

26th June 2006

COMPANY ANALYSIS

Coverage: Since Q3/2004

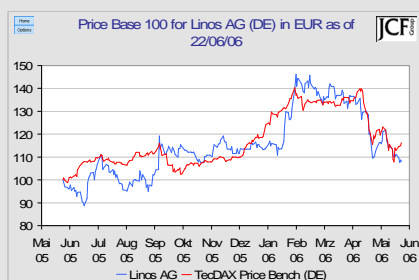
LINOS

Sector:
Technology/ Photonics

EVENT: Preview Q2/2006 & Optatec 06 Exhibit. Trends
Rating (old): BUY **Rating:** BUY
Fair Value (old) € 15,55 **Fair Value (new)** € 15,55
Last Price: € 9,60

Semiconductor equipment business + Biotechnology Business grow

- Reinforcement of Marketing, Development + Engineering is sensible
- Convincing Laser Sys. & Semiconductor Solutions
- Undervalued compared to Peer Group



SWOT

- + Industrial Manufacturing pos.
- + improved Eigenkapitalquote
- + Surgery Systems and Dental-Cameras-Sales potential
- + Stabile Client Relations
- + Costs reduced
- - Partly low Economies of Scale
- - Low Market Share in USA and Asia

ANALYST

Dr. Norbert Kalliwoda; CEFA
 DVFA-Analyst Dipl.-Kfm.
 +49 (69) 97205853
 nk@kalliwoda.com
 www.kalliwoda.com

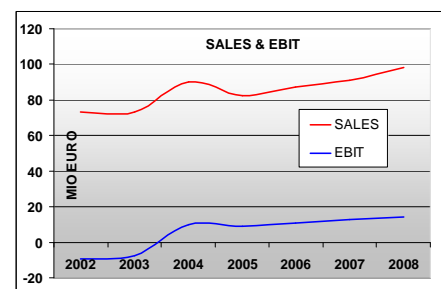
See also
 Kalliwoda Recommendations
 on Terminal: Bloomberg
 Reuters
 Thomson Financials
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COMPANY DESCRIPTION

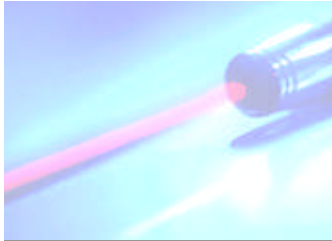
Core business of LINOS AG is optical technologies (key technology Photonics). The product spectrum includes high-quality and complex lenses and optical devices such as printing machines (digital print; the basis of photonic-techniques or laser and DVD-mastering). In the Healthcare & Life Sciences segment, LINOS AG enjoys an impressive market position in molecular diagnostics im bio research (medicin technique). The photography and defense segment includes the area of camera and security techniques.

HISTORY & ESTIMATES



Figures in EUR	2002	2003	2004	2005	2006e
EPS Dr. Kalliwoda			1,09	0,97	1,12
EPS Consensus	-1,50	-1,90	0,80	0,90	1,10
Total Revenues (mln)	73,0	73,1	89,9	82,5	87,1
net Income (adj.)	-8,8	-9,6	5,4	4,9	5,6
net cash per share	-5,7	-5,6	-4,2	-3,8	-3,4
net Cash	-31,4	-31,0	-23,1	-21,1	-18,6
Free Cash Flow	2,3	1,2	9,8	2,1	11,2
P/E	-	-5,5	9,7	10,3	9,4
P/S	-	0,72	0,59	0,67	0,61
Price (curr)	9,60				
52W high	12,95				
52w low	3,70				
Market Cap (mln)	52,88				
ROE curr	n.m.				
Sales CAGR 03-09	11%				
Web Page	www.linos.de				
Shares out (mln)					5,5
9M Avrg Vol (000s)					81
Free Float (in %)					47,9
Geregelter Markt / Prime Standard					0,005%
Reuters code					LIAG
Bloomberg					LIAG
WKN					525650

Source: DR. KALLIWODA | RESEARCH © Copyright 2006



CONTENTS

1.	FINANCIALS: Q1/2006 AND FORECAST FOR Q2/2006.....	3
1.1	Q1/2006.....	3
1.2	Financials : Forecast Q2/2006e.....	4
1.3	Facts & Triggers 2006 & following Years.....	4
1.4	Results 2004, 2005 & Q1/2006 & Q2/2006 Estimates.....	5
1.5	Estimates for 2006 until 2009 (P&L)	6
1.6	Profit & Loss-Prognoses until 2009	7
1.7	Balance and Cashflow-Prognoses until 2009.....	8
2.	VALUATION.....	9
2.1	Company Valuation: DCF-Approach and Sensitivity analysis.....	9
2.2	Peergroup Analysis	10
3.	SECTOR GROWTH DRIVERS.....	13
3.1	Chances and Opportunities in the European Photonics-Industry	13
3.2	Strong Fragmentation as Characterization of Photonics-Industry	14
3.3	Sales Record in worldwide Laser Processing.....	14
3.4	LINOS AG: Market Growth in Laser Marking and Modulators for Laser Processing	14
4.	SWOT-ANALYSIS.....	15
5.	CONTACT	16
6.	DISCLAIMER.....	17



1. FINANCIALS: Q1/2006 AND FORECAST FOR Q2/2006

1.1 Q1/2006

The LINOS AG obtained revenues of EUR 21.9 millions (+3.5% opposite Q1/2005) in Q1/2006. The total output improved by around 9,3% to EUR 23.9 millions. The strong improvement of the EBT by 26% to EUR 2.5 millions must be emphasized. The result for each share rose to EUR 0.26 compared to EUR 0.23 in Q1/2005, whereby in January 2006 the accomplished capital increase by 499.999 shares is taken into account. The following table also shows the improvement of the own capital funds ratio (inclusive capital increase) of 31,5% since yearly beginning 2005 to 39,4%. The company Guidance of the whole year revenue amounts to EUR 85 to EUR 88 millions.

LINOS AG : Q1/2006 and Q1/2005 in Comparison						
			Q1/2006	Q1/2005	Change	
Revenues	Euro	Mio	21,93	21,19	3,5%	↑
EBIT	Euro	Mio	2,75	2,57	7,1%	↑
EBT	Euro	Mio	2,48	1,97	26,0%	↑
Sales profitability (EBT)	Euro	%	11,33	9,31	21,7%	↑
Orderintake	Euro	Mio	17,70	15,55	13,8%	↑
Orders on hand	Euro	Mio	67,50	57,10	18,2%	↑
Book to bill rate			1,10	1,00	10,0%	↑
Equity ratio		%	39,40	31,50	25,1%	↑

Source: LINOS AG; DR.KALLIWODA | RESEARCH © Copyright 2006

The table on the next side shows our Q2/2006 estimates and the single quarters of 2005 compared with 2004 and Q1/2006 as well as the individual quarters of 2005 compared to 2004. We reiterate our earnings estimates and our fair value of EUR 15,55 per share (see our last company analysis on 4th April 2006) and please see Chapter 1,5, 1,6 and 1,7. For producers' durable equipment investments

(equipment investments) in the semiconductor industry we forecast growth of 15% compared to 2005. LINOS' main semiconductor customer ASM Lithography expects clearly higher revenues for the first half-year 2006 at least compared to the first half-year of 2005. The published defense order on 4th October 2005 at a value of EUR 12 millions should also affect the current year and 2007 positively. The Federation For Optics, Medical and Mechatronic Technologies Spectraris (Berlin) estimates the global market for lasers and optical components as altogether EUR 120 billion. The industry observers count on an annual growth rate of approximately 10% for the next years.

