VISION

Focus on the future

Annual Report 2011

LPKF Laser & Electronics

LPKF LASER & ELECTRONICS AG AT A GLANCE

CONSOLIDATED REVENUE AS OF 31 DECEMBER

		2011	2010	2009	2008	2007
Revenue	EUR million	91.1	81.2	50.7	45.4	42.2
Revenue by region						
Germany	EUR million	13.3	10.7	10.9	17.8	10.5
Other Europe	EUR million	10.3	10.3	8.8	8.0	8.1
North America	EUR million	22.0	13.5	5.3	5.5	6.4
Asia	EUR million	43.2	45.0	24.5	12.7	15.9
Other	EUR million	2.3	1.7	1.2	1.4	1.3
Revenue by segment						
Electronics Development Equipment	EUR million	18.1	15.2	13.5	15.0	15.3
Electronics Production Equipment	EUR million	45.2	51.8	26.5	15.7	17.5
Other production equipment	EUR million	25.5	11.4	8.8	12.7	7.3
All other segments	EUR million	2.3	2.8	1.9	2.0	2.1

CONSOLIDATED FINANCIAL KEY FIGURES AS OF 31 DECEMBER

		2011	2010	2009	2008	2007
EBIT	EUR million	15.2	17.3	7.0	3.1	6.0
EBIT margin	%	16.7	21.3	13.7	6.8	14.2
Consolidated net profit after non-controlling interests	EUR million	9.9	12.1	4.7	1.8	3.9
Net margin before non-controlling interests	%	11.4	15.5	9.3	5.1	10.0
ROCE (Return on Capital Employed)	%	23.4	31.6	15.7	7.4	15.4
Cash and cash equivalents	EUR million	5.6	13.0	10.3	6.0	3.0
Equity ratio	%	55.6	70.3	69.7	68.5	69.3
Cash flow from operating activities	EUR million	3.3	13.5	11.5	6.4	2.7
Investments in property, plant and equipment and intangible assets	EUR million	14.9	8.1	4.0	3.3	5.7
Earnings per share, diluted	EUR	0.90	1.10	0.43	0.17	0.36
Dividend per share	EUR	0.40*	0.40	0.20	0.00	0.12
Orders on hand	EUR million	25.2	12.5	14.7	10.3	7.6
Incoming orders	EUR million	104.0	78.9	56.0	48.1	43.2
Employees	Number	602	466	384	374	339

* AGM proposal

WE ARE MECHANICAL ENGINEERS

But that's not all. LPKF has 36 years of experience in the development and production of materials processing machines. We are one of the world's leaders in a number of areas of laser micro materials processing.

At the heart of our equipment you will nearly always find a laser that has been designed to act on a surface. All of our laser systems benefit from our knowledge of optics, drive and control technology, and are further enhanced by the use of our own proprietary software. This combination has made us a global market leader in four out of six of our product groups.

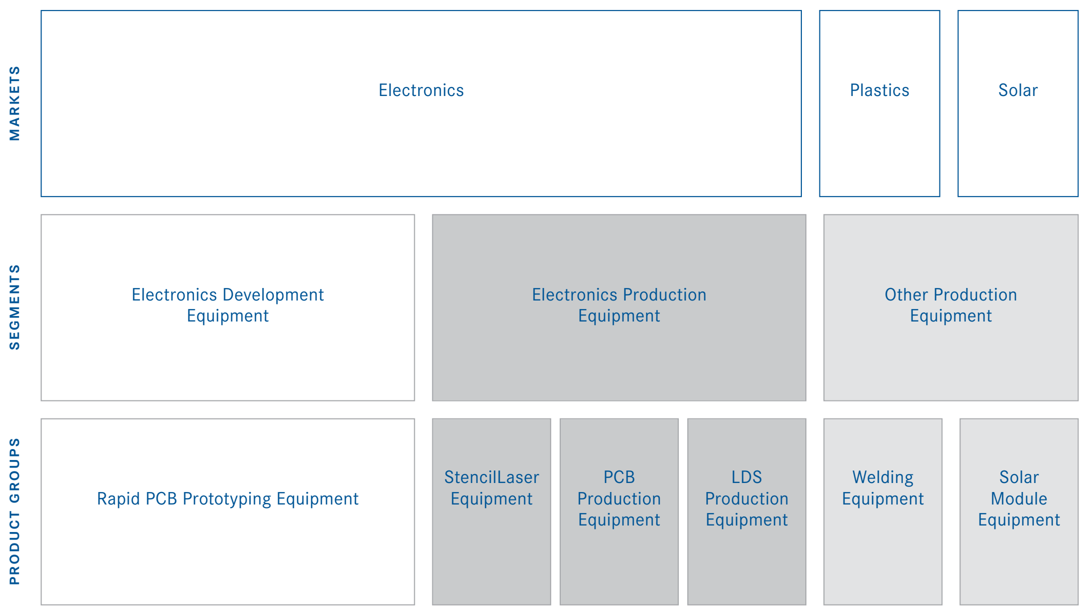
Laser systems are used in the electronics and automotive industry, in polymer technology applications and for the manufacture of solar panels. Our customers make use of LPKF technology to develop and adapt their PCBs, and even to replace them completely with Laser Direct Structuring (LDS). In financial 2011, we posted record revenue of EUR 91.1 million. Our earnings before interest and taxes (EBIT) were EUR 15.2 million. Approximately 85 % of our products went to customers outside Germany. Our international business is supported by branches and offices throughout the world.

We employ approximately 600 people worldwide. At the moment, there are about 430 people working at our three offices in Germany.

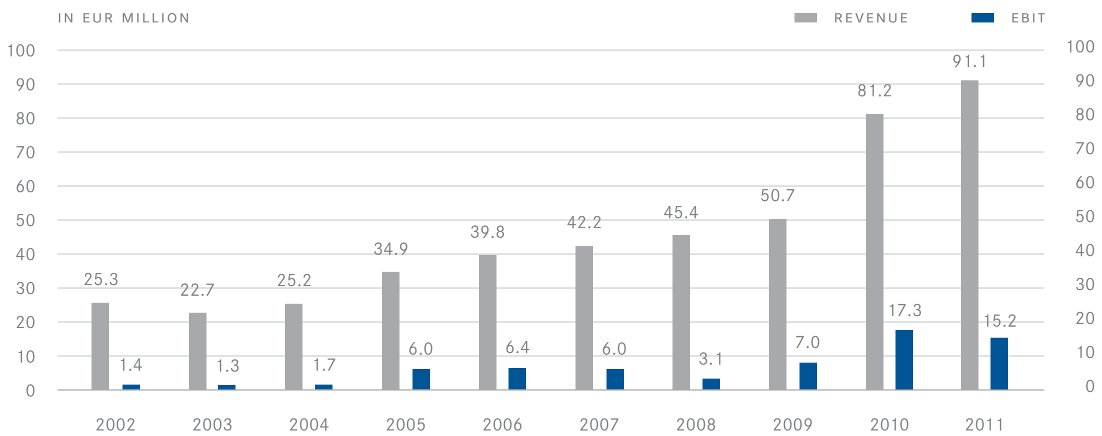
Vision: The breakthrough made by our LDS technology during the 2010 financial year put our other product groups in the shade. This was not entirely justified, as the signs of outstanding performance in other areas are also clear to see. We therefore elected to broaden our base in 2011. We invested in staff, research and development, IT and new facilities, thereby laying the foundation for continued profitable growth.

AN OVERVIEW OF LPKF LASER & ELECTRONICS AG

MARKETS, SEGMENTS AND PRODUCT GROUPS



REVENUE AND EBIT



LPKF WORLDWIDE

PERFORMANCE OF THE LPKF SHARE IN 2011

FIVE GOOD REASONS TO INVEST

Exceptionally high profitability … We have enjoyed profitable growth for 36 years; even when the economy has been struggling we have always managed to remain in the black. Our goal is not to generate quick sales, but to enhance the long-term value of the company. This means: We only target business areas in which we expect to achieve EBIT margins of at least 10 % in the medium term.

Innovative capabilities … People nowadays want a new smartphone in their pockets every year. Such expectations have lead to a significant increase in the speed of technological advances in electronic consumer goods. LPKF has a large stake in this trend. Working closely with our customers, we develop better, faster, and in some cases, completely new production methods. We have to continually reestablish our technological lead. We intend to keep investing approximately 10 % of our annual revenue in R&D in the future.

Replacing traditional production technologies … LPKF technology continues to gain acceptance. We know our markets, and we know that many manufacturers still stamp, glue and cut when a laser would be a more accurate and certainly a more flexible alternative. The more prevalent our products are in mass production environments, the easier it is for us to establish the laser as an economic alternative for a growing number of new applications. In view of this, it is good that there is still so much stamping, gluing and cutting going on.

Presence in dynamic markets … Growth is easier to achieve in dynamic markets. Firstly, because the markets themselves are growing quickly, and secondly, because competitive pressures have less of an impact. Nevertheless, no opportunity is without risk. Dynamic markets, such as the automotive industry or the solar industry, for example, often behave in a cyclical fashion. It is therefore important for us to have a presence in a number of market segments that are not related to each other. Using this strategy, we can take advantage of the slow periods in individual markets to make our products ready for the next upturn.

Sharp technological profile … Despite our openness to new markets and new products, we remain tightly focused when it comes to our know-how. We concentrate on what we know we are best at: Micro materials processing with lasers. Our knowledge and experience in this field is unsurpassed. Yet even here, our aim is to keep getting better.

CONTENTS






Our photo strip starting on page 18 shows the topics that occupied us most in 2011 and which we will continue to monitor in the future.

CHAIRMAN'S STATEMENT

Dr. Ingo Bretthauer, Chairman of the Management Board (CEO)

Ladies and Gentlemen,

Our Company posted record revenue yet again in 2011. We had planned, after the strong growth in 2010, to at least maintain the high level achieved that year while simultaneously using the Company's good financial condition to lay the foundation for further growth through targeted investments. These investments were in fact made, and in the end revenue was even better than initially expected.

The year-on-year decline in the EBIT margin was not a surprise against this backdrop. It was predictable, given the increase in total personnel and the change in the product mix, and had been announced along with our forecast. At an EBIT margin of 17%, we have achieved a level that is among the industry's highest. On the whole, therefore, we can look back to the 2011 financial year with satisfaction.

All product groups contributed to the LPKF Group's positive earnings in 2011. This also includes the Solar Module Equipment product group, which in 2010 was still in the red. The manufacturers of solar cells have virtually been fighting to survive the past two years, and this struggle has left its mark on suppliers too. But LPKF SolarQuipment GmbH signed the largest general agreement in the Company's history at the close of 2011 despite the difficult market environment. This means that once again we are bucking current market trends. What all this shows in the final analysis is that our perseverance paid off – just as in the LDS business. We did not let the market's temporary weakness detract us from our aims but instead consistently focused on the utility of solar technology in the long term. This is why the major contract we won will put us in a position to refine our systems on a permanent basis. Current order levels already enabled us to post positive earnings for 2011, and we are certain that the solar energy business's contribution to earnings will continue to grow in 2012.

The major order gives us a good chance to weather the very difficult environment overall in the solar energy market and to be one of the best suppliers at the starting line once the industry's consolidation has been completed and demand begins to rise anew.

At 19 % and 29 % growth, respectively, in the 2011 financial year, our well-established product groups – Rapid PCB Prototyping and StencilLaser Equipment – did exceedingly well. LPKF has been the world market leader in both areas for many years. And this is precisely why we will not stop defending our leading position in this area. Innovation across the board will remain our guiding principle in the future too.

We continued to expand our presence in Asia in 2011. The opening of a new office in Shanghai, which by now has become the hub of our activities in China, further broadened our position in our largest market. We have increased the personnel in our Chinese subsidiary. In 2011, LPKF (Tianjin) Co. Ltd. had the best year since its founding, and there is no end in sight for this trend. This also applies to other Asian countries. But we have not gotten as far as planned in the expansion of our newest subsidiary in Japan. The devastating tsunami in the spring of 2011 and its ramifications forced us to tone down our expectations, but that is irrelevant against the backdrop of the ensuing tragedy in that country. We have once again intensified our activities in Japan, now that the situation has become increasingly stable in recent months, which is good news. The Japanese economy will recover, and we will be there. Japan is and remains one of the most important countries to our business. Even though revenue will not be particularly high there because Japanese electronics companies often maintain production sites abroad, important strategic developments are pursued and decisions concerning the use of new technologies are made at home. Our subsidiary in Yokohama will follow these processes proactively.

The success of our U.S. subsidiary demonstrates that this strategy makes sense. In China, many of our laser systems are used by U.S. companies. But the investment decisions are made at headquarters. Our U.S. subsidiary supports the entire sales process, thereby making a key contribution to the implementation of many projects.

I wish to express my special thanks to all of our employees for their extraordinary commitment in 2011. The expansion of our capacities and the renewed increase in revenue were special challenges that our employees mastered with verve. Special thanks are also due to my colleagues on the Management Board for working with me in a spirit of trust and cooperation. Likewise, I wish to thank the members of our Supervisory Board, also in the name of my colleagues on the Management Board, for our good and constructive collaboration.

The Chairman of the Supervisory Board, Bernd Hildebrandt, plans to step down upon completion of the Annual General Meeting on 31 May 2012. He has managed, supported and shaped the Company for more than 35 years ever since its founding. In all these years, LPKF never posted a loss. The Company is a true success story! While Bernd Hildebrandt was always focused on making a profit, his motivation was rooted in his expansive entrepreneurial responsibility for this Company and its personnel. I have met very few people during my career who have devoted themselves as resolutely as he did to bringing about a fair and humane corporate culture. His commitment to social causes has gone beyond the boundaries of LPKF AG for many years. I hope and wish that Bernd Hildebrandt will continue to be available to us as an experienced LPKF expert even after leaving the Supervisory Board, given his deep commitment to this Company.

The sovereign debt and financial crisis, which continues unabated, impacted the stock markets in 2011. Bad news from the financial markets have overshadowed many companies' robust development in Germany. In terms of its price, our share was unable to delink itself from the negative climate in the capital markets. I would like to thank our shareholders, who remained faithful to us despite these twelve turbulent months. I am convinced that LPKF has a lot of potential for profitable growth, and I will personally do everything in my power to keep the Company on its road to success.

Garbsen, Germany, March 2012

Dr. Ingo Bretthauer
(Chairman of the Management Board)

TEN QUESTIONS FOR THE MANAGEMENT BOARD

Bernd Lange, CTO
(Technology and Quality)

Born 1961, member of the Management Board since 2004 — Bernd Lange studied electrical engineering at the University of Odessa and has worked in a variety of companies in the fields of electrical engineering and scientific instrumentation. He joined the LPKF Group in 2000.

Dr. Ingo Bretthauer, CEO
(Marketing, Sales and Production)

Born 1955, member of the Management Board since 2009 — Ingo Bretthauer studied engineering and economics in Germany and business administration in the USA. After gaining a doctorate at the University of Giessen, he worked for a number of different German and international companies.

Kai Bentz, CFO
(Finance, Human Resources and Investor Relations)

Born 1971, member of the Management Board since 2007 — Upon completion of his degree in economics at the University of Hannover, Kai Bentz worked for a large international accounting and auditing firm. He joined LPKF in 2002.

At EUR 91.2 million, LPKF again achieved record revenue in 2011. However, operating result of EUR 15.2 million was down on the previous year's figure of EUR 17.3 million. What were the reasons for this?

Dr. Ingo Bretthauer: Our business as a whole performed as we expected in 2011. Last year we reported a sharp rise in LDS sales due to a number of large orders. They were somewhat lower in 2011, although still in line with forecast. As sales of nearly all of our product lines were up, however, so was our overall revenue. Due to this change in the product mix, earnings before interest and taxes (EBIT) were, as forecast, slightly lower. Nevertheless, our EBIT margin of 16.7% represents a very good performance compared with the rest of our industry.

You hired 136 new employees in 2011. Do you plan to keep adding new staff at this rate in 2012?

Kai Bentz: We will certainly be taking on fewer new staff in 2012. Having asked a tremendous amount from our employees to achieve our 60% sales growth in 2010, we set about recruiting additional staff based on the current performance of the business and our future expectations. We now feel that we are well positioned to maintain our success. In 2012, we will continue to strengthen research and development and hire new people in the fast-growing areas of our business whenever their business performance justifies doing so.

Having enjoyed rapid growth in 2010, the performance of the LDS business was more modest in 2011. Do you see further potential for growth here?

Dr. Ingo Bretthauer: We had expected growth in the LDS business to slow down. In the end, however, the LDS business exceeded our expectations. What is important to me here is that we were able to gain many new customers in 2011. The orders we received from these customers have not been as large as those placed by our major customers in 2010, but we certainly succeeded in increasing the user base for our LDS technology significantly. We are well on the way to establishing this technology as a global standard. And this is means that there is certainly potential for growth over the next few years.

You have worldwide patent protection for the LDS process until 2021. How secure do you feel this protection is, particularly in China?

Bernd Lange: We hold patents on the LDS process in all important industrialized countries. This, of course, includes China. As the commercial success of the process has gathered momentum, so have the activities of our competitors. First, we saw an increase in the number of patent applications for alternative processes. Then came the patent infringements, and finally, attacks on our patent portfolio. The LDS process has proved itself to be robust and extremely viable. Our development work is focused on reducing the cost of the process still further because the best form of security comes from maintaining a competitive edge. We also have a rigorous approach to dealing with patent infringements and this is something we owe to the customers who support us.

In 2011, the solar market was dominated by overcapacity, insolvencies and other unpleasant events. Yet LPKF announced a record order worth EUR 43 million. How did you manage that?

Dr. Ingo Bretthauer: We have not allowed ourselves to get distracted by the short-term cyclical behavior of the solar market. Instead, we have remained focused on developing our systems. Consequently, we were able to demonstrate at exactly the right time in 2011 that we had the most modern facilities in the world. This met with a positive response from our customers. The highest performance solar modules are manufactured using our systems. The benefits our systems offer are so obviously significant that an investment makes sense for our customers even in difficult economic times.

The principle argument for thin film technologies is that they offer cost benefits in solar module production. How significant is the drop in prices of crystalline solar cells to the future of thin film technology?

Bernd Lange: We believe that the sharp drop in price of all solar cells is positive and absolutely necessary. The industry will ultimately have to move out of its state-funded phase and become a self-sufficient market. Before this can happen, it has to be profitable for homeowners to produce their own solar energy. In two to three years time, when we have seen further reductions in the production costs of solar cells, we should reach the network parity necessary to achieve this. Thin film solar modules will play an important role here, even though not all thin film technologies have the same potential. Thin film solar modules use very little or no silicon, which is very energy-intensive to produce. This gives them a very good energy balance. Far too little attention is still being paid to the benefits of thin film solar modules under real-world conditions after they have been in service for a year or more. If you compare the annual energy yield per euro invested, cadmium telluride and CIGS modules are amongst the most efficient.

The construction of a technology center at the Garbsen head office has greatly enhanced LPKF's R&D capability. Are the improvements in this capability limited to the opening of the new facility, or have there been other changes?

Bernd Lange: The new technology center is typical of a series of changes that have taken place at our head office site in Garbsen. Development and production have seen a rapid increase in personnel numbers and are running out of space. The purchase of the adjacent property gave us the opportunity to merge and enlarge the R&D departments and labs. As a result, we have been able to optimize our production processes by arranging the processing steps more efficiently and by allocating them more space in the old building. Our subsidiary LPKF SolarQuipment was also able to relocate its application center to a building on the Garbsen site in 2011. All things considered, the working conditions of many of our employees have improved and this will be reflected in improved productivity.

What is the strategy of the Management Board concerning the payment of dividends to LPKF AG shareholders?

Kai Bentz: We want our shareholders to receive dividends and so share in our success. We clarified our dividend policy at the beginning of this year: our aim is to redistribute 30 to 50 % of our earnings to shareholders in the form of dividends. We may deviate from this aim especially if we face an uncertain future due to circumstances such as an economic downturn, or if paying a dividend would jeopardize our ability to finance investments or put LPKF AG's or the Group's financial position at risk.

How will capital expenditures grow over the next few years?

Kai Bentz: In 2011, we initiated a whole host of investments that will form the basis for the continued development of our business. Noteworthy examples in this context are the construction of a technology center at a cost of over EUR 5 million and the introduction of an ERP system. We also acquired minority interests in some important subsidiaries for EUR 3.7 million. We therefore invested much more in 2011 than we had done in previous years. Investment in future years will be somewhat lower for a while. Investment volume will depend to a large extent on the economic performance of the LPKF Group and its individual businesses.

Innovation is seen as one of the LPKF Group's special strengths. What exactly are you doing to identify and exploit opportunities in completely new fields of application?

Bernd Lange: We carefully monitor all developments in our core markets that could provide new opportunities for LPKF. We are also interested in all markets and applications that could potentially benefit from our existing technologies. We are actively following the development of our technology base – laser technology, for example, and have summarized in our innovation management process the tasks we need to undertake. We are also working on new technologies and applications in joint projects with research establishments.

REPORT OF THE SUPERVISORY BOARD

From left to right:
Dr. Heino Büsching (Deputy Chairman of the Supervisory Board), **Bernd Hildebrandt** (Chairman of the Supervisory Board), **Prof. Dr.-Ing. Erich Barke**

"Thanks to its range of highly innovative products, LPKF has so far succeeded in distancing itself from negative developments in the market. There is a very good chance this will continue in the next few years."

Bernd Hildebrandt, Chairman of the Supervisory Board

Ladies and Gentlemen,

The 2010 financial year saw the Company's revenue jump by an unprecedented 60%. While encouraging, this result needed to be managed and consolidated – something that was clear to the Management Board and the Supervisory Board with regard to the reporting year. The increase in revenue had been driven in large part by major contracts in the LDS Production Equipment and PCB Production Equipment product groups.

It could not be assumed that large orders of this type would definitely be realistic in the reporting year too. The Management Board was also conscious of the fact that its existing workforce had to put in a great deal of extra work to manage the new level of sales. Management's goal was therefore to increase and consolidate revenue in all divisions – also with a view to the coming years. This consolidation required dedicating considerable resources to development and marketing work and hiring more staff.

All of the work done by the subsidiary LPKF SolarQuipment GmbH over many years was rewarded at the end of 2011 with the conclusion of a major framework agreement that will remain in effect until the end of 2013. We would like to take this opportunity to say thank you and congratulations on this success to our business partners in Suhl who made the biggest contribution to the development of Solar Module Equipment. To improve the organizational and structural conditions for this division, the minority interests in LPKF Motion & Control GmbH, Suhl, were acquired in the reporting year, which means that LPKF SolarQuipment GmbH is now a wholly owned subsidiary of LPKF AG.

Some of the product lines we introduced many years ago such as Rapid PCB Prototyping, StencilLaser Equipment, and Welding Equipment also recorded strong revenue growth, compensating for the anticipated revenue decline in LDS Production Equipment and PCB Production Equipment.

On the whole, it can be considered a very positive development that the unusually high consolidated revenue generated in the previous year was actually exceeded in 2011, especially in light of the fact that the projected profit margin was narrower in line with the circumstances.

MONITORING AND ADVISING THE MANAGEMENT BOARD ON MANAGEMENT ISSUES

The Management Board kept the Supervisory Board abreast of the Company's business developments, thoroughly and promptly, at six Supervisory Board meetings and in a multitude of discussions with the Chairman of the Management Board and the other Supervisory Board members. The Supervisory Board also conferred on four occasions without the Management Board. This enabled the Supervisory Board to supervise the Management Board intensively on a regular basis. The Supervisory Board was continuously informed of the Company's risk management and exposure to risk. It was also consulted on key strategic decisions comprehensively and without delay.

MAIN FOCUS OF THE ADVICE

The extraordinarily high revenue and consequently also the additions to the workforce in the reporting year and the Company's expected growth have created and are creating new challenges with regard to the structure, organization, and strategic focus of the Group. Here, the Supervisory Board set priorities in the second half of the year in its capacity as an advisor. Particularly in the fourth quarter of 2011, there was an intensive exchange of information between the Supervisory Board and the Management Board that will be steadily continued in 2012.

The Group's risk management system is supported by special software for recording, assessing and tracking risks. A risk inventory recorded and assessed current and potential risks. The Management Board is always in close contact with the management of each Group unit in order to be able to identify risks and opportunities as early as possible and respond adequately. The quality management system pursuant to DIN EN ISO 9001:2008 is another important element of the risk early warning system and for ensuring efficient business processes.

The ongoing development of the Group's operational structure is one of the management's main tasks, especially given its growth opportunities. Following the introduction of a new ERP software at the Garbsen and Erlangen sites at the beginning of 2011 to map key business processes at LPKF AG, preparations for a further rollout of this software in other important Group units are currently underway. Workflows will be enhanced in the process, also in connection with risk management issues. As in previous years, the reporting system was reviewed to assess its efficiency in managing risks. The Supervisory Board and the Management Board regularly exchange information regarding the Company's risk position as well as compliance and corporate governance issues, both through ongoing discussions and formal reports. Aspects of the internal control system were reviewed by the internal auditing department, whose tasks were taken over by an audit firm. The corresponding reports were discussed at Supervisory Board meetings.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

As resolved by the Company's Annual General Meeting, the Supervisory Board engaged Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft (PwC) to audit the 2011 annual and consolidated financial statements. Both the single-entity and consolidated financial statements were audited by the auditors and issued with an unqualified auditors' report. The auditor participated in the Supervisory Board meetings on 21 February 2012 and 23 March 2012 and reported on the audits of the annual and consolidated financial statements.

The documents concerning the financial statements and reports prepared by PwC were submitted to the members of the Supervisory Board for inspection and review in a timely manner. The representatives of the auditor attended the relevant Supervisory Board meetings on the financial statements. They reported on the main findings of their audit, especially providing explanations on the financial position, cash flows and profit or loss of the Company and the Group as well as further information. The representatives of the auditor also reported that they were not aware of any significant findings concerning weaknesses in the control system and the risk management system in relation to the financial reporting process. This also applied to the suitability of the risk early warning system. There were no circumstances that cast doubt on the impartiality of the auditor.

The Supervisory Board discussed PwC's audit reports and the documents relating to the financial statements at length with the representatives of the auditor and examined them meticulously. The Supervisory Board reached the conclusion that the reports comply with the legal requirements of Sections 317 and 321 of the German Commercial Code (Handelsgesetzbuch) in particular. After reviewing the annual financial statements, the consolidated financial statements and the respective management reports, the Supervisory Board concurred with the result of the auditor's audit. At its meetings on 21 February and 23 March 2012, the Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Management Board. The annual financial statements of LPKF Laser & Electronics AG are thereby adopted. Given the positive business performance in the reporting year and the positive outlook for 2012, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 31 May 2012 that it pay a dividend of EUR 0.40 per share and carry forward the remaining accumulated profits of EUR 11,353,739.96 to new account.

THANKS AND LOOKING AHEAD

Our particular thanks go to our representatives and service technicians working all around the world, our suppliers and, naturally, our customers. All of them played a key role in the Company's success last year.

The Supervisory Board firmly believes that all divisions of the LPKF Group have considerable growth potential. The Company's high capacity for innovation makes us confident that we will be able to not only retain but also expand our market leadership. The major framework agreement already mentioned will present a particular challenge for the Solar Module Equipment product group, where significant upheaval is expected. It goes without saying that the financial and global economic developments in the coming months and years will also present risks for LPKF Laser & Electronics AG. Thanks to its range of highly innovative products, LPKF has so far succeeded in distancing itself from negative developments in the market. There is a very good chance this will continue in the next few years.

As already announced, I will be retiring from the Supervisory Board at the end of this year's Annual General Meeting. I can look back on a career of 35 exciting and fulfilling years, but it is time to step down. LPKF is in excellent shape and the foundations for further growth have been laid. The Company's strategic management is in good hands with the Management Board. I will stay connected to LPKF not only as a shareholder but also a friend and follow its continuing development with great interest.

Garbsen, Germany, March 2012
For the Supervisory Board,

Bernd Hildebrandt
(Chairman of the Supervisory Board)

HIGHLIGHTS 2011

Expansion at corporate headquarters in Germany

LPKF acquires the neighboring building and converts it into a development center. This move significantly increases the size of the company's head office site in Garbsen.

Getting closer to customers

With new headquarters for China in Shanghai and a subsidiary in Japan, LPKF boosts its presence in its most important market: Asia.

Consolidation

LPKF AG acquires minority interests in its subsidiaries in Tianjin (China), Portland (USA) and Suhl (Germany). As a result, decision-making becomes more efficient and strategic measures can now be implemented more quickly.

International visitors welcomed

More than 100 delegates travel to Garbsen to attend the distributors' conference. The conference focuses on exchanging information and introducing new products.

Launch of the new ProtoMat generation

In the PCB prototyping market, LPKF's circuit board plotters are way out in front. The new ProtoMat generation is even more flexible and responsive than the previous models.

