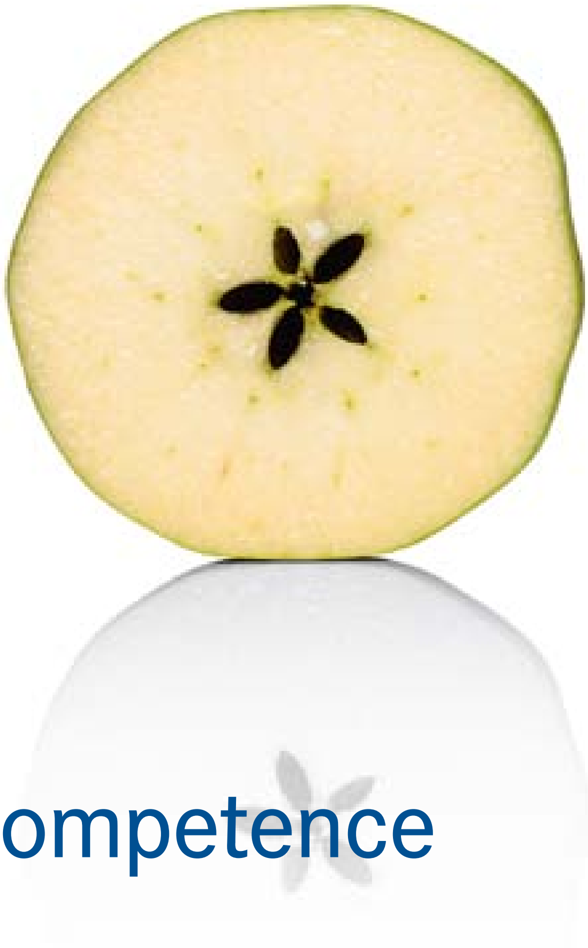
MINIATURIZATION

PRECISION

DESIGN FREEDOM

SUBSTITUTION

COST-EFFICIENCY



Annual Report 2013

Focus on core competence

LPKF Laser & Electronics

LPKF Laser & Electronics

LPKF at a glance

CONSOLIDATED REVENUE AS OF 31 DECEMBER

		2013	2012	2011	2010	2009
Revenue	EUR million	129.7	115.1	91.1	81.2	50.7
Revenue by region						
Germany	EUR million	11.7	13.2	13.3	10.7	10.9
Other Europe	EUR million	17.7	14.5	10.3	10.3	8.8
North America	EUR million	21.3	22.2	22.0	13.5	5.3
Asia	EUR million	77.4	63.3	43.2	45.0	24.5
Other	EUR million	1.6	1.9	2.3	1.7	1.2
Revenue by segment[1]						
Electronics Development Equipment	EUR million	20.9	19.4	18.1	15.2	13.5
Electronics Production Equipment	EUR million	75.7	56.4	45.2	51.8	26.5
Other Production Equipment	EUR million	32.6	38.9	25.5	11.4	8.8
All other segments	EUR million	0.5	0.4	2.3	2.8	1.9

1 The previous year's figure (2012) was adjusted.

CONSOLIDATED FINANCIAL KEY FIGURES AS OF 31 DECEMBER

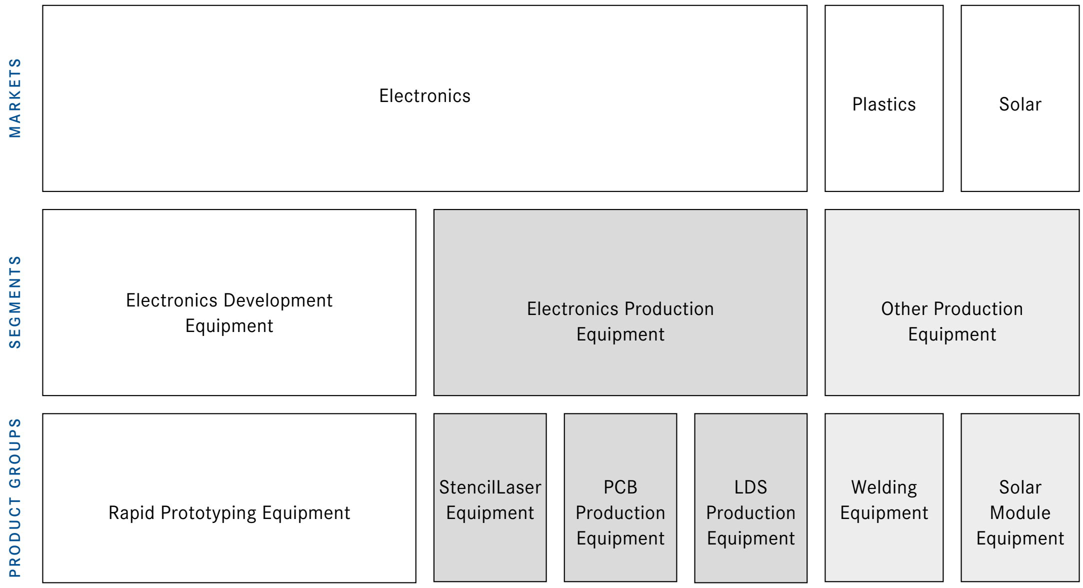
		2013	2012	2011	2010	2009
EBIT	EUR million	23.2	20.4	15.2	17.3	7.0
EBIT margin	%	17.9	17.7	16.7	21.3	13.7
Consolidated net profit after non-controlling interests	EUR million	15.1	13.5	9.9	12.1	4.7
Net margin before non-controlling interests	%	12.1	12.4	11.4	15.5	9.3
ROCE (Return on Capital Employed)[1]	%	26.4	26.5	23.4	31.6	15.7
Cash and cash equivalents	EUR million	12.5	2.5	5.6	13.0	10.3
Equity ratio[1]	%	56.5	58.0	55.6	70.3	69.7
Cash flow from operating activities	EUR million	34.2	17.1	3.3	13.5	11.5
Investments in property, plant and equipment and intangible assets	EUR million	21.3	12.8	14.9	8.1	4.0
Earnings per share, diluted[2]	EUR	0.68	0.61	0.45	0.55	0.22
Dividend per share[3]	EUR	0.25	0.25	0.20	0.20	0.10
Orders on hand	EUR million	17.7	34.3	25.2	12.5	14.7
Incoming orders	EUR million	113.1	124.1	104.0	78.9	56.0
Employees[4]	Number	752	690	602	466	384

