



Quarterly Report Q2/2006

Quarterly Report Q2/2006 and 1st Half Year Report 2006

Key Data:	Q2/ 2006	Q2/ 2005	+/- in %
Turnover			
Group	12.9	10.8	€ mill. +19%
Vision Systems	6.6	7.0	€ mill. -6%
Vision Components	6.2	3.8	€ mill. +63%
Orders			
Incoming Orders	17.6	13.5	€ mill. +30%
Results			
Gross Margin	57	45	% +12%
EBITDA	4.6	2.9	€ mill. +65%
EBIT	2.0	0.7	€ mill. +186%
EBT	1.9	0.6	€ mill. +117%
Net Results	1.1	0.4	€ mill. +175%
Net Margin	9	4	% +5%
Number of Shares	3.5	3.5	mill.
Earning per Share	0.32	0.12	€
Cash			
Cash funds (as of cut-off date)	1.4	1.7	€ mill. -18%
Balance Sheet			
(as of cut-off date)			
Equity Capital	23.5	22.0	€ mill. +7%
Equity Capital Ratio	51	53	€ mill. -2%
Staff (as of cut-off date)			
Number of Staff	298	317	
Shares (as of cut-off date)			
Share Price (XETRA)	13.50	14.50	€ -7%
Market Cap	47.25	50.8	€ mill.

The Quarter at a Glance:

- Q2/2006 turnover up by 19%
- Record level incoming orders at € 17.6 mill.
- Above average growth in net earnings at € 1.1 mill.
- Forecast for turnover and net earnings 2006 revised upwards

Dates 2006	Events
Financial Events	
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	
13.-15. September 2006	Replication Expo, Shanghai, China
10.-11. October 2006	Media-Tech Showcase & Conference, Long Beach, USA
Vision Components	
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 approx 360 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 second quarter went remarkably well for Basler. Growth in turnover and results and a record level of incoming orders are the welcome outcomes of a high level of investment in research and development coupled with a product strategy adapted to market needs. A raft of factors all indicate that this trend is set to continue so that we can look forward to stable growth for the whole of 2006 and the following years.

Turnover and Incoming Orders

In the second quarter Group turnover rose to € 12.9 mill., representing growth of 19% compared to the same quarter last year (€ 10.8 mill.). Total turnover for the first half-year 2006 came to € 22.9 mill., a rise of 8% over the previous half-year's performance (1st HY 2005: € 21.2 mill.).

Incoming orders for the second quarter attained a record level never before seen in the company's history. As a whole, the Group received incoming orders amounting to € 17.6 mill. (Q2/2005: € 13.5 mill., +30%). This gives an unsurpassed level of € 30.1 mill. for incoming orders in the first half-year 2006 (1st HY 2005: € 23.6 mill., +28%).

This positive development is based on three effects. Firstly, the continual investment we pour into the development of new

products and the further development of existing ones has led to an improvement of our competitive position on the markets we address. Secondly, we are meeting continued rising demand for digital, industrial-use high performance cameras (Vision Components), especially from customers in the electronics and semiconductor industries.

And finally, our business with camera-based inspection systems for the flat screen industry is on a growth curve. The past months have seen the award of major contracts representing key milestones in the growth of this sector. In June this year a major contract came in from AU Optronics – one of the global leaders in flat screen modules – for inspection systems for so called "Color Filters". This contract marks our breakthrough into a market segment dominated so far by Japanese competitors. It also marks an important step on Basler's way to becoming one of the global leaders in inspection systems for the flat screen industry.

Earnings

Changes to the portfolio of products with improved gross margins and the progress we have made in reducing production costs have led to an above-average increase in earnings compared to increase in turnover. With gross earnings of € 7.3 mill.

Quarterly Report Q2/2006 and 1st Half Year Report 2006

(Q2/2005: € 4.9 mill.) the Q2/2005 gross margin of 45% could be raised by no less than 12% to 57%. Gross earnings for the first half-year 2006 came to € 12.5 mill. (1st HY 2005: € 10.3 mill., +21%), giving a gross margin of 55 % (1st HY 2005: 48%).

Net period surplus in the second quarter 2006 grew by 175% vis-à-vis the same quarter last year to € 1.1 mill. (Q2/2005: € 0.4 mill.). This gives net earnings per share of € 0.32 (Q2/2005: € 0.12). Thus net earnings for the first half-year rose to € 1.5 mill., and net earnings per share to € 0.43 (1st HY 2005: € 1.1 mill., +36%, net earnings per share: € 0.31).

