

Notes to the consolidated financial statements according to IFRS for the 2004 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 791, compared with 839 in 2003. 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).

[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).

The accounting principles applied comply with the directives of the European Union about consolidated financial statement accounting. The conditions that have to be met by consolidated financial statements in order to provide exemption from the presentation of individual financial statements according to § 292 a of the German Commercial Code (HGB) are satisfied.

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, 2004 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, 2004 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 unrealised profits and losses resulting from them 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 31.32 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 when the reason for a reduction in value made in previous years no longer exists.

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 certain other receivables and payables that are based on contractual agreements.

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. The interest rates are generally fixed for the term of the financing contract. 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. Interest risks are not hedged.

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 5 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 3 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) Development costs

Research and development costs are charged as expenses in the relevant period. 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 8 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 6,229 in 2004 (previous year: KEUR 6,379).

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 depreciation and accumulated write-downs. Goodwill is subject to linear depreciation over its probable useful life. Goodwill depreciation is included in the depreciation and amortisation of intangible assets and property, plant and equipment in the income statement.

The depreciation period is specified according to the expected useful life of the goodwill and amounts to up to 15 years. The residual book values are reviewed on every balance sheet date to determine their future economic benefit. If there are indications that the goodwill has decreased, the amount that can be achieved is determined for the cash-generating unit to which the goodwill is attributable. If the book value of the goodwill is higher than the amount that can be achieved, 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 additional property, plant and equipment costs.

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 - 14 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. Depreciation of construction in progress does not begin until the relevant assets are operational.

Participations booked at equity

Interests in joint venture companies are booked at equity in accordance with IAS 31.32 (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.

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.

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 best 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 IAS standards do not yet contain any binding rules about the entries for and valuation of stock option plans at the present time. No special treatment is stipulated for the balance sheet and income statement. Commitments and costs arising from stock option plans do not have to be shown as personnel expenses in the income statement. LINOS AG therefore restricts itself to a detailed presentation of the stock option plan in the notes 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.

Special items for 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 service provided 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, 2004.

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

Companies acquired in 2003

A further 17% and 1% of the shares in two companies that were already consolidated in full were acquired in the 2003 fiscal year for a total purchase price of KEUR 21.

Establishment of subsidiaries in 2003

LINOS Photonics SARL was established in Champagne au Mont near Lyons, France, on March 25, 2003. The company's share capital amounts to KEUR 100, 20% of which had been paid on the balance sheet date. LINOS AG is the majority shareholder (99%) of LINOS Photonics SARL and can determine the financial and business policy of this company to its economic advantage. LINOS Photonics SARL is consolidated in full in the consolidated financial statements.

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.

[4] Intangible assets and goodwill**Intangible assets and goodwill**

in KEUR	Patents, trade- marks, licences and software	Development costs	Goodwill	Advance payments	2004 total	2003 total
Acquisition/production cost						
January 1, 2004	5,348	8,621	28,164	0	42,133	41,659
Additions	915	1,216	0	9	2,140	1,003
Disposals	- 571	- 1,116	0	0	- 1,687	- 529
Currency translation adjustments	0	0	0	0	0	0
Transfers	1	0	0	0	1	0
December 31, 2004	5,693	8,721	28,164	9	42,587	42,133
Accumulated depreciation, including unscheduled depreciation						
January 1, 2004	4,424	5,370	6,933	0	16,727	13,086
Scheduled depreciation	558	1,307	1,787	0	3,652	3,807
Unscheduled depreciation	0	23	0	0	23	331
Disposals	- 564	- 1,116	0	0	- 1,680	- 529
Currency translation adjustments	0	0	47	0	47	32
Transfers	0	0	0	0	0	0
December 31, 2004	4,418	5,584	8,767	0	18,769	16,727
Book value	1,275	3,137	19,397	9	23,818	25,406

The additions to patents, trademarks, licences and software consist essentially (KEUR 824; previous year: KEUR 0) of capitalised know-how in connection with the acquisition of technology.

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 six years; goodwill has been depreciated over 15 years up to now. In accordance with IFRS 3, an indefinite residual useful life is now assumed for goodwill.