1 The previous year's (2012) figure was adjusted to reflect the amendment of IAS 19.
2 The previous year's figures were adjusted retrospectively due to the capital increase from Company funds.
3 2013: Proposal at Annual General Meeting; the previous year's figures were adjusted retrospectively due to the capital increase from Company funds.
4 excl. trainees and workers in minor employment

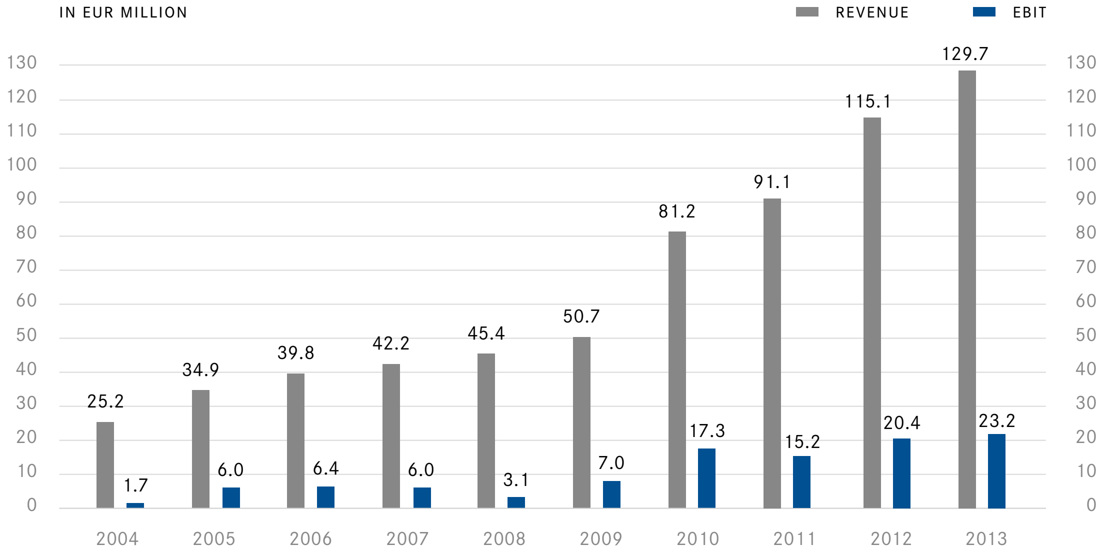
LPKF Laser & Electronics AG

at a glance

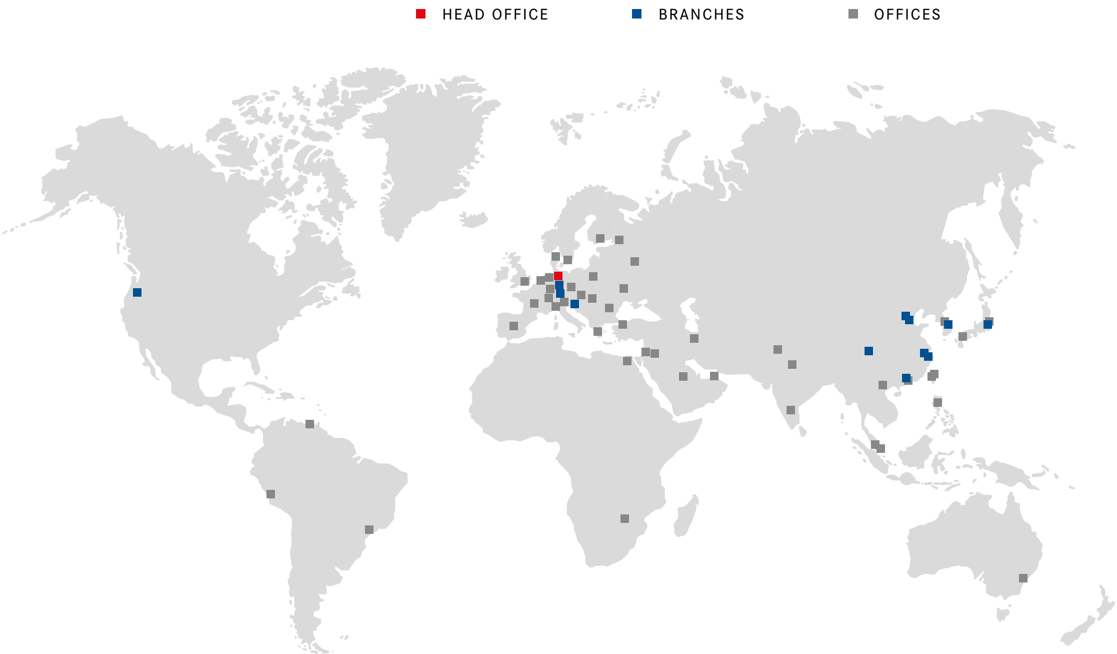
MARKETS, SEGMENTS AND PRODUCT GROUPS



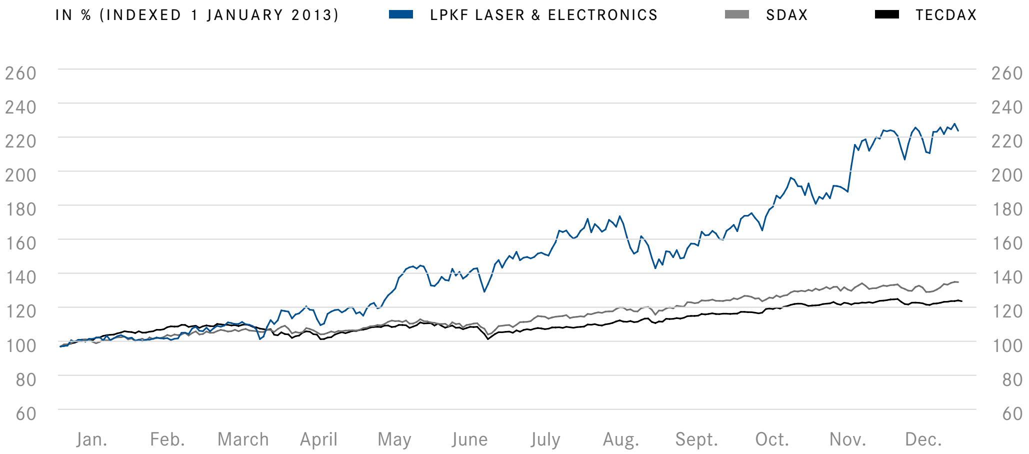
REVENUE AND EBIT



LPKF SITES WORLDWIDE



PERFORMANCE OF THE LPKF SHARE IN 2013



LPKF Laser & Electronics

A business enabler.

Precision with lasers

LPKF Laser & Electronics AG is a highly specialized mechanical engineering company. The Company designs and manufactures laser systems. A typical application for these systems is in the production of electronic components. Since these components need to be built into smaller and more compact devices – such as smartphones – the utilization of high-precision laser beams as tools is becoming increasingly relevant. This benefits LPKF.

LPKF has pioneered the use of lasers in micro material processing. Since its founding in 1976, the Company has created entirely new markets with its innovative ideas. Today, technology from LPKF is deployed in a wide range of industries – such as in the electronics sector, where LPKF systems are used to design circuit boards or to manufacture antennas. The automotive industry uses LPKF lasers for particulate-free welding of sensor