Anniversary celebrations

In July, the Welding Equipment division in Erlangen celebrates its tenth anniversary, and in August, LPKF Motion & Control GmbH marks its twentieth anniversary at the Suhl site.

Setting a strategic course

LPKF simultaneously unveiled three new products at the "productronica" trade fair in Munich: The LPKF ProtoLaser U3, the LPKF Fusion3D 1500 and the LPKF ProtoPlate LDS – each one paving the way for our future success.

Warm ray of sunshine in winter

Shortly before the end of the year, LPKF SolarQuipment GmbH concluded a large contract to supply systems for solar cell production. The excitement was not limited to the LPKF team in Suhl.

FROM CONCEPT TO PCB

It all began with a milling system that could produce printed circuit boards in an astonishingly short time. The rapid PCB prototyping process can produce a fully functioning PCB from a circuit layout in just one day. After more than 35 years, LPKF is still setting standards and remains number one with a global market share of over 70%. Our rapid PCB prototyping equipment is known and sought after by electronics developers all over the world, many of whom began working with LPKF technology while still at college.

The new ProtoMat generation launched globally in January 2011 is more flexible and more productive than the previous models. These circuit board plotters produce structures thinner than a human hair, drill precise holes for multilayer through plating and apply solder paste for soldering the

Agnetha Schuchardt tests new process routines in the ProtoMat control unit. Continued development is extending the universality of the ProtoMats.

components. Their success is measurable. In a mature market like PCB prototyping, a growth in revenue of 19 % is an excellent achievement. As excellent as the new ProtoMats from LPKF.

GLOBALLY NETWORKED

Because our customers are located in all parts of the world, we rely on a large international network of distributors to handle sales of our rapid PCB prototyping products. We can therefore be close to our customers not only in Brazil and South Africa, but also in places like Israel, Vietnam and Romania.

SOLAR POWER BECOMES CHEAPER

And that is just how it should be. Not just for homeowners interested in having solar panels installed on their roofs, but for the future of mankind on our planet. Although this may sound like a very lofty objective, the search for sources of sustainable, emission-free and affordable energy does have an existential meaning.

Against this background, the present crisis in the solar market appears trivial. The falling prices of solar cells are leading to a competitive shakeout of suppliers. On the other hand, they will also cause buyer markets to expand – at which point the solar energy might really take off in earnest. We believe strongly in the future of solar energy and consider ourselves to be well positioned despite the current difficult phase the market is experiencing. Our customers invest in LPKF solar systems so that

The gleaming black facade of our new multi-story parking garage – produced with the aid of LPKF technology – derives energy from incident sunlight. Dr. Mark Hüske and Rene Beinke are involved in the ongoing development of our solar systems.

they can produce thin film solar modules with greater precision, thereby increasing efficiency and reducing production costs. They do so in order to be more competitive.

EXPERTS IN THIN FILM

Thin film solar modules typically have a superior low light performance, are less dependent on temperature and require less material than crystalline solar cells. The cells of the large module substrates are interlinked in three process steps to produce an optimum power/voltage relationship. The challenge of laser structuring lies in working accurately, quickly and safely – to micrometer accuracy. The current order situation of our solar business is a tribute to our capability in this area.

ROOM FOR NEW IDEAS

Our aim is to be at least number two in our market segments worldwide. We have already achieved or exceeded this aim in most areas. We are world leaders in Rapid PCB Prototyping and StencilLaser Equipment. We have developed the LPKF-patented LDS process ready for series production and about 50 % of all smartphone antennas are produced using this process today.

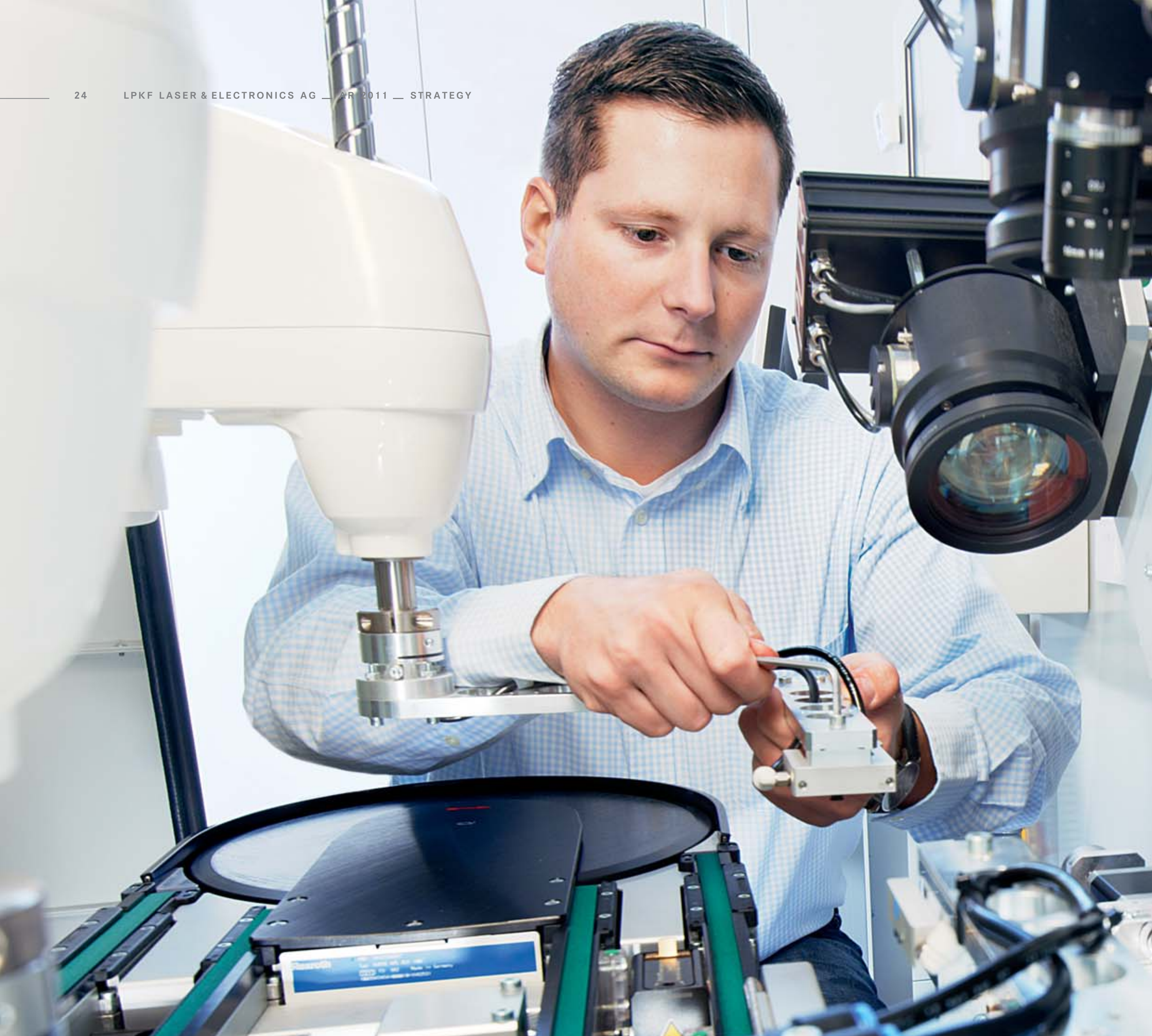
Our development projects are directed towards meeting the specific needs of our customers. In 2011, we focused primarily on modernizing and enhancing products from the Electronics Development Equipment and Electronics Production Equipment segments. A new generation of laser systems will increase the number of potential applications for the LDS process. In addition, we have been

Innovation manager Dr. Roman Ostholt discusses the latest development projects with Dr. Wolfgang John and Dr. Robin A. Krüger from the LDS development team.

working hard to extend the Group's technological base. We cooperate with universities and industrial partners on development projects.

BASIS FOR CONTINUED GROWTH

In 2011, we created more space for our research and development teams. In January 2011, LPKF invested in the new development center in Garbsen for the Electronics Development Equipment and Electronics Production Equipment segments. The application engineers from LPKF SolarQuipment GmbH also moved into their own offices at the Group's head office site in Garbsen. As a result, LPKF now has an ideal basis for continued growth. The shared development center and European production facility will help speed up the process of converting ideas into market-appropriate products.



IN THE THIRD DIMENSION

Patented LDS technology enables our customers to produce three-dimensional circuit carriers from simple plastic components. The high demand for smartphone antennas using this technology was responsible for boosting our sales in 2010. Since then, companies in the automotive, medicine and lighting industries have been enjoying the freedom this three-dimensional process has to offer in electronic component production. We are making great efforts to encourage the adoption of the LDS process. We developed a simple prototyping process in 2011 which does not require expensive special tools. The desired components are produced using a 3D printer, coated with a special LDS paint, structured and completed in a metallization bath. This process has slashed the time and cost of the prototyping process. We have also developed a new family of laser structurers. These can be

Lars Vitense commissions an LPKF laser structurer. In the future, LDS technology also provides antennas for notebooks and tablet PCs.

upgraded in modular fashion from a laboratory unit up to a high-performance structurer, thereby lowering the barrier to entry into the innovative LDS technology even further.

LDS GAINING GROUND

We estimate that around 50% of all smartphone antennas are manufactured using our LDS process. Moreover, the smartphone market grew by more than 50% to 472 million units in 2011, according to figures from the US market research firm IDC. This dynamic market offers great potential for LPKF. We are working successfully towards opening up other market niches with large unit sales. An example of such a market is LED lighting: the first LED lamp with an LDS socket was produced in 2011.

STRONG TEAMWORK

We employ specialists in laser technology and optics, precision drive technology, control technology and software. The more specific the knowledge of the individual, the more important cooperation becomes in achieving our common goal: to get better and better. Our subsidiary LaserMicronics uses LPKF laser systems for practical production tasks and provides our system developers with valuable feedback.

Our broad positioning in a range of application areas gives us in-depth knowledge of many possible processing methods. This expertise is valued by our customers because they obtain not only a machine; they also receive a production solution along with valuable advice on process design.

The best ideas are not always created at your workplace; they often come from discussions held in a more informal setting. Left to right: Dennis Bombien, Martina Drewek, Benjamin Busjahn and Sabrina Ohlhagen.

ENTHUSIASM BREEDS SUCCESS

To satisfy the increasingly complex demands of our customers, we need employees who think for themselves. To encourage this, we provide a working environment that promotes positive attitudes and motivates employees to look for creative solutions. Only by doing this can we ensure that we consistently surprise our customers by giving them more than they expect. It is a testament to the quality of the LPKF working environment that our employees not only enjoy working together but also get together outside work to go dragon boating, skiing and to take part in other sports activities. This strengthens our team spirit and generates a factor that has a significant impact on the success of our company: employee motivation.

CLOSE TO OUR CUSTOMERS

Developed in Germany, sold in the USA, installed in Asia – this trilogy has always applied to the distribution of high performance systems for manufacturing specialized components. But times are changing.

LPKF customers in Asia have become keenly interested in innovative production technologies, even when trained and experienced technical personnel is needed to carry out maintenance and preparatory work. This means that they are moving away from their passive role as the "world's workbench" and increasingly act on their own behalf in the electronics industry. The 47 % share of sales in Asia highlights the importance of this region for LPKF. And we are responding to this trend. In 2011, we opened our seventh LPKF office in China, established a subsidiary in Japan, and the Group acquired

Our distributor, Jinny Bae (left) is responsible for our LDS business in South Korea. Here, he demonstrates the benefits of laser direct structuring to his customers.

the minority interests in a Chinese subsidiary. Multinational management teams and our own application and service center are ready to assist customers in Asia to achieve their production goals.

GROWTH MARKETS IN ASIA

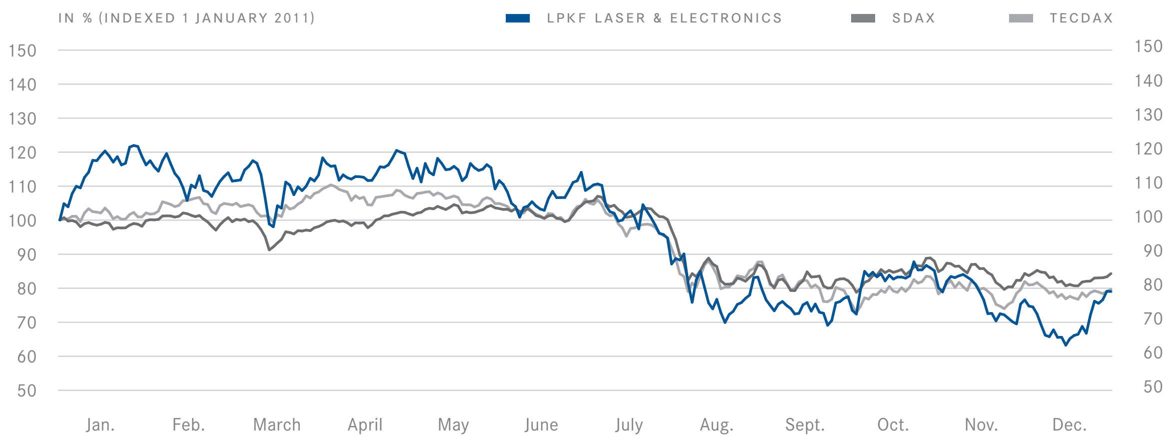
The Asian economic region has become an increasingly important factor in the growth of the LPKF Group. The International Monetary Fund forecasts growth of 1.2 % for the industrial nations in 2012. For China by contrast, the experts forecast further growth of 8.2 %.

THE LPKF SHARE

After its dynamic performance in 2010 with gains of 142 %, the LPKF share was unable to distance itself from the bearish stock market environment in 2011. The year had started on a very strong note. Up to the end of January, our share price climbed by around 20 % to EUR 14.64. Bolstered by solid corporate financial data, it moved within a relatively narrow band of between EUR 12.50 and EUR 14.50 until well into July. However, in spite of healthy order books, the LPKF share was dragged down by worries about the economy in the third quarter just as much as the other European securities.

Whenever there is turbulence on the financial markets, investors tend to sell off smaller stocks first. One of these securities was LPKF. This further accelerated the erosion of our share price, which fell to EUR 7.60 by mid-December. On the back of strong corporate data, a turnaround occurred at year-end and LPKF closed 2011 trading at EUR 9.49.

PERFORMANCE OF THE LPKF SHARE IN 2011



2011: A CRISIS YEAR ON THE STOCK MARKETS

The forecasts for 2011 issued by analysts at the end of 2010 were predominantly optimistic. Most of the institutions predicted that the DAX index of leading German stocks would close last year at up to 8,000 points. Analysts also believed that the world's stock markets were back on track, but they were mistaken. In effect, the DAX dropped to 4,966 points in the fall, its lowest level in two-and-a-half years. Germany's benchmark index ended 2011 at 5,898 points, a decline of almost 15 % over the year. The share prices of smaller and medium-sized publicly traded companies in Germany fared no better in the reporting period. The TecDAX, on which the 30 largest technology companies are listed, closed 2011 down 19 % on the previous year.

KEY FIGURES ON THE LPKF SHARE

	2011	2010
Number of shares as of 31 December	11,100,940	11,005,613
High (XETRA)	EUR 14.64	EUR 15.27
Low (XETRA)	EUR 7.60	EUR 4.57
Closing price at year's end (XETRA)	EUR 9.49	EUR 12.15
Market capitalization at year's end	EUR 104.2 million	EUR 133.4 million
Average daily trading volume (shares)	31,888	53,365
Earnings per share, diluted	EUR 0.90	EUR 1.10
Dividend per share	EUR 0.40 (AGM proposal)	EUR 0.40

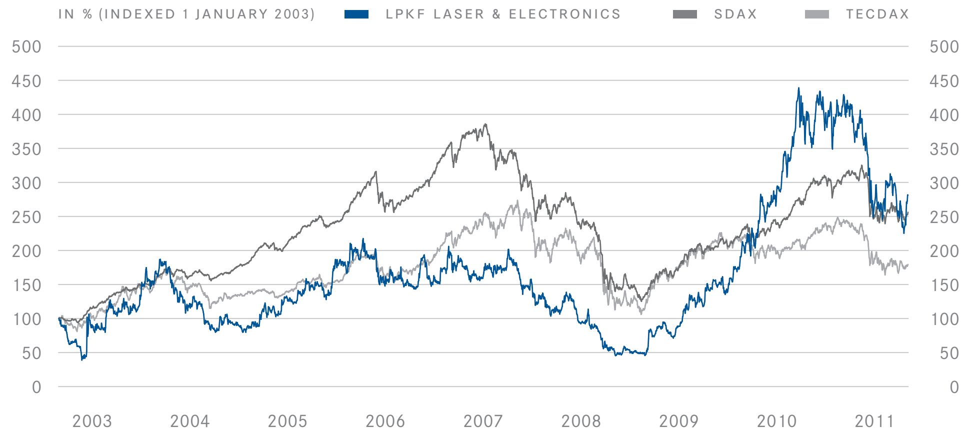
The year 2011 was also disappointing for the majority of the world's stock markets. Only the Dow Jones in the United States and the Jakarta Composite in Indonesia reported gains, the Dow increasing nearly 6 % for the year as a whole. Most of the other stock markets around the world reported losses in significant double-digit percentages. The technology index Nasdaq dipped almost 2 % in 2011. While stocks in the healthcare, consumer and care segments rose, banks around the world were among the biggest losers.

Economic experts principally attribute the downtrend on the international stock markets to an intensification of the euro crisis and the resulting fears about the economy, which dragged down share prices time and again. The threefold catastrophe in Japan with the earthquake, tsunami and reactor disaster as well as the devaluation of the United States' prime rating were further factors that prevented stocks from taking the same trajectory in 2011 as in 2010.

MARKET CAPITALIZATION STILL OVER EUR 100 MILLION

In spite of the decline in the share price, our market capitalization at the end of 2011 remained well above the EUR 100 million threshold at EUR 104.2 million. The average daily trading volume in 2011 was 31,888 shares (2010: 53,365 shares). Our shareholder structure remained basically the same. Around 79 % of the shares were in free float, while the rest were still held by existing shareholders. We are seeking inclusion in Deutsche Börse's technology index. In the TecDAX we ranked 45th relative to our market capitalization at the close of 2011 (previous year: 37th); in terms of the trading volume, we ranked 35th (previous year: 32nd). Despite this slight drop year-on-year, we may be able to move up to the TecDAX 30 in the medium term.

LPKF, SDAX, TECDAX CLOSING PRICES 2003 – 2011

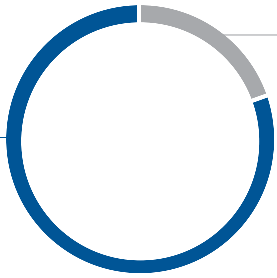


DIVIDEND POLICY

LPKF AG's goal is to achieve a long-term increase in its enterprise value in order to be attractive for its shareholders. Following successful years, shareholders will receive a share in the Company's profits through dividend payments and thus get an attractive dividend yield. Our dividend policy will be characterized by continuity and reliability. The Company plans to propose to the Annual General Meeting that between 30 % and 50 % of LPKF's earnings per share be distributed as a dividend in the following year. We may deviate from this aim especially if we face an uncertain future due to circumstances such as an economic downturn, or if paying a dividend would jeopardize our ability to finance investments or put LPKF AG's or the Group's financial position at risk.

In view of the solid development of operations in 2011 and the good prospects for the new financial year, the Management Board and the Supervisory Board intend to propose to the Annual General Meeting on 31 May 2012, that the dividend of EUR 0.40 per share be maintained. Based on the closing price for 2011, this would correspond to a dividend yield of 4 %, which is higher than the average for German securities.

SHAREHOLDER STRUCTURE (ON 31 DECEMBER 2011)



MANAGEMENT FOCUSING ON INVESTOR RELATIONS WORK

An open and credible information policy is at the center of our investor relations work and therefore forms part of the daily work of LPKF's Management Board. Over 150 one-on-one talks were held with institutional investors in 2011 at investor conferences and road shows in Germany and other European countries. We also keep our international investors abreast of recent developments "live" at regular conference calls. Shareholders and other interested parties are increasingly turning to online chats to talk with members of our Management Board once the quarterly figures have been announced. Another of the stated goals of our investor relations work is to continuously increase the scope of the reporting on the Company in the economic and financial press in order to awaken the interest of potential shareholders and improve the visibility of our Company. Over 300 shareholders attended our Annual General Meeting on 1 June 2011 to find out about our Company's economic situation first hand.

IR CONTACT

All information on LPKF Laser & Electronics AG is available online at www.lpkf.com. In addition, you can always contact our Investor Relations department directly at the following address:

LPKF Laser & Electronics AG
Bettina Schäfer
Investor Relations Manager
Tel.: +49-(0)-5131-7095-1382
E-mail: investorrelations@lpkf.com

CORPORATE GOVERNANCE

Corporate governance stands for responsible corporate leadership and management aimed at increasing the shareholder value in the long term; purposeful and efficient collaboration between the Management Board and the Supervisory Board; consideration for the interests of shareholders and employees; transparency and responsibility in all corporate decision making; as well as appropriate risk treatment. LPKF follows the German Corporate Governance Code.

The actions of the LPKF Group's management and supervisory bodies are guided by the principles of responsible and good corporate governance. The Management Board reports on issues of corporate governance in this chapter – also on behalf of the Supervisory Board – pursuant to both Article 3.10 of the German Corporate Governance Code and Section 289a (1) of the German Commercial Code (Handelsgesetzbuch).

This chapter also contains the statement on corporate governance pursuant to Section 289a German Commercial Code and the remuneration report, both of which are also a part of the management report.

Statement on corporate governance

(Part of the Group management report)

1. PROCEDURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

LPKF AG is an enterprise incorporated according to German law, on which the German Corporate Governance Code is based. The dual management system comprising the Management Board and the Supervisory Board as corporate bodies, both of which have distinct responsibilities, is a fundamental element of German corporate law. The Management Board and the Supervisory Board of LPKF AG work together closely and in an atmosphere of trust in managing and supervising the Company. The Management Board of LPKF AG currently consists of three members. They are responsible for managing the Company's business in the interests of the Company and with the aim of creating sustainable value.

The Supervisory Board advises and monitors the Executive Management Board with regard to its management of the Company. The Supervisory Board is integrated in corporate strategy and planning, as well as all aspects of fundamental importance to the Company. The rules of procedure require the Management Board to obtain the approval of the Supervisory Board for significant business transactions. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents the Supervisory Board externally.

The Management Board informs the Supervisory Board in a timely and comprehensive manner – both in writing and at regular meetings – of the Group's planning, performance and situation, including risk management and compliance. Extraordinary Supervisory Board meetings are convened as necessary in connection with material events. The Supervisory Board adopted rules of procedure for its own work.

For all members of its Management Board and Supervisory Board, LPKF AG has taken out a D&O insurance policy subject to a deductible corresponding to 10% of the damage but no more than one-and-a-half times the fixed annual remuneration.

The Supervisory Board of LPKF AG Board consists of three members. At the most recent Supervisory Board election during the Annual General Meeting on 4 June 2009, the Supervisory Board members were elected individually as recommended by the German Corporate Governance Code. All election proposals concerning potential Supervisory Board members shall consider the expertise, abilities and professional experience that are required for carrying out the respective tasks as well as issues of diversity. The composition of the LPKF AG Supervisory Board reflects the following objectives: short lines of communication and decision-making, efficient work, expertise and experience in different areas relevant to the Company. Given the size of the Supervisory Board, an appropriate representation of women has to be viewed primarily against the backdrop of these functional objectives. There are currently no women on the Supervisory Board. The Supervisory Board includes an adequate number of independent individuals who do not maintain any professional or personal relations to the Company or its Management Board. The term of office of the Supervisory Board members is five years, and the current term ends with the Annual General Meeting in 2014.

Both the Management Board and the Supervisory Board are obliged to observe the corporate interests of LPKF AG. There were no conflicts of interest in the financial year just ended that would have had to be disclosed to the Supervisory Board without delay. No member of the Management Board held more than three appointments to the supervisory boards of listed stock corporations not belonging to the Group.

2. CORPORATE GOVERNANCE REPORT

LPKF implements the recommendations and suggestions of the German Corporate Governance Code (GCGC) apart from a few exceptions. The Management Board and the Supervisory Board jointly issued the updated 2011 Declaration of Compliance on 9 December 2011 pursuant to Section 161 German Stock Corporation Act (Aktiengesetz). The Declaration is permanently made public on LPKF AG's website.

DECLARATION OF COMPLIANCE OF LPKF LASER & ELECTRONICS AG FOR THE 2011 FINANCIAL YEAR WITH THE CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 GERMAN STOCK CORPORATION ACT (AKTIENGESETZ)

The Management Board and the Supervisory Board of LPKF Laser & Electronics AG acknowledge and accept the recommendations of the Government Commission on the German Corporate Governance Code (GCGC) dated 26 May 2010, and declare that these recommendations have been observed since the last declaration was issued on 20 December 2010 and will be observed in the future. The following exceptions apply:

FORMATION OF COMMITTEES

The Supervisory Board of LPKF Laser & Electronics AG consists of three persons. The size of the Supervisory Board ensures the efficient functioning of the board. This is why no Supervisory Board committees are formed. The same also applies to the formation of an auditing and nominating committee (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 (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.

MULTI-YEAR ASSESSMENT BASIS FOR BONUSES

The Management Board 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 be subsequently taken into consideration under certain circumstances (Article 4.2.3 (2) sentence 2 GCGC).

REMUNERATION CAP FOR EXTRAORDINARY DEVELOPMENTS

Unlike the profit-sharing bonuses for the Management Board, the current option regulations contain no caps for unforeseen developments (Article 4.2.3 (3) sentence 4 GCGC).

DIVERSITY

The Supervisory Board has stipulated objectives regarding its composition on 20 December 2010. These objectives take into account the importance of diversity. The Supervisory Board has not stipulated a concrete figure or percentage for the participation of women. With regard to its size (three members), decisions when filling Supervisory Board positions are mainly guided by functional objectives. This serves to ensure that the Supervisory Board's composition is aligned as best as possible with the interests of LPKF Laser & Electronics AG. (Article 5.4.1 (2) sentence 2 GCGC).

Specific details on the stock option program and similar securities-oriented incentive systems practiced by the Company are described in the notes to the consolidated financial statements (Article 7.1.3 GCGC). A D&O insurance for the Supervisory Board in accordance with the recommendations of the GCGC (Article 3.8 (2) and (3) GCGC) has existed since 1 January 2011. Specific details on the directors' dealings in accordance with Section 15 a German Securities Trading Act (Wertpapierhandelsgesetz) and the direct or indirect ownership of shares are also described in the notes to the consolidated financial statements (Article 6.6 (2) GCGC).

3. SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of LPKF AG exercise their co-determination and control rights at the General Meeting, which takes place at least once per year. It resolves all matters determined by law with binding effect on all shareholders and the Company. Each share grants one vote at the Annual General Meeting.

Every shareholder who registers in due time has the right to participate in the Annual General Meeting. Shareholders who cannot or do not want to attend in person have the option of appointing a bank, a shareholders' association, the proxies appointed by LPKF AG who are bound by instructions, or any other agent as their proxy to exercise their voting right.

The notice of the Annual General Meeting as well as the reports and information required for the resolutions are published in accordance with the requirements of German corporate law and are also made available on LPKF AG's website in both German and English.

4. RISK MANAGEMENT

The responsible handling of business risks is an integral part of all good corporate governance. The Management Board of LPKF AG is supported in its work by a comprehensive Group-wide reporting and control system that makes it possible to record, assess and manage risks of this kind. This system is continuously refined, adjusted to changing parameters, and audited by the auditors of the financial statements. The Management Board informs the Supervisory Board on a regular basis of 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.

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 half-yearly financial report and the quarterly financial 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 financial reports. The calendar is published well in advance of the scheduled events and is made available permanently on the LPKF AG website.

6. SHARE TRANSACTIONS OF MEMBERS OF THE COMPANY'S CORPORATE BODIES

Reportable directors' dealings involving the sale or purchase of the Company's shares by members of LPKF AG's corporate bodies were published on the Company's website and reported to the competent supervisory authorities. A listing of the shares held by members of the Company's corporate bodies is shown in the remuneration report.

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 applicable in the European Union. The annual financial statements of LPKF AG are prepared in accordance with the German Commercial Code. The consolidated financial statements are prepared by the Management Board, audited by the auditor of the financial statements and reviewed by the Supervisory Board. The interim reports and the half-yearly financial reports are discussed by the Supervisory Board and the Management Board before publication. The consolidated financial statements and the annual financial statements of LPKF AG were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, the auditor elected by the 2011 Annual General Meeting. The audits were conducted in accordance with German auditing standards and taking the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors (IDW) into account. The International Standards on Auditing were also taken into account. The audits also assessed the risk management and compliance with the reporting obligations defined for proper corporate governance pursuant to Section 161 German Stock Corporation Act.

