



COMPANY REPORT

DR. KALLIWODA EQUITY RESEARCH

Feb. 28, 2005

LINOS AG

BUY

Technology / Photonics / Optics

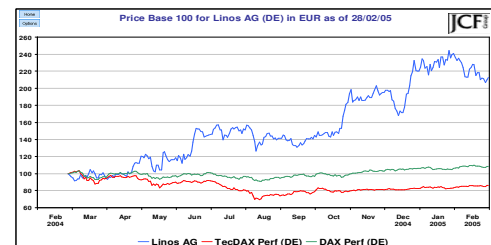
Last price: € 10,50

Fair value: € 13,35

- **LINOS surprises with positive result development**
- **Enforcement of partial relocation of production to Eastern Europe**
- **High competence in complex customer projects**
- **Positive cash flow-development allows extension of technology advantage**

Company Description

Core business of LINOS AG is optical technologies (key technology photonics). The product spectrum includes high-quality complex lenses and optical devices such as printing machines (digital print on the basis of photonic-techniques or laser and DVD-mastering). In the healthcare & life science segment, LINOS AG enjoys an impressive market position in molecular diagnostics and in bio research (medicine technique). The photography and defense segment includes the areas camera and security techniques.



Figures in EUR	2002	2003	2004e	2005e	2006e
EPS Dr. Kalliwoda			1,03	1,09	1,05
EPS Consensus	-1,50	-1,90	0,80	0,90	0,98
Total Revenues (mln)	73,0	73,1	90,2	90,4	93,1
net Income (adj.)	-8,8	-9,6	5,2	5,5	5,2
net cash per share	-6,3	-6,2	-5,4	-3,8	-2,5
net Cash	-31,4	-31,0	-26,8	-19,1	-12,4
Free Cash Flow	2,3	1,2	7,2	9,3	6,1
P/E	-	-5,5	10,2	9,6	10,0
P/S	-	0,72	0,58	0,58	0,56
Price (curr)	10,5				5,00
52W high	12,25				35
52w low	3,7				36,3
Market Cap (mln)	52,5				0,005%
ROE curr	n.m.				LIAG
Sales CAGR 03-09	7%				LIAG
Web Page	www.linos.de				WKN 525650

Source: DR.KALLIWODA | RESEARCH



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1. EXECUTIVE SUMMARY

One of the focal points of our company report is the exact inspection of the three business segments and their future economical development, considering technological trends and the development of customer needs.

It is clear that LINOS AG operates in a solid long-term growth sector with its medicine and biotechnology segments. Further, in the media and print technology areas, suppliers are feeling pressure for innovation which leads to substantial growth rates for LINOS.

LINOS has reached a successful result in the first three quarters. Sales grew by 27% to € 66.213 m. The earnings before tax of € 4.651 m show that the company has impressively put into practice its reorganization. For the fiscal year of 2004, we estimate sales to reach € 88 m and an annual net profit of € 5.18 m. From 2005 to 2009 we reckon a growth of sales to € 101.8 m. in 2009 (total performance) while LINOS increases its profit margins through its efficient market positioning with high-end optical solutions and complex optical components and systems. We assume that EBT will grow from € 6.46 m to € 11 m from 2004 to 2009, which equals a nice annual growth rate of 8,4 %.

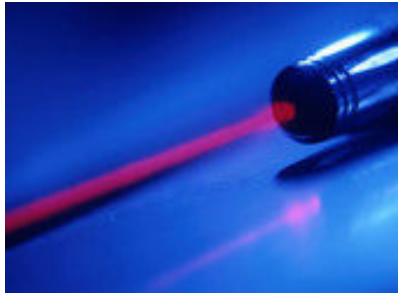
We expect the operative cash flow of LINOS AG at € 8.9 m for the accounting year of 2004. In estimating the operating cash flows until 2009, we obtain an annual growth rate of 10.1 %. This result is robust and allows smaller acquisitions of companies with niche-know-how.

Reasons for our positive estimates are the expected result improvements in the two strategic business segments health care & life science and industrial manufacturing („initial equipment business“). In our eyes, the business segment IT & communications grows only modestly under the premise of slightly rising investments in the security and defense-industry.

On the basis of our three-staged DCF-model we calculate a fair value of € 13.35 (market cap of € 66.8 m) and recommend to buy the share.

LINOS acts in a market of optical technologies, which serves as the basis for further development in important economic sectors such as the life sciences industry, as well as the IT, defense and the semiconductor industries. The complete photonics industry presently has a world-market-volume of about € 130 bn and the American Opotelectronics Industrial Development Association expects an enormous growth, estimating a world-market-volume of approximately US-\$ 500 bn in 2013.

LINOS possesses a strong technological position and increases its world-market-shares. Already today, LINOS has a world-market-share of 80% in the segment of image intensifiers for radiodiagnosics for instance. In the segment of optical systems for laser-lettering, LINOS holds a world-market-share of approximately 45%, and a share of over 30% in electro-optical modulators.



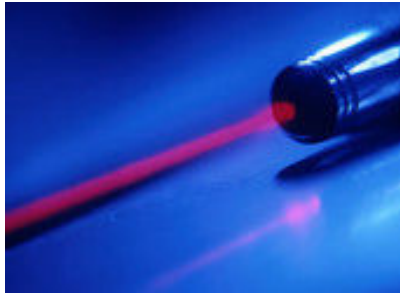
2. FINANCIALS

2.1 Strong sales and profit development in 2004

LINOS has reached a very successful result in the first three quarters of 2004. Sales could be increased by approx. 27% to € 66.213 m. With a pre-tax result of € 4.651 m, the company has impressively put into practice its restructuring. For the fourth quarter, we expect sales of € 21.8 m, an EBIT of € 2.46 m and an EBT of € 1.83 m. For the accounting period of 2004, we see a pre-tax result of € 6.48 m with a total performance of € 90.2 m. For this, see the following graph on the basis of quarters and previous year quarters with estimates for the last quarter of 2004.

