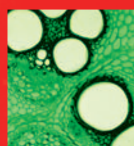
LINOS

Annual Report 2005

2005



Photonics for Innovation

Dear Shareholders, Employees and Friends of LINOS AG,

Different developments had an impact on the 2005 fiscal year: on the one hand, we made the business operations even more efficient. On the other hand, the insolvency of Agfa Photo affected the balance sheet and income statement, preventing LINOS from generating record earnings again. Revenue was 7.2 per cent lower than in the previous year at EUR 81.7 million and the operating result (EBIT) was EUR 9.0 million. This means that we only just fell short of the best earnings in the company's history - EBIT of EUR 9.7 million in 2004. The order intake also demonstrates that demand for products and services from LINOS is there. It was 4.8 per cent higher than in the previous year at EUR 91.1 million.

We are expecting increased revenue and further solidly positive earnings in the current year. The conditions for this appear to be favourable: the markets for optical technologies, particularly in the Industrial Manufacturing business division, are developing positively. We recruited additional development and sales staff at the end of 2005 in order to continue strengthening our market position and to exploit the opportunities available to us.

All in all, we are confident about 2006 - not least of all because we succeeded in making a capital increase right at the beginning of this fiscal year that has provided the company with additional funds to expand the market position in future.

I am looking forward to further pleasant co-operation with you.

Göttingen, March 2006

Professor Dr Gerd Litfin
Chief Executive Officer of LINOS AG

Professor Dr Gerd Litfin, founder and Chief Executive Officer of LINOS AG
Reinhold Barlian, Deputy Chairman of the Supervisory Board, Chairman of the Advisory Board of Bartec GmbH, Bad Mergentheim, and BMC GmbH, Würzburg
Gerd Kastrup, Chairman of the Supervisory Board, director of NORD Holding Unternehmensbeteiligungsgesellschaft mbH, Hanover
Volker Brockmeyer, Chief Financial Officer
Dr Gottfried Neuhaus, member of the Supervisory Board, Managing Director of Dr Neuhaus Techno Nord GmbH, Hamburg
(from left to right)

Highlights of 2005

JANUARY
Together with its American subsidiary LINOS Photonics Inc., LINOS exhibits at "Photonics West" in San José, California, one of the most important trade fairs in the world for optical technologies.

MARCH
LINOS presents the best year in the company's history when it publishes the 2004 Annual Report.

APRIL
An experienced photonics expert is appointed to be the new director of LINOS Photonics Inc., USA.

MAY
About 125 shareholders and guests attend the Annual Shareholders' Meeting of LINOS AG in Göttingen. They re-elect the members of the Supervisory Board and pass all the resolutions almost unanimously.

JUNE
LINOS concludes the negotiations about new credit lines totalling EUR 31 million, with which it is possible to replace the previous loans almost completely.

LINOS exhibits at "LASER - World of Photonics" in Munich, the biggest trade fair in the world for the photonics industry. An exhibitor and visitor record is set at the event.

LINOS liaises with the magazine Photo Technik International to organise the photographic competition "Architectural Contrasts".

JULY
LINOS sells the rights to the DermoGenius® video systems to the Regensburg medical technology company BIOCAM.

AUGUST
Construction of a new production centre begins at the location in Regen. The investment volume amounts to about EUR 5.3 million.

SEPTEMBER
LINOS obtains an order for about EUR 12 million in the defense segment. Order intake in the third quarter is exceptionally high, partly due to this order. The orders on hand have now increased substantially in two consecutive quarters.

OCTOBER
LINOS presents prizes to the winners of the photographic competition "Architectural Contrasts". An exhibition of the best competition entries is opened in Munich with a vernissage.

The Executive Board presents quarterly earnings (EBT) that are 45.0 per cent higher than in the same quarter the previous year.

DECEMBER
Prime Minister Wulff informs himself about photonics - a technology with excellent prospects - at the LINOS corporate headquarters in Göttingen.

Contents

Report by the Supervisory Board of LINOS AG about the 2005 fiscal year

Supervisory Board activities

The Supervisory Board co-operated closely with the Executive Board in the year under review, regularly providing advice and monitoring its conduct of the company's business. It kept itself informed about the development of the business, corporate planning, issues relating to the strategic and operational development of all the Group companies and all other important business transactions by obtaining written and oral reports from the Executive Board. Decisions of fundamental importance were submitted to the Supervisory Board for review and approval in accordance with the provisions of the rules of procedure.
The Supervisory Board held a total of eight sessions in the 2005 fiscal year, five of them as personal meetings and the other three as telephone conferences. It also took decisions in writing. All the members of the Supervisory Board took part in all the sessions. The Supervisory Board does not consider it necessary to form committees. The Chairman of the Supervisory Board maintained contact with the Chief Executive Officer outside the sessions too, discussing current questions as well as business policy and strategic issues with him. At its personal meetings, the Supervisory Board regularly focusses on one main subject, which is covered and discussed in detail with the Executive Board in each case. This enables the Board to concentrate on the strategic alignment of the Group and its operational implementation on an ongoing basis. Central subjects dealt with by the Supervisory Board in 2005 were the construction of a new building at the production location in Regen, the approval of a new financing concept, the sales strategy, the change in management at LINOS Photonics Inc., USA, the insolvency of a major customer, the planning for the years 2006 to 2010, the budget for 2006 and preparations for the capital increase using authorised capital. The Supervisory Board held a meeting at the Polish subsidiary Optotecs Sp.z o.o. in Warsaw for the first time. Following an extensive tour of the production facilities, the Executive Board and the Supervisory Board discussed the development of this production location, the medium-term profitability targets and the necessary action.

Risk management

The Supervisory Board again paid particularly close attention to the risk management system for the early identification of economic risks. At the beginning of the fiscal year, the Supervisory Board and the Executive Board made a review of the risk areas on the basis of the 2004 risk report and defined the risk areas for 2005. Risk management was a regular point on the agenda for the personal meetings held by the Supervisory Board.

Corporate governance and compliance statement

The Executive Board is presenting a detailed report about corporate governance at LINOS in a separate section of its Annual Report on behalf of the Supervisory Board too. The Executive Board and the Supervisory Board issued the compliance statement required by § 161 of the German Companies Act (AktG) on November 25, 2005. The few exceptional cases where the company deviates from the recommendations of the German Corporate Governance Code are outlined in the Annual Report. The Supervisory Board reviewed the efficiency of its activities in accordance with section 5.6 of the German Corporate Governance Code at an internal meeting on November 25, 2005.

Accounting and auditing of the annual financial statements

Following the choice by the Annual Shareholders' Meeting of Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Hanover, to audit the financial statements and consolidated financial statements for the 2005 fiscal year, the Supervisory Board commissioned the auditor in writing on December 8, 2005. The auditor audited the annual financial statements of LINOS AG for the year that ended on December 31, 2005 and the consolidated financial statements for the year that ended on December 31, 2005 prepared in accordance with the IFRS rules as well as the management report of the AG and the Group and issued unqualified opinions about them. The Chairman of the Supervisory Board maintained contact with the auditor during the audit and kept himself informed about the progress that was being made and major findings. The financial statement documents, the Annual Report and the audit reports prepared by the auditor were provided to the Supervisory Board in good time before the meeting to discuss them, so that sufficient time was available to make an internal review. At the meeting of the Supervisory Board on March 17, 2006, they were explained by the Executive Board and then discussed in detail with the Executive Board. At the meeting to discuss the financial statements, the auditor reported about the audit in general, individual emphases in the audit and the results and answered all the Supervisory Board's questions comprehensively. Following the completion of its internal review, the Supervisory Board does not have any objections to raise, agrees with the results of the audit carried out by the auditor and approves the annual financial statements of LINOS AG and the consolidated financial statements. The annual financial statements of LINOS AG have therefore been adopted. The Supervisory Board approves the proposal made by the Executive Board for appropriation of the accumulated net income.

Personnel issues

On May 11, 2005, the Annual Shareholders' Meeting elected all three members of the Supervisory Board for a further term of office. At the subsequent constituent meeting, the Supervisory Board confirmed Mr Gerd Kastrup in his position as Chairman of the Supervisory Board and Mr Reinhold Barlian in his position as Deputy Chairman of the Supervisory Board. In December 2005, the Supervisory Board extended the appointment of Mr Volker Brockmeyer as a member of the Executive Board until June 30, 2010 and reviewed the appropriateness of his total compensation in this context.

The Supervisory Board would like to thank the Executive Board and all the employees of the LINOS Group for their successful work in the 2005 fiscal year.

Göttingen, March 17, 2006

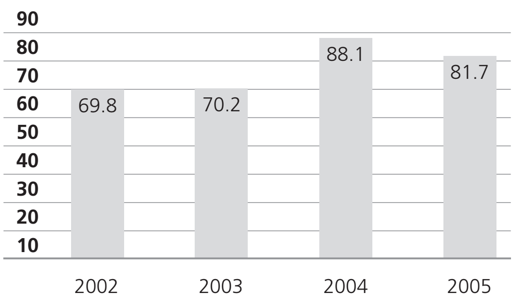
Gerd Kastrup
Chairman of the Supervisory Board

Key financials of the LINOS Group according to IFRS

EUR million	2005	2004	2003
Key financials			
Order intake	91.1	87.0	94.3
Orders on hand	71.9	62.6	64.4
Total performance	82.5	89.9	71.1
Total revenue	81.7	88.1	70.2
Book-to-bill ratio	1.1	1.0	1.3
Revenue by strategic business divisions			
Information Technology & Communications	21.1	26.8	16.3
Health Care & Life Sciences	28.8	24.5	23.9
Industrial Manufacturing	31.9	36.8	30.0
Revenue by regions			
Germany	38.6	40.4	35.8
Rest of Europe	29.4	30.9	18.9
USA	7.5	8.0	7.3
Rest of the world	6.2	8.8	8.2
EBITDA	14.0	16.9	2.7
EBITA	9.0	11.5	-5.6
EBIT	9.0	9.7	-7.5
Earnings before tax	6.7	6.7	-10.3
Earnings after tax	4.9	5.4	-9.6
Cash flow from operating activities	7.8	13.0	3.2
Cash flow from investing activities	-5.7	-3.2	-1.8
Cash flow from financing activities	-4.5	-4.3	-4.3
Change in cash and cash equivalents	-2.4	5.5	-2.9
Return on sales (EBT)	8.2%	7.6%	-14.7%
Average return on shareholders' equity (EBT)	26.8%	34.0%	-46.8%
Average return on total capital (EBIT)	11.5%	12.5%	-9.1%
Costs of materials/total performance	27.9%	28.7%	29.8%
Personnel expenses/total performance	39.5%	37.0%	50.5%
Costs of materials and personnel expenses/total performance	67.4%	65.7%	80.3%
Shareholders' equity ratio	34.9%	28.6%	22.2%
EBITA/revenue	11.0%	13.1%	-7.9%
Shareholders' equity	27.5	22.4	17.1
Investments	5.9	3.7	2.0
Number of employees at the end of the year	752	782	819
Earnings per share			
Consolidated net income/loss (IFRS)	4.9	5,4	-9.6
Undiluted earnings per share			
Shares (weighted average in the fiscal year in thousands)	5,006	5,002	5,000
Earnings per share (IFRS) in EUR	0.97	1.09	-1.92
Earnings per share (DVFA) in EUR	0.97	1.09	-1.92
Diluted earnings per share			
Shares (weighted average in the fiscal year in thousands)	5,010	5,008	5,000
Earnings per share (IFRS) in EUR	0.97	1.08	-1.92
Earnings per share (DVFA) in EUR	0.97	1.08	-1.92

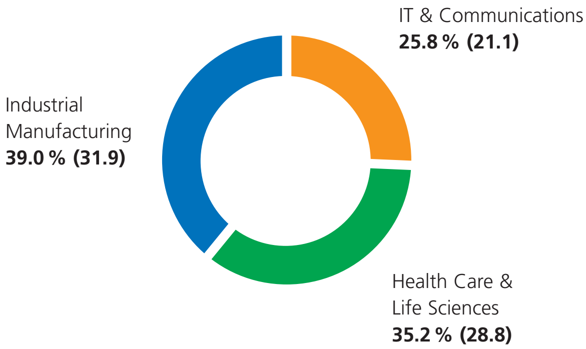
Total revenue

EUR million



Revenue by strategic business divisions

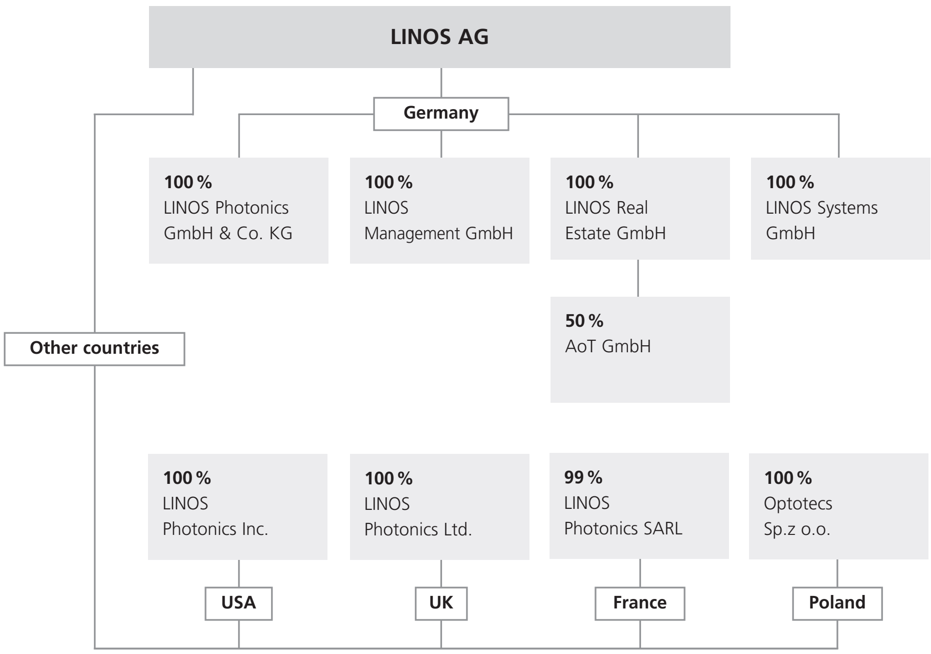
Proportion of total revenue (EUR million)



Photonics for Innovation

Photonics is the name given to all optical technologies for the production, amplification, formation, transmission, measurement and utilisation of light. As an enabling technology, photonics is the basis and prerequisite for other technological developments and their applications and as a consequence is a major innovation driver for future markets of the twenty-first century. LINOS focusses on the promising applications Information Technology & Communications, Health Care & Life Sciences and Industrial Manufacturing.

The LINOS Group at a glance



The LINOS share

Share price development and market capitalisation

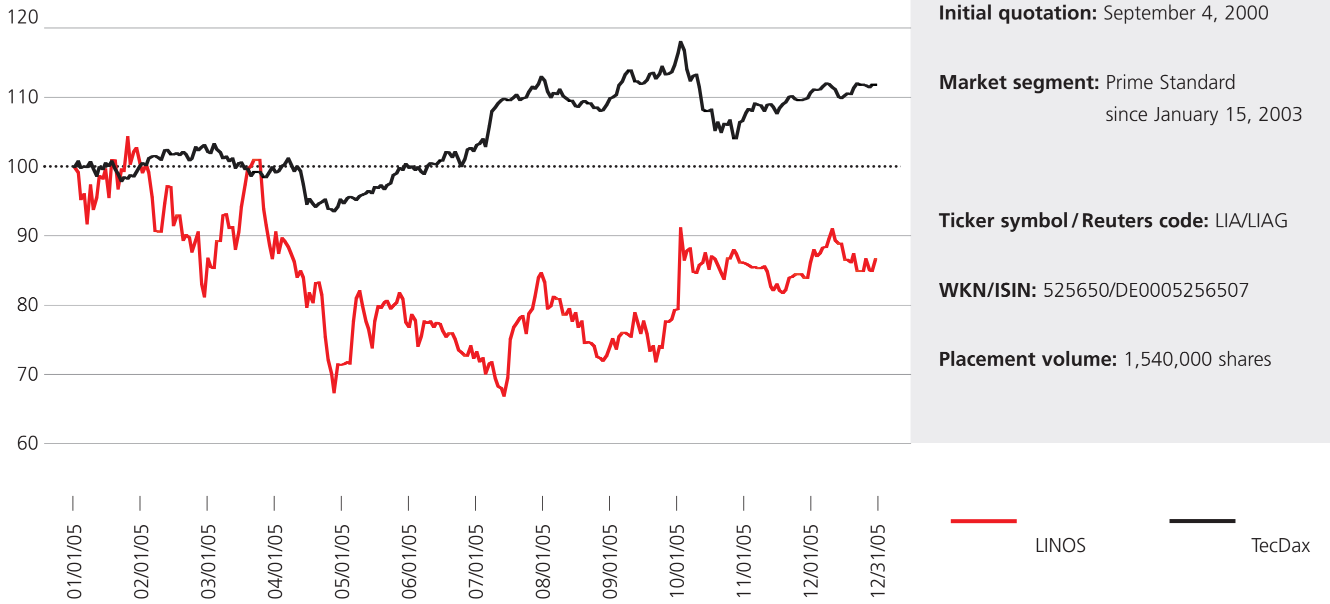
In contrast to the previous year, the price of the LINOS share did not participate in the positive development of the DAX and TecDax in the year under review. The main German index, which indicates the development in the value of the 30 biggest German shares with the largest trading volumes, increased by 27 per cent in 2005. The TecDax technology index went up 13 per cent and closed the year at 596 points. The price of the LINOS share dropped by about 13 per cent, on the other hand.