Business Unit Information

The Vision Systems unit (inspection systems for industrial mass production) recorded a second quarter 2006 turnover of € 6.6 mill., giving a slight drop in turnover of 6% vis-à-vis the same quarter last year (Q2/2005: € 7.0 mill.). Thus for the first half-year 2006 this unit recorded total turnover of € 11.3 mill. (1st HY 2005: € 14.0 mill., -19%).

Development in Vision Systems turnover shows the impact of various counter currents. On the one hand, business with inspection solutions for the optical storage media industry continues to be sluggish, mainly because a substantial demand for the new storage-intensive "blue" data storage formats – the BluRay-Disk – has yet to develop. Major impulses for investment in production equipment are to be first expected in this sector in the course of the coming year.

On the other hand, there has been improvement in the investment climate for inspection systems for the rubber and elastomer industries and we have recorded increasingly high numbers of incoming orders from all regions. In this context we can expect further impulses to be given by our new "Basler Vario2" product as recently unveiled at the German Rubber Conference. This successor to the highly successful "Basler Vario" model which sold over 100 times has excited keen interest among customers with its wealth of technical innovations.

In the sector of inspection systems for the flat screen industry, we continue to benefit from increasing demand for our innovation-rich products. In the past years we have gained a market share of over 60% with more than 90 installations of inspection systems for display flat glass; we are now involved in gradually extending our product portfolio with new inspection solutions covering other production stages in this industry.

These include both the inspection system for polarization foils for use in flat screen displays and the latest product line for the inspection of the "Color Filters" which are responsible for colour quality in the finished flat screen display. The recent contract awarded by AU Optronics, one of the leading vendors in this sector, is testimony to the high-performance of our systems and shows that strategy-wise we are on the right track. Accordingly, we are expecting to gain other market segments in this sector as well.

Following its loss in the first quarter, the Vision Systems unit was able once more to record a positive result. Unit earnings before interest, taxes, depreciation and amortisation (EBITA) were € 0.3 mill. vis-à-vis earnings of € 0.2 mill. in the same quarter last year (+50%). Even so, with first half-year result of € -0.2 mill. the unit was still in slightly negative territory (1st HY 2005: € 0.8 mill.).

The Vision Components unit continued to benefit from its successful product strategy and a very lively demand for digital high-performance cameras. On top of this, the second quarter also saw the launch of further new products. The new "Basler scout" and "Basler pioneer" camera families consist of over 30 products which means that we can now offer our customers the largest portfolio of cameras anywhere equipped to the new "Gigabit Ethernet" data transfer standard. This new standard – for whose definition and technical development Basler has been largely instrumental as a member of numerous standardization committees – will allow our customers to perform mid-range picture processing tasks much more easily and at much lower costs than was previously possible. Serial production of the new camera family shall begin the third quarter.

Second quarter turnover in Vision Components rose to a record level of € 6.2 mill., overtaking the same quarter last year's performance by 63% (Q2/2005: € 3.8 mill.). Turnover for the first half-year increased to € 11.6 mill. (1st HY 2005: € 7.2 mill., +61%). Thus for the first time the Vision Components unit first half-year turnover outstripped that of the whole of the Vision Systems unit.

Incoming orders for Vision Components also reached new record levels and at € 6.4 mill. were up by 39% on the same quarter last year (Q2/2005: € 4.6 mill.). Total incoming orders for the first half-year 2006 came to € 12.0 mill. (1st HY 2005: € 7.9 mill., +52%).

At € 1.8 mill. second quarter 2006 unit earnings before interest, taxes, depreciation and amortisation (EBITA) more than tripled (Q2/2005: € 0.5 mill.), giving an EBIT margin of 29% (Q2/2005: 14%). For the whole first half-year EBIT came to no less than € 3.3 mill. (1st HY 2005: € 1.2 mill., +175%) with a margin of 28% (1st HY 2005: 16%).

Research & Development

High investment in research and development (R&D) is one of the key factors underpinning our success on Vision Technology markets. More than half our turnover comes from products that are less than two years old. Second quarter 2006 outlay for R&D adjusted for activation of immaterial assets came to € 1.3 mill. (Q2/2005: € 0.9 mill.). R&D costs for the first half-year 2006 balanced at € 2.0 mill. (1st HY 2005: € 1.9 mill.).