LPKF AG also entered into a contract with the auditor pursuant to which they must notify the Supervisory Board immediately, while the audit is in progress, of any grounds for excluding them, any partiality on their part as well as any material findings and events. Nothing of this nature arose in the course of the audit covering the 2011 financial year.

8. COMPLIANCE — PRINCIPLES GOVERNING CORPORATE ACTIONS AND BUSINESS ACTIVITIES

Acting in compliance with the principles of corporate, environmental and social sustainability is an indispensable element of LPKF's corporate culture. This also includes integrity in all relationships with employees, business partners, shareholders and the public and thus exemplary conduct. LPKF's understanding of compliance includes observing all laws, statutes and the Articles of Incorporation, complying with internal regulations, and honoring voluntary obligations.

Remuneration report

(Part of the Group management report)

BASIC FEATURES OF THE REMUNERATION SYSTEM

The Supervisory Board of LPKF Laser & Electronics AG fixes and regularly reviews the overall structure of the remuneration of the Management Board as well as the key elements of the respective director's contracts. The amount of the remuneration of the members of the Management Board is contingent on the Company's size and activities, its economic and financial situation as well as the responsibilities of each individual member of the Management Board. The remuneration of the members of the Management Board is based on performance and calculated such that it is both appropriate and competitive, offering an incentive for committed and successful work.

The overall remuneration comprises a fixed component and variable performance or share-based components.

The fixed remuneration comprises both the base salary, which is paid in equal monthly installments, and benefits. The benefits include a company car for both official and private use, as well as insurance contributions for individual members of the Management Board, particularly in connection with health insurance and retirement plans. Furthermore, the members of the Management Board are also paid variable performance-based remuneration conditioned on multi-year performance targets that gives them a share in the Group's profit pursuant to its consolidated earnings before interest and taxes (EBIT) in the financial year ended. If negative EBIT is reported for the following year, in certain circumstances the given loss may be taken into account retroactively. A cap has been stipulated for this component of remuneration. The potential variable component of remuneration may exceed the fixed component.

In previous years, the Supervisory Board granted stock options to the members of the Management Board, at its discretion, as an additional variable component of their remuneration with a long-term incentive effect that accounts for elements of risk.

COMPENSATION OF THE MANAGEMENT BOARD

The current members of the Management Board were paid total remuneration of EUR 1,487 thousand (2010: EUR 1,447 thousand) for their activities in the 2011 financial year.

EUR THSD.		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	TOTAL
Fixed remuneration (including benefits)*	2011	257	223	167	647
	2010	229	218	160	607
Performance-based remuneration (provisions)	2011	300	307	233	840
	2010	300	300	225	825
Performance-based remuneration (supplementary payments or reversals of provisions)	2011	0	0	0	0
	2010	5	6	4	15
Total remuneration	2011	557	530	400	1,487
	2010	534	524	389	1,447

* In particular, the benefits comprise the use of a company car for official and private purposes, as well as insurance contributions, especially in connection with health insurance policies and retirement plans.

As in the previous years, the maximum agreed variable remuneration was reached for the 2011 financial year.

The performance-based remuneration for 2011 shall not be paid until the 2012 financial year. Provisions were recognized to this end as of at the reporting date.

A total of 120,000 stock options could be granted to members of the Management Board under the employee stock option program for members of the Management Board, as well as executives and other employees of the Company, which the Annual General Meeting adopted on 17 May 2001 (hereinafter the "Stock Option Program 2001"). The Supervisory Board decides, at its discretion, on whether to grant stock options to members of the Management Board. The basic features of the Stock Option Program are disclosed in greater detail in the Notes.

As in the 2010 financial year, no stock options were granted to the members of the Management Board in the 2011 financial year.

The price and value of the stock options granted to members of the Management Board developed as follows:

		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz
Portfolio of options as of 1 Jan. 2011	Number	0	15,500	7,700
Exercised in the 2011 financial year	Number	0	15,500	2,500
Expired in the 2011 financial year	Number	0	0	1,900
Portfolio as of 31 Dec. 2011	Number	0	0	3,300
	Fair value in EUR as of the grant date	0	0	5,320.00

COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD UPON TERMINATION

Post-contractual non-competition agreements have been made with the members of the Management Board in the event their activities as such are terminated, irrespective of whether it is an ordinary or extraordinary termination. Under these agreements, the Company shall pay remuneration equivalent to 50 % of the respective individual's most recent average base salary for the 12-month term of the post-contractual non-competition agreement unless the individual in question is retiring.

If the appointment of a member of the Management Board ends early on account of his or her death while in office, the fixed monthly remuneration shall be paid to the heirs for a six-month period.

The Company has not made any pension commitments to the current members of its Management Board. Pension contracts were closed with the members of the Management Board, Kai Bentz and Bernd Lange; the Company makes contributions toward these contracts that are part of their fixed remuneration. No provisions for pensions are required in this case.

No other provisions and commitments have been made with respect to the ordinary or extraordinary termination of a member of the Management Board.

TOTAL REMUNERATION OF FORMER MEMBERS OF THE MANAGEMENT BOARD

Provisions were recognized for EUR 454 thousand (previous year: EUR 441 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

SHAREHOLDINGS OF MEMBERS OF THE COMPANY'S CORPORATE BODIES

The shareholdings of the members of the Company's corporate bodies are distributed as follows:

Management Board	31 MARCH 2011	31 JUNE 2011	31 SEPT. 2011	31 DEC. 2011
Dr. Ingo Bretthauer	25,000	25,000	25,000	25,000
Bernd Lange	32,010	32,010	32,010	47,510
Kai Bentz	4,500	6,000	6,500	7,000
Supervisory Board				
Bernd Hildebrandt	721,177	721,177	721,177	721,177
Dr. Heino Büsching	0	0	4,000	4,000
Prof. Dr. Erich Barke	1,000	1,000	1,000	1,000

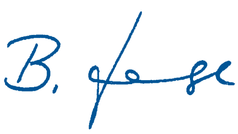
COMPENSATION OF THE SUPERVISORY BOARD

Effective 1 January 2011, the fixed remuneration of the entire Supervisory Board of LPKF Laser & Electronics AG was set at EUR 180 thousand per annum (previously: EUR 135 thousand). The Supervisory Board is also paid variable remuneration based on the dividend for the respective financial year just ended. The variable component cannot be specified at this time because it has not been determined to date whether a dividend will be paid for the 2011 financial year and in what amount. A dividend of EUR 0.40 per share was paid in 2011 for the 2010 financial year, resulting in variable remuneration of EUR 108 thousand for the Supervisory Board (previous year: EUR 48 thousand).

The payments made to members of the Supervisory Board were as follows:

EUR THSD.		Bernd Hildebrandt (Chairman)	Dr. Heino Büsching	Prof. Dr. Erich Barke	Total
Fixed remuneration	2011	80	60	40	180
	2010	70	40	25	135
Variable remuneration	2011	36	36	36	108
	2010	16	16	16	48
Total remuneration	2011	116	96	76	288
	2010	86	56	41	183


Dr. Ingo Bretthauer


Bernd Lange


Kai Bentz

GROWING TOGETHER

LPKF has increased the size of its workforce considerably in recent years and has good prospects of continuing this growth trajectory in the coming years as well. With this in mind, we systematically increased our headcount in 2011, from 466 employees as of 31 December 2010 to 602 at the end of 2011. Our expansion does not stop here, though. We are still on the lookout for highly qualified staff.

WE OFFER JOBS WITH RESPONSIBILITY AND GOOD PROSPECTS

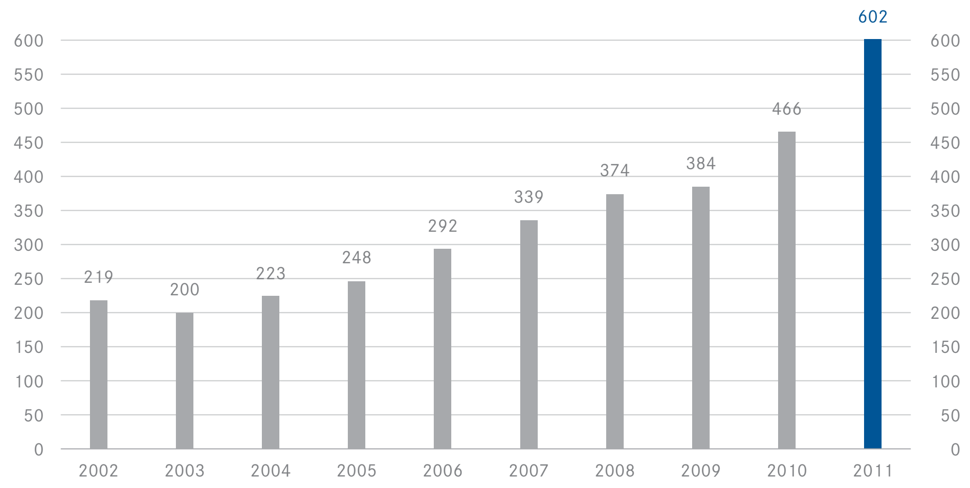
In the increasing fight for highly skilled staff, LPKF has an ace up its sleeve – laser is an exciting, cutting-edge technology. But that's not all. As listed mid-market company, we have flat hierarchies and a good working environment. An extremely low turnover of 0.9 % at our Garbsen site, for example, is perfect proof that our employees enjoy working for us. At LPKF, skill and dedication are what count for people who want to do their job well and climb the next step on the career ladder. Our broad positioning in different areas of micro-materials processing and the dynamic development of the LPKF Group provide room for our employees to grow.

We are looking for computer scientists, electrical engineers, mechatronic technicians, project managers and other qualified staff, also for international servicing assignments. LPKF is interested in people who wish to apply their knowledge in practice and develop new strategies. Our decision-making channels are short and supervisors' doors are open. Team spirit and solidarity dominate the working environment at LPKF. With exports accounting for 85 % of sales, internationality is self-evident for us and is reflected in the diversity of our employees. LPKF AG's 36 years of successful evolution and good financial health promise both existing and potential employees a secure, future-proof job.

HONOURING SKILLS

LPKF supports and nurtures employees with a customized program for their personal development. Employees who show talent, commitment and initiative can also count on receiving financial assistance for distance learning or evening courses. Cross-border cooperation creates intercultural expertise – which is necessary if the LPKF Group is to achieve its goal of global technology and market leadership.

NUMBER OF EMPLOYEES IN THE LPKF GROUP BETWEEN 2002 AND 2011



GROUP MANAGEMENT REPORT 2011

I. Business and economic environment

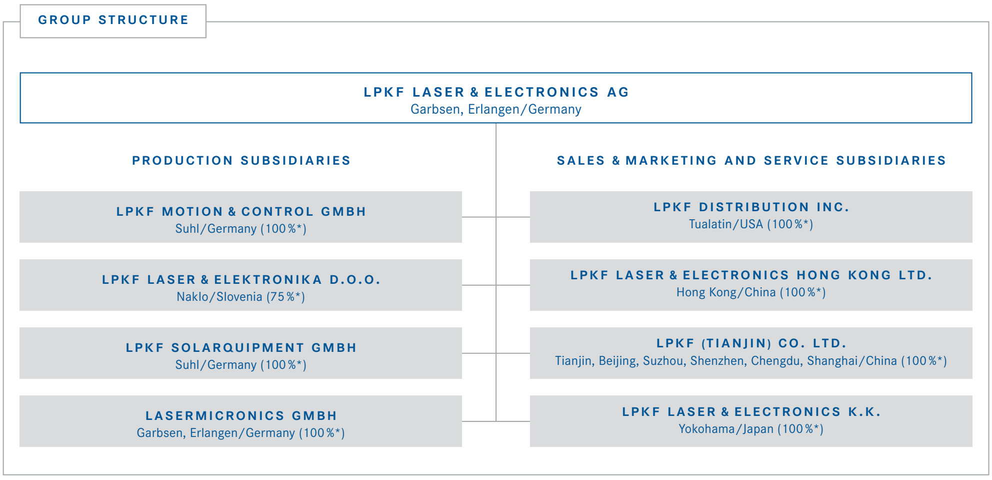
1. GROUP STRUCTURE AND BUSINESS ACTIVITIES

The LPKF Group develops and produces material processing systems. The Group has become one of the world's leading laser technology providers on the strength of its technical leadership in a number of areas of laser micro material processing. The LPKF Group has specialist know-how in the fields of laser technology, optics, drive and control technology and software. LPKF's laser systems are used primarily in the electronics industry, in polymer technology applications and for the manufacture of solar panels. In many sectors, the innovative processes developed by LPKF replace established techniques. The Group generates 85 % of its revenue abroad. LPKF Laser & Electronics AG (hereafter "LPKF AG") is listed in the Prime Standard segment of the German Stock Exchange. The Group had 602 employees worldwide on the reporting date.

1.1. LEGAL STRUCTURE OF THE GROUP

The legal structure of the LPKF Group changed in the 2011 financial year. The Company sold its equity interest in its French subsidiary, LPKF France S.A.R.L., to the local management effective 1 January 2011. LPKF AG acquired the non-controlling interest in LPKF (Tianjin) Co. Ltd. In June 2011, LPKF AG also took over the interests of an external shareholder of LPKF Distribution Inc. by means of an exchange of shares. The seller was given 50,000 new shares in LPKF AG in connection with the acquisition of the remaining 15 % equity interest in LPKF Distribution Inc., Tualatin, USA. With the Supervisory Board's approval and under the authorization granted to it by the Annual General Meeting on 10 June 2010 (Authorized Capital), the Management Board adopted a capital increase by EUR 50,000 to this end subject to the exclusion of all other shareholders' subscription right. Furthermore, LPKF AG acquired a 49.1 % stake in LPKF Motion & Control GmbH in June 2011. A purchase price tranche of EUR 3.4 million, which is due and payable immediately, was stipulated. Two additional purchase price tranches of comparable amounts will be due by 2014 contingent on the achievement of contractually stipulated performance targets. About 10 % of the additional purchase price tranches can be paid by means of new shares of LPKF Laser & Electronics AG. This means that LPKF AG now owns 100 % of the interests in all three companies.

As of 31 December 2011, LPKF AG had eight subsidiaries, which together with the parent company form the basis of consolidation.



* Direct and indirect stake of LPKF AG in the subsidiary

1.2. OPERATING SEGMENTS

In connection with the combining of the Joining and Thin Film Technologies into the Other Production Equipment segment, the other segments were renamed as well. The Rapid Prototyping segment is now called the “Electronics Development Equipment” segment. The Cutting and Structuring Lasers segment has been renamed the “Electronics Production Equipment” segment. All other operations are shown under “All other segments.”

All segments at a glance:

EUR MILLION	2011	2010	Change in %
Revenue	91.1	81.2	+ 12.2
EBIT	15.2	17.3	– 12.0

ELECTRONICS DEVELOPMENT EQUIPMENT

In the Electronics Development Equipment segment, LPKF supplies everything required by an electronics laboratory to manufacture and assemble printed circuit boards largely without the use of chemicals. In addition to the development departments of industrial customers, the Company primarily supplies 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.

Electronics Development Equipment segment at a glance:

EUR MILLION	2011	2010	Change in %
Revenue	18.1	15.2	+ 19.2
EBIT	4.1	3.8	+ 8.3

ELECTRONICS PRODUCTION EQUIPMENT

The Electronics Production Equipment segment comprises the following product lines:

The LDS (laser direct structuring) Equipment product group of LPKF offers laser systems and process expertise for the production of molded interconnect devices (MIDs) using the LDS method patented by LPKF.

The Company’s StencilLaser Equipment product group is the market leader in the production of laser systems for cutting print stencils. These stencils are used in production processes to print solder paste onto printed circuit boards. Through its PCB Production Equipment product group, LPKF serves the electronics market with specialized UV laser systems, mainly for cutting printed circuit boards and flexible circuit carriers.

As in the other laser product groups, customers’ purchasing decisions in this segment are primarily made on the basis of return-on-investment calculations.

Electronics Production Equipment segment at a glance:

EUR MILLION	2011	2010	Change in %
Revenue	45.2	51.8	–12.8
EBIT	10.5	15.8	–33.5

OTHER PRODUCTION EQUIPMENT

This segment combines the Welding Equipment and Solar Module Equipment product groups. Welding Equipment comprises standardized and customized laser systems for welding plastic components. These systems are primarily used by customers in the automotive supply industry. An increasing number of customers is also being acquired in the medical technology sector. Solar Module Equipment comprises LaserScribers for structuring thin film solar panels. Customers are mainly solar cell manufacturers.

Other Production Equipment segment at a glance:

EUR MILLION	2011	2010	Change in %
Revenue	25.5	11.4	+123.5
EBIT	1.5	–1.1	+237.0

ALL OTHER SEGMENTS

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

All other segments at a glance:

EUR MILLION	2011	2010	Change in %
Revenue	2.3	2.8	–15.8
EBIT	–0.9	–1.2	+26.3

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 two in the market.

1.4. SITES

Garbsen, Germany: Group headquarters, production, development, sales & marketing and services – Given the Company's strong growth the previous year and the good prospects for its business, the building adjacent to the Garbsen site was purchased to expand the space available for production and development by about 50%. Garbsen again profited from the positive development of business in both the Electronics Development Equipment segment and the Electronics Production Equipment segment in 2011. Revenue in 2011 was slightly lower than the previous year, which had benefitted substantially from a number of major orders.

Erlangen, Germany: Production, development, sales & marketing and services – The laser systems business for plastic welding, which is located in Erlangen, generated record revenue and earnings in 2011. It profited, in particular, from the strength of the automotive industry and the increasing internationalization of sales.

Suhl, Germany: Development, sales & marketing, production and services – The Group's subsidiaries LPKF Motion & Control GmbH and LPKF SolarQuipment GmbH are located at the Suhl site. The main focus of business in Suhl is on the Solar Module Equipment product group, which is part of the Other Production Equipment segment. The laser systems business for scribing thin film solar panels generated strong revenue growth, good earnings and record order levels in the 2011 financial year, bucking the general market trend. In December 2011, SolarQuipment GmbH signed a general agreement entailing a total volume of about EUR 43 million regarding the delivery of laser systems for manufacturing solar cells. Most of the orders under this general agreement will generate revenue in 2012 and 2013. Capacities in Suhl were greatly expanded in 2011 due to good order levels.

Tualatin, USA: Sales & marketing as well as services – The Company's U.S. subsidiary posted substantial revenue and earnings growth even though the U.S. economy on the whole has been expanding at a slow pace. The Electronics Development Equipment segment as well as both, the Electronics Production Equipment segment and the Welding Equipment product group, performed very well. The Group's presence in the United States is becoming increasingly important in connection with services to major international customers because numerous investment decisions regarding production facilities worldwide are made in the United States. The business with plastic welding systems was relocated from Detroit to Tualatin.

Naklo, Slovenia: Development, sales & marketing, production and services – The Slovenian subsidiary concentrates on the manufacturing of products for the Electronics Development Equipment segment and on the development and production of laser sources and systems for the LPKF Group. The 2011 financial year was a very successful one for this entity thanks to the positive development of the Electronics Development Equipment segment and its growing significance as an intragroup supplier for other businesses too.

Hong Kong, China: Services – Because a large portion of revenue is generated in Asia, it is very important for LPKF to maintain competent and timely services in this region. The Hong Kong office thus has become even more significant as a local service hub for the whole of Asia. This subsidiary's earnings in the 2011 financial year exceeded targets.

Tianjin, China: Sales & marketing as well as services – As in previous years, exports to Asia remained strong, focusing largely on the manufacture of electronics in China. In 2011, the Company's Chinese subsidiary posted its highest earnings ever, thus underscoring China's growing significance as the LPKF Group's most important market. It maintains offices in Tianjin, Beijing, Shenzhen, Suzhou and Chengdu. The addition of a Shanghai office in January 2011 expanded the Group's presence to a key industrial center in China.

Yokohama, Japan: Sales & marketing – LPKF Laser & Electronics K.K., which was established in 2010, provides sales support to local distributors and is in the process of establishing its own customer base in both the Electronics Production Equipment segment and the Other Production Equipment segment. The Japanese market possesses great significance for LPKF owing to its technological edge. This entity's development was adversely affected in the spring of 2011 by the catastrophic earthquake in Japan and its serious impact on the economy. While targets have not yet been achieved as a result, many areas of the Japanese economy have recovered by now.

1.5. PRODUCTION AND PROCUREMENT

Suhl-based LPKF Motion & Control GmbH develops and produces solar scribers and supplies table systems and machine controls in cooperation with LPKF SolarQuipment GmbH.

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

The laser plastic welding systems are produced in LPKF AG's branch in Erlangen, Germany. Electronics Production Equipment is mainly manufactured in Garbsen. Production capacities in Garbsen were greatly expanded due to the increase in volume per machine and good prospects.

LPKF generally acquires no complete systems from third parties. If system components are purchased from outside the Group, they are generally sourced from several suppliers. However, a large portion of the procurement volume involved a relatively small number of suppliers.

1.6. SALES & MARKETING

Global sales & marketing, especially in important regions such as China, Japan and North America, are handled by LPKF subsidiaries. Overall, the Group is represented by subsidiaries or distributors in 76 countries. The Garbsen office is responsible for managing the Company's sales & marketing activities as well as the distributors. The Erlangen branch is responsible for this function of the Other Production Equipment segment, and the Suhl branch is also responsible for the solar business.

1.7. MANAGEMENT AND CONTROL

ORGANIZATION OF MANAGEMENT AND CONTROL

The Company is represented by the Management Board. The members of LPKF's Management Board are appointed by the Supervisory Board. The Supervisory Board may withdraw appointments for cause. The Management Board is responsible for running the Company. The Supervisory Board determined that certain transactions may only be executed subject to its approval. The Annual General Meeting may only decide on management issues if requested to do so by the Management Board. Any amendment to the Articles of Incorporation requires a resolution by the Annual General Meeting to be passed with a majority of at least three-quarters of the capital represented at the adoption of the resolution.

The following persons were members of the Management Board of LPKF AG in financial year 2011:

- Dr. Ingo Bretthauer, Chairman of the Management Board and Chief Executive Officer (CEO)
- Bernd Lange, Chief Technology Officer (CTO)
- Kai Bentz, Chief Financial Officer (CFO)

The following persons were members of the Supervisory Board of LPKF AG in financial year 2011:

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

1.8. LEGAL AND ECONOMIC FACTORS

The Company and each of its segments, including their Group-specific characteristics, are not subject to any special legal requirements in addition to the general legal requirements applicable to listed companies.

2. CORPORATE MANAGEMENT, GOALS AND STRATEGY

The goals of LPKF are to enhance the value of the enterprise based on strong earnings and profitable growth, assure financial solidity, and achieve an adequate return on capital employed.

In a complex and dynamic economic 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 its financial resources, enhancing its innovative capabilities, and safeguarding jobs. All of this is in the best interests of LPKF's customers, business partners, employees and, last but not least, its shareholders.

Achieving these goals is rooted in a focus on customers and a strong market position in selected segments resulting from this focus. Other critical factors include the Group's core expertise and its ability to supply a range of high-quality products featuring cutting-edge technology at competitive terms. The Company's activities are focused on products that enable LPKF to achieve at least the number two position in the market.

All activities are aimed at furthering the commercial success of LPKF's customers. The benefits of LPKF's products for its customers take center stage along the entire value chain. These benefits, which enable customers to improve their competitive position on the basis of technology leadership and cost savings, are the benchmark on which all activities and decisions are measured. The high quality of LPKF's products and services are essential to achieving customer satisfaction.

The Company's relationship with customers, suppliers, representatives and other companies within the LPKF Group as well as the personal working relationship between the members of the Company's workforce should be characterized by partnership-based thinking and practices.

As a private sector company, LPKF impacts the environment. Its products and internal processes are designed to be environmentally-friendly.

2.1. INTERNAL CONTROL SYSTEM

KEY PERFORMANCE INDICATORS (KPIS)

The profitability and the potential earnings of the Group as a whole and of each segment are assessed on the basis of absolute profit contributions as well as on the basis of EBIT margins (= EBIT / revenue x 100).

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

%	2011	2010	2009	2008	2007
EBIT margin	16.7	21.3	13.7	6.8	14.2

The return on capital employed (ROCE) is used to quantify an adequate return on the employed capital and to measure the achievement of performance targets.

The targeted rate of return is least 10 %.

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

%	2011	2010	2009	2008	2007
ROCE	23.4	31.6	15.7	7.4	15.4

ROCE is calculated in % as a ratio of EBIT (earnings before interest and taxes) and capital employed (interest-bearing equity and borrowings).

The capital employed is determined by deducting provisions for pensions and non-interest bearing items in the statement of financial position from total assets.

Net working capital is yet another KPI. It comprises inventories and current trade receivables less current trade payables and advances received. This KPI reflects the net capital tied up in the reported items.

The net working capital has changed as follows in recent years:

EUR MILLION	2011	2010	2009	2008	2007
Net working capital	39.7	27.0	20.4	22.5	22.4

One of the Company's aims in 2011 was to ensure that this key performance indicator (KPI) would develop at a lower rate than the net working capital ratio.

The following table presents the changes in the net working capital ratio:

%	2011	2010	2009	2008	2007
Net working capital ratio	43.6	33.3	40.2	49.6	53.1

TARGET/ACTUAL COMPARISON OF PLANNING AND REALIZATION

In March 2011, the Company's Management Board expected to generate revenue in 2011 roughly at the previous year's level, provided that the development of the global economy remains remained positive. It targeted an EBIT margin of between 15 % and 19 % in 2011. This forecast was detailed in August. The Management Board then expected revenue of between EUR 83 million and EUR 86 million, with an EBIT margin of between 15 % and 17 %.

Revenue in the Other Production Equipment segment surpassed expectations whereas revenue in the other segments met expectations. On the whole, revenue increased by 12 % to EUR 91.1 million, with staff costs and other operating expenses rising at a faster pace than planned. Operating income was EUR 15.2 million, which corresponds to an EBIT margin of 16.7 %. The EBIT margin thus met expectations, and EBIT in absolute terms even exceeded them.

At 23 %, the Group substantially surpassed its minimum return-on-capital-employed (ROCE) target of 10.0 %. The net working capital has risen in contrast to previous years. This was due especially to the build-up of receivables in connection with the strong development of revenue in the weeks leading up to the close of the financial year and the build-up of inventories resulting from the year-on-year improvement in order levels.

2.2. STRATEGY

STRATEGIC ALIGNMENT OF THE SEGMENTS

The Group is operating in three segments: The Other Production Equipment segment (which includes the Welding Equipment and Solar Module Equipment product groups) as well as the LDS Production Equipment and PCB Production Equipment product groups (which are reported under the Electronics Production Equipment segment) are growth areas. The Management Board believes that these segments are capable of generating above average growth in the years to come.

Segments and product groups in which LPKF has been active for a longer period of time and in which it expects to achieve lower growth are regarded as the Company's basic business. This includes the StencilLaser Equipment product group, which is part of the Electronics Production Equipment segment, and the Electronics Development Equipment segment comprising the Rapid PCB Prototyping product group.

LPKF's growth strategy involves the systematic expansion and further internationalization of its growth segments. Given its strong financial and market position, the Company's basic business is the foundation for the Group's further development.

STRATEGIC GROUP STRUCTURE, EQUITY INVESTMENTS

The Group regularly examines whether it is necessary to adapt the Group structure to changing market conditions.

LPKF's strong equity base provides financial security and stability and enables the Company to pursue the long-term enhancement of its products and business.

As of the reporting date, 21.0 % of LPKF's shares were held by long-term investors and 79.0 % as free float in accordance with the definitions of Deutsche Börse AG.

STRATEGIC FINANCING ACTIVITIES

Because of LPKF AG's good credit rating with its principal banks, the Company has access to extensive credit lines, which have hardly been utilized yet. The difficult conditions in the capital markets as a result of the financial crisis have substantially diminished options for raising equity via the capital market.

In general, the Management Board believes that the Company's has the financial flexibility required to implement strategic financing measures for large investments, including equity investments.

3. RESEARCH AND DEVELOPMENT

3.1. FOCUS OF R&D ACTIVITIES

Almost all development projects are oriented on meeting market needs. The R&D work carried out by LPKF AG in 2011 was largely focused on modernizing and further enhancing the product portfolio. New products for the Electronics Production Equipment and Electronics Development Equipment segments took center stage in this context. Research and development work on production systems focused on improving the price/performance ratio, adding new functions and features, and ensuring high availability under industrial operating conditions. In addition, a targeted effort has been made to extend the Group's core technologies. Some development projects were conducted together with universities and industrial partners.

3.2. R&D EXPENSES, INVESTMENT AND RATIOS

Continuous investment in near-to-market developments are of crucial importance to a technology-oriented Group such as LPKF. The Group invested EUR 8.7 million in research and development in 2011. This corresponds to 9.6 % of revenue.

3.3. R&D EMPLOYEES

The number of employees in the Group's R&D departments rose to 114 during the reporting period, up from 96 the previous year.

