

April 11th 2006

COMPANY REPORT

Coverage: Since Q3/2004

LINOS

Sector:
Software / Technology

EVENT: FY 2005 Results

Rating (old): BUY

Fair Value (old) € 12,65

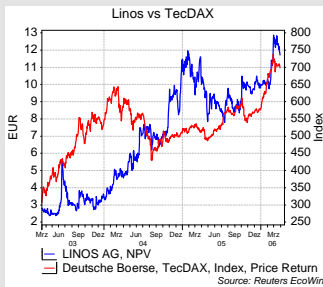
Last Price: € 11,90

Rating: **BUY**

Fair Value (new) € 15,55

Defense + Medtech Orders lead to increasing Free Cashflows

- Undervalued compared to the Peer Group
- Results in line with our Expectations
- Low Trading Liquidity



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

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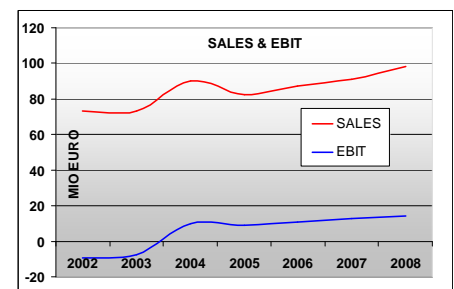
See also
Kalliwoda Recommendations
on Terminal: Bloomberg
Reuters
Thomson Financials
JCF Factset

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COMPANY DESCRIPTION

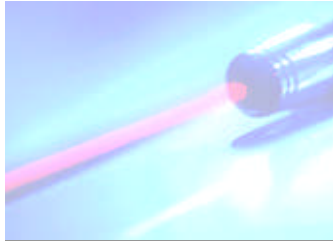
Core business of LINOS AG is optical technologies (key technology Photonics). The product spectrum includes high-quality and complex lenses and optical devices such as printing machines (digital print; the basis of photonic-techniques or laser and DVD-mastering). In Healthcare & Life Sciences segment, LINOS AG enjoys an impressive market position in molecular diagnostics im bio research (medicine 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 | - | -6,8 | 12,1 | 10,3 | 11,7 |
| P/S | - | 0,90 | 0,73 | 0,67 | 0,75 |
| Price (curr) | 11,90 | | | | 5,5 |
| 52W high | 12,95 | | | | 81 |
| 52w low | 3,70 | | | | 47,9 |
| Market Cap (mln) | 65,55 | | | | 0,005% |
| ROE curr | n.m. | | | | LIAG |
| Sales CAGR 03-09 | 11% | | | | LIAG |
| Web Page | www.linos.de | | | | WKN |
| | | | | | 525650 |

Source: DR. KALLIWODA | RESEARCH



CONTENTS

| | | |
|-----------|--|-----------|
| 1. | FINANCIALS | 3 |
| 1.1 | Results 2004 and 2005 on a quarterly basis..... | 4 |
| 1.2 | Estimates for 2006 to 2009 (P&L) | 5 |
| 1.3 | Profit & Loss-Prognoses until 2009 | 6 |
| 1.4 | Balance and Cashflow-Prognoses until 2009..... | 7 |
| | | |
| 2. | VALUATION..... | 8 |
| 2.1 | Company Valuation : DCF-Approach and Sensitivity analysis..... | 8 |
| 2.2 | Peergroup-Analysis | 9 |
| | | |
| 3. | SWOT-ANALYSIS..... | 12 |
| | | |
| 4. | CONTACT | 13 |
| | | |
| 5. | DISCLAIMER | 14 |



1. FINANCIALS

In 2005 Linos AG succeeded in improving their operational production processes. The insolvency of the client Agfa Photo prevented a renewed record result as in 2004. The following table shows that revenues sank in 2005 compared to 2004 by around 7,3%. The EBT could be held however (only - 0.4%). The incoming orders and the order books show a good indication for the current financial year 2006 (incoming orders +4.7% and order books +14.9%).