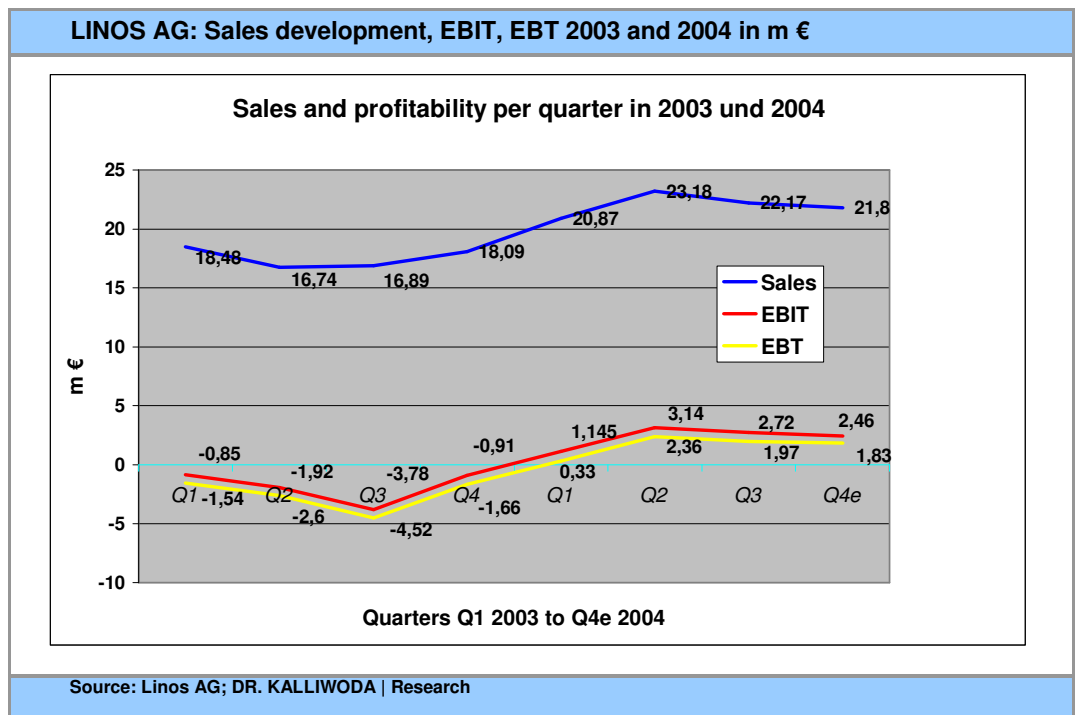
Linios 2004 : Profit & Loss (IFRS)																
	Q1 2004	Q1 2003	Change	Q2 2004	Q2 2003	Change	Q3 2004	Q3 2003	Change	9 Mon. 2004	Q4e 2004	Q4 2003	Change	total 2004e	Total 2003	Change
			to Q1 2003			to Q2 2003			to Q3 2003	kumul.			to Q4 2003			to total 2003
Revenue	20,87	18,48	12,9%	23,18	16,74	38,5%	22,17	16,89	31,3%	66,21	21,80	18,09	20,5%	88,01	70,19	25,4%
Changes in inventories of finished goods and work in progress	0,55	0,20	180,5%	-0,03	0,08	-132,1%	0,83	0,11	653,6%	1,35	0,20	-0,67	-129,9%	1,55	-0,29	-642,3%
Production for oth. own fixed assets capitalized	0,17	0,30	-45,0%	0,25	0,20	28,6%	0,17	0,25	-32,3%	0,59	0,05	0,46	-89,1%	0,64	1,21	-47,2%
Other operating income	0,32	0,26	25,0%	0,57	0,28	102,1%	0,43	0,75	-42,9%	1,32	0,50	0,69	-27,7%	1,82	1,98	-8,3%
Costs of purchased materials and purchased goods	-5,52	-4,69	17,8%	-5,57	-4,23	31,6%	-6,37	-4,45	43,1%	-17,46	-5,60	-4,85	15,4%	-23,06	-18,22	26,5%
Cost of purchased services	-0,95	-0,75	26,7%	-0,74	-0,70	6,9%	-0,84	-0,74	13,8%	-2,54	-0,90	-0,80	12,4%	-3,44	-2,99	15,1%
Personnel expenses																
Wages and salaries	-7,32	-7,84	-6,6%	-6,64	-7,42	-10,6%	-6,73	-8,45	-20,4%	-20,68	-6,80	-6,04	12,5%	-27,48	-29,752	-7,6%
Social secur. contributions & oth. pension costs	-1,44	-1,60	-9,9%	-1,54	-1,63	-5,5%	-1,29	-1,54	-15,8%	-4,27	-1,24	-1,38	-9,9%	-5,51	-6,14	-10,2%
Depreciation and amortization (including goodwill)	-1,80	-2,02	-10,8%	-1,82	-2,06	-11,9%	-1,75	-2,34	-25,1%	-5,37	-1,70	-3,68	-53,9%	-7,07	-10,10	-30,0%
Other operating expenses	-3,71	-3,00	23,5%	-4,54	-3,10	46,8%	-3,94	-4,20	-6,2%	-12,20	-3,90	-2,64	47,7%	-16,10	-12,94	24,4%
Foreign currency gains / losses	-0,01	-0,18	-96,1%	0,01	-0,08	-115,0%	0,04	-0,07	-164,6%	0,05	0,05	-0,08	-162,5%	0,10	-0,41	-123,9%
Result from operations (EBIT)	1,15	-0,85	-235,5%	3,14	-1,92	-263,2%	2,72	-3,78	-172,1%	7,00	2,46	-0,91	-370,9%	9,46	-7,45	-227,0%
Interest income	0,02	0,01	57,1%	0,03	0,06	-45,0%	0,04	0,03	37,0%	0,09	0,04	0,06	-38,6%	0,13	0,16	-2,5%
Interest expenses	-0,86	-0,71	20,8%	-0,82	-0,74	10,3%	-0,77	-0,76	1,2%	-2,45	-0,65	-0,81	-19,6%	-3,10	-3,02	2,5%
Income / expenses from participations accounted at equity	0,02	0,01	125,0%	0,00	0,00	0,0%	-0,02	-0,01	-54,5%	0,00	-0,02	0,00	1900,0%	-0,02	0,00	1500,0%
Result before taxes on income (EBT)	0,32	-1,54	-107,3%	2,36	-2,60	-190,7%	1,97	-4,52	-143,6%	4,65	1,83	-1,66	-209,9%	6,48	-10,32	-162,8%
Taxes on income	-0,25	0,50	-149,7%	-0,69	0,90	-176,8%	-0,76	-0,10		-1,70	0,50	-0,60	-183,9%	1,30	0,70	
Consolidated net result	0,07	-1,03	-107,3%	1,67	-1,70	-198,0%	1,21	-4,63	-126,2%	2,96	2,33	-2,26	-203,1%	5,18	-9,62	-153,9%
Undiluted earnings per share																
Consolidated net result	0,07	-1,03	-107,3%	1,67	-1,70	-198,0%	1,21	-4,63	-126,2%	2,96	2,33	-2,26	-203,1%	5,18	-9,62	-153,9%
Shares (weighted average in the fiscal year) (in thousands)	5,00	5,00	0,0%	5,00	5,00	0,0%	5,00	5,00	0,0%	5,00	5,00	-10,00	-150,0%	5,00	5,00	0,0%
Undiluted earnings per share in EUR	0,01	-0,21	-107,3%	0,33	-0,34	-198,0%	0,24	-0,93	-126,2%	0,59	0,47	-0,45	-203,1%	1,04	-1,92	-153,9%
Diluted earnings per share																
Consolidated net result	0,07	-1,03	-107,3%	1,67	-1,70	-198,0%	1,21	-4,63	-126,2%	2,96	2,33	-2,26	-203,1%	5,18	-9,62	-153,9%
Shares (weighted average in the fiscal year) (in thousands)	5,00	5,00	0,1%	5,01	5,00	0,1%	5,01	5,00	0,2%	15,02	5,01	-10,00	-150,1%	5,01	5,00	0,2%
Diluted earnings per share in EUR	0,01	-0,21	-107,3%	0,33	-0,34	-197,9%	0,24	-0,93	-126,2%	0,59	0,46	-0,45	-202,9%	1,03	-1,92	-153,8%