The market capitalisation of LINOS AG amounted to EUR 50.1 million at the end of the year. The enterprise value in relation to the EBIT was 7.29.

In our opinion, the decrease in the share price is attributable essentially to the Agfa Photo insolvency and the small reduction in anticipated profits associated with this.

Development of the share price compared with the TecDax

(Price at the end of the day – as a percentage of the share price on January 1, 2005)



Share information

Initial quotation: September 4, 2000

Market segment: Prime Standard since January 15, 2003

Ticker symbol / Reuters code: LIA/LIAG

WKN/ISIN: 525650/DE0005256507

Placement volume: 1,540,000 shares

Shareholder structure

LINOS does not own any of its own company shares in accordance with § 160 paragraph 1 sections 2 and 5 of the German Companies Act (AktG). No bonds or shares were issued, bought back or paid back.

One member of the Executive Board exercised 4,000 options in July 2005.

LINOS AG shareholder structure

Number of shares*	12/31/2005	12/31/2004
Executive Board	1,797,497 (35.9%)	1,795,497 (35.9%)
Supervisory Board	1,480 (0.0%)	1,480 (0.0%)
NORD Holding Unternehmens-beteiligungsgesellschaft mbH	192,721 (3.8%)	422,721 (8.4%)
Götz-Adolf Hoyer **	276,347 (5.5%)	276,347 (5.5%)
FPM Funds SICAV ***	304,243 (6.1%)	255,204 (5.1%)
Other original shareholders **	491,303 (9.8%)	491,303 (9.8%)
Free float **	1,944,409 (38.9%)	1,761,448 (35.2%)

* in brackets: percentage of the total number of shares

** as far as we know

*** Deutsche Bank informed us in October 2005 that it incorrectly reported to us in 2004 that its subsidiary DWS held 5.1% of the shares; the shares were in actual fact held by FPM.

Investor relations activities

Investors' interest in our share increased again last year thanks to the very good performance in 2004. We held a number of roadshows, at which we talked to numerous investors in Germany (Frankfurt, Düsseldorf, Hanover, Münster, Stuttgart, Munich, Augsburg and Tübingen) and other countries (Zurich, Zug, London, Copenhagen, Vienna).

We also took part in the following share conferences:

- Deutsche Börse Spotlights at LASER World of Photonics in June 2005
- SCC Small Cap Conference in August 2005 (DVFA event)
- Munich Investment Forum in October 2005
- German Equity Forum in November 2005
- German Technology Conference in November 2005
- Vienna Investment Forum in November 2005

The following studies and analysts' assessments appeared in the period under review, including the recommendations given about the LINOS share:

- Nord/LB on February 2, 2005 (hold)
- Dr. Kalliwoda Research on February 28, 2005 (buy)
- Nord/LB on March 24, 2005 (hold)
- Nord/LB on March 31, 2005 (accumulate)
- Kayenburg AG on April 8, 2005 (market weighting)
- Nord/LB on May 2, 2005 (buy)
- Dr. Kalliwoda Research on May 19, 2005 (buy)
- Nord/LB on May 24, 2005 (buy)
- Nord/LB on June 1, 2005 (buy)
- Nord/LB on June 10, 2005 (buy)
- Nord/LB on July 26, 2005 (buy)
- Dr. Kalliwoda Research on August 4, 2005 (buy)
- Kayenburg AG on August 15, 2005 (overweighting)
- Nord/LB on September 12, 2005 (buy)
- Nord/LB on October 4, 2005 (buy)
- Dr. Kalliwoda Research on October 5, 2005 (buy)
- Nord/LB on October 28, 2005 (buy)
- Dr. Kalliwoda Research on November 7, 2005 (buy)
- Kayenburg AG on November 26, 2005 (overweighting)

Annual Shareholders' Meeting

Our Annual Shareholders' Meeting took place in Göttingen on May 11, 2005. The shareholders who attended represented 62.2 per cent of the voting capital. They approved the conduct of the business by the Executive Board and the Supervisory Board almost unanimously and re-elected the members of the Supervisory Board for four further years. The shareholders also passed a resolution about changes that were necessary in the interests of greater legal certainty to adapt the articles of association to the German legislation about corporate integrity and modernisation of rescission law (UMAG).

Corporate governance

The Executive Board and Supervisory Board of LINOS AG considers the German Corporate Governance Code to be an important instrument for making the German standards for effective and responsible corporate management transparent and understandable to investors inside and outside Germany. It provides a sound and verifiable basis for decision-making and control processes within the company too.

LINOS AG updates the corporate governance manual it compiled in 2003 at regular intervals to guarantee value-oriented and transparent company management and control. The manual specifies not only the rules of procedure for the Supervisory Board and Executive Board but also risk management rules and the information policy with respect to both shareholders and the public. Further emphases are instructions about insider and disclosure commitments as well as organisational rules, particularly about internal communications policy because some insider regulations are now more restrictive.

In 2003, the Executive Board appointed a corporate governance officer, who monitors observance of the rules and updates the manual.

LINOS AG implements the recommendations currently made by the German Corporate Governance Code Government Commission with the following exceptions:

- The D&O insurance contract concluded by LINOS AG for the entire Group does not include a deductible for the Executive Board and the Supervisory Board. This is not planned in future either (section 3.8 of the Code).
- No cap for the variable compensation components was arranged for one member of the Executive Board until the end of 2005 (section 4.2.3 of the Code). This point was, however, included in the employment contract when it was extended from January 1, 2006 onwards.
- Since the Supervisory Board consists of only three members, it does not make sense to form committees. LINOS AG has not implemented this recommendation and will not be doing so in future either. This applies to the establishment of an audit committee too (sections 5.3.1 and 5.3.2 of the Code).

The compliance statement was approved by the Executive Board and the Supervisory Board in an updated form on November 25, 2005 and has been published in the Internet at www.linos.de.

Consolidated management report

The LINOS strategy

Successful three-division strategy

The LINOS Group supplies products and services in the three business divisions Information Technology & Communications, Health Care & Life Sciences and Industrial Manufacturing and is therefore in a position to compensate for varying market developments in different areas. This strategy proved to be successful in the past fiscal year too: the ongoing weakness of the semiconductor market influenced the Industrial Manufacturing business division, while the Agfa Photo insolvency and postponements of orders in the systems technology sector affected the Information Technology & Communications business division. We were able to make up for at least some of the consequent revenue shortfalls by increasing revenue in the Health Care & Life Sciences business division, which helped to stabilise our business and earnings considerably. We will be continuing to follow our strategy of supplying products and services in three business divisions with high potential in the current fiscal year and will be opening up promising new market segments.

The core of our business model is to be an integrated source of a wide range of optical technologies. Our objective is to be a capable, innovative and reliable partner and supplier throughout the added value chain. This is the only way for us to provide our customers with optimum service. They expect comprehensive skills in the design of optical systems and in the integration of optics, mechanics, optoelectronics and electronics as well as flexible management of the supply chain. We give our customers exceptional service, from analysis of their requirements to implementation of them in specifications, development of potential solutions and creation of optic designs with the help of computer simulation facilities. Close co-operation with our customers' development staff leads to a variety of synergy benefits, not only in implementation in series products but also in the optimisation of quality assurance and costs. Since system integration from prototype production to series manufacturing plays a crucial role in our operations, we increased our technology and logistic know-how substantially in the past fiscal year.

Strategic emphases

In the years 2002 and 2003, we devoted most of our attention to reorganisation of the company. The priorities in this context were to lower the break-even point, to reduce personnel capacities, to concentrate manufacturing processes at individual locations and to establish/extend the supply network.

Our main issue in 2004 and 2005 was financial stabilisation of the company. In order to return to profit, we focussed successfully on rationalisation, the expansion of technology know-how and location/portfolio optimisation. Thanks to this, we were able to create a sound new long-term basis for company funding in mid-2005 too.

Business development now needs to be the emphasis again in the coming years. The main objectives here will be to open up further markets outside Germany, to increase the development and sales capacities and to develop and use new technologies. Acquisitions that round off the LINOS range and offer new openings for business development are also conceivable.

Economic environment

Development of the economy

Following the small economic recovery in 2004, the Gross Domestic Product increased by only 0.9 per cent last year after adjustment to eliminate price changes (previous year: 1.6 per cent). This is attributed partly to fewer working days. If this calendar effect is taken into account, Gross Domestic Product growth amounted to 1.1 per cent.

This economic growth was driven mainly by dynamic export trade. As in the previous year, exports (plus 6.2 per cent) increased faster in real terms than imports (plus 5.0 per cent).

Photonics market in 2005

The market for optical technologies developed comparatively slowly in the last fiscal year. The market for lasers and laser systems, which covers a relatively wide range of optical technologies, gives a good indication of the situation. It consists specifically of the optical metrology and research, medical technology, information technology, material processing and telecommunications markets. The global laser market only grew by 1 per cent in the year under review, whereas revenue in the previous year increased by 10 per cent. The poor development of the market for semiconductor equipment was the main reason for this.

Business development

Revenue summary

LINOS generated revenue of EUR 81.7 million in the 2005 fiscal year. This amounts to 7.2 per cent less than in the previous year (EUR 88.1 million). The revenue shortfall is attributable to some extent to portfolio optimisation exercises that were carried out in 2004 and 2005. Changes in material supply arrangements with a major customer were another reason for revenue reductions. Further reasons were the weakness of the semiconductor market and the insolvency of Agfa Photo. Due to the insolvency of this customer, we had to cancel orders worth EUR 2.5 million in the year under review.

Revenue by regions

LINOS recorded revenue of EUR 38.6 million in Germany compared with EUR 40.4 million in the previous year. This decrease reflected the loss of revenue with Agfa Photo and postponements to 2006 in the defense segment. Revenue in the rest of Europe fell from EUR 30.9 million to EUR 29.4 million, while revenue in the United States decreased from EUR 8.0 million to EUR 7.5 million. The decline in revenue in both segments is attributable to the poor semiconductor equipment market.

Revenue in the other countries was 32 per cent lower than in the previous year at EUR 5.9 million. One of the reasons for this comparatively large reduction is the sale of the plant in Gießen in the course of 2004.

The proportion of total revenue accounted for by revenue in Germany increased slightly from 45.9 per cent to 47.2 per cent in the year under review. Business in the USA continued to amount to about 9 per cent of total revenue.

Revenue by regions (sales territories)

	2005 KEUR*	2004 KEUR*	Change 2005/2004
Germany	38,576 (47.2%)	40,398 (45.9%)	-4.5%
Rest of Europe	29,426 (36.0%)	30,860 (35.0%)	-4.6%
USA	7,528 (9.2%)	7,991 (9.1%)	-5.8%
Other	6,177 (7.6%)	8,828 (10.0%)	-30.0%
Total	**81,707 (100.0%)**	**88,077 (100.0%)**	**-7.2%**

* In brackets: proportion of total revenue

Revenue by geographical segments

A breakdown of the revenue on the basis of the location of the assets reveals that Germany was again the segment that contributed by far the largest proportion of total revenue. The background to this is that most of our business operations are carried out by LINOS Photonics GmbH & Co. KG in Germany.

Revenue by geographical segments

	2005 KEUR	2004 KEUR	Change 2005/2004
Germany	78,301	84,377	-7.2%
Rest of Europe	3,996	3,788	5.5%
USA	6,998	6,955	0.6%
Elimination	-7,588	-7,043	-7.7%
Total	**81,707**	**88,077**	**-7.2%**

Development of the three business divisions

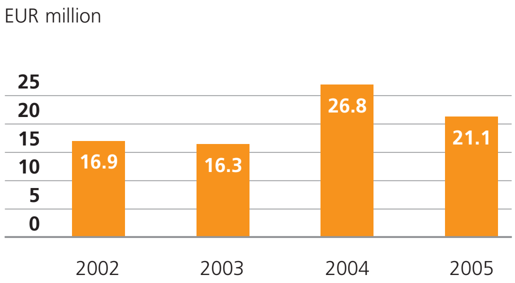
Revenue by strategic business divisions

	2005 KEUR*	2004 KEUR*	Change 2005/2004
IT & Commu-nications	21,058 (25.8%)	26,762 (30.4%)	-21.3%
Health Care & Life Sciences	28,758 (35.2%)	24,547 (27.9%)	17.2%
Industrial Manufacturing	31,891 (39.0%)	36,768 (41.7%)	-13.3%
Total	**81,707 (100.0%)**	**88,077 (100.0%)**	**-7.2%**

* In brackets: proportion of total revenue

Information Technology & Communications:
Revenue in the Information Technology & Communications business division decreased by 21.3 per cent to EUR 21.1 million in the last fiscal year. This was due to a considerable extent to the insolvency of Agfa Photo in the first half of the year under review, which had the effect that we had to cancel existing orders worth EUR 2.5 million.

IT & Communications revenue

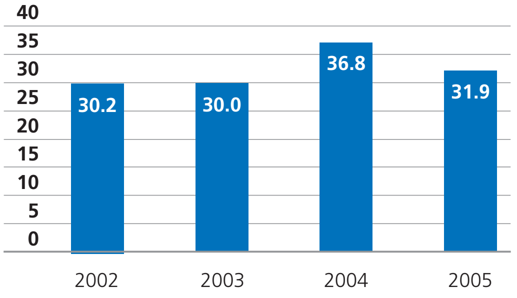


There was also a postponement to 2006 in products supplied by the systems technology business unit. The proportion of total revenue accounted for by the business division decreased from 30.4 per cent to 25.8 per cent.

Industrial Manufacturing: We recorded 13.3 per cent less revenue in the Industrial Manufacturing business division than in the previous year. Revenue amounted to EUR 31.9 million. The reduction is attributable to the sale of the plant in Gießen as well as to the weakness of the semiconductor equipment market. The proportion of total revenue accounted for by the business division decreased from 41.7 per cent in 2004 to 39.0 per cent in the year under review.

Industrial Manufacturing revenue

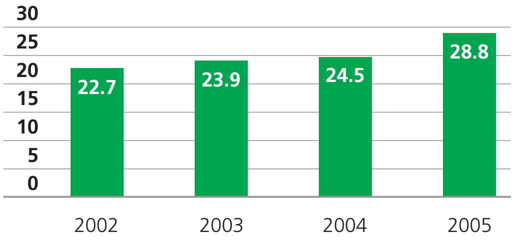
EUR million



Health Care & Life Sciences: Revenue in the Health Care & Life Sciences business division increased by 17.2 per cent to EUR 28.8 million. Strong business in the dental field and a recovery in demand in the biotechnology market segment had a positive effect here. The proportion of revenue accounted for by the Health Care & Life Sciences business division increased to 35.2 per cent (previous year: 27.9 per cent).

Health Care & Life Sciences revenue

EUR million



Order situation

LINOS achieved order intake of EUR 91.1 million, which was 4.8 per cent higher than in the previous year. This figure includes two long-term orders in the Information Technology & Communications business division, each of which is worth an amount in the double-digit million range. Without the cancellation of orders with a volume of EUR 2.5 million that was necessary because of the insolvency of the customer Agfa Photo, the increase over 2004 would have been as much as 7.5 per cent.

Order intake by business divisions: While order intake in the Industrial Manufacturing business division decreased by 13.9 per cent to EUR 32.9 million, the other two business divisions increased order intake. It increased by 45.0 per cent to EUR 28.3 million in the Information Technology & Communications business division and went up by 2.4 per cent to EUR 29.9 million in the Health Care & Life Sciences business division.

Order intake by business divisions

	2005 KEUR	2004 KEUR	Change 2005/2004
IT & Communications	28,319	19,537	45.0%
Health Care & Life Sciences	29,899	29,195	2.4%
Industrial Manufacturing	32,929	38,227	-13.9%
Total	**91,147**	**86,959**	**4.8%**

Order intake by geographical segments: On the basis of the location of the assets, order intake was as follows: LINOS achieved growth of EUR 1.1 million to EUR 79.3 million in Germany. It increased by EUR 0.3 million to EUR 2.8 million in the rest of Europe and by EUR 2.8 million to EUR 9.0 million in the USA. The fact that we covered the market more intensively last year had a positive impact in the USA.

Order intake by geographical segments

	2005 KEUR	2004 KEUR	Change 2005/2004
Germany	79,348	78,209	1.5%
Rest of Europe	2,800	2,506	11.7%
USA	8,999	6,244	44.1%
Total	**91,147**	**86,959**	**4.8%**

Orders on hand: Total orders on hand increased from EUR 62.6 million on the same date the previous year to EUR 71.9 million on December 31, 2005. It is apparent from this that LINOS was successful in compensating for the business with Turkey, which is ending in 2009, by obtaining new orders. As planned, we have completed about 60 per cent of this large order in the past two years.

Asset situation, financial position and profitability

Earnings

The emphasis in the activities at LINOS in the years 2004 and 2005 was on stabilisation of the financial situation. We have completed this phase successfully, creating the basis for future growth as a result.

In the year under review, LINOS generated an operating result (EBIT) of EUR 9.0 million after EUR 9.7 million in the previous year. We succeeded in maintaining the EBIT margin in relation to total performance (revenue plus changes in inventories and production for own fixed assets capitalised) at a level of 10.9 per cent. Earnings before tax (EBT) reached the same level as in the previous year (EUR 6.7 million) thanks to savings in interest expenses. EBT in relation to total performance was 8.1 per cent compared with 7.4 per cent in the previous year.