Nevertheless we estimate only a turnover growth of 5,5% for LINOS for the current financial year, because only a rest (between EUR 3 millions and EUR 4 millions) of the formerly high Turkey order (segment IT & Communications) of EUR 30 millions for 2006 remains.

In our opinion LINOS will improve its production efficiency and we forecast an additional future profit development based on the new manufacturing plant in Regen/Bavaria. Production begins in Q2/2006 and general production costs should be reduced. Also for 2007 we expect strengths in manufacturing efficiency and this should work against the cooling down of the semiconductor cycle expected in 2007.

Solid growth is to be assumed first in the segment Industrial Manufacturing, because growth impulses from the semiconductor industry are to be registered for the year 2006 (segment wafer inspection and laser technology e.g. lasers marking and labelling). As a main trigger for LINOS revenues and earnings in the future we judge the Defense industry (Missile warning system and Head UP display) and in the marketsegment Bio Technology (Revenues in Health Care & Life Sciences increased in Q1/2006 by 20,1% compared to Q1/2005).



To 1.1 Q1/2006 Figures

However we prognosticate a weak development for the business segment photo laboratory equipment. Based on our 3-Stage Discount Cashflow Model we calculate a fair value of EUR 15.55 per share (unchanged to our last publication on 4 th April 2006). We reiterate our **BUY** rating.

1.2 Financials : Forecast Q2/2006e

For the current second quarter we estimate revenues of between EUR 21 millions and EUR 21.5 millions. No signs exist for a weak business process. Order income is positive and the macroeconomic climate in Germany also in the months April, May in relation to the first quarter 2006 did not worsen. The German association Spectaris found out via its members the fact that the Optic/Mechatronics manufacturers should achieve positive result in the current financial year 2006. They expect especially in the foreign market an above average growth. For this please compare also our market analysis in chapter 3. We estimate in the segment laser/laser components and optical components a double digit growth (minimum 10%) in 2006. The most important regions for LINOS AG are the European Union and North America. In Asia and in the USA LINOS is represented below average. For Q2/2006 we calculate EBIT of EUR 2.5 millions (similarly as in Q1/2006 with EUR 2.75 millions) and EBT of EUR 2.3 millions (EUR 2.48 millions in Q1/2006).

1.3 Facts & Triggers 2006 & Following Years

a) Increasing Applications in the Photonics Industry and pos. Impressions of Optatec Exhibit.

The high potential of the optical technologies lies justified in the fact that their application fields themselves are future markets. Important sectors are among others the material processing production engineering, the optical measuring technique, sensor technology and image processing.



b) Positive Momentum for Healthcare & Life Sciences

The business segment Health Care & Life Sciences grows ever more strongly (Q1/2006 +20% compared to Q1/2005), in particular the market segment biotechnology is promising because of new application fields and application technologies.



c) High Competencies of LINOS AG but time intensive Projections

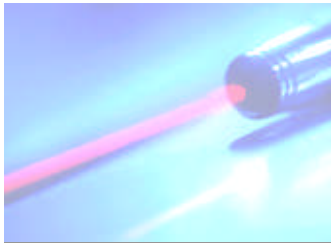
LINOS is professionalized in different procedures of the laser material processing, optical lithography, measuring technique, optical components and solutions. However, careful and suitable homogenizing methods are partly complex and projections can be time intensive. In these situations LINOS AG is usually stronger than the competition. But project delay risks still exist.



d) High Barriers in the USA and Asia

To increase the market share in the USA with appropriate marketing costs, is a challenge for LINOS AG. In our opinion concerning the market shares and revenues in Asia LINOS AG cannot be content. The competition in Asia is high and price sensitive in particular.