Source: LINOS AG; DR.KALLIWODA | RESEARCH

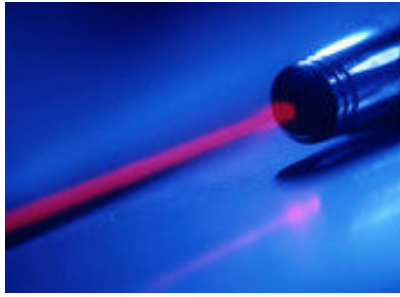


The reasons for the increased results compared to 2003 (EBT of € -10.32 m) are risen sales as well as productivities of all three branches (information technology & communications, health care & life sciences and industrial manufacturing), as well as the concentration of the factories.

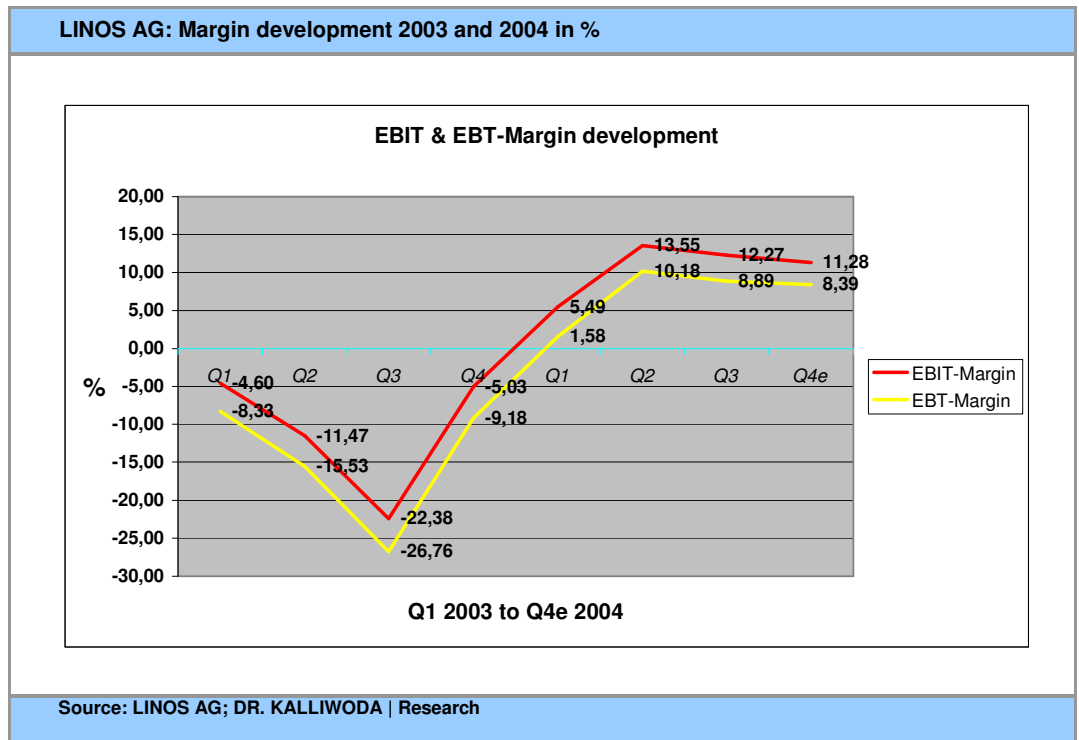
The following graph illustrates the result development of 2003 and 2004 on the basis of quarters (including our estimate for the fourth quarter of 2004). The pre-tax result of LINOS AG takes a positive path on a quarterly basis. The EBIT grew constantly compared to the negative results in 2003 and presently levels off at about 2.7 m per quarter. The EBT accounts for the interest expenses of the company. Through the positive cash flows (€ 6.21 m in the first three quarters of 2004) LINOS AG reduces its bank liabilities of currently still approx. € 26 m.



With a share price that has risen by over 195 % in 2004 the title was among the top-performers of all German stocks.

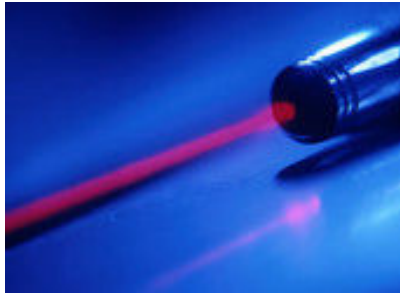


The following diagram illustrates the positive development of the margins during the last two years (Q4 2004 estimated).

