Laser & Electronics

LPKF is creative. As impressively demonstrated again in 2009. We not only have good ideas, we also have the courage and tenacity to firmly establish our innovative technologies on the world markets. This happened in the 80s with Rapid Prototyping, in the 90s with StencilLasers, and right now with our LDS technology. All these technologies were developed by LPKF, and LPKF is now the world market leader in all the markets created by these innovations.

Pioneer

with a solid platform

LPKF is innovative. We never rest on our laurels. The secret of our success lies in the continuous further development of our products. Our power of innovation enables us to continuously open up new areas of application and markets, and make life very difficult for those who wish to copy our success. Our goal is to always be one step ahead.

LPKF is experienced. We have a wealth of expertise and competence in using lasers to process materials – just one important factor for building machines to give our customers real competitive advantages. We are also expert precision engineers, electronics engineers, drive technologists and software specialists. All of these skills have to be perfectly merged to create the extremely high precision that sets laser tools apart from other technologies.

LPKF is in great shape. We have grown profitably for over 30 years and place great value on having a solid financial platform. Our goal is not making a fast turnover, but enhancing long-term value. Our sense of corporate responsibility extends to our customers, employees and shareholders. And we have a right to be confident: our past is an excellent platform for even more success in the future.

Short portrait

The LPKF Group headquartered in Garbsen/Germany develops and produces material processing systems. On the strength of its technical leadership, the company is one of the leading laser technology enterprises worldwide in some sectors of micro material processing using lasers. The core competencies of the LPKF Group include laser technology, optics, drive and control technology. LPKF's laser systems are used in the electronics industry, in polymer technology applications and for the manufacture of solar panels. 79 % of the company's turnover is generated by exports. LPKF Laser & Electronics AG is listed in the Prime Standard and has 384 employees worldwide.

Key Group figures		2009	2008	2007	2006	2005
Turnover	**€ million**	**50.7**	**45.4**	**42.2**	**39.8**	**34.9**
Turnover per region						
Germany	€ million	10.9	17.8	10.5	7.5	6.5
Rest of Europe	€ million	8.8	8.0	8.1	9.0	5.2
North America	€ million	5.3	5.5	6.4	6.7	6.0
Asia	€ million	24.5	12.7	15.9	15.6	16.7
Others	€ million	1.2	1.4	1.3	1.0	0.5
Turnover per segment						
Rapid Prototyping	€ million	13.5	15.0	15.3	12.7	10.5
Cutting and Structuring Lasers	€ million	26.5	15.7	17.5	20.3	16.4
Joining Technologies	€ million	5.3	5.8	3.6	3.2	1.7
Thin-film Technologies	€ million	3.5	6.9	3.7	–	–
All other segments	€ million	1.9	2.0	2.1	3.6	6.3
EBIT	**€ million**	**7.0**	**3.1**	**6.0**	**6.4**	**6.0**
EBIT margin	**%**	**13.7**	**6.8**	**14.2**	**16.0**	**17.1**
Net income after minority interest	**€ million**	**4.7**	**1.8**	**3.9**	**4.0**	**3.0**
Net margin before minority interest	**%**	**9.3**	**5.1**	**10.0**	**11.2**	**10.6**
ROCE (Return on Capital Employed)	**%**	**15.7**	**7.4**	**15.4**	**17.9**	**19.4**
Cash and cash equivalents	**€ million**	**10.3**	**6.0**	**3.0**	**5.2**	**8.6**
Capital ratio	**%**	**69.7**	**68.5**	**69.3**	**71.8**	**74.0**
Operative cash flow	**€ million**	**11.5**	**6.4**	**2.7**	**3.8**	**3.6**
Investments in tangible and intangible assets	**€ million**	**4.0**	**3.3**	**5.7**	**7.5**	**1.9**
Earnings per share, diluted	**€**	**0.43**	**0.17**	**0.36**	**0.37**	**0.28**
Orders in hand	**€ million**	**14.7**	**10.3**	**7.6**	**6.1**	**5.4**
Orders received	**€ million**	**56.0**	**48.1**	**43.2**	**38.4**	**30.2**
Employees		**384**	**374**	**339**	**292**	**248**

Contents

Dr. Ingo Bretthauer
Chairman of the Board of
Managing Directors

Ladies and Gentlemen,

When I joined LPKF as CEO on 1 February 2009, the economic news was very depressing. The global economic crisis also had German industry in its grip. And the DAX had been falling since mid 2008 with no sign of bottoming out – this did not happen until March 2009.

At the beginning of 2009, LPKF's share price was close to its historic low point. 2009 also began weakly – with no sign in January 2009 of the slight upwards trend which had buoyed us up in the second half of 2008. This was the background for the very realistic worst case scenario – of a decline in turnover of up to 25 % and neutral earnings – that we published at the beginning of 2009. Fortunately, the situation improved as the first quarter progressed, but there was still a large amount of uncertainty.

The slump in turnover at the beginning of 2009 was across the board, affecting all of our product segments – although to a very varied degree. Against this background, it was quite understandable that the first questions I received from journalists were whether I intended to weed out the product program and sharpen up LPKF's focus. I asked the journalists present to be patient and allow me a little more time, because I naturally first wanted to assess the situation in much more detail.

It quickly became very clear to me that LPKF's business activities were in no way "too diverse" as sometimes thought by outsiders. Quite the opposite: LPKF was highly focussed on specific technologies for micro material processing. The technologies used and the machines based on these technologies were very similar. It was just that they were used for a very large range of applications in a large spectrum of markets. Far from being a weakness, this broad positioning was and is one of LPKF's strengths. Because the markets were developing in different ways, we were able to compensate for the overall situation across the Group primarily by strengthening our sales and marketing activities, especially in Asia. And after only a few weeks our positioning proved to be a godsend: standing firmly on several legs is much easier than on one.

Internal discussions had taken place as recently as mid 2008 on whether the many years of development work focused on our patented LDS technology (Laser Direct Structuring) should be terminated in the face of the lack of success. Fortunately, this idea was shelved, because soon after, all of the effort put into LDS development began to bear fruit. The signs today are unmistakable: our LDS technology finally achieved the sought after global breakthrough in 2009 – in the mass production of mobile phone antennas. Our customers used this technology to produce millions of components in 2009 – and that is just the start. The opportunities for using this technology in the plastic and electronics market are enormous. Our objective is to penetrate other sectors with the LDS method and to fully exploit the growth potential of this business.

During the course of the year, almost all of our other segments also developed much better than forecast at the beginning of the year. The only segment where the future continues to be difficult to assess is the solar market because of the current over-capacities amongst the solar panel manufacturers. However, we do expect this segment to grow again in the medium term.

Overall, instead of being a very weak year as initially threatened, 2009 developed into the best year in LPKF's corporate history. A big part here was played by the huge commitment of all of our employees, and I would like to expressly thank them for this tremendous effort. The co-operation with the Board of Managing Directors and the Supervisory Board was also exemplary, and undoubtedly also made a major contribution to the success. I would also like to thank all of our shareholders who remained loyal to us in these difficult times. Our share price has more than tripled since its lowest point at the beginning of 2009 and thus did very much better than the DAX overall.

Yours faithfully,

Dr. Ingo Bretthauer

From left to right:

Bernd Lange,
(CTO)

Kai Bentz,
(CFO)

Dr. Ingo Bretthauer,
(CEO)

Dear Shareholders,

2009 was a very good year for LPKF. We raised our turnover and earnings forecast during the course of the year, and even managed to exceed it at the end of the year. The turnover of the LPKF Group rose by 12 % to € 51 million, and EBIT reached € 7 million and was thus also well up on the previous year's figure. We achieved this record performance despite operating in an extremely difficult economic environment. The gross domestic product in Germany shrunk by 5 %. And the mechanical engineering sector in particular was hit by an extremely painful slump in turnover in 2009 – the global demand for machines and equipment collapsed.

So what lies behind the anti-cyclical development of the LPKF Group? It would be wrong to say that LPKF was not affected by the global economic crisis. Several of our segments and divisions suffered from the weakness in demand. Our Thin-film Technologies segment in particular, which involves laser systems for scribing solar panels, reported a dramatic decline in incoming orders. And the hesitation on the part of our customers to invest in equipment was also clearly felt by our Rapid Prototyping segment during the course of the year – a trend which was only reversed in the second half of the year with a revival in incoming orders. The Joining Technologies segment also failed to satisfy the targets for above average growth because of the crisis hitting the automotive sector. Nevertheless, the segment succeeded in generating positive earnings overall from a similar level of turnover as the previous year.

The explanation for the excellent overall business performance is the Cutting and Structuring Lasers segment. We at last achieved the long awaited mass production breakthrough of our patented LDS technology (Laser Direct Structuring). The stamina and the tenacity that maintained our faith in this technology is now paying dividends. Maybe it is more than just a coincidence that this breakthrough should paradoxically occur right in the middle of an economic crisis. During a boom period, our customers often see no need to invest in new technologies to convert their production. In a crisis, however, there is much more pressure to improve efficiency and effectiveness, and thus to invest in the relevant technologies. We used this opportunity to convince our customers of the many benefits of the LDS technology.

Regional analysis reveals a clear shift in turnover in the direction of Asia. This is attributable to the shift in turnover within the segments: whilst the German market in particular boosted Joining Technologies and Thin-film Technologies the previous year, Cutting and Structuring Lasers were mainly supplied to the center of electronics production, to China. We already intensified our efforts throughout Asia in the previous year, and expanded our local sales, marketing and service activities. Plans for 2010 include setting up an LDS technology center in China. The share of turnover generated in Asia is currently almost 50 % and we assume that this trend will continue.

The broad product spectrum and our strategic position in the three growth markets – electronics, plastic and solar – have provided our business with a stable platform in recent years, and are now helping us to even generate above average growth. The objective is to expand the operative growth of the LPKF Group and to drive it forward sustainably. A key factor in this context is the LDS technology which has previously been used almost exclusively for the production of mobile phone antennas – the goal now is to establish it in different areas of application. But even in the business with mobile phone antennas, only part of the market is currently covered, so there is still considerable potential for growth in this core market. Opportunities for using LDS technology in production can be opened up in all those areas where electronics and polymers converge. Despite the rapid development in 2009, we are still only at the beginning, and are firmly committed to exploiting the major potential of LDS technology.

Notwithstanding the euphoria about LDS technology, our other segments are just as important and also will be managed closely. A completely upgraded product portfolio is to be launched on the market in the course of 2010 in the Rapid Prototyping segment. We also see clear signs for recovery in the relevant markets for plastic welding. An upswing in the solar market is also expected, even if the circumstances mean that a certain amount of patience is still required.

An especially satisfactory aspect is that the strong growth in turnover in 2009 was accompanied by an even bigger improvement in earnings. With an EBIT margin of 14 %, we can compare ourselves again to the good development in earnings in 2005 – 2007. All of the other relevant figures concerning the LPKF Group have also developed positively in the 2009 financial year. The return on capital employed (ROCE) reached 16 %. Net Working capital has been lowered by 10 %. Operative cash flow increased from € 6 million the previous year to € 12 million.

Given the considerable rise in annual profits, the Board of Managing Directors and the Supervisory Board will propose a resolution at the annual general meeting on 10 June 2010 to pay a dividend of € 0.20 per share. The previous year we did not pay a dividend due to the uncertain economic situation. All the more cause for celebration that we can return to our committed dividend policy in the ongoing year, and enable our shareholders to profit from the success of our company.

LPKF's share price reflected the positive development in business in 2009 with a rise of 143 %, and clearly outperformed the share index for small caps (SDAX: + 27 %).

A glance at our order books gives grounds for optimism for the 2010 financial year. Incoming orders rose in 2009 by 16 % to € 56 million, and orders in hand reached € 15 million – considerably higher than the previous year. Cause for satisfaction is also found in the positive trend in almost all segments at the end of the year, which is no doubt also attributable to the first signs of economic recovery.

Despite all of the uncertainties concerning the way the global economy will behave in 2010, we expect LPKF's business to run positively, and are therefore forecasting growth in turnover of more than 10 % and another double-figure EBIT margin.

And if the situation in the global economy stabilizes further during the course of the year, we expect another rise in turnover and profits in the 2011 financial year.

Yours faithfully,

Dr. Ingo Bretthauer **Bernd Lange** **Kai Bentz**

Bernd Hildebrandt,
Chairman of the
Supervisory Board

Ladies and Gentlemen,

The management and the workforce of the LPKF Group faced major challenges in the 2009 financial year. As already heralded at the end of 2008, the global economic crisis had a dramatic impact on several of our business activities. But the diversification and spreading of risks on a spectrum of product lines established over the decades enabled the LPKF Group to not only survive the crisis but to end the financial year with a significant increase in turnover and profits.

Supervising and advising the Board of Managing Directors on management issues

The Board of Managing Directors of LPKF Laser & Electronics AG was intensely and regularly supervised and advised by the Supervisory Board. The ongoing status of the Group was reported to the Supervisory Board in timely fashion, and the Supervisory Board was also informed in detail in writing and verbally about the development of business. The Supervisory Board was informed at all times about the risk management, risk status and the corporate strategy – with respect to finance, investment, sales & marketing and HR planning.

The Supervisory Board met at eight official meetings in 2009, when necessary also without the attendance of the Board of Managing Directors. As usual, there were numerous face to face and telephone discussions outside the official meetings. The Supervisory Board was always informed in good time about all the strategically important decisions of the Board of Managing Directors, and involved in the associated discussions.

Main focus of the advice

Ensuring that the new member of the Board of Managing Directors Dr. Ingo Bretthauer got quickly up to speed was the most urgent task in the first and second quarters in 2009. This was successfully implemented without delay with the help of his management colleagues Bernd Lange and Kai Bentz. The outstanding business potential of the LDS method in particular was recognized and pushed forward in an impressively short time with a new laser system development. Let me take this opportunity here to acknowledge all of the staff involved, and the management, for their outstanding commitment and the huge effort they put into this project.

The initial slumps in turnover in the traditional segments were partially made good as a minimum by the end of the financial year, generating a very good business performance overall.

The Supervisory Board and the Board of Managing Directors spent many Supervisory Board meetings dealing with Corporate Governance aspects, and analyzing the efficiency of the Supervisory Board. The Declaration of Compliance with the German Corporate Governance Code for 2009 was issued on 22 December 2009 and published on the LPKF website.

The Supervisory Board's work monitoring the risk management system was particularly important during this period of global financial and economic crisis and LPKF's dynamic development. In addition, the Modernization of the Accounting Law Act (BilMoG) specified in more detail the criteria to be upheld by the Supervisory Board with respect to the risk management system.

In the 2009 financial year, the Board of Managing Directors expanded the risk management system by incorporating special software for recording, evaluating and tracking risks. A risk inventory identified, included and assessed the current and potential risks. The Board of Managing Directors is always in extremely close contact with the management of each Group unit so that risks and opportunities can be identified and adequately responded to as early as possible. The quality management system pursuant to DIN EN ISO 9001:2008 is another important element in the risk early warning system and to ensure the efficient transaction of business processes. The workflows are also to be developed further to include risk management aspects on the basis of new ERP software being implemented to depict the primary business processes. As in previous years, the reporting system was audited to analyze its efficiency at tackling risks. The Supervisory Board is kept intensely informed – through ongoing discussions or formal reports – by the Board of Managing Directors on the ongoing risk situation affecting the Group.

Annual financial statements and Group audit

The Supervisory Board engaged PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft to audit the 2009 annual financial statements and the Group financial statements in accordance with the resolution passed by the annual general meeting. Individual and Group financial statements were audited and given unconditional approval by the auditor. The auditor participated at the special Supervisory Board meetings arranged for the purpose on 22 February 2010 and 26 March 2010 where he reported on the audits of the annual financial statements.

The Supervisory Board's own examination of the annual financial statements and the management report produced no reservations. The Supervisory Board approved the auditor's findings and approved the annual financial statements. The annual financial statements are thus authorized. At the meeting on 26 March 2010, the Supervisory Board analyzed and accepted the recommendation by the Board of Managing Directors to appropriate the net income.

In the light of the considerable improvement in earnings, the current high level of orders in hand, and the good assessment of the market for 2010, the Board of Managing Directors and the Supervisory Board will propose a resolution at the annual general meeting on 10 June 2010 to pay a dividend of 20 Cent per share, and to carry forward the remaining net income of LPKF Laser & Electronics AG of € 1,831,749.92.

The consolidated financial statements, the management report on the state of the company and the auditor's report were available for reference during discussions with the Board of Managing Directors and the auditor. The consolidated financial statements and the management report on the state of the company were reviewed by the Supervisory Board, which then approved the consolidated financial statements.

The Supervisory Board thanks the Board of Managing Directors, the works council, and all Group managers and employees for their good and successful contributions in 2009, despite the difficult environment. Thanks also go to the management and staff of other Group companies. We would also like to express our thanks to all of our representatives, suppliers, and of course, our customers all over the world.

The LDS method still has market potential at a scale far exceeding anything the company has experienced in the past. The other product segments, however, will also play a role in underpinning the commercial success of the company in future once the global economy has recovered.

In the Chinese language, the word crisis is spelled with the signs for "risk" and "opportunity". The risks have still not been banished and must be watched closely at all times. But the opportunities for the company are larger than ever, and make us optimistic for the future.

Garbsen, March 2010
On behalf of the Supervisory Board

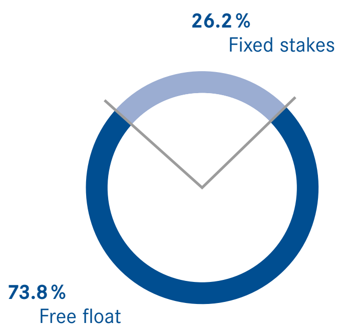
Bernd Hildebrandt
Chairman of the Supervisory Board

Bettina Schäfer,
Investor Relations

Kai Bentz,
(CFO)

Still plenty of upward scope.

Solid platform for a higher share price.



Shareholders' structure as at 31.12.2009

The stock markets in 2009 reacted in typical fashion to a year of recession. Whilst economic activity measured in terms of gross domestic product (GDP) declined at least until the third quarter of the year, share prices bottomed out much earlier followed by a significant rise. The leading German index, the DAX, slumped to its lowest point of the year at 3,666 points on 6 March. Shortly before the end of 2009, the DAX had risen to its annual peak of 6,011 points. This corresponds to a growth over the whole year of 23.8 % – even though German GDP shrank by around 5 % over the same period. This is the strongest annual decline in the history of the German Federal Republic.

A few days after the DAX – and the other indices of the stock markets – had risen again from their lowest points, the LPKF share also showed a clear upward trend. It reached its lowest point at € 1.55 on 20 March. The shares then rose and bobbed around between € 2.50 and € 3.30 until the middle of August. This rise was mainly attributable to fewer worries amongst investors about the instability of the financial system and thus a refocusing of attention on fundamental figures.

LPKF shares were boosted by the announcement of the largest order in the company's history reported on 9 September. The order worth € 6 million for laser systems to manufacture three-dimensional mobile phone antennas demonstrated that the LDS technology (Laser Direct Structuring) developed by LPKF had finally made the breakthrough into the mass production market. Investor demand drove up the share price to € 4.60 in September 2009.

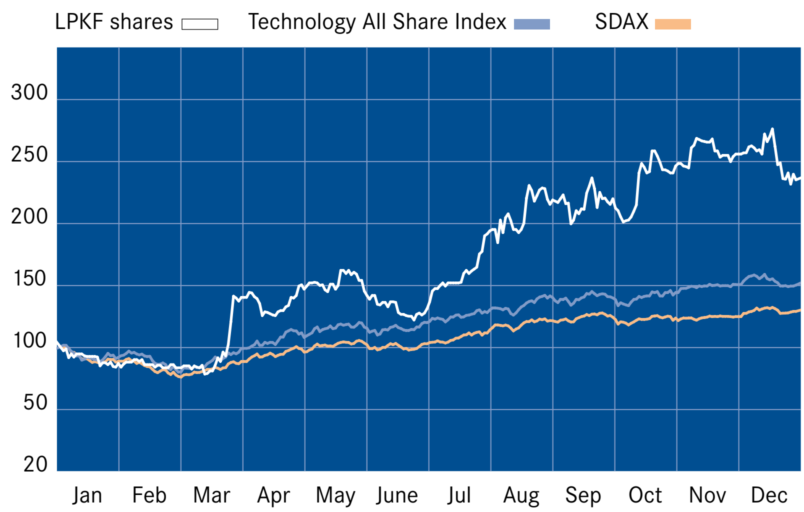
The second rise occurred at the beginning of November with the release of the Q3 figures and the upward revision of the forecast for the whole of 2009. The LPKF Group now forecast an annual turnover of € 47 million and a double-figure EBIT margin on the basis of the positive development in business in the first nine months. The improvement in turnover and profits was honored by the financial markets in the form of a clear rise in demand for LPKF shares. NordLB and DZ Bank analysts emphasized their buy recommendations for LPKF shares after the annual forecast was raised. SES Research repeated its hold recommendation for LPKF shares, but at a higher share price. The demand for LPKF shares was boosted further by these positive comments and shares reached their highest point of the year in mid December at € 5.35. The LPKF share price at the editing deadline on 16 March 2010 was € 5.84.

Overall, LPKF shares more than trebled their value since their lowest point in the 2009 financial year. This rise is very much higher than the Deutsche Börse share index for small caps: the SDAX only rose by 26.8 % during 2009. The rise in LPKF shares during 2009 thus completely compensated for the weakness in LPKF shares during 2008: the price of LPKF shares at the end of 2009 was at about the same level as at the end of 2007. However, given that the turnover and profits of LPKF Laser & Electronics have developed very positively over the same period, this means that the valuation of LPKF Laser & Electronics on the stock market has actually sunk. The company's market capitalization at the end of the year was at about the same level as its turnover. LPKF shares therefore offer further potential, particularly because of the innovative LDS technology and the promising positioning in the Thin-film- and Joining Technologies growth markets. In addition, as an export-oriented Company with a strong focus in Asia, LPKF is also active in a dynamically growing region.

LPKF rigorously adhered to its policy in 2009 of maintaining transparent, open communications with all participants in the financial markets. Unlike many other listed companies, LPKF issued a forecast for the whole year at the beginning of 2009. Changes in sentiments about how business would progress were communicated early on. To communicate LPKF's positioning in segments with strong growth more clearly, the company further intensified its public relations work. Publications in business and trade magazines and journals also helped raise LPKF's awareness in the financial markets.

The crucial factor for the stock markets in 2010 is likely to be whether the signs of a global economic recovery substantiate themselves. Although most economists expect the economy to recover, they are also forecasting a bumpy ride. The basic trend though should be positive for the financial markets so that companies boasting strong fundamental parameters should continue to attract the attention of investors.

Share price development in 2009 (%)



Technological competence.

Laser technology for industry.

LPKF is a dynamically growing technology company that delivers production solutions for strongly growing markets and high-capex companies. We concentrate our efforts on applications which enable us to control a leading position in the relevant market.

Our activities are focussed on laser applications for material processing, and especially for micro material processing. Lasers concentrate enormous quantities of energy in a tiny amount of space, and thus give rise to unique effects on materials. These properties are behind their continuous success story in conquering new markets. LPKF already boasts many years of invaluable experience and expertise in the interaction of lasers with a huge spectrum of materials. This is combined to produce technological solutions for electronics development and production, solar panel manufacturing, and plastic welding. LPKF laser systems are therefore involved in cutting print stencils from thin sheets of steel, depanelling printed circuit boards for hearing aids and cameras, scribing thin-film solar panels, or welding printer cartridges.

Although the range of markets and applications is very diverse, we basically always call on the same portfolio of competencies. In addition to outstanding skills in micro material processing with lasers, LPKF also boasts a great deal of development depth. The drive technology and some of the laser sources are produced in-house. A crucial role is played by our comprehensive software for data processing and system control. The broad spectrum of our competencies enables LPKF to repeatedly take advantage of new market opportunities, and thus to boost its own corporate growth. Each of our segments tells its own story about using lasers for material processing.

