invalid payment changes in shareholder's equity	-4	69
Result from disposal of equipment	9	0
Inventories	463	-2,221
Trade accounts receivable	-1,713	-4,627
Other assets, which are not assigned to investing or financing activities	169	114
Advanced payments received	-403	383
Accounts payable	-470	727
Notes payable to shareholders	0	7
Other liabilities, witch are not assigned to investing or financing activities	185	252
Cash Flow from operating activities	-663	417
Revenue from disposal of equipment	38	0
Purchase of equipment	-2,263	-1,592
Cash Flow from investing activities	-2,225	-1,592
Increase in cash received by bank loan	1,500	0
Cash Flow from investing activities	1,500	0
Net change in cash	-1,388	-2,009
Cash at beginning of period	3,291	3,740
Cash at at end of period	1,903	1,731
Cash and cash equivalents	1,903	1,731
Paid out for interests	35	94
Paid out for taxes	0	0

* unaudited

Consolidated Changes in Statement of Shareholder's Equity

as of 31. 03. 2005 according to IFRS*

in t€

	Nominal capital	Capital reserve	Equation of currency exchange	Accumulated earnings	Sum
Shareholder's equity as of 01.01.2004	3,500	995	-87	9,714	14,122
Difference from currency conversion			49		49
Group net profit for year				2,484	2,484
Shareholder's equity as of 31.03.2004	3,500	995	-38	12,198	16,655
Difference from currency conversion			128		128
Group net profit for year				2,528	2,528
Issue of convertible bond		273			273
Shareholder's equity as of 31.12.2004	3,500	1,268	90	14,726	19,584
Difference from currency conversion			-5		-5
Group net profit for year				669	669
Shareholder's equity as of 31.03.2005	3,500	1,268	85	15,396	20,249

* unaudited

Primary Group Segment Information

for the First Quarter 2005 according to IFRS*

in t€

	Vision Systems		Vision Components		Reconciliation		Group	
	Q1/2005	Q1/2004	Q1/2005	Q1/2004	Q1/2005	Q1/2004	Q1/2005	Q1/2004
Segment revenues	7,010	10,150	3,455	4,291	0	0	10,465	14,441
Segment results (EBIT)	577	3,013	611	1,266	-17	93	1,171	4,372
Segment assets	17,017	14,153	8,111	4,494	3,371	9,313	28,499	27,960
Segment liabilities	1,019	3,718	6	63	3,460	5,150	4,485	8,931
Segment investments	1,223	850	805	576	235	165	2,263	1,591
Segment depreciations	579	519	239	146	178	177	996	842

* unaudited

Secondary Group Segment Information

for the First Quarter 2005 according to IFRS*

in t€

	Germany		Reconciliation		Group	
	Q1/2005	Q1/2004	Q1/2005	Q1/2004	Q1/2005	Q1/2004
Segment revenues	10,465	14,441	0	0	10,465	14,441
Segment assets	25,128	18,647	3,371	9,313	28,499	27,960
Segment investments	2,028	1,426	235	165	2,263	1,591

* unaudited

Dates

Date	Event
10.-12. May 2005	Media Tech Expo, Las Vegas, USA (Optical Media Inspection)
17.-19. May 2005	Vision Show West, San Jose, USA (Vision Components)
22. June 2005	Annual Shareholder Meeting 2005, Ahrensburg, Germany
11. August 2005	Release of Second Quarter Results 2005, Ahrensburg, Germany
07.-09. September 2005	Replication Expo, Shanghai, China (Optical Media Inspection)
27.-29. September 2005	Robotics and Vision Show, Rosemont, USA (Vision Components)
04.-05. Oktober 2005	Mediatech Showcase & Conference, Frankfurt, Germany (Optical Media Inspection)
01.-03. November 2005	Vision, Stuttgart, Germany (Vision Components)
08.-11. November 2005	Rubber Expo, Pittsburgh, USA (Sealing Inspection)
10. November 2005	Release of Third Quarter Results 2005, Ahrensburg, Germany

Notes

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