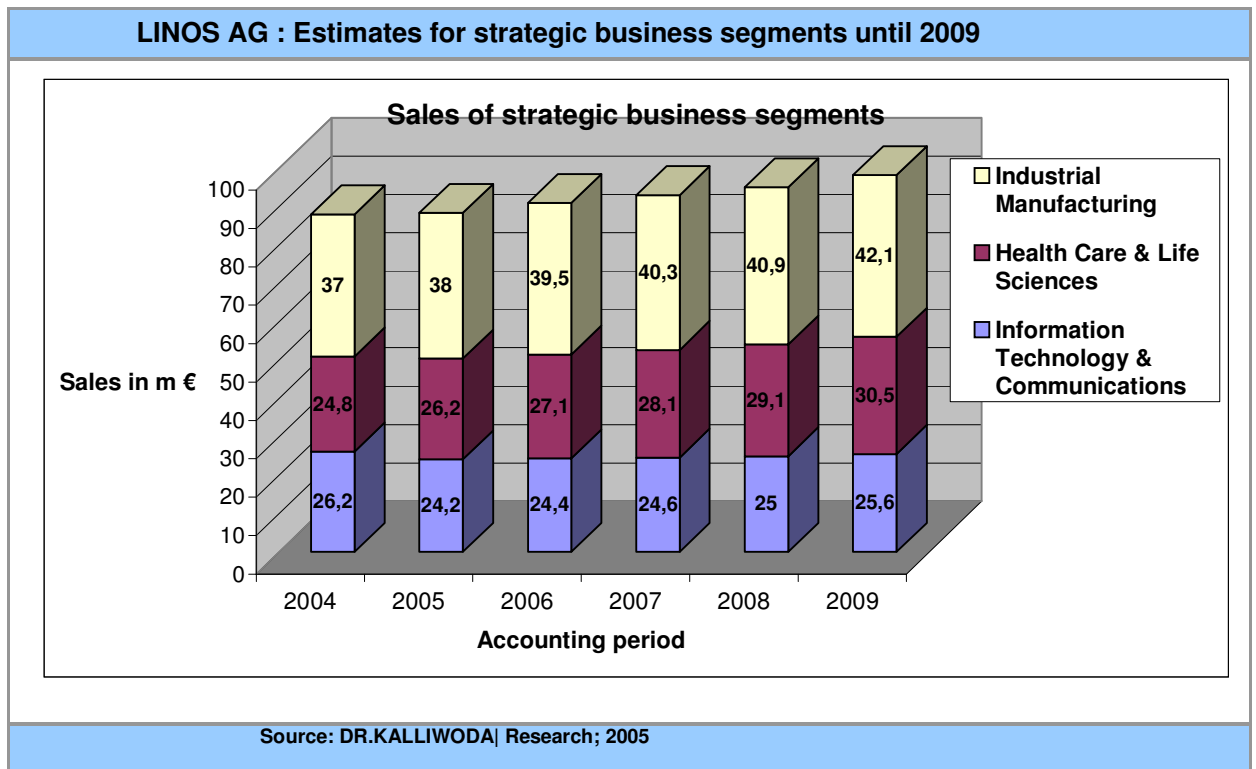


2.2 Estimates for 2005 until 2009

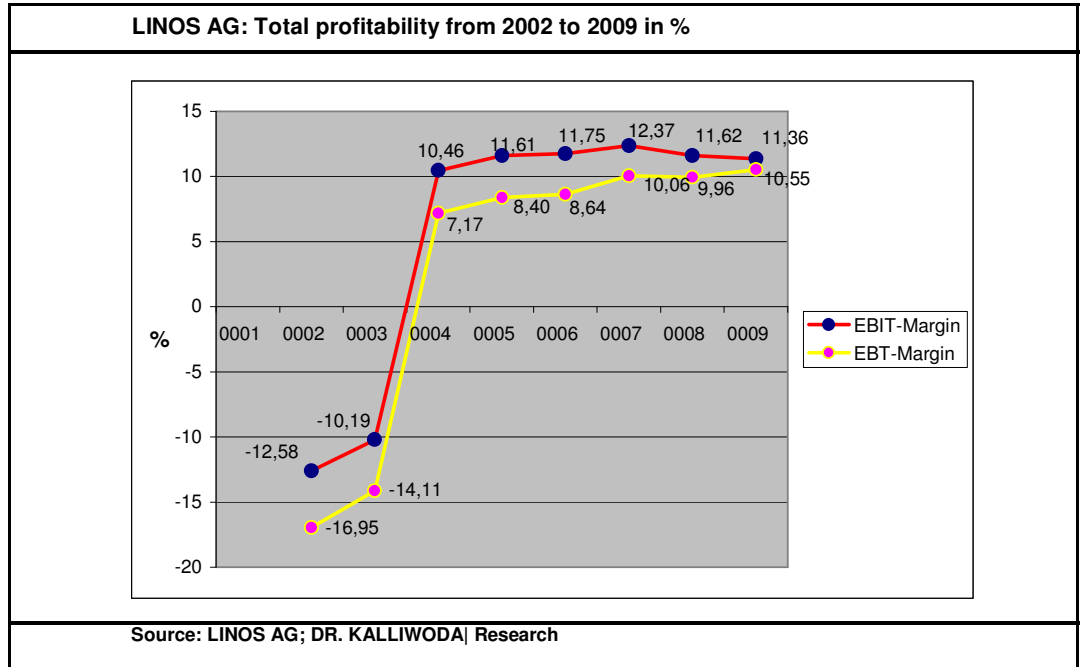
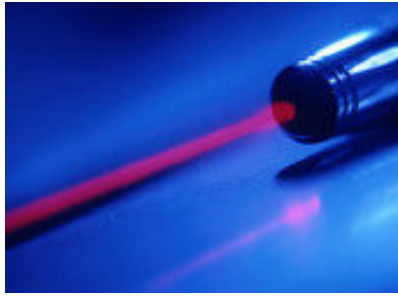
From 2005 to 2009 we expect a continuous growth of sales from € 88 m in 2004 to € 101.8 m in 2009 (each without the change in the stock of finished and unfinished goods, which annually account for about 2% of sales). The efficient market positioning and result enhancements are the primary goal of LINOS AG. We expect an increase of the EBT-profit margins through high- optical solutions and complex optical components and systems. In the initial-equipment business of big companies such as ASM Lithography, lots of positioned optics for waverstoppers are produced, which would be impossible without the high-end optical solutions from LINOS AG. We assume that LINOS AG can increase its initial-equipment business. In our sales forecasts until 2009, which are described in detail in chapter 5 “growth drivers”, we account for sales and result growth in the branches industrial manufacturing and health care & life sciences.