housings or taillights. Solar cell manufacturers boost the efficiency of their modules by deploying LPKF laser scribers. In many areas, the superior precision offered by laser technology is supplanting traditional manufacturing techniques, and thus enabling the further miniaturization of electronic equipment.

The Company owes its technical competitive edge to a unique combination of core competencies. These include expertise and experience in the fields of laser technology, materials technology and precision drive systems, supplemented by in-house software development work. LPKF has used this know-how to acquire leadership in all of its markets and firmly intends to maintain this market dominance into the long term. As one example, the Company invests around 10 % of its revenue into R&D every single year.

LPKF is headquartered in Garbsen near Hannover, Germany. The Company maintains a broad-based global presence, with a workforce of 752 based at sites in Europe, Asia and the US. The export share was about 91 % in the 2013 financial year. With revenue of EUR 129.7 million, LPKF can look back on another record year. Earnings before interest and taxes (EBIT) were EUR 23.2 million. The shares of LPKF Laser & Electronics AG are listed on the TecDAX index of Deutsche Börse. In the 2013 financial year, the LPKF share gained 129 % to close at EUR 18.58.

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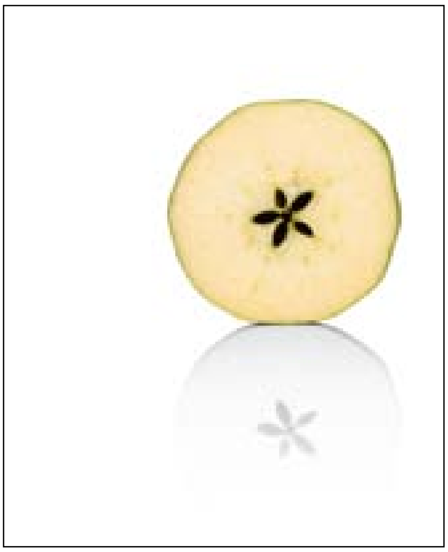
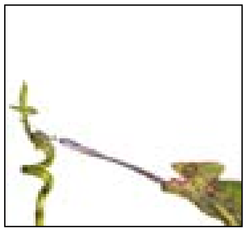


FOCUS ON CORE COMPETENCE

LPKF is a specialist in the laser micro processing of a wide variety of materials.