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 23 (previous year: KEUR 331) was made within the framework of the impairment test that has to be completed annually.

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

Property, plant and equipment

	Land and buildings	Technical equipment and machines	Furniture and vehicles	Advance payments and construction in progress	2004 total	2003 total
in KEUR						
Acquisition/production cost						
January 1, 2004	6,328	23,912	13,609	1,271	45,120	45,360
Additions	348	235	820	164	1,567	1,018
Disposals	0	- 2,651	- 3,139	- 60	- 5,850	- 1,130
Currency translation adjustments	2	29	- 24	1	8	- 128
Transfers	0	32	- 33	0	- 1	0
December 31, 2004	6,678	21,557	11,233	1,376	40,844	45,120
Accumulated depreciation, including unscheduled depreciation						
January 1, 2004	3,471	16,123	11,030	1,066	31,690	26,837
Scheduled depreciation	185	2,103	1,147	0	3,435	4,272
Unscheduled depreciation	0	15	0	55	70	1,692
Disposals	0	- 2,345	- 3,047	- 55	- 5,447	- 1,030
Currency translation adjustments	2	19	- 20	0	1	- 81
Transfers	0	30	- 30	0	0	0
December 31, 2004	3,658	15,945	9,080	1,066	29,749	31,690
Book value	3,020	5,612	2,153	310	11,095	13,430

On the balance sheet date, liabilities were secured by property, plant and equipment totalling KEUR 87 (previous year: KEUR 122), in the form of land charges of KEUR 5,112 (previous year: KEUR 5,112) as well as by the provision of securities amounting to KEUR 440 (previous year: KEUR 900) in the context of sale-and-leaseback contracts.

Unscheduled depreciation of property, plant and equipment amounting to KEUR 71 (previous year: KEUR 1,692) was made for technical equipment and machines, furniture and vehicles and advance payments and construction in progress because of reductions in their commercialisation potential.

Participations booked at equity

Company	Main area of business	Interest in %	Value in the accounts on 12/31/2004 in KEUR
Ausbildungszentrum optische Technologien GmbH, Göttingen	Co-operation on training with Carl Zeiss AG	50	34
Guided Color Technologies GmbH, Jena	Development and production of integrated systems	0	0

LINOS AG holds a 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 31.32 (allowed alternative treatment). The share capital of the company amounts to KEUR 50. The net profit of the company under commercial law in the 2004 fiscal year amounted to KEUR 12 (loss in the previous year: KEUR 3). The balance sheet value was therefore KEUR 34 on December 31, 2004.

The shares in Guided Color Technologies GmbH, Jena, that were included in the accounts at equity in accordance with IAS 31.32 in previous years were sold with economic effect from October 1, 2004 on the basis of a contract concluded on September 29, 2004.

Since any further information specified in IAS 31.47 would be immaterial, none is presented here.

[6] Inventories

The book value of the inventories valued at their net disposal value amounted to KEUR 5,889 (previous year: KEUR 5,990). Inventories with a book value of KEUR 21,289 (previous year: KEUR 20,352) have been pledged as security for liabilities.

[7] Trade receivables**Trade receivables**

in KEUR	12/31/2004	12/31/2003
Receivables	12,347	8,605
minus provisions for bad debts	- 671	- 794
	11,676	7,811

Adjustment of the provisions for bad debts led to net income of KEUR 123 (previous year: KEUR 175). 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 10,589 (previous year: KEUR 6,572) on the balance sheet date.

[8] Subscribed capital

The share capital of the parent company of the Group, LINOS AG, consists of 5,004,000 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 in KEUR
January 1, 2003			5,000,000	5,000
Changes in 2003	-	-	0	0
December 31, 2003			5,000,000	5,000
Changes in 2004	07.11.2000	01.12.2005*	4,000	4
December 31, 2004			5,004,000	5,004

*Application for entry in the commercial register

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. In order to prevent the options expiring, 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. 4,000 stock options had been exercised by the board members by December 31, 2004. They were exercised on 08.16.2004 at a price of EUR 2.95. The share price on the exercise date was EUR 6.60.