1.4 Results of 2004, 2005 & Q1/2006 & Q2/2006 Estimates

	Total 2004	Total 2003	Change to 2004	Q1 2005	Q1 2004	Change to Q1 2004	Q2 2005	Q2 2004	Change to Q2 2004	Q3 2005	Q3 2004	Change to Q3 2004	Q4 2005	Q4 2004	Change to Q4 2004	Total 2005	Total 2004	Change to 2005	Q1 2006	Q2 2006
Revenue	88077	7019	25.8%	21187	20865	1.5%	19111	2318	-17.5%	2000	2217	-9.8%	2141	2186	-2.1%	81707	8808	-7.2%	2193	2100
Changes in inventories of finished goods and work in progress	0304	-29	-206.3%	0338	057	-38.2%	-023	-03	82.0%	070	083	-15.8%	-235	-105	124.8%	-1547	030	-688.9%	161	150
Production of finished goods	1533	121	20.7%	0330	017	83.0%	064	025	153.0%	090	017	433.0%	054	034	-42.6%	2362	153	53.4%	033	030
Other operating income	1833	198	-7.9%	0372	032	16.3%	038	037	2.7%	043	043	0.0%	116	052	125.0%	2346	183	38.9%	029	030
Costs of purchased materials	-22571	-1821	23.9%	-546	-552	-1.2%	-471	-57	-16.4%	-475	-637	-25.4%	-501	-512	-2.1%	-19925	-2257	-11.7%	-703	-660
Cost of purchased goods and purchased services	-3264	-299	9.2%	-068	-095	-28.8%	-078	-074	4.7%	-070	-084	-16.8%	-095	-073	31.0%	-3106	-326	-4.6%	-081	-070
Personnel expenses	-27494	-23752	-7.6%	-694	-732	-5.2%	-690	-664	3.9%	-690	-673	2.6%	-633	-681	-7.0%	-27067	-2749	-1.6%	-742	-730
Social secur. Contribut. & oth. pension costs	-5755	-614	-6.3%	-147	-144	1.8%	-143	-154	-6.8%	-140	-129	8.2%	-121	-148	-18.5%	-5508	-576	-4.3%	-150	-150
Depreciation and amortization	-7180	-1010	-28.9%	-126	-180	-30.0%	-122	-182	-32.7%	-120	-175	-31.6%	-128	-181	-29.3%	-4963	-718	-30.9%	-110	-100
Other operating expenses (including goodwill)	-15935	-1294	23.2%	-369	-371	-0.7%	-369	-384	-8.7%	-360	-384	-8.7%	-410	-374	9.7%	-15077	-1594	-5.4%	-354	-350
Foreign currency gains / losses	0180	-041	-144.3%	-015	-001	2000.0%	-016	001	-1425.0%	-010	004	-338.1%	-003	013	-119.5%	-0432	018	-340.0%	000	000
Result from operations (EBIT)	9728	-745	-320.6%	257	115	124.5%	122	314	-61.3%	338	272	24.2%	185	273	-32.3%	9010	973	-7.4%	2752	2500
Interest income	0118	016	-3.7%	002	002	0.0%	002	003	-54.5%	004	004	0.0%	006	003	126.9%	0133	012	12.7%	017	020
Interest expenses	-3133	-302	3.7%	-0820	-086	-27.9%	-076	-082	-6.6%	-057	-077	-25.8%	-049	-069	-28.1%	-2446	-313	-21.9%	-044	-040
Income / expenses from participations accounted at equity	0006	000	-700.0%	000	002	-100.0%	000	000	-133.3%	000	-002	-100.0%	-001	000	-350.0%	-0006	000	-200.0%	001	001
Result before taxes on income (EBT)	6719	-1032	-165.1%	197	032	506.8%	047	235	-82.2%	285	197	44.9%	141	207	-32.0%	6591	672	-4.4%	2484	2310
Taxes on income	-1292	070	-156.4%	-068	-090	-72.2%	-020	-069	-71.5%	-076	-076	0.0%	-020	299	-105.7%	-1836	-129	42.1%	-092	-080
Consolidated net result	5427	-962	-156.4%	129	007	1621.3%	027	167	-83.8%	209	121	72.9%	121	247	-51.2%	4855	543	-10.9%	1568	1510
Undiluted earnings per share	5427	-962	-156.4%	1291	0075	1621.3%	027	167	-83.8%	209	121	72.3%	121	247	-51.2%	4855	543	-10.9%	157	151
Consolidated net result	5002	500	0.0%	5004	500	0.1%	500	500	0.0%	500	500	0.0%	501	-1000	-150.0%	5006	500	0.1%	544	544
Shares (weighted average in the fiscal year) (in thousands)	1086	-132	-156.5%	026	002	1621.3%	005	033	-83.8%	042	024	72.3%	024	049	-51.4%	0970	109	-10.7%	0288	0278
Undiluted earnings per share in EUR	5427	-962	-156.4%	129	0075	1621.3%	027	167	-83.8%	209	121	72.3%	121	247	-51.2%	4855	543	-10.9%	157	151
Diluted earnings per share	5008	500	0.2%	5010	5004	0.1%	501	500	0.1%	501	501	0.0%	501	501	0.0%	5010	501	0.0%	544	544
Shares (weighted average in the fiscal year) (in mln)	108	-182	-156.3%	026	0015	1619.2%	005	033	-83.8%	042	024	72.3%	024	049	-51.2%	097	108	-10.6%	0288	0277

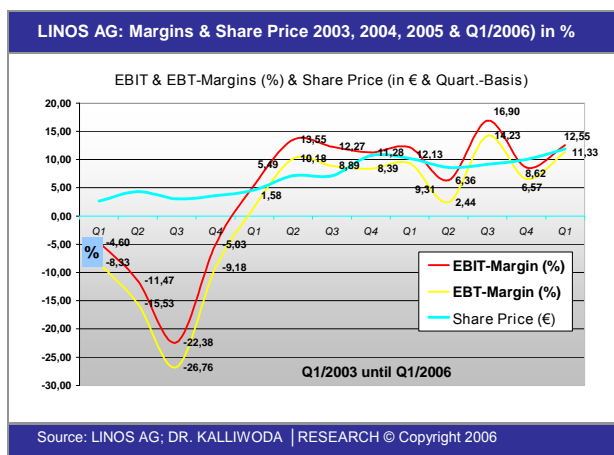
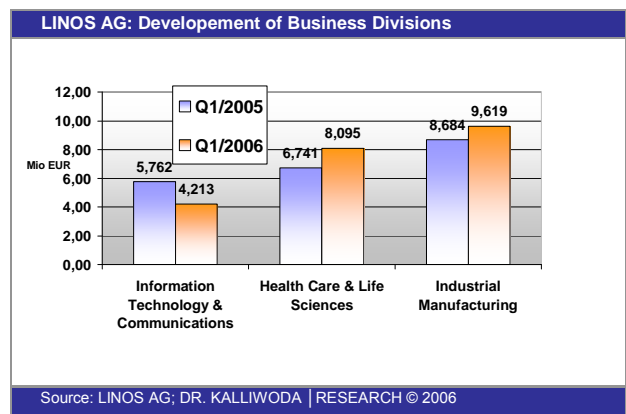
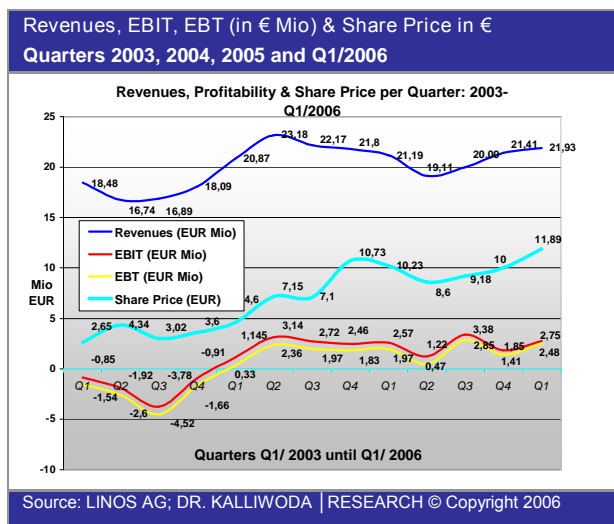
Source: LINOS AG, DR.KALLIWODA RESEARCH

This table show the last nine quarterly results. In blue colours Q1/2006 and our Q2/2006 estimates are shown.



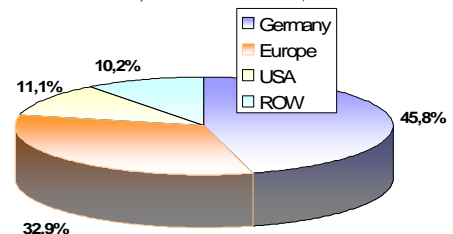
To 1.4 Financials

The following graphs visualizes the sales- and earnings margins of the last three years + Q1/2006.



Revenues Q1/2006: Total EUR 21,927 Mio; Allocation by Regions in %.

Source: LINOS AG; DR. KALLIWODA | RESEARCH



1.5 Estimates for 2006 to 2009 (P&L)

From 2006 to 2009 we estimate increasing revenues from EUR 87.1 million (inclusive of changes in inventories of finished goods and work in progress, production for won fixed assets capitalised and other operating income) to EUR 110 million in 2009.

Linos improved its operational processes strongly, so that the break even is already reached with revenues of between EUR 70 million to EUR 73 million. We estimate EBIT of EUR 10.5 million in 2006 with a continuous increase of up to EUR 14.2 million in 2009.