Staff

The way we assess the number of our staff was changed for the cut-off date and in future shall be patterned on the business concept laid down in the IFRS directives. This new approach only counts the number of capacities actually available to the company and thus takes account, for instance, of the number of part-time employees. In our view this gives a more realistic picture of our workforce. Previously we have used the legal concept of the IFRS directives to include all persons with a contractual relationship to Basler AG, in other words all those who are not currently productive or only partly productive such as persons on parental leave or part-time employees.

Accordingly, as of 30 June 2006 our staff numbered 298 employees, representing an drop of 6% over last year (30 June 2005: 317).

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

- Group headquarters in Ahrensburg: 255 (Q2/2005: 274)
- Basler Inc. (USA): 16 (Q2/2005: 16)
- Basler Asia Pte. Ltd. (Singapore): 8 (Q2/2005: 8)
- Basler Vision Technologies Inc. (Taiwan) 19 (Q2/2005: 19) including staff members from the Basler offices in Shanghai and South Korea

Cash

Net cash flow for the first half-year 2006 came to € -2.1 mill., this is mainly explained by the higher outlay for R&D and growth-induced build-up of liquid assets. Liquid assets dropped accordingly over the first half-year 2006 from € 3.3 mill. to € 1.4 mill. (liquid assets as of 30 June 2005: € 1.7 mill.).

Shares

As of 30 June 2006 the Management and Supervisory Board held the following shares and options:

	Shares		Options	
	30.06. 2006	31.03. 2006	30.06. 2006	31.03. 2006
Supervisory Board				
N. Basler (Chairman)	1.8 Mill.	1.8 Mill.	106,907	106,907
K. Ellegast (Vice-Chairman)	3,000	3,000	-	-
E. Kottkamp	-	-	-	-
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 30 June 2006 the following employee options are in circulation from the Convertible Bond of 31 July 2004:

Issued	159,036
In circulation as of 31.03.2005	159,036
Granted	-
Exercised	-
Expired since 31.03.2005	-
In circulation as of 30.06.2006	159,036

Corporate Governance – Declaration

The Management Board and the Supervisory Board hereby declare that the recommendations of the Government Commission of the Corporate Governance Codex in the version of 12 June 2006 have been complied with and shall be complied with in future.

Excepted from this are the following recommendations:

Sub-section 5.3.1. – Formation of Committees by the Supervisory Board

The Supervisory Board does not form any committees. Reflecting the size of the company, the Supervisory Board of Basler AG consists of three persons. This composition ensures that efficient

work shall be done whilst also complying with the generally accepted minimum requirement for the formation of a board which 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. Therein special consideration is given to the chair and vice-chair of the Supervisory Board. In the light of the present level of fixed remuneration, the company does not intend to add a variable component to the remuneration of members of the Supervisory Board.

The Declaration of Commitment to the Codex and the Declaration of Compliance is continually updated and may be accessed on the Investor Relations pages of the Basler AG web site at www.baslerweb.com/aktie. If you have any questions regarding the Corporate Governance Codex, please contact the Basler AG Compliance Officer who shall be pleased to assist you:

Christian Höck, Tel. +49 (0) 4102-463 175,
christian.hoeck@baslerweb.com

Outlook

The first half-year 2006 has been a milestone in terms of our strategy implementation. We have gained new market segments with our innovative new products whilst by addressing a wide range of growth markets we have also achieved a more equitable turnover structure than in the past.

In the course of the year the Vision Systems unit shall feel the effects of growing demand on the flat screen market. We expect positive development in this sector. The high average level of orders for flat screen display inspection systems might possibly lead to some fluctuations in incoming orders and turnover attributable to the cut-off days.

From our present viewpoint demand for camera products from the Vision Components unit looks likely to continue in positive territory in the second half-year. And we are also expecting further impulses for growth in incoming orders from our new product lines which we launched in the second quarter.

In the light of the higher turnover we have achieved and the record level of incoming orders in the second quarter, on 12 July we raised the forecast we made for the whole of 2006 at the beginning of the year. We are now expecting turnover of approx. € 53 mill. (instead of € 50 mill. as previously announced) and a net profit of approx. € 4 mill. (instead of € 3 mill.). This would correspond to an increase in turnover of 18% compared to 2005 (2005: € 45 mill.) and an improvement of 67% in net earnings (2005: € 2.4 mill.).