217,333 options (previous year: 235,000) for the acquisition of a total of 217,333 shares (previous year: 235,000) had not yet been exercised on December 31, 2004. In accordance with the accounting principles applied, the stock option plan is not charged to expenses.

No further options were issued in the 2004 fiscal year (previous year: 0), whereas 13,667 options (previous year: 59,800) expired. The fair value of the stock options amounted to KEUR 66 (previous year: KEUR 15) 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 9.07) 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 2004 fiscal year. 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 75 (previous year: KEUR 0) 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 increase from the options exercised in 2004. 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. As in the previous year, the accumulated net loss attributable to the result for the current year was compensated for in the 2004 fiscal year by making an appropriate withdrawal of KEUR 1,409 (previous year: KEUR 511) from the capital reserve. The accumulated net income calculated by German commercial law therefore amounts to KEUR 0.

[10] Debt**Debt**

	12/31/2004	12/31/2003
in KEUR		
Long-term debt, less current portion		
- Liabilities from sale-and-leaseback contracts	45	214
- Liabilities to banks	15,201	16,513
	15,246	16,727
Short-term debt and current portion of long-term debt		
- Liabilities from sale-and-leaseback contracts	169	374
- Liabilities to banks	5,398	11,756
	5,567	12,130
Total debt	20,813	28,857
of which from sale-and-leaseback contracts*)	214	588
of which to banks	20,599	28,269

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

We refer to note 24 for information about the commitments arising from sale-and-leaseback contracts.

Non-current liabilities to banks

	Book value 12/31/2004 in KEUR	Book value 12/31/2003 in KEUR	Interest rate in %	Maturity date
Secured				
Commerzbank Göttingen	447	576	4.50	06-2008
Commerzbank Göttingen	156	199	5.70	06-2008
Sparkasse Göttingen	183	234	5.95	07-2008
Sparkasse Göttingen	767	767	5.95	08-2008
Industriekreditbank	102	128	4.50	09-2008
Barclays Bank, UK	222	0	7.00	10-2008
Nord/LB, Hanover - Commerzbank, Hanover	16,945*	20,683	5.91**	12-2008
Secured loans, total	18,822	22,587		
Unsecured				
Sparkasse Göttingen	272	380	5.00	07-2007
Bayrische Hypobank	0	94	5.20	12-2006
Unsecured loans, total	272	474		
Non-current loans, total	19,094	23,061		
less current portion	- 3,893	- 6,548		
	15,201	16,513		

* Transaction costs included in this on 31/12/2004 KEUR 54 (previous year: KEUR 81)

** Taking the transaction costs into account

The fair value of the non-current loans amounted to KEUR 18,941 (previous year: KEUR 22,507) on December 31, 2004.

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

Repayment of non-current liabilities

in KEUR	2004
2005	3,893
2006	4,890
2007	4,843
2008	5,449
2009	19
Subsequently	0
Total	19,094

On December 31, 2004, the security for non-current loans in the form of financial assets amounted to KEUR 18,750 (previous year: KEUR 18,750), property, plant and equipment to KEUR 87 (previous year: KEUR 122) and land charges in favour of the owner to KEUR 5,112 (previous year: KEUR 5,112), while the inventories pledged as security for bank loans totalled KEUR 21,289 (previous year: KEUR 20,352) and the trade receivables assigned as security amounted to KEUR 10,589 (previous year: KEUR 6,572).

Current liabilities to banks

The current liabilities to banks are included in the security provided for non-current loans. Current liabilities totalling KEUR 108 are an exception to this rule (previous year: KEUR 261).

[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:

Breakdown of the amounts included in the balance sheet

	12/31/2004	12/31/2003
in KEUR		
Present value of the defined benefit obligation	17,681	16,759
Unrecorded actuarial profits/losses	451	623
Provision for pension obligations (defined benefit liability)	18,132	17,382

The asset values of the employer's pension liability insurance amounted to KEUR 448 in the 2004 fiscal year compared with KEUR 385 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 2004 fiscal year amounted to KEUR 7 (previous year: KEUR 4).