The following graph illustrates the profit & loss accounting with estimates until 2009.



1.6 Profit & Loss with Estimates until 2009

PROFIT & LOSS LINOS AG								
€ mln								
	2002	2003	2004	2005	2006e	2007e	2008e	2009e
Revenues (incl. finished goods)	73,0	73,1	89,9	82,5	87,1	92,0	100,4	110,0
% change	-15,8%	0,1%	23,0%	-8,2%	5,5%	5,6%	9,1%	9,6%
COGS	-18,4	-21,2	-25,8	-23,0	-25,0	-28,0	-33,3	-39,9
% of revenues	25%	29%	26%	23%	25%	30%	30%	33%
Gross income	54,6	51,9	64,1	59,5	62,1	64,0	67,1	70,1
% change	-12,2%	-4,9%	23,5%	-7,1%	4,3%	3,0%	4,9%	4,3%
Gross margin	75%	71%	71%	72%	71%	64%	67%	70%
Personnel expenses	-38,2	-35,9	-33,2	-32,6	-33,9	-34,5	-35,2	-36,7
% of revenues	52%	49%	37%	39%	38%	37%	35%	34%
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	-14,1	-12,5	-12,4	-13,2	-11,4	-7,0
EBITDA	-9,2	-7,0	14,8	14,4	15,8	16,3	17,5	20,0
% of revenues	-13%	-10%	17%	17%	18%	18%	17%	18%
EBITDA margin	-13%	-10%	16,5%	17,5%	18,2%	18,0%	18,5%	19,3%
EBIT	-9,2	-7,5	9,7	9,0	10,5	11,1	12,3	14,2
% of revenues	-13%	-10%	11%	11%	12%	12%	13%	13%
EBIT margin	-13%	-10%	9,7%	10,9%	12,1%	12,0%	12,2%	12,9%
Financial result	-3,2	-2,9	-3,0	-2,3	-1,6	-1,5	-1,6	-1,1
Pre tax income	-12,4	-10,3	6,7	6,7	8,6	9,6	10,7	13,2
% of revenues	-17,0%	-14,1%	7,5%	8,1%	9,9%	10,4%	10,6%	12,0%
Taxes	3,5	0,7	-1,3	-1,8	-3,0	-3,4	-3,7	-4,6
Tax rate	28,6%	6,8%	19,2%	27,4%	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	5,4	4,9	5,6	6,2	6,9	8,6
% of revenues	-12%	-13%	6%	6%	6%	7%	7%	8%
Net margin	-12%	-13%	5,4%	5,9%	6,4%	6,8%	6,9%	7,8%
# shares out (mln)	5,00	5,00	5,00	5,00	5,5	5,5	5,5	5,5
EPS	-0,49	-0,53	1,09	0,97	1,12	1,24	1,39	1,71

Quelle: DR. KALLIWODA | RESEARCH; LINOS AG

Research institutes & Economic trade associations (e.g. Spectaris and VDMA) and data of the German Federal Statistical Office and the ifo Institute in Munich as well as own industry surveys point to an average turnover growth rate of the German manufacturers of lasers and optical components of at least 10% per year.¹⁾ Up to 2007 we see such turnover growth rates also with LINOS AG. It is crucial that LINOS became more efficient in the production of their components and systems. The BREAK EVEN POINT lies between EUR 70 millions and EUR 73 millions²⁾. Therefore we estimate even with rising revenues in the following years increasing EBIT margins to 13% in 2009 (see table). We estimate the EPS row on EUR 1.12 in 2006, EUR 1.24 in 2007, EUR 1.39 in 2008 and EUR 1.71 in 2009. This corresponds to a Price Earnings Ratio of 8,6 with the present share quotation of EUR 9.60 in 2006, a PER of 7,75 for 2007, of 6,9 for 2008 and of 5,6 for 2009.

¹⁾ Spectaris e.V. 2006: „... (Transl.: Even for the coming five years the companies prognosticate an annual turnover growth of approximately 10% due to this development taking into account that the enterprises calculate with clearly positive impulses for the occupation situation of the industry).“

²⁾ Nevertheless LINOS' expenditures for the Research & Development activity amounted in the year 2005 to EUR 7.7 millions (9.5% of total revenues; this F&E ratio corresponds to the average of the Photonics industry).

1.7 Balance and Cashflow-Prognosis until 2009

The following table shows the balance sheet of LINOS AG with our estimates until 2009. Due to the increasing efficiency of productions processes and therefore growing operating cash flows we calculate a continuous improvement of the balance sheet. However the goodwill portion based on the Shareholder Equity is still relatively high (60 %).

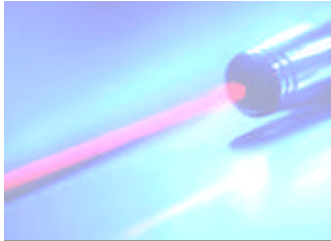
On 13th January LINOS accomplished a 10% capital increase to a share price of EUR 9.90 and reduced net debt to EUR 23 million.

BALANCE SHEET LINOS AG																
€ mln																
	2002	in %	2003	in %	2004	in %	2005	in %	2006e	in %	2007e	in %	2008e	in %	2009e	in %
Intangible assets (+Patents & Lic.)	28,6	33	25,4	33	23,8	30,4	24,4	31	24,9	30	25,9	30,14	28,2	31,3	27,1	29
Tangible assets	18,5	21	13,4	17	11,1	14	12,2	15	16,2	19	14,8	17	14,6	16	15,3	16
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	47,1	55	38,9	50	34,9	45	36,6	46	41,1	49	40,7	47	42,8	48	42,5	45
Inventories	21,2	25	20,5	27	21,4	27	20,2	26	20,9	25	21,7	25	23,0	26	24,5	26
Trade debtors	10,0	12	10,0	13	12,4	16	15,4	19	11,4	14	12,8	15	13,6	15	15,0	16
Other current assets	6,4	7	6,2	8	6,1	8	5,6	7	5,8	7	6,0	7	6,4	7	6,8	7
Cash & marketable sec.	1,5	2	1,7	2	3,5	4	1,2	1	4,5	5	4,5	5	4,2	5	6,1	6
Current assets	39,1	45	38,3	50	43,4	55	42,3	54	42,6	51	45,0	53	46,3	52	54,9	55
Total assets	86,2	100	77,2	100	78,4	100	78,9	100	83,7	100	85,8	100	90,1	100	94,8	100
Share capital	5,0	6	5,0	7	5,0	6	5,0	6	5,5	7	5,5	5	5,5	6	5,5	6
Reserves	22,0	26	12,1	16	17,4	22	22,5	22	33,1	16	39,4	17	46,3	51	54,9	58
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	19,6	25	20,0	25	20,5	26	21,1	20	22,1	25	23,2	24
Financial liabilities	32,9	38	32,6	42	26,5	34	22,3	34	15,1	42	11,9	27	7,2	25	2,6	25
Other liabilities	5,9	7	6,7	9	9,8	12	9,1	12	9,5	9	9,8	10	8,9	12	8,6	12
Total liabilities	59,1	69	59,7	78	55,9	71	51,4	71	45,1	78	40,9	56	38,3	42	34,4	36
Total equity and liabilities	86,2	100	76,8	100	78,4	100	78,9	100	83,7	100	85,8	100	90,1	100	94,8	100
Working capital	31		30		33,8		35,5		32		34,6		37		40	
Gearing	1,8		2,8		1,8		1,4		1,0		0,8		0,7		0,6	

