



Quarterly Report Q1/2006

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The Quarter at a Glance:

- First quarter turnover on last year's level – results slightly below pre-year level

- Demand rockets - Q1/2006 incoming orders up by 25%
- Positive business prospects allow to reaffirm forecasts for growth in turnover and results

Key Data:		Q1/ 2006	Q1/ 2005	+/- in %
Turnover				
Group	10.1	10.5	€ mill.	-4%
Vision Systems	4.7	7.0	€ mill.	-33%
Vision Components	5.3	3.5	€ mill.	+51%
Orders				
Incoming Orders	12.6	10.1	€ mill.	+25%
Results				
Gross Margin	52	51	%	+1%
EBITDA	2.1	2.2	€ mill.	-5%
EBIT	0.9	1.2	€ mill.	-25%
EBT	0.8	1.1	€ mill.	-27%
Net Results	0.4	0.7	€ mill.	-43%
Net Margin	4	7	%	
Number of Shares	3.5	3.5	mill.	
Earning per Share	0.11	0.19	€	

	Q1/ 2006	Q1/ 2005	+/- in %
Cash			
Cash funds (as of cut-off date)	2.6	1.9	€ mill. +37%
Balance Sheet (as of cut-off date)			
Equity Capital	22.4	22.0	€ mill. +2%
Equity Capital Ratio	54	53	€ mill. +1%
Staff (as of cut-off date)			
Number of Staff	345	361	-2%
Shares (as of cut-off date)			
Share Price (XETRA)	13.90	15.72	€ -12%
Market Cap	49	55	€ mill.

Dates 2006	Events
Financial Events	
08. May 2006	Annual shareholder meeting, Hamburg, Germany
10. August 2006	Release of results for second quarter 2006, Ahrensburg, Germany, Conference Call for analysts und investors
08. November 2006	Release of results for third quarter 2006, Ahrensburg, Germany, Conference Call for analysts und investors
Trade Shows and Conferences	
Optical Media Inspection	
30. May - 01. June 2006	Media-Tech Expo, Frankfurt, Germany
13.-15. September 2006	Replication Expo, Shanghai, China
10.-11. October 2006	Media-Tech Showcase & Conference, Long Beach, USA
Sealing Inspection	
19.-23. June 2006	NPE (International Plastics Showcase) - Chicago, USA
03.-06. July 2006	Deutsche Kautschuk Tagung, Nürnberg, Germany
Display Inspection	
14.-16. June 2006	FPD Taiwan - Taipeh, Taiwan
Vision Components	
09.-11 May 2006	Vision Show East, Boston, USA
13.-16. June 2006	Nepcon Penang - Malaysia
11.-13. July 2006	Semicon West, San Francisco, USA
07.-09. November 2006	Vision Show, Stuttgart, Germany
Others	
26. August 2006	Basler is introduced as "Place in the Land of Ideas" – I. Basler Robocup

Company Profile

Basler AG is one of the leading companies in the area of 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 354 staff and has a total of 6 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 three sectors: The display inspection unit provides customers with inspection concepts for the flat-screen production process.

Optical media inspection primarily manufactures inspection systems for the production of optical data (e.g. DVDs). Sealing inspection's portfolio mainly addresses the rubber and elastomer industries.

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,

the new year got off to a good start with turnover in line with expectations on last year's level, and incoming orders greatly over topping same quarter last year's performance. The sharply rising demand for our products which we forecast shows that our past investment in research and development was on the right track, and confirms us in our future planning.

Turnover and Incoming Orders

First quarter turnover came to € 10.1 mill. This represents a slight drop of 4% vis-à-vis the same period last year (€ 10.5 mill.).

The first quarter saw a sharp rise in incoming orders with new orders to a total value of € 12.6 mill. recorded for the whole company (Q1/2005: € 10.1 mill., +25%).

This rise is part of the long-term rising demand experienced in both business units. Whilst business with digital high-performance cameras (Vision Components) benefited from new investment signals from the electronics and semi-conductor markets, our Vision Systems unit continued to record an increasing number of orders from the flat screen sector.

Earnings

The slight drop in turnover is reflected in slightly lower earnings as compared to the same quarter last year. The manufacturing costs ratio was held on a steady course in the first quarter 2006 giving gross earnings of € 5.2 mill. (Q1/2005: € 5.4 mill., -4 %) and a gross margin of 52% (Q1/2005: 51%, +1%).