The pension expenses are as follows:

Pension expenses

	2004	2003
in KEUR		
Personnel expenses	- 201	41
Interest expenses	951	833
Total expenses for pension obligations	750	874

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

Changes in the provision for pension obligations

	2004	2003
in KEUR		
Net liability at the beginning of the year	17,382	16,508
Net expenses recorded in the income statement	750	874
Net liability at the end of the year	18,132	17,382

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

Actuarial assumptions used to specify the obligations arising from pension schemes

	2004	2003
in %		
Discounting rate	5.50%	5.75%
Future wage and salary increases*	3.0%	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

	Warranties	Part-time working scheme for older employees	Annual financial statement and disclosure costs	Legal and consultancy costs	Miscellaneous	Total
in KEUR						
Balance as at December 31, 2003	452	564	244	55	170	1,485
Required in the fiscal year	- 77	- 14	- 203	- 50	- 143	- 487
Released in the fiscal year	- 129	0	- 40	- 3	0	- 172
Added in the fiscal year	681	138	227	50	31	1,127
Currency translation adjustments	0	0	0	- 1	- 2	- 3
Balance as at December 31, 2004	927	688	228	51	56	1,950
Current portion	927	0	288	51	56	1,262
Non-current portion	0	688	0	0	0	688

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 2.5% was applied in accordance with IAS 19. The part-time working scheme for older employees, which can be arranged for periods of between two and six 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 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 718 on December 31, 2004 (previous year: KEUR 1,036). This item is released as other operating income in the income statement, amounting to KEUR 314 in the 2004 fiscal year (previous year: KEUR 674).

[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] Revenue

Revenue was generated in the fiscal year by sales of goods totalling KEUR 75,819 (previous year: KEUR 64,705) and by the provision of services totalling KEUR 12,258 (previous year: KEUR 5,487).

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 9,560 was generated in 2004, the accumulated costs and profits of which since the beginning of the projects concerned amount to KEUR 9,920. There were no advance payments and liabilities from manufacturing orders on the balance sheet date.

[16] Other operating income

Other operating income

in KEUR	2004	2003
Release of special item for public subsidies	314	674
Release of write-downs	290	186
Public funding aid	188	104
Release of provisions	172	12
Sale of fixed assets	130	108
Miscellaneous	739	897
	1,833	1,981

[17] Other operating expenses

Other operating expenses

in KEUR	2004	2003
Insurance, commission and licences	3,642	950
Rental and leasing expenses	2,459	3,080
Costs of premises / repairs / maintenance	1,900	1,823
Data processing costs	1,195	1,259
Advertising and trade fair costs	927	764
Travel costs	894	784
Legal and consultancy costs	767	1,077
Shipping and freight costs	756	688
Miscellaneous personnel costs	735	571
Office material	223	209
Transfer of write-downs to trade receivables	209	360
Postage and telecommunications costs	196	222
Other expenses	2,032	1,152
	15,935	12,939

[18] Taxes on income/deferred taxes**Taxes on income/deferred taxes**

	2004	2003
in KEUR		
Actual tax expenses	1,157	- 66
Deferred tax expenses due to the occurrence and reversal of temporary differences	93	- 60
Effect of tax losses carried forward	42	- 573
	1,292	- 699

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

Deferred income tax items

	2004	2003
in KEUR		
Balance as at January 1	5,489	4,856
Deferred tax expenses due to the occurrence and reversal of temporary differences	- 93	60
Deferred tax asset from tax losses carried forward	- 42	573
Balance as at December 31	5,354	5,489

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

	2004 in KEUR	2004 in %	2003 in KEUR	2003 in %
Result before taxes on income	6,719	100.0	- 10,315	100.0
Tax at the domestic tax rate	- 2,688	- 40.0	4,126	- 40.0
Tax effects of subsequently capitalised deferred taxes from previous years	2,022	30.1	0	0.0
Tax effects of uncapitalised deferred taxes from the current year	- 153	- 2.3	- 2,455	23.8
Tax effects of uncapitalised deferred taxes from previous years	0	0.0	- 676	6.6
Depreciation of goodwill and other assets that are not deductible for trade tax purposes	- 449	- 6.7	- 483	4.7
Tax effect of non-deductible business expenses	- 50	- 0.7	- 16	0.2
Tax effects of different tax rates of subsidiaries outside Germany	34	0.5	- 19	0.2
Tax reimbursements from previous years	0	0.0	183	- 1.8
Miscellaneous	- 8	- 0.1	39	- 0.4
Tax expenses according to the income statement	- 1,292	- 19.2	699	- 6.8