One key factor for success stems from the Company's focus on the following core competencies: laser technology and optics, precision drive systems, control technology and software, and materials technology.

MINIATURIZATION



PRECISION

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The Management Board

(From left to right)

DR. CHRISTIAN BIENIEK
Chief Operating Officer (COO)
Production, ERP and Administration

Born in 1967, member of the Management Board since 2012 – Christian Bieniek studied mechanical engineering (with a focus on manufacturing technology) before completing his doctorate at TU Braunschweig. He then worked in a number of companies. He has been a member of the LPKF Management Board since December 2012.

KAI BENTZ
Chief Financial Officer (CFO)
Finance, Human Resources and Organization

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. After qualifying as a tax advisor, he joined LPKF in 2002.

DR. INGO BRETTHAUER
Chief Executive Officer (CEO)
Strategy, Marketing and Sales

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.

BERND LANGE
Chief Technology Officer (CTO)
Technology, Research and Development

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
Chief Executive Officer

Chairman's statement

LADIES AND GENTLEMEN,

For the LPKF Group, 2013 has proven to be another successful year. We have increased revenue by 13 % to EUR 129.7 million and earnings also rose by 14 % to EUR 23.2 million. In late 2012, a very positive order volume of incoming orders was already suggesting a strong first quarter for 2013. This trend then continued for much of 2013.

Particularly pleasing was the persistently strong demand for LDS systems from Asia. South Korea played an important role here in 2013, with a sharp increase in demand following hard on the heels of a recent decision from major South Korean electronics firms to deploy our LDS technology. The knowledge that almost all leading smartphone manufacturers worldwide now use LDS technology "Made in Lower Saxony" is naturally particularly pleasing.

This South Korean development was the reason we decided to considerably expand our local presence. In 2013, preparations were made to establish a new, wholly-owned service and sales subsidiary in South Korea. The formalities for this new subsidiary were completed at the end of 2013 and it is scheduled to start normal operations on 1 April 2014. From this date, we will also have a wholly-owned subsidiary in what is now one of the fastest-growing Asian markets. This further increases our proximity to our customers and greatly improves the support we provide for rolling out our technologies. Especially when introducing brand-new technologies, our customers very much appreciate direct contact with our offices. This applies equally to our sales team and our service staff. Apart from the LDS business, South Korea is currently also a very interesting market for our Welding Equipment and PCB Production Equipment divisions. We are very confident about our business prospects in South Korea. Strong demand from South Korea was the reason behind the excellent performance in our Electronics Production Equipment segment.

Business in the Welding Equipment product group also continued to perform well, thus enabling us to compensate most of the expected downturn in revenue from solar business in the Other Production Equipment segment. Capacity utilization in Welding Equipment reached a point where the physical capacities of facilities at our old site in Erlangen reached a critical bottleneck. To resolve this bottleneck, we made the largest investment in our company's history in 2013, acquiring significantly larger premises in Fürth – and in an almost brand-new condition. With the relocation of our entire Welding Equipment business to these premises by fall 2013, the foundations for future growth have now been laid here as well. Our colleagues from this division can be particularly proud of this achievement, since they handled the move virtually without any significant interruptions to normal business. This is borne out impressively by this division's sales trend for the previous financial year.

In our oldest segment – Electronics Development Equipment and its rapid prototyping products – a sweeping change has occurred in 2013. Until just recently, this group was the only unit still achieving its business success with non-laser ProtoMat models – an achievement that laid the foundations for LPKF's initial growth. Yet in 2013, this group completed a migration to laser-based systems – the ProtoLasers. In 2013, ProtoLaser revenue first began to draw even with revenue from ProtoMat models. We will proceed to exploit this trend by continuing to launch new laser systems for prototyping on the market. While we have historically concentrated on prototyping solutions for the creation of circuit board prototypes, we will now be expanding our portfolio to offer laser-driven prototyping systems for virtually all of our manufacturing technologies. A start has already been made with the first ProtoLaser for our LDS technology, which has been enthusiastically received by our customers. Ultimately, our strategy of offering our customers a more affordable development environment will also work to generate positive effects on demand for our production systems. Our next product will involve the market launch of a ProtoLaser for plastic welding.

In the solar energy market, the general situation remains difficult. In light of this fact, the acquisition of a major order with a volume of approximately EUR 15 million in this very product group at the beginning of 2014 was naturally a very welcome development. This also halts the downward trend visible and expected in 2013 sooner than anticipated. While this puts us in a comfortable position, it is certainly too early to speak of a sustained reversal of this trend. Yet we can remain quietly confident about our solar business over the course of 2014.

At the end of 2013, we acquired the 25 % non-controlling interests from the co-partners of our Slovenian subsidiary LPKF d.o.o. in Slovenia. With the assumption of these interests, a shareholder dispute was also resolved out of court to the mutual satisfaction of all parties. This now enables us to take a far more systematic approach to orienting our subsidiary in Slovenia on the Group's growth targets. As a result, LPKF AG now holds a 100 % share of interests in its nine subsidiaries. This will make the Group stronger as a whole, since the specific interests of other shareholders will no longer be able to distract us from focusing on the success of the Group.