First quarter turnover was realised on an unchanged cost basis. This gives after-tax earnings for Q1/2006 of € 0.4 mill. (Q1/2005: € 0.7 mill.), or a drop of 43% vis-à-vis the same period last year. Net earnings per share are € 0.11 (Q1/2005: € 0.19).

Business Unit Information

The **Vision Systems** unit recorded a first quarter turnover of € 4.7 mill., representing a drop of 33% on the same period last year (Q1/2005: € 7.0 mill.).

This drop is mainly due to investor reluctance in the markets for optical storage media and rubber and elastomer seals. On the other hand high demand for inspection systems from the display industry continued unabated. It was mainly due to this that first quarter incoming orders overtopped those for the same period last year. In the first three months of 2006 incoming orders came to € 7 mill. or 3% up on the first quarter 2005. (Q1/2005: € 6.8 mill.).

The first quarter also saw the successful installation of the first Color Filter Inspection System for customers in Taiwan. Color filters are thin layers responsible for colour quality in the finished flat screen display. This successfully completed pilot order will stimulate sales to other manufacturers. In the coming weeks and months we are expecting further orders from other manufacturers in this sector.

Due to the drop in turnover, Vision Systems was unable to record a positive result. Unit earnings before interest, taxes, depreciation and amortisation (EBITDA) were € -0.5 mill. down on earnings of € 0.6 mill. recorded for the first quarter 2005.

The **Vision Components** unit benefited in the first quarter from very lively demand for digital high-performance cameras from the electronics and semi-conductor sectors. At the same time new products opened up vigorous new market segments. First quarter 2006 turnover was correspondingly high, rising by 51% to a record level of € 5.3 mill. (Q1/2005: € 3.5 mill.). Incoming orders hit an all-time high as well and at € 5.6 mill. were an impressive 70% up on figures for the same quarter last year (Q1/2005: € 3.3 mill.).

The unit's EBITDA result of € 1.5 mill. also showed a major boost of 150% (Q1/2005: € 0.6 mill.). The EBIT margin was 28% (Q1/2005: 17%).

Research & Development

High investment in research and development (R&D) is one of the key factors underpinning our success on future markets. First quarter 2006 outlay for R&D adjusted for activation of immaterial assets amounted to € 0.7 mill. (Q1/2005: € 1.0 mill.). The slight drop in investment when compared to the same period last year is due to the implementation of the cost-saving program announced last autumn.

Staff

As of 31 March 2006 there was a slight drop of 2% in staff numbers (354) compared to the same period last year (Q1/2005: 361).

Distribution of staff across company business units and locations is as follows:

- Headquarters in Ahrensburg 313 (Q1/2005: 319)
- Basler Inc. (USA) 15 (Q1/2005: 13)
- Basler Asia Pte. Ltd. (Singapore) 8 (Q1/2005: 7)
- Basler Vision Technologies Inc. (Taiwan) 18 (Q1/2005: 22) incl. staff members from the Basler offices in Shanghai and South Korea.

Cash

Over the first quarter 2006 liquid assets decreased from € 3.3 mill. on 1 January 2006 to € 2.6 mill. First quarter 2005 net cash flow was € -1.4 mill..

Shares

As of 31 March 2006, the Management and Supervisory Board held the following shares and options (in thousands):

	Shares		Options	
	31.03. 2006	31.12. 2005	31.03. 2006	31.12. 2005
Supervisor Board				
N. Basler (Chairman)	1.8 Mill.	1.8 Mill.	106,907	106,907
K. Ellegast (Vice-Chairman)	3,000	3,000	-	-
B. Priske	-	-	-	-
Managing Board				
Dr. -Ing. D. Ley (Chairman)	135,282	135,282	23,800	23,800
J. P. Jennings	-	-	3,000	3,000
P. Krumhoff	500	500	4,557	4,557

As of 31 March 2006 the following employee options are in Circulation from the Convertible Bond of 31 July 2004:

	2004
Issued	159,036
In circulation as of 31.12.2005	159,036
Granted	-
Exercised	-
Expired since 31.12.2005	-
In circulation as of 31.03.2006	159,036

Corporate Governance - Declaration

The Management Board and the Supervisory Board hereby declare that the recommendations of the Government Commission on the Corporate Governance Codex in the version of 2 June 2005 have been complied with and will be complied with in future. Management Board and the Supervisory Board declared the compliance on January 3rd 2006. Exceptions are the following recommendations:

Sub-section 4.2.3. and 4.2.4. – Management Board Members' Remuneration

The remuneration of the management board consists of fixed and variable components. These, together with the overall level of remuneration for the Management Board, are set forth in the Appendix to the Management Report. There is no individual presentation of remuneration for the Management Board on a person to person basis. Both the Management Board and Supervisory Board strive for the highest degree of transparency vis-à-vis players on the capital market whilst also honouring the company's interests and those of individuals. In times of increasingly strict data protection regulations, the company considers it inappropriate to disclose personal data which may lead to possible disadvantages for the persons concerned and/or their families.