The earnings before taxes on income were affected strongly not only by the weak semiconductor economy but also by postponements of orders to 2006 in the defense segment. The insolvency of our customer Agfa Photo had an adverse effect on earnings too. It required a write-down of fixed assets, inventories and receivables totalling EUR 1.5 million in the second quarter of 2005.

Special items were the elimination of goodwill depreciation (EUR 1.8 million), expenditure for restructuring of our location in Göttingen (EUR 0.7 million) and a write-up for construction planning and site development costs for our building project at the location in Regen (EUR 0.9 million). Costs were increased by the fact that we created and filled additional positions of strategic importance in the development, sales and supply net areas (EUR 0.7 million).

While these special items to a very large extent cancelled each other out in the earnings before tax, LINOS was only able to make up for the negative effect of market developments by reducing interest expenses and cutting costs in the material and personnel fields. The supply net projects initiated in the previous years and the optimisation of the production operations had a positive impact here.

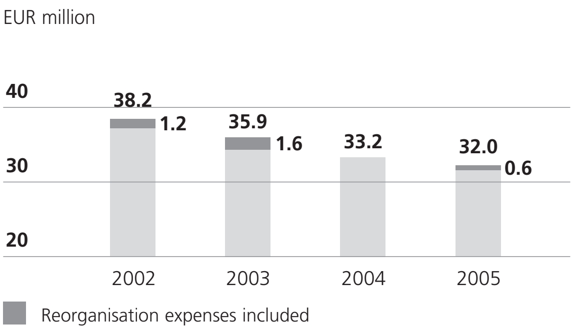
Tax assets: The deferred tax assets of EUR 5.6 million (previous year: EUR 6.1 million) include a total of EUR 4.1 million (previous year: EUR 4.5 million) due to the expected utilisation of tax losses carried forward. In view of our medium-term corporate planning, it is probable enough that we will be utilising these carried-forward losses.

On the basis of cautious assumptions, LINOS did not capitalise deferred taxes on tax losses carried forward to their full extent on the 2004 balance sheet date. Due to the medium-term corporate planning, we formed an additional tax asset of EUR 0.5 million relating to tax losses carried forward in the fourth quarter of 2005 (previous year: EUR 1.1 million). EUR 0.9 million of the existing tax asset were charged to earnings as expenses.

Personnel costs: In the year under review, personnel costs decreased by 2.0 per cent to EUR 32.6 million (previous year: EUR 33.2 million). If the non-recurring personnel costs of EUR 0.6 million incurred in the restructuring exercise at the Göttingen location in

2005 are taken into account, the reduction amounts to 3.9 per cent. In this context, the capacity-relevant personnel costs were cut by 7.1 per cent while the proportion of production accounted for by internal operations was increased at the expense of out-sourcing, whereas expenditure on project-based resources was only 1.6 per cent lower. Most of these resources are for projects for specific customers and development projects. The overall ratio of personnel expenses to the lower total performance in 2005 increased to 39.5 per cent compared with 37.0 per cent in the previous year.

Personnel cost development



EBIT by geographical segments: EBIT in Germany decreased by EUR 0.8 million to EUR 9.0 million. The reason for this is the revenue shortfall of EUR 6.2 million in this segment, which it was not possible to compensate for completely by cutting costs. We made small improvements in the rest of Europe and the USA.

EBIT by geographical segments

	2005 KEUR	2004 KEUR
Germany	8,990	9,771
Europe	1	-44
USA	61	-37
Elimination	-42	38
EBIT	**9,010**	**9,728**

Cash flow and funding

The very large inflow of funds in the 2004 fiscal year (EUR 5.5 million) decreased by EUR 7.9 million to minus EUR 2.4 million in the year under review. This was attributable to a large extent to the lower cash flow from operating activities of EUR 7.8 million (previous year: EUR 13.0 million) and the higher cash flow from investing activities, which was minus EUR 5.7 million in 2005 (previous year: minus EUR 3.2 million).

Cash flow statement (summary)

	2005 EUR million	2004 EUR million
Cash flow from operating activities	7.8	13.0
Cash flow from investing activities	-5.7	-3.2
Cash flow from financing activities	-4.5	-4.3
Changes in cash and cash equivalents	-2.4	5.5
Cash on hand and bank balances on December 31	0.8	2.9

Cash flow from operating activities: The cash flow from operating activities was EUR 5.2 million lower than in the previous year at EUR 7.8 million. One main reason for this is the reduction of EUR 3.8 million in the result for the year before taxes and interest (adjusted to eliminate depreciation and appreciation of non-current assets). This development is attributable primarily to the revenue shortfalls within the fiscal year due to market influences. This effect was compensated for to some extent by cost reductions in the material and personnel fields.

The refinancing measures taken in the course of the fiscal year had a positive effect of EUR 0.7 million on the cash flow from operating activities.

The increase in receivables contrary to the revenue trend led to a negative effect of EUR 2.4 million on cash flow. This development is mainly attributable to comparatively large amounts invoiced in December 2005 and changes in the product-based revenue mix.

Cash flow from investing activities: Investment expenditure increased by EUR 2.5 million to EUR 5.9 million in the year under review. This increase is attributable mainly to expenditure on our building project at the location in Regen as well as to investments in technologies and production equipment. The reason for the comparatively large proceeds from the disposal of fixed assets in the previous year (EUR 0.5 million) was the sale of the fixed assets of the Gießen location.

Cash flow from financing activities: In the context of the refinancing exercise for the Group as a whole, existing credit lines of EUR 18.5 million were repaid and new loans of EUR 14.1 million were obtained instead.

Consolidated income statement development 2003 to 2005 according to IFRS

KEUR	2005	2004	2003
Revenue	**81,707**	**88,077**	**70,192**
Changes in inventories of finished goods and work in progress	-1,547	304	-286
Production for own fixed assets capitalised	2,382	1,533	1,210
Other operating income	2,546	1,833	1,981
Costs of materials	-23,031	-25,835	-21,209
Personnel expenses	-32,575	-33,249	-35,891
Depreciation and amortisation (including goodwill)	-4,963	-7,180	-10,102
Other operating expenses	-15,077	-15,935	-12,939
Foreign currency exchange gains/losses	-432	180	-406
Profit/loss from operations	**9,010**	**9,728**	**-7,450**
Financial result	-2,319	-3,009	-2,865
Profit/loss before taxes on income	**6,691**	**6,719**	**-10,315**
Taxes on income	-1,836	-1,292	699
Consolidated net income/loss	**4,855**	**5,427**	**-9,616**

The resulting cash flow from financing activities amounted to EUR 4.5 million. This amount was EUR 4.6 million in the two previous years. The funds for this come almost exclusively from the cash flow from operating activities and the cash on hand/bank balances. The new credit lines that have been arranged involve EUR 21.0 million in long-term credit lines and EUR 10.0 million in short-term credit lines.

Cash on hand and bank balances: Compared with the balance sheet date the previous year, cash on hand and bank balances decreased by EUR 2.0 million to EUR 0.8 million. These funds were used for the scheduled repayment of loans. The funds used in the previous year as security for a guarantee were replaced by allowance for them in existing credit lines.

Asset situation

The balance sheet total only changed insignificantly over the previous year in spite of lower revenue. This is due on the one hand to the fact that investment expenditure was higher than total depreciation again for the first time. On the other hand, the high revenue in December 2005 and the change in the customer-based revenue mix led to a considerable increase in the receivables portfolio. The reduction in inventories and the use of cash on hand and bank balances to repay loans limited an increase in the balance sheet total.

Non-current assets: The total non-current assets of EUR 42.5 million were only EUR 0.8 million higher than the figure in the previous year. The main reasons for this are the substantially larger investments than in the previous year, which were EUR 1.0 million higher than depreciation at EUR 5.9 million, and the write-up of construction planning and site development costs for our building project at the location in Regen (EUR 0.9 million). Deferred taxes were down EUR 0.6 million, on the other hand. This primarily reflected the utilisation of tax losses carried forward.

Current assets: There was a small reduction in the current assets. Inventories decreased by EUR 1.2 million over the previous year to EUR 20.2 million. This figure includes a depreciation charge of EUR 1.3 million relating to inventories because of the insolvency of our customer Agfa Photo. We used cash on hand and bank balances of EUR 2.0 million for the scheduled repayment of long-term loans. These reductions are offset by an increase of EUR 2.4 million to EUR 14.1 million in the receivables portfolio. Reasons for this are the high revenue in December 2005 and the change in the customer-based revenue mix.

Shareholders' equity: Due to the net earnings of EUR 4.9 million and the reduction of EUR 0.2 million in accumulated foreign currency translation differences, shareholders' equity increased to EUR 27.5 million. It therefore reached 34.9 per cent of the balance sheet total (previous year: 28.6 per cent).

Liabilities: The only major changes in the liabilities over the previous year were in the long-term loans. They decreased by EUR 4.9 million to EUR 10.3 million. This corresponds to the amount that was added to shareholders' equity by the net earnings. Net debt (total liabilities to banks for which interest is charged minus cash on hand and bank balances) decreased from EUR 18.0 million in the previous year to EUR 15.6 million.

In the past fiscal year, we took advantage of the stronger earnings position that has been achieved again to reorganise our long-term loans and current account credit lines and to negotiate considerably more favourable conditions. Most of the existing credit lines were replaced in this context and new arrangements were made for EUR 21 million in long-term loans with repayment plans and EUR 10 million in short-term credit lines.

Consolidated balance sheet development 2003 to 2005 according to IFRS – assets

KEUR	2005	2004	2003
Non-current assets			
Intangible assets			
Patents, trademarks, licences and software	1,136	1,275	924
Developments costs	3,876	3,137	3,251
Advance payments	48	9	0
	5,060	4,421	4,175
Goodwill	19,397	19,397	21,231
Property, plant and equipment			
Land and buildings	2,933	3,020	2,857
Technical equipment and machines	5,238	5,612	7,789
Furniture and vehicles	1,873	2,153	2,579
Advance payments and construction in progress	2,137	310	205
	12,181	11,095	13,430
Participations booked at equity	28	34	29
Other non-current assets	297	614	506
Deferred taxes	5,565	6,141	6,174
	42,528	41,702	45,545
Current assets			
Inventories			
Raw materials and supplies	4,753	4,333	3,433
Unfinished goods and services	9,727	11,350	11,125
Finished goods and merchandise	5,687	5,749	5,824
Advance payments	25	0	105
	20,192	21,432	20,487
Trade receivables	14,078	11,676	7,811
Other current assets	873	396	1,527
Current income tax assets	158	52	349
Cash on hand and bank balances	839	2,856	1,185
Prepaid expenses	246	251	291
	36,386	36,663	31,650
	78,914	**78,365**	**77,195**

Consolidated balance sheet development 2003 to 2005 according to IFRS – liabilities and shareholders' equity

KEUR	2005	2004	2003
Shareholders' equity			
Subscribed capital	5,008	5,004	5,000
Capital reserve	30,757	30,749	30,741
Accumulated currency translation adjustment	-459	-704	-581
Accumulated consolidated net income/loss	-7,765	-12,620	-18,047
	27,541	22,429	17,113
Non-current liabilities			
Long-term debt, less current portion	10,342	15,246	16,727
Deferred taxes	1,114	786	685
Provision for pension obligations	18,308	18,132	17,382
Non-current trade payables	711	810	815
Other non-current provisions	559	688	564
Miscellaneous liabilities, less current portion	305	740	1,059
Special item for public subsidies	963	718	1,036
	32,302	37,120	38,268
Current liabilities			
Short-term debt and current portion of long-term debt	6,116	5,567	12,130
Current trade payables	5,792	5,726	3,790
Payments received on account	199	36	333
Tax provisions	1,275	1,123	96
Other current provisions	1,159	1,262	921
Other current liabilities	4,530	5,102	4,544
	19,071	18,816	21,814
	78,914	**78,365**	**77,195**

Subsidiaries, portfolio optimisation

LINOS established LINOS Systems GmbH on March 11, 2005. LINOS AG holds 100 per cent of the shares in the company. On May 11, 2005, the Annual Shareholders' Meeting passed a resolution about an agreement relating to the transfer of earnings from LINOS Systems GmbH to LINOS AG with backdated effect from March 11, 2005.
The purpose of LINOS Systems GmbH is to develop new business for the LINOS Group. As its initial assignment, it took over responsibility for marketing the LINOS AG trademark rights in September 2005.

LINOS sold the rights to the video systems DermoGenius® plus and DermoGenius® ultra to the Regensburg medical technology company BIOCAM in July 2005. BIOCAM has taken over all the service and warranty commitments. LINOS decided to take this step because it is too laborious a process to cover the dermatological practice market with just one product - even if this product has a good reputation with the medical specialists concerned.

Investments

Investments increased by EUR 2.2 million over the previous year: from EUR 3.7 million in 2004 to EUR 5.9 million in 2005. They include EUR 2.1 million for capitalisation of development services (previous year: EUR 1.2 million) for new product and process technologies.

Expenditure of EUR 1.3 million was incurred for our building project at the location in Regen in 2005. The total investment amount for this project is about EUR 5.3 million. The management and staff agreed on a location protection concept in connection with the building project. In addition to the agreement about construction of the new production centre, it includes extensive cost-cutting measures. The new building enables LINOS to continue optimisation of the production operations. The location in Regen is becoming the LINOS production centre in Germany. The infrastructure costs will be reduced by moving out of the current rented production facility. The government of Lower Bavaria is supporting the project by providing funding.

In 2005, LINOS also invested about EUR 2.5 million in production equipment for rationalisation purposes as well as in optical metrology and SAP systems.

Research & development

Development activities play a central role in LINOS' operations. Total expenditure on them in the 2005 fiscal year amounted to EUR 7.7 million (previous year: EUR 7.4 million). This corresponds to 9.5 per cent of revenue (previous year: 8.5 per cent). The comparatively large proportion of the total expenditure accounted for by expenditure on research projects is necessary to create the basis for opening up new market segments and thus to lay the foundations for future company development and revenue growth.

The technology and product developments are carried out, on the one hand, for projects for specific customers and, on the other hand, for standard products. We pool the specific know-how of the locations in Munich, Regen and Göttingen in the development of new technologies and products.

Research and development projects

Some examples of product developments are:

- Complex optoelectronic systems for ophthalmological instruments and surgical applications
- High-resolution wide-angle lens for specialised digital photography
- Measurement of the back of the eye via non-widened pupils
- Cutting lens involving a focussed femtosecond laser with a flexible beam delivery arm
- High-performance UV lenses that operate in the solar blind range
- Projection lenses for head-up displays for motor vehicle applications
- Coating development for data visualisation systems
- Fibre-optic coupler systems as broadband fibre-optic couplers for the 400 to 640 nanometre spectral range
- New Pockels cells for modern solid-state laser systems
- Compact Faraday isolators

Basic projects

We made progress with a number of research projects in addition to the development of customer-specific and standard products. These long-term basic projects form the basis for the medium- to long-term development of the business. Since these projects involve higher risk, they are frequently supported financially by the German Ministry of Education and Research. The following projects were involved here in the year under review:

- RIOS - characterisation, modelling of the propagation of beams of real light sources in optical systems
- FINO - flexible prototype and reproducible series production of innovative optical elements
- EIKON - investigation of mechanical layer tension levels in optical coatings to find compensation solutions in thin-layer design
- FERMI - production of miniaturised optical components. This project was completed in 2005.

Research co-operation

LINOS co-operated with a number of research institutes again in the year under review, including the universities of applied sciences in Deggendorf and Göttingen, the laser laboratory in Göttingen, the laser centre in Hanover and the Fraunhofer institute for applied optics and precision mechanics in Jena. These co-operation arrangements help to provide LINOS with a sound innovation basis and enable the company to develop technologies faster.

New patents

We filed five new patent applications in the year under review. This means that LINOS has 69 patents, 47 trademarks and 8 utility models.

Employees

The number of employees in the LINOS Group decreased by 30 to 752 in the 2005 fiscal year. If the change in the hourly balances in the flexible working time schemes are taken into account, there was a further reduction of the equivalent of the capacity of about 25 employees. We increased personnel in the sales and development fields.

We eliminated 20 jobs at the Göttingen location in the fourth quarter. To cover this measure, LINOS charged total expenditure of EUR 0.7 million in the past fiscal year. We compensated for the reduction in component production capacity in Göttingen by making transfers to other locations as well as by increasing outsourcing in Eastern Europe and South-East Asia.

Number of employees

	2005	2004
LINOS AG*	8	8
LINOS Photonics GmbH & Co. KG	661	695
LINOS Systems GmbH	1	0
Germany in total	**670**	**703**
LINOS Photonics Inc., USA	11	11
LINOS Photonics Ltd., England	6	5
Optotecs Sp.z o.o., Poland	62	60
LINOS Photonics SARL, France	3	3
LINOS Group total	**752**	**782**

*without Executive Board

Basic and advanced training

LINOS had 36 apprentices at the end of the fiscal year. The number of apprenticeships was 16 lower than in the previous year. Apprentices therefore accounted for 5.4 per cent of the number of employees in Germany (previous year: 7.5 per cent). The reason for the smaller number of apprentices is the fact that apprenticeship contracts concluded in the years 2000 and 2001 ended. Planning at this time was based on substantial growth in demand for skilled staff. Our assumption is that we can cover our company's future requirements for qualified young skilled staff with the apprentices we are currently training.