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

Deferred tax assets and liabilities

	12/31/2003	Expenses /income	12/31/2004
in KEUR			
Deferred tax assets			
Tax losses carried forward	4,559	- 42	4,517
Provision for pension obligations	874	17	891
Inventories	206	- 60	146
Liabilities	169	46	215
Fixed assets	100	- 13	87
Receivables	42	- 19	23
Special item for public subsidies	27	- 8	19
Others	197	45	242
Total	6,174	- 34	6,140
Deferred tax liabilities			
Fixed assets	- 449	- 13	- 462
Inventories	- 104	43	- 61
Liabilities	- 113	- 48	- 161
Other assets	- 4	- 95	- 99
Provisions	- 14	14	0
Participations	0	- 2	- 2
Others	- 1	0	- 1
Total	- 685	- 101	- 786
Deferred tax assets (net)	5,489	- 135	5,354

KEUR 4,517 (previous year: KEUR 4,559) of the deferred tax assets of KEUR 6,141 (previous year: KEUR 6,174) 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 4,755 (previous year: KEUR 11,409) and trade tax losses carried forward of KEUR 7,139 (previous year: KEUR 6,238) on the balance sheet date, for which no deferred taxes were formed. Since deferred tax assets from corporation tax losses carried forward were written down in the previous year, a write-up of KEUR 2,022 was made in the fiscal year because of changes in the planning assumptions.

[19] 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 on the day when the subscription rights are granted.

In view of the loss situation in the previous year, there was no diluting effect in 2003 in accordance with IAS 33.40. The undiluted earnings and diluted earnings per share were as follows in the fiscal year and the previous year:

Earnings per share

	Undiluted earnings per share 2004	Diluted earnings per share 2004	Undiluted earnings per share 2003	Diluted earnings per share 2003
in EUR	1.09	1.08	- 1.92	- 1.92

[20] Segment information

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

Geographical segment data

in KEUR	Germany		USA		Europe		Elimination		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
External sales	78,461	61,134	6,955	5,944	2,661	3,114	0	0	88,077	70,192
Sales between the segments	5,916	5,217	0	0	1,127	663	- 7,043	- 5,880	0	0
Income	84,377	66,351	6,955	5,944	3,788	3,777	- 7,043	- 5,880	88,077	70,192
Segment EBIT	9,771	- 7,037	- 37	- 380	- 44	51	38	- 84	9,728	- 7,450
plus financial result									- 3,009	- 2,865
plus taxes on income									- 1,292	699
Consolidated net income									5,427	- 9,616
Segment assets	71,744	69,826	3,993	4,409	1,993	1,574	- 5,506	- 4,788	72,224	71,021
plus deferred taxes									6,141	6,174
Consolidated segment assets									78,365	77,195
Segment debt	54,701	58,521	2,507	2,619	993	1,343	- 3,051	- 3,086	55,150	59,397
plus deferred taxes									786	685
Consolidated segment debt									55,936	60,082
Investments	4,351	1,970	7	9	136	42	- 787	0	3,707	2,021
Scheduled depreciation	- 6,859	- 7,822	- 174	- 197	- 54	- 60	0	0	- 7,087	- 8,079
Unscheduled depreciation	- 102	- 2,023	0	0	0	0	9	0	- 93	- 2,023
Expenses with no effect on payment except for depreciation	942	934	- 40	17	103	26	0	0	1,005	977
Cash flow	5,151	- 3,004	122	- 313	184	375	0	0	5,457	- 2,942
Pro rata result for the period generated by participations booked at equity	6	- 1	0	0	0	0	0	0	6	- 1
Participations booked at equity	34	29	0	0	0	0	0	0	34	29

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

	Information Technology & Communications		Health Care & Life Sciences		Industrial Manufacturing		Not allocated		Total/ consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
in KEUR										
External sales	26,762	16,278	24,547	23,903	36,768	30,011	0	0	88,077	70,192
Segment assets	0	0	0	0	0	0	72,224	71,021	72,224	71,021
Investments	0	0	0	0	0	0	3,707	2,021	3,707	2,021

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.