| LINOS AG : 2005 in Comparison with 2004 | | | | | | |
|---|------|-----|-------|-------|--------|----|
| | | | 2005 | 2004 | Change | |
| Revenues | Euro | Mio | 81,70 | 88,10 | -7,3% | ⬇️ |
| EBT | Euro | Mio | 6,69 | 6,72 | -0,4% | ↔️ |
| EBT Margin | | % | 8,20 | 7,60 | 7,9% | ⬆️ |
| Order Intake | Euro | Mio | 91,10 | 87,00 | 4,7% | ⬆️ |
| Total Orders On Hand | Euro | Mio | 71,90 | 62,60 | 14,9% | ⬆️ |
| Book to Bill Rate | | | 1,10 | 1,00 | 10,0% | ⬆️ |
| Shareholders' Funds | | % | 34,90 | 28,60 | 22,0% | ⬆️ |

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

The table on the next side shows the individual quarters of 2005 compared to 2004. Due to an expected cyclic industrial economic recovery particularly in the semiconductor industry we increase our earnings estimates for LINOS (see chapter 1.2+1.3). 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 for the first half-year 2006 clearly higher revenues at least compared to the first half-year of 2005. The on 4th October 2005 published defense order at a value of EUR 12 million 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 of the formerly high Turkey order (segment IT & Communications) of EUR 30 million 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 by EUR 1 million per year. Also for 2007 we expect strengths in manufacturing efficiency and this should work against the cooling down of the semiconductor cycle expected in 2007. We see the smallest volatile revenue and profit development in the business segment Healthcare & Life Science (average 5% for the years 2006 to 2009).

Higher 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). 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 (EUR 12.65 in our last publication on 7 th November 2005). We reiterate our BUY rating. Our peer group analysis justifies a fair value of up to EUR 19.40 per share.

1.1 2004 and 2005 results on a quarterly basis

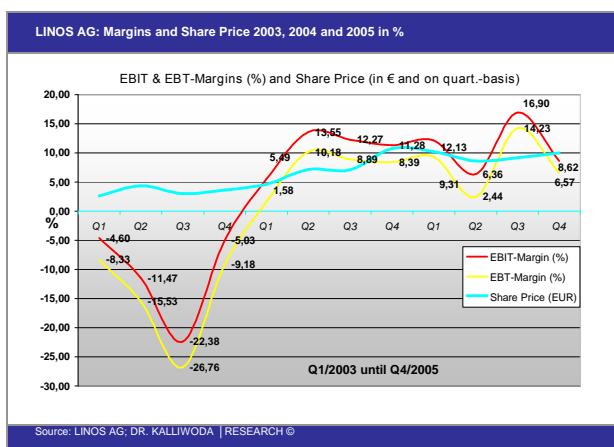
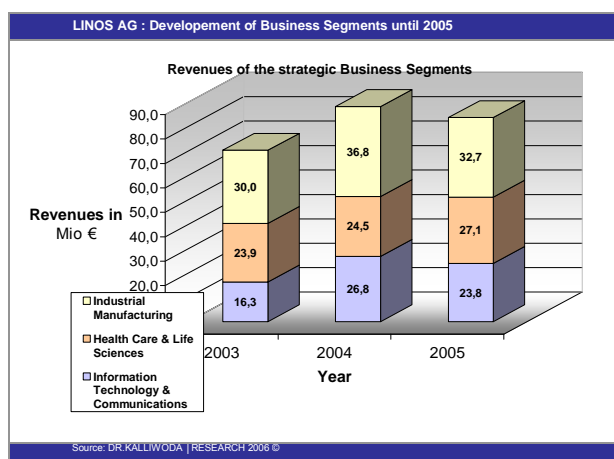
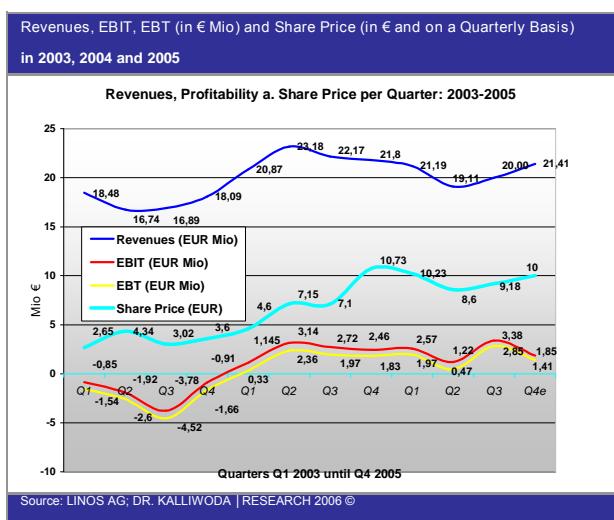
This table shows the last eight quarterly results.