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

Consolidated Profit and Loss Statement
as of 30. 06. 2006 according to IFRS*

in € thousand, result per share in €	Q2/2006 01.04.- 30.06.2006	Q2/2005 01.04.- 30.06.2005	I. HY 2006 01.01.- 30.06.2006	I. HY 2005 01.01.- 30.06.2005
Sales	12,850	10,763	22,925	21,228
Cost of Sales	-5,534	-5,913	-10,421	-10,958
Gross profit	7,316	4,850	12,504	10,270
Sales and marketing expenses	-2,225	-1,865	-4,262	-3,542
General and administrative expenses	-1,857	-1,742	-4,139	-3,712
Research and development expenses				
Costs	-1,770	-2,076	-3,481	-4,147
Capitalization of intangible assets	1,637	2,015	3,633	3,887
Deduction for depreciation on capitalized intangible assets	-1,171	-887	-2,106	-1,663
Research and Development expenses balanced	-1,304	-948	-1,954	-1,923
Other income	63	400	762	773
Operating results	1,993	695	2,911	1,866
Interest results	-130	-116	-249	-216
Result before income taxes	1,863	579	2,662	1,650
Income taxes	-740	-157	-1,141	-559
Group net income for period	1,123	422	1,521	1,091
Number of shares	3,500,000	3,500,000	3,500,000	3,500,000
Result per share	0.32	0.12	0.43	0.31
Number of shares (diluted)	3,714,285	3,714,285	3,714,285	3,714,285
Dilution effect out of corporate bond	19	19	38	38
Fully diluted result per share	0.31	0.12	0.42	0.30

* unaudited

Consolidated Statement of Cash Flow

as of 30. 06. 2006 according to IFRS*

in T€	01.01. - 30.06.2006	01.01. - 30.06.2005
Group net profit	1,521	1,091
Deprecation of fixed and intangible assets	2,645	2,156
Payments for interests	175	153
Increase/decrease in provisions	-148	-877
Changes in deferred taxes	1,038	419
Invalid payment changes in shareholder's equity	4	-28
Result from disposal of equipment	6	26
Inventories	-2,199	1,124
Trade accounts receivable	-980	-1,208
Other assets, which are not assigned to investing or financing activities	-336	92
Advanced payments received	478	-1,036
Accounts payable	-71	-139
Notes payable to shareholders	0	0
Other liabilities, which are not assigned to investing or financing activities	30	528
Cash Flow from operating activities	2,163	2,301
Revenue from disposal of equipment	8	41
Purchase of equipment	-4,286	-4,854
Cash Flow from investing activities	-4,278	-4,854
Free Cash Flow	-2,115	-2,512
Increase in cash received by bank loan	400	1,100
Payments of interests	-175	-153
Cash Flow from financing activities	225	947
Net change in cash	-1,890	-1,565
Cash at beginning of period	3,326	3,291
Cash at end of period	1,436	1,726
Changes in cash and cash equivalents at end of period		
Paid out for interests	1,436	1,726
Paid out for taxes	0	38

* unaudited

Consolidated Balance Sheet

as of 30.06.2006 according to IFRS*

Assets in € thousand	as at 30.06.2006	as at 31.12.2005
Long-term assets		
Fixed assets		
Tangible assets	2,694	2,643
Other intangible assets	1,173	1,117
Capitalization of development	12,312	10,785
Total fixed assets	16,179	14,545
Deferred fixed assets	9,824	8,613
Total long-term assets	26,003	23,158
Short-term assets		
Cash and cash equivalents	1,436	3,326
Short-term accounts		
Trade receivables	5,058	4,908
Percentage of Completion receivables	3,934	3,104
Total short-term receivables	8,992	8,012
Inventories		
Finished goods and commodities	1,701	1,282
Work in process and semi-finished goods	1,577	736
Raw materials and supplies	4,834	3,859
Merchandise	217	253
Total inventories	8,329	6,130
Other accounts and financial assets	943	615
Total short-term assets	19,700	18,083
Total assets	45,703	41,241

* unaudited

Consolidated Balance Sheet

as of 30. 06. 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	99	97
Accumulated earnings	18,627	17,106
Total shareholder's equity	23,494	21,971
Liabilities		
Long-term liabilities		
Silent partnership	1,023	1,023
Convertible bond	2,727	2,727
Long-term loans	511	526
Long-term liabilities to shareholders	0	30
Deferred tax liabilities	8,000	5,751
Total long-term liabilities	12,261	10,057
Short-term liabilities		
Short-term liabilities to banks	4,500	4,100
Notes payable to shareholder's equity	464	136
Advanced payments received	1,007	528
Trade accounts payable	1,521	1,592
Other liabilities	631	884
Tax provisions	228	436
Provisions	1,597	1,537
Total short-term liabilities	9,948	9,213
	22,209	19,270
Total liabilities	45,703	41,241