Source: DR.KALLIWODA | RESEARCH, LINOS AG

CASH FLOW STATEMENT LINOS AG									
€ mln									
	2002	2003	2004	2005	2006e	2007e	2008e	2009e	CAGR
Operating cash flow	7,5	3,1	13,0	7,8	16,5	10,4	14,6	11,1	27. Mrz
Cash flow from investments	-5,2	-1,8	-3,2	-5,7	-5,3	-3,1	-3,8	-2,6	11,0%
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	-4,3	-4,5	-6,5	-0,3	-1,6	-0,1	
Free cash flow	2,3	1,2	9,8	2,1	11,2	7,3	10,8	8,5	

Source: DR.KALLIWODA | RESEARCH, LINOS AG



2. VALUATION

On the basis of our Three Stage Discount Cashflow model we calculate a fair value of EUR 15.55 (market capitalization of EUR 85.6 million). Our Rating is "BUY" on view of 12 months.

2.1 Company valuation : DCF-approach + sensitivity analysis

The valuation of LINOS is based on the Three Stage Discount Cashflow Model to calculate the inner value of the share. We made the following assumptions: We set the risk free interest rate at 3.5%. This corresponds to a 10 year bond. We calculated the risk premium with 7,5% and the beta factor in relation to the TecDax30 with 1.4. These parameters applied, we received a weighted average cost of capital (WACC) of 8,5%. On the basis of these capital costs we derive a fair value for the share of € 15,55. We set the assumption that the company grows on a long-term basis by 2,5% (terminal growth). The following table shows the individual parameters of our DCF model.

We did a sensitivity analysis in order to detect the variability of our deduced fair value under different economic scenarios. For this, see the following tables below.

We consider a long-term growth of only 1.5% very unrealistic also 2% is to low in our view.

We have chosen a long term growth of 2.5% which is a defensive assumption. From these numbers, a market-capitalization of € 85,58 million with 5,5 million shares, corresponding to a fair share price of € 15,55 for LINOS AG is calculated.

DCF PARAMETER	
PARAMETERS	
Risk-free rate	3,5%
Risk premium	7,5%
Beta	1,40
Longterm growth rate	2,0%
Cost of equity	9,1%
Cost of debt (after Tax)	7,5%
WACC	8,5%
NET PRESENT VALUE OF FREE CASH FLOWS (Mio. EUR)	
Phase 1 (2005-2006)	0,5
Phase 2 (2007-2009)	10,2
Phase 3 (2010...terminal value)	81,4
Value of total equity	85,6
DCF value per share	15,56
Source: DR.KALLIWODA RESEARCH 2006	

Sensitivity Analysis per Share

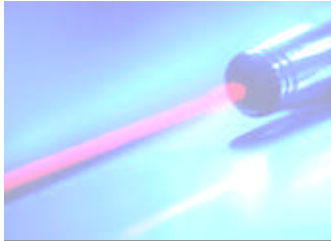
(EUR)	Discount Interest Rate					
$\beta = 1,4$	6,5%	7,5%	8,5%	9,5%	10,5%	
0,0%	18	15	13	11	10	
Long Term	1,5%	21	17	14	12	10,377
	2,0%	23	18	15	12,477	11
	2,5%	25	19	15,55956	13	11
	3,0%	27	20,59	16	14	11
	3,5%	30,44	22	17	14	12

Source: Dr. Kalliwoda Research

Sensitivity Analysis: Market Capitalization

(Mio. EUR)	Discount Interest Rate					
$\beta = 1,4$	6,5%	7,5%	8,5%	9,5%	10,5%	
0,0%	98	82	70	61	53	
langf. Wachstum	1,5%	116	94	78	66	57
	2,0%	124	99	81	69	59
	2,5%	135	105	85,58	71	61
	3,0%	149	113	90	75	63
	3,5%	167	123	96	78	65

Source: Dr. Kalliwoda Research



2.2 PEERGROUP ANALYSIS

Comparing Linos to their competitors shows interesting results. There is hardly an enterprise that is of similar size and with comparable business segments, i.e. the international peergroup of the Photonics companies is very heterogeneous. This shows among other things that some enterprises are set up rather small and regionally and do not offer directly comparable Photonics applications, others again arise very internationally. There still exist large offerers, who partly compete with some Photonics products of LINOS AG.

Generally it can be stated that some of the enterprises specialize only in the production of lasers, while other enterprises integrate complete laser systems into industrial production lines. Again there are other enterprises of the peergroup, which manufacture highly precise optics, which are components of a laser system.

LINOS AG is very strongly active in the segment of highly precise optics and ensures the usage of light for generating light signals and finally for the release of technical and mechanical processes (e.g. application of the Photonics Optics in the semiconductor coating). The heterogeneity of the Photonics market is also underlined by the forms of business organization (stock exchange quotation, private property or mixing systems).

The quoted German Photonics enterprises LINOS, LPKF, Jenoptik and Rofin Sinar (Headquarters in the USA, but strong adjustment in Germany) have overlapping product segments and are well suitable for our peergroup. E.g. Jenoptik company has its authorization as a peergroup member, because soon half of the gross income will be obtained in the business field of Photonics.

Very large Photonics enterprises exist in the USA: Coherent Inc. and Cymer Inc. have more than one billion EUR market cap. The company Coherent is the mother company of Lambda physics. We have not considered them in our evaluation scale because of the significant difference in the size of the businesses although they are partially competitors of the German enterprises.

To a large degree they supply the same customer industries, but they do not stand in direct competition to each other, because their Photonics applications are very different. Primarily the company manufactures primarily laser systems and cares for laser security and training. Besides Coherent has a stronger adjustment towards the semiconductor and telecommunications segment. Thus the revenues and earnings of this enterprise vary more strongly compared to most other peergroup enterprises.

We analyze the peergroup by the representation of the respective enterprise value as a multiple of earnings before and after depreciations and amortizations (EV/EBITDA, EV/EBIT) as well as a function of the revenues (EV/SALES multiple comparisons). In our opinion these profit and evaluation parameters are useful for the classification of enterprises and also consider depreciations and amortizations for a good comparability of the enterprise results (EV/EBIT).

We also apply the PE evaluation method (price earnings) and come to similar results as with the EV/EBIT Multiple.