| | Total 2004 | Total 2005 | Change to total 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 2004 |
|---|------------|------------|----------------------|---------|---------|-------------------|---------|---------|-------------------|---------|---------|-------------------|---------|---------|-------------------|------------|------------|----------------|
| Revenue | 88,077 | 70,19 | 23.9% | 21,187 | 20,885 | 1.6% | 19,111 | 23,18 | -17.6% | 20,000 | 22,17 | -9.8% | 21,41 | 21,86 | -2.1% | 81,707 | 88,08 | -7.2% |
| Changes in inventories of finished goods and work in progress | 0,304 | -0,29 | -266.3% | 0,338 | 0,547 | -38.2% | -0,23 | -0,3 | 82.0% | 0,70 | 0,83 | -15.6% | -2,35 | -1,05 | -124.8% | -1,547 | 0,30 | -406.9% |
| Production of own manufactured assets capitalized | 1,533 | 1,21 | 26.7% | 0,30 | 0,17 | 83.0% | 0,64 | 0,25 | 159.6% | 0,90 | 0,17 | 423.3% | 0,54 | 0,94 | -42.8% | 2,382 | 1,53 | 55.4% |
| Other operating income | 1,853 | 1,98 | -7.5% | 0,372 | 0,32 | 16.3% | 0,58 | 0,57 | 2.7% | 0,43 | 0,43 | 0.0% | 1,16 | 0,52 | 123.0% | 2,546 | 1,83 | 38.9% |
| Cost of purchased materials | -22,571 | -18,22 | 23.9% | -5,46 | -5,52 | -1.2% | -4,71 | -5,57 | -15.4% | -4,75 | -4,37 | -23.4% | -5,01 | -5,12 | 2.1% | -19,925 | -22,57 | -11.7% |
| Cost of raw materials and supplies | -3,264 | -4,29 | 92.2% | -0,68 | -0,95 | -28.9% | -0,78 | -0,74 | 4.7% | -0,70 | -0,84 | -16.9% | -0,95 | -0,73 | -31.0% | -3,106 | -3,26 | -4.8% |
| Cost of purchased goods | -27,494 | -29,752 | -7.6% | -6,94 | -7,32 | 5.2% | -6,90 | -6,64 | 3.9% | -6,90 | -6,73 | 2.6% | -6,33 | -6,81 | -7.0% | -27,067 | -27,49 | -1.6% |
| Wages and salaries | -5,755 | -6,14 | -6.3% | -1,47 | -1,44 | 1.6% | -1,43 | -1,54 | -6.6% | -1,40 | -1,28 | 82.2% | -1,21 | -1,48 | -16.5% | -5,508 | -5,76 | -4.3% |
| Social security contributions and other pension costs | -7,180 | -10,10 | -29.9% | -1,26 | -1,80 | -30.0% | -1,22 | -1,82 | -32.7% | -1,20 | -1,75 | -31.6% | -1,28 | -1,81 | -29.3% | -4,963 | -7,18 | -30.9% |
| Depreciation and amortization (including goodwill) | -15,935 | -12,94 | 23.2% | -3,69 | -3,71 | -0.7% | -3,69 | -4,54 | -18.8% | -3,60 | -3,94 | -8.7% | -4,10 | -3,74 | 9.7% | -15,077 | -15,94 | -5.4% |
| Other operating expenses | 0,180 | -0,41 | -144.3% | -0,15 | -0,01 | 2000.0% | -0,16 | 0,01 | -1425.0% | -0,10 | 0,04 | -338.1% | -0,03 | 0,13 | -119.6% | -0,432 | 0,18 | -346.0% |