We expect only marginal increases in the segment IT & communications.
The following diagram shows the sales estimates for every segment until 2009.



Here, the continuously improving margin is crucial. It is reached among other things by cost cuts, which result partly from the partial relocation of the production to Eastern Europe. On the basis of our sector estimates we expect an EBT-margin improvement from 7.2 % in 2004 to 10.6 % in 2009. For this, see the subsequent graph.



We estimate the EBIT in 2004 at € 9.43 m. It should increase in 2005 to € 10.5 m, because goodwill-depreciations were ultimately performed in 2004 with a sum of about € 1.8 m. For 2006, we expect an EBIT of € 10.9 m, in 2007 € 11.8 m, in 2008 € 11.2 m and in 2009 € 11.8 m. On the one hand, the only slightly increasing EBIT-series is due to our rather defensively calculated sales series. We presently do not yet consider substantial sales rises in the IT & communication segment. On the other hand, we expect increasing depreciations from about € 5 m in 2006 to € 7.5 m in 2009, because machinery investments are made on the basis of strongly developing free-cash-flows, to further develop the technological positioning of LINOS AG.

The EBT-series should grow faster than the EBIT-series, because LINOS AG progressively improves its financial result by reducing its financial liabilities. The EBT in 2004 is estimated at € 6.5 m. In 2005 we reckon € 7.6 m and we expect an EBT of € 8 m for 2006, € 9.6 m for 2007, € 9.6 m for 2008 as well and € 11 m for 2009. This implies a beautiful CAGR¹⁾ EBT-growth of 8,4 % for the time from 2004 until 2009.

Reasons for this prognosis are the expected positive development especially in the strategic business segment health care & life sciences. Similarly good margin improvements are expected in the segment industrial manufacturing.

¹ Compound Average Growth Rate. Here, the growth rates were discounted to the year 2005 with a cost of capital of 7,5 % (WACC).



2.3 Cost cuts through production relocation and component shopping in Eastern Europe

Although LINOS AG has accomplished a very efficient restructuring-course during the last two years to reduce all sorts of costs while simultaneously improving top and bottom lines through product innovations and customer acquisition, further cost reducing steps will be taken. The number of employees will not change much in the future. In the years 2002 and 2003, personnel was reduced by 234 (about 22% of the complete work force) by pooling together operative businesses and relocating projects. For example, the LINOS-factory in Giessen was sold to Jenoptik. Further, is also important the current extension of the location Poland, to make use of the advantageous local terms. Presently, 60 people are employed in the Polish factory in Warsaw. The engagements of further employees is planned to produce high-end optical solutions-components.

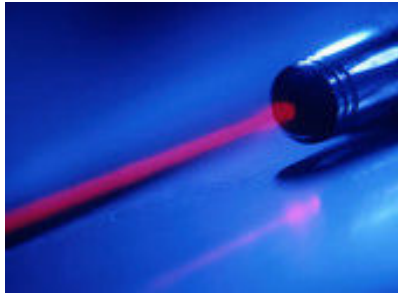
3. VALUATION

3.1 Target price of € 13.35 and market cap of € 66.8 m

On the basis of our three-staged discount-cash-flow-model we calculate a fair value of € 13.35 (market cap of € 66.8 m). **We recommend to buy the share with a target price of € 13.35 which should be reached within the next 12 months.**

3.2 Company Valuation: DCF-Method

The valuation of LINOS AG was done by the means of the three-stages discount-cash-flow-method to calculate the inner value of the share. Here, we set the following assumptions. We fix the risk free interest rate at 3.7%. This equals a ten year government bond. We calculate the risk premium to be 7.5 % and the beta in relation to the TecDax 30 to be 1.25. By applying these parameters we obtain a weighted average cost of capital (WACC) of 8,1%. On the basis of this rate, we reach a fair value for the share of € 13.35. Thereby, we set the assumption that the company grows by 1.0 % in the long run. A fair value of € 13.35 equals an upward-potential of about 27% from the current share price of € 10.5. The following graph shows the individual parameters of our DCF-model.



DCF PARAMETER	
PARAMETERS	
Risk-free rate	3,7%
Risk premium	7,5%
Beta	1,25
Longterm growth rate	1,0%
Cost of equity	8,5%
Cost of debt (after Tax)	4,9%
WACC	7,5%
NET PRESENT VALUE OF FREE CASH FLOWS (Mio. EUR)	
Phase 1 (2005-2006)	12,0
Phase 2 (2007-2009)	13,4
Phase 3 (2010...terminal value)	62,6
Net debt	-21,2
Value of total equity	66,8
DCF value per share	13,36
Source: DR.KALLIWODA RESEARCH 2005	

3.3 Sensitivity analysis

We carried out a sensitivity analysis to point out the variability of our calculated fair value under different economical scenarios. See the following table for this:

Sensitivity analysis per share
Sensitivitätsanalyse je Aktie

(EUR)		Diskontierungszinssatz				
β = 1,25		5,5%	6,5%	7,5%	8,5%	9,5%
	0,0%	18	15	12	10	9
langf. Wachstum	0,0%	18	15	12	10	8,891
	0,5%	19	15	13	10,735	9
	1,0%	21	16	13,35701	11	9
	1,5%	23	17,45	14	12	10
	2,0%	24,89	19	15	12	10

Source: Dr. Kalliwoda Research

Sensitivity analysis: Market Capitalization
Sensitivitätsanalyse: Marktkapitalisierung

(Mio. EUR)		Diskontierungszinssatz				
β = 1,25		5,5%	6,5%	7,5%	8,5%	9,5%
	0,0%	90	74	61	52	44
langf. Wachstum	0,0%	90	74	61	52	44
	0,5%	96	77	64	54	46
	1,0%	104	82	66,79	56	47
	1,5%	113	87	70	58	49
	2,0%	124	94	74	61	51

Source: Dr. Kalliwoda Research

The results show a valuation range of € 8.89 to € 24.89 per share. We rate a long run growth rate of only 0,5% as highly unrealistic. We chose 1% as the parameter value for the long run growth of LINOS AG. This is quite defensive and would lead to a fair value of at least € 9 at a WACC of 9.5 %.

Our DCF-model accounted for a WACC of 8,1 %, which turns out relatively low because of the still high amount of debt and the relatively low interest rates compared to those of numerous other high-tech companies.