To 2.2 PEERGROUP ANALYSIS

PEERGROUP LINOS AG										
in Mio EURO										
Company	BLOOMB.	CURR	Marketcap 2005	EV 2005	Revenues 2005	Revenues 2006e	EBITDA 05 2005	EBITDA 2006e	EBIT 2005	EBIT 2006e
LPKF	LPK	EUR	53,48	49,90	32,90	38,00	7,50	9,40	6,01	7,70
Dr. Hönle	HNL	EUR	47,08	38,50	22,20	25,50	3,50	4,20	2,95	3,48
Linos	LIA	EUR	50,00	65,70	81,70	87,10	14,40	15,80	9,01	10,50
Isra Vision	ISR	EUR	79,35	74,00	47,00	51,00	11,00	13,10	6,50	7,48
Jenoptik	JEN	EUR	432,53	526,45	1950,00	1005,00	80**	46,00	40**	27,40
Rofin Sinar	RSI	EUR	559,78	573,76	280,00	315,00	69,77	83,73	55,08	64,99
II-VI Inc	II6	EUR*	451,55	438,83	162,50	178,00	31,00	35,65	24,98	28,98
Zygo	ZYG	EUR*	164,01	204,99	91,67	115,00	30,00	34,50	20,00	23,40

* Exchange Rate US\$ in EUR
 ** Estimates Kalliwoda

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PEERGROUP LINOS AG									
Company	EV/Sales 2005	EV/Sales 2006e	EV/EBITDA 2005	EV/EBITDA 2006e	EV/EBIT 2005	EV/EBIT 2006e	KGV 2005	KGV 2006e	
LPKF	1,92	1,66	8,42	6,72	10,52	8,20	21,43	16,70	
Dr. Hönle	1,73	1,51	11,00	9,17	12,83	10,88	20,00	16,95	
Linos	0,80	0,75	4,56	4,16	7,29	6,26	10,31	8,93	
Isra Vision	1,57	1,45	6,73	5,65	11,38	9,90	13,31	11,58	
Jenoptik	0,27	0,52	6,58	7,38	13,16	13,94	30,84	51,18	
Rofin Sinar	2,05	1,82	8,22	6,85	10,42	8,83	17,82	15,46	
II-VI Inc	2,70	2,47	14,16	12,31	17,57	15,14	21,53	10,08	
Zygo	2,24	1,78	6,83	5,94	10,25	8,76	17,82	36,80	
Median	1,83	1,59	7,53	6,78	10,95	9,36	18,91	16,08	
Arithm average	1,66	1,50	8,31	7,27	11,68	10,24	19,13	20,96	
Linos AG	0,80	0,75	4,56	4,16	7,29	6,26	10,31	8,93	
Difference Median	1,02	0,83	2,97	2,63	3,66	3,11	8,60	7,15	
Difference Arithm.	0,86	0,74	3,75	3,11	4,39	3,98	8,82	12,03	
Potential % (Median) *	127,13	110,20	65,00	63,15	50,21	49,65	83,43	80,08	
Potential % (Arithm.)	106,54	98,35	82,19	74,88	60,15	63,63	85,58	134,74	

* LINOS AG

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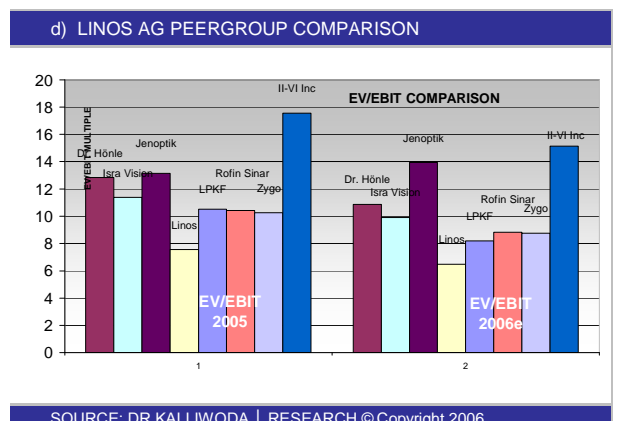
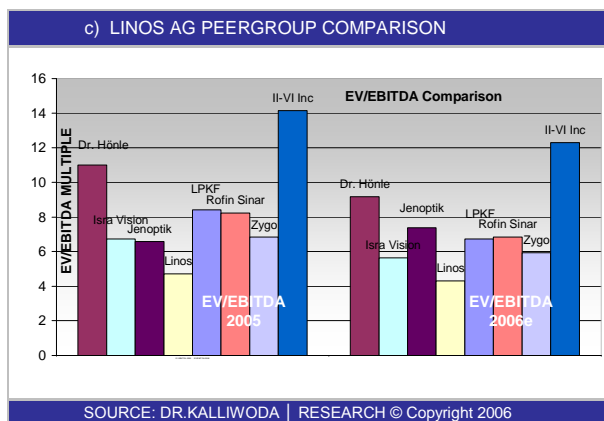
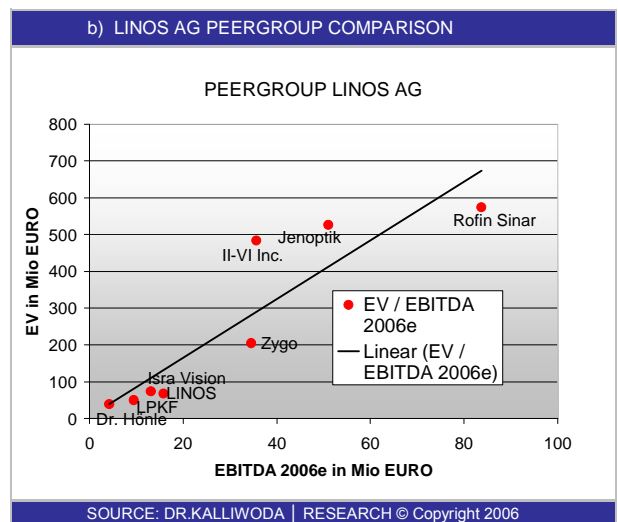
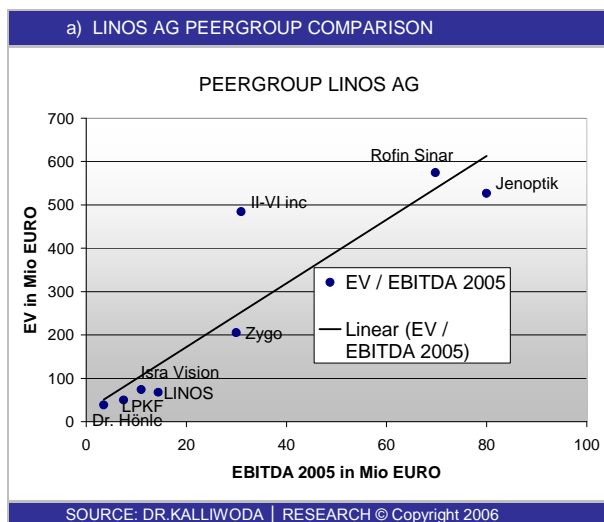
The table shows the highest multiples with the American enterprises II-VI Inc. and Zygo. Remarkable are the high liquidity in the balances as well as the smaller netdepth of the US-Companies compared to the German companies. Therefore the US-American Photonics companies are traded traditionally with higher multiples than for example the german companies. US-American Photonics enterprises are also more strongly active in the semiconductors and telecommunications industry and vary therefore relatively more strongly than the German and/or European Photonics enterprises.