3.4. R&D RESULTS

A new generation of laser systems for manufacturing three-dimensional circuit carriers using the LDS method is expanding the options for utilizing this method. New ProtoLasers are broadening the use of lasers in the Electronics Development Equipment segment. A number of customer-specific solutions for the Electronics Production Equipment and the Other Production Equipment segments were also developed in 2011.

3.5. MULTI-PERIOD OVERVIEW OF R&D

	2011	2010	2009	2008	2007
R&D expenses in EUR million	8.7	8.5	5.6	5.4	4.8
in % of revenue	9.6	10.4	11.0	11.9	11.4
R&D employees	114	96	82	83	75

4. ECONOMIC ENVIRONMENT

4.1. GENERAL ECONOMIC ENVIRONMENT

According to the International Monetary Fund (IMF), the global economy expanded by 3.8 % in 2011. Concerns about key industrialized countries' excessive sovereign debt led to a substantial cooling of the global economy in the second half of 2011. This affected the euro zone, in particular, whose economies expanded by a mere 1.6 % on the whole. While some Southern European countries even had to contend with negative growth in the year's final quarter, according to the Federal Statistical Office the German economy achieved export-driven growth of 3.0 %.

The U.S. economy grew but moderately (+ 1.8 %). Starting in March, Japan's gross domestic product (GDP) even contracted (– 0.9 %) in the wake of the catastrophe triggered by the earthquake and the tsunami. Just as in previous years, the global economy was driven primarily by the emerging and developing economies in 2011. According to the IMF, they generated economic growth of 6.2 % in the aggregate whereas the industrialized world managed growth of merely 1.6 % on the whole. China's economy expanded by 9.1 % according to the Chinese authorities. The IMF reports that Asia's developing economies achieved robust growth of 7.9 %.

4.2. SECTOR-SPECIFIC ENVIRONMENT

The performance of a multitude of industries is relevant to the sales of the LPKF Group's products. Engineering, electronics, the plastics processing industry as well as both the automotive and the solar industry are the Group's key markets.

The German machine tool industry has made a comeback since the crisis, generating record growth of 33 %. According to the German Machine Tool Builders' Association (Verein Deutscher Werkzeugmaschinenfabriken – VDW), in 2011 the industry generated total revenue of EUR 13.1 billion. China was and is its key market.

At more than EUR 2 billion, it is more than three times the size of the number 2 market, the United States. But a clearly positive trend is making itself felt in North America too. The U.S. automotive industry banks on German manufacturing technology. The Company's North American business has expanded by 71 % overall. At 93.8 %, in 2011 its plants were operating at full capacity. In October 2011, orders on hand covered 9.5 months, thus reaching far into the current year. Order intake rose by 45 % in 2011 on the whole (Source: VDW 2012).

The U.S. Consumer Electronics Association (CEA) estimates that USD 993 billion in global revenue were generated through electronic equipment in 2011. Its experts forecast further growth of 4.5 % to USD 1,038 billion in 2012, a new record. At plus 18 %, Asia's emerging economies are expected to provide the greatest momentum, especially China and India. Strong growth of 11 % is projected for Latin America. In contrast, sales are expected to stagnate in the United States, even decline in Western Europe. The overall significance of the emerging economies continues to grow. At USD 482 billion, in 2012 their sales volume is likely to narrow the gap to that of the advanced economies (USD 557 billion) even further. As before, consumers are focusing on products such as tablet PCs, eReaders and smartphones. According to the U.S. market research company IDC, 472 million more smartphones were sold in 2011 than in 2010, an increase of more than 50 %.

According to the German Automotive Industry Association (Verband der Automobilindustrie – VDA), in 2011 the global automotive market expanded by 6 % to 65.4 million vehicles (2010: 61.7 million). The United States, China, India and Russia largely recorded double-digit growth rates whereas the Western European passenger car market fell slightly by 1 % to 12.8 million units. While this region remains the world's largest automotive market, its lead over the United States, where new vehicle registrations rose by 10.2 % to 12.7 million in 2011, and China, with an increase of 8 % to 12.2 million new vehicles, is very small. But the momentum began to weaken worldwide, particularly at year's end. Western Europe even had to contend with a downturn of 4 % compared to the same month the previous year.

At revenue growth of 8.8 % to EUR 55.9 billion, the German plastics processing industry closed 2011 at a new record high. The industry believes that it is very well positioned for the current year. The German Plastics Processing Industry Association (Gesamtverband Kunststoffverarbeitende Industrie – GKV) is confident that the industry will see stable growth in 2012 at the high level already achieved.

5. DISCLOSURES RELATED TO ACQUISITIONS

The disclosures related to acquisitions required under Section 289 (4) and Section 315 (4) German Commercial Code are shown below.

On 31 December 2011, the *subscribed capital* of LPKF AG was EUR 11,100,940.00 following drawdowns from Contingent Capital for both the exercise of options and the capital increase related to the acquisition of the non-controlling interests. It had been EUR 11,005,613.00 the previous year. The share capital is divided into 11,100,940 ordinary shares (no-par shares). No preferred shares were issued. One no-par share represents a pro-rata interest of EUR 1.00 in the share capital. The rights and duties under the no-par shares comply with the relevant requirements of the German Stock Corporation Act, specifically, in Sections 12, 53a ff., 118 ff. and 186. Both the exercise of voting rights and the transfer of shares are subject solely to statutory limits.

In accordance with the resolution of the Annual General Meeting on 17 May 2001, the share capital was conditionally increased by up to EUR 600,000.00, specifically, by issuing up to 600,000 no-par bearer shares *(Contingent Capital 2001)*. As of the reporting date, the contingent capital was EUR 371,955.00 because options have been exercised in recent years. The contingent capital increase serves to redeem options that the Management Board was authorized to issue under the resolution of the Annual General

Meeting on 17 May 2001. It will only be carried out to the extent that optionees exercise their options. The new shares arising from options exercised are entitled to a share of the Company's profits from the beginning of the financial year in which the exercise occurs.

The resolution of the Annual General Meeting on 10 June 2010 had authorized the Management Board to increase the Company's share capital until 9 June 2015 by up to EUR 5,400,000.00 with the approval of the Supervisory Board *(Authorized Capital 2010)* by issuing up to 5,400,000 new shares, once or repeatedly, with a pro-rata interest of EUR 1.00 in the capital (no-par bearer shares) in return for contributions in cash or in kind. Shareholders shall generally be granted a subscription right in that connection. The Management Board is authorized, however, to exclude shareholders' subscription right with the approval of the Supervisory Board. The remaining authorization as of the reporting date was EUR 5,350,000.00 following the drawdown of EUR 50,000.00 for issuing 50,000 new shares by resolution of the Management Board with the approval of the Supervisory Board dated 9 June 2011 subject to the exclusion of shareholders' subscription right.

The Management Board was authorized by resolution of the Annual General Meeting on 1 June 2011, subject to the Supervisory Board's prior approval, to buy back treasury shares until 31 May 2016 corresponding to up to 10 % of the Company's share capital either on the date the resolution was adopted or on the date the authorization is exercised, whichever is higher; to use the treasury shares so acquired for all statutory purposes; and, in particular cases, to exclude shareholders' right to tender or subscribe such shares, respectively, in connection with buybacks and subscriptions. This authorization was not utilized as of the reporting date.

The further details are specified in the respective authorization resolution.

The regulations on appointing and dismissing members of the Management Board, as well as on amending the Articles of Incorporation, comply with the respective requirements of both the German Stock Corporation Act and the Articles of Incorporation. Complementing Sections 84 and 85 of the German Stock Corporation Act, Article 7 of the Company's Articles of Incorporation governs the Management Board's composition as follows: The Management Board shall comprise at least two members. Deputy members of the Management Board may be appointed. They have the same rights as the regular members of the Management Board when representing the Company vis-à-vis third parties. The Supervisory Board shall determine the number of both regular and deputy members of the Management Board and appoint them, enter into director's contracts with them as well as dismiss them. Likewise, the Supervisory Board may also appoint a member of the Management Board to serve as its chairperson or speaker and appoint additional Management Board members to serve as deputy chairpersons or speakers.

Under Sections 133 and 179 German Stock Corporation Act, in conjunction with Article 25 (1) of the Company's Articles of Incorporation, the latter may only be amended by resolution of the Annual General Meeting, which must be adopted by the simple majority of the share capital represented at the Meeting unless larger majorities are required by law. The Supervisory Board is authorized under Article 12 (2) of the Articles of Incorporation to make amendments that affect solely the given wording.

6. STATEMENT ON CORPORATE GOVERNANCE

The Statement on corporate governance pursuant to Section 289a (1) German Commercial Code and Article 3.10 of the German Corporate Governance Code is published on page 34 of this Annual Report and posted at www.lpkf.de/investor-relations. It includes both the corporate governance report and the remuneration report.

II. Profit or loss, cash flows and financial position

1. PROFIT OR LOSS

1.1. DEVELOPMENT OF REVENUE

LPKF closed the 2011 financial year with revenue of EUR 91.1 million, up from EUR 81.2 million the previous year. The Electronics Production Equipment segment billed major orders worth EUR 13.9 million the previous year. While this segment is reporting a decline in revenue of EUR 6.7 million in 2011 due to the absence of major orders, revenue in the other two separately reported segments (Electronics Development Equipment and Other Production Equipment) has risen. The latter segment generated revenue through several major orders for the Solar Module Equipment product group.

Revenue by operating segment was as follows:

EUR MILLION	2011	2010
Electronics Production Equipment	45.2	51.8
Electronics Development Equipment	18.1	15.2
Other Production Equipment	25.5	11.4
All other segments	2.3	2.8
	91.1	81.2

The following table shows the revenue by region:

%	2011	2010
Asia	47.4	55.4
Germany	14.7	13.2
Europe without Germany	11.3	12.7
North America	24.2	16.7
Other	2.4	2.0
	100.0	100.0

The major orders the previous year, which were reported under the Electronics Production Equipment segment, had been placed by international customers and were settled in Asia, thus causing Asian countries to account for an extraordinarily large percentage of revenue. The Asian share in revenue is likely to continue to grow in the coming years.

In terms of its structure, revenue shifted in favor of the Other Production Equipment segment during the reporting period.

1.2. DEVELOPMENT OF ORDERS

At EUR 104.0 million, orders received during the reporting period were 32 % up on the previous year's level of EUR 78.9 million. Orders on hand rose from EUR 12.5 million as of the close of 2010 by 101 % to EUR 25.2 million as of the 2011 reporting date.

1.3. DEVELOPMENT OF MAIN INCOME STATEMENT ITEMS

The development of revenue is described in Section II.1.1.

Production costs for prototypes and application systems of EUR 0.3 million (EUR – 0.8 million) and capitalized development costs of EUR 2.5 million (EUR + 1.0 million) are shown in own work capitalized. The other operating income rose by EUR 0.2 million to EUR 2.4 million. The increase is rooted in higher income from the reversal of provisions and impairments (EUR + 0.6 million) as well as increased income of EUR 0.2 million from asset disposals. This is contrasted by lower income from insurance payouts and foreign currency translation differences (EUR – 0.4 million and EUR – 0.2 million, respectively).

The material cost ratio relative to revenue and changes in inventories rose from 28.1 % the previous year to 28.8 %, mainly due to a change in the product mix. The introduction of a new ERP system at the start of 2011 made it possible to account more accurately for the share of direct labor in the manufacturing cost of work in progress. It resulted in cost reductions of about EUR 0.6 million. Bear in mind, furthermore, that a total of EUR 0.6 million in allowances on inventories had been necessary the previous year, particularly due to various product changes and new product launches, compared to EUR 0.2 million in 2011. These expenses were mainly allocable to the Electronics Production Equipment segment.

The ratio of staff costs to total revenue is 32.3 %, compared to 28.9 % the previous year. The rise in staff costs stemmed mainly from the increase in the number of employees and ongoing salary increases.

Due to large investments made in the reporting year, depreciation, amortization and impairment losses rose from EUR 4.0 million the previous year to EUR 4.8 million.

The other operating expenses rose by EUR 1.8 million to EUR 21.6 million. Sales commission rose by EUR 0.6 million while travel costs and expenses for operating materials rose by EUR 0.3 million each. Expenses for consulting services climbed EUR 0.3 million year on year, and motor vehicle expenses by EUR 0.2 million. Warranty costs, in contrast, fell by EUR 0.7 million to EUR 0.3 million.

The Group generated earnings before interest and taxes (EBIT) of EUR 15.2 million (previous year: EUR 17.3 million), corresponding to an EBIT margin of 16.7 % (previous year: 21.3 %).

The increase in liabilities to banks for financing investment projects caused interest expense to rise by EUR 0.4 million. Earnings were depressed by EUR 0.3 million due to the measurement of the liability related to the additional purchase price to be paid for the acquisition of LPKF Motion & Control GmbH. The decline in cash and cash equivalents as well as lower interest rates caused interest income to fall by EUR 0.2 million. On the whole, the financial result was negative at EUR 0.5 million, compared to net finance income of EUR 0.2 million the previous year.

The decrease in tax expense stems mainly from earnings; current taxes account for EUR 4.2 million and deferred taxes for EUR 0.2 million. The tax rate was 29.6 %, compared to 28.2 % in the previous year. Non-controlling interests accounted for EUR 0.4 million in earnings (previous year: EUR 0.4 million). Consolidated net profit after taxes and minority interests is EUR 10.4 million, compared to EUR 12.5 million the previous year.

1.4. MULTI-PERIOD OVERVIEW OF PROFIT OR LOSS

	2011	2010	2009	2008	2007
Revenue in EUR million	91.1	81.2	50.7	45.4	42.2
EBIT in EUR million	15.2	17.3	7.0	3.1	6.0
Material cost ratio in %	28.8	28.1	30.0	32.4	31.1
Staff cost ratio in %	32.3	28.9	35.4	37.4	36.6
Tax rate (%)	29.6	28.2	30.3	19.3	29.1

2. CASH FLOWS

2.1. PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Funds are raised from external sources by issuing shares, for one, and by current and non-current borrowings, for another. The Group uses mainly its profits, as well as the retention of proceeds generated by depreciation/amortization and provisions, as sources for its internal financing.

Within the LPKF Group, derivatives are managed by the parent company, LPKF Laser & Electronics AG. Derivatives are used only to hedge foreign exchange rates and interest rates. Current cash management is mainly decentralized, however. If large amounts of funds are required, reviews are performed to determine whether to utilize local financing or financing via LPKF AG.

2.2. STATEMENT OF CASH FLOWS

The following statement of cash flows shows the origin and use of financial resources:

EUR MILLION	2011	2010
Cash flow from operating activities	3.2	13.5
Cash flow from investing activities	–14.1	–7.8
Cash flow from financing activities	3.2	–3.0
Changes in cash and cash equivalents due to foreign exchange rates	0.2	0.1
Change in cash and cash equivalents	–7.7	2.7
Cash and cash equivalents on 1 Jan.	13.1	10.3
Cash and cash equivalents on 31 Dec.	5.6	13.1
Composition of cash and cash equivalents		
Cash on hand, bank balances	7.0	13.7
Bank overdrafts	–1.4	–0.6
Cash and cash equivalents on 31 Dec.	5.6	13.1

The Group's cash and cash equivalents fell significantly from EUR 13.1 million to EUR 5.6 million. This was due to outflows from operating activities, especially the build-up of working capital, as well as large tax payments. Cash outflows of EUR 14.1 million arose from the Company's intensive investing activities with respect to both tangible and intangible assets in 2011.

Cash outflows for the EUR 4.4 million dividend distribution and the acquisition of non-controlling interests were contrasted by proceeds from bank loans, especially for capital spending activities. The net cash inflow from financing activities was EUR 3.2 million. Cash and cash equivalents fell by EUR 7.7 million because the cash inflow from financing activities was not sufficient to offset the cash outflows for both operating activities and investing activities.

Long-term financing is used for non-current assets subject to long-term fixed interest periods. The loans have interest rates of between 1.45 % and 6.3 %. Large, unused credit lines that have not been tapped to date are still available.

The Company's cash flow remains very robust.

2.3. MULTI-PERIOD OVERVIEW OF CASH FLOWS

EUR MILLION	2011	2010	2009	2008	2007
Cash flow from operating activities	3.2	13.5	11.5	6.4	2.7
Net liabilities to banks	8.3	– 10.5	– 6.7	0.6	2.1

(–) Balance (+) Liability

3. FINANCIAL POSITION

3.1. ANALYSIS OF FINANCIAL POSITION AND CAPITAL STRUCTURE

The Company's financial position and capital structure developed as follows year on year:

	31 DEC. 2011		31 DEC. 2010	
	EUR MILLION	%	EUR MILLION	%
Non-current assets	34.7	38.7	24.6	33.6
Current assets	54.9	61.3	48.5	66.4
Assets	**89.6**	**100.0**	**73.1**	**100.0**
Equity	49.8	55.6	51.4	70.3
Non-current liabilities	13.8	15.4	4.0	5.5
Current liabilities	26.0	29.0	17.7	24.2
Equity and liabilities	**89.6**	**100.0**	**73.1**	**100.0**

LPKF's financial position remains very robust, as indicated by the continued high equity ratio of 55.6 % (previous year: 70.3 %) among other things. The increase in non-current assets stems particularly from investments during the reporting year in the expansion of the Company's Garbsen site. The increase in current assets arises from the rise in inventories by EUR 7.6 million and the rise in receivables and other assets by EUR 7.7 million. For one, the inventories comprise order-related goods and, for another, new products and components that are stocked to guarantee relatively short delivery times. Trade receivables rose by EUR 7.1 million, especially due to strong business in the last few weeks of the reporting period. Current bank balances and cash on hand, as well as securities, were EUR 6.7 million and EUR 2.0 million lower year on year, respectively.

Fully 155 % of the non-current assets are covered through equity (previous year: 228 %).

Equity has risen on account of positive earnings and deposits from the exercise of options. The payment of a dividend, the acquisition of the non-controlling interests in LPKF Motion & Control, LPKF Inc. and LPKF Tianjin lowered equity by EUR 13.0 million in total. The decline in the equity ratio is due, in particular, to the borrowings for large investments in the financial year just ended. Non-current liabilities to banks increased by EUR 9.2 million and current liabilities to banks by EUR 3.0 million. Current liabilities contain a decrease of EUR 2.3 million in provisions for taxes resulting primarily from the decrease in earnings. The other provisions that are also reported in current liabilities fell by EUR 0.6 million. This stems especially from an obligation to make subsequent deliveries, which was fulfilled. The current liabilities also contain advances received and trade payables that climbed, respectively, by EUR 0.2 million and EUR 1.9 million owing to the expansion of the Company's business. With these exceptions, there has been no substantial change in the balance sheet structure.

3.2. MULTI-PERIOD OVERVIEW OF THE FINANCIAL POSITION

	2011	2010	2009	2008	2007
Fixed asset ratio in %	35.8	30.8	32.1	34.5	35.0
Inventory ratio in %	29.4	25.7	25.1	29.2	31.9
Net working capital in EUR million	39.7	27.0	20.4	22.5	22.4
Days sales outstanding	63	52	75	81	76

Days sales outstanding (DSO) are determined based on the average amount of outstanding receivables between reporting dates.

3.3. INVESTMENTS

EUR 14.9 million were invested in intangible assets and property, plant and equipment in the 2011 financial year, an increase of EUR 6.8 million over the previous year. The additions include EUR 5.4 million in costs for the purchase and subsequent remodeling of a development center in Garbsen, as well as additional costs for the expansion of the Garbsen site and expenses for the ongoing development of the machine software. In 2011, a total of EUR 4.3 million were invested in the acquisition of non-controlling interests. The planning for the 2012 financial year provides for investments mainly in development and prototypes, as well as the continued expansion of the Welding Equipment product group. Renovation work on a portion of a building in Garbsen and the construction of an office building in Suhl are also planned. On the whole, however, investments are slated to be significantly lower this year than the reporting year. These investments, along with investments in prior years, are a major element of LPKF's growth strategy.

3.4. EMPLOYEES

LPKF's basic philosophy is to tie employees to the Company on a long-term basis. But many new recruits were initially hired for limited periods only so that the Company could maintain the flexibility it needs in the use of human resources. Temporary staff were also employed to cover short-term needs. Having significantly expanded personnel in 2011, plans call for yet more staff to be recruited in 2012 depending on the business climate, primarily for the development departments and areas experiencing strong growth but also here and there for revenue-related areas.

Internal and external training options in all segments, as well as other means of obtaining qualifications, are offered to LPKF's employees as part of personnel development. In particular, LPKF trains mechatronic technicians and industrial business assistants in order to acquire properly qualified young staff. The Company employed 30 trainees as of the reporting date.

3.5. NON-FINANCIAL PERFORMANCE INDICATORS

Motivated, highly-qualified staff that identifies with the Group is the key to success – especially for a technology company like LPKF. Low levels of sick leave and employee turnover are important indicators of LPKF's success in actually achieving this goal. At 4.4 %, in 2011 the percentage of sick leave in Garbsen roughly corresponded to the average in the metal working industry. Unwanted employee turnover was very low overall.

4. OVERALL APPRAISAL OF THE GROUP'S ECONOMIC SITUATION

The Company's economic situation can be considered extremely robust in the 2011 financial year yet again. As far as revenue is concerned, 2011 was the third record year in a row in the Company's 35-year history whereas income was higher only in 2010, an exceptional year. Building on that, LPKF will continue to post excellent earnings and achieve a high return on the capital employed.

III. Events after the reporting period

DISCLOSURES ON PARTICULARLY SIGNIFICANT EVENTS

A total of EUR 3.5 million in cash and new shares worth EUR 0.2 million from Authorized Capital were paid and issued, respectively, to the non-controlling shareholders who were bought out once the conditions for a contractually stipulated additional payment had been met thanks to the solid development of the Company's activities in the solar product group. There were no other reportable events after the reporting date.

IV. Risk report

1. DESCRIPTION OF THE INTERNAL CONTROL SYSTEM

1.1. OVERVIEW

The internal control system (ICS) comprises the principles, procedures and measures introduced by LPKF's management. They focus on the organizational implementation of management decisions and statutory requirements. The aim of the methods and measures implemented by LPKF is to safeguard the Group's assets and to boost its operating efficiency.

The ongoing refinement of the ICS involves analyzing the Company's functional areas – e. g. during workshops and Management Board meetings – and assessing the probability of damage occurring in these areas.

The Management Board structured each unit and adjusted processes based on the findings of these analyses and the assessments made. Among others, this involves strictly separating incompatible activities, implementing the dual control principle in all significant areas and installing controls in the workflows. Examples include signature regulations, approval requirements for significant transactions, and IT access authorizations.

In the 2010 financial year, an external auditor was engaged to perform internal auditing tasks and to prepare a multi-year internal auditing plan for the Group on the basis of the Group's strategy and the risk assessment carried out by the Management Board. In 2011, audits were conducted at LPKF AG and one subsidiary. The unified ERP system for managing processes and workflows that was implemented in LPKF AG at the start of 2011 will also be installed in its two Suhl-based companies in the 2012 financial year and afterwards in certain departments of the Company's Chinese subsidiary. This process serves to further optimize process structure and improve transparency. The Company will continue to focus on the ongoing development of its structural and workflow organization in view of the Group's envisioned growth.

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

1.2. RISK AND OPPORTUNITY MANAGEMENT SYSTEM

As a rule, risks and opportunities at LPKF are managed actively. In doing so, the Company employs a number of reporting tools.

Risk management at LPKF involves the formulation and implementation of measures that are suitable to identify existing risks, hedge them, reduce their probability of occurring, mitigate them or consciously accept them to a reasonable extent. Its task is to enhance security and competitiveness by providing a platform for suitably controlling individual risks and managing them transparently. It ensures that risks are identified and controlled proactively. This is a crucial factor for sustainable commercial success because risks are inseparably associated with business activity.

Opportunity management is designed to enable the Company to identify and assess business and development opportunities as best as possible and 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, specifically the risk early warning system, is therefore always a fundamental element in the planning and implementation of LPKF's business strategy. Although risks can be limited by taking suitable measures and can be identified rapidly and precisely through an early warning system, they can never be completely excluded and can only be assessed as of a given point in time. 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. Group-wide strategic planning and the associated reporting system are particularly important in this context. The Management Board of LPKF AG is responsible for risk policy and the internal control and risk management system. These control functions are implemented by the second- and third-level management staff in each of the Group's organizational units. In addition to regular reporting on identified risks, ad hoc reports must be prepared on all risks that occur unexpectedly. This involves a risk manager coordinating and, if necessary, participating in developing the various risk control measures. The risk manager reports directly to the Management Board. This procedure has proven its worth time and again in past years. The risk early warning system is reviewed annually by a public auditor, and where necessary also by other external auditors. Internal auditing reviews the risk management system as part of a multi-year auditing plan. A firm of public auditors has been commissioned to perform this task.

In order to record and control risks, existing instruments such as the risk management manual and the reporting tools are updated continuously and 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, existing and potential risks were reassessed and the reporting system was reviewed to ascertain its efficiency in managing risks in the 2011 financial year. A database-supported reporting system has been installed in all significant Group companies, and it will be expanded to all Group entities by the end of 2012. The quality management system pursuant to DIN EN ISO 9001:2008 is another important element of the risk early warning system and for ensuring structured business processes. The implementation of the recommendations of the German Corporate Governance Code, which also plays an important part in the cooperation between the Supervisory Board and the Management Board, is yet another instrument for limiting and managing risks.

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 on the one hand and the development and sales & marketing units and the management of LPKF AG on the other. This includes management accounting and strategy discussions with the executive management and the branch managers within the Group and the most important sales & marketing partners. These discussions involve developing targeted measures to exploit strategic growth potential, evaluating them in terms of their opportunity/risk profile, and prioritizing them accordingly by LPKF AG' Management Board. The development of competitive products and processes, new areas of application for LPKF's core competencies and pricing policies reflecting market conditions are given priority in this context. As an innovative company, LPKF believes that the future will also offer many opportunities mainly for organic growth, just as in the past. However, this does not exclude strategic acquisitions if favorable opportunities arise.

1.3. DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELEVANT TO THE FINANCIAL REPORTING PROCESS (SECTION 289 (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 principle of dual control. The importance of computerized IT process controls has increased with the implementation of a new ERP system at the Company as of 3 January 2011. Process-integrated and process-independent control is ensured by specific Group functions such as Group Accounting and the Group risk manager, both incorporated at LPKF AG.

Process-independent reviews that are part of the internal control system are carried out by the Supervisory Board and external service providers, for instance. In particular, the auditing of the parent company's and the subsidiaries' annual financial statements as well as the consolidated financial statements by public auditors are essential process-independent control measures relevant to the financial reporting process. Since 2010, a firm of public auditors has performed internal auditing tasks at the LPKF Group.

In terms of the accounting system, the risk management system as part of the internal control system focuses on the risk of misstatements in the bookkeeping as well as in the external reporting system. More details on the risk management system are included in Section IV.1.2.

Transactions are mainly recorded in the local bookkeeping systems of the individual Group companies. Bookkeeping for a few smaller companies is handled centrally in Garbsen, Germany, by LPKF AG's Accounting department. This is also where Group Accounting prepares the consolidated financial statements. The consolidated financial statements are prepared on the basis of standardized reporting packages that are supplied by subsidiaries and prepared in accordance with local financial reporting standards. This information is then fed into the Elkom consolidation program and audited at the end of the year by the subsidiaries' auditors. These auditors also report material changes to International Financial Reporting Standards (IFRS) and tax regulations to the Group's head office. Reconciliation to IFRS and the subsequent consolidation steps are carried out by Group Accounting, which is also responsible for ensuring the application of standardized accounting policies across 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 auditors of Group companies' financial statements are also taken into consideration.

Specific risks related to the financial reporting process may arise from unusual or complex transactions, for instance. Other risks can arise from the discretion given to employees in regards to the recognition and measurement of assets and liabilities. Risks related to the financial reporting process arising from derivative financial instruments are mainly associated with fluctuations in value; they are discussed in the notes to the consolidated financial statements. These instruments are exclusively used to hedge exchange rates or interest rates.

All aspects of the internal control system that serve to provide a proper and reliable financial reporting process ensure complete and timely recording of all transactions in compliance with all requirements under the law and the Company's Articles of Incorporation. Appropriate instructions and processes also ensure that inventories are taken in proper fashion and that both assets and liabilities are accurately recognized, measured and shown in the financial statements. The Management Board is closely involved in these processes. The general separation of functions related to administration, execution, accounting and approval – and the delegation of these functions to different members of staff or departments – limits the possibilities for engaging in fraudulent acts. The internal control system also guarantees the true presentation of changes in LPKF AG's economic or legal environment. This also applies in particular to the application of new or modified financial reporting regulations.

Based on the organizational, control and monitoring structures defined by the Management Board, the internal control system enables the complete recording and proper presentation of transactions in the Company's accounts.