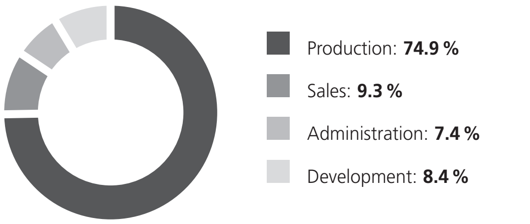
The focus in advanced training was on measures to improve specific technical skills, management training, team development and the promotion of promising young staff.

Occupational health and safety

Qualified staff and external specialists compare the legal regulations for occupational health and safety with the situation at the company at regular intervals and plan the necessary corrective measures. Employees also receive instruction in the handling of processes and equipment that are critical from the safety point of view, for example the use of laser equipment.

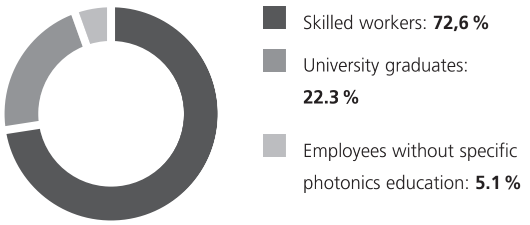
Breakdown of employees by fields

Basis: 752 employees on 12/31/2005



Qualification structure of the LINOS employees

Basis: 752 employees on 12/31/2005



Risk management

Corporate management means developing strategies, compiling and evaluating alternative courses of action and taking decisions. These management assignments already involve extensive risks. External factors that a single company cannot influence on its own are a further source of risks. LINOS uses a wide range of different instruments so that it is able to take action in good time when developments need to be corrected. They include a comprehensive planning and reporting system in addition to regular reviews of selected risk areas.

LINOS covers standard industrial risks by arranging an appropriate insurance portfolio. At least once a year, we co-operate with external experts to check whether the existing protection is still suitable. To the extent that is legally possible, we try to limit risks when product and service contracts are concluded.

LINOS reduces major exchange rate risks by making hedging transactions. Since 2005, the hedging strategy has also included interest rate hedging for large proportions of the loans and short-term borrowed funds. The risks involved in receivables from customers are limited by setting individual credit limits and, in specific isolated cases, by obtaining credit insurance cover.

In the context of the regular risk review, we have decided to monitor the following risk areas particularly closely:

Considerable changes in market conditions, particularly on cyclical markets

LINOS supplies cyclical markets in the semiconductor equipment industry. The effects of these cyclical markets are felt indirectly in other market areas too. Liquidity bottlenecks experienced by customers can also lead to unplanned earnings shortfalls in isolated cases.

LINOS counters these risks by broad coverage of the photonics market, a relatively low break-even point and increasing outsourcing of components. As a result of this, for example, we survived the Agfa Photo insolvency in the year under review without suffering any effects that threatened the existence of the company. LINOS generated solidly positive earnings in spite of large revenue shortfalls and the need to write off inventories for this customer in the 2005 fiscal year. We also have an intensive receivables management system, with which risks can be restricted and/or identified at an early stage.

Staff with key qualifications

LINOS depends on qualified skilled staff and specialists in many different technical areas. We encourage our staff to develop and increase their skills and technical know-how by holding internal and external training courses. The provision of information to employees about the company's objectives, strategies and projects is another basis for economic success in our operations. This was an essential precondition for the company turnaround in recent years.

Machine and equipment breakdown in areas of core skill

Disruptions of business operations due to machine and equipment breakdowns not only increase costs but also involve the risk of delays in delivery. Since LINOS is frequently the sole supplier, strategies to increase production reliability are of central importance to us. The development and implementation of maintenance and investment strategies for the critical processes are the focal point in this risk area.

EDP system breakdown or breakdown of central subsystems

The scope, quality and availability of IT systems that support our business processes have a major impact on company earnings. In order to make sure that the EDP systems and central subsystems do not break down, we analyse these systems in all areas of the company at regular intervals and review the relevant processes. Since 2005, all the main business processes and thus more than 90 per cent of our operations at our locations in Germany have been supported by SAP. We aim to achieve further standardisation at our locations in other countries as well in the next few years.

Events after the end of the fiscal year

In January 2006, LINOS AG placed 499,999 new bearer, no par value shares with institutional investors for EUR 9.90 per share in the context of a private placement. Some of the company's authorised capital was used for this purpose and the shareholders' subscription right was suspended. We obtained gross proceeds of about EUR 4.95 million from this issue. The number of shares issued increased from 5,008,000 to 5,507,999 as a result of the capital increase. The new shares are to be admitted for trading in the Prime Standard at Frankfurt Stock Exchange without the publication of a prospectus.

The funds obtained as a result of the capital increase are being used for the strategic development of the company. They are, on the one hand, enabling investments to be made that will produce benefits in future, such as technology projects. On the other hand, they are broadening the financial scope available to make possible acquisitions.

Prospects

In view of the increasing order intake, the more favourable economic situation and the recovery in the business with semiconductor equipment, LINOS is expecting business to continue developing positively in the 2006 fiscal year.

We are working on the assumption that we will succeed in increasing revenue moderately in spite of the scheduled decrease in deliveries connected with the Turkey business and the loss of revenue with Agfa Photo. This assessment is based, on the one hand, on the orders already received and, on the other hand, on a number of projects with which we made such progress last year that they will lead to revenue in 2006.

The new building in Regen will be available for use completely from mid-2006 onwards. This will enable us to continue optimisation of the production operations. We also consider that there is potential in the form of planned cost reductions through infrastructure measures, further expansion of the supply network and intensification of production at our subsidiary in Warsaw. We will be taking advantage of scope created in this way to expand our development capacities, to exploit revenue potential and to open up new market segments.

The improvement in the financial situation due to the increase in shareholders' equity and the new credit line arrangements will enable LINOS to continue expansion of the business. We are also considering acquisitions to broaden our portfolio.

All in all, the Executive Board is confident about the future of the company and expects further solidly positive earnings to be generated.

Consolidated financial statements according to IFRS AG balance sheet and income statement according to HGB

Consolidated financial statements according to IFRS

Consolidated balance sheet as at December 31, 2005 according to IFRS – assets

KEUR	Notes	2005	2004
Non-current assets			
Intangible assets	[2], [4]		
Patents, trademarks, licences and software		1,136	1,275
Development costs		3,876	3,137
Advance payments		48	9
		5,060	4,421
Goodwill	[2], [4]	19,397	19,397
Property, plant and equipment	[5]		
Land and buildings		2,933	3,020
Technical equipment and machines		5,238	5,612
Furniture and vehicles		1,873	2,153
Advance payments and construction in progress		2,137	310
		12,181	11,095
Participations booked at equity	[5]	28	34
Other non-current assets		297	614
Deferred taxes	[19]	5,565	6,141
		42,528	41,702
Current assets			
Inventories	[6]		
Raw materials and supplies		4,753	4,333
Unfinished goods and services		9,727	11,350
Finished goods and merchandise		5,687	5,749
Advance payments		25	0
		20,192	21,432
Trade receivables	[7]	14,078	11,676
Other current assets		873	396
Current income tax assets		158	52
Cash on hand and bank balances		839	2,856
Prepaid expenses		246	251
		36,386	36,663
		78,914	**78,365**

Consolidated balance sheet as at December 31, 2005 according to IFRS – liabilities and shareholders' equity

KEUR	Notes	2005	2004
Shareholders' equity			
Subscribed capital	[8]	5,008	5,004
Capital reserve	[9]	30,757	30,749
Accumulated currency translation adjustment		-459	-704
Accumulated consolidated net loss		-7,765	-12,620
		27,541	22,429
Non-current liabilities			
Long-term debt, less current portion	[10]	10,342	15,246
Deferred taxes	[19]	1,114	786
Provision for pension obligations	[11]	18,308	18,132
Non-current trade payables		711	810
Other non-current provisions	[12]	559	688
Miscellaneous liabilities, less current portion	[15]	305	740
Special item for public subsidies	[13]	963	718
		32,302	37,120
Current liabilities			
Short-term debt and current portion of long-term debt	[10]	6,116	5,567
Current trade payables		5,792	5,726
Payments received on account		199	36
Tax provisions	[14]	1,275	1,123
Other current provisions	[12]	1,159	1,262
Other current liabilities	[15]	4,530	5,102
		19,071	18,816
		78,914	**78,365**

Consolidated income statement for the 2005 fiscal year according to IFRS

KEUR	Notes	2005	2004
Revenue	[16]	**81,707**	**88,077**
Changes in inventories of finished goods and work in progress		-1,547	304
Production for own fixed assets capitalised		2,382	1,533
Other operating income	[17]	2,546	1,833
Costs of materials			
Cost of raw materials and supplies and purchased goods		-19,925	-22,571
Cost of purchased services		-3,106	-3,264
Personnel expenses			
Wages and salaries		-27,067	-27,494
Social security contributions and other pension costs		-5,508	-5,755
Depreciation and amortisation (including goodwill)		-4,963	-7,180
Other operating expenses	[18]	-15,077	-15,935
of which miscellaneous taxes KEUR 20 (2004: KEUR 58)			
Foreign currency exchange gains/losses		-432	180
Profit/loss from operations		**9,010**	**9,728**
Interest income		133	118
Interest expenses		-2,446	-3,133
Income/expenses from participations accounted at equity		-6	6
Profit/loss before taxes on income		**6,691**	**6,719**
Taxes on income	[19]	-1,836	-1,292
Consolidated net income/loss		**4,855**	**5,427**

Earnings per share according to IFRS

KEUR	Notes	2005	2004
Undiluted earnings per share	[20]		
Consolidated net income/loss		4,855	5,427
Shares (weighted average in the fiscal year in thousands)		5,006	5,002
Undiluted earnings per share in EUR		0.97	1.09
Diluted earnings per share	[20]		
Consolidated net income/loss		4,855	5,427
Shares (weighted average in the fiscal year in thousands)		5,010	5,008
Diluted earnings per share in EUR		0.97	1.08

Consolidated cash flow statement for the 2005 fiscal year according to IFRS

	KEUR	Notes	2005	2004
	Result for the year before taxes on income and interest		**9,010**	**9,728**
- / +	Profit/loss from valuation at fair value	[23]	307	156
+	Depreciation of non-current assets	[4], [5]	4,963	7,180
-	Write-ups of non-current assets		-906	0
-	Profit from asset disposal		-58	-130
+ / -	Increase/decrease in the provision for pension obligations	[11]	175	750
+ / -	Increase/decrease in other provisions and tax provisions	[12], [14]	-81	1,494
- / +	Increase/decrease in inventories	[6]	1,240	-945
- / +	Increase/decrease in trade receivables	[7]	-2,402	-3,865
- / +	Increase/decrease in other assets		-568	1,204
+ / -	Increase/decrease in trade payables and other liabilities not allocated to investing or financing activities	[13]	-627	1,552
+	Interest received		133	118
-	Interest paid		-2,446	-3,133
-	Taxes on income	[19]	-933	-1,157
=	**Cash flow from operating activities**		**7,807**	**12,952**
+	Cash received from disposal of property, plant and equipment	[4], [5]	188	539
-	Cash paid for investments in property, plant and equipment	[4], [5]	-3,403	-1,566
-	Cash paid for investments in intangible assets	[4], [5]	-2,487	-2,140
=	**Cash flow from investing activities**		**-5,702**	**-3,167**
-	Cash paid to redeem financial loans	[10]	-18,651	-4,562
+	Cash received from financial loans	[10]	14,125	222
+	Cash received from capital increase	[10]	12	12
=	**Cash flow from financing activities**		**-4,514**	**-4,328**
	Changes in cash and cash equivalents		**-2,409**	**5,457**
+ / -	Effect of exchange rate differences on cash on hand and bank balances		224	-83
+ / -	Cash and cash equivalents at the beginning of the fiscal year		1,351	-4,023
=	**Cash and cash equivalents at the end of the fiscal year**		**-834**	**1,351**
	Composition of cash and cash equivalents at the end of the fiscal year			
+	Cash on hand and bank balances		839	2,856
-	Bank liabilities due on demand	[22]	-1,673	-1,505
			-834	**1,351**

Statement of changes in Group equity for the 2005 fiscal year according to IFRS

KEUR	Subscribed capital	Capital reserve	Accumulated consolidated net income/ loss	Accumulated currency translation adjustments	Total
January 1, 2004	**5,000**	**30,741**	**-18,047**	**-581**	**17,113**
Capital increase from the issue of shares (stock option plan)	4	8			12
Change in accumulated currency translation adjustments (profits and losses not included in the income statement)	0	0	0	-123	-123
	5,004	30,749	-18,047	-704	17,002
Consolidated net income	0	0	5,427	0	5,427
Balance as at December 31, 2004/January 1, 2005	**5,004**	**30,749**	**-12,620**	**-704**	**22,429**
Capital increase from the issue of shares (stock option plan)	4	8	0	0	12
Change in accumulated currency translation adjustments (profits and losses not included in the income statement)	0	0	0	245	245
	5,008	30,757	-12,620	-459	22,686
Consolidated net income	0	0	4,855	0	4,855
Balance as at December 31, 2005	**5,008**	**30,757**	**-7,765**	**-459**	**27,541**

Notes to the consolidated financial statements according to IFRS for the 2005 fiscal year

[1] General information

LINOS AG is a public limited company incorporated under German law that is the parent company of the LINOS Group (hereinafter referred to as: 'LINOS' or 'the Group'). The Group operates on the market for photonics (optical technologies). The business activities consist of the development, production, sale and distribution of optical, electronic and precision mechanical components, systems and solutions. LINOS supplies both OEM products and standard products. The average number of employees in the Group in the year under review was 761, compared with 791 in 2004. LINOS AG has its registered office at Königsallee 23, 37081 Göttingen, Germany.

Since January 16, 2003, LINOS AG has been listed in the market segment to which companies are admitted if they fulfil additional commitments (Prime Standard).

The Executive Board will be submitting the 2005 consolidated financial statements of LINOS AG to the Supervisory Board for adoption on March 17, 2006. Publication of the 2005 consolidated financial statements is scheduled for March 21, 2006.

[2] Summary of the main accounting and valuation principles

The main accounting and valuation principles that were applied in preparing the consolidated financial statements are as follows:

Basic principles

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as they are required to be applied in the EU and in accordance with the provisions of commercial law that also have to be observed as stipulated in § 315a of the German Commercial Code (HGB).

The financial statements were prepared on the basis of historical acquisition or production cost, except for the financial assets or debt kept for trading purposes, all of which are valued at fair value following their inclusion for the first time.

December 31, 2005 is the qualifying date for the consolidated financial statements and for the individual financial statements of the companies included in the consolidated financial statements. Ausbildungszentrum optische Technologien GmbH, Göttingen, which is consolidated at equity, deviates from this rule in having September 30, 2005 as the qualifying date for its financial statements.

Estimates and assumptions

IFRS accounting requires estimates and assumptions to be made, which are incorporated in the amounts included in the accounts and the notes to the financial statements. Actual developments may therefore differ from these estimates.

Reporting currency

The consolidated financial statements were prepared in thousands of euros (KEUR).

Consolidation principles

The consolidated financial statements include LINOS AG and the companies it controls. This control is normally demonstrated when LINOS AG directly or indirectly holds more than 50% of the voting rights of the subscribed capital of a company and can therefore determine the financial and business policy of this company to its economic advantage.

Internal balances and transactions within the Group and profits and losses resulting from them that are not realised from the Group point of view are eliminated completely. Consistent accounting and valuation principles are applied in preparation of the consolidated financial statements.

Shares in joint venture companies, via which LINOS AG or one of its subsidiaries carries out business operations that are subject to joint management with one or more third parties from outside the Group, are included in the accounts at equity ("allowed alternative treatment") in accordance with IAS 31.38 on the basis of the individual financial statements. The company revalues its shares in the joint venture when there are indications that the value of the asset has decreased or that the reason for a reduction in value made in previous years no longer exists.

New accounting regulations

Standards or interpretations that are only mandatory in later fiscal years are not applied voluntarily. As far as is known at the present time, the impact of initial application on the financial statements is considered to be immaterial.

Financial instruments

The financial instruments shown in the balance sheet (financial assets and financial liabilities) as defined by IAS 32 and IAS 39 consist of certain cash on hand and bank balances, trade receivables and payables, non-current receivables, loans and borrowed funds as well as certain contractual agreements that lead to receivables and payables.

Financial risk management concentrates where assets are concerned on the availability of cash on hand and bank balances at short notice combined at the same time with interest optimisation. The objective in financing durable capital goods is to obtain long-term financing in each case too. The interest rates are generally based on reference interest rates plus an indicator-based margin. The interest rate change risk attributable to the reference interest rate is covered by carrying out interest rate hedging transactions. The cash that is needed at short notice is obtained via current account overdrafts at banks, for which interest is charged at current market rates. Credit risks and bad debt risks are controlled by regular appraisal and monitoring of customers and their credit limits. Credit insurance is obtained in individual cases. The bad debt risk depends on the size of the overall receivables portfolio.

Intangible assets

Intangible assets are valued at their acquisition or production cost. Intangible assets are shown when it is probable that the company will receive the future economic benefit attributable to the asset and that the acquisition or production cost of the asset can be measured reliably. Subsequent valuation is at acquisition or production cost less accumulated scheduled depreciation and accumulated write-downs. Intangible assets are depreciated on a linear basis throughout their estimated useful life. The depreciation period and method are reviewed annually at the end of a fiscal year.

(a) Patents, trademarks and licences

Amounts paid for patents, trademarks and licences are capitalised and then depreciated on a linear basis over the expected useful life. The expected useful life of patents, trademarks and licences varies between 2 and 10 years.