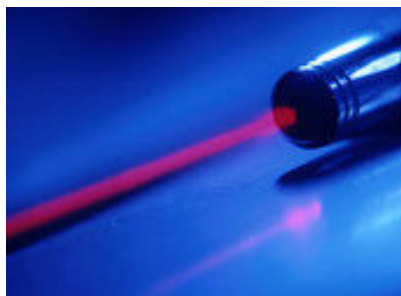
We assume a beta of 1.25 and thereby account for the slightly falling share price during the last three weeks. A couple of months ago, the volatility measure was still slightly higher. On the basis of these determinants we calculate a fair value of € 13,35 which equals a market capitalization of € 66.8 m.

3.4. Profit and Loss Accounts until 2009

The following Illustration shows the profit and loss accounts with estimates until 2009.

PROFIT & LOSS LINOS AG								
€ mln								
	2002	2003	2004e	2005e	2006e	2007e	2008e	2009e
Revenues (incl. finished goods)	73,0	73,1	90,2	90,4	93,1	95,2	96,4	101,8
% change	-15,8%	0,1%	23,4%	0,2%	3,0%	2,3%	1,3%	5,6%
COGS	-18,4	-21,2	-26,5	-27,0	-27,8	-28,4	-29,4	-32,5
% of revenues	25%	29%	27%	27%	28%	30%	30%	30%
Gross income	54,6	51,9	63,7	63,4	65,3	66,8	67,0	69,3
% change	-12,2%	-4,9%	22,7%	-0,4%	3,0%	2,3%	0,4%	3,4%
Gross margin	75%	71%	71%	70%	70%	67%	67%	69%
Personnel expenses	-38,2	-35,9	-33,0	-33,7	-34,7	-34,7	-35,0	-36,8
% of revenues	52%	49%	-37%	-37%	-36%	-35%	1%	-36%
S, S&A (Distr./Mark.)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
% of revenues	0%	0%	0%	0%	0%	0%	0%	0%
Other op. Income	-15,1	-12,9	-14,3	-14,5	-14,4	-14,4	-14,1	-2,3
EBITDA	-9,2	-7,0	14,6	15,3	16,2	17,8	18,0	19,3
% of revenues	-13%	-10%	16%	17%	17%	19%	19%	19%
EBITDA margin	-13%	-10%	16,2%	16,9%	17,4%	18,7%	18,7%	19,0%
EBIT	-9,2	-7,5	9,4	10,5	10,9	11,8	11,2	11,8
% of revenues	-13%	-10%	10%	12%	12%	12%	12%	12%
EBIT margin	-13%	-10%	9,4%	11,6%	11,8%	12,4%	11,6%	11,6%
Financial result	-3,2	-2,9	-3,0	-2,9	-2,5	-2,2	-2,3	-0,9
Pre tax income	-12,4	-10,3	6,5	7,6	8,0	9,6	9,6	11,0
% of revenues	-17,0%	-14,1%	7,2%	8,4%	8,6%	10,1%	10,0%	10,8%
Taxes	3,5	0,7	-1,3	-2,1	-2,8	-3,4	-3,4	-3,8
Tax rate	28,6%	6,8%	20,0%	28,0%	35,0%	35,0%	35,0%	35,0%
Minorities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net income (Ex adj.)	-8,8	-9,6	5,2	5,5	5,2	6,2	6,2	7,1
% of revenues	-12%	-13%	6%	6%	6%	7%	6%	7%
Net margin	-12%	-13%	5,2%	6,0%	5,6%	6,5%	6,5%	7,0%
# shares out (mln)	5,00	5,00	5,00	5,00	5,00	5,00	5,00	5,00
EPS	-0,49	-0,53	1,03	1,09	1,05	1,24	1,25	1,42

Source: DR. KALLIWODA | RESEARCH; LINOS AG



3.5 Balance sheet and cash-flow-forecasts until 2009

The subsequent table shows the balance sheets of LINOS AG with our estimates until 2009. The restructuring actions and efficiency increases of LINOS AG should lead to a steadily improved balance sheet. The number „Gearing“ ²⁾ (net-financial liabilities/equity) illustrates this: The equity ratio of LINOS AG continuously grows compared to the interest bearing debt. The table shows (see last row), that the quotient (Gearing) is decreasing (from 2.8 in 2003 to 1.0 in 2009).

BALANCE SHEET LINOS AG																
EUR mln																
	2002	in %	2003	in %	2004e	in %	2005e	in %	2006e	in %	2007e	in %	2008e	in %	2009e	in %
Intangible assets	28,6	33	25,4	33	22,8	28,21	23,2	28	22,3	26	23,8	27,37	25,2	28,21	24,4	27
(there of goodwill)	1,9	27	1,8	17	0,0	14	0,0	23	0,0	23	0,0	22,35	0,0	21,79	0,0	21
Tangible assets	18,5	21	13,4	17	11,5	14	15,6	19	18,3	22	18,4	21	18,6	21	19,7	22
Financial assets	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0
Fixed assets	49,0	55	40,7	50	34,3	42	38,8	47	40,6	48	42,2	49	43,8	49	44,1	49
Inventories	21,2	25	20,5	27	22,5	28	22,0	27	22,4	26	22,8	26	22,9	26	23,8	26
Trade debtors	10,0	12	10,0	13	13,9	17	13,0	16	13,2	16	13,4	15	13,5	15	14,0	16
Other current assets	6,4	7	6,2	8	5,2	6	5,2	6	5,3	6	5,4	6	5,4	6	5,6	6
Cash & marketable sec.	1,5	2	1,7	2	4,8	6	3,8	5	3,3	4	3,2	4	3,5	4	2,9	3
Current assets	39,1	45	38,3	50	46,5	58	43,9	53	44,3	52	44,8	51	40,5	51	47,6	51
Total assets	86,2	100	77,2	100	80,8	100	82,8	100	84,9	100	87,0	100	89,2	100	90,5	100
Share capital	5,0	6	5,0	7	5,0	6	5,0	6	5,0	7	5,0	5	5,0	6	5,0	6
Reserves	22,0	26	12,1	16	15,1	19	23,0	19	28,0	16	34,2	15	40,5	45	47,6	53
Minority interests	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0	0,0	0
Provisions	20,3	24	20,3	26	21,0	26	21,0	26	21,4	26	21,6	21	21,8	24	22,4	25
Financial liabilities	32,9	38	32,6	42	31,6	39	25,6	39	22,3	42	19,7	32	15,0	37	9,3	38
Other liabilities	5,9	7	6,7	9	8,2	10	8,2	10	8,3	9	8,4	8	7,0	10	6,3	10
Total liabilities	59,1	69	59,7	78	60,7	75	54,8	75	51,9	78	47,8	61	43,8	49	38,0	42
Total equity and liabilities	86,2	100	76,8	100	80,8	100	82,8	100	84,9	100	87,0	100	89,2	100	90,5	100
Working capital	31		30		36,5		34,9		36		36,2		36		38	
Net debt	48		48		44,7		45,8		47		48,0		48		50	
Gearing	1,8		2,8		2,2		1,6		1,4		1,2		1,1		1,0	