Sub-section 5.3.1. - Formation of Committees

The Supervisory Board does not form any committees. Due to the size of the company, the Supervisory Board of Basler AG consists of three persons. This size enables efficient work to be done whilst the generally accepted minimum requirement for the formation of a committee is set at three persons.

Sub-section 5.4.7. Remuneration of Members of the Supervisory Board

Remuneration of members of the Supervisory Board is set forth in the Articles of Incorporation. Special consideration is given to the remuneration of the chair and deputy chair of the Supervisory Board. However, in the light of the current level

of fixed remuneration, the company does not intend to add a variable component to the remuneration of members of the Supervisory Board.

The Codex, together with all previous declarations of commitment and compliance, is continually updated and may be accessed on the Investor Relations pages on the company web site at /share. If you have any questions regarding the Corporate Governance Codex, please contact the Basler AG Compliance Officer, Christian Höck, Tel. + 49 (0) 4102-463 175, christian.hoeck@baslerweb.com.

Outlook

The new financial year began on a very promising note for us. Our business units benefited from our high level of investment in research and development – which was also mirrored in a positive investment climate on our main target markets. In the forthcoming part of the current year the Vision Systems unit is set to broaden its product portfolio and is especially well positioned to profit from new impulses in the flat screen industry. After the pilot contract last year, we are looking forward to a further order for Color Filter Inspection Systems from a leading manufacturer.

Vision Components shall continue to benefit from lively demand for digital high-performance cameras from the electronics and semi-conductors sectors and shall show strong, higher than market average growth for 2006.

In the light of the growth expected for all business units, we are able to reaffirm the forecast we made in March for organic growth for the whole of 2006 of over € 50 mill. with net earnings of approx. € 3 mill. or € 0.86 per share. This corresponds to an increase in turnover of 11% vis-à-vis 2005, and an above-average increase of 25% in net results.

The Management Board


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

Consolidated Profit and Loss Statement
as of 31. 03. 2006 according to IFRS*

in € thousand, result per share in €	Q1/2006 01.01.- 31.03.2006	Q1/2005 01.01.- 31.03.2005
Sales	10,075	10,465
Cost of Sales	-4,887	-5,045
Gross profit	5,188	5,420
Sales and marketing expenses	-2,037	-1,677
General and administrative expenses	-2,282	-1,970
Research and development expenses		
Costs	-1,711	-2,071
Capitalization of intangible assets	1,996	1,872
Deduction for depreciation on capitalized intangible assets	-935	-776
Research and Development expenses balanced	-650	-975
Other income	699	373
Operating results	918	1,171
Interest results	-119	-100
Result before income taxes	799	1,071
Income taxes	-401	-402
Group net income for period	398	669
Number of shares	3,500,000	3,500,000
Result per share	0.11	0.19
Number of shares (diluted)	3,714,285	3,714,285
Dilution effect out of corporate bond	19	19
Fully diluted result per share	0.11	0.19

* unaudited

Consolidated Statement of Cash Flow

as of 31. 03. 2006 according to IFRS*

in T€	01.01. - 31.03.2006	01.01. - 31.03.2005
Group net profit	397	669
Deprecation of fixed and intangible assets	1,195	996
Payments for interests	54	0
Increase/decrease in provisions	-86	-947
Changes in deferred taxes	329	383
Invalid payment changes in shareholder's equity	-3	-4
Result from disposal of equipment	1	9
Inventories	-1,083	463
Trade accounts receivable	1,831	-1,713
Other assets, which are not assigned to investing or financing activities	-112	169
Advanced payments received	252	-403
Accounts payable	-149	-470
Notes payable to shareholders	0	0
Other liabilities, which are not assigned to investing or financing activities	-447	185
Cash Flow from operating activities	2,179	-663
Revenue from disposal of equipment	6	38
Purchase of equipment	-2,300	-2,263
Cash Flow from investing activities	-2,294	-2,225
Increase in cash received by bank loan	-600	1,500
Payments of interests	-54	0
Proceeds from convertible bond	0	0
Cash Flow from investing activities	-654	1,500
Net change in cash	-769	-1,388
Cash at beginning of period	3,326	3,291
Cash at at end of period	2,557	1,903
Changes in cash and cash equivalents at end of period		
Paid out for interests	2,557	1,903
Paid out for taxes	0	0