However, personal judgments, defective controls and criminal acts in particular cannot be fully excluded despite these measures. This could limit the effectiveness of the internal control system, which means that even the strict application of regulations provides no absolute guarantee for the correct, complete and punctual recording of all matters 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 impact on the LPKF Group's business, as well as its financial position, cash flows and profit or loss. Other opportunities and risks which are currently unknown, or which are currently (still) considered negligible, could also have a positive or negative impact on LPKF.

2.1. BUSINESS RISKS

LPKF is operating internationally in an ever faster changing environment. The Company's customers are exposed to considerable cost and competitive pressures as well as curtailed investment budgets. Business in LPKF's target markets is cyclical, with particularly strong fluctuations especially in the electronics industry as well as the automotive and solar industry. In part, these industry cycles are staggered timewise in different markets such that LPKF's broad market positioning helps to balance matters somewhat. While both the electronics and the automotive industry expanded significantly in 2011, the solar energy market was in crisis the second year in a row. But the Company's subsidiaries that are engaged in the Solar Module Equipment product group succeeded nonetheless in generating substantial revenue growth and significant earnings. Economic fluctuations have a strong impact on the investment in production equipment. Especially in markets outside Asia, customers' willingness to expand capacities or introduce new technologies is therefore limited. New investments are often only made when future utilization of such equipment appears assured by concrete orders from customers. The Electronics Production Equipment and the Other Production Equipment segments are traditionally more exposed to cyclic fluctuations than the more budget-driven Electronics Development Equipment segment.

LPKF is also exposed to risks associated with a rapidly changing technological environment. The availability of high-quality components enables new players to launch cost-efficient competitive products.

The systematic development of new technologies and business segments is generally associated with the risk that the planned business model fails to meet its targets. There is the risk, especially in connection with new technologies or machine types, that deliveries might be delayed or that formal acceptance procedures might not take place at all or only later. The Company seeks to cover these through insurance policies if there are existent risks from product liability. Confidentiality agreements entailing penalties apply in individual cases.

The further development of the business with solar scribers is also contingent on the continuation of the German Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz) which governs the feed-in fees, e. g. for solar electricity, and from the regulations and development of similar laws in other countries.

One of LPKF's subsidiaries also provides production services for the automotive supply industry. There is a risk in this connection that the Group will be held liable for auto manufacturers' recalls on account of defects. The probability of a loss is deemed to be low, however.

Last but not least, the global political situation may also pose 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. Recent years have seen the increasing implementation of tariff and non-tariff barriers to trade. The euro exchange rate against the Japanese yen and the US dollar must also be mentioned as a potential risk. Key Asian currencies are pegged to the US dollar. This can have negative effects on sales in Asia, even if invoicing in these countries is carried out on a euro basis. Most of the Group's competitors come from non-euro countries and therefore have competitive advantages when the euro is very strong compared to these currencies. The current weakness of the euro against the currencies in LPKF's key markets boosts its competitiveness.

2.2. DEPENDENCE 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 the Group. But the potential number of suppliers for laser sources, a few software modules and other special components is limited. Business activity can be impacted primarily by price fluctuations and the availability of materials. At this time, there are no signs of significant price pressures in procurement. Due to the slowdown of the economy, there are hardly any delays in supplies of individual components, in contrast to the first half of 2011.

2.3. DEPENDENCE ON CUSTOMERS

The distribution of revenue by region shows a clear shift to Asia, China in particular. While it reflects prevailing market conditions, it has resulted in the Group's evolving dependence on international customers that base most of their manufacturing in China. While the Electronics Production Equipment segment did not have any major orders in 2011 in contrast to the previous year, it did expand its customer base. The two subsidiaries, LPKF Motion & Control GmbH and LPKF SolarQuipment GmbH, that operate the Solar Module Equipment product group frequently approach major customers. The loss of major customers or major orders could have a negative impact on the Group's revenue and earnings if capacities cannot be wound down fast enough or if trade receivables remain unpaid. One single customer accounts for more than 10 % of total revenue. There is an increased risk of order cancellations and defaults in the solar industry due to the current economic climate. This risk is deemed to be fairly low given contractually stipulated payment terms and other conditions.

2.4. EXCHANGE RATE FLUCTUATIONS

The exchange rates between foreign currencies and the euro can undergo major fluctuations. For LPKF, the main fluctuations are those with regard 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 earnings. 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 either used for procuring materials in the dollar countries or hedged by engaging in forward exchange transactions or acquiring put options.

2.5. USE 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 resulting from changes in interest rates and exchange rates. There is also the risk that an issuer could default. In some cases, the Company undertakes vis-à-vis a bank to make payments in foreign currencies at a specific time. This is associated with the risk that cash flows from the underlying transaction either fail to arrive or are delayed. This transaction then would have 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 developed to market readiness. The competitive situation and the rapidly changing technological requirements are associated with risks. Permanent follow-up is carried out by the Supervisory Board and the Management Board to limit these risks. This follow-up is an integral part of the risk management system which aims to review the sustainable value of new developments and integrate these findings into the product strategy. In addition to achieving cost benefits by investing in LPKF's technology, LPKF's customers can also enjoy competitive benefits and harness the associated market opportunities. In the markets, some of which can be quite 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's technologies are also protected by patents.

2.7. PATENT RISKS

The LPKF Group owns 27 patents, and most of them are international. LPKF continually applies for new patents thanks to its intense development activities, in addition to acquiring the industrial property rights of third parties. LPKF AG considers the obtaining of patent rights to be the most effective way of preventing its R&D investments to be devalued by copyists. In the laser direct structuring (LDS) business in particular, commercial success also depends on the patent situation. LPKF learned of several patent infringements in this area during the reporting period and took legal action. The Company will continue to closely monitor the respective market in the reporting periods to come. It cannot preclude that existing or new industrial protection rights of third parties might have an impact on the financial condition of LPKF. There is also the risk that competitors might successfully challenge LPKF's patents. This risk is counteracted through comprehensive innovation management and close collaboration with patent attorneys.

2.8. PERSONNEL RISKS

Demand for qualified technical personnel in both mechanical engineering and manufacturing is very high at present, even in the current economic environment. Thanks to its attractive work environment, contacts with universities and the growing level of awareness the Company enjoys in the laser sector, LPKF has not had any significant problems recruiting adequately trained staff. There is also a risk associated with the loss of key employees with important know-how as a result of head hunting. As in previous years, the Company currently enjoys a low level of employee turnover and sick leave compared to industry as a whole.

2.9. FINANCIAL RISKS

LPKF AG enjoys a good credit rating thanks to the robust structure of its statement of financial position and its profitability. Considerable freedom exists for financing due to the high unused credit lines and the Company's liquid assets. Currently there are no indications that the Group's performance could be adversely affected by financial risks. However, a further tightening of credit, e. g. indirectly if customers of LPKF were to encounter financing difficulties, could have a negative effect on earnings and the Group's future development.

2.10. IT RISKS

In terms of its IT systems, the Group is potentially exposed to the risk of industrial espionage and hacker attacks, just as other innovative companies. Comprehensive security systems, as well as organizational rules and regulations, have been put in place to minimize these risks. IT security measures are continuously reviewed and refined when necessary as part of audits performed by the internal auditing department and external consultants. The Company also is working to align its IT structures in order to bring about uniform levels of security worldwide.

3. ASSESSMENT BY THE MANAGEMENT BOARD OF THE RISK SITUATION AFFECTING THE GROUP

Both the risks for the global economy and the risks from the sovereign debt crisis have risen considerably compared to the previous year. The major order won in December 2011 by a subsidiary in the Other Production Equipment segment means that the Group's dependence on a single customer will be higher in the two subsequent years. For the rest, LPKF's overall risk exposure from individual risks has not changed much compared to the previous year thanks to the positive development of its business at this time.

A review of the overall risk situation of the LPKF Group concluded that there are currently no risks jeopardizing the Group's existence as a going concern.

There is also currently no foreseeable development which could significantly and sustainably harm the profit or loss, cash flows and financial position of the LPKF Group in the future. There is, however, a possibility that the effects of the sovereign debt crisis on the economy could negatively impact the further development of the Group.

The auditor of the financial statements reviewed LPKF AG's risk early warning system set up pursuant to the German Stock Corporation Act (Aktiengesetz). This review showed that the steps required under Section 91 (2) German Stock Corporation Act with respect to the establishment of a risk early warning system have been taken Groupwide in suitable form and that this risk early warning system is suitable for early identification of developments that pose a going-concern risk to the Company.

V. Anticipated developments

1. BUSINESS OPPORTUNITIES

There are several business opportunities even though the economic environment has become more challenging. The production methods developed by LPKF often have economic and quality advantages compared to conventional production technologies. Above average growth is possible if customers decide to abandon traditional technologies in favor of LPKF's equipment. Especially in a rapidly changing market environment, many of LPKF's customers see the need to make larger investments in their own developments and launch new products. This benefits sales of LPKF products to development laboratories. Both ongoing technological progress, in general, and LPKF's intensive development activities are making laser-based machinery more attractive to customers than established technologies, even for mass production.

Miniaturization and increasingly fast model changes are two more trends which also favor the use of LPKF's technologies. If mobile devices become smaller, for instance, established methods reach their limits. This trend primarily boosts the general use of laser systems in industrial applications.

LPKF's strategy to build on its core competencies and enter different markets has a stabilizing effect against the backdrop of cyclical markets. The various markets served by LPKF undergo asynchronous and different industry cycles. The Company's ongoing development activity maintains its edge over the competition in key product markets. The breakthrough of LDS technology into the market for the mass production of antennas for mobile electronic devices has driven strong demand for the associated LPKF machinery. These applications open up major potential in following years for the sale of additional machines. Other areas of application than antennas production are currently being developed together with customers.

Opportunities for growth in the years to come are primarily seen in the Electronics Production Equipment and Other Production Equipment segments. The subsidiaries also offer large potential for Solar Module Equipment. This gives LPKF Group a very strong foundation for positive performance in 2012 and beyond.

2. OVERALL APPRAISAL OF THE GROUP'S PROBABLE PERFORMANCE

Economic experts have been viewing the outlook for the global economy in 2012 with increasing skepticism since the middle of 2011. The World Bank now only expects global economic growth of 2.5 %. Its experts base their assessment on the fact that the euro zone has slid into a recession; accordingly, they are forecasting that GDP in this region will decline by 0.3 %. According to the forecasts, the expansive dynamic of the emerging economies will weaken and all of them taken together can only hope to achieve growth of 5.4 % in 2012. The International Monetary Fund (IMF) is a bit more confident in that it projects global economic growth of 3.3 %. In this view, the industrialized countries may expect to expand by 1.2 % but the emerging and developing economies will remain the world's economic engine in 2012, with growth of 5.4 %. For China, experts forecast further growth of 8.2 %.

The performance of the sectors relevant to LPKF is closely tied to the general economic climate. The German Machine Tool Builders' Association, for instance, is forecasting growth of 5 % in 2012. The Consumer Electronics Association (CEA) expects global revenue of electronic products to rise by another 4.5 % to USD 1,038 billion. Smartphones and tablet PCs will be among the key growth drivers yet again. According to the CEA, the threshold of 100 million tablet PCs sold will be reached in 2012. Smartphones are likely to benefit from rising demand in emerging economies and the lower sale prices to be expected there. In the view of the German Automotive Industry Association, the global perspectives for the automotive industry in 2012 are positive indeed. Industry experts expect the number of new vehicle registrations to rise from 65.4 million to 68 million units. While the Western European market is likely to stagnate, demand from Asia is forecast to rise exponentially by 8 % yet again. Robust growth of 5 % is projected for the U.S. market.

While the photovoltaics industry expects 2012 to be another difficult year for the production of solar cells in Germany due to high costs, the lack of investments and declining governmental support, industry experts believe that the global PV industry will stabilize compared to 2011. A significant decline in investments is expected for Europe, given the very good development the previous year.

LPKF AG will introduce a number of new and refined products in 2012. Development work continues to focus on boosting customer benefits. The product range of the Electronics Development Equipment segment is being expanded to include high-quality laser systems for prototyping electronic components and molded interconnect devices (MIDs). A new generation of LDS machines is creating revenue in the Electronics Production Equipment segment. In the coming years, the importance of orders to equip high-volume production lines with machinery will gain importance over orders for deliveries to customers' development areas.

LPKF attracts customers in different target markets. Thanks to its broad product portfolio, LPKF is less exposed to fluctuations in demand than mechanical engineering firms of a comparable size.

Following 2010, a record year, which featured a number of major orders, in the financial year just ended the Company faced the twin challenge of continuing to boost revenue and expand capacities sufficient for handling the next expected surge in growth. To this end, substantial investments were made at all three of the Company's sites in Germany. The Group hired a total of 136 new employees in 2011.

At a plus of 12.2 %, revenue in the 2011 financial year surpassed expectations. Earnings before interest and taxes (EBIT) were lower than the previous year's record; at a margin of 16.7 %, however, they stayed at an excellent level compared to the industry on the whole. Record levels of both orders on hand and incoming orders give the Company good reason for its optimistic outlook.

This optimism is dampened solely by the unresolved sovereign debt crisis, the ramifications of which for the larger economy cannot be predicted at this time. Compared to the previous year, the growing uncertainty among all market participants has substantially increased the risks to the Company's performance from the economic climate.

If the global economy remains stable, the Management Board expects the LPKF Group to post revenue between EUR 100 million and EUR 105 million in 2012. Revenue growth is planned for all segments. The EBIT margin should be between 15 % and 17 % in 2012. Major orders not considered in current targets could substantially boost the Company's performance.

Given a stable economic environment in both 2013 and 2014, the Management Board expects revenue to grow by approximately 10 % per year and the EBIT margin to remain between 15 % and 17 %.

VI. Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Garbsen, Germany, 15 March 2012

Dr. Ingo Bretthauer　　Bernd Lange　　Kai Bentz

CONSOLIDATED FINANCIAL STATEMENTS 2011

Consolidated financial statements for the 2011 financial year in accordance with International Financial Reporting Standards (IFRS)

Consolidated statement of financial position

AS OF 31 DECEMBER 2011

ASSETS

EUR THSD.	NOTE	2011	2010
Non-current assets			
Intangible assets	10		
Software		2,530	731
Goodwill		74	74
Development costs		4,631	3,913
Advances paid		0	811
		7,235	5,529
Property, plant and equipment	10		
Land, similar rights and buildings		18,744	10,914
Plant and machinery		3,061	2,668
Other equipment, operating and office equipment		2,875	1,592
Advances paid and construction in progress		152	1,794
		24,832	16,968
Financial assets	10		
Other borrowings		25	44
		25	44
Restricted securities	14	241	245
Receivables and other assets			
Trade receivables	12	255	241
Income tax receivables	13	267	255
Other assets	13	193	90
		715	586
Deferred taxes	16	1,631	1,186
		34,679	24,558
Current assets			
Inventories	11		
(System) parts		16,017	10,045
Work in progress		3,630	2,347
Finished products and goods		6,323	6,149
Advances paid		388	252
		26,358	18,793
Receivables and other assets			
Trade receivables	12	19,368	12,237
Income tax receivables	13	330	472
Other assets	13	1,820	1,276
		21,518	13,985
Available-for-sale financial instruments		0	1,993
Cash and cash equivalents	15	7,006	13,671
Assets held for sale		0	142
		54,882	48,584
		89,561	73,142

EQUITY AND LIABILITIES

EUR THSD.	NOTE	2011	2010
Equity			
Subscribed capital	17	11,101	11,006
Capital reserves		5,338	4,556
Other retained earnings		7,000	7,000
Cash flow hedge reserves		–129	0
Revaluation surplus		–16	4
Share-based payment reserve		490	484
Currency translation reserve		–346	–741
Net retained profits		24,345	25,751
Non-controlling interests	18	1,978	3,373
		49,761	51,433
Non-current liabilities			
Provisions for pensions	19	0	0
Non-current liabilities to banks	21	11,368	2,215
Deferred income from grants	3	395	431
Other non-current liabilities		70	98
Deferred taxes	16	1,976	1,290
		13,809	4,034
Current liabilities			
Tax provisions	20	895	3,224
Other provisions	20	3,634	4,266
Current liabilities to banks	21	3,981	941
Trade payables	21	3,805	1,912
Other liabilities	21	13,676	7,190
Liabilities related to non-current assets held for sale		0	142
		25,991	17,675
		89,561	73,142

Consolidated income statement

FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

EUR THSD.	NOTE	2011	2010
Revenue	1	91,113	81,178
Changes in inventories of finished goods and work in progress		1,458	1,987
Other own work capitalized	2	2,846	2,594
Other operating income	3	2,375	2,233
		97,792	**87,992**
Cost of materials	4	26,687	23,370
Staff costs	5	29,473	23,450
Depreciation and amortization	6	4,757	4,049
Other operating expenses	7	21,630	19,807
		15,245	**17,316**
Finance income	8	110	345
Finance costs	8	605	189
Earnings before tax		**14,750**	**17,472**
Income taxes	9	4,363	4,927
Consolidated net profit		**10,387**	**12,545**
Of which attributable to:			
Shareholders of the parent company		9,945	12,131
Non-controlling interests		442	414
		10,387	**12,545**
Earnings per share – basic (in EUR)	23	0.90	1.11
Earnings per share – diluted (in EUR)	23	0.90	1.10

Consolidated statement of comprehensive income

FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

EUR THSD.	NOTE	2011	2010
Consolidated net profit		**10,387**	**12,545**
Other comprehensive income			
Changes in the value of available-for-sale financial assets		–28	32
Of which fair value changes recognized directly in equity		*–35*	*32*
Of which recognized in profit or loss from the sale of securities		*7*	*0*
Fair value changes from cash flow hedges		–184	0
Currency translation differences		403	436
Difference resulting from the acquisition of non-controlling interests		–8,636	0
Deferred taxes		63	–10
Other comprehensive income		**–8,382**	**458**
Total comprehensive income		**2,005**	**13,003**
Of which attributable to			
Shareholders of the parent company		3,242	12,791
Non-controlling interests		–1,237	212

Consolidated statement of cash flows

FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

EUR THSD.	NOTE	2011	2010
Operating activities			
Consolidated net profit		10,387	12,545
Income taxes		4,363	4,927
Interest expense		605	189
Interest income		– 110	– 345
Depreciation and amortization		4,757	4,049
Gains / losses from the disposal of non-current assets including reclassification to current assets		– 32	– 146
Non-cash currency differences in non-current assets		– 161	– 188
Other non-cash expenses and income		– 654	601
Changes in inventories, receivables and other assets		– 13,035	– 9,202
Changes in provisions		– 978	3,284
Changes in liabilities and other equity and liabilities		4,353	1,218
Interest received		107	343
Income taxes paid		– 6,347	– 3,791
Net cash flows from operating activities		**3,255**	**13,484**
Investing activities			
Investments in intangible assets		– 4,304	– 2,790
Investments in property, plant and equipment		– 10,645	– 5,316
Investments in financial assets		0	– 29
Proceeds from disposal of financial assets		5	1
Interest received		3	2
Proceeds from disposal of non-current assets		813	352
Net cash used in investing activities		**– 14,128**	**– 7,780**
Financing activities			
Dividend payment		– 4,402	– 2,171
Dividend payment to non-controlling interests		– 158	– 348
Interest paid		– 605	– 189
Proceeds from issue of capital		257	751
Payments for the acquisition of non-controlling interests		– 3,263	0
Proceeds from borrowings		12,975	0
Cash repayments of borrowings		– 1,569	– 1,044
Net cash used in financing activities		**3,235**	**– 3,001**
Change in cash and cash equivalents			
Change in cash and cash equivalents due to changes in foreign exchange rates		187	71
Change in cash and cash equivalents		– 7,638	2,703
Cash and cash equivalents on 1 Jan.		13,037	10,263
Cash and cash equivalents on 31 Dec.		**5,586**	**13,037**
Composition of cash and cash equivalents			
Cash and cash equivalents		7,006	13,671
Overdrafts		– 1,420	– 634
Cash and cash equivalents on 31 Dec.	22	**5,586**	**13,037**

Consolidated statement of changes in equity

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (COMPARED TO THE PREVIOUS YEAR)

EUR THSD.	SUBSCRIBED CAPITAL	CAPITAL RESERVES	OTHER RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	REVALUATION SURPLUS
Balance as of 1 Jan. 2011	11,006	4,556	7,000	0	4
Consolidated total comprehensive income					
Consolidated net profit	0	0	0	0	0
Additions from measurement of cash flow hedge	0	0	0	– 184	0
Additions from market valuation of securities	0	0	0	0	– 28
Difference resulting from the acquisition of non-controlling interests	0	0	0	0	0
Deferred taxes on changes recognized directly in equity	0	0	0	55	8
Currency translation differences	0	0	0	0	0
Consolidated total comprehensive income	0	0	0	– 129	– 20
Transactions with owners					
Expenses for options granted	0	0	0	0	0
Proceeds from capital increases	95	782	0	0	0
Distributions to owners	0	0	0	0	0
Balance as of 31 Dec. 2011	11,101	5,338	7,000	– 129	– 16

EUR THSD.	SUBSCRIBED CAPITAL	CAPITAL RESERVES	OTHER RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	REVALUATION SURPLUS
Balance as of 1 Jan. 2010	10,858	3,953	7,000	0	– 18
Consolidated total comprehensive income					
Consolidated net profit	0	0	0	0	0
Additions from market valuation of securities	0	0	0	0	32
Deferred taxes on changes recognized directly in equity	0	0	0	0	– 10
Currency translation differences	0	0	0	0	0
Consolidated total comprehensive income	0	0	0	0	22
Transactions with owners					
Expenses for options granted	0	0	0	0	0
Proceeds from capital increases	148	603	0	0	0
Distributions to owners	0	0	0	0	0
Balance as of 31 Dec. 2010	11,006	4,556	7,000	0	4

SHARE-BASED PAYMENT RESERVE	CURRENCY TRANSLATION RESERVE	NET RETAINED PROFITS	EQUITY NON-CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS	TOTAL
484	–741	25,751	48,060	3,373	51,433
0	0	9,945	9,945	442	10,387
0	0	0	–184	0	–184
0	0	0	–28	0	–28
0	0	–6,949	–6,949	–1,687	–8,636
0	0	0	63	0	63
0	395	0	395	8	403
0	**395**	**2,996**	**3,242**	**–1,237**	**2,005**
6	0	0	6	0	6
0	0	0	877	0	877
0	0	–4,402	–4,402	–158	–4,560
490	**–346**	**24,345**	**47,783**	**1,978**	**49,761**

SHARE-BASED PAYMENT RESERVE	CURRENCY TRANSLATION RESERVE	NET RETAINED PROFITS	EQUITY NON-CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS	TOTAL
460	–1,379	15,791	36,665	3,509	40,174
0	0	12,131	12,131	414	12,545
0	0	0	32	0	32
0	0	0	–10	0	–10
0	638	0	638	–202	436
0	**638**	**12,131**	**12,791**	**212**	**13,003**
24	0	0	24	0	24
0	0	0	751	0	751
0	0	–2,171	–2,171	–348	–2,519
484	**–741**	**25,751**	**48,060**	**3,373**	**51,433**

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 industries.

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

Osteriede 7
30827 Garbsen
Germany

These consolidated financial statements were approved for publication by the Management Board on 15 March 2012.

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 policies. They take into account all International Financial Reporting Standards (IFRS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable on the reporting date and in the EU. The consolidated financial statements are prepared on the basis of historical cost, limited by the remeasurement of available-for-sale financial assets as well as by the measurement of financial assets and financial liabilities (including derivatives) at fair value through profit and loss. Customer-specific construction contracts are recognized using the percentage-of-completion method (POC method). According to this method, pro rata revenue and cost of sales are reported in accordance with the stage of completion based on the contract revenue stipulated with the given customer and the expected contract costs. The stage of completion is generally determined based on the percentage of contract costs incurred as of the reporting date relative to total expected contract costs (cost-to-cost method). Orders are shown under trade receivables or, if there is an impending risk of loss, under trade payables. The portion of advances that exceeds accumulated services is recognized under other liabilities.

Preparing IFRS consolidated financial statements requires the use of estimates. Furthermore, the application of Group-wide accounting policies requires assessments by management. Areas that permit greater leeway in terms of assessments or exhibit greater complexity, or where assumptions and estimates are of critical significance to the consolidated financial statements, are discussed in the notes under E.

The financial year corresponds to the calendar year. The consolidated financial statements have been prepared in euros. Unless indicated otherwise, all amounts are shown in thousands of euros (EUR thousand).

The following standards that were amended, revised or issued prior to the reporting date were applied in the 2011 financial year:

STANDARD/INTERPRETATION		MANDATORY APPLICATION	ADOPTED BY THE EU COMMISSION[1]	EFFECTS
IFRS 1	Amendment – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	01 July 2010	30 June 2010	None
IAS 24	Revised – Related Party Disclosures	01 Jan. 2011	19 July 2010	None
IAS 32	Amendment – Presentation of Financial Instruments: Classification of Rights Issues	01 Feb. 2010	23 Dec. 2009	Depending on future/ not foreseeable at present
Various	Improvements to IFRSs (May 2010)	1 July 2010/ 1 Jan. 2011	18 Feb. 2011	Ongoing review
IFRIC 14	Amendment – Prepayments of a Minimum Funding Requirement	01 Jan. 2011	19 July 2010	None
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01 July 2010	23 July 2010	None

1 On 31 Dec. 2011

These changes do not result in the need to restate the Company's current or past financial position, cash flows and profit or loss.

Initial application of these pronouncements did not have any material effects on the Group's financial position, cash flows and profit or loss.

The following standards that were amended, revised or issued prior to the reporting date were not applied in the 2011 financial year:

STANDARD / INTERPRETATION		MANDATORY APPLICATION	ADOPTED BY THE EU COMMISSION [1]	EFFECTS
IFRS 1	Amendment – First-time Adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	01 July 2011	Outstanding	None
IFRS 7	Amendment – Disclosures on Transfers of Financial Assets	01 July 2011	22 Nov. 2011	Subject to review by management
IFRS 7	Amendment – Disclosures on Offsetting a Financial Asset and a Financial Liability	01 Jan. 2013	Outstanding	Subject to review by management
IFRS 9	Financial Instruments: Classification and Measurement	01 Jan. 2013	Outstanding	Subject to review by management
IFRS 10	Consolidated Financial Statements	01 Jan. 2013	Outstanding	Depending on future transactions/ not foreseeable at present
IFRS 11	Joint Arrangements	01 Jan. 2013	Outstanding	Depending on future transactions/ not foreseeable at present
IFRS 12	Disclosures of Interests in Other Entities	01 Jan. 2013	Outstanding	Subject to review by management
IFRS 13	Determination of fair value	01 Jan. 2013	Outstanding	Subject to review by management
IFRS 7 and IFRS 9	Mandatory Effective Date and Transition Disclosures	01 Jan. 2015	Outstanding	Subject to review by management
IAS 1	Amendment – Presentation of Components of Other Comprehensive	01 July 2012	Outstanding	Subject to review by management
IAS 12	Amendment – Deferred Taxes: Recovery of Underlying Assets	01 Jan. 2012	Outstanding	Subject to review by management
IAS 19	Employee Benefits (revised 2011)	01 Jan. 2013	Outstanding	Subject to review by management
IAS 27	Separate Financial Statements (revised 2011)	01 Jan. 2013	Outstanding	None
IAS 28	Investments in Associates and Joint Ventures (revised 2011)	01 Jan. 2013	Outstanding	Depending on future transactions/ not foreseeable at present
IAS 32	Amendment – Disclosures on Offsetting a Financial Asset and a Financial Liability	01 Jan. 2014	Outstanding	None
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01 Jan. 2013	Outstanding	None

1 On 31 Dec. 2011

BASIS OF CONSOLIDATION

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

NAME	REGISTERED SEAT	EQUITY INTEREST (PREVIOUS YEAR) %	EQUITY EUR THSD.	RESULT FOR THE FINANCIAL YEAR ENDED EUR THSD.
Fully consolidated				
LaserMicronics GmbH	Garbsen/Germany	100.0 (100.0)	894.0	366.4
LPKF Laser & Elektronika d.o.o.	Naklo/Slovenia	75.0 (75.0)	8,593.9	2,443.2
LPKF Distribution Inc.	Tualatin/USA	100.0 (85.0)	3,157.8	540.1
LPKF Motion & Control GmbH	Suhl/Germany	100.0 (50.9)	1,597.3	– 328.6
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0 (86.0)	3,683.9	1,379.0
LPKF Laser & Electronics (Hong Kong) Ltd.	Hong Kong/China	100.0 (100.0)	181.2	427.9
LPKF SolarQuipment GmbH	Suhl/Germany	100.0 (83.7)	489.8	181.2
LPKF Laser & Electronics K.K.	Yokohama/Japan	100.0 (100.0)	– 112.2	– 124.7

The equity and earnings figures for the financial year just ended concern the financial statements as of 31 December 2011 and represent the balances pursuant to the local financial statements prior to reconciliation for purposes of groupwide recognition and measurement.