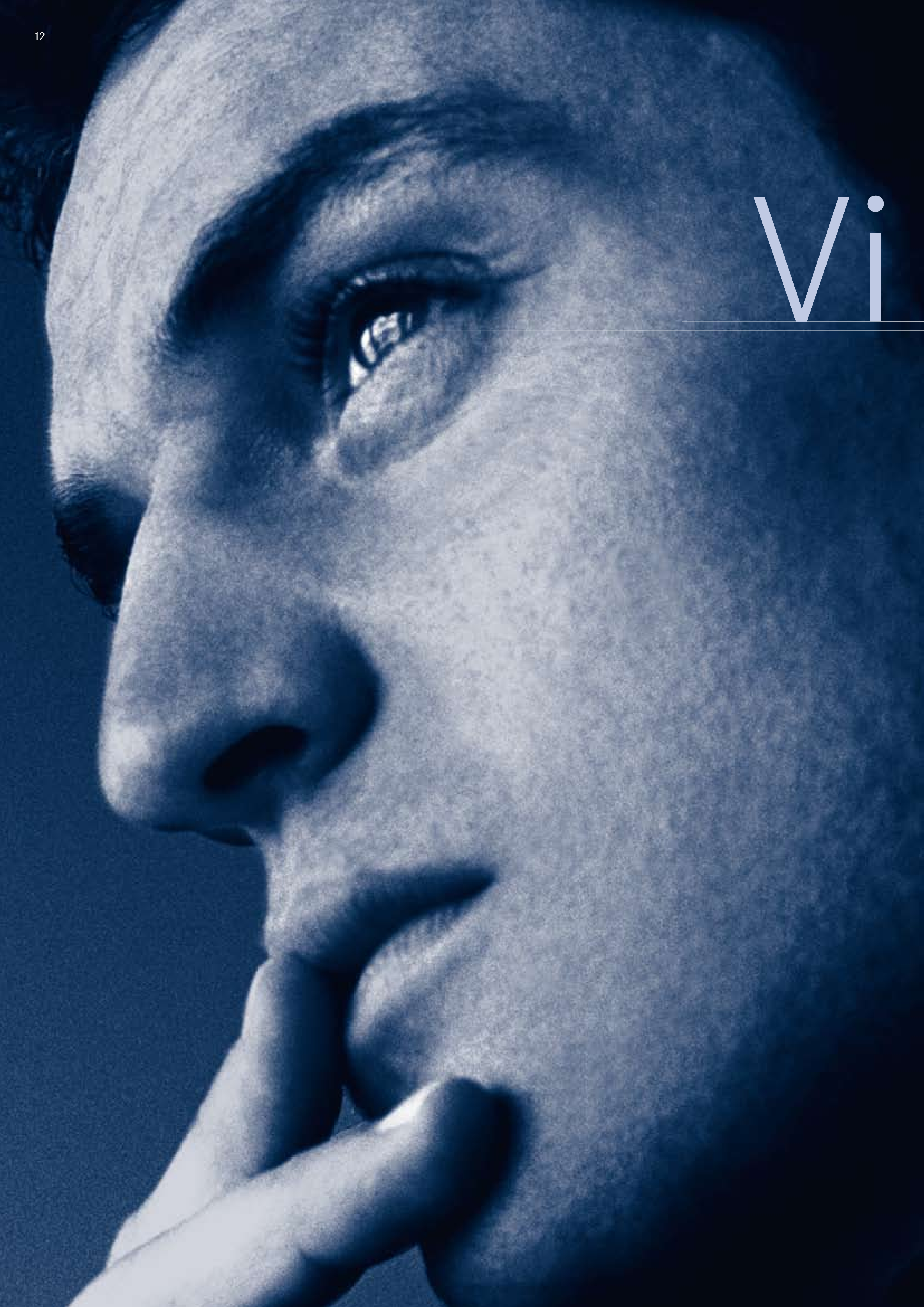
LPKF core competencies

Micro material processing with lasers

Control technology	Laser technology and optics	Precision drive engineering

Markets, segments and divisions

Market	Electronics				Plastic technology	Solar
Segment	Rapid Prototyping	Cutting and Structuring Lasers			Joining Technologies	Thin-film Technologies
Division	Rapid Prototyping	Stencil-Laser	PCB Processing	LDS	Plastic Welding	Photovoltaics


Vi

sion

Quickly realizing innovative ideas.

With Rapid Prototyping.

From an idea to a finished printed circuit board – in just a few hours. With LPKF's in-house Rapid Prototyping systems, prototypes, customized one-off products or small batches can be produced in the safety of your own organization, without having to call on external service companies: professional printed circuit board production at a laboratory scale.

Systems from the LPKF Rapid Prototyping product line are used almost across the board wherever electronic devices are being developed. For instance, the Fraunhofer Institute for Applied Solid State Physics IAF works with the ProtoLaser S. The IAF uses it to develop the periphery for extremely low-noise microwave amplifier chips for frequencies above 300 Gigahertz – which makes particularly high demands on precision and dimensional accuracy. At the heart of a new type of weather station, such chips record the extremely low levels of natural microwave radiation, providing continuous information on the ground about the temperature and humidity profile of the atmosphere. This will make weather forecasting much more accurate in future – particularly warnings about bad local weather conditions with heavy rain or hail.

Tip–top per

Shifting the limits of technology.

With Cutting and Structuring Lasers.

LPKF's cutting and structuring lasers are well ahead of conventional techniques in a vital parameter: ultrahigh levels of precision. They can depanel single printed circuit boards or generate extremely precise track layouts – in a very stress-free and clean way, without any mechanical or thermal strain.

More capacity in a smaller space: an affair of the heart for electronic development engineers. For instance, millions of people live normal lives because of a heart pacemaker – thanks to LPKF cutting lasers, these devices are becoming smaller and more reliable.

These features are also in demand in mobile phones. Modern smart phones receive and transmit at all frequency bands – thanks to laser-structured three-dimensional antennas integrated within the plastic components of the phone. This extends the horizons for designers and creates room for new functions – making mobile communications even more attractive.

formance

Conne

Creating secure welds.

With modern Joining Technologies.

When LPKF talks about joins, it means using lasers to weld polymers: in this process, the laser beam penetrates the upper component and melts the lower component. Thermal conduction and the application of pressure create a permanent join between the two parts. This clean and safe process has firmly established itself in the medical technology and automotive industry. LPKF is a leader in the implementation of customer-specific solutions.

ctions

For instance, car rear lights with fascinating optic fiber technology depend on perfectly welded seams in visible areas. Creating these complex 3D contours was only made possible by the patented LPKF TwinWeld technology. LPKF's joining technology delivers new design freedom and rationalization.

En

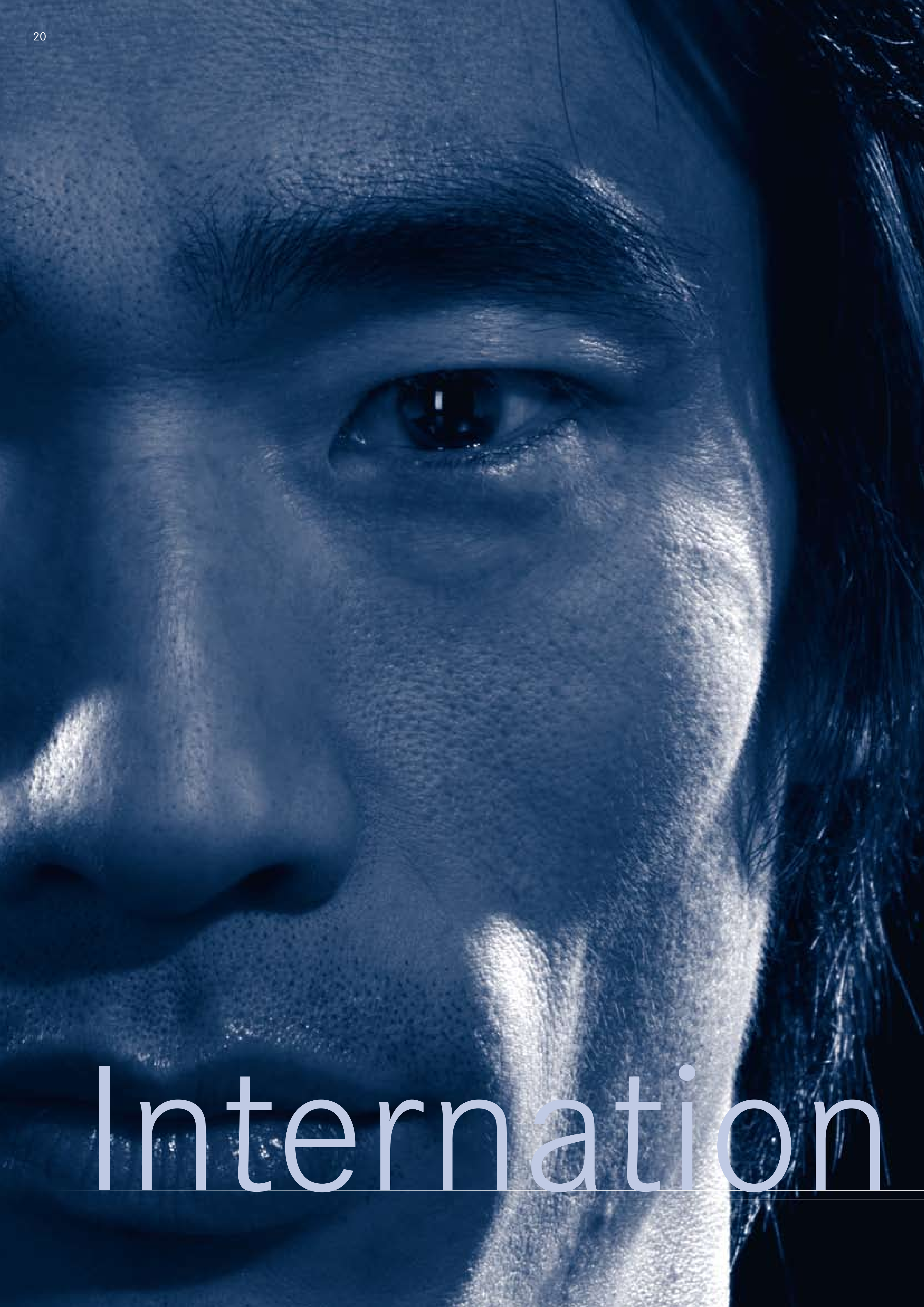
ergy

Creating even more efficient solar panels.

With innovative Thin-Film Processing.

Converting the sun’s energy into power – every single pulse of laser light plays a crucial role. Thin-film solar panels consist of active layers only a few micrometers thick. They are particularly good at converting diffuse sunlight into electricity. Thin-film solar panels are made up of different kinds of layers and special structures.

The competition to produce particularly efficient solar modules is in full swing. LPKF laser systems create highly precise structures to maximize the amount of sunlight which can be converted into electricity. LPKF supplies a crucial advantage in the pursuit of the highest levels of efficiency, so that more and more efficient solar panels find their way onto roofs and building facades.



Internation

Global success.

Local service and consultation.

Developed in Germany, ordered in the USA, installed in Asia – this sequence is true for many LPKF laser systems. LPKF laid the foundation for its continuous expansion when it opened up its branch office in the USA back in 1984 – more than 25 years ago. Its first branch in China opened in 2000. LPKF now has six branches in Asia. The most recent in China were the branches in Beijing and Chengdou which were established in 2009. A new office was also opened up in Detroit/USA in the same year. LPKF implemented these measures in response to the globalization of its business processes.

We speak micro material processing – ideally in the local language of our customers. LPKF achieves this with a dense global network of branches and expert representatives. They strengthen access to the most important markets, the electronics industry, the automotive and medical technology industries, as well as the solar sector.

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Key techn

The success story of the year.

LDS technology breaks through into mass production.

This system brings together everything that LPKF stands for – experience, curiosity and a commitment to outstanding quality. The LPKF Fusion3D creates structures on three-dimensional polymer components – with up to four simultaneously active laser heads, in a maximum of seven different positions, 24 hours a day, seven days a week. This laser direct structurer works so fast that not one but two robots are needed to precisely feed in and position the work pieces.

The LPKF Fusion3D opens up completely new horizons for customers: much faster market launch, lower costs, higher functionality – all made possible by the patented laser direct structuring method (LDS). In 2010, more than 100,000,000 mobile phones will contain LDS antennas. This number will expand even further in 2011.

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Management declaration

The actions of the LPKF Group's management and supervisory boards are guided by the principles of responsible and good corporate governance. This corporate governance declaration by the Board of Managing Directors – simultaneously also on behalf of the Supervisory Board – complies with Article 3.10 of the German Corporate Governance Code and Section 289a Para. 1 of the German Commercial Code (HGB).

1. Corporate Governance Report

LPKF implements the recommendations and suggestions of the German Corporate Governance Code (GCGC) apart from a few exceptions. The Board of Managing Directors and the Supervisory Board jointly issued the updated Declaration of Compliance 2009 on 22 December 2009 pursuant to Section 161 German Stock Corporation Act (AktG). The declaration is permanently made public on LPKF AG's website.

1.1. Declaration of Compliance 2009

The Board of Managing Directors and the Supervisory Board of LPKF Laser & Electronics AG accept the recommendations of the government commission on the German Corporate Governance Code dated 18 June 2009, and declare that the recommendations of the code have been observed and will continue to be observed in future with the following exceptions:

- **Forming committees**
  To match the size of the company, the Supervisory Board of LPKF Laser & Electronics AG consists of three people. The size of the board ensures that work can be carried out efficiently. This is the reason why no Supervisory Board committees are formed. The same also applies to examination and nomination committees (Article 5.3.2 GCGC).

- **Severance pay cap**
  Because they only run for three years, the management contracts have no cap on severance pay (Article 4.2.3 Para. 4 and 5 GCGC). If the management activities are terminated prematurely without an important reason, remuneration is limited to no more than the remaining contractual period. The Supervisory Board therefore considers it unnecessary to include in the management contracts a cap on severance pay amounting to two years remuneration.

- **Excess for D&O insurance policies**
  The ongoing D&O insurance policies for the Board of Managing Directors and the Supervisory Board will be modified within the legally allowed deadline in accordance with Section 23 Para. 1 Introductory Act to the German Commercial Code (EGAktG) to comply with the new stipulations covering insurance excess (Article 3.8 Para. 2 and 3 GCGC).

- **Multi-year assessment basis for bonuses**
  The Board of Managing Directors receives a profit-sharing bonus based on the Group EBIT with respect to a financial year. If a loss is reported in the following financial year, this loss may subsequently be taken into consideration under certain circumstances (Article 4.2.3 Para. 2 Clause 2 GCGC).

- **Remuneration cap for extraordinary developments**
  Unlike the profit-sharing bonuses for the Board of Managing Directors, the current option regulations contain no caps for unforeseen developments (Article 4.2.3 Para. 3 Clause 4 GCGC).

Details of the share option program and similar securities-oriented staff incentive packages operated by the company are included in the Notes and in the Remuneration Report (Article 7.1.3 GCGC).

Details of directors' dealings pursuant to Section 15a German Securities Trading Act (WpHG) as well as direct or indirect ownership of shares, are also presented in the Notes (Article 6.6 Para. 2 GCGC).

1.2. LPKF Laser & Electronics AG remuneration report

Remuneration of the Board of Managing Directors
The remuneration of the Board of Managing Directors is performance-based and consists of a fixed component and variable performance-based components.

The total remuneration of the Board of Managing Directors in 2009 was T€ 960 (previous year: T€ 757). This included a fixed remuneration component totaling T€ 570 (previous year: T€ 547) including fringe benefits such as employer's contributions to pension funds, medical insurance and use of cars. The fixed remunerations were as follows:

T€	2009	2008
Dr. Ingo Bretthauer (since 01.02.2009)	199	0
Bernd Hackmann (up to 31.12.2008)	0	196
Bernd Lange	215	204
Kai Bentz	156	147

The performance-based component is based on the Group EBIT of the financial year just ended. An upper limit (cap) has been arranged. If a loss is reported in the following year, this loss may be taken into consideration retrospectively under certain circumstances.

Because of the earnings situation in the previous financial year, variable remuneration for the year 2008 was granted totaling T€ 193 (previous year: T€ 881), and paid out in the 2009 financial year to Bernd Hackmann and Bernd Lange who each received T€ 70 (previous year: T€ 427 each), and to Kai Bentz who received T€ 53 (previous year: T€ 27).

The performance-based component for 2009 will not be paid until the 2010 financial year. Reserves were set aside for this purpose on the balance sheet date for Dr. Ingo Bretthauer totaling T€ 134 (previous year: T€ 0), Bernd Hackmann totaling T€ 0 (previous year: T€ 76), for Bernd Lange totaling T€ 146 (previous year: T€ 76), and Kai Bentz totaling T€ 110 (previous year: T€ 58).

Three retired members of the Board of Managing Directors are awarded the following benefits:

1. Pension
2. Occupational disability allowance
3. Widows pension

The pension is paid upon stepping down from the Company

- generally upon reaching the age of 65 (age limit) or
- after receiving a pension from the German national pension scheme upon reaching the age limit.

This benefit comprises a monthly pension defined in the pension undertaking, which is reduced pro rata when leaving the Company early.

The pension obligations for former members of the Board of Managing Directors total T€ 302 (previous year: T€ 284). Reserves totaling T€ 40 (previous year: T€ 155) were also set aside on the balance sheet date for redundancy payments, plus remuneration for a ban on competition.

Benevolent funds for two active members of the Board of Managing Directors were set up, into which the company has to pay a fixed annual amount. No provisions for pensions are required in this case.

No share options were assigned to the members of the Board of Managing Directors in the 2009 financial year as salary components with a long-term incentive value as part of the 2001 Share Option Program.

The following table shows the number of options held by each member of the Board of Managing Directors:

Board of Managing Directors	31.03.09	30.06.09	30.09.09	31.12.09
Bernd Lange	36,500	36,500	36,500	36,500
Kai Bentz	9,700	9,700	9,700	9,200

On 31 December 2009, the fair value of the options granted to Bernd Lange was T€ 6 (previous year: T€ 0) and for Kai Bentz T€ 1 (previous year: T€ 0).

No new shares were acquired by the Board of Managing Directors in the 2009 financial year by exercising options. Details of the Stock Option Program 2001 are explained in the following:

The Board of Managing Directors was authorized at the annual general meeting on 17 May 2001, with the approval of the Supervisory Board, to issue up to 600,000 option rights by 16 May 2011 to members of the Board of Managing Directors, as well as managers and other employees of the company and/or current and future affiliated companies under the following conditions (hereinafter referred to as the "Stock Option Program 2001"):

Beneficiaries of the 600,000 options available are members of the company Board of Managing Directors with a maximum of 120,000 option rights (20% of the total volume), company employees including the remaining management of the company with a maximum of 300,000 option rights (50%), members of the management of affiliated companies with a maximum of 60,000 option rights (10%) and employees of affiliated companies with a maximum of 120,000 option rights (20%).

The legal subscription rights of the shareholders are excluded.

The term of the Stock Option Program 2001 is five years. The option rights issued can be exercised within this time period. By exercising the option rights, shares at a ratio 1:1 can be acquired by paying the exercise price. Purchase takes place subject to the individual conditions formulated by the company Board of Managing Directors in agreement with the Supervisory Board and subject to all revisions arising from capital measures or a conversion of the company.

The exercise price is derived from the average closing price of the shares in the company in XETRA trading at the Frankfurt stock exchange in the ten stock trading days prior to the issue of the option. The exercise price is at least € 1.00.

The new shares which are acquired by exercising the option rights are entitled to a share of the profits for the financial year in which the option rights were exercised. The shares required to fulfil the exercised option rights will be made available by a contingent capital increase. The share capital of the company currently will be contingently increased by up to € 600,000 by the issue of up to 600,000 shares. The contingent capital increase will only be implemented for the purpose of the Stock Option Program 2001 and only to the extent corresponding to the assigned option rights. The Memorandum and Articles of Association of LPKF Laser & Electronics AG have thus been supplemented accordingly in Article 4.

The potential acquisition periods cover a period of 30 working days starting with the first bank working day after publication of the quarterly figures. The issued tranche for each group of option holders must not exceed 25% of the total volume per year.

The option holders can exercise the option rights in general up to 50% not earlier than 2 years after their issue; and an additional 25% not earlier than three years after their issue; and the remaining 25% not earlier than four years after their issue. The option rights lapse when the active employment relationship ends for a reason attributable to the beneficiary. Moreover, the option rights can only first be exercised when the relative development in the price of LPKF Laser & Electronics AG shares (closing price XETRA trading) is higher than the relative stock performance of the Nemax All Share Index (Neuer Markt Index) – or the Technology All Share Index (the successor to the Nemax All Share Index) in accordance with the resolution passed by the annual general meeting on 5 June 2003 – during the period from the day of the receipt to the day of exercising the right (performance target in the sense of Section 193 Para. 2 Number 4 AktG).

Four time periods each lasting four weeks are scheduled for exercising the options. These begin in each case with the end of the first bank working day after publication of the quarterly reports and/or figures. Exercising the option rights is excluded from the day on which the company makes public an offer to its shareholders with respect to new shares or debentures with conversion or option rights by writing to all shareholders or by publication in the Bundesanzeiger of the Federal Republic of Germany, up until the day the shares of the company with entitlement to subscribe are officially quoted for the first time as "ex option rights" at the stock exchange at which the company shares were admitted for official trading.

All taxes including church tax and solidarity tax arising from the granting or exercising of option rights shall be borne entirely by the option holder.

The Board of Managing Directors of the company – and in so far as it is itself affected, the Supervisory Board – is authorized to determine the remaining details of the formulation of the Stock Option Program 2001. This entails in particular:

- determining the number of option rights assigned to an individual or a group of option holders as well as the granting periods within the acquisition periods in each case;
- excluding or guaranteeing the transferability and/or tradability of the option rights;

- the details of the procedure involved in the program as well as the terms of distribution and exercising, and in addition, the making available of the shares offered under conversion options in agreement with the listing requirements;
- the regulations concerning the treatment of option rights in special cases (e.g. the death or parental leave of an option holder);
- to determine reasons for termination in the interests of the company as well as regulating the terms of termination in detail, and in particular, to determine them more precisely when the employment relationship terminates for reasons for which an option holder is responsible;
- any revisions to the program required to safeguard the economic basis of the Stock Option Program 2001 in the light of changes in the law.

Within the context of this empowerment, the Board of Managing Directors, with the agreement of the Supervisory Board, authorized the 2002 option conditions dated 13 June 2002.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board of LPKF Laser & Electronics AG has been defined as a fixed amount of T€ 135 p.a. since 1 January 2004. This total remuneration was divided up as follows amongst each member of the Supervisory Board in 2009:

T€	2009	2008
Bernd Hildebrandt	70	70
Dr. Heino Büsching	40	40
Prof. Dr. Erich Barke	25	25

The remuneration for the members of the Supervisory Board also includes a variable component oriented to the dividend paid in the immediately preceding financial year. Because no decision has yet been reached on whether a dividend will be paid for the 2009 financial year (and the size of the dividend), it is not currently possible to put a figure on the corresponding variable remuneration component. No dividend was paid in 2009 for the 2008 financial year, which meant that the members of the Supervisory Board received no variable remuneration component (previous year: T€ 24):

T€	2009	2008
Bernd Hildebrandt	0	8
Dr. Heino Büsching	0	8
Prof. Dr. Erich Barke	0	8

2. Functions and responsibilities of the Board of Managing Directors and the Supervisory Board

LPKF AG is an enterprise incorporated according to German law and is also subject to the German Corporate Governance Code. A basic principle of the German Stock Corporation Law is the existence of two management boards comprising the Board of Managing Directors and the Supervisory Board, both of which are empowered with their own set of rules and responsibilities. The Board of Managing Directors and the Supervisory Board of LPKF AG work together closely and trustingly to manage and supervise the company. The LPKF AG Board of Managing Directors currently consists of three members. They constitute the executive board responsible for managing the company's business activities with the aim of creating sustainable value – they are responsible for their own actions and act in the interests of the company.

