



**Leica Camera Aktiengesellschaft, Solms
ISIN DE000A0EPU98**

Interim report as of September 30, 2008*

1st half year fiscal year 2008/2009

Leica Camera AG sets the course for a successful future: new products, new partners, new marketing alleys – but dampened expectations for the current fiscal year

In the last one and a half years Leica Camera AG has undertaken the development, under the code name AFRika, of a new digital system camera, which has been presented to the public for the first time at the photokina fair in September 2008: the »Leica S2«. The S system is based on a new concept: Hardly bigger than a digital 35-mm SLR camera, the new model harbours a 30x45 mm CCD sensor with a resolution of 37.5 megapixels, developed by Kodak especially for Leica. With the new product, Leica aims to provide photographers with an innovative high-end solution that offers them the greatest possible creative freedom and simultaneously sets the standard for performance, quality and technological maturity. The S2 turned out to be the triumph Leica had been aiming at – this was the unanimous opinion of the market experts.

To penetrate the professional photo market relevant for the Leica S2 the Company has entered into a long-term strategic alliance with Phase One A/S, Frederiksberg (DK). Additionally, Leica and Fujitsu Microelectronics Limited co-developed an image processing solution, first presented in the S2 model and designated to be incorporated into cameras of the next generation.

* unaudited



The trade fair visitors also showed great interest in the new M 8.2, C-Lux 3 and D-Lux 4 cameras. For the M system Leica introduced five new lenses, whose appeal, inter alia, rests on their extreme fastness and strong wide angle. In addition, Leica for the first time offered a high-end photo projector: the Pradovid D-1200.

In sports optics the new Televid scopes are about to be introduced to the market.

Switzerland has always been an important market for the Leica Camera Group. In the context of a succession arrangement the Company has taken over the share capital of LCA Holding AG, Nidau, Switzerland. With this takeover of the parent company of Leica Camera AG, Nidau, Switzerland and of Perrot Image SA, Nidau, Switzerland, the Company's previous distributor in Switzerland became one of the distribution subsidiaries of Leica Camera AG. This opens up the opportunity for Leica to operate directly in a key market.

As was expected for the first half of the fiscal year 2008/2009, the Leica Camera Group registered a clear downturn in sales as compared to the sales in the previous year. As a result of these reduced sales and of increased development costs the Company registered a net loss for the half year in the amount of € 7.2 million.

For fiscal 2008/2009 the Board of Management continues to expect a Group net loss in the higher one-digit Euro million range, resulting from research and development expenditure, selling costs, delayed market introduction of new products, as well as the clouding of the economy and the distress in the financial markets. The same applies for the single-entity financial statements of Leica Camera AG.

Due to the successful market introduction of innovative products at the photokina in 2008, the Board of Management deems possible a break-even to slightly positive result in the fiscal year 2009/2010.



Economic environment

In view of the global economic crisis the degree of optimism in German companies has decreased considerably, especially in the second half of the year. The ifo index of business sentiment has decreased for the fifth time in a row, a tendency it will probably continue to exhibit in November. The expectations having decreased strongly in October, a further worsening seems hardly imaginable, but assessments of the current state may again be more pessimistic against the background of the deteriorating order situation. Further clouding of the economy is to be expected in the months to come. The rate of inflation in the Eurozone stood at 4.0 % in July – which was twice as high as the ECB's goal (»below, but close to 2 %«). Since then basic economic data have been massively deteriorating.

According to provisional estimations of GfK (Gesellschaft für Konsumforschung, Nuremberg) the international photo industry will be able to register volume growth also in 2008. As per August 2008 market researchers expected digital cameras to grow from 126 million to 140 million units on a global basis. Main buyer regions are North America, with a 36 % share of the global market, and Europe, where 34 % of all digital cameras are sold. Until the period under review there is strong evidence that this growth is based on an aggressive price war and therefore leads to a loss in value of the product category. For instance, the sales volume in Western Europe as per July 2008 increased by an average of 6 % over the prior year period while at the same time prices decreased by an average of 4 %. The loss in value was just under 1.6 % in Germany, 3.9 % in France, and 11.4 % in England.

Sales

For the first six months of the current fiscal year (up to September 30, 2008) the Group led by Leica Camera AG registered sales of € 52.0 million, a sales downturn of 41.4 %. As expected, sales in the photo segment fell to € 30.6 million. Sales in sports optics came to € 13.2 million. The sales downturn as compared to the same period of the previous fiscal year is due to the reluctance to buy before the photokina trade fair, cyclical fluctuations in the buyer regions, as well as the phasing-out of products that reached the end of their life cycles.



Sales of the Leica Camera Group in Germany decreased by a total of 45.9 %. For the rest of Europe the Company registered a 51.7 % decrease in sales. Sales in Asia and Australia were down 23.5 % on the prior year. Markets in the US, Canada and Mexico registered a sales downturn of 47.5 %.