The german photonics enterprises LPKF and LINOS as well as ISRA VISION and Dr.Hoenle (Photonics applications in quality control) are favorably evaluated in relation to the US companies. In the next years we expect for LINOS a relatively moderate revenues growth, nevertheless LINOS should increase its EV/EBIT multiple due to constantly improving profitability and and balance ratios. On a EV/EBIT 06 basis we calculate an upward potential for LINOS of 49,65% towards the peergroup. Regarding the EV/Sales 2006 multiple we even determine an underestimation of 110,2%.



To 2.2 PEERGROUP ANALYSIS

In following graphics a) and b) companies' Enterprise Values (EV) are strongly clarified for the years 2005 and 2006. We inserted a trend line in each case. Enterprises under it have lower EV/EBITDA multiples than those lying above the trend line. The pairs of xy-coordinates expresses the EV/EBITDA multiples but cannot however be as representational as it is seen in the two graphics c) and d) (bar charts).

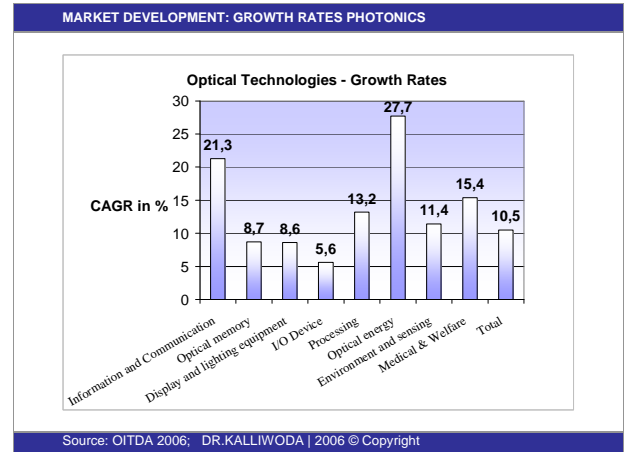
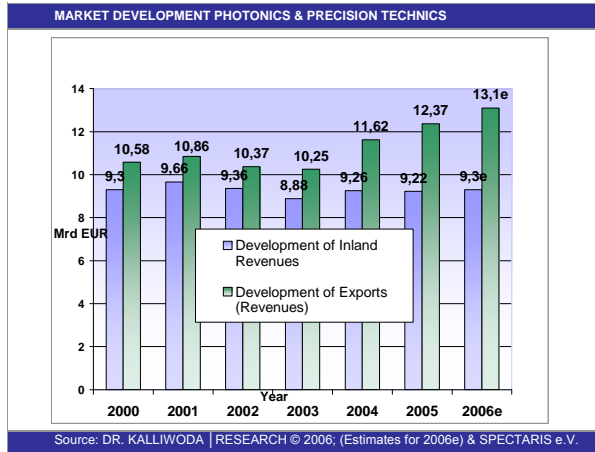


Result: For the evaluation of LINOS AG we use our DCF investigation and arrive at a fair value of EUR 15.55 per share. This is a conservative view, because our peergroup analysis delivers higher share quotations: On the basis of our EV/EBITDA 2006e peergroup comparison LINOS AG is underestimated with 63,15% which corresponds to a share price of EUR 15,66. The upward potential for LINOS concerning the EV/EBIT 2006e of peergroup comparison is about 49,65% and/or EUR 14.37 per share. However it must be considered that LINOS has a smaller topline growth compared to some competitors at least in the two following years. In addition the share is most less liquid than most peergroup members. Risks could arise furthermore as a result of a too expensive expansion and/or enterprise acquisition in foreign countries. Main strengths LINOS AG are constantly improving cashflows. We recommend the share of LINOS AG to **BUY** with a price target of EUR 15.55 on view of 12 months.



3. SECTOR GROWTH DRIVERS

According to the German trade association Spectaris³⁾ approx. 55% of total revenues of the optical, medical and mechatronic industry accounted to the industry Photonics & Precision Technology. In this segment in 2005 a gross income of EUR 21.6 billion was obtained (+3.4% opposite 2004). While the inland revenues with EUR 9.2 billion compared to 2004 remained almost unchanged (-0,4%) the external revenue (Exports) could be increased by around 6,5% to EUR 12.4 billion. The export quota amounted to 57.3% (record value). In almost all industries of the Photonic & precision technology the trend of strong growth abroad and weak inland growth prevailed in 2005. In our opinion the straight exports are advanced by efficient research & development. The F&E portion of the gross income amounted to 10% (LINOS ratio =9.5%). We calculate also for the current year a further growth rate with external turnovers of EUR 0.8 billion to EUR 13.1 billion. With our market estimations we refer to the elaboration on optical technologies of the OITDA.⁴⁾ Most promising growth rates should be achieved in the segments Information and Communication (EUR 10.7 billion in 2002 to EUR 40 billion in 2010); Processing (EUR 11.4 billion in 2002 to EUR 30.7 billion in 2010); Environment and Sensing (EUR 14.3 billion in 2002 to EUR 35 billion in 2010) as well as Medical & Welfare (EUR 5.0 billion to EUR 17.1 billion in 2010). The following tables show the development of the inland and of the external turnover of the industry for Photonic & Precision Technology with our estimations for the current year 2006 as well as the growth rates of Optical Technology sections on the basis of the OITDA.

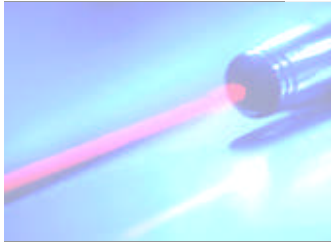


3.1. Chances and Opportunities of the European Photonics-Industry

In the segment of the optical technologies European enterprises hold prominent positions. This applies especially to laser technology in material processing or to the segment lighting. In both segments European enterprises possess up to 60% of the world market shares. Crucially here is the further development of applications of optical technologies. In no other region than Europe more lasers for manufacturing are used. However European manufacturers lost market shares also in important markets such as display and IuK to American and Asiatic manufacturers.

³⁾ Deutscher Industrieverband Spectaris für optische, medizinische und mechatronische Technologien e.V.

⁴⁾ OITDA (Optoelectronics Industry Association Japan).



To 3.1. Chances and Opportunities in the European Photonics-Industry

An important chance of the Photonics industry in Europe consists of the tremendous research establishments with long traditions. Co-operation between science and economics can be still optimized through increasing transnational co-operations. Already co-operation forms with more comprehensive creation of value exist (ex. Fraunhofer Institut).