The Supervisory Board advises and monitors the work of the Board of Managing Directors as it performs its management duties. The Supervisory Board is integrated in the corporate strategy and planning, as well as all aspects of fundamental importance for the company. The rules and regulations covering the Board of Managing Directors state that they must acquire the approval of the Supervisory Board for management decisions which have a major impact on the company and its business. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs the meetings and represents the board externally.

The Board of Managing Directors informs the Supervisory Board in good time and comprehensively in writing – as well as at the regular meetings – on the planning, the business development and the situation of the Group, as well as reporting on risk management and compliance. An extraordinary Supervisory Board meeting can be convened when deemed appropriate. The Supervisory Board has defined a set of rules and regulations for itself to guide it in its work.

LPKF AG has taken out a D&O insurance policy for all members of the Board of Managing Directors and Supervisory Board. This insurance policy includes an appropriate excess. An excess of 10% of the claim or one and a half times the fixed remuneration is to be agreed for the 2010 calendar year.

The LPKF AG Supervisory Board consists of three members. At the last Supervisory Board election which took place at the annual general meeting on 4 June 2009, each of the Supervisory Board members was elected individually pursuant to the recommendations of the German Corporate Governance Code. The candidates for election to the Supervisory Board are selected taking into consideration the knowledge, skills and specialist experience required to undertake the Supervisory Board duties, as well as ensuring that the diversity of the Supervisory Board is maintained. The Supervisory Board is made up of an adequate number of independent members with no commercial or personal relations to the company or the Board of Managing Directors. The period in office of members of the Supervisory Board is five years and the current tenure ends with the ordinary annual general meeting in 2014.

The Board of Managing Directors and the Supervisory Board are obliged to look after the corporate interests of LPKF AG. No conflicts of interests which should have been immediately and openly reported to the Supervisory Board occurred in the financial year just ended. No member of the Board of Managing Directors held more than three external supervisory board directorships in listed stock corporations not forming part of the Group.

3. Shareholders and annual general meeting

The shareholders of LPKF AG exercise their co-determination and control rights at the annual general meeting which takes place at least once per year. The annual general meeting passes resolutions on all of the aspects defined by law, and these adopted resolutions have a binding effect on all shareholders and the company. When voting takes place, each share is worth one vote.

All shareholders who register for participation within the defined time schedule have the right to take part at the annual general meeting. Shareholders who are unable to take part at the annual general meeting personally are able to pass on their voting rights to a proxy representing a financial institution, a shareholders' association, the proxies appointed by LPKF AG who are authorized to exercise the voting instructions issued by the absent shareholder, or another proxy of their choice.

The invitation to attend the annual general meeting, as well as the reports and information required to vote on the resolutions, are published in accordance with regulations defined in the German Stock Corporation Act, and on the LPKF AG website – in German and in English.

4. Risk management

The principles of good corporate governance include dealing responsibly with commercial risks. The Board of Managing Directors of LPKF AG is supported in its work by a comprehensive Group-wide reporting and control system to identify, evaluate and manage risks of this kind. The systems are continuously further developed, adjusted to changing parameters, and audited by the external auditor. The Board of Managing Directors regularly informs the Supervisory Board about any existing risks and their development. The risk report contains details of the LPKF Group's risk management. The risk report is part of the management report and contains the report on the accounting-related internal control and risk management system pursuant to the German Commercial Code (HGB).

5. Transparency

LPKF regularly, immediately and simultaneously informs the participants in the financial markets and interested members of the public about the commercial situation of the Group and any new facts. The annual report, the semi-annual financial report and the quarterly reports are published within the specified deadlines. Press releases, and ad hoc announcements where stipulated, provide information on current events and new developments. All of the information is published in printed form and via suitable electronic media such as email and the internet. The www.lpkf.com website also provides comprehensive information on the LPKF Group and LPKF shares.

A financial calendar lists the scheduled dates for the most important regular events and publications such as the annual general meeting, annual report and quarterly reports. The calendar is published well in advance of the scheduled events and is accessible at all times on the LPKF AG website.

6. Share transactions of members of the company boards

Directors' dealings involving the obligatory disclosure of the sale or acquisition of shares by members of the two LPKF AG boards were published at the LPKF AG website and reported to the competent supervisory authorities. A listing of the shares held by members of the boards is shown in the Notes to the Consolidated Statements in Chapter 28.

7. Accounting and auditing

LPKF AG prepares its consolidated financial statements and its interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as applied in the European Union. The annual financial statements of LPKF AG are prepared in accordance with the German Commercial Code (HGB). The consolidated financial statements are prepared by the Board of Managing Directors and audited by the external auditor and the Supervisory Board. The interim reports and the semi-annual financial reports are discussed by the Supervisory Board and the Board of Managing Directors before publication.

The consolidated annual financial statements and the annual financial statements of LPKF AG were audited by the auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, elected by the annual general meeting 2009. The audits were carried out pursuant to German auditing regulations and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany).

International standards on auditing are observed. The audit also assesses the risk management and compliance with the reporting obligations defined for proper corporate governance pursuant to Section 161 German Stock Corporation Act.

The auditor is contractually obliged to immediately inform the Supervisory Board about any possible reasons justifying its exclusion or which could constitute reasons for potential bias, as well as about any significant findings or occurrences revealed during the course of the audit. Nothing of this nature arose in the course of the audit covering the 2009 financial year.

8. Compliance – Principles governing corporate actions and business activity

Acting in compliance with the principles of corporate, environmental and social sustainability are an indispensable element of LPKF's corporate culture. This includes integrity in its dealings with employees, business partners, shareholders and the general public, as reflected by the company's exemplary behavior at all times. LPKF's understanding of compliance includes observing all laws, acts and memorandums and articles of association, complying with internal regulations, and honoring voluntary obligations.

Dr. Ingo Bretthauer **Bernd Lange** **Kai Bentz**

Contents
Group Management Report 2009

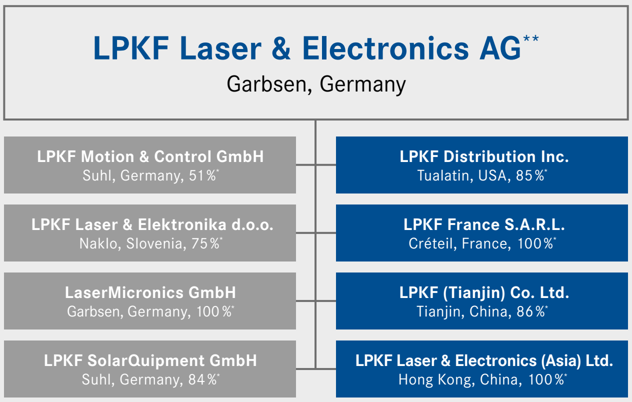
I Business conditions and overall business environment

1. Group structure and business activities

LPKF develops and produces systems for material processing. Because of its technical leadership in some areas of micro-material processing with lasers, the Group is one of the leading laser technology enterprises worldwide. The LPKF Group has special competence in laser technology, optics, drive technology and control technology. Laser systems built by LPKF are primarily used in the electronics industry, for plastic processing, and in the manufacture of solar panels. The innovative processes developed by LPKF replace the previously established techniques in many sectors. 79 % of the Group's turnover is export-generated. LPKF Laser & Electronics AG is quoted in the Prime Standard index, and employs 384 staff worldwide.

1.1. Legal Group structure

The legal structure of the LPKF Group remained unchanged in the 2009 financial year. LPKF Laser & Electronics AG currently has eight subsidiaries. Together with the parent company, they form the consolidated Group.



* Direct and indirect stake held by LPKF Laser & Electronics AG in the subsidiary
** including branch office in Erlangen

1.2. Segments

The LPKF Group is currently active in the following segments: Rapid Prototyping, Cutting and Structuring Lasers, Joining Technologies, Thin-film Technologies, and Others.

Rapid Prototyping

In the **Rapid Prototyping segment,** LPKF supplies everything required by an electronics laboratory to largely manufacture and assemble printed circuit boards without the use of chemicals. In addition to the development departments of industrial clients, the main customers are public organizations such as research institutes, universities and schools. Customers in this segment mainly make their purchasing decisions on the basis of their available budgets.

Rapid Prototyping segment at a glance (in million €):

	2009	2008	Change in %
Turnover	13.5	15.0	– 10.2
EBIT	2.3	1.5	+ 53.4

Cutting and Structuring Lasers

The following divisions are part of the **Cutting and Structuring Lasers segment.**

In the LDS division (Laser-Direct-Structuring, previously: MID) LPKF supplies laser systems and process expertise for the production of molded interconnect devices (MIDs) using the LDS method patented by LPKF.

As the market leader, LPKF's Stencil division supplies laser systems for cutting print stencils. These stencils are used in production processes to print solder paste onto printed circuit boards. As in the other laser product segments, purchasing decisions are primarily made on the basis of Return-on-Investment calculations.

LPKF's PCB Processing division serves the electronics market with specialized systems for cutting printed circuit boards and flexible circuit carriers.

Turnover +12%

Cutting and Structuring Lasers segment at a glance (in million €):

	2009	2008	Change in %
Turnover	26.5	15.7	+ 68.2
EBIT	6.0	0.9	+ 475.9

Joining Technologies

In the **Joining Technologies segment** LPKF develops and sells standardized and customized laser systems for welding plastic components. These systems are primarily used by customers in the automotive subcontracting industry. An increasing number of clients is also being acquired in the medical technology sector.

Joining Technologies segment at a glance (in million €):

	2009	2008	Change in %
Turnover	5.3	5.8	– 8.3
EBIT	0.2	0.2	+ 4.1

Thin-film Technologies

The **Thin-film Technologies segment** is mainly involved with the development and production of laser systems for scribing thin-film solar panels. Most of the development work, as well as production, sales & marketing and product management is handled by the companies located in Suhl/Germany. Some of the laser sources used in the machines are developed and produced by the Slovenian subsidiary.

Thin-film Technologies segment at a glance (in million €):

	2009	2008	Change in %
Turnover	3.5	6.9	– 48.8
EBIT	– 0.9	1.0	– 183.8

All Other segments

Other segments mainly include production services carried out on behalf of customers on LPKF machines. They also include undistributed costs and income.

All Other segments at a glance (in million €):

	2009	2008	Change in %
Turnover	1.9	1.9	– 2.8
EBIT	– 0.6	-0.6	– 6.4

1.3. Competitive position

In the segments in which it is active, the Group is either already market and technology leader or is striving to become at least the number 2 in the global market.

1.4. Locations

Garbsen, Germany: headquarters, production, development, sales & marketing and service – The Garbsen site has profited particularly strongly from the growth in turnover in the Cutting and Structuring Lasers segment, and significantly boosted all of the relevant accounting figures in the 2009 financial year. Production services are also provided by the Garbsen location – a business activity which has also grown profitably in 2009.

Erlangen, Germany: production, development, sales & marketing and service – Business with laser plastic welding systems did not develop as strongly as predicted in 2009. This was due to the crisis in the automotive sector. Despite the poor economic background, the segment generated positive earnings, and opened up new applications independent of the automotive sector. LaserMicronics GmbH provides plastic welding production services on LPKF machines at the location in Erlangen, and the turnover and earnings of this business was boosted further.

Tualatin, USA: Sales & marketing and service – The American subsidiary was hit by a decline in turnover in the first half of 2009 because of the major economic crisis in the USA. Costs were cut strongly across all segments, and the workforce was downsized. Business recovered to such an extent in the second half that the financial year as a whole ended with positive earnings. The office in Detroit, USA, has the task of further opening up the major potential for plastic welding in the North American market. Despite the difficult conditions, this office was expanded to establish the company in the market once business activity starts to recover again.

€ 51 Record turnover of million

Suhl, Germany: Development, sales & marketing, production and service – Suhl is home to the subsidiaries LPKF Motion & Control GmbH and LPKF SolarQuipment GmbH. The main focus of business at this location is in the Thin-film Technologies segment. Business with laser systems for scribing thin-film solar panels suffered strongly in the same way as other equipment manufacturers in the 2009 financial year because of the crisis affecting solar cell manufacturers. The segment therefore failed to continue the strong growth that was the hallmark of the previous year. The turnover and earnings of the companies at this location therefore slumped against this economic background. The medium to long-term outlook, however, still remains positive. Production activities were transferred from Garbsen to Suhl recently to enhance the utilization of the local capacities.

Naklo, Slovenia: Development, sales & marketing, production and service – The Slovenian subsidiary concentrates on the manufacturing of products for the Rapid Prototyping segment, and the development and production of laser sources for the LPKF Group. Despite suffering a decline in turnover in the 2009 financial year because of the weak development of the Rapid Prototyping business, the company still managed to generate positive earnings.

Créteil, France: Sales & marketing – The French subsidiary failed to satisfy the forecast of generating a neutral performance in the 2009 financial year. The economic crisis strongly weakened the markets relevant to LPKF France (electronics, automotive). An improvement in turnover and earnings is expected with the recovery in economic activity.

Hong Kong, China: Service – Because a large share of sales revenues are generated in Asia, it is very important for LPKF to maintain professional, competent and fast customer care services in the region. This is particular urgent given the booming business with LDS systems in Asia. The Hong Kong location has therefore become even more significant as the local service hub for the whole of Asia.

After completing the restructuring measures in 2009, the location nearly managed to generate a positive result on the operative side during the financial year. The work of the location will increase further during the ongoing financial year because of the increase in business in the Asia region. A profit is therefore expected in 2010.

Tianjin, China: Sales & marketing, service – The strong growth in turnover in Asia was largely attributable to good business in China, which enabled the company to generate a very clear positive result. The previous three sites operated by the Chinese subsidiary LPKF (Tianjin) Co. Ltd., were joined by two more in Beijing and Chengdu.

1.5. Production and procurement

LPKF Motion & Control GmbH in Suhl/Germany develops and produces Solar scribers and supplies parts for table systems and machine controls – focussing on the Thin-film Technologies segment.

Circuit board plotters and other equipment, and some of the laser sources used in the Group, are supplied by LPKF Laser & Elektronika d.o.o. in Slovenia.

The production of laser plastic welding systems takes place in LPKF Laser & Electronics AG's branch in Erlangen/Germany. Cutting and Structuring Lasers are mainly produced in Garbsen.

Generally, LPKF acquires no complete systems from third parties. In so far as system components are purchased from outside the Group, these are generally sourced by several suppliers. However, a large proportion of the purchased volume involved a relatively small number of suppliers which are important for LPKF's business.

1.6. Sales & marketing

Global sales & marketing, especially in important regions such as China and North America, is handled by subsidiaries. The Group is represented by subsidiaries or distributors in 79 countries. Garbsen is responsible for managing the sales & marketing activities and the distributors. This function is carried out by the units in Erlangen/Germany and in Suhl/Germany for the Group's Joining Technologies and Thin-film Technologies segments.

EBIT +125 %

Record EBIT of

1.7. Management and control

Management and control organization

The Board of Managing Directors represents the company. The members of the LPKF Laser & Electronics AG Board of Managing Directors are appointed by the Supervisory Board. The Supervisory Board can withdraw appointments when justified by important reasons. The Board of Managing Directors is accountable for managing the company. The Supervisory Board has stipulated rules which lay down that certain transactions may only be undertaken with the approval of the Supervisory Board. The annual general meeting can only decide on business management aspects when requested to by the Board of Managing Directors. Changes to the articles of association require the adoption of a resolution at the annual general meeting with a majority of three quarters of the capital represented when the resolution is voted on.

The Board of Managing Directors of LPKF Laser & Electronics AG was made up of the following members in the 2009 financial year:

- Dr. Ingo Bretthauer, Chairman of the Board of Managing Directors (CEO) (from 1 February 2009)
- Bernd Lange, Director (CTO)
- Kai Bentz, Director (CFO)

The Supervisory Board was made up of the following members in the 2009 financial year:

- Bernd Hildebrandt (Chairman)
- Dr. Heino Büsching (Deputy Chairman)
- Prof. Dr. Erich Barke

1.8. Remuneration report

The remuneration report is included in the corporate governance report (Annual Report 2009 LPKF Laser & Electronics AG, Page 24), and is also a part of the Group Management Report.

1.9. Legal and economic influencing factors

The company and each of its segments, with their Group-specific characteristics, are not subject to any special mandatory stipulations aside from the general legal requirements demanded of publicly quoted companies.

2. Company management, goals and strategy

LPKF's highest priority is to boost the value of the Group through its earnings power and profitable growth, financial solidity, and adequate returns on the employed capital.

In a complex and fast-moving business environment, the value of the LPKF Group depends on the Group's ability to realize new opportunities and respond to challenges. Special attention is given to strengthening the financial resources, expanding the innovative strength, and safeguarding jobs. These are all in the interests of LPKF customers, business partners, all employees, and last but not least, the shareholders.

The principles for achieving this are built on customer orientation and the resulting good market position in selected segments. Other crucial factors are supplying a range of qualitatively and technologically high-quality products at competitive conditions. The activities are concentrated on products with which LPKF is capable of at least establishing a number two position in the global market.

All activities are aimed at furthering the commercial success of LPKF's clients. The benefits of LPKF products for its clients are the highest priority along the whole value chain. These benefits, which enable clients to improve their competitive situation on the basis of technical leadership and cost savings, are the benchmark on which all activities and decision making is measured. The high quality of LPKF products and LPKF services are vital to maintain customer satisfaction.

Thinking and acting in a partnership-oriented way is the hallmark of the relationship with customers, suppliers, representatives and other companies within the LPKF Group, in just the same way as the personal working relationship between the members of the company's own workforce.

As a private sector Company, LPKF has an influence on the environment. The nature of the products as well as internal processes are always environmentally-friendly.

€ 7 Mio.

2.1. In-house management system

Financial metrics

The earnings power and potential of the overall Group and each segment are assessed on the basis of absolute profit contributions as well as on the basis of EBIT margins (= EBIT/turnover x 100).

The EBIT margin has changed as follows over the last five years:

%	2009	2008	2007	2006	2005
EBIT margin	13.7	6.8	14.2	16.0	17.1

The Return On Capital Employed (ROCE) is used to quantify an adequate return on the employed capital for the purposes of setting corporate targets, and to measure achievement of the targets.

This involves setting a return target of at least 10 %.

This ratio has changed as follows in the last five years:

%	2009	2008	2007	2006	2005
ROCE	15.7	7.4	15.4	17.9	19.4

ROCE is calculated in % as a ratio of EBIT (Earnings Before Interest and Taxes) and Capital Employed (interest-bearing internal and external capital).

The Capital Employed is determined by deducting provisions for pensions as well as non-interest bearing balance sheet items from the balance sheet total.

Another financial metric is net working capital, which brings together inventories and current trade accounts receivable reduced by current trade accounts payable and payments received. This financial metric reflects the net capital commitment in the reported entries. Reducing this figure was one of the targets for 2009.

The net working capital has changed as follows in the last five years:

€ million	2009	2008	2007	2006	2005
Net working capital	20.4	22.5	22.4	19.5	17.2

Set-actual comparison of planning and realization

In March 2009, against the background of the global economic crisis, the Board of Managing Directors forecast a company turnover roughly matching that of the 2008 financial year, and improved earnings figures. A decline in turnover of up to 25 % and a largely neutral financial performance was predicted in a negative scenario in the event that there was a further worsening of the economic crisis.

This prognosis was significantly bettered despite the difficult economic conditions, mainly because of the strong business activity of the Cutting and Structuring Lasers segment. Turnover therefore grew by 11.7 % to € 50.7 million. Operating results improved by € 3.9 million to € 7.0 million.

The target return of at least 10.0 % in the form of the ROCE financial metric published for the first time last year was also exceeded by the company with 15.7 %.

2.2. Strategy

Strategic orientation of the segments

LPKF has six divisions. The Group's growth divisions include Joining and Thin-film Technologies, and the LDS division in the Cutting and Structuring Lasers segment. The Board of Managing Directors considers that these divisions are capable of generating above average growth in the years to come.

The divisions bundled within the "basic business" category are those in which LPKF has been active for many years and which are only thought to be capable of minor growth. These divisions include the sale of StencilLasers and Printed Circuit Board Processing systems in the Cutting and Structuring Lasers segment, and the Rapid Prototyping segment.

+43%

LPKF's growth strategy involves the systematic expansion and further internationalization of the growth segments. The basic business with its commercial position secures the basis for further development.

Strategic Group structure, equity stake

Regular examination is carried out to determine any need to change the Group structure in the light of changes in market conditions.

With a high equity ratio of 69.7% compared to the rest of the sector, there is currently considered to be no need to raise this level further. In the current economic environment, the strong equity position reflects the financial security and stability of the company.

At the balance sheet date, 26.2% of LPKF shares were classified as fixed stakes and 73.8% as free float in accordance with the definitions issued by Deutsche Börse AG.

Strategic financing measures

From today's point of view, no concrete financing measures are considered to be necessary over and above those required for ongoing business activities. Because of LPKF Laser & Electronics AG's good credit rating with its principal banks, the company has access to extensive credit lines, although these have not been made use of so far. In the light of the overall market situation, access to equity via the capital markets is currently very difficult.

In general, the Board of Managing Directors considers that the company has adequate financial scope to implement strategic financing measures for large investments and trade investments if considered necessary.

3. Research and Development

3.1. Focus of R&D work

Almost all development projects are directly oriented to satisfying market needs. No basic research is carried out. The R&D work carried out by the company in 2009 was largely focussed on modernizing and further developing the product portfolio. The priorities of this work were new products in the LDS division and the Rapid Prototyping segment. The R&D work on production systems focussed on boosting throughput rates, adding new functions, and improving availability under industrial operating conditions. Development projects are partly conducted together with universities and industrial partners.

3.2. R&D expenditure, R&D investment and R&D ratios

Continuous investment in near-to-market developments are of crucial importance to the technology-oriented LPKF Group. LPKF spent € 5.6 million on R&D in 2009. This corresponds to 11.0% of turnover.

3.3. R&D employees

An average of 82 employees are working in R&D which is similar to the previous year's level.

3.4. R&D results

The development of the Fusion laser structuring system created the breakthrough for the mass production of molded interconnect devices using the LDS method. In addition, new systems were also developed for the Rapid Prototyping segment, and the PCB Processing and Plastic Welding divisions in 2009.

3.5. Multi-period chart for R&D

	2009	2008	2007	2006	2005
R&D expenditure in € million	5.6	5.4	4.8	3.8	3.4
In % of turnover	11.0	11.9	11.4	9.6	9.7
R&D employees (average)	82	83	75	61	53

4. Overview of the general development in business

4.1. Macroeconomic framework

Although the hallmark of the 2009 financial year was the deep international economic crisis, the first green shoots appeared during the course of the year. According to the World Bank, the global economy shrank by 2.2%. The Ifo Institute in Germany published figures indicating that the global economic climate improved in the fourth quarter 2009 for the third time in succession starting from a low level. The

Orders received +16 %

Orders on hand

recovery in the global economy was primarily driven by the dynamic development in Brazil, and in India, China and other Asian countries. The rise in the economic climate index was especially marked in Asia, where it even exceeded the long-term average. The economic climate index also rose significantly in Q4 2009 in Western Europe and North America. The current status of the economy in the fourth quarter was still considered to be extremely unfavorable despite the improvements.

In Germany, the economy shrank overall by 5.0%. The DAX 30 index simultaneously rose over the course of 2009 by around 23.8%, reflecting the significant rise in the economic climate, which climbed further in December 2009 according to the Ifo Institute.

4.2. Sector-specific conditions

According to the Association of German Mechanical and Plant Engineering Companies (VDMA), production in the mechanical engineering sector collapsed by around 20% on average in 2009. Because many mechanical engineering companies were able to survive in 2009 by working off the orders already held in their order books, the association assumes that the acid test is still to come. The German Statistics Bureau calculated that the sector downsized the workforce by 21,000 between January to the end of September 2009. 221,000 employees in the mechanical engineering sector were on short-time working in December 2009.