Earnings

As expected, the net income/loss of the Group as compared to the prior year period fell by € 13.7 million to a Group net loss for the year of € 7.2 million. This negative result is primarily due to the decrease in sales and to increased development costs. The Company was able to establish cost savings in other operating expenses, thereby partially counteracting this trend. As a result of the success at the photokina trade fair the Company registered increased order inflow already in October 2008, leading to expectations of higher sales in the second half of the year.

Liquid funds and cash flows

As compared to the balance sheet date of March 31, 2008 liquid funds have decreased by € 12.3 million due to negative cash flows from investing activities and from operating activities.

Cash flows from operating activities decreased mainly due to the negative operating result.

The increase of capital expenditure as compared to the prior year is in accordance with internal planning.

Leica Camera Group has been able to reduce its financial liabilities by € 1.0 million on balance.



Balance sheet

Total assets decreased by 7.7 % over the period under review as compared to the prior year period. On the assets side, this decrease is essentially due to the reduction of trade receivables. The liabilities side mainly decreased as a result of the Group net loss and the reduction of provisions for pensions. The equity ratio is 15.7 % (previous year: 23.5 %).

Risk report

As concerns the risk estimate, readers are referred to the risk report in the Group management report as at March 31, 2008. In the period under review there have been no other essential risks in addition to those detailed in the abovementioned Group management report. However, the Company deems possible a further clouding of the economy and distress in the financial markets.

Employees

The number of employees in the Group has increased from 987 to 1,061.



Leica Camera Group

Key data 1st half fiscal year 2008/2009 IFRS*

Key data from the Group Income Statement € 000	1st half year 2008/2009	1st half year 2007/2008	Change
Net sales	52,044	88,836	- 36,792
Cost of materials	22,903	41,039	- 18,136
Personnel expenses	21,744	20,516	+ 1,228
Amortisation/depreciation	3,701	4,179	- 478
Other operating expenses	17,213	18,052	- 839
Operating result	-6,436	9,261	- 15,697
Earnings before income taxes	-7,203	8,435	- 15,638
Group net loss/income	-7,171	6,524	- 13,695
Thereof relating to the shareholders of Leica Camera AG	-7,144	6,208	- 13,352
Thereof relating to minority shareholders	-27	316	- 343
Earnings per share (€)			
Basic, Group net income/loss for the period	-0.48	0.41	- 0.89
Diluted, Group net income/loss for the period	-0.42	0.37	- 0.79
Research and development expenditure (€ 000)	8,982	6,915	+ 2,067

Sales by segments € 000	1st half year 2008/2009	1st half year 2007/2008	Change
Photo	30,584	62,633	- 51.2%
Sports optics	13,237	16,441	- 19.5%
Other	8,223	9,762	- 15.8%
Group sales	52,044	88,836	- 41.4%

Sales by regions € 000	1st half year 2008/2009	1st half year 2007/2008	Change
Europe	18,804	37,442	- 49.8%
- Germany	6,699	12,391	- 45.9%
- Rest of Europe	12,105	25,051	- 51.7%
Asia and Australia	18,563	24,257	- 23.5%
US, Canada and Mexico	13,699	26,084	- 47.5%
Others	978	1,053	- 7.1%
Group sales	52,044	88,836	- 41.4%

Operating result by segments € 000	1st half year 2008/2009	1st half year 2007/2008	Change
Photo	-11,291	1,494	- 855.8%
Sports optics	-375	3,361	- 111.2%
Other	5,228	4,406	+ 18.7%
Operating result	-6,438	9,261	- 169.5%

* unaudited



Leica Camera Group

Key data 1st half fiscal year 2008/2009 IFRS*

Key data from the Group Balance Sheet € 000	as of March 31, 2008	as of September 30, 2008	as of September 30, 2007	Change
Non-current assets	24,294	29,900	26,456 +	13.0%
- Intangible assets	2,732	5,634	4,412 +	27.7%
- Tangible assets	14,068	16,834	13,889 +	21.2%
- Financial assets	1,138	1,205	1,065 +	13.1%
- Deferred tax assets	6,356	6,227	7,090 -	12.2%
Current assets	78,815	71,325	83,190 -	14.3%
- Inventories	34,546	37,119	37,021 +	0.3%
- Receivables	14,309	16,417	24,887 -	34.0%
- Liquid funds	29,438	17,141	20,755 -	17.4%
Total assets	103,109	101,225	109,646 -	7.7%
Equity	21,426	15,917	25,790 -	38.3%
Long and medium-term liabilities	52,338	52,828	55,368 -	4.6%
Short-term liabilities	29,345	32,480	28,488 +	14.0%
- To banks	7,184	3,153	4,240 -	25.6%
Employeess (number)	991	1,061	987 +	7.5%

Cash flows € 000	as of March 31, 2008	as of September 30, 2008	as of September 30, 2007	Change
Cash flows from operating activities	21,358	-1,911	4,626 -	6,537
Cash flows from investing activities	-7,018	-9,436	-3,176 -	6,260
Cash flows from financing activities	-4,750	-950	-543 -	407

* unaudited



Leica Camera Group Statement of Changes in Group Equity from April 1, 2008 until September 30, 2008*