3.2 Strong Fragmentation as Characterization of the Photonics-Industry

The Photonic industry is very strongly fragmented and not dominated by world companies e.g. Microsoft in the software or Daimler Chrysler in the automobile industry. However world companies such as Philips and Osram offer partial solutions in the Photonics industry. Besides numerous and solid medium-sized companies exist. Market fragmenting means also that the application fields of the optical technologies are very strongly differentiated. Numerous niche markets exist in which individual customers can be acquired and held for many years. On our Peergroup analysis we enter into the competition surrounding field of LINOS AG.

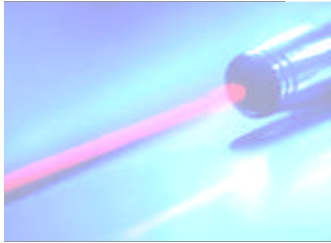
3.3 Record Revenues in worldwide Laser Marking & Laser Processing

The world market for laser systems for material processing reached a record volume with EUR 4.8 billion in 2005. In particular in Germany the laser technology developed into one of the most important key technologies for a more competitive creation of valued production. The world wide leading German laser machine manufacturers created new applications in the automobile -, aviation -, rail-mounted vehicle -, shipbuilding -, electrical and for many further industries (marking, cutting, welding and surface treating).

The German manufacturers are particularly active in the field of laser macro-treatment. The production volume of all member enterprises of the VDMA rose in 2005 by around 16%, while the "macro world market" rose only around by 7%. Thus the German manufacturers could clearly win market shares. The reason for this is the risen demand for laser machines in all important regions (Europe, North America and Eastern Asia). Also in Germany the demand rose by around 7%. According to our opinion such enterprises will profit which have a strong operational level in Eastern Asia.

3.4 LINOS AG: Market Growth with Laser Marking and Modulators for Laser Processing

LINOS profits from the stimulation in the laser industry, specified above. In the business segment Industrial Manufacturing laser technologies are offered. LINOS AG is market leader with optical systems for laser inscription and belongs to the Top 5 with electrooptical modulators and quality switches for laser applications. Also laser components in dermatology are strengths of LINOS AG.



4. SWOT-ANALYSIS

STRENGTHS

Medical Technology	■ LINOS is developing as technology leader in the medical diagnostics & pharmacology-fields as a supplier of optical components & complete systems
X-Ray Imaging	■ LINOS is expert for the market segment X-Ray Imaging among other things
EBIT-Margins	■ Constant improvement of the EBIT-margins due to cost savings
Cash-Cows	■ Cash-cow segments are Health Care & Life Sciences, Information Technology & Communications and Industrial Manufacturing
Laser Processing	■ Special know how of imaging systems, cameras and laser components
F&E	■ Cashflow- CAGR of over 10% (estimates until 2009) ensures development of photonics applications
Customer Relations	■ Long-term customer relationships

OPPORTUNITIES

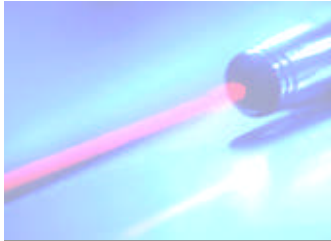
New Applications	■ LINOS as a technology leader takes advantage of new applications of Photonics
Healthcare	■ High growth rates in the segment Health Care are expected
Contracts	■ Particularly starting from 2006 we expect strong impulses in the market segments bio research and molecular diagnostics with numerous project-related contracts with an average contract-size of € 2.5 million
Eastern Europe	■ Cost savings by misalignment of the production processes to Eastern Europe
Location Bavaria	■ Current new building of the industrial centre optics (in Regen/Bavaria) strengthens market position of LINOS
Sources of Light	■ Growth of the demand for memory chips, those with optical functions such as sources of light and fiber-optic conductors
Digitization	■ LINOS should take profit from the trend to digitization in the Imaging industry
Computed Radiography	■ LINOS should succeed from the change in the Healthcare and Life Sciences industry: E.g. high growth rates in the "Computed Radiography" and Radiography and laboratory automation for diagnostic purposes.

WEAKNESSES

USA & Asia	■ LINOS has poor presence in USA & Asia
Tight Niches	■ LINOS is partly active in very tight niches.

THREATS

Semiconductor situa.	■ Continuing weakness of the semiconductor economic situation expected in 2007 reduces the results of the business segment Industrial Manufacturing
Asian Competition	■ Possible competitors from the Asian area
Growth ?	■ Limited cash for growth, reducing the liabilities has higher priority
Critical Size	■ LINOS is not a blue chip company; synergies would increase with higher scale effects; new production site in Bavaria should improve this.



5. CONTACT

LINOS

Königsallee 23
 D-37081 Göttingen
 Tel. : +49 (0) 551-6935-126
 Fax : +49 (0) 551-6935-120

Investors Relations:

Hubertus Dornieden
 E-Mail: IR@linos.de
www.linos.de

DR. KALLIWODA RESEARCH		Unterlindau 22 60323 Frankfurt Tel.: 069-97 20 58 53 Fax.: 069-13 30 38 52 26 2 www.kalliwoda.com
Head: Dr. Norbert Kalliwoda E-Mail: nk@kalliwoda.com	CEFA-Analyst; University of Frankfurt Economics; Dipl.-Kfm.	<u>Sectors:</u> IT, Software, Electricals & Electronics, Mechanical Engineering, Logistics, Laser, Technology, Raw Materials
Dr. Christoph Piechaczek E-Mail: cp@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Witten-Herdecke	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
David Schreindorfer E-Mail: ds@kalliwoda.com	MBA, Investment Management (Candidate 2006); Univ. Frankfurt/ Univ. Iowa (US).	<u>Sectors:</u> IT/Logistics; Quantitative Modelling
Hellmut Schaarschmidt; E-Mail: hs@kalliwoda.com	Dipl.-Geophysicists; University of Frankfurt.	<u>Sectors:</u> Oil, Regenerative Energies, Specialities Chemicals, Utilities
Nele Rave E-Mail: nr@kalliwoda.com	Lawyer; Native Speaker, German School London	<u>Translations English</u>

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Analyst of this analysis :

Dr. Norbert Kalliwoda; CEFA





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KAUFEN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung von mindestens 20 % aufweisen	BUY
AKKUMULIEREN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 10% und 20% aufweisen	ACCUMULATE
HALTEN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 10% und - 10% aufweisen	HOLD
REDUZIEREN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen -10% und - 20% aufweisen	REDUCE
VERKAUFEN:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung von mindestens - 20 % aufweisen	SELL

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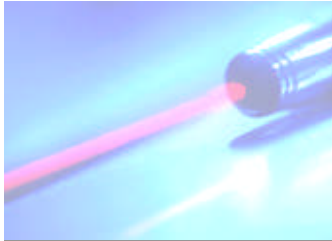
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