Source: DR.KALLIWODA| Research, LINOS AG

We expect the operative cash flow of LINOS AG at € 8.9 m for the accounting period of 2004. We arrive at this result on the basis of the following assumptions: after the first nine month it was € 6.21. For the fourth quarter we expect a profit after tax of € 2.1 m and ultimately add the depreciation of the goodwill according to IFRS. For the first nine months, we increased the accounts receivable from customers by € 2.059 m and expect a further increase.

²⁾ Also, the dynamic degree of indebtedness (net financial liabilities/EBITA) improved. Compare the P&L-account on page 11 for this.



Finally, we estimate the total interest payments for 2004 at about € 3.3 m (€ 2.447 m after the first nine months in 2004). For our forecasts of the operating cash flows until 2008 we obtain an annual, discounted³⁾ growth rate of 10.1 %. This allows smaller acquisitions of firms with niche-know-how.

CASH FLOW STATEMENT LINOS AG									
€ mln									
	2002	2003	2004e	2005e	2006e	2007e	2008e	2009e	CAGR 22. Feb
Operating cash flow	7,5	3,1	8,9	11,5	8,1	8,3	15,7	11,9	10,1%
Cash flow from investments	-5,2	-1,8	-1,7	-2,2	-2,0	-2,6	-2,8	-2,8	
Dividend payments	0,0	0,0	0,0	0,0	-0,3	-0,5	-0,7	-1,0	
Cash flow from financing	-3,1	-4,3	-3,0	-8,7	-6,5	-0,5	-1,6	-0,3	
Free cash flow	2,3	1,2	7,2	9,3	6,1	5,7	12,9	9,1	

Source: DR.KALLIWODA| Research, LINOS AG

4. HUMAN RECOURCES of LINOS AG

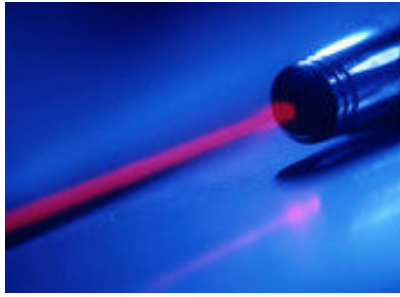
LINOS AG has an experienced management, educated experts and skilled personnel and a well organized and competent investor-relations-division.

About 80% of LINOS employees are scientists, engineers and highly qualified personnel, who guarantee for quality and flexibility in the execution of development as well as serial-production orders.

Some 120 employees in the research & development and business units, who together ensure a very good service and who can win new customers, are boosting the business model of LINOS.

Noteworthy are also LINOS AG's cooperations with universities of applied sciences and universities (photonics/laser-research). Optical technologies are among the undisputed key technologies of the 21st century. In Germany, 15% of all industrial jobs are affected by optical technologies.

³⁾ Compound Average Growth Rate: The growth rates of the operating cash flows were discounted to 2005 with a weighted average cost of capital of 8,1 % (WACC).



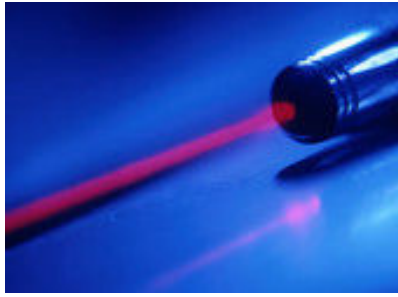
5. LINOS GROWTH DRIVERS

Photonics is the collection of all optical technologies for the production, reinforcement, forming, transfer, measurement and utilization of light. Systems on the basis of optical technologies are produced by LINOS AG in the areas of laser technique, optics, measurement technique, lighting, optoelectronics, medicine technique and engineering. Many products and capital goods would not exist without the components from the optical technology. Components from the optical technology are also contributing to many state of the art production methods.

LINOS AG primarily develops and produces components and systems for photonics-applications for health care & life sciences, industrial manufacturing and IT & communications. Compared to its competitors, LINOS enjoys competitive advantages because of the extensive technology basis and the competence of system solutions. Namely, LINOS possesses the modules problem analysis, consulting, development, serial production of optical components and systems that are ready to be built in and after-sales- as well as logistics in the optical systems segment. Important competitors of LINOS AG are Melles Griot (catalog- and OEM-segment), Newport (catalog business), Jenoptik (OEM-segment) and New Focus (catalog business).

LINOS owns a very strong technological position and reaches high world-market shares because of this. For example, LINOS is represented in the segment image intensifiers for radiodiagnostics with a world-market share of 80% and owns a world-market share of 45% in the segment optical technology for x-ray-lettering. Also in the field of electro-optical modulators, the market shares are above 30%.

LINOS operates in the market of optical technologies, which is the basis for further developments in important sectors such as the life sciences industry, IT as well as the semiconductor industry. Thus, photonics is a key industry for these industry-segments. The whole photonics industry currently has a world-market-volume of approx. € 130 bn and the university of Arizona American Optoelectronics Industrial Development Association both expect an enormous growth and estimate a world-market-volume of approx. US \$ 500 bn in 2013.



5.1 Industrial manufacturing

The industrial manufacturing segment is composed of the branches research & laboratories, laser technology/laser material processing, semiconductor, productronics and further activities. It is the strongest sales segment of LINOS AG. In 2002, € 30.2 m (43% of total sales) and in 2003 € 30 m (42,7% of total sales) were contributed.