| Foreign currency gains / losses | | | | | | | | | | | | | | | | | | |
| Result from operations (EBIT) | 9,728 | -7,45 | -210.6% | 2,57 | 1,15 | 124.5% | 1,22 | 3,14 | -61.3% | 3,38 | 2,72 | 24.2% | 1,85 | 2,73 | -32.3% | 9,010 | 9,73 | -7.4% |
| Interest income | 0,118 | 0,16 | -37.5% | 0,02 | 0,02 | 0.0% | 0,02 | 0,03 | 64.5% | 0,04 | 0,04 | 0.0% | 0,06 | 0,03 | 126.9% | 0,133 | 0,12 | 12.7% |
| Interest expenses | -3,133 | -3,02 | -3.7% | -0,620 | -0,86 | -27.9% | -0,76 | -0,82 | -6.6% | -0,57 | -0,77 | -25.9% | -0,49 | -0,69 | -28.1% | -2,446 | -3,13 | -21.0% |
| Income / expenses from participations accounted at equity | 0,006 | 0,00 | -700.0% | 0,00 | 0,02 | -100.0% | 0,00 | 0,00 | 0.0% | 0,00 | -0,02 | -100.0% | -0,01 | 0,00 | -350.0% | -0,006 | 0,01 | -200.0% |
| Result before taxes on income (EBT) | 6,719 | -10,32 | -165.1% | 1,97 | 0,32 | 506.9% | 0,47 | 2,36 | -80.2% | 2,85 | 1,97 | 44.5% | 1,41 | 2,07 | -32.0% | 6,691 | 6,72 | -0.4% |
| Taxes on income | -1,292 | 0,70 | -184.6% | -0,68 | -0,250 | 172.4% | -0,20 | -0,69 | -71.6% | -0,76 | -0,76 | 0.0% | -0,20 | 2,99 | -106.7% | -1,836 | -1,29 | -42.1% |
| Consolidated net result | 5,427 | -9,62 | -166.4% | 1,29 | 0,07 | 1667.3% | 0,27 | 1,67 | -83.8% | 2,09 | 1,21 | 72.3% | 1,21 | 2,47 | -51.2% | 4,855 | 5,43 | -10.5% |
| Undiluted earnings per share | 5,427 | -9,62 | -166.4% | 1,291 | 0,075 | 1667.3% | 0,27 | 1,67 | -83.8% | 2,09 | 1,21 | 72.3% | 1,21 | 2,47 | -51.2% | 4,855 | 5,43 | -10.5% |
| Consolidated average in the fiscal year (in thousands) | 5,002 | 5,00 | 0.0% | 5,004 | 5,00 | 0.1% | 5,00 | 5,00 | 0.0% | 5,00 | 5,00 | 0.0% | 5,01 | -10,00 | -150.0% | 5,006 | 5,00 | 0.1% |
| Undiluted earnings per share in EUR | 1,066 | -1,92 | -156.5% | 0,26 | 0,02 | 1619.2% | 0,05 | 0,33 | -83.8% | 0,42 | 0,24 | 72.3% | 0,24 | 0,49 | -51.4% | 0,970 | 1,06 | -10.7% |
| Diluted earnings per share | 5,427 | -9,62 | -166.4% | 1,29 | 0,075 | 1667.3% | 0,27 | 1,67 | -83.8% | 2,09 | 1,21 | 72.3% | 1,21 | 2,47 | -51.2% | 4,855 | 5,43 | -10.5% |
| Consolidated average in the fiscal year (in mln) | 5,008 | 5,00 | 0.2% | 5,010 | 5,004 | 0.1% | 5,01 | 5,00 | 0.1% | 5,01 | 5,01 | 0.0% | 5,01 | 5,01 | 0.0% | 5,010 | 5,01 | 0.0% |
| Diluted earnings per share in EUR | 1,081 | -1,92 | -156.3% | 0,26 | 0,015 | 1619.2% | 0,05 | 0,33 | -83.8% | 0,42 | 0,24 | 72.3% | 0,24 | 0,49 | -51.2% | 0,971 | 1,08 | -10.6% |