(b) Software

The acquisition cost of new software is capitalised and treated as an intangible asset, provided that these costs are not an integrated feature of the relevant hardware. Software is depreciated on a linear basis over a period of 2 to 5 years.

Costs that are incurred in order to maintain the original economic benefit of existing software systems are included as expenses when the maintenance work has been carried out.

(c) Research and development costs

Research and development costs are charged as expenses directly. Project development costs that fulfil the following criteria represent an exception to this rule:

- The project is clearly defined and the costs incurred are recorded separately and can be valued reliably;
- Completion of the project is technically feasible;

- There is the intention to complete the project and to sell or use products or processes resulting from it;
- It is possible to sell or use products or processes resulting from the project;
- There are plans for how the products or processes resulting from the project will generate economic benefits in future either by selling them or using them at the company, based on the existence of potential markets or possible internal uses; and
- Adequate technical, financial and other resources that are still required in order to complete the project must be available.

Capitalised development costs are depreciated on a linear basis over their expected useful life. The depreciation period is generally 3 to 5 years, with a maximum period of 17 years in exceptional cases.

If there are indications that the value of the asset has decreased or that the reasons for an unscheduled depreciation charge made in past periods no longer exist, the value included for the development costs is adjusted accordingly.

The uncapitalised research and development costs included as expenses amounted to KEUR 5,644 in 2005 (previous year: KEUR 6,229).

Goodwill
The amount of the acquisition cost of a company that exceeds the proportion of the fair values of the identifiable assets and debt acquired at the time of acquisition is classified as goodwill and is included in the balance sheet as an asset. The goodwill is valued at acquisition cost less accumulated write-downs.

Scheduled depreciation charges are no longer made with respect to goodwill for fiscal years after January 1, 2005. The book value is reviewed on every balance sheet date in the light of its future economic benefit.

For this purpose, the amount that can be achieved with this cash-generating unit is compared with the book value accounted for by the cash-generating unit. If the book value of the unit is higher than the amount that can be achieved with it, an unscheduled depreciation charge is made on the goodwill.

Property, plant and equipment
Property, plant and equipment are included at their acquisition or production cost less accumulated scheduled depreciation and accumulated write-downs. When property, plant and equipment are sold or disposed of in a different way, their acquisition or production cost and their accumulated depreciation and write-downs are eliminated from the balance sheet and the profit or loss resulting from their sale is included in the income statement.

The original acquisition cost of property, plant and equipment consists of the purchase price plus import duty and non-reimbursable purchase taxes as well as all the costs that can be allocated directly which are incurred in order to put the asset in an operational condition and take it to the location where it is to be used.

Production cost consists of the expenses that are incurred due to the goods consumed and the services needed to manufacture an asset. Both direct costs and appropriate proportions of the indirect costs required for production are included here.

Expenses that are incurred after the useful life has begun (e.g. maintenance, repair and overhaul costs) are generally charged in the income statement in the period in which the costs were incurred. If expenses lead to an additional economic benefit in future, which is likely to result from the use of property, plant and equipment above and beyond its originally estimated performance, these expenses are capitalised as subsequent acquisition cost of the property, plant and equipment.

Depreciation charges are calculated on a linear basis over the following estimated useful life:

Buildings	10 - 50 years
Technical equipment and machines	1 - 15 years
Furniture and vehicles	3 - 20 years

The useful lives and depreciation methods applied are reviewed in every period to make sure that the depreciation method and the depreciation period correspond to the anticipated economic benefit of property, plant and equipment assets. The depreciation period starts at the time when the asset becomes operational. The pro rata method is used for depreciation.

Construction in progress is shown at its acquisition or production cost, with depreciation not beginning until the relevant assets are operational.

Participations booked at equity

Interests in joint venture companies are booked at equity in accordance with IAS 31.38 (allowed alternative treatment).

Leasing

A leasing contract is classified as an operating leasing contract when essentially all the risks and opportunities associated with ownership remain with the lessor. Leasing payments within the framework of an operating leasing contract are charged as expenses on a linear basis over the term of the leasing contract.

The monetary value of incentives that lessors grant in connection with the conclusion of the leasing contract is posted on a linear basis as a reduction in the leasing expenses over the term of the leasing contract.

Transactions in the legal form of sale-and-leaseback contracts

Sale-and-leaseback transactions can take the form of operating and finance leasing contracts. Sale-and-leaseback transactions for financing purposes are carried out exclusively in the form of finance leasing contracts, in which property, plant and equipment assets are sold to a lessor and are then leased back from him. What are involved in each case are full amortisation leasing contracts with an inexpensive purchase option for the Group, the exercising of which is almost completely certain right from the start. In accordance with the actual economic content of the transactions, the sale and subsequent leaseback are treated as an entity and are included in the accounts as a loan in which the object leased acts as security. These transactions do not therefore have any impact on either property, plant and equipment or disposal profits.

Inventories

Inventories, including finished goods and work in progress, are included at the lower of acquisition or production cost and net disposal value. The net disposal value corresponds to the sales price in the ordinary course of business less the cost up to completion and the sales costs. The acquisition or production cost is determined on the basis of the weighted average costs. The costs of finished and unfinished goods include the relevant fixed and variable indirect costs of production. Inventories that cannot be sold are written off completely. Raw materials and supplies include indirect material costs attributable to procurement.

Receivables and other assets

After receivables and other assets with a fixed term have been included in the accounts for the first time, subsequent valuation is made at current acquisition cost after taking specific write-downs into consideration, applying the actual interest method. Receivables with a short term and other assets without a fixed interest rate are valued at the original invoice value or at the nominal value, provided that the effect of calculated discounting is not material. Receivables and other financial assets without a fixed term are valued at acquisition cost (nominal value). All receivables and other assets are subject to review in order to determine possible reductions in value.

Other assets that are not covered by IAS 39 are valued at acquisition cost. They are also subject to review in order to determine possible reductions in value.

Provision for pension obligations

Two of the Group companies have a pension scheme that specifies the pension that will be paid to eligible employees. The provision for pension obligations is valued on an annual basis by qualified, independent actuaries. The obligations and the pension expenses are calculated on the basis of the 'projected unit credit method'.

Every membership period leads to an increase in the accumulated rights in this method. Accumulated overall rights are determined on the basis of individual valuation. Profits or losses from restrictions or transfers of rights are taken into account when the restriction or the transfer occurs. Actuarial profits or losses are recorded pro rata on the basis of the anticipated average residual working life of the employees until retirement, to the extent that the balance of the accumulated, unrecorded actuarial profits and losses at the end of the previous period under review exceeds 10% of the present value of the "defined benefit liability" at this time.

The pension obligation is determined as the present value of the estimated future cash flow on the basis of an interest rate for industrial bonds in the same currency and with the same term as the pension obligations. An employer's pension liability insurance contract has been concluded for an individual pension commitment and has been capitalised as a non-current other asset. In accordance with IAS 19.54 (d), the asset value of this has been balanced with the relevant individual pension commitment.

Other current provisions

A provision is only shown if the company has a current (legal or de facto) commitment due to a past event, if it is probable that the fulfilment of the commitment will lead to an outflow of resources and if the amount of the commitment can be determined reliably. Provisions are reviewed and adjusted to the current estimate on every balance sheet date. If the date of commitment fulfilment leads to a material interest effect, the provision is included in the accounts with its present value.

Liabilities

After they have been recorded for the first time, all financial liabilities that are not derivative liabilities are valued at current acquisition cost. Following their inclusion for the first time, derivative liabilities are valued at their fair values. The changes in the fair value are posted in the income statement.

Realisation of revenue

Revenue is included when it is probable that the company will be receiving the economic benefit associated with the business transaction in question and when the amount of the revenue can be measured reliably. Revenue is included without general VAT and any price and quantity discounts when delivery is made and economic title with its risks and opportunities has been passed. Income from services is included on a pro rata basis over the period during which the service is provided. The percentage-of-completion method as specified in IAS 11 is also applied in the realisation of revenue from orders.

Interest

Interest is included in accordance with the actual charging of interest for the assets.

Foreign currencies

Foreign currency business transactions are included in the reporting currency by translating the foreign currency amount at the exchange rate between the reporting currency and the foreign currency that applies at the time of the business transaction.

Translation adjustments attributable to the processing of monetary items as well as to qualification date valuation at rates which differ from those originally applied during the period are included as expenses or income in the period in which they have occurred.

Business operations outside Germany

The consolidated subsidiaries outside Germany are financially, economically and organisationally independent. They are therefore treated as economically independent foreign units. Their reporting currency is the relevant national currency. With the exception of the goodwill, the assets and liabilities in the balance sheets of the financial statements compiled by the consolidated companies outside Germany are translated at the exchange rate at the end of the year, the income statements at the average exchange rates during the fiscal year and the goodwill at the historical exchange rate. All translation differences are taken into account in the accumulated currency translation adjustments in shareholders' equity.

Stock options

The staff and management of the company have been granted options to acquire ordinary shares in the company.

The options were granted before November 7, 2002, so that the IFRS 2 rules do not have to be applied in accordance with IFRS 2.53 ff.

Commitments and costs arising from stock option plans are not shown as personnel expenses in the income statement. LINOS AG therefore restricts itself to a detailed presentation of the stock option plan in note 8 to the consolidated financial statements.

Loan capital costs

Loan capital costs are not capitalised; they are included as expenses in the period in which they are incurred instead.

Public subsidies

Special items for public subsidies are included for considerations that the company has received before the balance sheet date and that represent income for periods after the balance sheet date. If the corresponding asset is capitalised, special items for public subsidies are included at the nominal value of the consideration received on arrival. Investment grants are included as income on a pro rata basis over the useful life of the assets. Expense grants are included as the relevant expenses are incurred. They are shown in other operating income in each case.

Taxes on income / deferred taxes

The income tax charge is determined by the size of the income for the year and takes tax deferrals into account. Deferred taxes are calculated with the help of the balance sheet-oriented liability method. Deferred taxes on income reflect the net tax expenses / income of temporary differences between the book value of an asset or a liability in the consolidated balance sheet and the tax balance sheets. Deferred tax assets and liabilities are calculated on the basis of the tax rates that are expected to apply in the period in which an asset is realised or a liability is paid. The valuation of deferred tax liabilities and assets takes into account the tax consequences that will probably result from the way temporary differences are reversed as estimated on the qualifying date. Deferred tax assets and liabilities are included irrespective of the time when the temporary entry differences will probably be reversed.

A deferred tax asset has to be included in the accounts for all temporary differences that are relevant from the income tax point of view to the extent that it is probable that a taxable income will be available against which the temporary difference can be charged. The company reassesses deferred tax assets that have not been included in the accounts and the book value of deferred tax assets on every balance sheet date. The company includes a deferred tax asset that has not been entered into the accounts up to now to the extent that it has become probable that taxable income in future will allow realisation of the deferred tax asset. The book value of a deferred tax asset is, on the other hand, reduced to the extent that it is no longer probable that sufficient taxable income will be available to take advantage of either some or all of the deferred tax asset.

Deferred tax liabilities are included in the accounts for all taxable temporary differences, provided that the deferred tax liabilities do not derive from goodwill, depreciation of which is not tax deductible.

Reduction in the value of assets

Property, plant and equipment and intangible assets are checked to see if their value has decreased whenever there are indications because of events or changes in circumstances that the book value might not be realisable. When the book value of an asset exceeds its realisable value, write-down expenses are charged in the income statement for property, plant and equipment and intangible assets that have been included at acquisition or production cost. The realisable amount is the higher of the net disposal value and the use value. The net disposal value is the amount that can be realised by selling the asset in a standard market transaction, while the use value means the present value of the estimated future cash flow that is expected from the continued use of an asset and its disposal at the end of its useful life. The realisable amount is estimated for a single asset or, if this is not possible, for the cash-generating unit.

If there is an indication that a value is no longer reduced or that the reduction in value is smaller than before, this recovery in value is booked as income in the income statement.

Contingent liabilities and claims

A company is not allowed to include any contingent liabilities. They must, however, be indicated if the possibility of an outflow of resources with economic benefits is not improbable.

Contingent claims are not included in the financial statements. They must, however, be indicated if an inflow of economic benefits is probable.

The Executive Board is not expecting any material effects in this context on December 31, 2005.

Events after the balance sheet date

Events that occur after the balance sheet date and provide additional information about the situation of the company on the balance sheet date are taken into account in the balance sheet. Events after the balance sheet date that have an impact on value are indicated exclusively in the notes to the consolidated financial statements.

[3] Changes in the companies consolidated

Liquidation of subsidiaries in 2004

S.H.O. Sp.z o.o., Poland, was liquidated on November 22, 2004 in accordance with a resolution passed by the shareholders on January 9, 2004. According to confirmation provided by the court, this liquidation was registered on January 19, 2005.

Merger between subsidiaries in 2004

Ascanius Grundstücksverwaltungsgesellschaft mbH, Göttingen, was merged with LINOS AG, Göttingen, with effect from January 1, 2004.

Establishment of subsidiaries in 2005

LINOS Systems GmbH, Munich, was established on March 11, 2005. The company's share capital amounts to KEUR 25. LINOS AG is the sole shareholder of LINOS Systems GmbH and can determine the financial and business policy of this company to its economic advantage. LINOS Systems GmbH is consolidated in full in the consolidated financial statements.

[4] Intangible assets and goodwill

Intangible assets and goodwill

KEUR	Patents, trademarks, licences and software	Development costs	Goodwill	Advance payments	Total
Acquisition / production cost					
January 1, 2004	5,348	8,621	28,164	0	42,133
Additions	915	1,216	0	9	2,140
Disposals	-571	-1,116	0	0	-1,687
Transfers	1	0	0	0	1
December 31, 2004/January 1, 2005	5,693	8,721	28,164	9	42,587
Additions	353	2,086	0	48	2,487
Disposals	-10	-352	0	0	-362
Transfers	10	0	0	-9	1
December 31, 2005	6,046	10,455	28,164	48	44,713
Accumulated depreciation, including unscheduled depreciation					
January 1, 2004	4,424	5,370	6,933	0	16,727
Scheduled depreciation	558	1,307	1,787	0	3,652
Unscheduled depreciation	0	23	0	0	23
Disposals	-564	-1,116	0	0	-1,680
Currency translation adjustments	0	0	47	0	47
December 31, 2004/January 1, 2005	4,418	5,584	8,767	0	18,769
Scheduled depreciation	502	1,334	0	0	1,836
Unscheduled depreciation	0	13	0	0	13
Disposals	-10	-352	0	0	-362
December 31, 2005	4,910	6,579	8,767	0	20,256
Net book value, December 31, 2004	**1,275**	**3,137**	**19,397**	**9**	**23,818**
Net book value, December 31, 2005	**1,136**	**3,876**	**19,397**	**48**	**24,457**

The additions to the development costs consist essentially of KEUR 1,308 relating to development and optimisation work in the production and measurement of aspherical optics with free-form shapes.

The capitalised development costs include expenses for the development of new technologies and production processes. LINOS has taken appropriate steps to make sure that the conditions for capitalisation as intangible assets were met right from the start.

On the balance sheet date, the development costs had a residual useful life of up to 16 years. Capitalisation of the development costs was determined on the basis of appropriate estimates of the residual useful lives and future cash flows.

In accordance with IFRS 3, an indefinite residual useful life is assumed for goodwill. The accuracy of its value is reviewed annually on the basis of the impairment-only approach.

The goodwill results from the acquisition of Rodenstock Präzisionsoptik GmbH, Munich, and Rodenstock Precision Optics Inc., USA, in 2000. The accuracy of its value is reviewed annually on the basis of the discounted cash flow model. The model is based on the cash flow resulting from the acquisition of Rodenstock Präzisionsoptik GmbH, Munich, and Rodenstock Precision Optics Inc., USA, until 2010. An interest rate of 9.5% has been applied in this context.

The intangible assets were not encumbered by any limitations on disposal rights or third-party liens on the balance sheet date.

An unscheduled depreciation charge of KEUR 13 (previous year: KEUR 23) was made within the framework of the impairment test that has to be made annually with respect to development costs.

[5] Property, plant and equipment / participations booked at equity

Property, plant and equipment

KEUR	Land and buildings	Technical equipment and machines	Furniture and vehicles	Advance payments and construction in progress	Total
Acquisition / production cost					
January 1, 2004	6,328	23,912	13,609	1,271	45,120
Additions	348	235	820	164	1,567
Disposals	0	-2,651	-3,139	-60	-5,850
Currency translation adjustments	2	29	-24	1	8
Transfers	0	32	-33	0	-1
December 31, 2004/January 1, 2005	6,678	21,557	11,233	1,376	40,844
Additions	23	1,310	660	1,409	3,402
Disposals	-113	-361	-1,523	-1	-1,998
Currency translation adjustments	12	19	48	2	81
Transfers	153	336	0	-489	0
December 31, 2005	6,753	22,861	10,418	2,297	42,329
Accumulated depreciation, including unscheduled depreciation					
January 1, 2004	3,471	16,123	11,030	1,066	31,690
Scheduled depreciation	185	2,103	1,147	0	3,435
Unscheduled depreciation	0	15	0	55	70
Disposals	0	-2,345	-3,047	-55	-5,447
Currency translation adjustments	2	19	-20	0	1
Transfers	0	30	-30	0	0
December 31, 2004/January 1, 2005	3,658	15,945	9,080	1,066	29,749
Scheduled depreciation	157	2,012	845	0	3,014
Unscheduled depreciation	0	0	100	0	100
Write-ups	0	0	0	-906	-906
Disposals	0	-346	-1,521	0	-1,867
Currency translation adjustments	5	12	41	0	58
December 31, 2005	3,820	17,623	8,545	160	30,148
Net book value 2004	**3,020**	**5,612**	**2,153**	**310**	**11,095**
Net book value 2005	**2,933**	**5,238**	**1,873**	**2,137**	**12,181**

On the balance sheet date, liabilities were secured by property, plant and equipment totalling KEUR 0 (previous year: KEUR 87), in the form of land charges of KEUR 10,113 (previous year: KEUR 5,112) as well as by the provision of securities amounting to KEUR 187 (previous year: KEUR 440) in the context of sale-and-leaseback contracts.