The VDMA reported that orders received by the German mechanical and plant engineering sector were up year-on-year by a real 8% in December 2009. Orders in 2009 as a whole were down around 38% year-on-year.

The economic framework in the important target markets for LPKF in 2009 was far from easy. For instance, the electronics industry was not insulated from the effects of the economic crisis. According to the Consumer Electronic Association (CEA), the sector experienced a slight decline in turnover after years of double-figure growth. But there were also success stories in this sector, such as smart phones and mini-laptops (netbooks).

The plastics market suffered considerably from the dramatic slump in the automotive sector. But clear signs of a recovery have also been noted here in the meantime. According to the German Automotive Industry Association (VDA) there was a positive increase in foreign orders received in the fourth quarter of 2009 – with a rise of 18% in October alone. German car exports have also risen again for the first time since the start of the crisis – by 8%.

The dramatic expansion in production capacities for solar panels in 2008 led to over supply for the first time in 2009, and a strong decline in prices. In addition, the bank crisis also caused considerable problems for solar panel manufacturers in arranging finance. This led to a delay in making capital investments. Reports that further investments are to be made in additional production capacities are currently the first signs of an improvement in the conditions affecting solar panel manufacturers and equipment suppliers.

5. Company acquisition law details

Information pursuant to Section 289 Para. 4 and Section 315 Para. 4 German Commercial Code (HGB) regarding takeover law aspects are presented in the following.

On 31 December 2009, the share capital of LPKF Laser & Electronics AG totaled € 10,858,052.00. This figure has not changed since the previous year. The share capital is divided up into 10,858,052 ordinary shares. There are no preference shares. One ordinary share guarantees a numerical share of € 1.00 of the share capital. The rights and obligations accruing to the ordinary shares comply with the relevant stipulations in the Stock Corporation Act.

In accordance with the resolution adopted at the annual general meeting on 17 May 2001, the share capital can be conditionally increased by up to € 600,000 by issuing up to 600,000 ordinary shares **(conditional capital 2001).** The conditional capital increase serves to honor option rights whose issue by the Board of Managing Directors was approved by the annual general meeting on 17 May 2001. The conditional capital increase will only be implemented to the extent required to honor the rights of option holders who decide to exercise their option rights.

Return on
Capital Employed
16%

The new shares issued when option rights are exercised are entitled to a share of the profits from the beginning of the financial year in which the option rights were exercised.

In accordance with the resolution adopted by the annual general meeting on 1 June 2005, the Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the share capital by up to € 5,300,000.00 **(authorized capital 2005)** until 14 June 2010, by one or more issues of up to 5,300,000 new shares with a proportional share of the share capital (ordinary shares) of € 1.00, in return for cash or contributions in kind. So far this authorization has not been executed.

There is currently no authorization to **buy back the company's own shares.**

The regulations on appointing and dismissing members of the Board of Managing Directors, as well as modifying the articles of association, comply with the relevant regulations in the Stock Corporation Act.

There are no restrictions affecting voting rights or the transfer of shares. In addition to Sections 84, 179 ff., Stock Corporation Act, Section 7 of the articles of association regulates the composition of the Board of Managing Directors as follows: the Board of Managing Directors consists of at least two people. The Supervisory Board determines the number as well as the appointment of ordinary members of the Board of Managing Directors and the deputy members of the Board of Managing Directors, as well as closing appointment contracts, and the withdrawal of appointments.

We are unaware of any other circumstances requiring disclosure in accordance with Section 289 Para. 4 and Section 315 Para. 4 German Commercial Code.

6. Corporate governance declaration

The declaration on corporate governance pursuant to Section 289 a Para. 1 German Commercial Code and pursuant to Provision 3.10 of the German Corporate Governance Code is published on Page 24 of this Annual Report and at www.lpkf.de/investor-relations.

II Earnings, financial and asset situation

1. Earnings situation

1.1. Turnover development

LPKF closed the 2009 financial year with a turnover of € 50.7 million compared to € 45.4 million the previous year. Growth was mainly stimulated by the Cutting and Structuring Lasers segment. Big rises in turnover here were primarily generated by the business with systems for the manufacture of molded interconnect devices using the LDS method. This method established itself in the industrial mass production of mobile phone antennas after several customers realized the advantages of this patented method at the end of 2008. The breakthrough of the LDS method into mass production had a major impact on LPKF in the 2009 financial year even though it has so far only penetrated a small part of the cellphone antennas market – there is still significant potential for growth in this core segment alone.

Turnover has also risen in the business with PCB processing systems, even though there was a decline in turnover with StencilLasers. In the Joining Technologies segment turnover was almost as good as the previous year despite the difficult market conditions. Problems in the economy overall had a knock on effect on the Rapid Prototyping segment where business was thus down on the previous year. The activities of LPKF Laser & Electronics AG's Thin-film Technologies segment were completely transferred and thus concentrated on the subsidiaries LPKF Motion & Control GmbH and LPKF SolarQuipment GmbH during the course of the 2009 financial year. The transfer will be completed at the beginning of 2010.

The Rapid Prototyping segment in particular profited from the signs of economic recovery in the second half of 2009.

Capital ratio

70%

Sales revenues according to segments are divided up as follows:

T€	2009	2008
Cutting and Structuring Lasers	26.5	15.7
Rapid Prototyping	13.5	15.1
Joining Technologies	5.3	5.8
Thin-film Technologies	3.5	6.9
All other segments	1.9	2.0
	50.7	**45.4**

The regional distribution of turnover is shown in the following chart:

%	2009	2008
Asia	48.4	28.0
Germany	21.5	39.2
Europe excluding Germany	17.3	17.5
North America	10.4	12.2
Others	2.4	3.1
	100.0	**100.0**

The increasing importance of the Cutting and Structuring Lasers segment is primarily attributable to the strongly growing business with systems for structuring molded interconnect devices. These systems are currently mainly sold in Asia, resulting in a significant rise year-on-year in the proportion of sales turnover generated in Asia. This segment also won a major order worth € 6.3 million in total which was received in September 2009. Approximately one third of this is reported as turnover in 2009.

The structure of the sales revenues has shifted strongly during the reporting period in favor of the Cutting and Structuring Lasers segment.

1.2. Development in orders

Orders received during the reporting period totaling € 56.0 million were 16.4 % up on the previous year's level of € 48.1 million. Orders in hand also grew by 42.5 % from € 10.3 million at the end of 2008 to € 14.7 million on the 2009 balance sheet date.

1.3. Development of main income statement items

The development in sales revenues is described in Section II. 1.1.

The work capitalized entry reports the capitalized development costs totaling € 1.8 million (previous year: € 1.4 million) as well as production costs for prototypes and application systems. The other operating income has risen by € 0.6 million to € 1.8 million. Income from exchange rate differences dropped by € 0.1 million alongside a rise of € 0.3 million in development grants and an extra € 0.2 million from asset disposals.

The material usage ratio with respect to sales revenues and changes in inventories was reduced from 32.4 % the previous year to 30.0 %. This was primarily due to a different product mix, activities to develop new, more cost-optimized systems, and an improvement in the material usage ratio in the Joining Technologies segment. Just as in the previous year, note that value adjustments on inventories totaling € 0.6 million (previous year: € 0.6 million) had to be taken into consideration mainly because of various product changes and the launch of new products, as well as the current economic climate. The expenditures are mainly attributable to the Cutting and Structuring Lasers segment.

The ratio of personnel costs to total sales revenues was 35.4 % compared to 37.4 % the previous year. The rise in personnel costs is mainly due to the increase in the size of the workforce, and the profit-oriented rise in Christmas bonuses and variable salary elements. One-off expenses of € 0.2 million the previous year were due to the payment of compensation for a restraint on competition.

R&D expenses: 11% of turnover

The other operating expenses item has risen by € 1.0 million to € 11.6 million. This is almost entirely attributable to turnover-dependent costs: € 0.7 million alone was due to extra costs for distribution and license fees, as well as € 0.2 million in extra costs for outsourced work. The allocation of reserves for warranties also rose by € 0.3 million alongside the rise in sales revenues. Cost discipline enhancement measures had a positive effect in the reported financial year.

The company generated an EBIT of € 7.0 million (previous year: € 3.1 million), corresponding to an EBIT margin of 13.7 % (previous year: 6.8 %).

The negative financial result has improved slightly to € 0.2 million.

The net rise in provisions for income tax is mainly attributable to the earnings and is divided up into € 2.0 million for ongoing taxes and € 0.1 million for deferred taxes. The tax ratio is 30.3 % (previous year: 19.3 %). The Group net income after tax is € 4.7 million compared to € 2.3 million the previous year. € 4.7 million thereof relate to shareholders of the parent Company in the 2009 financial year compared to € 1.8 million the previous year.

1.4. Multi-period chart of the earnings situation

	2009	2008	2007	2006	2005
Sales revenues (€ million)	50.7	45.4	42.2	39.8	34.9
EBIT (€ million)	7.0	3.1	6.0	6.4	6.0
Material usage ratio (%)	30.0	32.4	31.1	31.2	30.5

2. Financial situation

2.1. Principles and goals of financial management

The use of external sources of finance is implemented on the one hand by issuing shares, and on the other hand by short-term or long-term borrowing. With respect to internal financing, the Group primarily makes use of funds derived from its own profits, as well as retaining cash equivalents generated by depreciation and provisions.

Derivative management within the LPKF Group is in the hands of the parent company LPKF Laser & Electronics AG. Derivatives are only used to hedge exchange rates and interest rates. The ongoing cash management is operated in a decentralized manner. If large amounts of financing are required, analysis is carried out to determine whether local financing or financing via LPKF Laser & Electronics AG is the better option.

2.2. Cash flow statement

The following cash flow statement shows the origin and use of the financial resources.

€ million	2009	2008
Cash flow from operating income	11.5	6.4
Cash flow from investing activities	-3.7	-3.5
Cash flow from financing activities	-3.4	– 0.1
Currency related changes in cash and cash equivalents	– 0.1	0.2
Change in cash and cash equivalents	4.4	2.8
Cash and cash equivalents on 01.01.	6.0	3.0
Cash and cash equivalents on 31.12.	10.3	6.0
Composition of cash and cash equivalents		
Cash balance, balances with banks	10.8	6.0
Bank overdrafts	-0.5	0.0
Cash and cash equivalents on 31.12.	10.3	6.0

The company's cash and cash equivalents have risen significantly from € 6.0 million to € 10.3 million. In addition to the annual net income, this is also attributable to the success in reducing net working capital. Of the cash flow from operating income totaling € 11.5 million, € 4.0 million was used for investments. The balance of € 7.8 million remaining after deducting investments minus outflows of € 3.4 million for financing activities, boosted cash and cash equivalents by € 4.3 million. The bank loans of € 2.0 million taken out the previous year as a cash reserve were paid back in full, along with the unscheduled repayments of longer term loans.

The company's financial situation can be considered as downright robust.

Long-term assets also have long-term financing. A basic rule is to arrange long-term fixed interest rates. The loans have interest rates of 2.9 % to 5.8 %. There is still considerable scope available in previously unused credit lines.

2.3. Multi-period chart showing the financial situation

€ million	2009	2008	2007	2006	2005
Cash flow from operating income	11.5	6.4	2.7	3.8	3.5
Net debts due to banks	– 6.7	0.6	2.1	0.2	– 3.4

(-) credit balance
(+) debt

3. Asset situation

3.1. Asset and capital structure analysis
The asset and capital structure has developed as follows compared to the previous year:

	31.12.2009		31.12.2008	
	€ million	%	€ million	%
Long-term assets	19.6	34.0	18.9	36.7
Short-term assets	38.0	66.0	32.6	63.3
Assets	**57.6**	**100.0**	**51.5**	**100.0**
Shareholders' equity	40.2	69.8	35.3	68.5
Long-term debts	4.7	8.2	5.3	10.3
Short-term debts	12.7	22.0	10.9	21.2
Liabilities	**57.6**	**100.0**	**51.5**	**100.0**

The asset situation continues to be extremely robust as indicated by financial metrics such as the high equity ratio of 70 % (previous year: 68 %). The current assets have risen by € 4.8 million almost exclusively as a result of the rise in bank deposits, mainly due to the cash flows from the operating activities. Despite the much higher growth in the reporting period, there has been hardly any change in the inventories, and the accounts receivable and other assets item reported under current assets. The inventories are order-related articles on the one hand, and on the other hand new products and components which are stocked to guarantee relatively short delivery times. The asset to equity ratio is 217.2 % (previous year: 198.5 %).

Equity has risen because of the positive consolidated earnings. The long-term liabilities due to banks were reduced by € 0.8 million, and the short-term liabilities due to banks were lowered by € 1.8 million. In addition, the change also reflects the rise of € 1.8 million in prepayments reported under current debts and the activities to reduce net working capital. Due to the good result, the short-term liabilities contain a tax accrual increase of € 1.0 million. With these exceptions, there has not been much change in the balance sheet structure.

3.2. Multi-period chart of the asset situation

	2009	2008	2007	2006	2005
Equipment intensity (%)	32.1	34.5	35.0	32.2	23.1
Inventory intensity (%)	25.1	29.2	31.9	33.0	33.8
Net working capital (€ million)	20.4	22.5	22.4	19.5	17.1
Debtor terms (days)	75	81	76	64	57

The debtor terms are based on the average inventory of receivables between the balance sheet dates.

3.3. Investments
€ 4.0 million was invested in intangible assets and tangible assets in the 2009 financial year. This was € 0.7 million more than the previous year. The additions include prototypes and demo systems, as well as machine tools and software licenses. Planning for the 2010 financial year envisages investments mainly focussed on development and prototypes, as well as the further expansion of the plastic welding activities. In addition, a new ERP system is to be implemented in Garbsen/Germany and Erlangen/Germany, alongside increases in the amount of space available. A rise in the amount of investment compared to the reporting period is therefore planned in the 2010 financial year. Combined with the investments made in previous years, these investments are a major part of LPKF's growth strategy.

Net Working — Capital

10%

3.4. Employees

LPKF's basic philosophy is to hire and bind employees to the company on a long-term basis. However, to maintain the necessary degree of flexibility on the human resources side, many new recruits were initially hired on short-term contracts. Temporary staff were also again taken on to an increasing degree to quickly cover short-term needs. A number of new appointments is planned in 2010 depending on the way business develops. This mainly involves rapidly growing segments, and positions in development, service and production.

LPKF's HR development strategy involves the training of staff in all segments on the basis of internal and external seminars, as well as other measures to raise the standard of staff qualifications. As part of its proactive moves to acquire properly qualified new staff, LPKF is particularly involved in training mechatronic technicians and industrial business assistants. The Group employed 23 trainees on the reporting date.

3.5. Non-financial performance indicators

Motivated, highly-qualified staff, which identify with the Group, are the key to success – especially for a technology enterprise like LPKF. Low levels of sickness leave and fluctuation rates are important indicators of LPKF's success in achieving this goal. At 3.3 % in Garbsen, the level of sick leave was below the average of 4.2 % in the metal and electronics industry reported for 2009 by the German Association of Company Health Insurance Funds. Unwanted fluctuation in the Group is virtually zero.

4. General statement on the economic situation of the Group

The measures to optimize the net working capital had an effect in 2009 against the background of an overall rise in business. The economic situation of the company improved considerably in the 2009 financial year, and can be rated as extremely robust. This forms the platform for further improving the earnings situation, and increasing the net working capital.

III Report on important events after the reporting date

Information on particularly important events

No disclosable events took place after the reporting date.

IV Risk report

1. Presentation of the internal control system

1.1. Overview

The internal control system (ICS) comprises the principles, procedures and measures implemented by the Board of Managing Directors of LPKF, which focus on the organizational realization of the decisions adopted by the Board of Managing Directors and the legal stipulations. The aim of the methods and measures implemented by LPKF is to safeguard the Group's assets, and to boost its operating efficiency.

Part of the further development of the ICS involves analyzing the functional sections of the Group. This analysis takes place in workshops for instance, and includes a risk probability assessment.

The Board of Managing Directors structured each functional unit on the basis of the analysis findings and the assessments. The workflows were also adjusted in accordance with the findings. Aspects include rigorously separating incompatible activities, installing the dual control principle in all the most important areas – to control the workflows. Examples include signature regulations, authorization rules for significant transactions, and IT access authorization controls.

At the start of 2010, an external auditor was engaged to perform internal auditing tasks and to elaborate a multi-year internal auditing plan for the Group on the basis of the Group strategy and the risk assessment carried out by the Board of Managing Directors. A standardized ERP system to control the Group processes and procedures will be implemented in 2010 and 2011 in LPKF Laser & Electronics AG and other Group companies. The organization of procedures will be further optimized as part of this process.

Operative cash flow +78 %

The risk and opportunity management system is also an integral part of the ICS.

1.2. Risk and opportunity management system

Essentially, the risk and opportunity management within the Group is pursued separately and is founded on a range of different reporting instruments. Risk management at LPKF involves the formulation and implementation of measures that are able to identify existing risks, insure against them, and either diminish the amount of damage they cause, restrict the chances of their occurring, avoid them completely or deliberately accept them if the risks are at a reasonable level. Its job is to enhance security and to increase competitiveness by providing a platform for the measured control of specific risks and their transparent management. It ensures that risks are identified and controlled in advance. This is a crucial factor for sustainable commercial success because risks are inseparably associated with business activity.

Opportunity management is structured to allow the most comprehensive possible identification and evaluation of business and development opportunities, and to enable the company to strengthen its competitive position.

The LPKF Group is exposed to numerous risks as it pursues its global business activities within the rapidly changing conditions affecting its target markets. Risk management, and particularly the risk early warning system, is therefore always a fundamental element in the planning and implementation of LPKF's business strategy. Generally, although risks can be limited by suitable measures and can be rapidly and precisely identified by an early warning system, they can never be completely excluded and always need to be reassessed at the time the risk evaluation is carried out. LPKF therefore makes use of a number of highly developed management and control systems to measure, monitor, control and handle the risks the Group is exposed to. A particularly important aspect here is the Group-wide strategic corporate planning and the associated reporting. The Board of Managing Directors of LPKF Laser & Electronics AG is responsible for risk policy and the internal control and risk management system. These control functions are implemented by the decentralized management at the second and third management levels in each organizational unit in the Group. In addition to regular reporting on the identified risks, there is also a spontaneous reporting obligation for all unexpected risks which develop. This involves a risk manager coordinating and authorizing the various risk control measures, and also becoming involved in their elaboration when necessary. The risk manager reports directly to the Board of Managing Directors. This procedure has proven itself time and again in the past. The risk management system is assessed at various times, including annually by the auditor, and where necessary also by other external auditors.

As part of the risk identification and control procedure, existing instruments such as the risk management manual and the reporting tools are continuously updated, whilst the daily implementation of the risk management system is documented. Risk management discussions of all types are always recorded in minutes. As in previous years, a risk inventory was also conducted in the 2009 financial year. This reviewed the existing and potential risks, and checked the efficiency of reporting with respect to the management of risks. The role of the decentralized risk managers was strengthened further during the reporting period. A database-supported reporting system was also installed, and is to be rolled out to other units within the Group. Another important element in the risk early warning system and the regulated transaction of business processes is the quality management system according to DIN EN ISO 9001:2008. An additional instrument for risk limitation and eradication is the implementation of the recommendations of the German Corporate Governance Code, which plays an important part in the co-operation between the Supervisory Board and the Board of Managing Directors.

The recording and communication of opportunities is a key component of the exchange of ideas and experience between the Group companies active in the markets, and the development and sales & marketing departments as well as the management of LPKF Laser & Electronics AG. This includes management accounting and strategy discussions with the management and the branch managers within the Group and the most important sales & marketing partners. Meetings involve the elaboration of targeted measures to exploit strategic growth potential, the evaluation of their opportunity versus risk ratios, and ranking in the priority hierarchy by the LPKF Laser & Electronics AG Board of Managing Directors. Priorities are placed on the development of competitive products and processes, new

Earnings per Share

+153%

areas of application for LPKF's core competencies, and price policies reflecting the state of the market. As an innovative company, LPKF sees numerous opportunities for growth based on the Company's own strengths. Nevertheless, acquisitions when favorable opportunities arise are also not excluded.

1.3. Description of the main features of the internal control and risk management system with respect to the accounting process (Section 289 Para. 5 German Commercial Code)

LPKF's internal control system is based on process-integrated and process-independent measures. The process-integrated measures mainly involve manual process controls such as the principal of dual control. The significance of computerized IT process controls will increase with the implementation of a new ERP system. Process-integrated control is safeguarded by specific Group functions such as Group Accounting and the Group risk management - which are incorporated within LPKF Laser & Electronics AG.

Process-independent control activities are implemented by various bodies including the Supervisory Board and external service providers, and are integrated within the internal control system. In particular, the auditing of the annual financial statements of the parent company and the subsidiaries, and the consolidated financial statements by the external auditors are the main process-independent control measures involving the accounting process. An external auditing company will also be responsible from 2010 for performing internal auditing tasks of the Group.

With respect to accounting, the risk management system incorporated within the internal control system focusses on the risks of the accounts containing erroneous statements, and false statements in the external reporting. More details on the risk management system are included in Section IV.1.2.

The recording of accounting procedures in each company across the Group is mainly carried out by local accounting systems. In the case of a few smaller companies, accounting is carried out centrally in Garbsen/Germany by the LPKF Laser & Electronics AG Accounting department. This department is also responsible for preparing the consolidated financial statements (Group Accounting). The consolidated financial statements are prepared on the basis of standardized reporting packages supplied by subsidiaries and prepared in accordance with local accounting standards. These packages are fed into the Elkom consolidation program, and audited at the end of the year by the auditors of the subsidiaries. Conversion to International Financial Reporting Standards (IFRS) and the subsequent consolidation steps are carried out by Group Accounting. Group Accounting is also responsible for ensuring the standardization of the accounting and valuation principles within the financial statements. The financial statements are analyzed and corrected where necessary by Group Accounting. This activity is supported by the consolidation software. The reports prepared by the external auditors of the Group companies are also taken into consideration.

Specific accounting-related risks can arise for instance from the accounting of unusual or complex transactions. Other risks can arise from discretionary power given to employees when entering and valuing assets and debts. Accounting-related risks associated with derivative financial instruments are mainly associated with fluctuations in value – these are discussed in the Notes to the Financial Statements. These instruments are exclusively used to hedge exchange rates or interest rates.

Measures incorporated within the internal control system which focus on the validity and reliability of the accounting ensure that transactions are completely and quickly recorded in compliance with statutory rules, and articles of association regulations, as well as the internal rulebook. The implementation of appropriate instructions and processes ensures that inventorization is carried out properly and that assets and debts are reported and valued appropriately. The Board of Managing Directors is closely involved in these processes. The general separation of administrative, executive, accounting and authorizing functions, and the delegation of these functions to different members of staff, reduces the possibilities of fraudulent activity.

The internal control system also guarantees the objective depiction of changes in economic or legal aspects affecting the Group. This also applies in particular to the application of new or modified accounting regulations.

Earnings per Share of

€ 0.43

Via the organizational, control and supervisory structures defined by the Board of Managing Directors, the internal control system enables the complete recording and proper depiction of the company's business activities in the accounts.

Personal powers of discretion, control failures and criminal actions in particular can, however, not be completely excluded despite all of these measures. This could lead to the limited effectivity of the internal control system, which means that even the rigorous application of the regulations provides no absolute guarantee for the correct, complete and punctual recording of all of the facts in the accounts.

2. Specific risks

The risk management process currently involves dealing in detail with the following specific risks which could have a significant influence on the LPKF Group's business, as well as its assets, financial and earnings positions. Other opportunities and risks which are currently unknown, or which are currently (still) considered to be negligible, could also have a positive or negative impact on LPKF.