Source: LINOS AG; DR.KALLIWODA RESEARCH

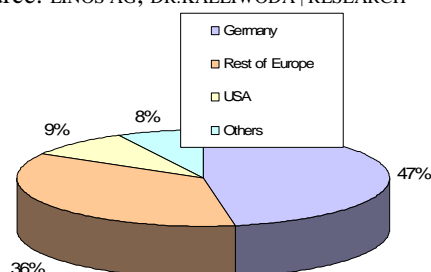
To 1.1 Financials

The following graphs visualizes the sales- and earnings margins of the last three years.



Revenues 2005: Total EUR 81,7 Mio; Allocation by Regions in %.

Source: LINOS AG; DR. KALLIWODA | RESEARCH

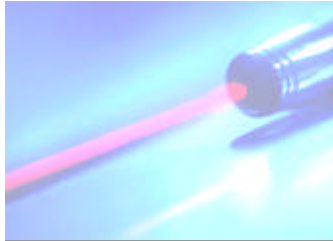


1.2 Estimates for 2006 to 2009 (P&L)

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.

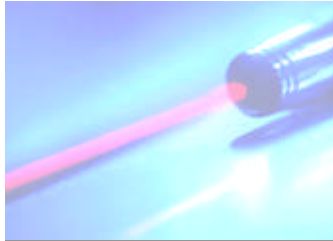
The following graph illustrates the profit & loss accounting with estimates until 2009.



1.3 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% | 6% | 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% | 12% | 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



1.4 Balance and Cashflow-Prognoses 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 | 11,0% |
| Cash flow from investments | -5,2 | -1,8 | -3,2 | -5,7 | -5,3 | -3,1 | -3,8 | -2,6 | |
| 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 | |

Sensitivitätsanalyse je Aktie

| (EUR) | Diskontierungszinssatz | | | | | |
|-----------------|------------------------|-------|-------|----------|--------|--------|
| | β = 1,4 | 6,5% | 7,5% | 8,5% | 9,5% | 10,5% |
| 0,0% | | 18 | 15 | 13 | 11 | 10 |
| langf. Wachstum | 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

Sensitivitätsanalyse: Marktkapitalisierung

| (Mio. EUR) | Diskontierungszinssatz | | | | | |
|-----------------|------------------------|------|------|-------|------|-------|
| | β = 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-ANALYSE