Revenue by geographical segments

	Revenue in Germany		Revenue in the USA		Revenue in the rest of Europe		Elimination		Group total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
in KEUR										
Germany	40,398	35,801	0	0	0	0	0	0	40,398	35,801
Rest of Europe	28,199	15,748	0	0	2,661	3,114	0	0	30,860	18,862
North America	1,187	1,596	6,955	5,944	0	0	0	0	8,142	7,540
Asia	8,550	7,887	0	0	0	0	0	0	8,550	7,887
Other	127	102	0	0	0	0	0	0	127	102
External sales	78,461	61,134	6,955	5,944	2,661	3,114	0	0	88,077	70,192
Sales between segments	5,916	5,217	0	0	1,127	663	- 7,043	- 5,880	0	0
Total	84,377	66,351	6,955	5,944	3,788	3,777	- 7,043	- 5,880	88,077	70,192

[21] 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. Cash on hand and bank balances of KEUR 1,710 were not freely available on the balance sheet date. 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.

[22] Derivative financial instruments

The Group concluded forward exchange contracts in 2004 in order to reduce the existing exchange rate risk of business transactions in US dollars. Countertrades with an identical nominal value in US dollars were concluded in the 2004 fiscal year:

Financial instruments

	Currency	Maturity	Nominal value in KEUR	Fair value in KEUR	Result of fair value valuation in KEUR
	USD	02-2005	244	24	24
	USD	03-2005	248	27	27
	USD	04-2005	242	22	22
	USD	05-2005	464	24	24
	USD	06-2005	303	10	10
	USD	07-2005	303	10	10
	USD	08-2005	302	10	10
	USD	09-2005	302	10	10
	USD	10-2005	302	10	10
	USD	11-2005	302	9	9
	USD	12-2005	301	9	9
	USD	01-2006	301	10	10
					175

The financial instruments used involve pending transactions in which the hedging definition criteria in accordance with IAS 39.10 are not fulfilled. KEUR 156 (previous year: KEUR 19) were included in the income statement as foreign currency exchange gains on the balance sheet date because of changes in the fair value. The fair values were determined on the basis of a discounted cash flow method.

[23] Leasing

The Group companies have concluded various operating leasing contracts for vehicles, software, furniture and office equipment as well as office and production buildings. 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

in KEUR	12/31/2004	12/31/2003
Term of up to 1 year	231	226
Term of 1 to 5 years	343	351
Term of more than 5 years	54	108
628	685	685

[24] 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 using the object leased as security in view of their actual economic content are based on the following assets:

Assets on which sale-and-leaseback contracts are based

in KEUR	12/31/2004	12/31/2003
Machines	889	1,664
Accumulated depreciation	- 449	- 761
Net book value	440	903

The terms of the leaseback contracts range in general from 34 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

in KEUR	
During the first year	173
2nd to 5th year	45
After 5 years	0
Minimum leasing commitments, total	218
Incidental payments from leasing contracts	0
Net minimum commitments	218
Interest	- 4
Present value of the minimum commitments	214
Commitments from leaseback contracts	
- Current portion	169
- Non-current portion	45

[25] Commitments

The commitments from contracts about investments in property, plant and equipment amounted to KEUR 106 (previous year: KEUR 22).

[26] 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.

[27] 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

in KEUR	12/31/2004	12/31/2003
Other assets	0	750
Trade payables	8	26

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 2004 fiscal year)

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

Remuneration paid to members of the Executive Board (in the 2003 fiscal year)

in KEUR	Fixed remuneration	Variable remuneration	Transfer to pension provisions	Total
Professor Dr Gerd Litfin	243	25	34	302
Volker Brockmeyer	175	0	0	175
Dr Holger Schmidt (up to March 31, 2003)	96	0	0	96
Dr Hans-Joachim Richter (up to March 31, 2003)	175	0	0	175
	689	25	34	748