* unaudited

Quarterly Report Q2/2006 and 1st Half Year Report 2006

Primary Group Segment Information according to IFRS*

First Six Months 2006

in € thousand	Vision Systems		Vision Components		Reconciliation		Group	
	I. Half 2006	I. Half 2005	I. Half 2006	I. Half 2005	I. Half 2006	I. Half 2005	I. Half 2006	I. Half 2005
Segment revenues	11,347	13,990	11,578	7,238	0	0	22,925	21,228
Segment results (EBIT)	-200	790	3,264	1,150	-154	-74	2,910	1,866
Segment assets	16,224	15,909	11,229	8,681	6,048	4,162	33,501	28,752
Segment liabilities	1,026	527	3	2	3,096	1,628	4,125	2,157
Segment investments	1,882	2,611	1,774	1,590	631	653	4,287	4,854
Segment depreciations	871	1,234	807	529	967	393	2,645	2,156

* unaudited

Second Quarter 2006

in T€	Vision Systems		Vision Components		Reconciliation		Group	
	Q2 2006	Q2 2005	Q2 2006	Q2 2005	Q2 2006	Q2 2005	Q2 2006	Q2 2005
Segment revenues	6,610	6,980	6,240	3,783	0	0	12,850	10,763
Segment results (EBIT)	257	213	1,798	539	-62	-167	1,993	585
Segment investments	670	1,388	889	785	428	488	1,987	2,661
Segment depreciations	261	655	416	290	773	216	1,450	1,161

Secondary Group Segment Information according to IFRS*

First Six Months 2006

in € thousand	Europe		Reconciliation		Group	
	I. Half 2006	I. Half 2005	I. Half 2006	I. Half 2005	I. Half 2006	I. Half 2005
Segment revenues	22,925	21,228	0	0	22,925	21,228
Segment assets	27,453	1,940	6,048	4,162	33,501	6,102
Segment investments	3,656	4,201	631	653	4,287	4,854

* unaudited

Second Quarter 2006

in € thousand	Europe		Reconciliation		Group	
	Q2/2006	Q2/2005	Q2/2006	Q2/2005	Q2/2006	Q2/2005
Segment revenues	12,850	10,763	0	0	12,850	10,763
Segment investments	1,559	2,173	428	488	1,987	2,661

* unaudited

Consolidated Changes in Statement of Shareholder's Equity

as of 30. 06. 2006 according to IFRS*

in € thousand	Nominal capital	Capital reserve	Equation of currency exchange	Accumulated earnings	Sum
Shareholder's equity as of 01.01.2005	3,500	1,268	90	14,726	19,584
Difference from currency conversion			-29		-29
Group net profit for year				1,091	0
Shareholder's equity as of 30.06.2005	3,500	1,268	61	15,817	20,646
Difference from currency conversion			36		36
Group net profit for year				1,289	1,289
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				1,521	1,521
Shareholder's equity as of 30.06.2006	3,500	1,268	99	18,627	23,494

* unaudited



www.baslerweb.com

Basler AG - Headquarter
An der Strusbek 60 - 62
D-22926 Ahrensburg/Germany
Tel.: +49 4102 463-0
Fax: +49 4102 463-109

Basler, Inc.
740 Springdale Drive
Exton, Pa 19341, USA
Tel.: +1 610 280-0171
Fax: +1 610 280-7608

Basler, Asia Pte.Ltd.
25 International Business Park
02 - 06 German Center
Singapore 609916
Tel: + 65 6425 0472
Fax: + 65 6425 0473

Basler Vision Technologies, Taiwan Inc.
3F, No.87-6, Guangming 6th Rd.
Jhubei City, Hsinchu County 302,
Taiwan/R.O.C.
Tel: +886 3 5583955
Fax: +886 3 5583956

Basler Shanghai Representative Office
Room #12H, No. 288, Cao Xi Bei Road, Xu Hui District
Shanghai, 200030 China
Tel: + 86 21 64 31 11 88
Fax: + 86 21 64 31 11 88

Basler Korea Representative Office
889-2 Ssang Yong-dong
7th Floor at Deawoo Tower
ChungNam, Choon ChungNam-do
Tel: + 82 41 578 27 17