2.1. Business risks

LPKF is internationally positioned and active in a business environment subject to continuous rapid change. The situation of its clients is characterized by considerable cost and competitive pressures as well as curtailed investment budgets. The target markets are cyclic, with particularly strong fluctuations affecting the electronics industry. Carmakers and their subcontractors, as well as solar panel manufacturers, are currently experiencing considerable pressure – with associated business activity risks and global economic risks. Fluctuations in business activity have a strong impact on the investment in production equipment. Therefore, especially in markets outside Asia, the willingness to accept risks and invest further in the expansion of capacity, or to introduce new technologies, continues to be modest against this background. New investments are often only made when the future capacity utilization of the equipment appears assured by concrete orders from customers. The Cutting and Structuring Lasers segment and the Joining Technologies segment have a history of undergoing stronger cyclic fluctuations than the more budget-driven Rapid Prototyping segment. The noticeable offsets in the sector cyclicity of the segments and markets in which LPKF is active have a stabilizing effect.

LPKF is also exposed to risks associated with a rapidly changing technological environment. The availability of high quality components makes it possible for new suppliers to launch cheap competitive products.

The systematic development of new technologies and business segments is in principle associated with the risk that the planned business model fails to meet its targets. The further development of the business with solar scribers is also dependent on the continuation of the Renewable Energy Act (EEG) which governs the remuneration levels in Germany for feeding power into the grid from renewable energy sources such as photovoltaic power. The same applies to the nature and further development of relevant laws in other countries.

LPKF also supplies the automotive subcontracting industry with production services. The risks here for the Group are associated with possible liability when vehicles are recalled by carmakers because of defects. However, the probability of damages arising in such a case is considered to be very small.

Last but not least, the global political situation is also associated with risks affecting the development of LPKF's business. The risks involved here include possible changes in laws, e.g. with respect to the import of capital goods to China. The last years have witnessed the increasing implementation of tariff and non-tariff barriers to trade. The exchange rates between the Euro and the Japanese Yen and the US Dollar should also be mentioned in this context – the main Asian currencies in particular are pegged to the Dollar. This can have negative effects on sales in Asia, even if invoicing in these countries is carried out on a Euro basis. Main trade rivals mostly come from the "non-Euro zone" and therefore have competitive advantages when the Euro rises very strongly against these currencies.

Export share: 79% of turnover

2.2. Dependency on suppliers

The procurement of components and services from external suppliers is associated with basic risks involving extended delivery times, changes in prices, and quality. LPKF does not directly depend on one or more suppliers outside of the Group. The number of suppliers for laser sources and a few special components is small however. Price fluctuations in particular can have a special influence on business activities. Hardly any price rises were observed on the procurement side because of the economic situation. During the reporting period, the delivery of components and parts did not cause any shortages.

2.3. Dependency on clients

The distribution of turnover according to regions corresponds to the market situation and does not lead to any special risks. Two major clients have purchased a significant proportion of the systems in the LDS business. However, they have been joined by a large number of other customers in recent months, which has reduced dependency. The loss of major clients could have a negative impact on the Group's turnover and earnings if capacities cannot be wound down fast enough, or if trade accounts receivable remained unpaid. With this exception, there is no dependence on individual major customers. The proportion of a single client on total turnover never exceeds 16 %.

2.4. Exchange rate fluctuations

The exchange rates between foreign currencies and the Euro sometimes undergo major fluctuations. For LPKF, the main fluctuations of any significance are those with respect to the US Dollar, the Chinese Renminbi, and the Japanese Yen. Fluctuations in exchange rates can have a positive as well as a negative effect on results. In the reporting period, the US-Dollar initially strengthened significantly against the Euro, before weakening again during the course of the year. The US-Dollar then recovered again in the last few weeks of 2009. Counter measures are permanently reviewed and implemented to the degree possible. LPKF closes hedging transactions to protect itself against exchange rate risks involving business transactions invoiced in foreign currencies. This part of the risk management is handled by the parent Company in Garbsen/Germany, also on behalf of subsidiaries and branch offices.

In accordance with the risk management strategy, most of the foreign currency cash flow is used either for the procurement of materials in the Dollar zones, or is hedged by taking out foreign exchange contracts or the acquisition of put options.

2.5. Employment of financial instruments

The company uses financial instruments exclusively to hedge exchange rate and interest rate risks. The instruments used for this purpose are subject to price fluctuations affected by changes in interest rates and exchange rates. The discontinuation of an issuer can also state a risk. In some cases, the company takes out contracts with a bank to furnish funds in foreign currencies at a specific time. This is associated with the risk that cash flows from ordinary business either fail to arrive or are delayed. This transaction then has to be serviced by buying on the spot market at what may be an unfavorable exchange rate.

2.6. Development

LPKF's success significantly depends on the speed and quality with which new products can be pushed through the development pipeline onto the market. The competitive situation and the very rapid changes in technology are associated with risks. Permanent follow-up is carried out by the Supervisory Board and the Board of Managing Directors to minimize these risks. This follow-up is an integral part of the risk management system which aims to control the value of new developments and integrate them within the product strategy. In addition to achieving cost benefits by investing in LPKF technology, LPKF clients can also enjoy competitive benefits and harness the associated market opportunities. In the markets, which in some cases can be extremely cyclic, there is an additional risk when the capacity and willingness to invest in new technology diminishes in response to the state of the economy. LPKF has participated for many years in externally funded joint projects on selected development priorities. The provision of funding as part of these projects is always subject to final utilization and accounting audits at the end of the project. There is therefore an associated risk of a demand that the funding has to be repaid. LPKF technologies are also protected by patents.

48%

of turnover in Asia

2.7. Patent risks

The LPKF Group owns 26 patents, and most of them have international validity. LPKF continually applies for new patents thanks to its intense research activities, in addition to acquiring the industrial property rights of third parties. LPKF Laser & Electronics AG considers the obtaining of patent rights to be the most effective means of protecting its R&D investments from depreciation by copyists. In the LDS division in particular, commercial success also depends on the patent situation. It is also possible that existing and new industrial protection rights held by third parties could have an impact on LPKF's business.

2.8. Human resource risks

The demand for highly qualified staff is still high despite the difficult economic climate. Thanks to its contacts with universities and the growing level of awareness the company enjoys in the laser sector, LPKF has so far not had any serious problems in recruiting adequately trained staff. Rapid expansion of the production, service and development capacities is needed to cope with the strong growth in the LDS business, and to ensure punctual delivery with products of the highest quality. The company succeeded in hiring the highly qualified staff required with no significant delays, in part due to the economic problems affecting the mechanical engineering sector in general. There is also a risk associated with the loss of key staff as a result of head hunting. As in previous years, the company currently enjoys a low level of fluctuation and sick leave compared to industry as a whole.

2.9. Finance risks

The Group boasts a good rating thanks to its robust balance sheet structure and its profitability. Considerable freedom exists for financing due to the high unused credit lines and the liquid assets. There are currently no concrete signs that the commercial development of the Group could be restrained by finance risks. However, a further deterioration in the financing environment, e.g. indirectly if LPKF clients have financial difficulties, could have a negative effect on the consolidated results.

3. Assessment by the Board of Managing Directors of the risk situation affecting the Group

The overall risk situation arising from the various separate risks has improved compared to last year because of the status of the global economy and the current good development of LPKF's business.

An evaluation of the overall risk situation of the LPKF Group concluded that there are currently no risks which jeopardize the viability of the Group.

There is also currently no foreseeable development which could significantly and sustainably harm the earnings, finance and asset situation of the LPKF Group in the future. There is, however, of course a possibility that the effects of the current economic and financial crisis could jeopardize the further development of the Group.

The auditor examined the LPKF Laser & Electronics AG risk early warning system set up pursuant to the Stock Corporation Act. This examination revealed that the existing pan-Group risk early warning system is fit for purpose and completely satisfies the criteria laid down by the Stock Corporation Act.

V. Outlook report

1. Business opportunities

The current economic environment opens up a number of business opportunities. The production techniques developed by LPKF often have economic advantages over conventional production technologies. Above average growth is possible if clients decide to abandon traditional technologies in favor of LPKF equipment. Especially in a period affected by deteriorating market conditions, many LPKF clients see the need to invest more strongly in their own developments to push new products onto the market. This benefits sales of LPKF products to development laboratories.

LPKF shares

Miniaturization and increasingly fast model changes are two more trends which also favor the use of LPKF technologies. If mobile devices become smaller for instance, the established techniques reach their technical limits. This trend mainly boosts the industrial use of laser systems.

The development of the Euro exchange rate against important Asian currencies and the US Dollar in recent weeks strengthens the competitiveness of European mechanical engineering companies like LPKF.

LPKF's strategy to build on its core competencies and enter different markets has a stabilizing effect in the current economic environment. The various markets served by LPKF have offset sector cycles. The ongoing development activity maintains the company's cutting edge over the competition in its main product markets. The breakthrough by LDS technology into the market for the mass production of antennas for mobile electronic devices has driven strong demand for the associated LPKF machines. These applications alone open up major potential in following years for the sale of additional systems. Other areas of application than antennas production are currently being developed together with clients.

Opportunities for growth in the years to come are primarily seen in the Thin-film Technologies and Joining Technologies segments, as well as in the LDS division. This gives the LPKF Group an excellent foundation for the positive development of its business in 2010 and the years that follow.

2. Overall statement on the predicted development of the Group

The International Monetary Fund (IMF) estimates that the global economy will grow by 3.9 % in 2010. The United Nations is also forecasting a recovery. The global economy shrank by 2.2 % in 2009 – the strongest slump since the Second World War.

The International Monetary Fund therefore estimates that the global economy will recover much faster than previously predicted. The recovery is still patchy, however. The outlook is particularly good for many emerging economies, whilst the recovery in industrial countries will take place at a slower rate and remain dependent on state economic stimulus programs.

The gross domestic product (GDP) in the USA is forecast to rise by 2.7 %, whilst China is prognosed to grow by 10 %. The IMF previously forecast growth in the USA of only 1.2 %, and assessed China's growth as 9 %. According to the report, the recovery in the industrial nations will be slower than in developing countries and some emerging economies. Consumers in the west throttled their consumption and investments in 2009 because of the strong rise in unemployment figures – which almost doubled in the USA. Many consumers saved more in an attempt to compensate for losses associated with lower property prices for instance.

The forecast for global growth in 2011 issued by the IMF remains 4.2 % as reported in a draft of the IMF World Economic Outlook.

The Consumer Electronic Association (CEA) characterizes 2010 as a year of recovery and upswing for the electronics industry. Overall though, little growth is expected for the consumer electronics sector. Nevertheless, innovative products such as smart phones, mini-laptops and digital reading devices are continuing to gain ground and deliver growth.

The German Automotive Industry Association (VDA) expects 2010 to be just as challenging for the sector as 2009 – although some green shoots first appeared some time ago. A clear trend will be the continuing growth in the importance of the Chinese market for the automotive industry.

Some solar panel producers are currently seeing signs of a recovery in their business. The bottom seems to have been reached after the difficult conditions experienced in 2009. Investments to expand capacities are again being confidently

Dividend proposal:

growth in value

+143 %

€ 0.20 per share

planned and partially implemented, with equipment suppliers being rewarded with orders. LPKF should profit from this development thanks to its innovative systems.

After launching a number of new products on the market in previous years, LPKF has further expanded its development work to focus on LDS technology for mass production. Development work continues to be concentrated on boosting customer benefits. LPKF attracts clients in a range of different target markets. And thanks to its broad product portfolio, LPKF is less sensitive to fluctuations in demand in the current market conditions than comparable mechanical engineering companies.

The Group boasts robust finances with an equity ratio of 70% and a surplus of financial assets. The significant unused credit lines which are additionally in place allow the liquidity situation to be described as very good. There are currently no concrete plans for any major projects needing financing.

Following the successful breakthrough of LDS technology into the market for the mass production of mobile phone antennas, there is currently no end in sight for the success of the LDS division. There is still enormous potential in the cellphone antennas production sector, and other divisions are also enjoying positive developments. This means that growth is again underpinned by a broader base than in the last financial year. The Board of Managing Directors considers the Group to be in a good position to continue to grow profitably in 2010. The measures for optimizing the net working capital, and the improvement in earnings power already produced tangible results in 2009. The same also applies to the efforts to expand the international sales & marketing structure – particularly in the growth divisions. These activities will be pursued further in 2010. Another priority is the expansion of capacities, particularly in the development of services and production in the strongly growing divisions.

The uncertainties in making forecasts continue to be relatively high. It remains to be seen how sustainable the current signs of global economic recovery really are. A positive feature is the high level of orders in hand with which LPKF entered the new financial year. Incoming orders at the beginning of 2010 were also much higher than the previous year. Despite the uncertainties with regard to the development of the economy in 2010, LPKF expects its business to develop positively, and its turnover to grow by more than 10%, accompanied by another double-figure EBIT margin. Growth is expected in all of the Group's segments, with particularly dynamic expansion forecast in the Cutting and Structuring Lasers segment and the Joining Technologies segment. LPKF therefore starts the ongoing 2010 financial year much more optimistically than most other German mechanical engineering companies – for whom the Association of German Mechanical and Plant Engineering Companies is forecasting another difficult year in 2010.

If the global economic situation stabilizes further during the course of the year, LPKF expects another rise in turnover and profits in the 2011 financial year.

VI. Balance sheet oath

We declare in good faith that in accordance with the applicable accounting principles, the consolidated financial statements reflect a true picture of the asset, financial and earnings situation of the Group, and that the consolidated management report presents the course of business including the business performance and the state of the Group in such a way that a true picture is given of the real situation, and that it describes the main opportunities and risks of future developments.

Garbsen, 24 March 2010

Dr. Ingo Bretthauer **Bernd Lange** **Kai Bentz**

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Consolidated balance sheet at 31.12.2009

Assets

T€	Notes	31.12.2009	31.12.2008 adjusted	01.01.2008 adjusted
NON-CURRENT ASSETS				
Intangible assets	10			
Software		709	606	471
Goodwill		74	74	74
Development costs		4,278	3,393	2,826
Rights to use		0	0	69
		5,061	**4,073**	**3,440**
Tangible assets	10			
Land and building		10,401	10,866	9,113
Technical equipment and machinery		1,648	1,451	1,565
Other equipment, factory and office equipment		1,067	1,145	1,244
Construction in process		297	220	1,753
		13,413	**13,682**	**13,675**
Financial assets	10			
Other loans		20	0	17
		20	**0**	**17**
Assets subject to disposal restrictions	14	**236**	**214**	**0**
Accounts receivable and other assets				
Trade accounts receivable	12	0	35	463
Tax refund claims	13	293	329	354
		293	**364**	**817**
Deferred taxes	16	**550**	**498**	**531**
		19,573	**18,831**	**18,480**
CURRENT ASSETS				
Inventories	11			
(System) components		7,894	7,474	7,484
Work-in-process		1,236	1,565	1,642
Finished goods and merchandise		5,214	5,859	6,388
Prepayments		148	137	103
		14,492	**15,035**	**15,617**
Accounts receivable and other assets				
Trade accounts receivable	12	10,929	10,129	9,784
Tax refund claims	13	230	946	615
Other assets	13	1,627	544	1,146
		12,786	**11,619**	**11,545**
Securities		**0**	**0**	**284**
Cash on hand	15	**10,772**	**6,005**	**2,824**
		38,050	**32,659**	**30,270**
		57,623	**51,490**	**48,750**

Liabilities and shareholders' equity

T€	Notes	31.12.2009	31.12.2008 adjusted	01.01.2008 adjusted
SHAREHOLDERS' EQUITY				
Share capital	17	10,858	10,858	10,858
Additional paid-in capital		3,953	3,953	3,953
Other earnings reserves		7,000	7,000	7,000
Revaluation reserve		-18	-42	-7
Reserves for share-based payments		460	394	274
Foreign currency translation adjustments		-1,379	-1,344	-1,289
Net income for the year		15,791	11,107	10,599
Minority interest	18	3,509	3,322	2,552
		40,174	**35,248**	**33,940**
NON-CURRENT LIABILITIES				
Provisions for pensions	19	14	97	335
Convertible bond		0	0	106
Liabilities due to banks	21	2,752	3,549	3,558
Deferred grants	3	483	341	373
Other liabilities		134	145	163
Deferred taxes	16	1,332	1,170	1,234
		4,715	**5,302**	**5,545**
CURRENT LIABILITIES				
Tax provisions	20	1,188	186	1,027
Other provisions	20	1,869	1,267	1,782
Liabilities due to banks	21	1,324	3,093	1,347
Trade accounts payable	21	2,162	1,640	2,101
Other liabilities	21	6,191	4,754	3,008
		12,734	**10,940**	**9,265**
		57,623	**51,490**	**48,750**

Consolidated statement of income from 01.01.2009 to 31.12.2009

T€	Notes	2009	2008
Sales	1	50,711	45,406
Changes in inventories of finished goods and work-in-process		-805	-483
Other work capitalized	2	2,646	1,653
Other operating income	3	1,845	1,291
		54,397	**47,867**
Cost of materials	4	14,978	14,553
Personnel expenses	5	17,933	16,985
Depreciation and amortization	6	2,892	2,596
Other operating expenses	7	11,625	10,629
		6,969	**3,104**
Financial income	8	139	141
Financial expenditure	8	313	372
Results from ordinary activities		**6,795**	**2,873**
Income tax	9	2,058	555
Net income		**4,737**	**2,318**
Net income thereof			
Shareholders of parent company		4,684	1,811
Minority interests		53	507
		4,737	**2,318**
Earnings per share – basic (in €)	23	0,43	0,17
Earnings per share – diluted (in €)	23	0,43	0,17

Consolidated statement of comprehensive income from 01.01.2009 to 31.12.2009

T€	Notes	2009	2008
Net income		**4,737**	**2,318**
Available-for-sale financial assets		33	-35
Expenditure for granted option rights		66	120
Exchange differences		99	296
Settlement of difference from sale of shares		0	141
Deferred taxes		-9	0
Other		189	522
Total comprehensive income		**4,926**	**2,840**
thereof:			
Shareholders of parent Company		4,739	1,841
Minority interests		187	999

Consolidated cash flow statement from 01.01.2009 to 31.12.2009

T€	Notes	2009	2008
OPERATING ACTIVITIES			
Net income for the year		4,737	2,318
Income tax		2,058	555
Interest charges		313	372
Interest income		- 139	- 141
Depreciation and amortisation of fixed assets		2,892	2,596
Profit/loss from sale of assets		-54	251
Including reclassification into current assets		74	- 143
Other non-payment income/expenses		934	750
Changes in inventories, accounts receivable and other assets		- 1,361	136
Changes in provisions and accrued liabilities		-78	-388
Changes in liabilities and deferred income		2,374	1,493
Payments from interest		139	141
Paid income tax		-458	- 1,500
Net cash flow from operating income		**11,431**	**6,440**
INVESTING ACTIVITIES			
Fixed assets investments intangible assets		-2,369	- 1,644
Fixed assets investments tangible assets		- 1,644	- 1,703
Fixed assets investments financial assets		-21	- 184
Payments from sale of financial assets		1	18
Receipts on sale of equipment		382	2
Cash flow from investing activities		**-3,651**	**-3,511**
FINANCING ACTIVITIES			
Dividends paid		0	- 1,303
Dividends paid to minority shareholders		0	- 113
Interest paid		-313	-372
Repayments convertible bond		0	- 106
Change in long-term bank loans		746	3,155
Repayments long-term bank loans		-3,804	- 1,360
Cash flow from financing activities		**-3,371**	**-99**
CHANGES IN CASH AND CASH EQUIVALENTS			
Changes in cash and cash equivalents due to exchange rates		- 135	125
Changes in cash and cash equivalents		4,409	2,830
Cash and cash equivalents per 1.1.		5,989	3,034
Cash and cash equivalents per 31.12.		**10,263**	**5,989**
COMPOSITION CASH AND CASH EQUIVALENTS			
Cash		10,772	6,005
Securities		0	0
Bank overdraft		-509	- 16
Cash and cash equivalents per 31.12.	22	**10,263**	**5,989**

Consolidated statement of the changes in shareholders' equity

Consolidated statement of the changes in shareholders' equity for the financial year ended 31 December 2009 (in a comparison with the previous year)

T€	Share capital	Additional paid-in capital	Other earnings reserves	Revaluation reserve
Per 1.1.2009	10,858	3,953	7,000	-42
Dividend payment to shareholders	0	0	0	0
Additions from market valuation of securities	0	0	0	33
Net result	0	0	0	0
Expenditure for granted option rights	0	0	0	0
Settlement of difference from sale of shares	0	0	0	0
Deferred taxes	0	0	0	-9
Foreign currency translation adjustments	0	0	0	0
Comprehensive income	0	0	0	24
Per 31.12.2009	**10,858**	**3,953**	**7,000**	**-18**

T€	Share capital	Additional paid-in capital	Other earnings reserves	Revaluation reserve
Per 1.1.2008	10,858	3,953	7,000	-7
Dividend payment to shareholders	0	0	0	0
Additions from market valuation of securities	0	0	0	-35
Net result	0	0	0	0
Expenditure for granted option rights	0	0	0	0
Settlement of difference from sale of shares	0	0	0	0
Deferred taxes	0	0	0	0
Foreign currency translation adjustments	0	0	0	0
Comprehensive income	0	0	0	-35
Per 31.12.2008	**10,858**	**3,953**	**7,000**	**-42**

Reserves for share-based payments	Foreign currency translation adjustments	Net income for the year	Minority interest	Total
394	- 1,344	11,107	3,322	35,248
0	0	0	0	0
0	0	0	0	33
0	0	4,684	53	4,737
66	0	0	0	66
0	0	0	0	0
0	0	0	0	-9
0	-35	0	134	99
66	-35	4,684	187	4,926
460	**- 1,379**	**15,791**	**3,509**	**40,174**

Reserves for share-based payments	Foreign currency translation adjustments	Net income for the year	Minority interest	Total
274	- 1,289	10,599	2,552	33,940
0	0	- 1,303	-229	- 1,532
0	0	0	0	-35
0	0	1,811	508	2,319
120	0	0	0	120
0	0	0	141	141
0	0	0	0	0
0	-55	0	350	295
120	-55	1,811	999	2,840
394	**- 1,344**	**11,107**	**3,322**	**35,248**

Notes to the 2009 consolidated financial statements

A. Basic information

LPKF Laser & Electronics AG, Garbsen (the Company) and its subsidiaries (hereinafter the LPKF Group) produce equipment and systems for electronics development and production. New laser-based technologies are aimed at customers in the automotive, telecommunications and solar sectors.

The Company is a stock corporation which was established and is headquartered in Germany. The registered seat of the Company is at:

Osteriede 7
30827 Garbsen
Germany.

These consolidated financial statements were authorized for publication by the Board of Managing Directors on 22 March 2010.

B. Basis of preparation of the consolidated financial statements

The consolidated financial statements of LPKF Laser & Electronics AG, Garbsen, have been prepared using uniform accounting and measurement policies. All of the standards of the International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were observed on the reporting date in the form applicable for their use in the EU. The consolidated financial statements were prepared on the basis of historical procurement/production costs reduced by the remeasurement of the financial assets available for sale as well as the measurement recognized in the income statement of the fair value of financial assets and financial liabilities including derivative financial instruments. Production orders involving customization in accordance with customer specifications are reported using the percentage-of-completion method (POC method). The reported degree of completion is determined using the cost-to-cost method. The orders are entered on the assets side of the balance sheet under trade accounts receivable, or under trade accounts payable if there is a high risk of a loss. Advance payments exceeding the cumulative performance are reported on the liabilities side of the balance sheet under other liabilities.

The drawing up of consolidated financial statements complying with IFRS involves making estimates. The use of Company-wide accounting and measurement methods requires management assessments to be made. The E section of the Notes discusses segments with broad scope for evaluation or greater complexity, or segments where assumptions and estimates play a vital role in drawing up the consolidated financial statements.