C. Consolidation principles

The consolidated financial statements are based on the financial statements as of 31 December 2011 of the companies included in the consolidated financial statements, which were prepared in accordance with uniform accounting policies.

Subsidiaries are all companies whose financial and operating policies the Group has the power to govern; such control is generally presumed to exist when the parent owns more than half of the voting power. They are fully consolidated from the date at which the Group assumes control over them. They are deconsolidated at the time when this control ends.

Subsidiaries acquired are accounted for using the purchase method. The acquisition costs correspond to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the date of exchange.

Assets, liabilities and contingent liabilities identifiably in connection with a business combination are remeasured upon initial consolidation, irrespective of the scope of the non-controlling interests. The excess of the cost of the acquisition over the Group's interest in the fair value of the net assets acquired is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

Intra-Group transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated. Deferred taxes are recognized on consolidation measures reported in the income statement.

The accounting policies used by subsidiaries were adjusted as necessary to the Group's uniform accounting policies.

Transactions with non-controlling interests are treated the same way as transactions with the Group's shareholders. The difference resulting from the acquisition of a non-controlling interest between the amount paid and the respective interest in the carrying amount of the subsidiary's net assets is recognized in equity. Gains and losses on disposal of non-controlling interests are also recognized in equity.

If the Group loses either its control or significant influence over an entity, its remaining equity interest is remeasured at fair value and the resulting difference is recognized in profit or loss. The fair value of an associate, joint venture or financial asset is the fair value determined upon initial recognition. In addition, the treatment of any amounts shown in other comprehensive income relating to this entity is analogous to the treatment of transactions by the parent company directly disposing of the respective assets and liabilities. This means that any gain or loss previously shown in other comprehensive income must be reclassified from equity to profit or loss.

D. Currency translation

Annual financial statements are prepared in the functional currency of each entity; it is defined as the currency of the economic environment in which the entity 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 liabilities are translated into euros at an average exchange rate at the reporting date. Expenses and income were translated at the average annual exchange rate. The translation differences are recognized directly in equity as a currency translation reserve until the subsidiary is disposed of. The consolidated figures were calculated based on the following exchange rates:

	Closing rate		Average exchange rate	
1 euro = currency x	31 Dec. 2011	31 Dec. 2010	2011	2010
US dollar	USD 1.2939	USD 1.3362	USD 1.3917	USD 1.3268
Chinese renminbi yuan	CNY 8.1588	CNY 8.8220	CNY 8.9961	CNY 8.9805
Hong Kong dollar	HKD 10.051	HKD 10.3856	HKD 10.834	HKD 10.29936
Japanese yen	JPY 100.20	JPY 108.65	JPY 111.03	JPY 116.46

E. Critical accounting and measurement estimates and assumptions

All estimates and assessments are continuously updated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes assessments and assumptions that concern the future. Estimates based on these assessments and assumptions rarely correspond to actual facts in the future. The estimates and assumptions associated with a significant risk of triggering material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed in the following.

(A) ESTIMATED IMPAIRMENT OF GOODWILL

In accordance with the accounting policy described in note 10.1, the Group tests goodwill for impairment annually and whenever there is a concrete indication of possible impairment. The recoverable amount of cash generating units (CGUs) was determined based on a calculation of their value in use. These calculations must be based on assumptions made by the management on 31 December 2011.

(B) PROPERTY, PLANT AND EQUIPMENT

Material assumptions and estimates refer to determining the useful lives and the recoverable residual values of items of property, plant and equipment. More details regarding useful lives and residual values of items of property, plant and equipment are presented under note 10, “Non-current assets” in chapter H. “Consolidated statement of financial position”.

(C) PROVISIONS

Accounting for provisions involves making assumptions regarding probability, maturity and risk level. Actuarial calculations are used to determine the obligations from defined-benefit pension commitments. These are essentially dependent on the life expectancies on which they are based, and the choice of discount rate which is redetermined every year. The discount rate is based on the interest rate paid on high-quality corporate bonds in that currency in which the benefits are paid and whose maturities correspond to the pension obligations. Detailed information is provided in note 19 describing pension provisions.

(D) INCOME TAXES

The Group is subject to income tax payments in various countries. Material assumptions are therefore required to determine income tax provisions on a global scale.

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

Deferred tax assets are recognized at the amount at which it is probable that future tax benefits will be realized. The assessment of recoverability is based on probable performance as well as taxable temporary differences. The actual extent to which earnings in future periods must be taxed, and thus the actual extent to which the tax benefits will be usable, may deviate from the assessment at the time the deferred tax assets are recognized.

(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 valuation techniques selected from a large number of methods. The assumptions applied in this context are largely based on the market conditions existing on the reporting date.

The debtor's warrants stipulated in connection with the acquisition of the non-controlling interests in LPKF Motion & Control GmbH are measured at fair value. The fair value is determined by the probability that pre-defined conditions will occur as well as by discounting effects.

(F) ACCOUNTING CHANGES

No accounting changes were made in these financial statements.

F. Segment reporting

In accordance with the provisions of IFRS 8 (Operating Segments), selected information in the annual financial statements is presented by operating segment and region, with segmentation being based on internal reporting to the chief operating decision maker. The chief operating decision maker is responsible for determining the allocation of resources to segments and reviewing their performance. The Management Board of LPKF AG has been defined as the Group's chief operating decision maker. Segment reporting aims to lend greater transparency to both the performance and potential of the Group's individual activities.

Primary segment reporting is based on the following segments:

- Electronics Development Equipment involves the enhancement, production and marketing of circuit board plotters for the world market.
- The Electronics Production Equipment segment comprises three product lines: LDS, StencilLasers and PCB Production lasers.
- In the Other Production Equipment segment, LPKF develops and sells laser systems for welding plastic components as well as laser systems for structuring thin film solar cells.
- The other segments mainly comprise production services carried out on LPKF machines on behalf of customers. This segment also reports some expense and income items as well as assets and liabilities which cannot be assigned to any of the other operating segments.

There is no intersegment revenue. The existing goodwill (EUR 74 thousand) is allocated to the Other Production Equipment segment.

The segment information was determined as follows:

- The segment result (EBIT) is determined taking into account impairment of goodwill, but without taking into account the financial result and taxes.
- The investments and depreciation and amortization including impairment losses refer to property, plant and equipment and intangible assets including goodwill.
- The operating segment assets and liabilities comprise the attributable assets and/or debt required for operational purposes, excluding any interest-bearing claims and liabilities, funds or taxes.
- The figures reported are those after consolidation.

EUR THSD.		ELECTRONICS PRODUCTION EQUIPMENT	ELECTRONICS DEVELOPMENT EQUIPMENT	OTHER PRODUCTION EQUIPMENT	OTHER	TOTAL
External revenue	2011	45,154	18,101	25,532	2,326	91,113
	2010	51,810	15,182	11,422	2,764	81,178
Operating result (EBIT)	2011	10,514	4,107	1,500	– 876	15,245
	2010	15,808	3,791	–1,095	–1,188	17,316
Assets	2011	33,693	15,933	17,225	22,710	89,561
	2010	26,703	12,894	11,373	22,172	73,142
Liabilities	2011	6,703	3,081	5,002	25,014	39,800
	2010	9,054	2,230	2,799	7,626	21,709
Investments	2011	4,587	2,983	1,221	6,158	14,949
	2010	4,134	1,748	642	1,611	8,135
Depreciation and amortization	2011	2,664	1,078	743	272	4,757
	2010	2,377	815	632	225	4,049
Other non-cash expenses	2011	1,175	416	176	582	2,349
	2010	1,510	402	52	2,059	4,023

At EUR 11.9 million, more than 10 % of consolidated revenue was generated from business with one major customer in 2011. This revenue is shown in the Other Production Equipment segment.

GEOGRAPHICAL SEGMENTS:

Reporting reflects the four main geographical regions in which the Group is active.

EUR THSD.		GERMANY	REST OF EUROPE	NORTH AMERICA	ASIA	OTHER	TOTAL
External revenue	2011	13,350	10,253	22,006	43,174	2,330	91,113
	2010	10,728	10,277	13,518	44,964	1,691	81,178
Assets	2011	68,594	9,134	4,932	6,901	0	89,561
	2010	55,683	8,038	4,469	4,952	0	73,142
Investments	2011	13,446	779	297	427	0	14,949
	2010	6,861	161	38	1,075	0	8,135

G. Consolidated income statement

1. REVENUE

Revenue is recognized when the service has been rendered or the goods and products have been delivered.

Revenue of EUR 91,113 thousand includes contract revenue of EUR 11,885 thousand (previous year: EUR 444 thousand) that was determined using the POC method in accordance with IAS 11. The POC method is applied if the total revenue, the total costs and the degree of completion of a construction contract can be reliably determined. The revenue to be recognized is determined based on the ratio of the costs incurred as of the reporting date relative to the estimated total costs. If the total costs are likely to exceed revenue, the expected loss is immediately recognized in its entirety.

2. OTHER OWN WORK CAPITALIZED

Own work capitalized by the Group concerned non-current assets amounted to EUR 2,846 thousand (previous year: EUR 2,594 thousand). This comprises own work for plant and machinery used by Group companies for production as well as prototype development projects capitalized during 2011 which are intended for permanent use in Group operations. Research costs are immediately expensed when they are incurred. Costs incurred in the context of development projects (in connection with the design and test runs of new or improved products) are recognized as intangible assets if the criteria of IAS 38.57 are met. Other development costs which do not meet these criteria are expenses when they are incurred. Previously expensed development costs are not recognized as assets in subsequent reporting periods. Development costs recognized as intangible assets are amortized on a straight-line basis over their useful lives – up to a maximum of five years – from the time they become usable.

3. OTHER OPERATING INCOME

EUR THSD.	2011	2010
Income from the reversal of provisions	552	128
Income from currency translation differences	430	822
Income from the disposal of non-current assets	316	131
Research and development grants	311	414
Income from the reversal of write-downs	215	33
Income from insurance payments	63	267
Reversal of deferred income from grants	1	45
Other	487	393
	2,375	2,233

Research and development grants are recognized in accordance with IAS 20 and exclusively concern government grants – in some cases with the involvement of private project companies. They are granted for costs actually incurred in connection with a specific purpose during the financial year (expenditure grant). Payments are made in line with project progress.

Grants received for capitalized development costs and other assets which have been recognized as deferred income are reversed on an accrual basis in accordance with 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 EUR 413 thousand.

4. COST OF MATERIALS

EUR THSD.	2011	2010
Cost of (system) parts and purchased goods	26,527	22,380
Cost of purchased services	160	990
	26,687	**23,370**

5. STAFF COSTS AND EMPLOYEES

EUR THSD.	2011	2010
Wages and salaries		
Expenses for wages	24,740	19,647
Share-based payment recognized in profit or loss	6	24
Other	463	518
	25,209	**20,189**
Social security costs and pension costs		
Employer's contribution to social security	3,969	2,912
Pension costs	168	205
Employers' liability insurance associations	127	144
	4,264	**3,261**
	29,473	**23,450**

The item, social security costs and pension costs, includes contributions of EUR 1,369 thousand (previous year: EUR 1,138 thousand) to Germany's statutory pension scheme. At this time, there are no ongoing pension payments under pension obligations (also see note 19).

The number of employees on the annual average was as follows:

	2011	2010
Production	153	103
Sales & marketing	96	86
Research and development	110	91
Services	86	75
Administration	109	84
	554	**439**

In addition, there were 33 part-time employees and 30 trainees as of 31 December 2011.

6. DEPRECIATION AND AMORTIZATION

Depreciation and amortization on non-current assets are shown in the statement of changes in non-current assets (note 10). No impairment losses had to be recognized in the reporting year.

7. OTHER OPERATING EXPENSES

EUR THSD.	2011	2010
Advertising and sales expenses	4,166	4,246
Travel, meals/entertainment	2,473	2,139
Sales commission	2,284	1,657
Third-party work	1,700	1,981
Repair, maintenance, operating requirements	1,608	1,386
Rent, ancillary rental costs, leases, land and buildings costs	1,352	1,130
Legal and consulting costs	932	635
Development consumables	796	1,000
Trade fair costs	658	614
Telephone, postage, telefax	584	458
Vehicle costs	564	338
Voluntary benefits, training and further education	546	454
Insurance, contributions, other costs	504	414
Exchange rate losses	379	530
Adjustment of liabilities for non-controlling interests	372	0
Investor relations	340	292
Supervisory Board remuneration incl. reimbursement of expenses	298	195
Additions to allowance on receivables and bad debts	272	289
Bank charges	247	204
Financial statements preparation, publication and auditing costs	237	238
Office supplies, books, software	191	132
Additions to warranty provision	149	759
Other	978	716
	21,630	19,807

In 2011, total research and development costs were EUR 8,718 thousand (previous year: EUR 8,453 thousand). Besides EUR 2,035 thousand for materials and other costs (previous year: EUR 2,168 thousand), they also contain EUR 6,683 thousand (previous year: EUR 6,285 thousand) in additional costs for staff as well as depreciation, amortization and impairment losses, among other things.

8. FINANCIAL RESULT

EUR THSD.	2011	2010
Finance income		
Other interest and similar income	110	345
Finance costs		
Interest and similar expenses	– 605	– 189
	– 495	156

The other interest income arose from overnight and time deposits totaling EUR 8 thousand (previous year: EUR 36 thousand). At EUR 249 thousand (previous year: EUR 120 thousand), the other interest expense was incurred in connection with long-term loans as well as short-term money market loans.

The fair value measurement of the liability for remaining portions of the purchase price for LPKF Motion & Control GmbH gave rise to interest expense of EUR 277 thousand.

Borrowing costs that are directly attributable to the acquisition or production of an asset are to be capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

9. INCOME TAXES

Actual and deferred taxes are reported in the income statement as tax expense or tax income unless they affect items recognized directly in equity. In this case, the taxes are recognized directly in equity.

EUR THSD.	2011	2010
Corporate income tax and solidarity surcharge	2,789	3,353
Trade tax	1,270	2,231
	4,059	5,584
of which related to prior periods:	0	4
Deferred taxes	304	– 657
	4,363	**4,927**

The corporate tax rates applicable in the respective countries were used to calculate the deferred tax assets and tax liabilities in connection with the preparation of the consolidated financial statements.

Reconciliation of estimated and actual tax expense:

EUR THSD.	2011	2010
Consolidated net profit before income taxes	14,750	17,472
Anticipated tax expense 30.0 % (previous year: 30.0 %)	4,425	5,242
Effect of different tax rates	– 487	–299
Effect of statutory tax rate changes	39	0
Effect of unrecognized deferred tax assets	26	49
Tax-free income	– 171	– 129
Trade tax additions and deductions	22	21
Tax effect of non-deductible operating expenses	127	45
Effects from differences without accounting for deferred taxes	312	0
Other prior-period tax refunds/supplementary payments	– 4	– 9
Other differences	74	7
Effective tax expense 29.6 % (previous year: 28.2 %)	**4,363**	**4,927**

The effects from differences (excluding deferred taxes) arise from the fair value recognition of the debtor's warrants in connection with the acquisition of the non-controlling interests in LPKF Motion & Control GmbH. The Group tax rate for the 2011 financial year and subsequent years is deemed to be 30 % (previous year: 30 %).

H. Consolidated statement of financial position

ASSETS

10. FIXED ASSETS

The following statement of changes in non-current assets shows the changes in the individual categories:

	COST					
EUR THSD.	BALANCE ON 01 JAN. 2011	TRANSLATION DIFFERENCES	ADDITION	RECLASSIFICATION	DISPOSAL	BALANCE ON 31 DEC. 2011
Intangible assets						
Software	2,605	1	1,818	811	0	5,235
Goodwill	74	0	0	0	0	74
Development costs	12,208	0	2,486	0	0	14,694
Rights of use	2	0	0	0	0	2
Advances paid	811	0	0	–811	0	0
	15,700	1	4,304	0	0	20,005
Property, plant and equipment						
Land, similar rights and buildings	14,862	59	7,095	1,314	0	23,330
Plant and machinery	5,927	128	1,120	314	840	6,649
Other equipment, operating and office equipment	5,561	36	1,973	0	202	7,368
Advances paid and construction in progress	1,794	0	457	–1,628	471	152
	28,144	223	10,645	0	1,513	37,499
Financial assets						
Other borrowings	44	0	0	0	19	25
	44	0	0	0	19	25
	43,888	224	14,949	0	1,532	57,529

	DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES					RESIDUAL CARRYING AMOUNTS	
	BALANCE ON 01 JAN. 2011	TRANSLATION DIFFERENCES	ADDITION	RECLASSI-FICATION	DISPOSAL	BALANCE ON 31 DEC. 2011	BALANCE ON 31 DEC. 2011	PREVIOUS YEAR
	1,874	1	830	0	0	2,705	2,530	731
	0	0	0	0	0	0	74	74
	8,295	– 2	1,768	2	0	10,063	4,631	3,913
	2	0	0	0	0	2	0	0
	0	0	0	0	0	0	0	811
	10,171	– 1	2,598	2	0	12,770	7,235	5,529
	3,948	5	633	0	0	4,586	18,744	10,914
	3,259	40	839	– 550	0	3,588	3,061	2,668
	3,969	19	687	– 182	0	4,493	2,875	1,592
	0	0	0	0	0	0	152	1,794
	11,176	64	2,159	–732	0	12,667	24,832	16,968
	0	0	0	0	0	0	25	44
	0	0	0	0	0	0	25	44
	21,347	63	4,757	–730	0	25,437	32,092	22,541

The following table shows the corresponding figures for the previous year:

	COST					
EUR THSD.	BALANCE ON 01 JAN. 2010	TRANSLATION DIFFERENCES	ADDITION	RECLASSI-FICATION	DISPOSAL	BALANCE ON 31 DEC. 2010
Intangible assets						
Software	2,143	1	485	0	24	2,605
Goodwill	74	0	0	0	0	74
Development costs	10,712	2	1,494	0	0	12,208
Rights of use	2	0	0	0	0	2
Advances paid	0	0	811	0	0	811
	12,931	**3**	**2,790**	**0**	**24**	**15,700**
Property, plant and equipment						
Land, similar rights and buildings	13,836	130	896	0	0	14,862
Plant and machinery	4,460	84	1,821	41	479	5,927
Other equipment, operating and office equipment	4,719	33	1,061	0	252	5,561
Advances paid and construction in progress	297	0	1,538	– 41	0	1,794
	23,312	**247**	**5,316**	**0**	**731**	**28,144**
Financial assets						
Other borrowings	20	0	29	0	5	44
	20	**0**	**29**	**0**	**5**	**44**
	36,263	**250**	**8,135**	**0**	**760**	**43,888**

In accordance with the requirements of IFRS 3, the cost of goodwill was reduced by accumulated impairment losses as of 1 January 2005. No impairment losses were recognized in the reporting period pursuant to IAS 36.

10.1 INTANGIBLE ASSETS

Until 31 December 2004, the goodwill from business combinations (capitalized differences arising from acquisition accounting) was amortized over its useful life using the straight-line method. Starting in the 2005 financial year, the goodwill was no longer amortized because it was deemed to have an unlimited useful life. In accordance with the requirements of IFRS 3, the cost of goodwill was reduced by accumulated impairment losses as of 1 January 2005.

The carrying amount of the goodwill is compared to the recoverable amount at every reporting date. The goodwill is written down if its carrying amount exceeds its recoverable amount. It is assigned to a cash generating unit for an impairment test. Based on the Other Production Equipment segment, a detailed planning period of three years and an appropriate rate of return on capitalization are applied. There was no impairment loss on goodwill in 2011, just as in the previous year.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES						RESIDUAL CARRYING AMOUNTS	
BALANCE ON 01 JAN. 2010	TRANSLATION DIFFERENCES	ADDITION	RECLASSI-FICATION	DISPOSAL	BALANCE ON 31 DEC. 2010	BALANCE ON 31 DEC. 2010	PREVIOUS YEAR
1,434	1	463	0	24	1,874	731	709
0	0	0	0	0	0	74	74
6,434	0	1,861	0	0	8,295	3,913	4,278
2	0	0	0	0	2	0	0
0	0	0	0	0	0	811	0
7,870	**1**	**2,324**	**0**	**24**	**10,171**	**5,529**	**5,061**
3,435	4	509	0	0	3,948	10,914	10,401
2,812	38	704	0	295	3,259	2,668	1,648
3,652	19	512	0	214	3,969	1,592	1,067
0	0	0	0	0	0	1,794	297
9,899	**61**	**1,725**	**0**	**509**	**11,176**	**16,968**	**13,413**
0	0	0	0	0	0	44	20
0	**0**	**0**	**0**	**0**	**0**	**44**	**20**
17,769	**62**	**4,049**	**0**	**533**	**21,347**	**22,541**	**18,494**

SOFTWARE

As an intangible asset, purchased software is recognized at cost less straight-line amortization.

CAPITALIZED DEVELOPMENT COSTS

Own capitalized development costs are also reduced over their useful life using straight-line amortization. Borrowing costs are not capitalized. Instead, they are expensed in the period in which they are incurred unless they relate to qualifying assets pursuant to IAS 23. The item is broken down by segment as follows:

EUR THSD.	2011	2010
Electronics Production Equipment	2,561	2,312
Electronics Development Equipment	1,846	1,247
Other Production Equipment	224	354
	4,631	**3,913**

The rights of use are measured at cost and amortized using the straight-line method. Both the residual carrying amounts and the useful lives of the intangible assets are tested for impairment, at a minimum, as of the end of every financial year. Pursuant to IAS 36, intangible assets are written down if the recoverable amount of the respective asset has dropped below its carrying amount. Capitalized development costs not yet available for use are tested for impairment annually.

Reviews to determine whether write-ups are required for intangible assets written down in the past are conducted as of every reporting date; this does not concern the goodwill. No write-ups were necessary during the reporting year.

Intangible assets subject to amortization are deemed to have the following useful lives:

	YEARS
Software	3
Development costs	3 – 5
Rights of use	5

10.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost less accumulated straight-line depreciation. Borrowing costs are not capitalized. Instead, they are expensed in the period in which they are incurred unless they relate to qualifying assets pursuant to IAS 23. Land is not depreciated. The residual carrying amounts and the useful lives of each item of property, plant and equipment are tested for impairment, at a minimum, as of the end of every financial year. Property, plant and equipment is tested for impairment if certain events or changes in circumstances indicate that the given carrying amount may no longer be recoverable. Property, plant and equipment is written down in accordance with IAS 36 if the recoverable amount of the respective asset has dropped below its carrying amount.

The recoverable amount is the higher of its value in use and fair value less costs to sell. Corresponding write-ups are made if the reasons for an earlier write-down no longer apply.

Production costs cover the costs of materials and related overheads as well as the manufacturing costs and related overheads.

They are deemed to have the following useful lives:

	YEARS
Buildings	25
External facilities	10
Plant and machinery	3 – 10
Other equipment, operating and office equipment	3 – 10

Bank loans totaling EUR 6,674 thousand (previous year: EUR 1,927 thousand) are secured by land and buildings.

Leases are classified as finance leases when substantially all of the risks and rewards of ownership are transferred to the lessee under the terms of the lease. All of the other leases are classified as operating leases.

At the inception of finance leases, the relevant assets are capitalized at the lower of the fair value of the leased property and the present value of the minimum lease payments and depreciated over their expected useful lives, analogous to the treatment of comparable own assets, or over the term of the contract, whichever is shorter. At this time, no assets have been recognized as finance leases.

10.3 FINANCIAL ASSETS

The financial assets concern other loans. They are classified under loans and receivables and are measured at amortized cost using the effective interest method.

11. INVENTORIES

Inventories are recognized at the lower of cost and net realizable value at the reporting date.

The costs of conversion of inventories include costs directly related to the units of production (such as production costs and directly attributable material costs). They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Borrowing costs are not capitalized. Instead, they are expensed in the period in which they are incurred unless they relate to qualifying assets pursuant to IAS 23. Inventories are measured using the first in, first out (FIFO) method.

Some inventories are subject to customary collateral such as reservations of title.

Inventories were written down below cost by EUR 242 thousand (previous year: EUR 614 thousand) to their net realizable value.

They are broken down by segment as follows compared to the previous year:

EUR THSD.	2011	2010
Electronics Production Equipment	13,536	11,103
Electronics Development Equipment	6,352	4,879
Other Production Equipment	6,217	2,546
Other	253	265
	26,358	**18,793**

12. TRADE RECEIVABLES

EUR THSD.	2011	2010
Nominal amount of receivables	19,920	12,851
Specific valuation allowance incl. currency losses	– 297	– 373
Receivables after valuation allowances, discounts and currency losses	**19,623**	**12,478**

Trade receivables are measured at fair value on addition and subsequently at amortized cost using the effective interest rate method less impairment losses. An impairment of trade receivables is recognized if there is objective evidence that a receivable may not be fully recoverable on becoming due. The amount of the impairment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable, discounted at the effective interest rate. Impairment losses are recognized directly in equity and shown in an impairment loss item under trade receivables. Trade receivables are derecognized upon offsetting against previously recognized impairment losses if they are unrecoverable, e. g. if the given debtor is insolvent. Items recognized in foreign currencies are measured at the average exchange rate as of the reporting date.

The trade receivables contain the following receivables from contract production based on the percentage-of-completion (PoC) method:

EUR THSD.	2011	2010
Production costs incl. result of construction contracts	11,885	444
Progress billings	– 8,726	0
Advances received	– 1,969	0
Receivables from construction contracts	**1,190**	**444**

Customer-specific construction contracts with a capitalized balance are shown in receivables from contract production if the manufacturing costs incurred exceed the advances received, taking into account the shares in the profit and the net realizable value. In 2011, no balances were due to customers in cases where the advances received exceed the manufacturing costs including tax profits and losses.

The residual carrying amount of the trade receivables is EUR 255 thousand (previous year: EUR 241) and concerns receivables with remaining maturities of more than one year.

Default risk as of 31 December 2011

			NOT IMPAIRED BUT PAST DUE SINCE				
TRADE RECEIVABLES AND RECEIVABLES FROM BORROWINGS AND OTHER ASSETS IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	OF WHICH NOT IMPAIRED AND NOT PAST DUE	LESS THAN 30 DAYS	BETWEEN 30 AND 60 DAYS	BETWEEN 60 AND 90 DAYS	BETWEEN 90 AND 360 DAYS	MORE THAN 360 DAYS
2011	22,258	14,890	4,235	763	444	1,000	579
2010	14,615	9,424	2,356	912	634	291	121

There is no indication that the recoverability of receivables has suffered if they are neither past due nor impaired.

VALUATION ALLOWANCES RECOGNIZED ON TRADE RECEIVABLES AND BORROWINGS IN EUR THSD.	2011	2010
Balance on 1 Jan.	373	339
+ Additions	262	257
– Reversals (allowances not required)	215	34
– Use (allowances required)	123	189
+/– Currency differences (foreign currency receivables)	0	0
Balance on 31 Dec.	297	373

The proceeds from derecognized receivables were EUR 1 thousand (previous year: EUR 0 thousand).

13. OTHER ASSETS AND INCOME TAX RECEIVABLES

The other assets and current tax receivables are measured at cost or their nominal value. Non-current tax receivables are measured at the present value of the future right to reimbursement.

EUR THSD.	2011	2010
Input tax receivables	934	445
Income tax receivables	597	727
Prepaid expenses	447	332
Other	632	589
Total	2,610	2,093

Rights to reimbursement of corporate income and trade taxes are reported in tax receivables. Corporate income tax receivables with a remaining maturity of more than one year amount to EUR 267 thousand (previous year: EUR 255 thousand).

14. RESTRICTED SECURITIES

Shares in funds are shown in this item, as in the previous year. They must be designated as available for sale and measured at fair value as of the reporting date.

The securities were pledged to a bank as collateral and thus are reported as restricted securities.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand of EUR 5 thousand (previous year: EUR 5 thousand) and bank balances of EUR 7,001 thousand (previous year: EUR 13,666 thousand); they are reported at their nominal value. Cash and cash equivalents in foreign currencies are translated at the respective reporting date exchange rate.

16. DEFERRED TAXES

Deferred taxes are determined using the liability method pursuant to IAS 12. Accordingly, deferred taxes are recognized for all temporary differences between the tax base of the assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax assets are recognized only if it is probable that adequate earnings will be available in future periods to offset the tax benefits. Income tax liabilities are netted against income tax receivables within the same fiscal territory if maturity and type are matched.

The income taxes are calculated in accordance with applicable laws and regulations.

The capitalized deferred tax assets encompass deferred taxes on intercompany profits. The deferred tax liabilities largely concern capitalized development costs. The deferred taxes consist of the following:

Deferred tax assets

EUR THSD.	2011	2010
Tax loss carryforwards	434	396
Trade receivables	42	71
Provisions	106	58
Elimination of intercompany profits and other deductible temporary differences	939	619
Other	110	42
Total	1,631	1,186

Deferred tax liabilities

EUR THSD.	2011	2010
Capitalized development costs	1,387	1,174
Property, plant and equipment	127	27
Trade receivables	415	87
Other	47	2
Total	1,976	1,290

Within the next twelve months, EUR 1,023 thousand in deferred tax assets and EUR 406 thousand in deferred tax liabilities will be realized.