Unscheduled depreciation of property, plant and equipment amounting to KEUR 100 (previous year: KEUR 70) was made in the year under review because of the lack of commercialisation potential following the insolvency of the customer AGFA Photo GmbH. The unscheduled depreciation charge of KEUR 70 made in the previous year related essentially to advance payments and construction in progress.

The additions to the advance payments and construction in progress relate essentially (KEUR 1,305) to the new building at the Regen location.

The write-ups of KEUR 906 (previous year: KEUR 0) relate to the construction planning and site development costs for the building project at the Regen location (see note 17). These costs were written off in the 2003 financial statements, because the building project was considered unrealisable at this time. The recovery in value was made on the basis of expert third parties.

Participations booked at equity

Company	**Main area of business**	**Interest** %	**Value in the accounts on 12/31/2005** KEUR
Ausbildungszentrum optische Technologien GmbH, Göttingen	Co-operation on training with Carl Zeiss AG	50	28

LINOS AG holds an indirect 50% interest in Ausbildungszentrum optische Technologien GmbH, Göttingen, which was established on October 19, 2001. According to IAS 31, the participation represents a joint venture company and is booked at equity in accordance with IAS 31.38 (allowed alternative treatment). The share capital of the company amounts to KEUR 50. The net loss of the company under commercial law in the 2005 fiscal year amounted to KEUR 12 (profit in the previous year: KEUR 12). The balance sheet value was therefore KEUR 28 on December 31, 2005.

Since any further information specified in IAS 31.54 would be immaterial, none is presented here.

[6] Inventories

The book value of the inventories valued at their net disposal value amounted to KEUR 5,874 (previous year: KEUR 5,889). Inventories with a book value of KEUR 18,846 (previous year: KEUR 21,289) have been pledged as security for liabilities.

The write-downs of inventories amounted in total to KEUR 6,017 (previous year: KEUR 4,425). KEUR 1,293 of these write-downs had to be made because of the insolvency of the customer AGFA Photo GmbH.

In the case of write-downs in accordance with marketability, the storage periods are determined on the basis of past experience and projected for future periods.

[7] Trade receivables

Trade receivables

KEUR	12/31/2005	12/31/2004
Receivables	14,479	12,347
minus provisions for bad debts	-401	-671
	14,078	**11,676**

Provisions for bad debts of KEUR 61 were made in 2005 because of the insolvency of the customer AGFA Photo GmbH.

Adjustment of the provisions for bad debts led to net income of KEUR 168 (previous year: KEUR 81). Calculation of these provisions is based on the one hand on indications of potential risks involved in individual receivables. Past experience with bad debts is, on the other hand, taken into account as far as the total receivables portfolio is concerned.

The trade receivables assigned as security amounted to KEUR 12,872 (previous year: KEUR 10,589) on the balance sheet date.

The trade receivables were valued taking both individual and general provisions for bad debts and the percentage-of-completion method into account (see note 16).

The trade receivables are due within one year.

Receivables totalling KEUR 2,517 (previous year: KEUR 2,952) are backed by a letter of credit.

[8] Subscribed capital

The share capital of the parent company of the Group, LINOS AG, consists of 5,008,000 bearer shares with no par value, each of which represents EUR 1 of the share capital.

All the contributions have been paid. The share capital has developed as follows:

Development of share capital

	Date when the resolution was passed	Date of the commercial register entry	Number of shares issued	Subscribed capital KEUR
January 1, 2004	-	-	5,000,000	5,000
Changes in 2004	07.11.2000	03.16.2005	4,000	4
December 31, 2004	-	-	5,004,000	5,004
Changes in 2005	07.11.2000	02.07.2006	4,000	4
December 31, 2005	-	-	5,008,000	5,008

Conditional capital (stock option plan)

A conditional increase in the share capital of LINOS AG of up to KEUR 400 by the issue of up to 400,000 new bearer shares with no par value was decided at the Annual Shareholders' Meeting of LINOS AG that was held on July 11, 2000. The purpose of this conditional capital increase is to guarantee the subscription rights of the staff and Executive Board of LINOS AG and its subsidiaries in accordance with the conditions that were decided in the authorisation resolution passed by the Annual Shareholders' Meeting on July 11, 2000. The conditional capital increase can only be made to the extent that the employees who hold subscription rights within the framework of the stock option plan exercise their subscription right. The new shares participate in company profits from the beginning of the fiscal year onwards in which they are issued by the exercising of option rights.

The LINOS AG stock option plan was introduced in the 2000 fiscal year in the context of the IPO. This plan involves the granting of up to 400,000 bearer shares with no par value to staff and members of the Executive Board and directors of LINOS AG and its subsidiaries in accordance with the authorisation resolution that was passed by the Annual Shareholders' Meeting on July 11, 2000. The Annual Shareholders' Meeting on May 12, 2004 passed a resolution to amend the resolution passed on July 11, 2000 and to extend the option period to up to 10 years. The Executive Board was authorised to issue options with a period of up to 10 years and to extend the period of options that have already been issued to up to 10 years, while making no further changes to the provisions of the resolution passed by the Annual Shareholders' Meeting on July 11, 2000. The average price of EUR 26.88 per share at which the options can be exercised corresponds to the average stock market price during the last five days before the date on which the resolution in question was passed. 89.7% of the stock options were issued with an exercise price of EUR 27.00. The remaining 10.3% of the stock options were issued at an exercise price of between EUR 2.95 and EUR 44.50. The options can only be exercised on the condition that the stock exchange price of the LINOS shares demonstrates at least the same growth as the TecDax index at Frankfurt Stock Exchange starting on the date when the stock options were issued and adjusted for dividend payments, subscription rights and other special rights.

A maximum of one third of the number of stock options granted in each individual case can be exercised at the earliest two years after the date on which they were granted. The remaining two thirds of the total number of options granted in each individual case can be exercised at the earliest after three and four years respectively. 8,000 stock options had been exercised by the board members by December 31, 2005. 4,000 stock options were exercised on both 08.16.2004 and 07.27.2005 at a price of EUR 2.95 in each case. The share price was EUR 6.60 on the exercise date of 08.16.2004 and EUR 9.12 on the exercise date of 07.27.2005.

163,333 options (previous year: 217,333) for the acquisition of a total of 163,333 shares (previous year: 217,333) had not yet been exercised on December 31, 2005. The period of 141,333 of these 163,333 options ends in 2010, of 18,000 in 2011 and of 4,000 in 2012. In accordance with the accounting principles applied, the stock option plan is not charged to expenses.

No further options were issued in the 2005 fiscal year (previous year: 0), whereas 50,000 options (previous year: 13,667) expired. The fair value of the stock options amounted to KEUR 29 (previous year: KEUR 66) on the balance sheet date.

Alongside the stock option plan, further commitments that are similar to options were made, for which the same rules as in the stock option plan apply but which are paid for in cash rather than by issuing shares. The price at which the commitments that are similar to options can be exercised (EUR 8.96) corresponds to the average stock exchange price during the last five days before the commitment was made to the employee concerned. No commitments that are similar to options were made in the 2005 fiscal year (previous year: 0). These commitments will have to be taken into account in earnings in future years provided that the conditions for exercising the commitment that are specified in the option plan are met. The fair value of the commitments that are similar to options amounted to KEUR 55 (previous year: KEUR 75) on the balance sheet date.

Authorised capital

A resolution was passed at the Annual Shareholders' Meeting of the company that was held on May 8, 2002 to cancel the authorised capital of up to KEUR 2,500 that had existed until then. The Executive Board was at the same time authorised to increase the share capital - with the approval of the Supervisory Board - on one or more occasions up to May 8, 2007 by up to a total of KEUR 2,500 by issuing up to 2,500,000 new bearer shares with no par value in return for the injection of cash and / or physical assets. With the approval of the Supervisory Board, the Executive Board is entitled in this context to suspend the legal subscription right of the shareholders.

[9] Capital reserve and accumulated consolidated net income

The capital reserve contains the premium from capital increases, including the capital increase from the IPO in 2000 and the capital increases from the options exercised in 2004 and 2005. The costs of the capital increase were charged to the capital reserve as a net item, after deduction of the income tax relief resulting from them.

The individual financial statements of LINOS AG prepared in accordance with German commercial law are the basis for determining future dividend payments. The accumulated net income calculated by German commercial law amounts to KEUR 3,263.

[10] Debt

Debt

KEUR	12/31/2005	12/31/2004
Long-term debt, less current portion		
- Liabilities from sale-and-leaseback contracts	0	45
- Liabilities to banks	10,342	15,201
	10,342	15,246
Short-term debt and current portion of long-term debt		
- Liabilities from sale-and-leaseback contracts	45	169
- Liabilities to banks	6,071	5,398
	6,116	5,567
Total debt	**16,458**	**20,813**
of which from sale-and-leaseback contracts*)	45	214
of which to banks	16,413	20,599

* Interest rate 5.1% - 6.2%, maturity date June 2006

We refer to note 25 for information about the commitments arising from sale-and-leaseback contracts.

Non-current liabilities to banks

	Book value 12/31/2005 KEUR	Book value 12/31/2004 KEUR	Interest rate %	Maturity date
Secured				
Commerzbank Göttingen	0	447	4.50	06-2008
Commerzbank Göttingen	0	156	5.70	06-2008
Sparkasse Göttingen	0	183	5.95	07-2008
Sparkasse Göttingen	0	767	5.95	08-2008
Industriekreditbank	0	102	4.50	09-2008
Barclays Bank, UK	182	222	7.00	10-2008
Nord/LB, Hanover - Commerzbank, Hanover	0	16,945	5.91	12-2008
Deutsche Bank, Hanover / IKB, Hamburg / DZ Bank, Munich / Raiffeisenlandesbank Oberösterreich, Munich	14,126 *	0	3.99 **	06-2010
Secured loans, total	14,308	18,822		
Unsecured				
Commerzbank Göttingen	320	0	4.50	06-2008
Commerzbank Göttingen	112	0	5.70	06-2008
Sparkasse Göttingen	0	272	5.00	07-2007
Unsecured loans, total	432	272		
Non-current loans, total	14,740	19,094		
less current portion	- 4,398	- 3,893		
Non-current loans	10,342	15,201		
plus loans called off in the subsequent year	4,633	0		
	14,975	15,201		

* Transaction costs included in this on 12.31.2005 KEUR 141

** Taking the transaction costs into account

The company carried out a refinancing exercise in the 2005 fiscal year. Apart from KEUR 432 with Commerzbank Göttingen, all the domestic loans were paid back prematurely. A club deal with a credit line commitment of KEUR 18,900 on the balance sheet date was at the same time arranged, KEUR 14,126 of which - taking transaction costs on the assets side (KEUR 141) into account - had been used on 12.31.2005. It is probable that use will be made of the remaining KEUR 4,633 in the next fiscal year. The interest rate charged for this loan depends, on the one hand, on the EURIBOR and EONIA base rates and, on the other hand, on the Group's balance sheet and income statement indicators. The interest rate change risk has been covered with the help of an interest cap. We refer to note 23 in this context.

The fair value of the non-current loans with a nominal amount of KEUR 14,740 totalled KEUR 14,608 (previous year: KEUR 18,941) on December 31, 2005. This was determined by discounting the probable future repayments and interest payments to the balance sheet date with the application of an interest rate of 4.64%. An interest rate of 3.88% was applied in the case of interest payments that have to be made in future.

The non-current liabilities to banks are to be repaid as follows:

Repayment of non-current liabilities

KEUR	2005
2006	
Short-term loan call-off	- 4,633
Current portion	4,398
2007	4,396
2008	4,312
2009	4,191
2010	2,076
Subsequently	0
Total	**14,740**

On December 31, 2005, the security for non-current loans in the form of financial assets amounted to KEUR 0 (previous year: KEUR 18,750), property, plant and equipment to KEUR 0 (previous year: KEUR 87) and land charges in favour of the owner to KEUR 10,113 (previous year: KEUR 5,112), while the inventories pledged as security for bank loans totalled KEUR 18,846 (previous year: KEUR 21,289) and the trade receivables assigned as security amounted to KEUR 12,872 (previous year: KEUR 10,589).

Current liabilities to banks

The current liabilities to banks are included in the security provided for non-current loans. Current liabilities totalling KEUR 171 are an exception to this rule (previous year: KEUR 108).

[11] Provision for pension obligations

Existing pension schemes

Two of the Group companies have a pension scheme that some staff are entitled to participate in. The provision for pension obligations is formed for pension rights, disability and payments to surviving dependants. The obligations in each case differ according to the rules of the individual pension schemes as stipulated by law and specific individual contracts. The size of the provision for pension obligations is determined on the basis of the relevant eligibility periods and salaries in each individual case.

Neither of the pension schemes expired, was restricted or was changed in the fiscal year.

Both pension schemes have defined benefits. The following table presents a breakdown of the amounts included in the balance sheet before account is taken of asset values from employer's pension liability insurance contracts:

Breakdown of the amounts included in the balance sheet

KEUR	12/31/2005	12/31/2004
Present value of the defined benefit obligation	21,802	17,681
Unrecorded actuarial profits / losses	-2,982	451
Provision for pension obligations (defined benefit liability)	**18,820**	**18,132**

The asset values of the employer's pension liability insurance amounted to KEUR 513 in the 2005 fiscal year compared with KEUR 448 in the previous year. An interest rate of 4% is used as the basis for determining the asset value of the employer's pension liability insurance. The actual income from employer's pension liability insurance contracts in the 2005 fiscal year amounted to KEUR 10 (previous year: KEUR 7). The asset value was balanced with the provision for pension obligations as an asset item in the balance sheet on the balance sheet date. The pension expenses are as follows:

Pension expenses

KEUR	2005	2004
Personnel expenses	-280	-201
Interest expenses	968	951
Total expenses for pension obligations	**688**	**750**

The changes in the provision for pension obligations can be summarised as follows:

Changes in the provision for pension obligations

KEUR	2005	2004
Net liability at the beginning of the year	18,132	17,382
Net expenses recorded in the income statement	688	750
Net liability at the end of the year	**18,820**	**18,132**

The fundamental actuarial assumptions that are used to specify the obligations arising from pension schemes were as follows on December 31 in each case:

Assumptions used to specify the obligations arising from pension schemes

%	2005	2004
Discounting rate	4.50%	5.50%
Future wage and salary increases*	2.0%	3.0%
Future old-age pension increases	1.5%	1.5%
Average employee turnover	1.0 - 2.0%	1.0 - 2.0%

* No salary increases for members of the LINOS AG Executive Board

[12] Other provisions

Other provisions

KEUR	Warranties	Part-time working scheme for older employees	Annual financial statement and disclosure costs	Legal and consultancy costs	Miscellaneous	Total
Balance as at December 31, 2004	927	688	228	51	56	1,950
Required in the fiscal year	-16	-213	-218	-53	-37	-537
Released in the fiscal year	-512	0	-10	0	0	-522
Added in the fiscal year	342	84	232	59	106	823
Currency translation adjustments	0	0	0	2	2	4
Balance as at December 31, 2005	**741**	**559**	**232**	**59**	**127**	**1,718**
Current portion	741	0	232	59	127	1,159
Non-current portion	0	559	0	0	0	559

Warranties

The provision for warranty commitments is formed for anticipated warranty risks relating to products sold within the past twelve months. Individual provisions are formed for known risks as well.

Part-time working scheme for older employees

An appropriate provision was formed for employees at the Göttingen location to cover obligations arising from the collective agreement about part-time working for older employees and the collective agreement about the bridging of employment gaps (concluded in both cases for employees in the metalworking industry of Lower Saxony with effect from May 1, 2000).

Specific agreements about part-time working for older employees have been concluded with individual employees at the Munich and Regen locations.

The provision for commitments arising from the part-time working scheme for older employees is valued on an annual basis by qualified, independent actuaries. An interest rate of 2.75% was applied in accordance with IAS 19. The part-time working scheme for older employees, which can be arranged for periods of between 16 months and 6 years, is implemented using the block model.

[13] Special item for public subsidies

The Group has received various public investment grants in recent years. They are tied to specific research and development projects. Amounts that are not required have to be repaid once the specified subsidy period has expired. Various subsidies have also been granted on the condition that the subsidies are used exclusively at establishments in a certain town or region. The development projects for which grants have been made are capitalised in intangible assets where the condition made in IAS 38 is met.

The public subsidies are posted in income at the time when the corresponding expenses are incurred. The special item for public subsidies included allocated public grants of KEUR 963 on December 31, 2005 (previous year: KEUR 718). This item is released as other operating income in the income statement, amounting to KEUR 260 in the 2005 fiscal year (previous year: KEUR 314).

[14] Tax provisions

Tax provisions are formed that correspond to the actual tax payments that are expected. The actual tax payments that are expected depend on the taxable income of the Group companies in a period.