The following supplements to the issued standards, or revised and/or new issued standards adopted prior to the balance sheet reporting date were applied in the 2009 financial year:

Standards/Interpretation		Mandatory use	Acceptance by EU Commission*	Effects
IAS 1	Presentation of financial statements	01.01.2009	17.12.2008	Restructuring of statements
IAS 1/ IAS 32	Puttable financial instruments and obligations arising from liquidation	01.01.2009	21.01.2009	None
IAS 23	Borrowing costs	01.01.2009	10.12.2008	Dependent upon future transactions; not forecastable at present
IAS 39/ IFRS 7	Reclassification of financial assets	01.01.2009	09.09.2009	None
IFRS 1/ IAS 27	Acquisition costs of shares in Group companies	01.01.2009	23.01.2009	None
IFRS 2	Definition of exercise conditions and treatment of defeasances	01.01.2009	16.12.2008	None
IFRS 7	Improved disclosure of financial instruments	01.01.2009	27.11.2009	None
IFRS 8	Operating segments	01.01.2009	21.11.2007	Segment reporting
IFRIC 13	Customer loyalty programs	01.07.2008	16.12.2008	None
IFRIC 14	IAS 19 - Limit on a defined benefit asset, minimum funding requirements and their interaction	01.01.2009	16.12.2008	None
Various	Annual improvement project 2008	Mainly 01.01.2009	23.01.2009	No material effects

*per 31.12.2009

The changes to IAS 1 concern the presentation of the asset, financial and earnings situation in IFRS financial statements. For this reason, a statement of income and accumulated earnings is now presented, and the statement of changes in equity is shown as a separate part of the financial statements. The statement of income and accumulated earnings encompasses the consolidated profit and loss and the other earnings that show the income and costs directly reported under equity. In addition to the previous presentation, the balance sheet also shows the opening values for the preceding period in an extra column if retrospective changes have been made.

IFRS 8 replaces the previous IAS 14 regulations governing segment reporting. The main change concerns the definition of the segments in line with the internal reporting structure used by the decision makers (management approach). In addition, details on geographical subdivisions and key clients are also demanded but only for the end of a financial year. The IFRS 8 specifications were completely incorporated in the presentation of the segment reporting, and the figures for the previous year were all modified accordingly.

The introduction of the statements had no significant impact on the asset, financial or earnings situation, or cash flow of the Group.

The following supplements to the issued standards, or revised and/or new issued standards adopted prior to the balance sheet reporting date were not applied in the 2009 financial year:

Standards/Interpretation		Mandatory use	Adoption by EU Commission*	Anticipated Effects
IFRS 1	First time adoption of IFRS	01.01.2010	25.11.2009	None
IFRS 1	Additional exemptions for first time adopters	01.01.2010	No	None
IFRS 1/ IFRS 7	Limited exemption for comparison per IFRS 7 for first time adopters	01.01.2010	No	None
IFRS 2	Share-based payment transactions with cash settlement within Group	01.01.2010	No	Dependent upon future transactions; not forecastable at present
IFRS 3/ IAS 27	"Group combinations" and "Consolidated and separate financial statements" in accordance with IFRS	01.01.2010	03.06.2009	Dependent upon future transactions; not forecastable at present
IFRS 9	Financial instruments: classification and evaluation	01.01.2013	No	Subject to review by management
IAS 24	Details of related party transactions	01.01.2011	No	Subject to review by management
IAS 32	Amendment –classification of subscription rights	01.01.2011	23.12.2009	None
IAS 39	Permitted hedged basic transactions	01.07.2009	15.09.2009	None
Various	Annual improvement project 2009	Mainly 01.01.2010	No	Ongoing review
IFRIC 9/ IAS 39	Embedded derivatives	30.06.2009	30.11.2009	None
IFRIC 12	Service concession agreements	01.01.2010	25.03.2009	None
IFRIC 15	Agreements for construction of real estates	01.01.2010	22.07.2009	None
IFRIC 16	Hedges of a net investment in a foreign operation	01.01.2010	04.06.2009	None
IFRIC 17	Distributions of non-cash assets to owners	01.01.2010	26.11.2009	None
IFRIC 18	Transfers of assets from customers	01.01.2010	27.11.2009	None

*per 31.12.2009

The financial year corresponds to the calendar year. The consolidated financial statements are reported in Euro.

Consolidated Group

In addition to the Group parent company, LPKF Laser & Electronics AG, Garbsen, the following subsidiaries have also been included in the consolidated statements:

Name	Domicile	Holding %	Acquisition/Founding
Full consolidation			
LaserMicronics GmbH	Garbsen/Germany	100.0	1989
LPKF Laser & Elektronika d.o.o.	Naklo/Slovenia	75.0	1995
LPKF Distribution Inc.	Tualatin/USA	85.0	1994/1999/2005
LPKF Motion & Control GmbH	Suhl/Germany	50.9	1991/1999
LPKF France S.A.R.L.	Créteil/France	100.0	1999/2007
LPKF (Tianjin) Co. Ltd.	Tianjin/China	86.0	2000
LPKF Laser & Electronics (ASIA) Ltd.	Hong Kong/China	100.0	2005
LPKF SolarQuipment GmbH	Suhl/Germany	83.7	2007

C. Consolidation principles

The consolidated financial statements are based on the financial statements prepared according to standard accounting and measurement rules per 31 December 2009 of those companies included in the consolidated financial statements.

Subsidiaries are all companies over which the Group has control of the finance and business policies, and in which the parent has a share of voting rights exceeding 50 %. They are fully consolidated within the consolidated financial statements from the time the Group acquired control of the subsidiary. They are deconsolidated at the time when this control ends.

Acquired subsidiaries are reported in the accounts pursuant to the purchase method. The purchase costs of the acquisition correspond to the fair value of the acquired assets, the expended equity instruments and the debts arising or taken over at the time of the transaction (date of exchange) plus the costs directly assignable to the acquisition. Identifiable assets, debts and possible liabilities identified in association with a merger are measured during initial consolidation independent of the size of the minority shareholding. The surplus purchase costs for the acquisition of the stake in a group representing the difference between the purchase costs and the fair value of the net assets is generally reported as goodwill. If the purchasing costs are lower than the fair value of the assessed net assets of the acquired subsidiary, the difference in amount is reported directly in the income statement.

Inter-Group transactions, balances and unrealized profits and losses from transactions between Group companies are eliminated.

The accounting and measurement methods applied by subsidiaries were adjusted where necessary to the standard Group accounting and measurement methods to guarantee uniform accounting.

Transactions with minorities are dealt with in the same way as transactions with parties external to the Group. The sale of shares to minorities is reported as profits or losses in the consolidated financial statements.

D. Foreign currency translation

Annual financial statements are prepared in the functional currency of each company. This is defined as the currency in the economic zone in which it mainly operates. The functional currency of subsidiaries is the same as the currency of the country in which the subsidiary is domiciled.

If the annual financial statements of a subsidiary are prepared in a functional currency other than the Euro, the assets and debts are translated into Euro at an average exchange rate at the reporting date. Expenses and income were translated at the average annual rate. The conversion differences are shown under shareholders' equity as foreign currency translation adjustments without any effect on net income. The consolidated figures were calculated on the basis of the exchange rates detailed in the following table.

1 € = x currency	Reporting date rate		Average rate	
	31.12.2009	31.12.2008	2009	2008
US-Dollar	1.4406 USD	1.3917 USD	1.3933 USD	1.4706 USD
Chinese Renminbi Yuan	9.8350 CNY	9.49560 CNY	9.51736 CNY	10.22471 CNY
Hong Kong Dollar	11.1709 HKD	10.7858 HKD	10.79972 HKD	11.45268 HKD

E. Critical estimates and assumptions in accounting and measurement

All estimates and judgements are continuously updated and are based on empirical findings and other factors including judgements of future events which appear prudent under the given circumstances.

Critical estimates and assumptions in the accounting

The Group makes estimates and assumptions concerning the future. The estimates derived from these assumptions as a matter of course only rarely correspond to the actual conditions which arise in future. The estimates and assumptions associated with a significant risk in the form of a significant adjustment to the carrying amounts of assets and debts within the next financial year are discussed in the following.

(a) Estimated impairment of goodwill

The Group carries out analysis annually, as well as in the light of specific circumstances, in compliance with the accounting and measurement methods described in Note 10.1 to determine whether there is any impairment of goodwill. The attainable amount of cash generating units (CGUs) was determined on the basis of a calculation of the utility value. These calculations have to be based on assumptions made by the management on 31 December 2009.

(b) Tangible assets

The main assumptions and estimates refer to determining the useful lives and the residual carrying amount of the achievable price for tangible assets. Other details on the useful lives and the residual carrying amounts of tangible assets are presented in Note 10 "Fixed Assets" in Chapter H. "Consolidated Financial Statements".

(c) Provisions
The accounting of provisions involves making assumptions on the probability of occurrence, the maturity and the size of the risk. Actuarial calculations are used to determine the obligations with regard to performance-related pension commitments. These are largely dependent on the life expectancies on which they are based, and the choice of discounting rate, which is redetermined every year. The discounting rate is calculated from the interest rate of industrial bonds with the highest creditworthiness rating in the currency in which the payment will be made, and with terms corresponding to the pension commitments. Detailed information is provided in Note 19 describing the provisions for pensions included in the accounts.

(d) Income tax
The Group is obliged to pay income tax in various countries. Crucial assumptions are therefore required to determine the world-wide income tax provisions.

There are numerous business transactions and calculations for which the final level of taxation cannot be finally determined during the course of normal business. The Company measures the size of the provisions for expected tax audits on the basis of estimates of whether and to what extent additional income taxes may be due. If the final level of the taxation of these business transactions deviates from the initial assumptions, this will have an impact on the actual taxes and the deferred taxes in the period in which the taxation is finally determined.

(e) Fair value of derivative and other financial instruments
The fair value of financial instruments not traded on an active market is determined by applying suitable measurement techniques selected from a large number of methods. The assumptions applied here are largely based on the market conditions existing on the reporting date. The Group uses the cash value method to determine the fair value of numerous financial assets available for sale which are not traded on active markets.

(f) Changes to the accounts
To show the asset situation more clearly, the pension obligations were netted for the first time with the assets scheduled for hedging. The previous year's balance sheet item was modified accordingly.

F. Segment reporting

Annual financial statement data must be subdivided according to segments and regions in compliance with IFRS 8 (Business Segments). The segmentation is based on the internal reporting. The aim of segment reporting is to make the profitability and potential of each of the Groups' activities more transparent.

The following segments form the basis for the primary segment reporting:

- Rapid Prototyping involves the further development, production and marketing of circuit board plotters for the world market.
- The Cutting and Structuring Lasers segment encompasses three divisions: LDS, StencilLasers, and Printed Circuit Board Processing systems.
- The Joining Technologies segment develops and sells LPKF laser systems for welding plastic.
- Laser systems for scribing thin-film solar panels are developed and produced by the Thin-film Technologies segment.
- The Others segment mainly includes production services carried out on LPKF machines on behalf of clients. This segment also reports some costs and earnings items, as well as assets and debts which cannot be assigned to any of the other segments.

There are no internal sales between the segments. The existing goodwill (T€ 74) is reported in the Joining Technologies segment.

The segment data was determined as follows:

- The segment results (EBIT) were determined taking into consideration value adjustments on goodwill, but without taking into consideration the financial results or taxes.
- The investments, and depreciation and amortization including special value adjustments, refer to tangible and intangible assets including goodwill.
- The operating segment assets and the segment liabilities comprise the attributable assets necessary for the operation and/or the debt, but excluding any interest-bearing entitlements, liabilities, financial resources or taxes.
- The figures reported are those after consolidation.

T€		Cutting and Structuring Lasers	Rapid Prototyping	Joining Technologies	Thin-film Technologies	All other segments	Total
External sales	2009	26,466	13,516	5,312	3,520	1,897	50,711
	2008	15,738	15,050	5,790	6,877	1,951	45,406
Operating income (EBIT)	2009	5,957	2,340	180	-876	-632	6,969
	2008	1,034	1,526	173	1,047	-676	3,104
Assets	2009	21,833	12,351	3,516	6,019	13,904	57,623
	2008	20,305	16,924	2,884	6,856	4,521	51,490
Debts	2009	5,520	2,104	951	1,446	7,428	17,449
	2008	2,542	2,783	718	1,939	8,260	16,242
Investments	2009	1,872	1,075	382	116	589	4,034
	2008	1,776	1,025	190	435	98	3,524
Depreciation	2009	1,468	779	153	306	186	2,892
	2008	972	947	197	357	123	2,596
Non-cash expenses	2009	651	225	10	33	1,017	1,936
	2008	650	296	0	192	386	1,524

Geographic segments:

The secondary reporting reflects the four main geographical regions in which the Group is active.

T€		Germany	Rest of Europe	North America	Asia	Others	Total
External sales	2009	10,912	8,760	5,256	24,533	1,250	50,711
	2008	17,789	7,957	5,562	12,687	1,411	45,406
Assets	2009	43,495	6,728	4,523	2,877	0	57,623
	2008	38,087	6,473	4,521	2,409	0	51,490
Investments	2009	3,571	111	29	323	0	4,034
	2008	2,661	231	346	286	0	3,524

G. Consolidated statement of income

1. Sales

Sales are recognized when the service has been rendered or when the goods and products have been delivered.

The sales revenues of T€ 50,711 include order revenues of T€ 3,049 (previous year: T€ 1,104) pursuant to IAS 11, determined using the POC method. The POC method is applied when the total revenues, the total costs and the degree of completion of a production order can be reliably determined. The assessed revenues are determined from the ratio on the reporting date of the accumulated costs to the estimated total costs. If the total costs are likely to exceed the revenues, the expected loss is immediately reported in its entirety.

There were no ongoing projects on the reporting date. On last year's reporting date, production orders with a carrying amount of T€ 1,104 were reported under trade receivables.

2. Own work capitalized

The own work capitalized reported in the financial statements totals T€ 2,646. This comprises technical equipment and machinery used by Group companies for production, and prototype development projects activated during 2009, and machinery produced in-house to be used throughout their lifetimes for Group production operations. Research costs are immediately reported as expenditure when they arise. Costs which arise as part of development projects (involving the design and test operation of new or improved products) are capitalized as intangible assets if it is considered likely that the project will be commercially successful and technically implementable, and the costs can be reliably determined. Other development costs which do not satisfy these criteria are reported as expenditure when they arise. Development costs previously reported as expenditure are not capitalized as assets in the subsequent reporting periods. Development costs reported on the assets side of the balance sheet are reported as intangible assets which are written off linearly for a maximum period of five years over their useful lives from the time they become available for use.

3. Other operating income

T€	2009	2008
Grants for research and development	665	353
Exchange gains	455	578
Gains from sale of plant and machinery	211	6
Gains from reversal of value adjustments	56	48
Reversal of deferred item for grants	40	24
Others	418	282
	1,845	**1,291**

The grants for research and development are reported in the balance sheet pursuant to IAS 20, and exclusively concern government grants – in some cases with the involvement of project executing agencies with a private sector structure – granted for specific confirmed costs incurred during the financial year (expenditure grant). Payments are made in line with project progress.

The reversal of deferred item for grants is based on the useful life of the associated capitalized development costs and other assets. The same accounting procedure applies to a grant for building costs in Suhl totaling T€ 413.

4. Cost of materials

T€	2009	2008
Cost of (system) components and purchased merchandise	14,383	14,207
Cost of purchased services	595	346
	14,978	**14,553**

5. Personnel expenses and employees

T€	2009	2008
Wages and salaries		
Salary expenditure	14,891	14,211
Share-based remuneration recorded as a charge to the income statement	66	120
Other	444	279
	15,401	**14,610**
Social security costs and pension costs		
Employer's contribution to social security	2,240	2,104
Pension costs	163	150
Workman's compensation board	129	121
	2,532	**2,375**
	17,933	**16,985**

The social security costs and pension costs item includes contributions of T€ 964 (previous year: T€ 891) to the National Pension Scheme. There are no ongoing pension payments (see also Note 19).

The annual average number of employees was divided up as follows:

	2009	2008
Production	75	79
Distribution	77	72
Research and Development	82	83
Service	59	46
Administration	80	88
	373	**368**

In addition, there were also 16 part-time employees and 23 trainees per 31.12.2009.

6. Depreciation and amortization

The depreciation and amortization of the different groups of fixed assets is shown in the fixed assets movement schedule (Note 10).

7. Other operating expenses

T€	2009	2008
Advertising and distribution expenditure	2,656	2,117
Travel expenses	1,383	1,419
Rent, incidental costs, leasing, real estate and building costs	865	747
Repairs/Maintenance/Operating materials	690	728
Consumables Research and Development	609	383
Sales commissions	570	833
Exchange losses	570	485
of which changes in the fair value of derivative financial transactions	*0*	*71*
Trade fair costs	512	532
Services	484	323
Legal and consultancy costs	438	289
Telephone, postage, facsimile	378	333
Insurance, contributions, levies	365	325
Addition to warranty provision	292	8
Vehicle costs	275	260
Voluntary social expenses/training	259	359
Investor Relations	248	328
Financial statements, publicity and auditing costs	205	164
Bank charges	173	186
Supervisory Board expenses	144	161
Allocation to bad debts	89	173
Office materials, books, software	82	125
Others	338	351
	11,625	**10,629**

The total expenses for Research and Development in 2009 were T€ 5,619 (previous year: T€ 5,406) made up of the cost of materials and other costs totaling T€ 1,056 (previous year: T€ 1,039) plus additional costs including personnel costs and depreciation totaling T€ 4,563 (previous year: T€ 4,367).

8. Financial results

T€	2009	2008
Financial income		
Other interest and similar income	139	141
Finance expenditure		
Interest and similar expenses	-313	-368
Payment to subscribers of convertible bond	0	-4
	-313	-372
	-174	**-231**

The other interest income arose from call money and time deposits totaling T€ 41. The other interest expenses concerned T€ 207 in connection with a long-term loan, and taking out short-term money market loans.

9. Income taxes

Effected and deferred taxes are reported as tax expenses or tax revenue in the Statement of Income unless they affect entries directly reported as shareholders' equity. In this case, the taxes are reported as shareholders' equity with no effect on the results.

T€	2009	2008
Corporate tax and solidarity surcharge	1,170	393
Trade tax	783	219
	1,953	**612**
thereof non-periodic	*-5*	*-202*
Deferred taxes	105	-57
	2,058	**555**

For the preparation of the consolidated financial statements, the individual corporate tax rates in the countries involved were used for the calculation of the deferred taxes.

Reconciliation between anticipated and effected tax expenditure:

T€	2009	2008
Consolidated net income before income taxes	6,795	2,873
Anticipated tax expense 30.0 % (previous year: 30.0 %)	2,038	862
Effect of capitalized latent taxes not included in the balance sheet	95	101
Effect of divergent tax rates	-21	-88
Other tax payments unrelated to the reporting period	-5	-202
Tax-free earnings	-54	-59
Tax effects of non-deductable operating expenses	84	38
Other variances	-79	-97
Effective tax expense 30.3 % (previous year: 19.3 %)	**2,058**	**555**

The Group tax rate for the 2009 financial year and subsequent years is estimated to be 30.0 % (previous year: 30.0 %).

H. Consolidated balance sheet

Assets

10. Fixed assets

The following schedule shows the development of the individual fixed asset items:

Fixed assets 2009 — PROCUREMENT / MANUFACTURING COSTS

T€	Per 01.01.2009	Currency differences	Additions	Reposting	Disposals	Per 31.12.2009
INTANGIBLE ASSETS						
Software	1,621	0	523	0	1	2,143
Goodwill	74	0	0	0	0	74
Development costs	8,867	-1	1,846	0	0	10,712
Right to use	2	0	0	0	0	2
	10,564	**-1**	**2,369**	**0**	**1**	**12,931**
TANGIBLE ASSETS						
Land and buildings	13,831	-59	64	0	0	13,836
Technical equipment and machinery	4,076	-23	945	192	730	4,460
Other equipment, factory and office equipment	4,428	-12	366	0	63	4,719
Prepayments and constructions in process	220	0	269	-192	0	297
	22,555	**-94**	**1,644**	**0**	**793**	**23,312**
FINANCIAL ASSETS						
Other loans	0	0	21	0	1	20
	0	**0**	**21**	**0**	**1**	**20**
	33,119	**-95**	**4,034**	**0**	**795**	**36,263**

The following chart shows the corresponding values from the previous year:

Fixed assets 2008 — PROCUREMENT / MANUFACTURING COSTS

T€	Per 01.01.2008	Currency differences	Additions	Reposting	Disposals	Per 31.12.2008
INTANGIBLE ASSETS						
Software	1,373	0	329	219	300	1,621
Goodwill	74	0	0	0	0	74
Development costs	6,831	-8	1,314	730	0	8,867
Right to use	943	10	1	-949	3	2
	9,221	**2**	**1,644**	**0**	**303**	**10,564**
TANGIBLE ASSETS						
Land and buildings	11,614	93	39	2,087	2	13,831
Technical equipment and machinery	4,744	76	754	0	1,498	4,076
Other equipment, factory and office equipment	4,837	26	356	0	791	4,428
Prepayments and constructions in process	1,753	1	553	-2,087	0	220
	22,948	**196**	**1,702**	**0**	**2,291**	**22,555**
FINANCIAL ASSETS						
Other loans	17	1	0	0	18	0
	17	**1**	**0**	**0**	**18**	**0**
	32,186	**199**	**3,346**	**0**	**2,612**	**33,119**

In accordance with the regulations under IFRS 3, the acquisition costs of the goodwill were reduced from 1 January 2005 by the cumulative amortization. No impairments in value pursuant to IAS 36 occurred in the reporting period.

AMORTIZATION						NET CARRYING AMOUNT	
Per 01.01.2009	Currency differences	Additions	Reposting	Disposals	Per 31.12.2009	Per 31.12.2009	Previous year
1,015	0	419	0	0	1,434	709	606
0	0	0	0	0	0	74	74
5,474	0	960	0	0	6,434	4,278	3,393
2	0	0	0	0	2	0	0
6,491	**0**	**1,379**	**0**	**0**	**7,870**	**5,061**	**4,073**
2,965	-2	472	0	0	3,435	10,401	10,866
2,625	-12	610	0	411	2,812	1,648	1,451
3,283	-7	431	0	55	3,652	1,067	1,145
0	0	0	0	0	0	297	220
8,873	**-21**	**1,513**	**0**	**466**	**9,899**	**13,413**	**13,682**
0	0	0	0	0	0	20	0
0	**0**	**0**	**0**	**0**	**0**	**20**	**0**
15,364	**-21**	**2,892**	**0**	**466**	**17,769**	**18,494**	**17,755**

AMORTIZATION						NET CARRYING AMOUNT	
Per 01.01.2008	Currency differences	Additions	Reposting	Disposals	Per 31.12.2008	Per 31.12.2008	Previous year
902	0	263	150	300	1,015	606	471
0	0	0	0	0	0	74	74
4,005	0	739	730	0	5,474	3,393	2,826
874	11	0	-880	3	2	0	69
5,781	**11**	**1,002**	**0**	**303**	**6,491**	**4,073**	**3,440**
2,501	2	462	0	0	2,965	10,866	9,113
3,179	30	661	0	1,245	2,625	1,451	1,565
3,593	13	471	0	794	3,283	1,145	1,244
0	0	0	0	0	0	220	1,753
9,273	**45**	**1,594**	**0**	**2,039**	**8,873**	**13,682**	**13,675**
0	0	0	0	0	0	0	17
0	**0**	**0**	**0**	**0**	**0**	**0**	**17**
15,054	**56**	**2,596**	**0**	**2,342**	**15,364**	**17,755**	**17,132**

10.1 Intangible assets

The goodwill arising from company acquisitions (capitalized differences arising from capital consolidation) were reduced by scheduled straight-line amortization over the useful life in each case up to 31 December 2004. No more scheduled amortization takes place starting from the 2005 financial year because an unlimited lifetime is assumed. In accordance with IFRS 3 regulations, the acquisition costs for goodwill were reduced from 1 January 2005 by the accumulated amortization.

On every reporting date, the carrying amount of the goodwill is compared with the achievable price. Amortization is carried out if the carrying amount exceeds the obtainable amount. For the purposes of testing the soundness of an investment, the goodwill is assigned to a cash generating unit. In this case, it is assigned to the Joining Technologies segment based on a detail planning period of 3 years and an appropriate capitalization interest rate. With these exceptions, there were no other impairments in 2009.