Subsidiaries' tax losses, which have not yet been used and for which no deferred tax assets are recognized in the statement of financial position, amount to EUR 250 thousand (previous year: EUR 0 thousand). These loss carryforwards can be used without any restrictions. Actual tax expense fell by EUR 71 thousand and deferred taxes fell by EUR 2 thousand due to the utilization of tax loss carryforwards, tax credits and temporary differences not deemed recoverable to date.

No deferred tax liabilities were recognized on EUR 670 thousand in temporary differences related to investments in subsidiaries and branches.

EQUITY AND LIABILITIES

17. SUBSCRIBED CAPITAL

The Management Board was authorized by resolution of the Annual General Meeting on 10 June 2010 to increase the Company's share capital, with the approval of the Supervisory Board, by up to EUR 5,400,000.00 (Authorized Capital) until 9 June 2015, through one or more issues of up to 5,400,000 new shares in return for contributions in cash or in kind. A total of 50,000 shares were issued from authorized capital for the purpose of acquiring the remaining shares in LPKF Distribution Inc.

The Management Board was authorized by resolution of the Annual General Meeting on 1 June 2011, subject to the Supervisory Board's prior approval, to buy back treasury shares until 31 May 2016 corresponding to up to 10 % of the Company's share capital either on the date the resolution was adopted or on the date the authorization is exercised, whichever is higher; to use the treasury shares so acquired for all statutory purposes; and, in particular cases, to exclude shareholders' right to tender or subscribe such shares, respectively, in connection with buybacks and subscriptions. This authorization was not utilized as of the reporting date. The further details are specified in the respective authorization resolution.

The Management Board was authorized by the Annual General Meeting on 17 May 2001 to issue, with the approval of the Supervisory Board, up to 600,000 options to members of the Management Board, as well as to executive and non-executive employees of the Company and/or current and future affiliates, by 16 May 2011 subject to the following conditions (hereinafter referred to as the "Stock Option Program 2001"):

Of the 600,000 options available, members of the Company's Management Board may subscribe a maximum of 120,000 options (20 % of the total volume); employees, including the Company's remaining executives, a maximum of 300,000 options (50 %); members of the management of affiliates a maximum of 60,000 options (10 %); and employees of affiliates a maximum of 120,000 options (20 %).

Shareholders' statutory subscription right is excluded.

The Stock Option Program has a term of five years, during which the options may be exercised. Exercising the options entitles option holders to subscribe to no-par shares at a ratio 1:1 in return for paying the base price, in accordance with the requirements to be stipulated by the Company's Management Board, subject to agreement with the Supervisory Board and subject to adjustments, if any, related to capital measures or a conversion of the Company.

The base price is derived from the average closing price of the LPKF's shares in XETRA trading at the Frankfurt stock exchange in the ten trading days prior to the issue of the option. The base price is at least EUR 1.00.

The new no-par shares that are acquired by exercising the options are entitled to participate in the profits in the financial year in which the options were exercised. The shares required to fulfill the exercised options rights shall be made available by way of contingent capital increases. The Company's share capital shall be conditionally increased by up to EUR 600,000.00 through the issuance of up to 600,000 new no-par bearer shares. The contingent capital increase shall only be implemented for the purpose of the Stock Option Program 2001 and only to the extent of the options granted.

Article 4 of the Articles of Incorporation of LPKF Laser & Electronics AG has been amended accordingly. As of the reporting date, the contingent capital was EUR 371,955.00 because options have been exercised in recent years.

The potential acquisition periods cover 30 working days, in each case starting with the first banking day after publication of the quarterly figures. The tranche issued to each group of option holders must not exceed 25 % of the total volume per year.

The option holders may exercise up to 50 % of their options no earlier than two years after their issue, an additional 25 % no earlier than three years after their issue and the remaining 25 % no earlier than four years after their issue. The options expire if active employment ends for a reason for which the beneficiary is responsible. Moreover, in accordance with the resolution passed by the Annual General Meeting on 5 June 2003 the options may only be exercised for the first time if the relative performance of LPKF Laser & Electronics AG's shares (closing price in XETRA trading) is better than the relative performance of the Nemax All Share Index (Neuer Markt Index) or the Technology All Share Index (the successor to the Nemax All Share Index) during the period from the day of purchase to the day of exercising the option (performance target as defined in of Section 193 (2) no. 4 German Stock Corporation Act).

The options may be exercised over four periods of four weeks each, which in each case start with the end of the first banking day after publication of the quarterly report and/or figures. Exercising the option rights is excluded from the day on which the Company makes public an offer to its shareholders to subscribe to new shares or fractional debentures with conversion or option rights by writing to all shareholders or by publication in the Federal Gazette of the Federal Republic of Germany, up until the day the shares of the Company with subscription rights are officially quoted for the first time as "ex option rights" at the stock exchange at which the Company's shares were admitted for official trading.

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

The Company's Management Board – or the Supervisory Board if the Management Board itself is affected – is authorized to determine additional details regarding the structure of the Stock Option Program 2001.

Within the context of this authorization, the Management Board, with the agreement of the Supervisory Board, authorized the 2002 option terms dated 13 June 2002.

The following options were granted under the Stock Option Program and have not yet expired:

TRANCHE	BASE PRICE/EUR	NUMBER OF OPTIONS
2007	5.71	136,900

No more options were issued in financial years 2008 to 2011. The tranches up to and including 2006 have already expired.

The changes in the option portfolio outstanding in the 2011 financial year were as follows:

EUR THSD.	AVERAGE BASE PRICE PER OPTION/EUR	NUMBER OF OPTIONS
Balance on 1 January 2011	5.63 (4.25)	77,439 (242,700)
Granted	0 (0)	0 (0)
Forfeited	0 (5.53)	0 (3,900)
Expired	4.35 (4.21)	11,550 (13,800)
Exercised	5.67 (5.09)	45,327 (147,561)
Balance on 31 December 2011	**5.71 (5.63)**	**20,562 (77,439)**
		(of which exercisable: 20,562)

The options outstanding as of the reporting date arose from the 2007 tranche, leading to the exercise price of EUR 5.71 per share. The weighted average price of the options exercised was EUR 5.67 on the exercise date. Their remaining maturity is seven months, and the exercise price for the options that remain usable is EUR 5.71.

Share-based payment transactions settled on the basis of equity instruments are measured at fair value as of the grant date. This fair value was expensed over the vesting period. The measurement was based on a Monte Carlo simulation. The following factors were taken into consideration in determining the fair value:

- the exercise price of the option;
- the life of the option;
- the expected volatility of the share price;
- the expected dividend per share; and
- the risk-free interest rate for the life of the option.

Expenses under the Stock Option Program in the 2011 financial year were EUR 6 thousand (previous year: EUR 24 thousand).

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

IN %	5TH TRANCHE 2007
Volatility	41.10
Risk-free interest rate	4.31
Dividends	2.85

The options for the first four tranches have expired. A total of 10,400 options under the 2006 and 2007 tranches expired until 2011 inclusive owing to employee turnover.

The Monte Carlo simulation randomly generates viable share prices/index curves to determine the intrinsic values of the options. The mathematical mean of these intrinsic values is the basis for determining the fair value of an option.

The Company's share capital rose by a total of EUR 95,327 to EUR 11,100,940.00 in the 2011 financial year due both to an exchange of stock as part of the acquisition of the non-controlling interests in LPKF Distribution Inc. and the exercise of options. It is denominated in 11,100,940 no-par bearer shares with an interest in capital of EUR 1.00 per share. The premium of EUR 211,681.17 that was paid in connection with the exercise of the options was recognized in capital reserves.

The capital reserves mainly contain the share premium from the issue of new shares. Additions during the reporting year concern the premium received both in connection with the issue of shares resulting from the exercise of stock options and the acquisition of the non-controlling interests in LPKF Distribution Inc.

The revaluation surplus from the financing instruments is EUR – 16 thousand (previous year: EUR 4 thousand); it changed as a result of the negative development of the fair value and the sale of securities.

Initial recognition of hedges resulted in cash flow hedge provisions of EUR – 129 thousand.

The recognition directly in equity of the acquisition of the non-controlling interests in the fully consolidated entities, LPKF Motion & Control GmbH, LPKF (Tianjin) Co. Ltd. and LPKF Distribution Inc., lowered equity by a total of EUR 8.6 million.

18. NON-CONTROLLING INTERESTS

Non-controlling interests in subsidiaries have changed as follows:

EUR THSD.	2011	2010
Balance on 1 January	3,373	3,509
Additions (+)/Disposals (–)	– 1,395	– 136
Balance on 31 December	**1,978**	**3,373**

The changes in the reporting year stem especially from the acquisition of the non-controlling interests in LPKF Motion & Control GmbH, LPKF (Tianjin) Co. Ltd. and LPKF Distribution Inc.; the share of non-controlling interests in the Group's profit for the year; and currency translation. There was also a distribution to such shareholders during the reporting year.

19. PROVISIONS FOR PENSIONS

Germany has a statutory defined-contribution national pension scheme for employees that pays pensions contingent on income and contributions made. The Company has no other benefit obligations once it has paid its contributions to the statutory pension insurance entity. As part of the Company pension plan and based on a shop agreement, some of the Group's employees have also taken out policies with a private insurer or a benevolent fund. In this case, too, the Company has no other benefit obligations above and beyond the cost of contributions that are reported in current staff costs.

The pension provisions reported in the statement of financial position comprise only defined-benefit obligations to former Management Board members of the parent company for which fixed pension payments have been stipulated. The plan is financed through payments to a fund and to insurance companies. The provisions in the statement of financial position for defined benefit plans corresponds to the present value of the defined benefit obligation (DBO) less the fair value of the plan assets adjusted by past service cost not recognized in profit or loss. The DBO is calculated annually by an independent actuary using the projected unit credit method. The DBO's present value is determined by discounting the expected future cash outflows at the interest rate of high-quality corporate bonds. This entailed a measurement using the corridor method in accordance with IAS 19 whereby actuarial gains and losses are not taken into consideration if they do not exceed 10 % of the committed amount.

The following amounts were reported in the statement of financial position for defined benefit plans:

EUR THSD.	2011	2010
Present value of the defined benefit obligation at beginning of period	441	385
Current service cost	5	4
Interest expense	22	21
Actuarial gains (–) and losses (+)	34	31
Present value of the defined benefit obligation at end of period	502	441
Unrecognized actuarial gains and losses, net	–138	0
Plan assets		
Reinsurance coverage	188	173
Securities	369	358
Surplus shown in the statement of financial position	–193	–90

All defined benefit plans are covered by the plan assets; there are no unfunded plans. The fair value of the plan assets developed as follows:

EUR THSD.	2011	2010
At the beginning of the period	531	367
Expected return on plan assets	29	23
Actuarial gains/losses	–104	35
Funded by the employer	101	106
	557	531

The plan assets are made up as follows:

	2011		2010	
EUR THSD.	ABSOLUTE	PERCENTAGE	ABSOLUTE	PERCENTAGE
Equity securities	0	0 %	0	0 %
Debt securities*	369	66 %	358	67 %
Other	188	34 %	173	33 %
	557	100 %	531	100 %

* The debt securities include mixed fund shares that are primarily invested in fixed-income securities.

As in the previous year, the plan assets do not contain any financial instruments.

The following amounts were recognized in the income statement:

EUR THSD.	2011	2010
Current service cost	– 5	– 4
Amortized actuarial losses	0	0
Expected return on plan assets	29	23
Interest expense from obligation	– 22	– 21
	2	– 2

The present value of the defined benefit obligation changed as follows over time:

EUR THSD.	2011	2010	2009	2008	2007
Present value of the defined benefit obligation at end of period	502	441	385	349	345
Fair value of the plan assets	557	531	367	261	224
Net loss / surplus	– 55	– 90	18	88	121
Adjustment of plan liabilities based on past experience	3	3	3	3	7
Adjustment of plan assets based on past experience	– 104	35	–	–	–

Both the current service cost and the actuarial gains and losses are recognized in staff costs. The interest expense related to the liability is reported in the financial result.

The provisions for pensions were determined based on the following assumptions:

IN %	2011	2010
Discount rate as of 31 December	4.5	5.0
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	4.50	5.00
Employee turnover	0.00	0.00

The determination of the expected return on the plan assets was based on the estimated return on the assets, taking the changes in the yields of non-current fixed-income instruments into account. The allocations to plans for post-employment benefits payable in the financial year ending 31 December 2012 are estimated at EUR 101 thousand.

20. TAX PROVISIONS AND OTHER PROVISIONS

Provisions are recognized for legal or effective obligations resulting from past events if it is probable that settling the obligation will lead to an outflow of Group resources and that a reliable estimate of the amount of the obligation can be made.

Provisions are recognized at their estimated settlement value in accordance with IAS 37.

The tax provisions concern the following:

EUR THSD.	2011	2010
Corporate income tax and solidarity surcharge	485	1,590
Trade tax	410	1,634
	895	**3,224**

Statement of changes in provisions

EUR THSD.	BALANCE 01 JAN. 2011	USE	REVERSAL	ADDITION	BALANCE 01 JAN. 2011
Tax provisions	3,224	2,499	0	170	895
Bonus	1,420	1,415	5	1,539	1,539
Warranty and guarantee	1,699	1,483	216	1,622	1,622
Other	1,147	816	331	473	473
Total	**7,490**	**6,213**	**552**	**3,804**	**4,529**

All provisions stated are due within one financial year.

The provisions for guarantees and warranties cover potential statutory or financial obligations under guarantee and goodwill cases. The other provisions concern deliveries outstanding as well as sales commission.

21. LIABILITIES

Upon initial recognition, financial liabilities are measured at fair value after deduction of transaction costs. They are subsequently measured at amortized cost. Any difference between the disbursement amount (after deduction of transaction costs) and the repayment amount is amortized over the term of the loan using the effective interest method.

The breakdown of the liabilities by remaining maturities follows from the statement of changes in liabilities below:

TYPE OF LIABILITY EUR THSD.	TOTAL AMOUNT	LIABILITIES WITH REMAINING MATURITIES OF UP TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS	COLLATERALIZED AMOUNTS	TYPE OF COLLATERAL
Liabilities to banks	15,349 (3,156)	3,981 (941)	8,585 (1,809)	2,783 (406)	6,674 (1,927)	*,** (*, **)
Trade payables	3,805 (1,912)	3,805 (1,912)	0 (0)	0 (0)	0 (0)	– (–)
Other liabilities	13,746 (7,288)	13,676 (7,190)	70 (98)	0 (0)	0 (0)	– (–)
	32,900 **(12,356)**	**21,462** **(10,043)**	**8,655** **(1,907)**	**2,783** **(406)**	**6,674** **(1,927)**	

* Land charge, assignment of the receivable
** Security assignment

The fair value of the fixed-interest loans is EUR 6,662 thousand (previous year: EUR 2,428 thousand). The loans are earmarked for financing new construction, purchases of real property, investments to expand capacities and development projects.

The stipulated debtor's warrants totaling EUR 4,945 thousand are reported under other liabilities.

I. Other disclosures

22. STATEMENT OF CASH FLOWS

The statement of cash flows is derived from the consolidated financial statements using the indirect method; pursuant to IAS 7, it presents the changes in cash flows broken down by inflows and outflows for operating activities, investing activities and financing activities. Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

23. EARNINGS PER SHARE

According to IAS 33, basic earnings per share are determined by dividing the consolidated net profit for the year attributable to the shareholders of LPKF Laser & Electronics AG by the weighted number of shares outstanding during the financial year.

Earnings per share are diluted when potential shares related to the options issued by LPKF Laser & Electronics AG as part of the Stock Option Program are added to the average number of shares outstanding. Options are always dilutive. As in the previous year, there was a dilutive effect as of the reporting date because the base price of the options outstanding exceeded the average price of LPKF's share price in 2011. Utilizing the authorized capital of EUR 5.4 million can also have a dilutive effect.

	2011	2010
Number of shares, undiluted	11,007,757	10,922,859
Number of shares, diluted	11,082,125	11,050,788
Consolidated profit/loss (in EUR thousand)	9,945	12,131
Adjusted consolidated profit/loss (in EUR thousand)	9,945	12,131
Basic earnings per share (in EUR)	0.90	1.11
Diluted earnings per share (in EUR)	0.90	1.10

24. DIVIDEND PER SHARE

The Management Board and the Supervisory Board will propose to the Annual General Meeting on 31 May 2012 that it resolve a dividend payment of EUR 0.40 (previous year: EUR 0.40) per share from the net retained profits of LPKF Laser & Electronics AG in the amount of EUR 15,794,115.96 for the 2011 financial year (previous year: EUR 14,005,969.11) – for a total dividend payment to the shareholders of EUR 4,440,376.00 (previous year: EUR 4,402,245.20) – and to carry the balance of EUR 11,353,739.96 (previous year: EUR 9,603,723.91) forward to new account.

25. TRANSACTIONS WITH RELATED PARTIES

All transactions with related parties were carried out at market terms.

ZELTRA NAKLO D.O.O., SLOVENIA

A shareholder of the subsidiary, LPKF Laser & Elektronika d.o.o., owns 100 % of the shares in Zeltra Naklo d.o.o. In 2011, services and licenses in the amount of EUR 18 thousand (previous year: EUR 5 thousand) were purchased from this related party.

PMV D.O.O., SLOVENIA

Twenty-five percent of the shares in PMV d.o.o. are held by a shareholder of the subsidiary, LPKF Laser & Elektronika d.o.o. The Group purchased materials and production services, as well as licenses and equipment, worth EUR 25 thousand (previous year: EUR 27 thousand) from this company and rendered services worth EUR 28 thousand (previous year: EUR 25 thousand) to this company. The company was also granted a loan at market rates; it was measured at EUR 25 thousand as of the reporting date.

DETEL PLUS D.O.O., SLOVENIA

A shareholder of the subsidiary, LPKF Laser & Elektronika d.o.o., owns 50 % of the equity interest in Detel Plus d.o.o. This company delivered materials and rendered services to LPKF Laser & Elektronika d.o.o. for a total of EUR 269 thousand (previous year: EUR 417 thousand). This Slovenian subsidiary delivered materials and rendered services worth EUR 22 thousand (previous year: EUR 30 thousand) to Detel Plus d.o.o.

TRANSACTIONS WITH MEMBERS OF THE COMPANY'S CORPORATE BODIES AND OTHER RELATED NATURAL PERSONS

As of the reporting date, LPKF AG had EUR 214 thousand in liabilities to members of the Supervisory Board (previous year: EUR 161 thousand).

For the rest, there are no other receivables from or liabilities to LPKF Group companies, nor were any payments or benefits granted to related parties. Notes 29 and 30 provide details on the corporate bodies of LPKF AG.

26. GERMAN CORPORATE GOVERNANCE CODE

The Declaration of Compliance by the Supervisory Board and the Management Board required under Section 161 German Stock Corporation Act on the application of the recommendations of the Government Commission of the German Corporate Governance Code, as well as the disclosures of any noncompliance with the recommendations, were made available to the shareholders on the Company's website (http://www.lpkf.de/investor-relations/corporate-governance/entsprechenserklaerung/index.htm).

27. OTHER DISCLOSURES

OTHER FINANCIAL LIABILITIES

Long-term leases for land and buildings are in place for the offices of LPKF (Tianjin) Co. Ltd., LPKF Laser & Electronics (Hong Kong) Ltd., LPKF Laser & Electronics K.K. and the Erlangen site. LPKF Motion & Control GmbH, LaserMicronics GmbH, LPKF SolarQuipment GmbH and the parent company have auto leases.

The existing auto leases are classified as operating leases. The lease payments are determined by the term of the given lease and the car's mileage. There are no other provisions or agreements with respect to the extension of maturities or favorable purchasing options.

Total future lease payments broken down by maturity are:

EUR THSD.	2011	2010
Lease payments included in the net profit/loss for the period	291	204
Up to 1 year	392	213
More than 1 year and up to 5 years	356	190

All future rental payments due under building leases are broken down by maturity as follows:

EUR THSD.	2011	2010
Up to 1 year	523	448
More than 1 year and up to 5 years	1,071	1,088

There are no other significant financial obligations.

FINANCIAL INSTRUMENTS IAS 39

The financial instruments reported in the statement of financial position (financial assets and financial liabilities) as defined in IAS 32 and IAS 39 comprise specific financial assets, trade receivables, cash, trade payables as well as certain other assets and liabilities under agreements.

1. PRIMARY FINANCIAL INSTRUMENTS

IAS 39 makes a general distinction between primary and derivative financial instruments and classifies primary financial instruments into the following categories:

- financial assets or liabilities at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets

The "financial assets or liabilities at fair value through profit or loss" category has two sub-categories: Financial assets that have been classified as held for trading from inception, and those that are designated upon initial recognition as at fair value through profit or loss. A financial asset is allocated to this category if it was acquired principally for the purpose of selling it in the near term or was designated as such by management. Derivatives also belong to this category unless they qualify as hedges.

There are no financial instruments that are designated as "financial assets or financial liabilities at fair value through profit or loss" or "financial instruments held to maturity."

Loans and receivables primarily concern loans to third parties, receivables, other assets as well as cash and cash equivalents. The initial measurement is at fair value plus transaction costs, subsequent measurements at amortized cost using the effective interest method.

Financial assets available for sale include the securities. Securities comprise shares in funds. Initial measurements are at fair value plus transaction costs, subsequent measurements at fair value. Impairment losses are recognized directly in equity until the respective assets are disposed of. Financial assets are tested for objective indications of impairment as of every reporting date. If impairment of available-for-sale financial assets is indicated, the cumulative loss – measured as the difference between the cost and the current fair value, less any impairment losses previously recognized for the financial asset in question – is derecognized in equity and recognized in the income statement. When financial instruments of this type are sold, the cumulative fair value adjustments previously posted to equity must be recognized in profit or loss as gains or losses from financial assets.

The financial instruments are classified as non-current assets if management does not intend to sell them within twelve months of the reporting date.

Settlement date accounting is used for reporting purchases and sales of previously recognized assets.

Financial assets are derecognized when the rights to the cash flows from the financial assets have expired or were transferred and the Group has transferred substantially all of the risks and rewards of ownership.

2. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses various derivative financial instruments to hedge future transactions and cash flows. Particularly derivatives such as forwards, options and swaps are used to that end. Special hedge accounting rules may be applied under IAS 39 if certain conditions are met. The hedging relationship between the underlying transaction and the hedging instrument must be documented, and its effectiveness must be evidenced. The accounting principles of IAS 39 shall be used if the requirements for application of the special hedge accounting rules do not apply.

A) DERIVATIVE FINANCIAL INSTRUMENTS SUBJECT TO HEDGE ACCOUNTING

As part of its risk management strategies LPKF aims to minimize increases in cash flows from interest payments due to negative changes in interest rates. To that end, the hedging relationship described below was entered into in 2011:

LPKF took out a loan of nominally EUR 7,000 thousand in the 2011 financial year, which was disbursed in two tranches. The loan payable was designated an underlying transaction for a hedging relationship in its entirety at the time the interest rate was adjusted for the first time on 1 October 2011. The loan will be included in the hedging relationship for its entire term until 31 December 2015. It carries a variable interest rate (3-months EURIBOR plus spread) and is extinguished over its term by means of regular payments on prescribed dates.

The variable-interest loan is hedged through an interest rate swap. The swap was entered into on 1 October 2011 and simultaneously designated a hedging instrument for the hedge. The term of the swap corresponds to that of the loan and runs until 31 December 2015; it is designated as a hedging instrument for this period in its entirety. The hedging instrument has the same amount as the underlying loan. The regular loan payments are taken into account correspondingly in the agreement made. The interest rate swap entails exchanging the variable interest rate on the loan for a fixed interest rate.

The aforementioned transactions qualify for hedge accounting pursuant to IAS 39.71 ff. As a liability, the loan represents the underlying transaction and the interest rate swap represents the hedging instrument used. It concerns a cash flow hedge where future fluctuations in cash flows from changes in interest rates are hedged by means of fixed contractual interest payments. Hedging instruments used for cash flow hedges are measured at fair value. The changes in the fair value of the effective portion of the derivative are initially recognized in the cash flow hedge provisions; they are only recognized through profit and loss once the underlying transaction has been completed. Ineffective portions of the hedge are posted to income immediately.

Given that the parameters (nominal amount, variable interest rate, interest payment dates, loan payment dates, term and maturity) of both the underlying transaction and the hedging instrument are identical, it is prospectively assumed based on the so-called critical term match method that the hedge is highly effective. Consequently, prospective effectiveness may be assumed without offering numerical evidence. This is verified each time effectiveness is measured.

The retrospective effectiveness of the cash flow hedge is determined using the dollar offset method, specifically, the hypothetical derivative method. To that end, the cumulative absolute change in the fair value of the swap designated as the hedging instrument is compared to the cumulative absolute change in the fair value of the hypothetical swap. The hypothetical swap as the "stand-in" for the underlying transaction is equipped with all the conditions that are relevant to its measurement (nominal amount, term, interest rate adjustment dates, interest payment dates and loan payment dates) and must be measured at current market rates. The hedge is considered highly effective because the current results fall within the permissible range of 80 % to 125 %.

The change in the fair value of the hedging instrument must be recognized in a separate line item of equity (cash flow hedge provision) that is equivalent to the effective portion of the hedge. The change in the fair value of the hedging instrument attributable to the ineffective portion must be recognized in profit or loss. Accounting for the hedge led to the recognition of EUR –184 thousand directly in equity and EUR 0 thousand in profit or loss. The fair value of the interest rate swaps as of the reporting date is EUR –184 thousand. No ineffective portions of the hedge had to be recognized in the reporting year.

The maturities of the cash flows correspond to the contractually stipulated maturities of the underlying transaction.

B) DERIVATIVE FINANCIAL INSTRUMENTS NOT SUBJECT TO HEDGE ACCOUNTING

The other forward contracts and options do not qualify for hedge accounting pursuant to IAS 39.71 ff. All these derivatives are therefore designated as held for trading (a subcategory of the category, "assets and liabilities at fair value through profit or loss") and recognized at fair value in the statement of financial position. Fair value changes are recognized in profit or loss. The issuing banks notified the Group of the fair values (market values). The measurement takes current ECB reference prices and forward premiums or discounts into account. If the fair value is positive, these instruments are recognized in other assets, otherwise under other liabilities. The other liabilities contain USD put options with a fair value of EUR –19 thousand and a USD currency swap with a fair value of EUR –75 thousand.

There were no other derivative or hedging transactions as of 31 December 2011.

3. DISCLOSURES PURSUANT TO IFRS 7

Carrying amounts, valuations and fair values by measurement category

			IAS 39 CARRYING AMOUNT			
EUR THSD.	MEASUREMENT CATEGORY PURSUANT TO IAS 39	CARRYING AMOUNT 31 DEC. 2011	AMORTIZED COST	FAIR VALUE RECOGNIZED IN EQUITY	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE 31 DEC. 2011
Assets						
Other borrowings	LaR	25	25			25
Cash	LaR	7,006	7,006			7,006
Trade receivables	LaR	19,623	19,623			19,623
Other assets	LaR	1,567	1,567			1,567
Securities and available-for-sale financial instruments	AfS	241		241		241
Derivative financial assets						
Derivatives	FAHfT	0				0
Equity and liabilities						
Trade payables	FLAC	3,805	3,805			3,805
Liabilities to banks	FLAC	15,349	15,349			14,125
Other interest-bearing liabilities	FLAC	5,015	5,015			5,015
Other interest-free liabilities	FLAC	7,135	7,135			7,135
Derivative financial liabilities						
Derivatives	FLHfT	94			94	94
Of which accumulated by IAS 39 measurement category						
Loans and receivables	(LaR)	28,221	28,221			28,221
Available-for-sale financial assets	(AfS)	241		241		241
Assets held for trading	(FAHfT)	0			0	0
Financial liabilities measured at amortized cost	(FLAC)	31,304	31,304			31,304
Liabilities held for trading	(FLHfT)	94			94	94

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

Because of short remaining maturities, the fair values of cash and cash equivalents, current receivables, trade payables as well as current financial assets and liabilities closely correspond to the respective carrying amounts. A total of EUR 241 thousand of the AfS securities are listed and are measured based on the stock exchange price as of the reporting date. The carrying amount of the derivative financial instruments corresponds to their fair value (Level 1 of the fair value hierarchy).

The financial instruments designated as financial liabilities held for trading in the amount of EUR 94 thousand (previous year: EUR 70 thousand) have been allocated to Level 2 of the fair value hierarchy. Level 2 requires availability of a stock or market price for a similar financial instrument or calculation parameters based on data from observable markets.