[15] Other liabilities

The other liabilities can be summarised as follows:

Other liabilities

KEUR	2005	2004
Liabilities to employees	2,830	3,012
Social security liabilities	738	753
Tax liabilities	368	623
Liabilities to the work safety association	237	242
Miscellaneous	662	1,212
	4,835	**5,842**

KEUR 305 of the liabilities to employees consist of liabilities from anniversary payments (previous year: KEUR 740) and have been shown in the non-current liabilities. The remaining amount of KEUR 4,530 is due within one year.

The other liabilities were valued taking account of appropriate estimates of salary trends and interest rates for the anniversary payments on the basis of actuarial calculations and for reorganisation measures relating to restructuring exercises carried out at the location in Göttingen.

[16] Revenue

Revenue was generated in the fiscal year by sales of goods totalling KEUR 69,385 (previous year: KEUR 75,819) and by the provision of services totalling KEUR 12,322 (previous year: KEUR 12,258).

The total revenue includes revenue from a manufacturing order as specified by IAS 11.3, which was included in the accounts by the percentage-of-completion method in accordance with the progress made in production. What is involved here is a contract with a fixed price, the earnings from which can be estimated reliably in accordance with IAS 11.23. The value-added method, which is based on the milestones reached, has been chosen to determine the degree of completion. Revenue from orders totalling KEUR 8,459 was generated in 2005, the accumulated costs and profits of which since the beginning of the project concerned amount to KEUR 18,378. The revenue invoiced up to December 31, 2005 includes KEUR 631 from invoices in accordance with the percentage-of-completion method. There were no payments received on account and liabilities from manufacturing orders on the balance sheet date.

[17] Other operating income

Other operating income

KEUR	2005	2004
Write-ups (see note 5)	906	0
Release of provisions	521	172
Release of special item for public subsidies	260	314
Public funding aid	238	188
Release of write-downs	230	290
Sale of fixed assets	58	130
Miscellaneous	333	739
	2,546	**1,833**

[18] Other operating expenses

Other operating expenses

KEUR	2005	2004
Insurance, commission and licences	3,196	3,642
Rental and leasing expenses	2,197	2,459
Costs of premises / repairs / maintenance	1,795	1,900
Data processing costs	1,288	1,195
Travel costs	1,039	894
Advertising and trade fair costs	960	927
Legal and consultancy costs	854	767
Miscellaneous personnel costs	793	735
Shipping and freight costs	658	756
Office material	213	223
Postage and telecommunications costs	189	196
Transfer of write-downs to trade receivables	62	209
Other expenses	1,833	2,032
	15,077	**15,935**

[19] Taxes on income / deferred taxes

Taxes on income / deferred taxes

KEUR	2005	2004
Actual tax expenses	933	1,157
Deferred tax expenses due to the occurrence and reversal of temporary differences	520	93
Effect of tax losses carried forward	383	42
	1,836	**1,292**

The change in the deferred income tax item in the balance sheet (net) can be broken down as follows:

Deferred income tax items

KEUR	2005	2004
Balance as at January 1	5,354	5,489
Deferred tax expenses due to the occurrence and reversal of temporary differences	-520	-93
Deferred tax asset from tax losses carried forward	-383	-42
Balance as at December 31	**4,451**	**5,354**

A tax rate of 40% is applied to calculate the expected tax expenses. This rate is made up of corporation tax (including reunification tax) of 26.5% and trade tax of about 18.0%. The anticipated tax rate of 40% takes the crediting of trade tax for the purposes of corporation tax calculation into account.

Reconciliation of the expected tax expenses and the tax expenses as shown in the income statement is as follows:

Expected and actual tax expenses

	2005 KEUR	2005 %	2004 KEUR	2004 %
Profit before taxes on income	**6,691**	**100.0**	**6,719**	**100.0**
Tax at the domestic tax rate	-2,676	-40.0	-2,688	-40.0
Tax effects of subsequently capitalised deferred taxes from previous years	501	7.5	2,022	30.1
Effects of depreciation differences in goodwill and other assets	460	6.9	-449	-6.7
Tax effects of uncapitalised deferred taxes from the current year	57	0.9	-153	-2.3
Tax effects of different tax rates of subsidiaries outside Germany	82	1.2	34	0.5
Tax effects relating to different periods	-212	-3.2	0	0.0
Tax effect of non-deductible business expenses	-83	-1.2	-50	-0.7
Miscellaneous	35	0.5	-8	-0.1
Tax expenses according to the income statement	**-1,836**	**-27.4**	**-1,292**	**-19.2**

The tax effects relating to different periods are attributable essentially to subsequent tax payments for previous years.

The deferred tax assets and liabilities can be broken down as follows:

Deferred tax assets and liabilities

KEUR	12/31/2004	Expenses/ income	12/31/2005
Deferred tax assets			
Tax losses carried forward	4,517	-383	4,134
Provision for pension obligations	891	23	914
Inventories	146	-2	144
Liabilities	215	-78	137
Fixed assets	87	-21	66
Receivables	23	-17	6
Special item for public subsidies	19	-8	11
Others	242	-89	153
Total	6,140	-575	5,565
Deferred tax liabilities			
Fixed assets	-462	-185	-647
Inventories	-61	-59	-120
Liabilities	-161	-48	-209
Other assets	-99	-21	-120
Provisions	0	-14	-14
Participations	-2	0	-2
Others	-1	-1	-2
Total	**-786**	**-328**	**-1,114**
Deferred tax assets (net)	5,354	-903	4,451

KEUR 4,134 (previous year: KEUR 4,517) of the deferred tax assets of KEUR 5,565 (previous year: KEUR 6,140) relate to tax losses carried forward, use of which is sufficiently probable on the basis of corporate planning and the current positive development in order intake.

There were corporation tax losses carried forward of KEUR 3,055 (previous year: KEUR 4,755) and trade tax losses carried forward of KEUR 6,361 (previous year: KEUR 7,139) on the balance sheet date, for which no deferred taxes were formed. Write-ups of KEUR 501 in deferred tax assets for corporation tax losses carried forward were made in the fiscal year.

[20] Earnings per share

The undiluted earnings per share are calculated by dividing the result for the period to which the shareholders are entitled by the weighted average number of the ordinary shares outstanding during the period. In order to calculate diluted earnings per share, the profit for the period attributable to the shareholders and the weighted average number of shares in circulation have to be adjusted for the diluting effects of all the ordinary shares which could potentially be issued if share subscription rights are exercised (see note 8).

The number of ordinary shares is the weighted average number of shares with no par value plus the weighted average number of ordinary shares that would be issued if all the potential ordinary shares with diluting effects were converted. Share subscription rights are considered to be converted into ordinary shares at the beginning of the period under review.

The weighted average number of the ordinary shares outstanding during the 2005 period was therefore 5,005,725 shares (undiluted) and 5,010,086 shares (diluted). The undiluted earnings and diluted earnings per share were as follows in the fiscal year and the previous year:

Earnings per share

EUR	Undiluted earnings per share 2005	Diluted earnings per share 2005	Undiluted earnings per share 2004	Diluted earnings per share 2004
	0.97	0.97	1.09	1.08

An additional 499,999 ordinary shares are entitled to participate in profits from January 1, 2005 onwards following the capital increase made on January 13, 2006 (see note 28). This means that a total of 5,507,999 ordinary shares are entitled to participate in profits. According to IAS 33.21, the time when the new shares are included is determined by the issue date and, associated with this, the receipt by the company of the consideration for the shares.

(21) Segment information

The following table shows the geographical segments of the LINOS Group (based on the location of the assets):

Geographical segment data

	Germany		USA		Europa		Elimination		Consolidated	
KEUR	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
External sales	72,262	78,461	6,998	6,955	2,447	2,661	0	0	81,707	88,077
Sales between the segments	6,039	5,916	0	0	1,549	1,127	-7,588	-7,043	0	0
Income	**78,301**	**84,377**	**6,998**	**6,955**	**3,996**	**3,788**	**-7,588**	**-7,043**	**81,707**	**88,077**
Segment EBIT	8,990	9,771	61	-37	1	-44	-42	38	9,010	9,728
plus financial result									-2,319	-3,009
plus taxes on income									-1,836	-1,292
Consolidated net income									4,855	5,427
Segment assets	72,534	71,744	4,446	3,993	2,098	1,993	-5,279	-5,506	73,349	72,224
plus deferred taxes									5,565	6,141
Consolidated segment assets									78,914	78,365
Segment debt	49,653	54,701	2,776	2,507	1,061	993	-3,231	-3,051	50,259	55,150
plus deferred taxes									1,114	786
Consolidated segment debt									51,373	55,936
Investments	5,749	4,351	3	7	163	136	-26	-787	5,889	3,707
Scheduled depreciation	-4,753	-6,859	-29	-174	-68	-54	0	0	-4,850	-7,087
Unscheduled depreciation	-113	-102	0	0	0	0	0	9	-113	-93
Expenses with no effect on payment except for depreciation	507	942	-7	-40	52	103	0	0	552	1,005
Change in cash and cash equivalents	-2,265	5,151	21	122	-165	184	0	0	-2,409	5,457
Pro rata result for the period generated by participations booked at equity	-6	6	0	0	0	0	0	0	-6	6
Participations booked at equity	28	34	0	0	0	0	0	0	28	34

Transactions between the segments are mainly carried out at acquisition or production cost plus a margin, that takes account of the additional costs incurred by the segment supplying the goods or services, and a profit mark-up.

Business segment data

KEUR	Information Technology & Communications 2005	Information Technology & Communications 2004	Health Care & Life Sciences 2005	Health Care & Life Sciences 2004	Industrial Manufacturing 2005	Industrial Manufacturing 2004	Not allocated 2005	Not allocated 2004	Total/ consolidated 2005	Total/ consolidated 2004
External sales	21,058	26,762	28,758	24,547	31,891	36,768	0	0	81,707	88,077
Segment assets	0	0	0	0	0	0	73,349	72,224	73,349	72,224
Investments	0	0	0	0	0	0	5,889	3,707	5,889	3,707

The strategic business divisions basically include the systems, high-quality cameras and laser components that form our three main product lines. Allocation is made on the basis of different customers for these products.

Since a large proportion of the assets is used by several business divisions, it is not possible to allocate these assets to the individual business divisions appropriately.

Revenue by geographical segments

KEUR	Revenue in Germany 2005	Revenue in Germany 2004	Revenue in USA 2005	Revenue in USA 2004	Revenue in the rest of Europe 2005	Revenue in the rest of Europe 2004	Elimination 2005	Elimination 2004	Group total 2005	Group total 2004
Germany	38,576	40,398	0	0	0	0	0	0	38,576	40,398
Rest of Europe	26,979	28,199	0	0	2,447	2,661	0	0	29,426	30,860
North America	809	1,187	6,992	6,995	0	0	0	0	7,801	8,142
Asia	5,842	8,550	0	0	0	0	0	0	5,842	8,550
Other	56	127	6	0	0	0	0	0	62	127
External sales	**72,262**	**78,461**	**6,998**	**6,955**	**2,447**	**2,661**	**0**	**0**	**81,707**	**88,077**
Sales between segments	6,039	5,916	0	0	1,549	1,127	-7,588	-7,043	0	0
Total	**78,301**	**84,377**	**6,998**	**6,995**	**3,996**	**3,788**	**-7,588**	**-7,043**	**81,707**	**88,077**

[22] Notes to the cash flow statement

The cash and cash equivalents at the end of the year include cash on hand and bank balances and bank liabilities due on demand. The item "Bank liabilities due on demand" consists of liabilities in current accounts that had a positive balance at least at one time during the fiscal year.

[23] Derivative financial instruments

The Group concluded forward exchange contracts in 2005 in order to reduce the existing exchange rate risk of business transactions in US dollars. The following forward exchange contracts with an identical nominal value in US dollars were concluded in this context in the 2005 fiscal year:

Financial instruments

	Currency	Maturity	Nominal value KEUR	Performance value KEUR	Fair value KEUR
	USD	02-2006	392	-30	-30
	USD	03-2006	392	-30	-30
	USD	04-2006	407	-14	-14
	USD	05-2006	407	-13	-13
	USD	06-2006	283	-11	-11
	USD	07-2006	283	-11	-11
	USD	08-2006	80	-4	-4
	USD	09-2006	80	-4	-4
	USD	10-2006	80	-4	-4
	USD	11-2006	80	-4	-4
	USD	12-2006	80	-4	-3
	USD	01-2007	80	-4	-3
				-133	-131

The financial instruments used involve pending transactions in which the definition criteria for a derivative in accordance with IAS 39.9 are fulfilled. KEUR -306 (previous year: KEUR 156) were included in the income statement as foreign currency exchange losses on the balance sheet date because of changes in the fair value.

In connection with the refinancing exercise that was carried out (see note 10), the company also concluded several interest rate hedging transactions in the 2005 fiscal year, in order to reduce the interest rate risk of the loan with a variable interest rate. The fair value of the interest rate hedging transactions was KEUR 203 on the qualifying date (previous year: KEUR 0). KEUR 16 (previous year: KEUR 0) were included as interest income in the 2005 fiscal year due to changes in the fair value.

The fair value of the derivative financial instruments corresponds to the market price on the qualifying date.

[24] Leasing

Operating leasing contracts

The Group companies have concluded various operating leasing contracts for vehicles, furniture and vehicles as well as technical equipment and machines. The leasing conditions do not include any restrictions on the Group companies concerned regarding the distribution of profits, the obtainment of additional loans or the arrangement of further leasing commitments.

The existing, non-terminable leasing commitments arising from operating leasing contracts are as follows:

Leasing commitments

KEUR	12/31/2005	12/31/2004
Term of up to 1 year	288	231
Term of 1 to 5 years	637	343
Term of more than 5 years	55	54
	980	**628**

[25] Transactions in the legal form of sale-and-leaseback contracts

The transactions that are in the legal form of sale-and-leaseback contracts but are accounted for as loans in view of their actual economic content, using the object leased as security, are based on the following assets:

Assets on which sale-and-leaseback contracts are based

KEUR	12/31/2005	12/31/2004
Machines	378	889
Accumulated depreciation	-191	-449
Net book value	**187**	**440**

The terms of the leaseback contracts range in general from 47 to 50 months and include inexpensive purchase options for buying the objects leased back from the lessor.

The minimum future leasing payments for the above-mentioned leaseback contracts are:

Minimum leasing payments for leaseback contracts

KEUR	
During the first year	50
2nd to 5th year	0
After 5 years	0
Minimum leasing commitments, total	**50**
Incidental payments from leasing contracts	0
Net minimum commitments	**50**
Interest	-5
Present value of the minimum commitments	**45**
Commitments from leaseback contracts	
- Current portion	45
- Non-current portion	0

[26] Commitments

The commitments from contracts about investments in property, plant and equipment amounted to KEUR 3,128 (previous year: KEUR 106). This item includes commitments from orders placed for the new building at the Regen location amounting to KEUR 2,955.

[27] Contingent liabilities

Various claims have been made on some Group companies and / or legal action is pending that are associated with these companies' normal business operations. Although it is not always possible to predict exactly how such disputes will be settled, the Executive Board expects that they will not lead to any material liabilities for the Group.

[28] Transactions between associated companies and persons

Transactions with participations booked at equity

The Group conducts transactions with companies booked at equity that are part of normal business operations and are carried out at arm's length.

The balance sheet includes the following amounts from transactions with such companies:

Transactions with associated companies in the balance sheet

KEUR	12/31/2005	12/31/2004
Other assets	0	0
Trade payables	7	8

Remuneration paid to members of the Executive Board

The total remuneration paid can be broken down as follows in accordance with 4.2.3 of the German Corporate Governance Code:

Remuneration paid to members of the Executive Board in the 2005 fiscal year

KEUR	Fixed remuneration	Variable remuneration	Transfer to pension provision	Total
Professor Dr Gerd Litfin	268	90	94	452
Volker Brockmeyer	182	64	0	246
	450	**154**	**94**	**698**

Remuneration paid to members of the Executive Board in the 2004 fiscal year

KEUR	Fixed remuneration	Variable remuneration	Transfer to pension provision	Total
Professor Dr Gerd Litfin	255	77	133	465
Volker Brockmeyer	181	67	0	248
	436	**144**	**133**	**713**

The shares and stock options held by the members of the Executive Board of the company were as follows on the balance sheet date:

Shares and stock options held by members of the Executive Board

	Number of shares 12/31/2005	Number of options 12/31/2005	Number of shares 12/31/2004	Number of options 12/31/2004
Professor Dr Gerd Litfin	1,793,497	0	1,793,497	0
Volker Brockmeyer	4,000	4,000	2,000	8,000
	1,797,497	4,000	1,795,497	8,000

28,000 commitments that are similar to options have also been made to Volker Brockmeyer.

Remuneration paid to members of the Supervisory Board

The members of the Supervisory Board are receiving total remuneration of KEUR 62 (previous year: KEUR 64) for fiscal 2005. In accordance with the change in the articles of association made by the Annual Shareholders' Meeting on May 12, 2004, this remuneration includes KEUR 30 in variable components. The members of the Supervisory Board held a total of 1,480 shares in the company on December 31, 2005.

[29] Events after the balance sheet date

In the context of a private placement in January 2006, LINOS AG placed 499,999 new bearer shares with no par value with institutional investors for EUR 9.90 per share, making use of some of the authorised capital and suspending the subscription right held by the shareholders. The company received gross proceeds of about EUR 4.95 million as a result of this issue. The number of shares issued increased from 5,008,000 to 5,507,999 as a result of the capital increase.