Software

Purchased software is valued as an intangible asset at the acquisition cost, reduced by scheduled depreciation.

Capitalized development services

The self-provided development services shown in the assets section of the balance sheet are also reduced by straight-line amortization over their lifetime. The items are divided among the segments as follows:

T€	2009	2008
Cutting and Structuring Lasers	2,394	1,804
Rapid Prototyping	1,113	752
Joining Technologies	0	0
Thin-film Technologies	771	837
	4,278	**3,393**

The rights of use are measured on the basis of the cost of acquisition and amortized linearly. The net carrying amounts and the useful lives of the intangible assets are reviewed at least at the end of each financial year. Unplanned amortization of intangible assets is carried out pursuant to IAS 36, when the market value of the affected asset is less than the carrying amount.

The following useful lives are assumed for the intangible assets subject to scheduled amortization:

	Years
Software	3
Development services	5
Rights of use	5

10.2 Tangible assets

The tangible assets are valued at acquisition or production cost reduced by accumulated straight-line depreciation. Land is not depreciated. The residual carrying amount and the useful lives of each asset are reviewed at least at the end of each financial year. Special write-offs on tangible assets are carried out in accordance with IAS 36 if the achievable price of the asset has dropped below the carrying amount. The achievable price is the higher figure of the utility value and the fair value minus sale costs. Associated depreciation is carried out if the reasons for an earlier special write-off no longer apply.

The production costs cover the cost of direct materials and material overheads and the manufacturing costs and manufacturing overheads.

The following useful lives are assumed:

	Years
Buildings	25
Outside facilities	10
Technical equipment and machinery	3 – 10
Other equipment, factory and office	3 – 10

Bank loans totaling T€ 2,190 (previous year: T€ 3,185) are secured by land and buildings.

Leasing arrangements are classified as finance leasing when all of the general risks and opportunities associated with the ownership are transferred to the lessee as part of the leasing conditions. All of the other leasing arrangements are classed as operating leasing.

Assets held in the form of finance leasing arrangements are depreciated over their forecast useful lives in the same way as analogous assets, or over the shorter contractual period. No assets are currently reported in the accounts with respect to finance leasing.

The total minimum leasing payments at the reporting date and for each subsequent period are as follows:

T€		Face value	Interest portion	Cash value
Leasing rates reported in the ongoing financial year:	2009	0	–	–
	2008	5	–	–
Up to 1 year	2009	0	0	0
	2008	0	0	0

There are no terms exceeding 1 year.

10.3 Financial assets

The reported financial assets concern other loans. They are classified as “loans and claims”. The measurement is based on the ongoing procurement costs applying the effective interest rate method.

11. Inventories

The inventories are valued at the acquisition or manufacturing costs or the lower net sales values at the reporting date.

The manufacturing costs of inventories include costs which can be directly assigned to the production units (individual manufacturing and material costs). They also include systematically assigned fixed and variable shared production costs generated during the processing of input materials to finished goods. In line with the benchmark method, borrowing costs were not capitalized. The Fifo method is used to value the inventory asset items.

Some of the inventories are covered by the usual securities and reservations of ownership.

Value adjustments of T€ 880 (previous year: T€ 1,237) were applied to the lower net sales values of the stock.

The inventories in each segment are as follows in a comparison with the previous year:

T€	2009	2008
Cutting and Structuring Lasers	8,465	7,731
Rapid Prototyping	3,899	5,063
Joining Technologies	1,153	1,171
Thin-film Technologies	817	813
All other segments	158	257
	14,492	**15,035**

12. Trade accounts receivable

T€	2009	2008
Nominal amount of accounts receivable	11,268	10,571
Provision for doubtful accounts including exchange losses	-339	-407
	10,929	**10,164**

The measurement of the trade accounts receivable is based on the fair value on addition and thus on the continued procurement costs by applying the effective interest rate method and discounting impairments. The impairment of a trade account receivable is reported when there is objective evidence that the receivables due cannot be fully satisfied. The size of the impairment is measured by the difference between the carrying value of the trade receivable and cash value of the estimated future cash flow from this receivable discounted by the effective interest rate. The carrying value of the trade receivable is reduced by the carrying value of an impairment account. The impairment is reported as effecting net income. Items fixed in foreign currencies were measured at the average exchange rate on the reporting date.

The residual carrying amount of the receivables totals T€ 0 (previous year: T€ 35) and concerns receivables with a remaining term of more than one year.

Risk of default per 31 December 2009

			Non-impaired but overdue since				
Trade accounts receivable and extended loans in T€	Carrying amount per 31.12.	Thereof non-impaired and not overdue	Less than 30 days	Between 30 – 60 days	Between 60 – 90 days	Between 90 – 360 days	over 360 days
2009	10,929	8,611	1,397	451	207	263	0
2008	10,164	7,316	688	199	106	233	2

VALUE ADJUSTMENTS on trade accounts receivable and extended loans in T€	2009	2008
Per 1.1.	**352**	**319**
+ additions	102	108
- reversals (value adjustments not needed)	7	20
- availment (value adjustments needed)	111	55
+/- Exchange differences	-1	0
Per 31.12.	**335**	**352**

Income from the receipt of trade receivables deleted from the accounts totaled T€ 0 (previous year: T€ 0).

13. Other assets and income tax refunds

The other assets and short-term income tax refunds are reported at their purchasing costs or their nominal values. The long-term income tax refunds are reported at the cash value of the future refund claims.

T€	2009	2008
VAT refunds	546	260
Income tax refunds	523	1,015
Accrued items	633	302
Others	448	242
	2,150	**1,819**

Other assets and income tax refunds totaling T€ 293 (previous year: T€ 329) have remaining terms of more than one year.

Corporation tax and trade tax refund claims are reported under income tax refunds. Long-term corporation tax refund claims total T€ 293 (previous year: T€ 329).

14. Assets subject to disposal restrictions

Reported here, with no change from the previous year, are shares in funds held for a short term. They are categorized under “available for sale”, and measured on the reporting date according to their fair value.

The securities have been pledged in the reporting period to a bank as a security, and are thus reported as securities subject to disposal restrictions.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand of T€ 7 (previous year: T€ 6) as well as cash in other banking accounts of T€ 10,765 (previous year: T€ 5,999), and are reported at their respective nominal values. Cash and cash equivalents in foreign currencies are translated at the relevant rate prevailing on the reporting date.

16. Deferred taxes

Deferred taxes are determined using the liability method pursuant to IAS 12. Accordingly, deferred taxes are reported for all of the temporary differences between the tax valuations and the consolidated carrying amounts of the assets and debts. Deferred tax assets here are only formed if it is likely that income will be adequate in future periods to offset the tax benefits. Income tax liabilities are netted with income tax demands in the same tax regime insofar as the maturity and the nature can be identified.

The income taxes are calculated in line with the valid laws and regulations.

The capitalized deferred tax asset encompasses deferred taxes primarily on the basis of inter-company profits. The deferred tax liabilities were solely set up with respect to capitalized development costs. The deferred taxes consist of the following:

Deferred tax asset

T€	2009	2008
Tax loss carry forwards	73	0
Trade accounts receivable	49	34
Reserves	46	43
Inter-company profit elimination and other deductible temporary differences	380	501
Others	2	31
Total	**550**	**609**

Within the next 12 months, T€ 416 of deferred tax assets and T€ 30 of deferred tax liabilities will be realized.

Deferred tax liabilities

T€	2009	2008
Capitalized development costs	1,275	1,018
Tangible assets	27	38
Trade accounts receivable	30	177
Others	0	48
Total	**1,332**	**1,281**

The figure for not yet utilized tax losses involving subsidiaries for which no deferred tax asset was stated in the balance sheet is T€ 362 (previous year: T€ 933). These loss carryforwards can be used without restriction.

Liabilities

17. Share capital

The resolution adopted by the annual general meeting on 1 June 2005 authorized the Board of Managing Directors, with the approval of the Supervisory Board, to increase the share capital by up to € 5,300,000 (authorized capital) by one or more issues of up to 5,300,000 new shares for cash or contributions in kind up to 14 June 2010.

The Board of Managing Directors was authorized at the annual general meeting on 17 May 2001, with the approval of the Supervisory Board, to issue up to 600,000 option rights by 16 May 2011 to members of the Board of Managing Directors, as well as managers and other employees of the Company and/or current and future affiliated companies under the following conditions (hereinafter referred to as the “Stock Option Program 2001”):

Beneficiaries of the 600,000 options available are members of the Company Board of Managing Directors with a maximum of 120,000 option rights (20 % of the total volume), Company employees including the remaining management of the Company with a maximum of 300,000 option rights (50 %), members of the management of affiliated companies with a maximum of 60,000 option rights (10 %) and employees of affiliated companies with a maximum of 120,000 option rights (20 %).

The legal subscription rights of the shareholders are excluded.

The term of the Stock Option Program 2001 is five years. The option rights issued can be exercised within this time period. By exercising the option rights, shares at a ratio 1:1 can be acquired by paying the exercise price. Purchase takes place subject to the individual conditions formulated by the Company Board of Managing Directors in agreement with the Supervisory Board and subject to all revisions arising from capital measures or a conversion of the Company.

The exercise price is derived from the average closing price of the shares in the Company in XETRA trading at the Frankfurt stock exchange in the 10 stock trading days prior to the issue of the option. The exercise price is at least € 1.00.

The new shares which are acquired by exercising the option rights are entitled to a share of the profits for the financial year in which the option rights were exercised. The shares required to fulfil the exercised option rights will be made available by a contingent capital increase. The share capital of the Company will be contingently increased by up to € 600,000 by the issue of up to 600,000 shares. The contingent capital increase will only be implemented for the purpose of the Stock Option Program 2001 and only to the extent corresponding to the assigned option rights. The Memorandum and Articles of Association of LPKF Laser & Electronics AG have thus been supplemented accordingly in Article 4.

The potential acquisition periods cover a period of 30 working days starting with the first bank working day after publication of the quarterly figures. The issued tranche for each group of option holders must not exceed 25 % of the total volume per year.

The option holders can exercise the option rights in general up to 50 % not earlier than 2 years after their issue; and an additional 25 % not earlier than three years after their issue; and the remaining 25 % not earlier than four years after their issue. The option rights lapse when the active employment relationship ends for a reason attributable to the beneficiary. Moreover, the option rights can only first be exercised when the relative development in the price of LPKF Laser & Electronics AG shares (closing price XETRA trading) is higher than the relative stock performance of the Nemax All Share Index (Neuer Markt Index) – or the Technology All Share Index (the successor to the Nemax All Share Index) in accordance with the resolution passed by the annual general meeting on 5 June 2003 – during the period from the day of the receipt to the day of exercising the right (performance target in the sense of Section 193 Para. 2 Number 4 AktG).

Four time periods each lasting four weeks are scheduled for exercising the options. These begin in each case with the end of the first bank working day after publication of the quarterly reports and/or figures. Exercising the option rights is excluded from the day on which the Company makes public an offer to its shareholders with respect to new shares or debentures with conversion or option rights by writing to all shareholders or by publication in the Bundesanzeiger of the Federal Republic of Germany, up until the day the shares of the company with entitlement to subscribe are officially quoted for the first time as “ex option rights” at the stock exchange at which the Company shares were admitted for official trading.

All taxes including church tax and solidarity tax arising from the granting or exercising of option rights shall be borne entirely by the option holder.

The Board of Managing Directors of the Company – and in so far as it is itself affected, the Supervisory Board – is authorized to determine the remaining details of the formulation of the Stock Option Program 2001.

Within the context of this empowerment, the Board of Managing Directors, with the agreement of the Supervisory Board, authorized the 2002 option conditions dated 13 June 2002.

The following options were granted within the framework of this option program:

Tranche	Exercise price/€	Number of options
2005	4.21	87,220
2006	5.35	116,200
2007	5.71	136,900

No options were issued in the 2008 and 2009 financial years.

The tranches up to and including 2004 have expired.

The development in the options portfolio in the 2009 financial year is as follows:

	Average exercise price per option/€	Number of options
Per 1 January 2009	4.37	327,140
Granted	–	0
Forfeited	5.20	46,900
Expired	4.10	37,540
Exercised	–	0
Per 31 December 2009	**4.25**	**242,700**
		(of which exercisable: 0)

The variation range of the exercise prices of the options remaining on the reporting date lies between € 4.21 and € 5.71.

Share-based remuneration transactions settled on the basis of equity instruments are reported at the time they are granted using the assignable fair value. This fair value is recorded as a charge to the income statement linearly spread over the exercise period. The measurement is calculated by a Monte-Carlo simulation. The following factors were taken into consideration to calculate the reported fair value:

- the exercise price of the option right,
- the term of the option right,
- the expected volatility of the share price,
- the expected share dividend,
- the risk-free interest over the term of the option right.

In accordance with the transitional IFRS 2 regulations, option rights were valued that were granted after the publication of the standard draft on 7 November 2002.

The assumptions involved in the calculation are shown in the following table:

	3rd tranche 2005	4th tranche 2006	5th tranche 2007
Volatility in %	48,80	44,90	41,10
Volatility in %	2,36	3,59	4,31
Dividend in %	2,38	3,18	2,85

The options for the first two tranches have expired.

The Monte-Carlo simulation randomly generates viable share prices/index curves to determine the intrinsic values of the option rights. The average value of these intrinsic values forms the basis for determining the assignable fair value of an option right.

Comparative information for all the periods shown are given for the reportable commitments. This involved adjustments to the retained earnings reported in the balance sheet and the personnel expenses in the statement of income.

The share capital of the Company after conversion is € 10,858,052.00 and is divided up into 10,858,052 ordinary shares belonging to the shareholders with a theoretical value of € 1.00 per share.

The revaluation allowance from the financing instruments totals T€ -18 (previous year: T€ -42) and changed because of the positive development of the fair value of the securities.

18. Minority interests

The minority interests with respect to shares in subsidiaries have developed as follows

T€	2009	2008
Per 1 January	3,322	2,552
Additions (+) /Disposals (-)	187	770
Per 31 December	**3,509**	**3,322**

The changes in the ongoing year result from the share in the Group's year end results accruing to outside shareholders due to currency translation. There was also a payment to another shareholder in the previous year.

19. Provisions for pensions

Germany has a statutory contribution-based National Pension Scheme for employees which pays out pensions dependent upon income and effected contributions. The Company has no other payment obligations once it has paid its contributions to the state pension insurance institution. In addition, some Group employees have taken out policies with a private insurer or a benevolent fund on the basis of a Company agreement within the context of the Company pension scheme. In this case as well, the Company has no other payment obligations on top of the costs for an allowance reported in the ongoing personnel costs.

The provisions for pensions reported in the balance sheet refer exclusively to the performance-related pension commitments to former executive members of the parent company. The calculations were made using the corridor method in accordance with IAS 19 (whereby actuarial profit and losses are not taken into consideration if they do not exceed ten per cent of the committed amount) and in accordance with the standard international method (Projected Unit Credit Method) on the basis of the "Guidelines 2005 G" issued by Dr. Klaus Heubeck. The reporting value is the cash value of the performance-oriented benefit. The calculations are based on an independent opinion prepared by a finance mathematician.

The following amounts were reported in the balance sheet for the payment commitments:

T€	2009	2008
Cash value of defined benefit obligations at the start of the period	**349**	**345**
Ongoing service cost	4	4
Interest expense	20	19
Actuarial gain (-) and loss (+)	12	-19
Cash value of defined benefit obligations at the end of the period	**385**	**349**
Balance of non-recognized actuarial gains and losses	-4	9
Cover assets		
Reinsurance	133	114
Securities	234	147
Provisions reported in the balance sheet	**14**	**97**

The cover assets were topped up by issued payments.

The following amounts were reported in the income statement:

T€	2009	2008
Ongoing service cost	4	4
Amortized actuarial losses	0	0
Interest expense from the obligation	20	19
	24	**23**

Forecast expenses in the following year:

T€	2010
Ongoing service cost	4
Interest expense from the obligation	21
	25

The cash value of the performance-related obligations developed over time as follows:

T€	2009	2008	2007	2006	2005
Cash value of defined benefit obligations at the end of the period	385	349	345	396	388
Actuarial gains (-) and losses (+) for current year	12	-19	-74	-12	75
of which experience-based adjustments	3	3	7	-4	-4

The ongoing office hours expenditure and the actuarial profit/losses are reported in personnel expenses. The interest expenditure from the obligations is reported in financial results.

The provisions for pensions were calculated using the following assumptions:

%	2009	2008
Discounting rate per 31.12.	5.50	5.75
Future increase in remunerations	0.00	0.00
Future increase in pensions	1.75	1.75
Fluctuation rate	0.00	0.00

20. Tax provisions and other provisions

Provisions are set up for legal or effective obligations which arose in the past, when it appeared possible that the fulfillment of the obligations could lead to an outflow of Group resources, and when it is possible to make a reliable estimate of the size of the obligations.

T€	2009	2008
Corporation tax and solidarity surcharge	585	101
Trade tax	603	85
Other taxes on the basis of external auditing	**1,188**	**186**

Provisions schedule

Provisions T€	Per 01.01.2009	Utilization	Releases	Addition	Per 31.12.2009
Accrued taxes	186	186	0	1,188	1,188
Bonuses	423	378	45	735	735
Guarantees and warranties	554	554	0	845	845
Others	290	250	40	289	289
Total	**1,453**	**1,368**	**85**	**3,057**	**3,057**

All of the provisions referred to are due within one financial year.

The provisions for guarantees and warranties cover possible legal or commercial obligations from guarantee and accommodation cases.

21. Liabilities

Finance debts are reported at initial recognition as the fair value less transaction costs. In subsequent periods, they are reported at amortization costs. Every difference between the amount paid out (less transaction costs) and the repayable amount is reported in the income statement over the term of the loan applying the effective interest method.

The liabilities schedule below shows a summary of the liabilities broken down according to remaining terms:

Type of liability T€	Total amount	Liabilities with a remaining term of Up to 1 year	 1 to 5 years	 More than 5 years	Secured amount	Type of security
Liabilities due to banks	4,076 (6,642)	1,324 (3,093)	2,363 (2,062)	389 (1,487)	2,190 (3,185)	*, ** (*, **)
Trade accounts payable	2,162 (1,640)	2,162 (1,640)	0 (0)	0 (0)	0 (0)	– (–)
Other liabilities	6,325 (4,899)	6,191 (4,754)	81 (72)	53 (73)	0 (0)	– (–)
	12,563 (13,181)	**9,677 (9,487)**	**2,444 (2,134)**	**442 (1,560)**	**2,190 (3,185)**	

* Land charge, assignment of claims
** Security assignments

The fair value of the fixed interest loan is T€ 3,658. The loans are specified for the financing of new construction measures, property acquisition, investment in expansion measures, and development projects.

I. Other information

22. Cash flow statement

The cash flow statement is derived from the consolidated financial statements according to the indirect method, and shows pursuant to IAS 7 the cash flows split up according to inflows and outflows for operating activities, investing activities and financing activities.

In the previous year, the income tax was reported as a positive amount which led to an incorrect reporting of the changes in provisions and accrued liabilities. This has now been corrected, but does not lead to any change in the totals.

23. Earnings per share

The undiluted earnings per share are determined according to IAS 33 as a quotient of the consolidated net income attributable to the shareholders of LPKF Laser & Electronics AG and the number of shares in circulation in the financial year.

Dilution of the earnings per share applies when the average number of shares in circulation is increased by including the issue of potential shares in connection with the options issued by LPKF Laser & Electronics AG as part of the share option scheme. Options always dilute the earnings. Because the basic price of the existing share options was higher than the average LPKF share price in 2009, there was no dilution effect on the reporting date.

	2009	2008
Number of shares undiluted	10,858,052	10,858,052
Number of shares diluted	10,858,052	10,858,052
Net income of the shareholders of the parent company (in T€)	4,684	1,811
Adjusted net result	4,684	1,811
Net earnings per share, basic (in €)	0.43	0.17
Net earnings per share, diluted (in €)	0.43	0.17

24. Dividend per share

The Board of Managing Directors and the Supervisory Board will propose to the annual general meeting on 10 June 2010 the payment of a dividend of € 0.20 per share from the net earnings of LPKF Laser & Electronics AG of € 4,003,360.32 for the 2009 financial year. This corresponds to € 2,171,610.40. The balance of € 1,831,749.92 will be carried forward.

25. Related parties transactions

Zeltra Naklo d.o.o., Slovenia

A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 100 % of the shares in Zeltra Naklo d.o.o.. Materials and equipment, merchandise and services totaling T€ 17 (previous year: T€ 4) were purchased from, or paid as interest to, this related party in 2009.

PMV d.o.o., Slovenia

50 % of the shares in PMV d.o.o. are held by a shareholder of the subsidiary LPKF Laser & Elektronika d.o.o., and 50 % by other related parties. The Group purchased materials and production services, licenses and equipment from this company totaling T€ 145 (previous year: T€ 623) and provided the company with services worth T€ 27 (previous year: T€ 135). Except for the rental of a machine the business relationship ended in 2009. A loan of T€ 22 was granted at market interest rates to cover the remaining receivables.

Detel Plus d.o.o., Slovenia

A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 50 % of the shares in Detel Plus d.o.o.. LPKF Laser & Elektronika purchased materials and services totalling T€ 145 and sold materials and rendered services worth T€ 14 from this company.

Parties related to Board members and other closely associated natural persons

The partner of LPKF Distribution Inc. granted the company a long-term loan totaling TUS$ 350 in the 2007 financial year to finance construction measures. The interest rates and the provision of security are at prevailing market rates.

On the reporting date, LPKF AG had liabilities due to members of the Supervisory Board totaling T€ 135 (previous year: T€ 161).

With the exception of the aforementioned, there are no other claims or liabilities against the LPKF Group companies with respect to paid remunerations or benefits granted to related parties. Note 28 provides details on the LPKF AG boards.

26. Corporate Governance Code

The declaration of conformity from the Supervisory Board and the Board of Managing Directors laid down by Section 161 AktG covering the implementation of the recommendations set out by the German Corporate Governance Code government commission, and the disclosure of any non-compliance with the recommendations, was permanently made accessible to the shareholders by posting on the Company's website (http://www.lpkf.de/investor-relations/corporate-governance/declaration-conformity/index.htm).

27. Other disclosures

Other financial commitments

Long-term real estate and building lease contracts exist for the offices of LPKF (Tianjin) Co. Ltd., LPKF Laser & Electronics (ASIA) Ltd., LPKF France, and at the Erlangen office, as well as car leasing contracts involving LPKF Motion & Control and the parent company.

The existing car leasing contracts are classified as operating leasing arrangements. The basis for the payable leasing rates are leasing contracts with Volkswagen Leasing GmbH calculated on the basis of the term and the kilometers driven by each car. There are no other provisions or agreements with respect to the extension of terms or favorable purchasing options.

Total future rent leasing payments classified according to terms are:

T€	2009	2008
Leasing rates contained in the results for the year	96	73
Up to 1 year	105	60
Longer than 1 year and up to 5 years	81	68

All of the future rental payments for buildings can be divided up into the following terms:

T€	2009	2008
Up to 1 year	370	308
Longer than 1 year and up to 5 years	878	763

There are no other significant financial obligations.

Financial instruments IAS 39

The financial instruments reported in the balance sheet (financial assets and financial liabilities) in the sense of IAS 32 and 39 encompass specific financial assets, trade receivables, payment instruments, trade payables and certain other assets and liabilities based on contractual obligations.

1. Original financial instruments

IAS 39 fundamentally differentiates between original and derivative financial instruments. The original financial instruments are divided up into the following categories:

- Financial assets or financial liabilities measured at the assignable fair value,
- Financial instruments held until reaching maturity,
- Loans and claims,
- Financial assets available for sale.