€ 000	Subscribed capital	Capital reserves	Revenue reserves, currency translation, accumulated loss of the Group	Minority interests	Group equity
Balance on April 1, 2006	12,889	10,850	-8,784	1,487	16,442
Dividends paid				-463	-463
Outstanding capital contributions paid in	2,111	1,477	0	0	3,588
Currency translation			-349	0	-349
Net retained profits of the Group			331	172	503
Adjustment from fair market valuation of financial instruments taken directly to equity			-4		-4
Balance on March 31, 2007	15,000	12,327	-8,806	1,196	19,717
Currency translation			-1,333	0	-1,333
Net retained profits of the Group for the half-year period			2,808	234	3,042
Balance on March 31, 2008	15,000	12,327	-7,331	1,430	21,426
Initial consolidation of LCA Holding AG, Nidau, Switzerland			1,177		1,177
Currency translation			485	0	485
Accumulated loss of the Group for the half-year period			-7,144	-27	-7,171
Balance on September 30, 2008	15,000	12,327	-12,813	1,403	15,917

* unaudited



Other notes

The present report on the first half of the fiscal year has been prepared in abridged format according to IFRS rules.

Group of consolidated companies

In September 2008, Leica Camera AG has taken over the share capital of LCA Holding AG, the parent company of Leica Camera AG and of Perrot Image SA, Nidau, Switzerland. The initial consolidation of these companies in the Group financial statements of Leica Camera Group was effective September 24, 2008 on a provisional valuation basis according to the regulations of IFRS 3.

Accounting and valuation principles

There have been no changes in the accounting and valuation principles compared to the last published Group financial statements.

Information by shareholders and resolutions of the General Meeting

In a letter dated July 31, 2007 ACM Projektentwicklung GmbH, Salzburg, Austria, has informed Leica Camera AG that it directly owns shares in an amount exceeding 95 % of the share capital of Leica Camera AG and it formally requests according to section 327a of the *Aktiengesetz* (AktG – German Stock Corporation Act) that the General Meeting of the Company may pass a resolution to transfer the shares of the other shareholders (minority shareholders) to ACM Projektentwicklung GmbH as the majority shareholder against an appropriate cash compensation (so-called squeeze-out).

On September 25, 2007 ACM Projektentwicklung GmbH held 96.57 % of the share capital and fixed the cash compensation at € 12.15 per no-par value bearer share of Leica Camera AG, each with a proportionate amount of the share capital of € 1.00. The General Meeting was held on November 20, 2007 and resolved to transfer the shares of the minority shareholders to ACM Projektentwicklung GmbH against payment of a cash compensation in accordance with sections



327a et seqq. of the AktG. Several shareholders and shareholder representatives put on record of the acting notary that they oppose to the resolution and brought actions before the Frankfurt Superior Court. The resolutions of the General Meeting of November 20, 2007 on the transfer of the shares of the minority shareholders and on the corresponding compensation were declared void, or at least voidable, by a decision of the Frankfurt Superior Court of August 5, 2008.

Leica Camera AG conducted settlement negotiations with the plaintiffs. No agreement could be reached. Therefore Leica Camera AG, in accord with ACM Projektentwicklung GmbH, on August 22, 2008 resolved to break off the settlement negotiations and to cancel the squeeze-out.

The Frankfurt Superior Court established by its decision of August 26, 2008 (docket no. 3-5 O 339/07) that the squeeze-out resolution of November 20, 2007 is void. Among the grounds stated by the Frankfurt Superior Court was the non-compliance of the invitation to the General Meeting with the legal requirements. According to the Court, the squeeze-out resolution is void on the ground of insufficient calling under the terms of section 241 no. 1 in connection with section 121 (3) of the AktG.

Supervisory Board and Board of Management

On June 18, 2008 Dr. Wolf Schumacher was elected Chairman of the Supervisory Board and Wulf Matthias was elected Deputy Chairman of the Supervisory Board. On the same day the Supervisory Board appointed Stefan Trippe as a new additional member of the Board of Management; Stefan Trippe is responsible for technology and production.

On October 10, 2008 the Supervisory Board appointed Dr. Martin Picherer as a new additional member of the Board of Management for a period of one year; Dr. Martin Picherer is responsible for sales and marketing, as well as the sports optics business unit.



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AR-Vorsitzender: Dr. Wolf Schumacher / Vorstand: Dr. Andreas Kaufmann (Vorsitzender), Dr. Martin Picherer
(stellv. Vorstandsvorsitzender), Andreas Lobejäger, Stefan Trippe

No auditors' review

This half-year financial report has not been subject to an auditors' review.

Assurance of the legal representatives

To the best of our knowledge we hereby attest that the Group interim financial statements, in compliance with the applicable accounting rules for interim reporting, give a true and fair view of the financial position of the Group and of the results of its operations, and that the Group interim management report presents the development of business, including the business results and the situation of the Group, in such a way that it produces a true and fair view of the actual situation, and that the essential risks and opportunities associated with the expected development of the Group for the remainder of the current fiscal year are specified.

Solms, December 2, 2008

Dr. Andreas Kaufmann

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