This segment, which is closely related to the manufacturing sector, has grown strongly in the first three quarters of the accounting period of 2004 because of the lasting good business cycle in the semiconductor sector and the strong growth in the segments laser material processing, optical metrology & inspection as well as machine vision. In the first nine months of 2004 sales have grown by 28.3% against the previous year. For the fourth quarter, we expect € 9.3 m, which leads to a total of € 37.3 m for 2004. Therefore, we expect the share of total company sales of the industrial manufacturing branch at 42.4%, with total sales of € 88.0 m (without changes in the stock of finished and unfinished goods of an estimated € 1.5 m).

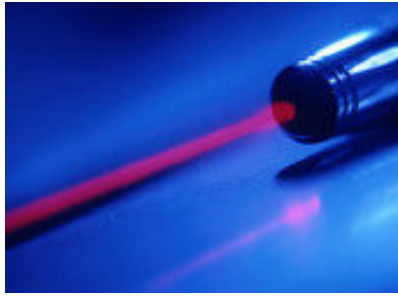
Important customers of LINOS AG in this business segment are among others ASM Lithography, KLA Tencor, Rofin Sinar and Leica Microsystems.

5.1.1 Forecasts for industrial manufacturing 2005 until 2007

Our forecasts for the industrial manufacturing segment are positive even for the long run. The investments in durables (machine-construction, industrial machineries, special-machine-construction, precision devices) should be supported by a further recovering business cycle. Thus, we expect a particularly high profitability in the segments productronics (measurement technique/calibration) and laser technology/laser-material-processing. We expect a less strong development in the demand for semiconductors. In 2004 the demand-level for semiconductor-components was already quite high, which is an indication for a cyclical downturn in the coming two years.⁴⁾

For 2005, we anticipate sales of € 38.1 m in the industrial manufacturing segment, € 39.5 m in 2006 and € 40.3 m in 2007.

⁴ The company ASM Lithographie expects a stable business cycle for the semiconductor sector until 2006 while the company Infineon only expects a stable market for 2005.



5.2 Health Care & Life Sciences

The business segment health care & life sciences includes the branches x-ray-imaging, dental technology, bio-research and molecular diagnostics.

All branches together reached sales of € 22.7 m in the accounting year of 2002 (33% of total sales) and € 23.9 m in 2003 (34.1% of total sales). In the first three quarters of 2004, sales grew by 4.8% to € 18.6 m. For the fourth quarter, we expect € 6.2 m, which results in € 24.8 m for the complete period. The quota of the total company sales is thus forecasted at 28.2 % with total sales of € 88 m (without changes in the stock of finished and unfinished goods of an estimated € 1.5 m).

Important customers in this business segment of LINOS AG are among others internationally leading suppliers such as Philips Medical Systems, Siemens Medical Systems, Roche Diagnostics and Sirona Dental System.

5.2.1 Forecasts for Health Care & Life Sciences 2005 to 2007

The business segment Health Care & Life Sciences is well diversified and the demand for special products is dynamic. Stable and reliable growth potentials are expected for X-Ray Imaging-Systems. These are radiodiagnostic-concepts that are used in hospitals.

The Bio Research branch grows the most in our eyes, because LINOS possesses excellent know-how in this special segment and is very well positioned in the market for products of biochip-scanners and realtime PCR. Based on this strong market position in the special areas of Molecular Diagnostics and Bio Research we expect an above-average growth. Especially the Biochip Scanner is increasingly requested by big chip-producers. Infineon and Intel concentrate increasingly on the optical biochip-segment.

For 2005, we expect sales of € 26.4 m (share of 29.9 % of estimated total sales of € 88.4 m). For the accounting period of 2006, we expect sales € 27.1 m (29,8 % estimated total sales of € 91 m) and € 28.1 m for 2007 (30.2% of estimated total sales of € 93 m). This nice outlook is supported by a currently growing demand for dental technologies. Over all, the product and services portfolio of Life Sciences-applications is relatively independent from business cycles. It rather depends on order-cycles and plan-budgets of the life sciences-companies and the research institutions.



5.3 Information Technology & Communications

The business segment Information Technology & Communications includes the branches Printing Industry, Photography, Systems Technology, Telecommunications, Lab Technology and Others.

All segments reached sales of € 16.9 m (24 % of total sales) during the business year of 2002 and sales of € 16.3 m in 2003 (23,2 % of total sales). In the first three quarters of the accounting year of 2004, sales were increased by 56.4 against the previous year's period to € 19.6 m. For the fourth quarter we expect further € 6.5 m, so that € 26.2 m should be reached over all. The fraction of total company sales are therefore expected at 29.77 % with over-all sales of € 88 m. This strong development was substantially influenced by the Turkey-order, which is the biggest order in company history with a volume of over € 30.6 m. Production and delivery is realized in tranches.

Important customers of LINOS AG in this segment are AGFA (Imaging), EADS (Defense) and Durst Phototechnik.

5.3.1. Forecasts for Information Technology & Communications 2005 until 2007

For the IT & Communications branch we calculate € 23 m for the accounting period of 2005 (26% of estimated total sales of € 88.4 m) and € 24.4 m for 2006 (26,8% estimated total sales of € 91 m) and € 24.6 m for 2007 (26,4% of estimated total sales of € 93 m). We consider the branches Systems Technology and Photography to have the strongest growth.



6. SWOT ANALYSIS

Strengths

- Steady improvement of EBT-margin and increased net profit
- Cash-cow-segment Industrials Manufacturing overcompensates demand fluctuations in the IT & Communications-segment
- Cashflow-CAGR of over 10% (estimate until 2009) allows extension of technological advantage
- Excellent know-how in medicine technique, bio-research, molecular diagnostics and laser technique

Weaknesses

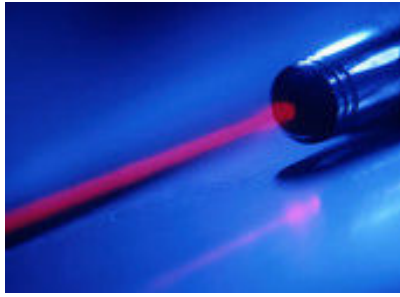
- Still relatively high degree of debt, which will be more than halved by 2007 due to high free cash flows

Opportunities

- LINOS, as technological leader, profits much from business cycle vitalization
- High growth rates in the Health Care segment expected
- Cost cuts through relocation of production-processes to Eastern Europe
- Growth in the demand for storage-chips, which use optical functions such as light sources and light wave conductors.

Threats

- Possible competitors from the Asian area
- Lacking cash for growth
- Critical size



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