My heartfelt thanks – and those of my Management Board colleagues – are also due to the members of our Supervisory Board. The Supervisory Board and Management Board remain in close contact, also outside regular meetings. This significantly accelerates and streamlines decision-making. I would also like to take this opportunity to offer my heartfelt thanks to our employees for their unwavering commitment. The successes of the 2013 financial year were made possible solely by their dedication to our products and our customers. I look forward to our further successful teamwork together!

The solid progress made by our company in 2013 has also been reflected in the performance of our share. Over the course of the year, our share price rose by 129 %, i. e. the price more than doubled. We are very pleased that this performance and the dividend payment has brought our shareholders considerable benefits from the positive development of the LPKF Group in 2013.

Yours sincerely,

Dr. Ingo Bretthauer
(Chief Executive Officer)

Questions for the Management Board

Dr. Bretthauer, in contrast to general market developments, you enjoyed a very strong year in 2013 and adjusted your forecast upwards. In your opinion, does this result from an unexpected boom in LDS technology or do you think the primary reason for this strong performance is actually structural, i. e. a migration from conventional product technologies to laser-driven technologies?

Bretthauer: Both factors probably play a role here: after all, LDS technology is itself a new kind of laser-based procedure that is supplanting conventional systems. One particular feature of 2013 was that South Korean manufacturers with large shares of the smartphone market finally recognized the potential of LDS and are now also deploying our technology. This is a very pleasing development, since it means almost all of the world's leading smartphone makers now use our LDS technology.

Where do you see the greatest potential for growth over the next few years?

Bretthauer: LDS will continue to be the strongest segment for the foreseeable future. The smartphone market, where we are already strongly represented, is still growing. Yet we also expect to see a continuous stream of application scenarios from outside the smartphone sector. Alongside LDS business, we believe that the segments of PCB Production Equipment and Welding Equipment will continue to offer major potential for growth. Actions that we have taken to prepare for this include a major investment made in Welding Equipment in 2013, establishing the infrastructural environment required to continue the success story of this segment.

Mr. Bentz, following a weak year in 2013, analysts expect LPKF's key sales markets (PCB, automotive, polymer technology applications) to show significantly greater willingness to invest in 2014. Do your order books reflect this situation?

Bentz: Often, our customers are using LPKF laser systems to replace established manufacturing processes. As a result, capacity expansion on the part of our customers is rarely a driver for our business. We naturally look forward to the forecast upswing in the economy, however, and hope it will have some appropriately positive effects.

For the next few years, your current guidance implies an EBIT margin slightly below the current figure. Will stronger growth of business with non-LDS systems dilute the EBIT margin?

Bentz: Our business model is based on leveraging our core competencies to address a variety of markets. This gives our overall business development a certain degree of stability. In the year just past, our LDS business showed exponential growth. We do not expect a repeat of this in 2014. This year is a year for other products to show their growth potential. While a change to the product mix would indeed cause a slight reduction to the EBIT margin, this margin should, in accordance with current planning, be far in excess of the industry average.

LPKF has invested heavily in 2013. Will this level of investment be maintained over the next few years?

Bentz: No. The major investments made in our plastic welding business resulted in a very high level being reached in 2013. In 2014, we will complete the investment projects begun at our Fürth and Garbsen sites during the previous year. In the years that follow, our investments should then be at a level lower than 10% of our revenue. This does not include acquisitions – which are also difficult to plan over the long term.

Mr. Lange, what are the benefits of laser systems for your customers? Who buys and uses your equipment?

Lange: In most cases, we replace conventional production techniques with laser-driven processing. There are several reasons why users might use our systems. Laser processing of materials is precise, contactless and virtually residue-free. These are major factors in the reliability of electronics used in cell phones, for example. Solar cell makers also benefit from our high-precision systems, since they can manufacture solar modules to be more efficient. Laser welding involves the reliable formation of tight joins between plastic parts – as used in automotive electronics, for example. There are many more examples. As a general rule, one can state that the vast majority of our products are now being deployed in industrial manufacturing, where they secure major economic benefits for the customer.

What importance is attached to the continuous development of niche technologies in terms of maintaining dynamic growth and keeping margins high? What are the inherent risks?

Lange: The general trend towards miniaturization and functional integration in electronic devices regularly offers new applications for the laser as a high-precision tool. And laser technology itself is also making rapid advances. This pair of dynamic processes is powering success at LPKF. Our future growth depends on our development of existing product lines and the opportunities offered by new applications. That lies at the heart of our development work. And appreciable margins can also be earned on truly novel technologies that translate to substantial economic benefits for our customers. The risks we accept in the process are the same as for any technology business. Have we allocated our limited resources to the right areas? Have we thought long and hard about the future of technology? Have we properly understood the end user's requirements? Is our time to market fast enough?

Considering the rapid pace of technological change, how important is patent protection for business operations? For example, what are the consequences of losing a patent in China?