There were no financial instruments that had to be classified to Level 3 of the fair value hierarchy.

		IAS 39 CARRYING AMOUNT			
MEASUREMENT CATEGORY PURSUANT TO IAS 39	CARRYING AMOUNT 31 DEC. 2010	AMORTIZED COST	FAIR VALUE RECOGNIZED IN EQUITY	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE 31 DEC. 2010
LaR	44	44			44
LaR	13,671	13,671			13,671
LaR	12,383	12,383			12,383
LaR	944	944			944
AfS	2,238		2,238		2,238
FAHfT	0				0
FLAC	1,912	1,912			1,912
FLAC	3,156	3,156			3,156
FLAC	98	98			98
FLAC	6,670	6,670			6,670
FLHfT	70			70	70
(LaR)	27,042	27,042			27,042
(AfS)	2,238		2,238		2,238
(FAHfT)	0			0	0
(FLAC)	11,836	11,836			11,836
(FLHfT)	70			70	70

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

EUR THSD.		2011	2010
Loans and receivables	(LaR)	221	587
Available-for-sale financial assets	(AfS)	23	13
Assets and liabilities held for trading	(FAHfT) + (FLHfT)	– 41	– 67
Financial liabilities measured at amortized cost	(FLAC)	605	189
Total		808	722

The net gains/losses from loans and receivables include changes in allowances, gains and losses on derecognition/disposal, payments received, reversals of write-downs on loans and receivables as well as currency translation.

The net gains and losses on assets available for sale contain changes in the fair value of the securities as well as gains and losses on disposals. A total of EUR 7 thousand were transferred from the revaluation surplus to the income statement in the financial year just ended.

Net gains and losses from financial assets and liabilities held for trading contain changes in the fair value of the derivative financial instruments not subject to hedge accounting as well as gains and losses on maturity during the reporting period.

Net gains and losses from financial liabilities recognized at amortized cost comprise gains and losses on disposal and currency translation. Total interest expense using the effective interest method was EUR 249 thousand.

There are no significant default risks by customer group or geographical region. Loans and receivables are secured in part through credit insurance or bank guarantees (LC). For the rest, the maximum exposure to lending risks corresponds to the carrying amount of the aforementioned receivables by class.

Maturity analysis as of 31 December 2011

TRADE PAYABLES IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2011	3,805	3,805	0	0	0
2010	1,912	1,912	0	0	0

FINANCIAL OBLIGATIONS UNDER LOANS IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2011	15,349	2,549	1,432	8,585	2,783
2010	3,156	715	226	2,202	13

OTHER INTEREST-BEARING LIABILITIES IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2011	5,015	3,720	1,225	70	0
2010	98	17	17	64	0

OTHER INTEREST-FREE LIABILITIES IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2011	7,135	7,135	0	0	0
2010	6,670	6,670	0	0	0

DERIVATIVE FINANCIAL INSTRUMENTS IN EUR THSD.	CARRYING AMOUNT AS OF 31 DEC.	UP TO 6 MONTHS	6 MONTHS TO 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
2011	94	94	0	0	0
2010	70	70	0	0	0

4. HEDGING POLICY AND RISK MANAGEMENT

Risk management principles

The assets, liabilities and planned transactions of LPKF Laser & Electronics AG are exposed, in particular, to risks from fluctuations in foreign exchange 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 Management Board, which fixes the general guidelines for risk management and determines the relevant procedures. It is implemented by the technical departments and subsidiaries subject to compliance with authorized business guidelines and coordinated by the Group Risk Officer. More than one half of the net cash flows in foreign currency are hedged.

The material risks from financial instruments and the attendant risk management system of the LPKF Group are disclosed below.

Currency risks

The currency risks to which the LPKF Group is exposed mainly arise from receivables, liabilities, cash and future transactions in foreign currencies. Assets recognized in currencies with declining exchange rates decline in value whereas liabilities reported in currencies with rising exchange rates increase in value. From the Group’s point of view, only the difference between income and expense in a foreign currency is exposed to risk.

As a rule, risks are only hedged if they have an impact on the Group’s cash flows. Foreign currency risks that have no impact on the Group’s cash flows are not hedged. These include risks from the translation of the assets and liabilities reported in the annual financial statements of foreign subsidiaries into euros, the Group’s reporting currency.

Invoices related to operations are always written in euros, the only exception being invoices in USD for sales in North America. Cash flows in JPY are required in some cases.

To the extent possible, the Group pays for its procurement in USD, thus following a natural hedge philosophy. In net terms, however, this does give rise to USD cash inflows. Foreign currency forward contracts or currency options are used to hedge foreign currency inflows contracted for up to twelve months. Foreign currency hedges cannot fully offset the negative effects of the euro’s continued strength against the US dollar on the Group’s competitive position. The Group uses currency swaps to further diminish currency translation risks.

Changes in the fair value of the derivatives used to hedge currency risks that arise from foreign exchange rates and changes in the hedged item in the statement of financial position during the same period are virtually balanced in the income statement.

The disclosure of market risks requires sensitivity analyses pursuant to IFRS 7. They show the effects of hypothetical changes in the relevant risk variables on performance and equity. Currency risks arising from changes in the USD exchange rate have priority for LPKF in this respect. The periodic effects are determined by relating the hypothetical changes in the risk variables to the holdings of financial instruments as of the reporting date. The assumption is that the value of the holdings as of the reporting date is representative for the whole year. Differences from foreign-currency translation of the annual financial statements of foreign subsidiaries into euros, the Group's functional currency, are not taken into account.

The currency sensitivity analysis is based on the following assumptions:

Interest income or expenses associated with financial instruments are either reported directly in the functional currency or translated into the functional currency by way of derivatives. This means that the figures analyzed cannot have material consequences.

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

If the euro had risen by 10% against the USD dollar, earnings before income taxes would have been reduced by EUR 166 thousand. A 10% decline in the euro would have raised earnings before income taxes by EUR 136 thousand.

Foreign currency risks from financing activities primarily arise from a long-term loan in a foreign currency that the parent company made to its North American subsidiary for financing purposes. The expected loan payments in USD are hedged in full against currency risks. Given this hedge, LPKF Laser & Electronics AG was not exposed to any material currency risks from financing activities as of the reporting date.

Interest rate risks

Interest rates give rise to cash flow risks that affect cash and cash equivalents. An increase in interest rates by 25 basis points yields a gain of EUR 26 thousand while a decrease in interest rates by 25 basis points yields a loss of EUR 8 thousand. Given low interest rates, the sensitivities are determined using a hypothetical change by 25 basis points. The low interest rate sensitivities relative to cash and cash equivalents largely stem from low-interest cash and cash equivalents.

LPKF is exposed to interest rate risks because the loan carries a variable interest rate. Pursuant to principles of risk management, the aim is to limit the given risk by entering into hedging transactions. Interest rate risks as defined in IFRS 7 were determined for these transactions by means of sensitivity analyses. This entails showing the effects of a parallel shift in the EUR yield curve on equity and earnings for the year, in each case before taking income taxes into account. Accordingly, a shift in the yield curve by +1.0% would have raised equity by EUR 115 thousand. Conversely, a parallel shift by –1.0% would have lowered equity by EUR 119 thousand.

The long-term loans obtained to finance buildings are subject to fixed interest rates, as are the other interest-bearing liabilities.

Other price risks

The restricted securities give rise to price risks. If the value of the securities were to rise by 10 %, equity would increase by EUR 24 thousand; if the value of the securities were to fall by 10 %, equity would be reduced by EUR 24 thousand. The change in equity is reported without any tax effects. The sensitivity is determined by assuming a hypothetical change of +/– 10 % in the price of the listed securities.

Liquidity risks

The liquidity risk concerns the risk of not being able to satisfy existing or future payment obligations for lack of cash. This is centrally managed within the LPKF Group. The liquidity risk is minimized through continuous liquidity planning. In addition to existing cash and cash equivalents, credit lines are also available from various banks. Long-term bank loans were used to finance the buildings in Suhl, Garbsen and Slovenia.

Credit risks

The LPKF Group's operating business and certain of its financing activities expose it to default risks. Receivables from the operating business are monitored on an ongoing basis in decentralized fashion by the segments and subsidiaries. Default risks are accounted for by appropriate allowances.

The maximum default risk is reflected in the carrying amounts of the assets reported in the statement of financial position (including derivative financial instruments with positive fair values). Trade receivables are also secured by EUR 2,151 thousand in payment commitments from banks (letters of credit). This leaves solely the credit risk of the chattel mortgagor. In addition, EUR 569 thousand in trade receivables related to specific Asian countries are hedged through credit default insurance. The deductible under these hedged trade receivables is 15 %.

Capital management disclosures

The Group's capital management serves to secure the Company's existence as a going concern and pursue opportunities for growth with the aim of continuing to funnel profits to its shareholders and pay other interested parties that to which they are entitled. Maintaining an the best possible capital structure to reduce capital costs is another objective. To maintain or modify its capital structure, depending on the given situation the Group adjusts dividend payments to its shareholders; repays capital to its shareholders; issues new shares; or sells assets in order to discharge liabilities. The capital available comprises equity of EUR 49,761 thousand and borrowings of EUR 39,800 thousand.

28. DISCLOSURES PURSUANT TO SECTION 315A GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH)

The requirements of Section 315 a German Commercial Code for the preparation of consolidated financial statements according to IFRS, as applicable in the EU, have been fulfilled. In addition to IFRS disclosure obligations, LPKF also publishes details and explanations required under the German Commercial Code.

29. DISCLOSURES ON MANAGEMENT BOARD REMUNERATION

The following individuals have been appointed as members of the Company's Management Board:

Dr. Ingo Bretthauer (CEO)	(Chairman) Chairman of the Supervisory Board of LPKF Laser & Elektronika d.o.o., Naklo, Slovenia (from 1 January 2012)
Dipl.-Ing. Bernd Lange (CTO)	Member of the Supervisory Board of LPKF Laser & Elektronika d.o.o., Naklo, Slovenia
Dipl.-Oec. Kai Bentz (CFO)	

The remuneration of the Management Board is performance-based and consists of a fixed component and variable performance-based components. Further details regarding the remuneration of the Supervisory Board including individual disclosures are presented in the remuneration report which is an integral part of the Group management report, as well as on page 39 of the annual report.

The current members of the Management Board were paid regular total remuneration of EUR 1,473 thousand (2010: EUR 1,433 thousand) for their activities in the 2011 financial year. Of this amount, EUR 633 thousand (previous year: EUR 593 thousand) was fixed remuneration and EUR 840 thousand (previous year: EUR 840 thousand) was variable remuneration. The remuneration of the Management Board's active members solely concerns short-term benefits as defined in IAS 24.16 (a).

A total of 120,000 stock options may be granted to members of the Management Board under the employee stock option program for members of the Management Board, as well as executives and other employees of the Company, which the Annual General Meeting adopted on 17 May 2001 (hereinafter the "Stock Option Program 2001"). The Supervisory Board decides, at its discretion, on whether to grant stock options to members of the Management Board. The basic features of the Stock Option Program are disclosed in greater detail in note 19.

As in the 2010 financial year, no stock options were granted to the members of the Management Board in the 2011 financial year. Expenses of EUR 1 thousand (previous year: EUR 4 thousand) relating to share-based payments as defined in IAS 24.16 (e) were recognized for members of the Management Board in the financial year just ended.

COMMITMENTS TO MEMBERS OF THE MANAGEMENT BOARD UPON TERMINATION

Pension contracts were closed with the members of the Management Board, Kai Bentz and Bernd Lange; the Company makes contributions toward these contracts. Contributions of EUR 14 thousand (previous year: EUR 14 thousand) were paid in the 2011 financial year in connection with post-employment benefits as defined in IAS 24.16. No provisions for pensions are required in this case.

Post-contractual non-competition agreements have been made with the members of the Management Board. Under these agreements, the Company shall pay remuneration equivalent to 50% of the respective individual's most recent average base salary for the 12-month term of the post-contractual non-competition agreement.

If a member of the Management Board dies while in office, the fixed monthly remuneration shall be paid to the heirs for a six-month period.

No other provisions and commitments have been made with respect to the ordinary or extraordinary termination of a member of the Management Board.

TOTAL REMUNERATION OF FORMER MEMBERS OF THE MANAGEMENT BOARD

Provisions were recognized for EUR 455 thousand (previous year: EUR 441 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

30. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION

The members of the Supervisory Board are:

Bernd Hildebrandt	Businessman (Chairman)
	Chairman of the Supervisory Board of LPKF Laser & Elektronika d.o.o., Naklo, Slovenia (until 31 December 2011)
Dr. Heino Büsching	Lawyer/tax consultant at CMS Hasche Sigle, Hamburg, Germany (Deputy Chairman)
Prof. Dr.-Ing. Erich Barke	President of Gottfried Wilhelm Leibniz University Hannover, Germany
	Chairman of the Supervisory Board of Innovationsgesellschaft Universität Hannover mbH, Hannover and Produktionstechnisches Zentrum Hannover GmbH, Garbsen, Germany
	Member of the Supervisory Board of the following companies:
	Esso Deutschland GmbH, Hamburg, Germany
	ExxonMobil Central Europe Holding GmbH, Hamburg, Germany
	Hannover Impuls GmbH, Hannover, Germany
	Solvay GmbH, Hannover, Germany

Effective 1 January 2011, the fixed remuneration of the entire Supervisory Board of LPKF Laser & Electronics AG was set at EUR 180 thousand per annum (previously: EUR 135 thousand).

The Supervisory Board is also paid variable remuneration based on the dividend for the respective financial year just ended. The variable component cannot be specified at this time because it has not been determined to date whether a dividend will be paid for the 2011 financial year and in what amount. A dividend of EUR 0.40 per share was paid in 2011 for the 2010 financial year, resulting in variable remuneration of EUR 108 thousand for the Supervisory Board (previous year: EUR 48 thousand).

The remuneration of the Supervisory Board's active members solely concerns short-term benefits as defined in IAS 24.16 (a).

Further disclosures regarding the remuneration of the Supervisory Board (particularly individual disclosures) are set forth in the remuneration report which is an integral part of the Group management report; they are also included on page 39 of the annual report.

31. DISCLOSURE OF REPORTED SHAREHOLDINGS IN THE COMPANY

The following persons have notified the LPKF Laser & Electronics AG that their shareholdings exceeded the 5% threshold on 1 April 2002:

Bernd Hildebrandt, domiciled in Wunstorf, Germany, with a current shareholding of 6.50%;

Klaus Barke, domiciled in Großburgwedel, Germany, with a current shareholding of 6.44%.

The following persons or companies have sent the following notifications of voting rights to LPKF Laser & Electronics AG:

CI Global Holdings Inc., Toronto, Canada, notified LPKF Laser & Electronics AG on 30 January 2012 that the voting shares of CI Global Holdings Inc. in LPKF Laser & Electronics AG fell below the threshold of 3 % on 26 January 2012 and were 2.63 % on that date (292,147 voting shares). All of these voting shares (292,147 voting shares) must be attributed to CI Global Holdings Inc. in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act (Wertpapierhandelsgesetz).

CI Investments Inc., Toronto, Canada, notified LPKF Laser & Electronics AG on 30 January 2012 that the voting shares of CI Investments Inc. in LPKF Laser & Electronics AG fell below the threshold of 3 % on 26 January 2012 and were 2.63 % on that date (292,147 voting shares). All of these voting shares (292,147 voting shares) must be attributed to CI Investments Inc. in accordance with Section 22 (1) sentence 1 no. 6, sentence 2 German Securities Trading Act.

CI Financial Corp., Toronto, Canada, notified LPKF Laser & Electronics AG on 30 January 2012 that the voting shares of CI Financial Corp. in LPKF Laser & Electronics AG fell below the threshold of 3 % on 26 January 2012 and were 2.63 % on that date (292,147 voting shares). All of these voting shares (292,147 voting shares) must be attributed to CI Financial Corp. in accordance with Section 22 (1) sentence 1 no. 6, sentence 2 German Securities Trading Act.

Rock Point Advisors LLC, Vermont, USA, notified LPKF Laser & Electronics AG on 27 December 2011 that the voting shares of Rock Point Advisors LLC in LPKF Laser & Electronics AG exceeded the threshold of 3 % on 30 November 2012 and were 3.16 % on that date (351,035 voting shares). All of these voting shares (351,035 voting shares) must be attributed to Rock Point Advisors LLC in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act.

Ms. Sabine Gilbert notified LPKF Laser & Electronics AG on 08 December 2011 that her voting shares in LPKF Laser & Electronics AG fell below the thresholds of 5 % and 3 % on 23 April 2007 and were 2.947 % on that date (320,000 voting shares). Of these voting shares, 2.947 % (320,000 voting shares) must be attributed to Ms. Sabine Gilbert from Cura Consult Unternehmensberatung GmbH in accordance with Section 22 (1) sentence 1 no. 1 German Securities Trading Act.

Note: The current voting shares of Cura Consult Unternehmensberatung GmbH / Ms. Gilbert in LPKF Laser & Electronics AG amount to 0 % (0 voting shares).

JPMorgan Asset Management (UK) Limited, London, notified LPKF Laser & Electronics AG that the voting shares of JPMorgan Asset Management (UK) Limited in LPKF Laser & Electronics AG fell below the threshold of 3 % on 11 February 2011 and were 2.89 % on that date (317,678 voting shares). All of these voting shares (317,678 voting shares) must be attributed to JPMorgan Asset Management (UK) Limited in accordance with Section 22 (1) sentence 1 no. 6 German Securities Trading Act.

All notifications of voting rights have been published at
www.lpkf.de/investor-relations/pflichtmitteilungen/stimmrechtsmitteilungen/stimmrechtsmitteilungen.htm
in accordance with the German Securities Trading Act.

32. AUDITOR FEES INVOICED IN THE FINANCIAL YEAR JUST ENDED

The Company is obligated under the German Commercial Code (Section 314 (1) no. 9) to disclose Group auditor's fees for auditing the annual financial statements invoiced during the financial year:

Auditor fees

EUR THSD.	2011
Audits of financial statements	112
Tax consultancy services	20
Other services	28
Total	160

33. EVENTS AFTER THE REPORTING PERIOD

Please see the disclosures in the Group management report for events after the reporting period.

Garbsen, Germany, 15 March 2012

LPKF Laser & Electronics Aktiengesellschaft
The Management Board

Dr. Ingo Bretthauer   Bernd Lange   Kai Bentz

Independent auditors' report

We have audited the consolidated financial statements – comprising the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and the notes – as well as the Group management report prepared by LPKF Laser & Electronics Aktiengesellschaft, Garbsen, Germany, for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a (1) of the German Commercial Code (Handelsgesetzbuch) is the responsibility of the Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the financial position, cash flows and profit or loss in the consolidated financial statements in accordance with the applicable financial reporting standards 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 evaluations of 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 the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the Management Board 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 IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a (1) of the German Commercial Code and give a true and fair view of the financial position, cash flows and profit or loss of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, Germany, 15 March 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Helmuth Schäfer
Wirtschaftsprüfer [German Public Auditor]

ppa. Thomas Monecke
Wirtschaftsprüfer [German Public Auditor]

Income statement

FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

EUR THSD.	2011	2010
Revenue	68,445	72,139
Changes in inventories of finished goods and work in progress	1,235	1,480
Other own work capitalized	161	222
Other operating income	2,612	1,885
	72,453	**75,726**
Cost of materials:		
Cost of raw materials, consumables and supplies, and of purchased merchandise	24,114	25,776
Personnel expenses:		
Wages and salaries	15,588	12,550
Social security costs and pension costs	2,639	1,977
(of which for pensions: EUR 107 thousand; previous year: EUR 127 thousand)		
Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	1,938	1,421
Other operating expenses	19,646	17,858
	63,925	**59,582**
Income from equity investments	421	1,178
Other interest and similar income	216	197
(of which from affiliated companies: EUR 164 thousand; previous year: EUR 64 thousand)		
Write-downs of long-term financial assets and securities classified as current assets	0	361
Interest and similar expenses	374	87
(of which to affiliated companies: EUR 7 thousand; previous year: EUR 0 thousand)		
Extraordinary result	0	–79
Result from ordinary activities	**8,791**	**17,071**
Taxes on income	2,569	4,794
Other taxes	32	24
Net income for the year	**6,190**	**12,174**
Retained profits brought forward	9,604	1,832
Net retained profits	**15,794**	**14,006**

Balance sheet

AS OF 31 DECEMBER 2011

ASSETS

EUR THSD.	2011	2010
Fixed assets		
Intangible fixed assets		
Software	2,344	559
Rights of use	54	69
Advances paid	0	811
	2,398	1,439
Tangible fixed assets		
Land, similar rights and buildings	12,980	5,200
Technical equipment and machinery	1,149	958
Other equipment, operating and office equipment	2,034	1,149
Advances paid and construction in progress	136	1,792
	16,299	9,099
Long-term financial assets		
Shares in affiliated companies	7,052	2,712
Loans to affiliated companies	279	317
Other loans	10	15
	7,341	3,044
	26,038	13,582
Current assets		
Inventories		
Raw materials, consumables and supplies	12,718	8,536
Work in progress	2,198	734
Finished goods and merchandise	3,271	4,354
Prepayments	57	110
	18,244	13,734
Receivables and other assets		
Trade receivables	10,168	8,052
Receivables from affiliated companies	8,066	5,735
Other assets	1,045	1,626
(of which due within more than one year: EUR 267 thousand; previous year: EUR 306 thousand)		
	19,279	15,413
	37,523	29,147
Securities	0	995
Cash-in-hand, bank balances and checks	1,996	8,068
	39,519	38,210
Deferred income	238	148
(of which discounts: EUR 16 thousand; previous year: EUR 20 thousand)		
Deferred taxes	68	55
Excess of plan assets over pension liability	102	100
	65,965	52,095

EQUITY AND LIABILITIES

EUR THSD.	2011	2010
Equity		
Subscribed capital	11,101	11,006
(Conditional capital: EUR 372 thousand; previous year: EUR 417 thousand)		
Capital reserves	6,036	5,254
Revenue reserves		
Other revenue reserves	7,023	7,023
	7,023	7,023
Net retained profits	15,794	14,006
(of which retained profits brought forward: EUR 9.604 thousand; previous year: EUR 1.832 thousand)		
	39,954	37,289
Special reserve for investment grants and subsidies	0	6
Provisions		
Provisions for pensions	0	0
Provisions for taxes	732	3,182
Other provisions	5,751	7,040
	6,483	10,222
Liabilities		
Liabilities to banks	12,897	1,348
Prepayments received	1,285	1,429
Trade payables	1,733	671
Liabilities to affiliated companies	2,274	454
Other liabilities	1,106	671
(of which from taxes: EUR 240 thousand; previous year: EUR 256 thousand)		
(of which from social security: EUR 42 thousand; previous year: EUR 24 thousand)		
	19,295	4,573
Deferred income	183	0
Deferred taxes	50	5
	65,965	52,095

Glossary of technical terms

CDTE
Cadmium telluride (CdTe) is a crystalline compound belonging to the telluride group. It is formed from cadmium and tellurium with a zinc blende crystal structure. CdTe is used along with cadmium sulphide as a layer structure in the production of thin film solar cells.

CIGS
An acronym for the elements Copper Indium Gallium and Selenide. Various combinations of these elements are used in the manufacture of thin film solar cells.

CIRCUIT BOARD PLOTTER
Machine for the mechanical structuring of printed circuit boards during rapid prototyping.

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

PCB PRODUCTION EQUIPMENT
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.

RAPID PCB PROTOTYPING
A method for the chemical-free manufacture of prototype printed circuit boards in in-house laboratories.

SOLAR MODULE EQUIPMENT
Laser systems for structuring thin film solar panels.

STENCILLASER EQUIPMENT
Laser systems 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 today’s closely packed PCBs.

THIN FILM SOLAR PANELS
Thin film solar panels are manufactured by coating a sheet of glass or a film with extremely thin layers. A laser divides each layer into strips to enable the series connection of cells in the finished module.

WELDING EQUIPMENT
Laser systems for 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.

Financial calendar

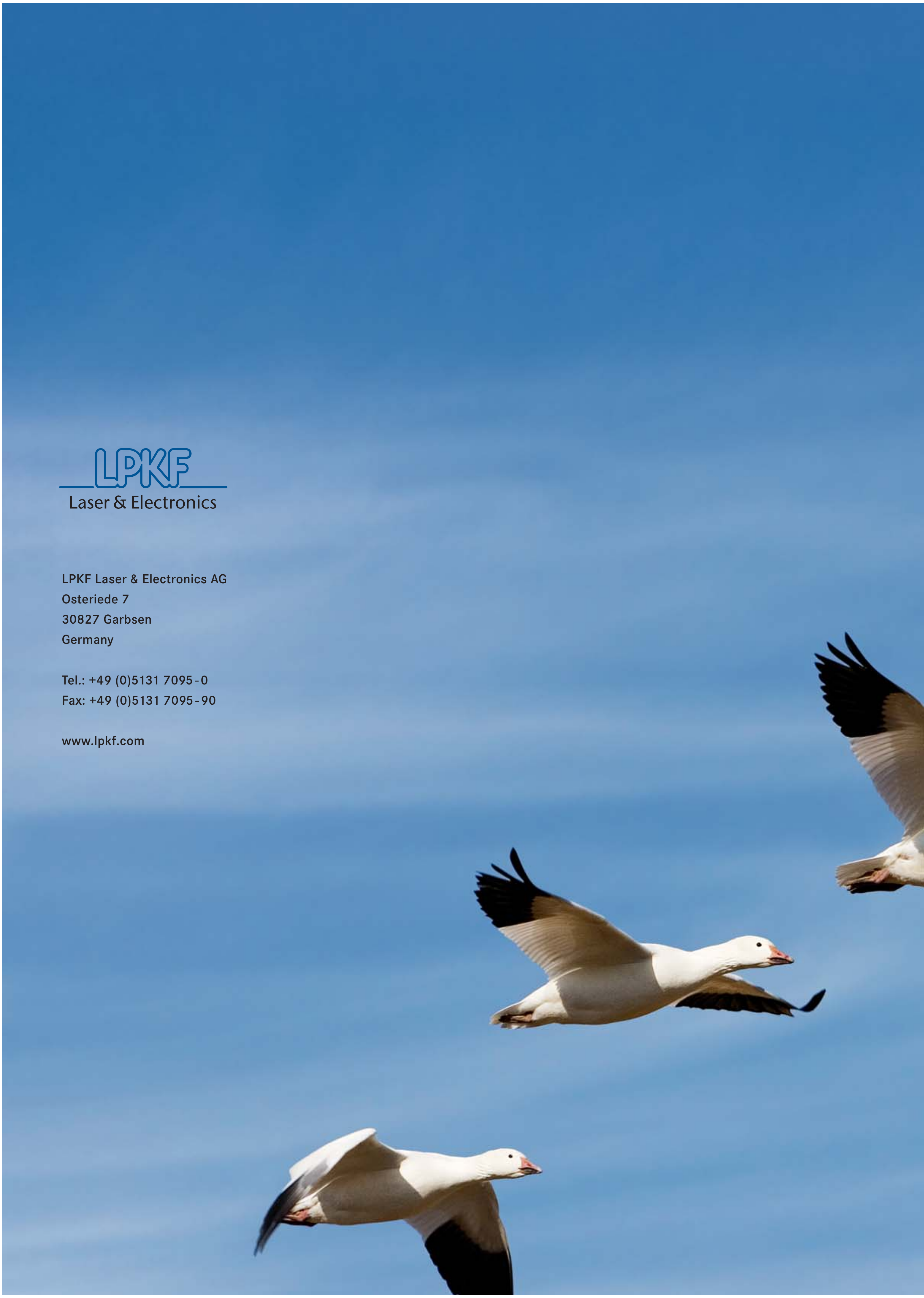
27 MARCH 2012	Publication of the 2011 annual report
27 MARCH 2012	Financials press conference
28 MARCH 2012	Analyst conference
15 MAY 2012	Publication of the three-month report
31 MAY 2012	Annual General Meeting
14 AUGUST 2012	Publication of the six-month report
13 NOVEMBER 2012	Publication of the nine-month report

Contact

LPKF LASER & ELECTRONICS AG
Osteriede 7
30827 Garbsen
Germany
Tel.: +49 (0)5131 7095-0
Fax: +49 (0)5131 7095-90
investorrelations@lpkf.com
www.lpkf.com

Publishing information

PUBLISHED BY	LPKF Laser & Electronics AG, 30827 Garbsen, Germany
CONCEPT AND DESIGN	CAT Consultants, Hamburg, www.cat-consultants.de
PHOTOS	Christian Schmid, Hamburg; GettyImages (title)
NUMBER OF COPIES	1,400 Germany / 1,000 English
PUBLISHED	March 2012



LPKF Laser & Electronics

LPKF Laser & Electronics AG
Osteriede 7
30827 Garbsen
Germany

Tel.: +49 (0)5131 7095-0
Fax: +49 (0)5131 7095-90

www.lpkf.com