* unaudited

Consolidated Balance Sheet

as of 31.03.2005 according to IFRS*

Assets in € thousand	as at 31.03.2006	as at 31.12.2005
Long-term assets		
Fixed assets	0	0
Tangible assets	2.621	2.643
Other intangible assets	1.188	1.117
Capitalization of development	11.846	10.785
Total fixed assets	15.655	14.545
Deferred fixed assets	8.905	8.613
Total long-term assets	24.560	23.158
Short-term assets		
Cash and cash equivalents	2.557	3.326
Short-term accounts		
Trade receivables	4.408	4.908
Percentage of Completion receivables	1.773	3.104
Total short-term receivables	6.181	8.012
Inventories		
Finished goods and commodities	1.474	1.282
Work in process and semi-finished goods	1.135	736
Raw materials and supplies	4.350	3.859
Merchandise	256	253
Total inventories	7.215	6.130
Other accounts and financial assets	714	615
Total short-term assets	16.667	18.083
Total assets	41.227	41.241

* unaudited

Consolidated Balance Sheet

as of 31. 03. 2006 according to IFRS*

Liabilities in € thousand	as at 31.03.2006	as at 31.12.2005
Shareholder's equity		
Subscribed capital	3,500	3,500
Capital reserve	1,268	1,268
Equation of currency exchange	95	97
Accumulated earnings	17,503	17,106
	22,366	21,971
Liabilities		
Long-term liabilities		
Silent partnership	1,023	1,023
Convertible bond	2,727	2,727
Long-term loans	529	526
Long-term liabilities to shareholders	30	30
Other long-term liabilities	11	0
Deferred tax liabilities	6,371	5,751
	10,691	10,057
Short-term liabilities		
Short-term liabilities to banks	3,500	4,100
Notes payable to shareholder's equity	109	136
Advanced payments received	780	528
Trade accounts payable	1,432	1,592
Other liabilities	462	884
Tax provisions	460	436
Provisions	1,427	1,537
	8,170	9,213
	18,861	19,270
Total liabilities	41,227	41,241

* unaudited

Primary Group Segment Information according to IFRS*

First Quarter 2006

in € thousand	Vision Systems		Vision Components		Reconciliation		Group	
	Q1/2006	Q1/2005	Q1/2006	Q1/2005	Q1/2006	Q1/2005	Q1/2006	Q1/2005
Segment revenues	4.737	7.010	5.338	3.455	0	0	10.075	10.456
Segment results (EBIT)	-457	577	1.466	611	-92	93	917	1.281
Segment assets	16.019	17.017	10.165	8.111	2.867	9.313	29.051	34.441
Segment liabilities	813	1.019	0	6	2.826	5.150	3.639	6.175
Segment investments	1.212	1.223	885	805	203	165	2.300	2.193
Segment depreciations	610	579	391	239	194	177	1.195	995

* unaudited

Secondary Group Segment Information according to IFRS*

First Quarter 2006

in € thousand	Europe		Reconciliation		Group	
	Q1/2006	Q1/2005	Q1/2006	Q1/2005	Q1/2006	Q1/2005
Segment revenues	10.075	10.465	0	0	10.075	10.465
Segment assets	26.184	25.128	2.867	9.313	29.051	34.441
Segment investments	2.097	2.028	203	165	2.300	2.193

* unaudited

Consolidated Changes in Statement of Shareholder's Equity as of 31.03.2006 according to IFRS*

in € thousand	Nominal capital	Capital reserve	Equation of currency exchange	Accumulated earnings	Sum
Shareholder's equity as of 31.12.2005	3,500	1,268	90	14,726	19,584
Difference from currency conversion			-19		-19
Group net profit for year				669	669
Shareholder's equity as of 31.03.2005	3,500	1,268	71	15,395	20,234
Difference from currency conversion			26		26
Group net profit for year				1.711	1.711
Shareholder's equity as of 31.12.2005	3,500	1,268	97	17,106	21,971
Difference from currency conversion			-2		-2
Group net profit for year				397	397
Shareholder's equity as of 31.03.2006	3,500	1,268	95	17,503	22,366

* unaudited

Notes:



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