Lange: For LPKF, technological development implies investment – and patents on new technologies play a major role in protecting such investments. That said, the situation in China – where a patent held for over 10 years has for the moment been revoked – shows that patents alone do not offer watertight protection from imitators. Just as important are continuous improvements to our systems engineering to maintain a technology gap between ourselves and such imitators.

Dr. Bieniek, the Welding Equipment product group completed a site relocation in the year just past. Production facilities have doubled in size. How will these new circumstances affect this business segment? What growth do you expect in this area?

Bieniek: The recent critical space shortages in production produced physical problems during assembly while ultimately hindering our delivery operations. With our new premises, we have now laid the foundations for further optimization of our production processes in terms of their efficiency, quality and ergonomics. Considering the above-average revenue growth planned in our Welding Equipment business segment, we can now handle four to five years of growth without constraints on space. Capacity to handle expansion over and above this level of business development is available at our Fürth site.

The major Solar Equipment order will complete before the end of 2014. What volume of sales do you expect in 2014? Are there prospects for the technology outside the PV sector?

Bieniek: In 2014, we expect revenue in the Solar Module Equipment product group to increase slightly on account of the new major order worth EUR 15 million. This order also constitutes a positive sign of recovery in the solar market. This order also constitutes an positive sign of recovery in the solar market, however. We are convinced this revitalization will be driven in particular by the trend for greater energy conversion efficiency. In this context, we believe laser technology will prove to be significant. We are also now working on new business models beyond the solar sector to make our Suhl site independent of demand from the solar market in the medium to long term.

Over the last two years, LPKF has invested a considerable amount of effort in restructuring to focus on company growth. Has the flexible medium-sized enterprise now become a rigidly-focused corporation?

Bieniek: The LPKF Group has experienced rapid growth in recent years. Structures and processes that had long worked well were now in danger of becoming inefficient. Which is why we made a timely start, launching the Group-wide ORG200 project two years ago with the aim of making the Company capable of further growth. Throughout this change project, the core design principle has been to maintain the strengths of the organization's historically decentralized structure while improving the utilization of synergies throughout the Group. We have mastered this balancing act by promoting the autonomous orientation of our various business segments on the separate needs of markets and customers on the one hand, while achieving efficiency gains by optimizing Company-wide support processes across all of our sites. Units such as Purchasing, Finance, HR and Basic Research have led the way here.

Report of the Supervisory Board

LADIES AND GENTLEMEN,

LPKF Laser & Electronics AG grew again in financial year 2013, lifting consolidated revenue from EUR 115.1 million to EUR 129.7 million, an increase of 13 %.

The EBIT margin of 18 % somewhat exceeded the Company's target, a result achieved primarily thanks to the LDS business, which again grew robustly. Another particularly positive note is the 96 % increase in the revenue generated by our North American subsidiary LPKF Distribution Inc. to which the LDS business, and especially the Plastic Welding segment, contributed. Here, too, the efforts to restructure the Group as part of the ORG200 project are bearing fruit.

MONITORING AND ADVISING

In the 2013 financial year, the Supervisory Board closely monitored the highly dynamic performance of LPKF Laser & Electronics AG and fulfilled its duties pursuant to the law and Articles of Incorporation. Last financial year, the Supervisory Board held twelve meetings, four of which were not regularly scheduled. All three members of the Supervisory Board participated in all meetings – with one exception where one member participated by phone and submitted a vote in writing. In some cases, the meetings were held without the Management Board present.

The Supervisory Board passed resolutions after considering the opportunities and risks where required by the law, the Articles of Incorporation or the rules of procedure.

The Management Board presented to the Supervisory Board proposals requiring its approval in accordance with the Articles of Incorporation and rules of procedure of the Management Board, and the Supervisory Board approved them, if necessary after amending the proposals submitted. In addition, the Supervisory Board is satisfied that the actions of the Management Board were legal, proper and fit for purpose.

The Supervisory Board regularly monitored the Company's management and advised the Management Board with regard to managing the Company at the Supervisory Board meetings and in a multitude of discussions with the Chairman of the Management Board as well as the members of the Management Board and other Supervisory Board members.

The Management Board informed the Supervisory Board without delay and comprehensively of all issues important to the enterprise with regard to strategy, planning, business development, risk situation, risk management and compliance. In doing so, it addressed any deviations in the Company's development from plans and targets, stating the reasons for such differences. The Supervisory Board was always involved at an early stage in all decisions of importance to the Group. The Management Board reports monthly in writing to the Supervisory Board at the level of the parent company about the statement of financial position, income statement, liquidity planning, business situation, product quality, status of development projects, risk management and the Company's risk situation. Such reports on the Group are submitted once a quarter.

MAIN FOCUS OF THE DISCUSSIONS

The circumstances that came to light in Slovenia at the end of 2012 and led to the dismissal of a managing director took up much of the Supervisory Board's time in 2013. Various court cases had been pending in Slovenia as a result of the managing director's dismissal. These legal proceedings related firstly to the managing director's employment contract and secondly to the position of the minority shareholders. After the interests held by the other shareholders were acquired, all cases were deemed resolved in late 2013. Notwithstanding the settlement of the conflict in the meanwhile, changes to the internal control system were investigated and implemented by the Management Board against the backdrop of these circumstances.