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 12/31/2004	Number of options 12/31/2004	Number of shares 12/31/2003	Number of options 12/31/2003
Professor Dr Gerd Litfin	1,793,497	0	1,793,497	0
Volker Brockmeyer	2,000	8,000	0	12,000
Dr Holger Schmidt (up to March 31, 2003)	0	0	0	0
Dr Hans-Joachim Richter (up to March 31, 2003)	0	0	0	0
	1,795,497	8,000	1,793,497	12,000

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 64 (previous year: KEUR 32) for fiscal 2004. In accordance with the change in the articles of association made by the Annual Shareholders' Meeting on May 12, 2004, this remuneration includes KEUR 32 in variable components. The members of the Supervisory Board held a total of 1,480 shares in the company on December 31, 2004.

[28] Events after the balance sheet date

No events of major importance have occurred since the balance sheet date.

[29] List of consolidated subsidiaries**Consolidated subsidiaries**

Company	Share of the company in %	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 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.

[30] Explanation of the accounting, valuation and consolidation principles that differ from German law

- Certain development costs have to be capitalised according to IFRS (IAS 38), in contrast to the German Commercial Code (HGB).
- Inventories are valued at the lower of acquisition or production cost and net disposal value according to IAS 2. The lower value on the qualifying date in accordance with § 253 paragraph 3 of the HGB can lead to different valuation in certain cases.
- Subsequent valuation of derivative financial instruments is at the fair value on the balance sheet date according to IAS 39. Profits and losses from changes in the fair value are included in the result for the period, provided there is no hedging context. Under HGB rules, derivative financial instruments are treated to some extent as pending business transactions, for which a provision is formed if a loss is anticipated.
- The IFRS stipulate adjustment of balance sheet items when mistakes are made in estimating identifiable assets acquired in connection with company mergers (IAS 22), which is not provided for as such by the HGB.

- According to IFRS, the expenses that can be allocated directly to a capital increase made by the injection of cash have to be charged to the capital reserve after the taxes on income incurred in this context have been taken into account (Interpretation SIC 17 - shareholders' equity costs of a transaction that affects the level of shareholders' equity). The HGB stipulates that these expenses must be included in the income statement.
- According to IAS 19, pension obligations are benefits to employees that have to be valued by the projected unit credit method, taking future salary and pension trends and current biometric probabilities into account.

The DRS 1 rules were applied in preparation of the present consolidated financial statements.

[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 29, 2004 and has been made available to the shareholders on a permanent basis on the Web site <http://www.linos.de>.

Göttingen, February 2005

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, for the fiscal year from January 1 to December 31, 2004, consisting of the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements. The Executive Board of the company is responsible for the compilation and content of the consolidated financial statements. Our assignment is to make a judgement about whether the consolidated financial statements comply with the International Financial Reporting Standards (IFRS) on the basis of the audit we have completed.

We have made our audit of the consolidated financial statements in accordance with the German auditing regulations 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 an assessment can be made with sufficient certainty whether the consolidated financial statements are free from material inaccuracies. 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 supporting evidence confirming the figures and information provided in the consolidated financial statements are checked by taking random samples in the course of the audit. The audit consists of an evaluation of the accounting principles applied and the main elements of company management by the Executive Board as well as an assessment of the overall presentation of the consolidated financial statements. We are of the opinion that our audit forms a reliable enough basis for making a sound judgement.

In our considered opinion, the consolidated financial statements comply with the IFRS and present a true and fair picture of the asset situation, financial position, profitability and flows of funds of the Group in the fiscal year.

Our audit, which included the consolidated management report prepared by the Executive Board for the fiscal year from January 1 to December 31, 2004 too, has not led to any objections being raised. In our considered opinion, the consolidated management report gives an appropriate overall description of the situation of the Group and presents the future risks in an accurate way. We also confirm that the consolidated financial statements and the consolidated management report of LINOS Aktiengesellschaft, Göttingen, for the fiscal year from January 1 to December 31, 2004 satisfy the conditions that have to be met in order to exempt the company from the presentation of consolidated financial statements and a consolidated management report under German law.

Hanover, March 18, 2005

Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft

Plath
Auditor

Tenambergen
Auditor