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 | | | | | | | | | | |
|--------------------|---------|------|-------------------|------------|------------------|-------------------|-------------------|-----------------|--------------|---------------|
| 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 |
| Linios | 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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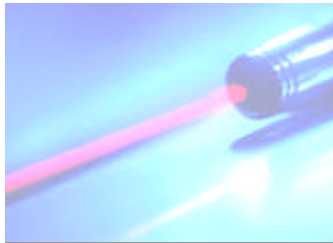
| PEERGROUP LINOS AG | | | | | | | | | |
|-------------------------------|------------------|-------------------|-------------------|--------------------|-----------------|------------------|-------------|--------------|--|
| Company | EV/Sales 2005 | EV/Sales 2006e | EV/EBITDA 2005 | EV/EBITDA 2006e | 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 | |
| Linios | 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 | |
| Linios 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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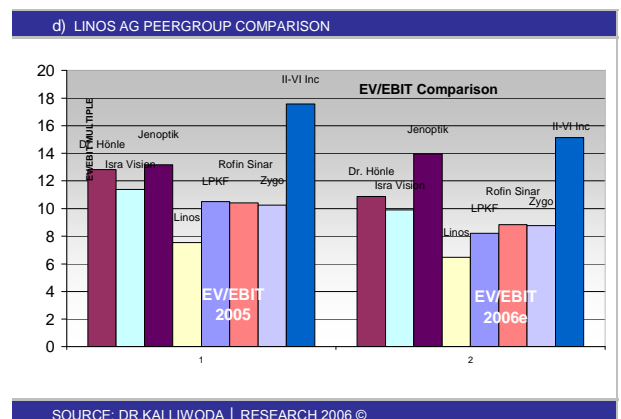
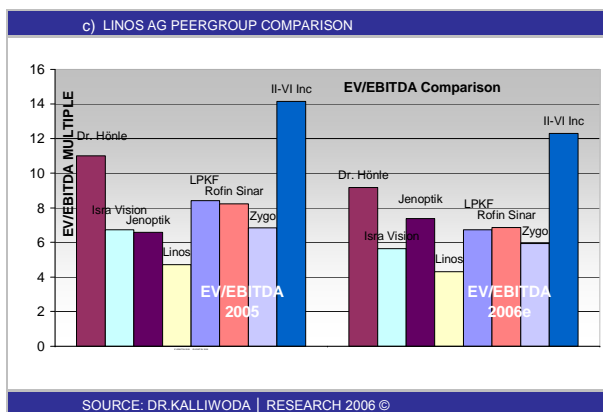
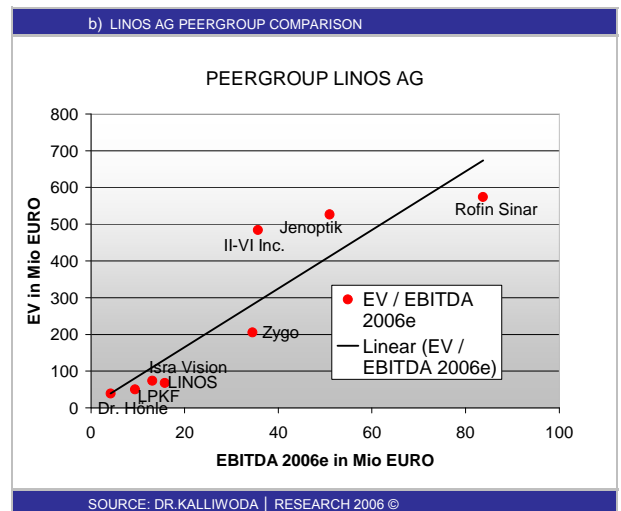
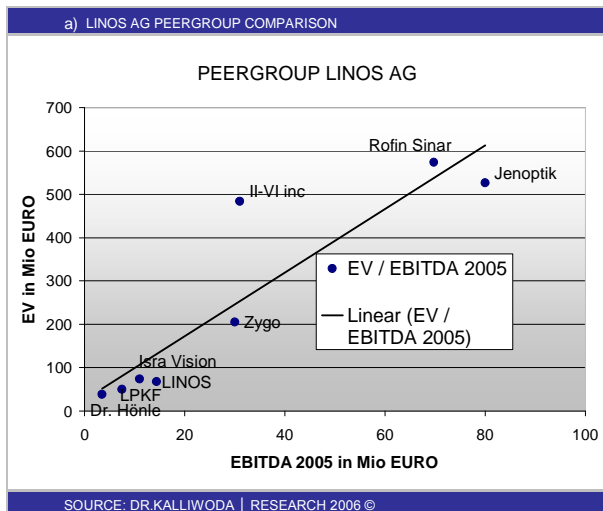
The table shows the highest multiples with the American enterprises II-VI Inc. and Zygo. Remarkable are the high liquidity in the balances as well as the smaller netdepth of the US-Companies compared to the German companies. Therefore the US-American Photonics companies are traded traditionally with 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%.

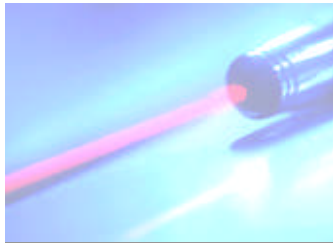


To 2.2 PEERGROUP ANALYSIS

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 19.41. The upward potential for LINOS concerning the EV/EBIT 2006e of peergroup comparison is about 49,65% and/or EUR 17.80 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. 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 photonic applications
- Customer Relations** ■ Long-term customer relationships

OPPORTUNITIES

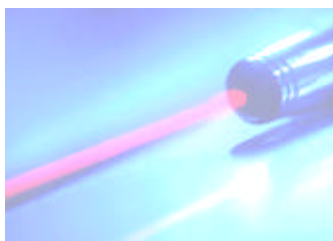
- New Applications** ■ LINOS as a technology leader takes advantage of new applications of Photonics
- Healthcare** ■ High growth rates in the segment Health Care are expected
- Contracts** ■ Particularly starting from 2006 we expect strong impulses in the market segments bio research and molecular diagnostics 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.



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| | | |
|-------------------|---|--|
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| ACCUMULATE | On a basis of our prognoses the stock should have a performance of between 10% and 20% in the following 12 months. | |
| HOLD | On a basis of our prognoses the stock should have a performance of between minus 10% and plus 10% in the following 12 months. | |
| REDUCE | On a basis of our prognoses the stock should have an underperformance of between minus 10% and minus 20%. | |
| SELL | On a basis of our prognoses the stock should have an underperformance of at least minus 20% | |

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- d) have serviced the analyzed investments based on any contract with the emitter on the stock exchange or in the market.

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