The category “assets measured at the assignable fair value” has two sub-categories: financial assets classified from the start as “held for trading”, and those designated from the start as “measured at the assignable fair value”. A financial asset is assigned to this category when it is purchased in principle with the intention of selling it again after a short period, or when the financial asset has been designated as such by the management. There were no financial assets in the latter category on the reporting date. Derivatives are also assigned to this category if they are not qualified as hedging transactions. There are no financial instruments belonging to the categories “Financial assets or financial liabilities measured at the assignable fair value” and “Financial instruments held until reaching maturity”.

With respect to the “Loans and claims” these are primarily loans and claims, other assets and liquid assets. The initial measurement was based on the assignable fair value plus transaction costs. In subsequent measurements, the amortization costs are based on the effective interest method.

The “Financial assets available for sale” include the securities. The securities concern shares in a bond fund. The initial measurement was based on the assignable fair value plus transaction costs. The subsequent measurements are based on the assignable fair value. The changes in value are also reported in shareholders’ equity with a neutral effect on net profit until the asset has been withdrawn. Losses are only reported with an effect on net profit if there are signs of a permanent reduction in value. If assets assigned to this category are sold, accumulated adjustments of the fair value included in the equity are reported effecting net income in the income statement as profit or loss from financial assets. The financial instruments are assigned to the long-term assets insofar as the management does not intend to sell them within a period of 12 months after the reporting date.

The purchase or sale of balance sheet assets takes place according to the reporting-at-settlement-date method.

2. Derivative financial instruments

The Group uses various derivative financial instruments to hedge against future transactions and cash flows.

The derivatives do not satisfy the conditions for reporting in the accounts as hedging transactions pursuant to IAS 39.71 ff. All of the derivatives are reported in the balance sheet at their fair values. Changes to the fair values are reported effecting net income. The fair values (market values) were reported to the Company by the issuing banks. The measurement takes into consideration the current EZB reference rates and forward premiums or discounts. If the fair value is positive, these instruments are reported under other assets, otherwise under other liabilities. The other assets includes a derivative hedging transaction (put option in USD) with a fair value of T€ 11. In addition, a currency swap in USD has a fair value of T€ 3.

No other derivative or hedging transactions were in place on 31 December 2009.

3. Details pursuant to IFRS 7

Carrying amount, amounts recognized, and fair values by measurement category

T€	Category in accordance with IAS 39*	Carrying amount 31.12.2009	Amounts recognized in balance sheet according Amortized cost	Fair value recognized in equity	Fair value recognized in pofit or loss	Fair value 31.12.2009
Assets						
Other loans	LaR	20	20			20
Cash and cash equivalents	LaR	10,772	10,772			10,772
Trade receivables	LaR	10,929	10,929			10,929
Other receivables	LaR	1,627	1,627			1,627
Securities	AfS	236		236		236
Derivative financial assets						
Derivatives	FAHfT	14			14	14
Liabilities						
Trade payables	FLAC	2,162	2,162			2,162
Liabilities to banks	FLAC	4,076	4,076			3,658
Other interest-bearing liabilities	FLAC	205	205			205
Other non-interest-bearing liabilities	FLAC	6,120	6,120			6,120
Derivate finanzielle Verbindlichkeiten						
Derivatives	FAHfT	0			0	0
Thereof accumulated by measurement categories acc. IAS 39						
Loans and receivables	LaR	23,348	23,348			23,348
Available for sale	AfS	236		236		236
Financial assets held for trading	FAHfT	14			14	14
Financial liabilities measured at amortized cost	FLAC	12,563	12,563			12,145
Financial liabilities held for trading	FLHfT	0			0	0

* LaR = Loans and Receivables; AfS = Available for Sale; HtM = Held-to-Maturity Investments; FAHfT = Financial Assets Held for Trading; FLAC = Financial Liabilities Measured at Amortized Cost; FLHfT = Financial Liabilities Held for Trading

The fair value of payment instruments and payment instrument equivalents, current assets, trade payables and current financial assets and liabilities corresponds closely to the carrying amounts because of the short maturities. The AfS securities are listed on the stock exchange and are measured on the basis of the stock exchange price on the reporting date. The carrying amount of derivative financial instruments corresponds to the fair value.

The securities assigned to the category “financial assets available for sale” reported under “other original financial assets” and totaling T€ 236 are listed on the stock exchange and measured on the basis of the stock exchange price on the reporting date (Step 1 of the fair value hierarchy). The financial instruments in the category “financial assets held for trading” totaling T€ 14 (previous year: T€ 4) and the category “financial liabilities held for trading” totaling T€ 0 (previous year: T€ 71) have been assigned by the Company to Step 2 of the fair value hierarchy. The condition for Step 2 is the availability of a stock exchange price or a market price for a similar financial instrument, or that the calculation parameters are based on data from observable markets. There are no financial instruments for which measurement methods have been applied using significant input parameters which are not based on data from observable markets (Step 3 of the fair value hierarchy).

	Category in accordance with IAS 39	Carrying amount 31.12.2008	Amounts recognized in balance sheet according to IAS 39 – Amortized cost	Fair value recognized in equity	Fair value recognized in pofit or loss	Fair value 31.12.2008
	LaR	0	0			0
	LaR	6,005	6,005			6,005
	LaR	10,164	10,164			10,164
	LaR	658	658			658
	AfS	214		214		214
	FAHfT	4			4	4
	FLAC	1,640	1,640			1,640
	FLAC	6,642	6,642			6,392
	FLAC	234	234			234
	FLAC	4,514	4,514			4,514
	FLHfT	71			71	71
	LaR	16,827	16,827			16,827
	AfS	214		214		214
	FAHfT	4			4	4
	FLAC	13,030	13,030			12,780
	FLHfT	71			71	71

The net profits/losses from financial instruments are as follows:

T€		2009	2008
Loans and receivables	LaR	7	267
Financial assets and liabilities held for trading	FAHfT + FLHfT	0	-67
Fiancial liabilities measured at amortized cost	FLAC	313	372
		320	**572**

The total interest expenditure calculated using the effective interest method is T€ 4.

The net profits/losses from loans and claims include changes to value adjustments, profits and losses from disposals, incoming payments, revaluations of originally value-adjusted loans and claims, and currency translations.

The net profits/losses from “financial assets and liabilities held for trading” include market value changes to the derivative financial instruments for which no hedge accounting was applied, and profits and losses on maturity during the period.

The net profits and losses from financial liabilities at continued procurement costs comprise the profits and losses from disposals and currency translations.

Breakdown of maturity per 31 December 2009

Trade accounts receivable in T€	Carrying amount per 31.12.	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2009	2,162	2,162	0	0	0
2008	1,640	1,639	0	1	0

Financial obligations from interest and amortization of loans in T€	Carrying amount per 31.12.	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2009	4,076	1,055	292	2,353	600
2008	6,625	2,526	308	2,117	1,675

Other interest-bearing liabilities in T€	Carrying amount per 31.12.	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2009	205	17	17	133	170
2008	234	17	17	133	218

Other non-interest bearing liabilities in T€	Carrying amount per 31.12.	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2009	6,120	6,120	0	0	0
2008	4,514	4,514	0	0	0

Derivative financial instruments in T€	Carrying amount per 31.12.	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2009	0	0	0	0	0
2008	71	0	0	0	71

Financial obligations from finance lease in T€	Carrying amount per 31.12.	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2009	0	0	0	0	0
2008	5	5	0	0	0

4. Hedging policy and risk management

Risk management principles

The assets, liabilities and planned transactions of LPKF Laser & Electronics AG are particularly exposed to risks associated with fluctuations in currency translation rates and interest rates. The aim of financial risk management is to limit these risks. Depending on the nature of the risk, this primarily involves the use of derivative financial instruments. These instruments are exclusively used for hedging, i.e. they are not used for trading or speculative purposes.

Risk management is handled by the Board of Managing Directors which sets the general principles for risk management and lays down the procedures involved. Implementation is carried out by the technical departments and subsidiaries through compliance with the authorized business principles, and is coordinated by the Group Risk Manager. More than half the foreign currency net cash flows are hedged in this way.

The main risks for the LPKF Group in connection with financial instruments, and the associated risk management system, are explained in the following:

Currency translation risk

The currency risks to which the LPKF Group is exposed result from financing measures and operating activities, and are mainly associated with trade receivables and payables, payment instruments and future transactions in foreign currencies. Assets, quoted in currencies with declining exchange rates, lose value. At the same time, liabilities in a currency with a rising exchange rate become more expensive. From the Group's point of view, only the balance between income and expenditure in a foreign currency is exposed to risk.

In principle, risks are only hedged if they have an impact on the Group's cash flow. Foreign currency risks which have no impact on the Group's cash flow are not hedged. These include risks arising from the conversion into the consolidated reporting currency Euro of asset values and liabilities from the annual financial statements of foreign subsidiaries.

Invoices are always in Euro on the operating side of the business. The only exception being invoicing in US$ with regard to sales in North America. Some payments are also made in JPY in specific cases.

As far as possible, the Group buys in US Dollar, and thus puts into effect the "natural hedge" philosophy. In net terms, this does however give rise to US$ inflows. This is hedged by way of forward exchange deals or currency options, to cover contracted foreign currency inflows for up to 12 months. The exchange rate hedges cannot completely compensate for the negative effects on the Group's competitive position arising from a continuously strong Euro compared to the US Dollar. The Group uses a currency swap to diminish currency translation risks further.

The exchange-rate associated change in value of derivatives, which were taken out to hedge currency risks, and the hedged balance sheet item of the underlying transaction are almost completely balanced over the same period in the income statement.

Sensitivity analysis is stipulated by IFRS 7 to reveal the market risks. The sensitivity analysis shows the effects of hypothetical changes in the relevant risk variables on performance and shareholders' equity. LPKF's main priority in this respect is the currency risks associated with the change in the US Dollar exchange rate. The periodic effects are determined by relating the hypothetical changes in the risk variables on the financial instrument holdings on the reporting date. The assumption is made here that the holdings on the reporting date are representative of the whole year. This ignores exchange-rate related differences arising from the conversion of the annual financial statements of foreign subsidiaries into the Group currency Euro.

The currency sensitivity analysis is based on the following assumptions:

Interest income or costs associated with financial instruments are either reported directly in the functional currency or converted to the functional currency by way of derivatives. This means that no significant effects can arise with respect to the parameters in question.

The analysis pursuant to IFRS 7 only shows the effects of exchange rate changes on financial instruments held by the Group on the reporting date.

If the Euro had risen in value by 10 % compared to the US Dollar, the earnings before income tax in the other operating expenses would have been T€ 83 lower. A 10 % decline in the value of the Euro would have had a positive effect on earnings (before income tax) worth T€ 132.

Foreign currency risks in the financing sector primarily result from a long-term foreign currency loan taken out by the parent company to finance its North American subsidiary. The USD repayments expected from this loan are completely hedged against currency risks. Because of this hedging, LPKF Laser & Electronics AG was not exposed to any significant currency risks on the financing side on the reporting date.

Other price risks

The securities subject to disposal restrictions are exposed to price risks. If the value of the securities rises by 10 %, equity would increase by T€ 24; if the value of the securities falls by 10 %, equity reduces by T€ 24. The change in equity is reported without any deferred tax effects. The sensitivity is determined assuming a hypothetical change in price of the listed securities of +/- 10 %.

Liquidity risk

The liquidity risk describes the risk of not being able to satisfy existing or future payment commitments because of a shortage of payment instruments. This is centrally managed within the LPKF Group. Minimizing the liquidity risk is achieved through continuous liquidity planning. In addition to existing liquid assets, credit lines are also available from various banks. Long-term bank credits are mainly used to finance the buildings in Suhl and Garbsen.

Credit risks

The LPKF Group's operating business and certain of its financing activities expose it to default risks. Accounts receivable in its operating business are subject to continuous decentralized monitoring, i.e. by the business segments and the subsidiaries. Default risks are accounted for by appropriate specific value adjustments and general value adjustments.

The maximum default risk is reflected by the carrying amounts of the assets reported in the balance sheet (including derivative financial instruments with positive fair values). Trade accounts receivable are also secured by an amount totaling T€ 691 by payment commitments issued by banks (letters of credit). The creditworthiness risk is therefore borne by the issuer of the security. In addition, trade accounts receivable for specific Asian countries totaling T€ 917 are covered by a credit default insurance. The portion of loss borne by the insured for the insured trade receivables is 15 %.

Capital management details

The main aim of the Group's capital management is to ensure that the Group retains its capacity to repay its debts and maintain its financial assets.

28. Details pursuant to Section 315a German Commercial Code

The conditions stipulated in Section 315a HGB (German Commercial Code) for the preparation of consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) were fulfilled. In addition to the disclosures defined by IFRS, details and notes are also published in compliance with the German Commercial Code.

The members of the Board of Managing Directors of the Company are:

Dr. Ingo Bretthauer (Spokesman) – since 1.2.2009

Dipl.-Ing. Bernd Lange (Member of the Supervisory Board of LPKF Laser & Elektronika d.o.o., Naklo, Slovenia)

Dipl.-Oec. Kai Bentz

The remuneration of the Board of Managing Directors is performance-based and consists of a fixed component and variable success-based components.

The total remuneration of the Board of Managing Directors in 2009 was T€ 960 (previous year: T€ 757).

This included a fixed remuneration component totaling T€ 570 (previous year: T€ 547).

The fixed remunerations were as follows:

T€	2009	2008
Dr. Ingo Bretthauer	199	0
Bernd Lange	215	204
Kai Bentz	156	147
Bernd Hackmann	0	196

The performance-based component in the 2009 financial year was based on the EBIT of the Group. The performance-based salary component is not tied to achieving a minimum performance target.

Because of the earnings situation in the previous financial year, variable remuneration was granted for the 2008 financial year totaling T€ 193 (previous year: T€ 881), and paid out in the 2009 financial year to Bernd Hackmann and Bernd Lange who each received T€ 70 (previous year: T€ 427 each), and to Kai Bentz who received T€ 53 (previous year: T€ 27).

The performance-based component for 2009 will not be paid until the 2010 financial year. Reserves were set aside for this purpose for Dr. Ingo Bretthauer totaling T€ 134 (previous year: T€ 0), for Bernd Lange totaling T€ 146 (previous year: T€ 76), and Kai Bentz totaling T€ 110 (previous year: T€ 58), and for Bernd Hackmann totaling T€ 0 (previous year: T€ 76).

Three retired members of the Board of Managing Directors are awarded the following benefits:

1. Pension
2. Occupational disability allowance
3. Widows pension

The pension is paid upon stepping down from the company, generally upon reaching the age of 65 (age limit), or after receiving a pension from the German national pension scheme upon reaching the age limit.

This benefit comprises a monthly pension defined in the pension undertaking, which is reduced pro rata when leaving the Company early.

The pension commitments for former members of the Board of Managing Directors total T€ 302 (previous year: T€ 284). Reserves for remuneration for a ban on competition totaled T€ 40 (previous year: T€ 155) on the reporting date.

Benevolent funds for two active members of the Board of Managing Directors were set up, into which the company has to pay a fixed annual amount. No provisions for pensions are required in this case.

No share options were assigned to the members of the Board of Managing Directors in the 2009 financial year as salary components with a long-term incentive value as part of the 2001 Share Option Program. The following table shows the number of options held by each member of the Board of Managing Directors:

Board of Managing Directors	31.03.2009	30.06.2009	30.09.2009	31.12.2009
Dr. Ingo Bretthauer	0	0	0	0
Bernd Lange	36,500	36,500	36,500	36,500
Kai Bentz	9,700	9,700	9,700	9,200

On 31 December 2009, the fair value of the options granted to Bernd Lange was T€ 6 (previous year: T€ 0) and for Kai Bentz T€ 1 (previous year: T€ 0).

No new shares were acquired by the Board of Managing Directors in the 2009 financial year by exercising options.

As at 31 December 2009, the members of the Board of Managing Directors held 39,010 shares (previous year: 245,535 shares), broken down amongst the Board members as follows:

Shares held by Board members

Board of Managing Directors	31.03.2009	30.06.2009	30.09.2009	31.12.2009
Dr. Ingo Bretthauer	0	25,000	25,000	25,000
Bernd Lange	21,010	21,010	21,010	11,010
Kai Bentz	1,725	3,000	3,000	3,000
Supervisory Board				
Bernd Hildebrandt	871,746	871,746	871,746	871,746
Prof. Dr. Erich Barke	1,000	1,000	1,000	1,000

The members of the Supervisory Board are:

Bernd Hildebrandt

Businessman (Chairman)
Supervisory Board Chairman of LPKF Laser & Elektronika d.o.o., Naklo/Slovenia

Dr. Heino Büsching

Lawyer/Accountant at CMS Hasche Sigle, Hamburg
(Deputy Chairman)

Prof. Dr. Erich Barke

President of the Gottfried Wilhelm Leibniz University of Hannover
Supervisory Board Chairman of the Innovationsgesellschaft Universität Hannover mbH, Hannover and the Produktionstechnisches Zentrum GmbH, Garbsen
Supervisory Board member of the following companies:
- Esso Deutschland GmbH, Hamburg
- ExxonMobil Central Europe Holding GmbH, Hamburg
- Hannover-Holding GmbH, Hannover
- Solvay GmbH, Hannover

The fixed remuneration of the Supervisory Board totaled T€ 135 (previous year: T€ 135) and was divided up as follows:

T€	2009	2008
Bernd Hildebrandt	70	70
Dr. Heino Büsching	40	40
Prof. Dr. Erich Barke	25	25

A variable remuneration element for the 2008 financial year was paid in 2009 dependent on the paid dividend and totaled T€ 0 (previous year: T€ 24), the members of the Supervisory Board were therefore granted the following.

T€	2009	2008
Bernd Hildebrandt	0	8
Dr. Heino Büsching	0	8
Prof. Dr. Erich Barke	0	4

29. Details on disclosed shareholdings in the Company

The following persons have informed us that their shareholdings exceeded the 5 % threshold on 1 April 2002:

Bernd Hildebrandt, domiciled in Wunstorf, with a current shareholding of 8.03 %;
Klaus Barke, domiciled in Großburgwedel, with a current shareholding of 9.12 %.

30. Fees for auditing the annual financial statements reported as expenditure

The Company is obliged in accordance with the German Commercial Code to detail the fees for auditing the annual financial statements reported as expenditure:

T€	2009	2008
Annual financial statement auditing	75	70
Accounting services	12	12
Other services	36	5
Total	**123**	**87**

31. Events after the reporting date

No disclosable events took place after the reporting date.

Garbsen, 22 March 2010

LPKF Laser & Electronics AG
Board of Managing Directors

Dr. Ingo Bretthauer **Bernd Lange** **Kai Bentz**

Auditor's Report

We have audited the consolidated financial statements prepared by the LPKF Laser & Electronics AG, Garbsen, comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Paragraph 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Paragraph 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 26 March 2010

Helmuth Schäfer
German Public Auditor

ppa. Nicole Busch
German Public Auditor

Statement of Income from 01.01.2009 to 31.12.2009

T€	2009	2008
Sales	41,390	34,502
Changes in inventories of finished goods and work-in-process	-605	-83
Other work capitalized	416	347
Other operating income	1,194	1,055
	42,394	**35,821**
Cost of materials:		
Cost of raw materials and supplies	15,657	14,668
Personnel expenses:		
Wages and salaries	9,293	8,676
Social security and pension costs: thereof pension costs: T€ 97 (previous year: T€ 86)	1,586	1,451
Depreciation and amortization	1,213	1,140
Other operating expenses	9,957	9,333
	37,706	**35,268**
Income from subsidiaries	0	483
Other interest and similar income thereof from affiliated companies: T€ 73 (previous year: T€ 87)	154	179
Depreciation of financial assets	0	31
Other interest and similar expenses thereof from affiliated companies: T€ 0 (previous year: T€ 0)	205	246
Profit from affiliated operations	**4,637**	**938**
Income tax	1,552	244
Other tax	22	-44
Net income	**3,063**	**738**
Retained earnings brought forward from the previous year	941	203
Allocation to other earnings reserves	0	0
Net income for the year	**4,004**	**941**

Balance sheet at 31.12.2009

Assets

T€	31.12.2009	31.12.2008
FIXED ASSETS		
Intangible assets		
Software	530	450
Rights to use	83	33
	613	**483**
Tangible assets		
Land and buildings	4,631	4,865
Technical equipment and machinery	1,021	741
Other equipment, factory and office equipment	710	766
Construction in process	256	220
	6,618	**6,592**
Financial assets		
Shares in affiliated companies	2,376	1,696
Loans to affiliated companies	651	669
Other loans	20	0
Securities of the fixed assets	234	147
	3,281	**2,512**
	10,512	**9,587**
CURRENT ASSETS		
Inventories material		
Raw materials and supplies	7,216	6,769
Work-in-process	155	211
Finished goods and merchandise	3,453	3,626
Prepayments	43	114
	10,867	**10,720**
Accounts receivable and other assets		
Trade accounts receivable	6,547	6,394
Accounts due from affiliated companies	2,301	2,369
Other assets of which with a residual maturity of more than one year T€ 413 (previous year: T€ 443)	928	1,018
	9,776	**9,781**
	20,643	**20,501**
Cash on hand, bank balances and checks	6,769	2,735
	27,412	**23,236**
DEFERRED CHARGES AND PREPAID EXPENSES	**179**	**185**
including disagio: T€ 24 (previous year: T€ 28)		
	38,103	**33,008**

Liabilities and shareholders’ equity

T€	31.12.2009	31.12.2008
SHAREHOLDERS’ EQUITY		
Share capital conditional capital: T€ 490 (previous year: T€ 536)	10,858	10,858
Capital reserve	4,650	4,650
Earnings reserves		
Other earnings reserves	7,000	7,000
	7,000	**7,000**
Net income for the year thereof retained earnings T€ 941 (previous year: T€ 203)	**4,004**	**941**
	26,512	**23,449**
DEFERRED GRANT	**23**	**40**
PROVISIONS		
Provisions for pensions	302	284
Tax provisions	997	0
Other provisions	3,771	2,589
	5,070	**2,873**
LIABILITIES		
Liabilities due to banks	1,601	4,687
Prepayments received	2,290	520
Trade accounts payable	1,472	649
Accounts due to affiliated companies	612	240
Other liabilities thereof taxes: € 153 (previous year: € 237) thereof social costs: € 32 (previous year: € 28)	515	524
	6,490	**6,620**
DEFERRED INCOME	**8**	**26**
	38,103	**33,008**

Glossary of Technical Terms

Thin-film solar panels
Thin-film solar panels are manufactured by coating a sheet of glass or a film with extremely thin layers. Each layer is divided up by a laser into strips to enable the series connection of cells in the finished module.

Circuit board plotter
Machine for the mechanical structuring of printed circuit boards during rapid prototyping.

Plastic welding
A laser beam welds together two plastic components by shining through the upper component and releasing its energy on the surface of the lower component. Thermal conduction and pressure create a secure and clean join.

LDS method
(LDS: laser direct structuring) A laser-based manufacturing process for three-dimensional circuit carriers, otherwise known as molded interconnect devices (MIDs), made of plastic, which also handle mechanical functions.

MID
See LDS method

ProtoLaser S
Compact laser system for structuring printed circuit boards made of laminated materials or ceramics. The ProtoLaser S is particularly good for applications in the high-frequency and microwave range.

Rapid Prototyping
A method for the chemical-free manufacture of prototype printed circuit boards in in-house laboratories.

Cutting laser
Laser systems for depanelling individual printed circuit boards from a larger multi-image board. Lasers depanel rigid, flexible and rigid-flex PCBs very cleanly and precisely in a stress-free process.

StencilLaser
Laser system for cutting fine, highly precise openings in a stainless steel stencil. Stencils are used for the precision printing of solder paste onto printed circuit boards – a vital technique for the modern closely packed PCBs.

Calendar

30 March 2010	Publication of the 2009 annual report
30 March 2010	Balance sheet press conference
31 March 2010	Analysts meeting
12 May 2010	Publication of the Q1 report
10 June 2010	Annual general meeting
13 August 2010	Publication of the Q2 report
9 November 2010	Publication of the Q3 report

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