[30] List of consolidated subsidiaries

Consolidated subsidiaries

Company	Share of the company %	Main operations
LINOS Photonics GmbH & Co. KG, Göttingen	100.0	Development, production, sale and distribution of optical systems
LINOS Real Estate GmbH, Göttingen	100.0	Purchase, construction, administration and renting of land and buildings
LINOS Management GmbH, Göttingen	100.0	Management
LINOS Systems GmbH, Munich	100.0	Development, production, sale and distribution of optical systems and services associated with them
LINOS Photonics Ltd., UK	100.0	Sale and distribution of optical systems
LINOS Photonics Inc., USA	100.0	Sale and distribution of optical systems
LINOS Photonics SARL, France	99.0	Sale and distribution of optical systems
Optotecs Sp.z o.o., Poland	100.0	Production of optical components

We refer to note 3 for information about the changes in the companies consolidated.

[31] Notes to § 264 b of the HGB

LINOS Photonics GmbH & Co. KG, Göttingen, is consolidated in full in the consolidated LINOS financial statements. In accordance with § 264 b of the HGB, LINOS Photonics GmbH & Co. KG is not required to prepare, audit and disclose individual financial statements, with due regard for the supplementary regulations for limited companies under commercial law.

[32] Notes to § 264 paragraph 3 of the HGB

LINOS Real Estate GmbH, Göttingen, is consolidated in full in the consolidated LINOS financial statements. A profit transfer agreement with LINOS AG was concluded with effect from January 1, 2002 that was entered in the commercial register of LINOS Real Estate GmbH on September 26, 2002. In accordance with § 264 paragraph 3 of the HGB, LINOS Real Estate GmbH, Göttingen, is not required to prepare, audit and disclose individual financial statements, with due regard for the supplementary regulations for limited companies.

[33] Notes to § 314 paragraph 1 number 8 of the HGB

The statement specified in § 161 of the German Companies Act (AktG) about the recommendations of the government commission appointed to compile the German Corporate Governance Code was issued by the Executive Board and the Supervisory Board dated November 25, 2005 and has been made available to the shareholders on a permanent basis on the website http://www.linos.de.

[34] Notes to § 314 paragraph 1 number 9 of the HGB

The fee included as expenditure in the fiscal year for the auditor of the consolidated financial statements amounts to KEUR 102 for the audit and KEUR 13 for other services that were provided for the parent company or subsidiaries.

Göttingen, February 2006
LINOS AG

The Executive Board

Professor Dr Gerd Litfin

Volker Brockmeyer

Auditor's certificate

We have audited the consolidated financial statements prepared by LINOS Aktiengesellschaft, Göttingen, consisting of the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, and the consolidated management report for the fiscal year from January 1 to December 31, 2005. The Executive Board of the company is responsible for compiling the consolidated financial statements and the consolidated management report in accordance with the International Financial Reporting Standards (IFRS) as they are required to be applied in the EU and in accordance with the provisions of commercial law that also have to be observed as stipulated in § 315a paragraph 1 of the German Commercial Code (HGB). Our assignment is to make a judgement about the consolidated financial statements and the consolidated management report on the basis of the audit we have completed.

We have made our audit of the consolidated financial statements in accordance with § 317 of the HGB and observing the principles governing the proper conduct of audits as issued by the German Institute of Auditors. According to these regulations and principles, the audit must be planned and implemented in such a way that inaccuracies and violations which have substantial impact on the picture of the asset situation, financial position and profitability presented by the consolidated financial statements (in compliance with the accounting regulations that have to be applied) and by the consolidated management report are identified with sufficient certainty. Information about the business operations and the economic and legal environment of the Group as well as expectations about possible mistakes are taken into account when specifying the audit procedures. The effectiveness of the internal accounting control system and supporting evidence confirming the information provided in the consolidated financial statements and the consolidated management report are checked mainly by taking random samples in the course of the audit. The audit consists of an evaluation of the financial statements of the companies included in the consolidated financial statements, of the definition of the companies consolidated, of the accounting and consolidation principles applied and of the main elements of company management by the Executive Board as well as an assessment of the overall presentation of the consolidated financial statements and the consolidated management report. We are of the opinion that our audit forms a reliable enough basis for making a sound judgement.

Our audit has not led to any objections being raised. In our considered opinion, based on the findings of the audit, the consolidated financial statements of LINOS Aktiengesellschaft, Göttingen, comply with the IFRS as they are required to be applied in the EU and with the provisions of commercial law that also have to be observed as stipulated in § 315a of the HGB and present a true and fair picture of the asset situation, financial position and profitability of the Group, taking these regulations into account. The consolidated management report is consistent with the consolidated financial statements, gives an appropriate overall description of the situation of the Group and presents the future opportunities and risks in an accurate way.

Hanover, March 6, 2006
Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft

AG balance sheet and income statement according to HGB

AG balance sheet as at December 31, 2005 according to HGB - assets

in KEUR	2005	2004
Fixed assets		
Intangible assets		
Industrial property rights and software	69	90
Property, plant and equipment		
Land	0	1,724
Other equipment, furniture and vehicles	44	41
	44	1,765
Financial assets		
Shares in affiliated companies	36,880	36,855
Loans to affiliated companies	5,164	0
	42,044	36,855
	42,156	38,710
Current assets		
Receivables and other assets		
Receivables from affiliated companies of which due within more than one year: KEUR 0 (previous year: KEUR 614)	7,075	9,834
Other assets of which due within more than one year: KEUR 513 (previous year: KEUR 448)	700	451
	7,775	10,285
Cash on hand and bank balances	56	22
	7,831	10,307
Prepaid expenses	202	75
	50,190	**49,092**

AG balance sheet as at December 31, 2005 according to HGB - liabilities and shareholders' equity

in KEUR	2005	2004
Shareholder's equity		
Subscribed capital	5,008	5,004
Capital reserve	24,417	24,409
Accumulated net income/loss	3,263	0
	32,688	29,413
Provisions		
Pension provisions	760	706
Tax provisions	574	505
Other provisions	554	582
	1,887	1,793
Liabilities		
Liabilities to banks	14,268	17,278
Payables to affiliated companies	1,210	79
Trade payables	70	30
Other liabilities	67	498
of which taxes: KEUR 31 (previous year: KEUR 233)		
of which social security: KEUR 11 (previous year: KEUR 10)		
	15,614	17,886
	50,190	**49,092**

AG income statement for the 2005 fiscal year according to HGB

in KEUR	2005	2004
Other operating income	1.885	793
Personnel expenses		
Wages and salaries	-959	-953
Social security contributions, other pension costs and financial support of which for pensions: KEUR 54 (previous year: KEUR 88)	-120	-166
Depreciation of intangible assets, property, plant and equipment	-34	-69
Other operating expenses	-826	-934
Income from participations of which from affiliated companies: KEUR 3,554 (previous year: KEUR 0)	3,554	0
Income from profit transfer agreements of which from affiliated companies: KEUR 606 (previous year: KEUR 624)	606	624
Income from financial asset loans of which from affiliated companies: KEUR 349 (previous year: KEUR 0)	349	0
Other interest and similar income of which from affiliated companies: KEUR 205 (previous year: KEUR 936)	267	990
Interest and similar expenses	-985	-1.195
Profit/loss from operations	**3.737**	**-910**
Taxes on income	-474	-499
Net profit/loss	**3.263**	**-1.409**
Withdrawals from the capital reserve	0	1.409
Accumulated net income	**3.263**	**0**

Glossary

A

Angiography
Visualisation of blood vessels by injection of an X-ray contrast medium and the subsequent production of rapid series of programmed recordings (angiograms).

AoT
Optical technology training centre.

B

Biochip
A substrate material with dimensions in the millimetre range for the examination of compounds of biochemical substances.

Biochip scanner
Optical instrument for analysing compounds of biochemical substances on biochips.

Biophotonics
All the optical processes that are used in such modern bioscientific technologies as high-throughput screening, gene sequencing and the deployment of biochips.

Biotechnology
Name given to a market segment by LINOS AG; this market segment is responsible for the development and production of opto-mechatronic systems for analysing biomolecules and cell constituents for research purposes.

BMBF
German Ministry of Education and Research.

Book-to-bill ratio
Ratio of orders received to orders billed.

Broadband non-reflecting coating
Surface coating to avoid light reflection in a large wavelength range.

Business unit
Unit in the LINOS AG sales organisation, which is responsible for product development, project management, commercial processing and customer relations.

C

Cardiology
The branch of internal medicine concerned with the diagnosis and treatment of heart and circulation disorders.

Catalog products
LINOS AG market segment; standard products that are marketed via the familiar LINOS catalog.

Coating
High-performance coating for optical components and systems.

Coating machine
Production machine on which high-performance optical coatings are applied in a vacuum in clean room conditions.

Corporate governance
Code of conduct (guidelines) for good company management, known internationally as rules for corporate behaviour too. Corporate governance describes all the general legal and institutional conditions by means of which influence can be exerted on company management and control either directly or indirectly.

C-shaped unit
Specially designed X-ray diagnostics unit, in which the X-ray source and the image production unit are located at the ends of a C-shaped structure.

D

DAX
German share index.

Defense
Name given to a market segment by LINOS AG; defense technology.

Dental technology
Name given to a market segment by LINOS AG; optical processes for dental technology.

DermoGenius®
Computer-based image analysis system for diagnostics support in the early detection of skin cancer.

Digital printing/digital printing technology
Printing process based on digital data using laser light.

Diode laser
Laser based on semiconductor material.

Display technology
Name given to a market segment by LINOS AG; a wide range of different display systems for traffic engineering are supplied here.

DVFA
German Association for Financial Analysis and Asset Management (DVFA).

E

EBIT
Earnings before interest and taxes.

EBITA
Earnings before interest, taxes and amortisation.

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

Electro-optical modulator system /electro-optical modulators
Modulation system for laser light based on electro-optical crystals.

Enabling technology
A key technology.

F

Faraday isolators
Component in optical systems.

G

Genetic and protein analysis
Examination of biochemical substances, the genome and the molecules formed from the genes (proteins).

Genome
The total genetic material of an organism.

Genomics
In a similar way to proteomics, genomics aims to develop a more precise understanding of the connection between genes and illnesses. Genomics focusses particularly on the characterisation and sequencing of the genome. Genomics findings are used, for example, in medical research and trials.

H

HALO lens
High-aperture laser lenses.

Health Care & Life Sciences
LINOS AG business division.

I

IFRS
International Financial Reporting System.

Image enhancement system for X-ray equipment
An optoelectronic system for processing X-ray pictures digitally, on film or with a TV camera.

Impairment test
Review of possible reductions in the value of all assets on the basis of internal and external information on the balance sheet date.

Industrial Manufacturing
LINOS AG business division.

Industrial inspection
Name given to a market segment by LINOS AG; optical metrology and inspection technology.

Information Technology & Communications
LINOS AG business division.

Interferometer
Optical measuring instrument based on light interference.

Intervention
Therapeutic or preventive medical action.

Intraoral camera
Camera for taking pictures intra-orally (inside the mouth).

IPO
Initial public offering.

K

Key or enabling technology
Technical know-how that creates the necessary basis for new developments and products in many different market segments and technologies.

L

Laser
Abbreviation for light amplification by stimulated emission of radiation.

Laser beam expander
Beam expansion system for changing the diameter of the laser beam.

Laser technologies
Name given to a market segment by LINOS AG.

M

Microoptic sub-assembly
System consisting of miniaturised optical components.

Microprocessors
Semiconductor components.

MRF technology
Innovative process for finishing precision optical surfaces (**m**agneto-**r**heological **f**inishing).

N

Nanometre
1 millionth of a millimetre.

O

OEM
Original equipment manufacturer.

OIDA
Optoelectronics Industrial Development Association.

One-stop shop
The customer receives everything from a single source, for example optics, coating and assembly.

Opto-mechatronic systems
Systems that consist of a combination of optical, mechanical and electronic components.

P

Phase modulator
Electro-optical modulator for modulating the phase position of a laser beam.

Photo and lab technology
Name given to a market segment by LINOS AG; photo and photo laboratory field.

Photo finishing
Process for the reproduction of analog or digital photos on photo paper.

Photonics
All the optical technologies for the production, amplification, forming, transmission, measurement and utilisation of light.

Positioning systems
Precision mechanical components for positioning objects.

Prime Standard
Deutsche Börse listing segment with special disclosure and accounting requirements. Companies listed in the Prime Standard (LINOS AG, for example) meet international transparency standards that go beyond the demands of the General Standard.

Printing industry
Name given to a market segment by LINOS AG; this market segment concentrates on the development, production and sale of high-quality lenses and opto-mechatronic systems for the printing industry.

Proteomics
In a similar way to genomics, proteomics aims to develop a more precise understanding of the connection between genes and illnesses. Proteomics focusses on the systematic compilation of protein profiles. Since genetic information is implemented by proteins, proteomics provides essential data for the development of new medical drugs.

R

Rapid prototyping
Fast production of prototypes.

Real-time PCR
(**PCR** = **p**olymerase **c**hain **r**eaction) Process with which a single segment of DNA can be induced to replicate millions of times within a few hours. The aim is to obtain a large enough quantity for the diagnostic identification of hereditary diseases, cancer cells or viruses.

Real-time thermocycler
Unit for the specific reproduction of DNA.

RTP Pockels cell
A special arrangement of two RTP crystals in a housing. High voltage that can modulate the light passing through via a change in the refractive index of the crystals can be applied to the unit via contacts and electrodes.

S

Scanner
Optomechanical system for the spatial control and deflection of laser light.

Semiconductors
Crystalline or amorphous solids (made from an organic material), the electrical conductivity of which is higher than that of insulators and lower than that of metals.

Semiconductor technology
Name given to a market segment by LINOS AG.

Shareholders' equity ratio
Indicator in capital structure analysis that represents the proportion of total capital accounted for by shareholders' equity (shareholders' equity divided by the balance sheet total).

Special coating
Coating with special technological properties.

Supply network
Comprehensive logistics concept strongly oriented towards the customer, with particular emphasis on the inexpensive sourcing of individual components.

Surgery systems
Name given to a market segment by LINOS AG; development and production of optical systems for surgical medicine, e.g. endoscopy.

Systems technology
Name given to a market segment by LINOS AG; engineering and technology transfer services.

T

Tax assets
The amounts in taxes on income that are probably reimbursable in future periods and result from temporary differences and/or tax profits and losses carried forward that have not been used yet are capitalised as tax assets.

TecDAX
Stock exchange index that was introduced on March 24, 2003. It is the successor to the Nemax50. The TecDAX reflects the development in the value of the 30 largest technology shares in the Prime Standard below the DAX.

Telecommunications
Name given to a market segment by LINOS AG.

U

UV range
Ultraviolet range; short-wave range of the light spectrum.

W

Wafer stepper
Machine for the production of semiconductor components.

WinLens
Software program developed by LINOS for the assessment and calculation of optical systems.

X

X-ray imaging
Name given to a market segment by LINOS AG; systems for X-ray diagnostics and intervention.

LINOS AG company dates 2006/2007

Company dates

Financial statement press conference, Hanover	March 22, 2006
DVFA Analysts' Conference, Frankfurt	March 23, 2006
LASER China, Shanghai	March 21 - 23, 2006
Laser Optik, Berlin	March 23 - 24, 2006
DPG Conference, Dresden	March 27 - 28, 2006
Vienna Investment Forum, Vienna	March 29, 2006
Photonics Europe, Strasbourg, France	April 4 - 6, 2006
Semicon Europe, Munich	April 4 - 6, 2006
SEMICONtact Conference, Munich	April 4, 2006
Publication of the report on the 1st quarter of 2006	May 4, 2006
Annual Shareholders' Meeting 2006	May 4, 2006
Vision East, Boston, USA	May 9 - 11, 2006
Automatica, Munich	May 16 - 19, 2006
CLEO, Long Beach, USA	May 23 - 25, 2006
SENSOR, Nuremberg	May 30 - June 1, 2006
DGaO Conference, Weingarten	June 6 - 10, 2006
IPS International Workshop on Infrared Plasma Spectroscopy, Greifswald	June 15, 2006
OPTATEC, Frankfurt	June 20 - 23, 2006
Analysts' conference at OPTATEC, Frankfurt	June 20, 2006
MicroScience, ExCel, London (UK)	June 27 - 29, 2006
Semicon West, San Francisco, USA	July 10 - 14, 2006
InterOpto 2006, Tokyo, Japan	July 12 - 14, 2006
Interphoto, Shanghai, China	July 14 - 18, 2006
ICAP (International Conference on Atomic Physics) 2006, Innsbruck, Austria	July 16 - 21, 2006
Publication of the report on the 2nd quarter of 2006	August 3, 2006
SCC Small Cap Conference, Frankfurt	August 28 - 30, 2006
Motek, Sinsheim	September 26 - 29, 2006
Photokina, Cologne	September 26 - October 1, 2006
Photonex, Coventry, UK	October 4 - 5, 2006
OPTO, Paris	October 17 - 19, 2006
Vision, Stuttgart	November 7 - 9, 2006
Publication of the report on the 3rd quarter of 2006	November 9, 2006
German Equity Forum, Frankfurt	November 27- 29, 2006
RSNA Radiologic Society of North America, Chicago, USA	November 26 - December 1, 2006
Publication of the results for 2006	March 22, 2007
Publication of the report on the 1st quarter of 2007	May 3, 2007
Annual Shareholders' Meeting 2007	May 3, 2007
Publication of the report on the 2nd quarter of 2007	August 2, 2007
Publication of the report on the 3rd quarter of 2007	November 8, 2007

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