The first phase of the ORG200 project was completed at the end of March 2013 and the second phase launched in the course of 2013. The second phase is being carried out and managed mostly in-house. Management of this change included conducting an extensive communication campaign to support implementation of the results obtained with various measures. The Management Board and Supervisory Board have taken stock of the project and found it positive overall. ORG200 addressed many important issues, and the project has had noticeable effects on the Group's organization, even if no direct connection can be drawn between ORG200 and the business results. A key component of the ORG200 project is the effort by the LPKF Group to ensure the best possible quality of the products and processes in the Group. Therefore, one of the objectives of ORG200 was to further heighten awareness of quality in the Company. To this end, a separate Quality Manager position was created, and, in addition, the Quality Management and Second Level Support units were consolidated into a single department and placed within the purview of Management Board member Dr. Bieniek.

In 2013, a major topic of discussion within the Supervisory Board and between the Supervisory Board and the Management Board was the issue of Management Board remuneration, particularly the future remuneration structure. The Supervisory Board, with early support from corporate and remuneration consultants and in cooperation with the Management Board, developed a new Management Board remuneration system that more strongly than before links the variable components to defined targets.

The defined targets are as follows: quality improvements, positive share price performance, Group EBIT (target EBIT), and EBIT per employee (target EBIT/employee). Accordingly, a variable remuneration component based on an error rate as a quality indicator as well as an option program (cash-based phantom stock program) were designed as long-term incentives. The variable compensation components based on target EBIT and target EBIT/employee were structured as short-term incentives. The relevant contractual agreements were reached with Management Board members Lange, Bentz, and Dr. Bieniek in 2013 and enter into force in 2014. In the current financial year 2014, the corresponding agreements have also been reached with Dr. Bretthauer. As a result, all of the Management Board members are now working under a uniform remuneration system with uniform targets.

The plan is to extend the remuneration structure to other managers in the Group going forward to ensure that the Group as a whole is being managed according to the same goals.

In a two-day strategy meeting, the Management Board and Supervisory Board deliberated on and discussed the Group's strategy. Most of this closed-door meeting was held with the heads of the divisions to account for the perspective of the divisions adequately in addition to the perspective of the Management Board.

The growth of the Company was a topic of discussion for the Supervisory Board mainly in the context of investment planning. The Board agreed to increase capacity in Fürth and to expand and redesign the main administrative building in Garbsen.

It is perhaps a symptom of the Company's growth that legal disputes concerning patent infringement and the effectiveness of patents have increased substantially in number, especially with regard to the LDS patent. The Management Board and Supervisory Board agree that the LDS patent must be defended. The Company has budgeted for and will continue to budget for the resources required for handling such disputes – whether as a plaintiff or defendant (as in China).

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

In 2013, the Supervisory Board also intensively discussed the implementation of corporate governance standards in the Company. LPKF Laser & Electronics AG reports extensively on corporate governance in the Corporate Governance Report. On 4 March 2013 and again on 21 March 2014, the Management Board and Supervisory Board issued the annual Declaration of Compliance in accordance with Section 161 German Stock Corporation Act (Aktiengesetz) which reports deviations from the recommendations and outlines the Supervisory Board's objectives for its composition. The declarations are also reproduced in the Corporate Governance Report. Additionally, the Declaration of Compliance is publicly available on the Internet at http://www.lpkf.com/investor-relations/corporate-governance/declaration-compliance.htm. LPKF Laser & Electronics AG fulfills the majority of the recommendations and is committed to the Corporate Governance Code as an integral part of its corporate governance activities. No conflicts of interest arose in the reporting year (see "Potential conflicts of interest"); the independence of the members of the Supervisory Board was ensured.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

As resolved by the Company's Annual General Meeting, the Supervisory Board engaged PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) to audit the 2013 annual and consolidated financial statements and defined the focal points of the audit. 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 3 March 2014 and 21 March 2014 and reported on the audits of the annual and consolidated financial statements. Furthermore, after reviewing the risk early warning system, the auditor of the financial statements confirmed that the Management Board executed the measures required by the German Stock Corporation Act to identify risks that could endanger the continued existence of the Company as a going concern.

The documents concerning the annual and consolidated financial statements and the 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 reported on the main findings of their audit at the relevant Supervisory Board financial meetings, especially providing explanations on the financial position, cash flows and profit or loss of the Company and the Group as well as further information. There were no circumstances that cast doubt on the impartiality of the auditor. The auditor reported on these activities along with the auditing of the financial statements to the Supervisory Board as agreed.

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 323 of the German Commercial Code (Handelsgesetzbuch) in particular. At its meetings on 3 March 2014 and 21 March 2014, the Supervisory Board agreed with the result of the auditor's audit and 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 very positive business performance in the reporting year and the positive outlook for 2014, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 5 June 2014 that it pay a dividend of EUR 0.25 per share.

The German Financial Reporting Enforcement Panel (FREP) audited the consolidated financial statements of LPKF Laser & Electronics AG for the period ended 31 December 2012 and

DR. HEINO BÜSCHING
Chairman of the Supervisory Board

the Group Management Report for the 2012 financial year in accordance with Section 342b (2) sentence 3 no. 3 of the German Commercial Code (Handelsgesetzbuch). In a decision dated 26 November 2013, the FREP informed the Company that the responsible Panel chamber did not find any errors in the accounting for financial year 2012.

POTENTIAL CONFLICTS OF INTEREST

The Supervisory Board gave approval for Mr. Bernd Hackmann to consult for LPKF customer Becktronic GmbH. Mr. Hackmann advises this customer on occasional questions regarding the production of a new type of print stencils, currently two to three days per year. The Management Board of LPKF AG does not believe that this constitutes a conflict of interest with the activities of LPKF's Supervisory Board.

STAFFING

In view of their constructive and efficient collaboration, the members of the Supervisory Board have decided to again stand for election at the Annual General Meeting in 2014.

THANKS

The Supervisory Board would like to thank the Management Board and all of the LPKF Group's employees worldwide for their excellent work in financial year 2013. With their extraordinary commitment, they all contributed to the LPKF Group once again generating impressive revenue growth and very good earnings, both of which can never be taken for granted.

Garbsen, Germany, March 2014

Dr. Heino Büsching
(Chairman of the Supervisory Board)

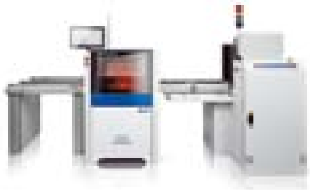
LPKF Group

Product group profiles

Precision, cost-efficiency and versatility: three core requirements in the production of high-quality electronic components. Electronics Production Equipment at LPKF meets these industry requirements while setting its own benchmarks. Laser systems in this segment are increasingly replacing mechanical systems with economic alternatives based on high-precision laser technology. Customers benefit from economical, efficient laser processes. Electronics Production Equipment brings together three product lines from industrial manufacturing under one roof.

ELECTRONICS PRODUCTION EQUIPMENT

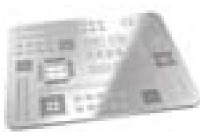
StencilLaser G6080



MicroLine 2120Si

Fusion3D 1500

StencilLaser Equipment:
To connect electronic parts securely to the circuit board, solder is deposited on the board using solder paste printing. This process requires high-precision print stencils, featuring cutouts at the places to be printed. The LPKF StencilLaser cuts these stencils precisely to the micrometer. New procedures such as step stencil production expand the product portfolio – and thus the benefit for our customers.



LPKF StencilLasers make up some 75 % of the global market, and have a reputation of being especially reliable, fast and precise.

PCB Production Equipment:
The ultimate in compact precision: MicroLine laser systems separate flexible, rigid-flexible and rigid circuit boards from large-format panels without mechanical stress.

The high-precision laser process cuts close to the edge of sensitive circuit traces or components, can work the multi-layer substrates used in demanding applications and offers impressive cost-efficiency. More powerful laser sources and new automation options open up new fields of application. Development of cost-effective systems opens up new markets.

LDS Production Equipment:
The LDS (Laser Direct Structuring) product line is a major contributor to the success of the LPKF Group. In LDS, a laser cuts circuit tracks in a three-dimensional plastic substrate.

Metallized circuit traces are then formed along these tracks. The patented process enables small, compact smartphones, and is also becoming increasingly established in automotive and LED technology.

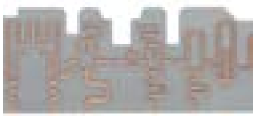
Market launches can be brought forward with in-house prototyping solutions from LPKF.

Two further segments round off the LPKF portfolio: products from Welding Equipment are used to securely bond the plastic parts used in automotive, medical and electronics, while the Laser-Scribers from the Solar Module Equipment segment boost the performance of thin-film solar cells.

ELECTRONICS DEVELOPMENT EQUIPMENT

ProtoMat D104

Rapid Prototyping: LPKF leads the market in non-chemical processes for PCB prototype production. Instead of etching, boards are structured by a mechanical or laser system. LPKF's portfolio now also features rapid prototyping systems, and procedures for laser plastic welding and 3D LDS components.

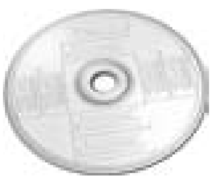


Continuous enhancements to both procedures and products have secured in-house prototyping a stable position in our portfolio.

OTHER PRODUCTION EQUIPMENT

PowerWeld 3000

Welding Equipment: In laser plastic welding, the laser beam penetrates the upper joining partner, releasing heat energy in the lower part. This produces reliable and visually appealing weld seams. Systems and procedures offered by LPKF are increasingly supplanting conventional joining techniques, while their annual double-digit revenue growth underlines their importance for automotive, medical and consumer technologies.



Allegro

Solar Module Equipment: Success in the solar industry is decided by the energy conversion efficiency of solar modules.

With its Allegro-class scribers, LPKF sets new standards, combining rapid laser scribing, dynamic glass transport and specific orientation on scribings already completed to offer higher energy conversion efficiencies to the makers of thin-film solar modules.

LPKF OFFERS A BROAD PORTFOLIO OF PRODUCTS FOR A VERY DIVERSE RANGE OF MARKETS AND APPLICATIONS.

This broad-based approach ensures stability in business development. Yet, despite product group diversification, everything at LPKF revolves around laser-based micro material processing. And this is exactly where expertise and experience in the fields of precision drive systems, laser technology, optics and materials technology make their mark.

This know-how is augmented by an in-house software development unit.

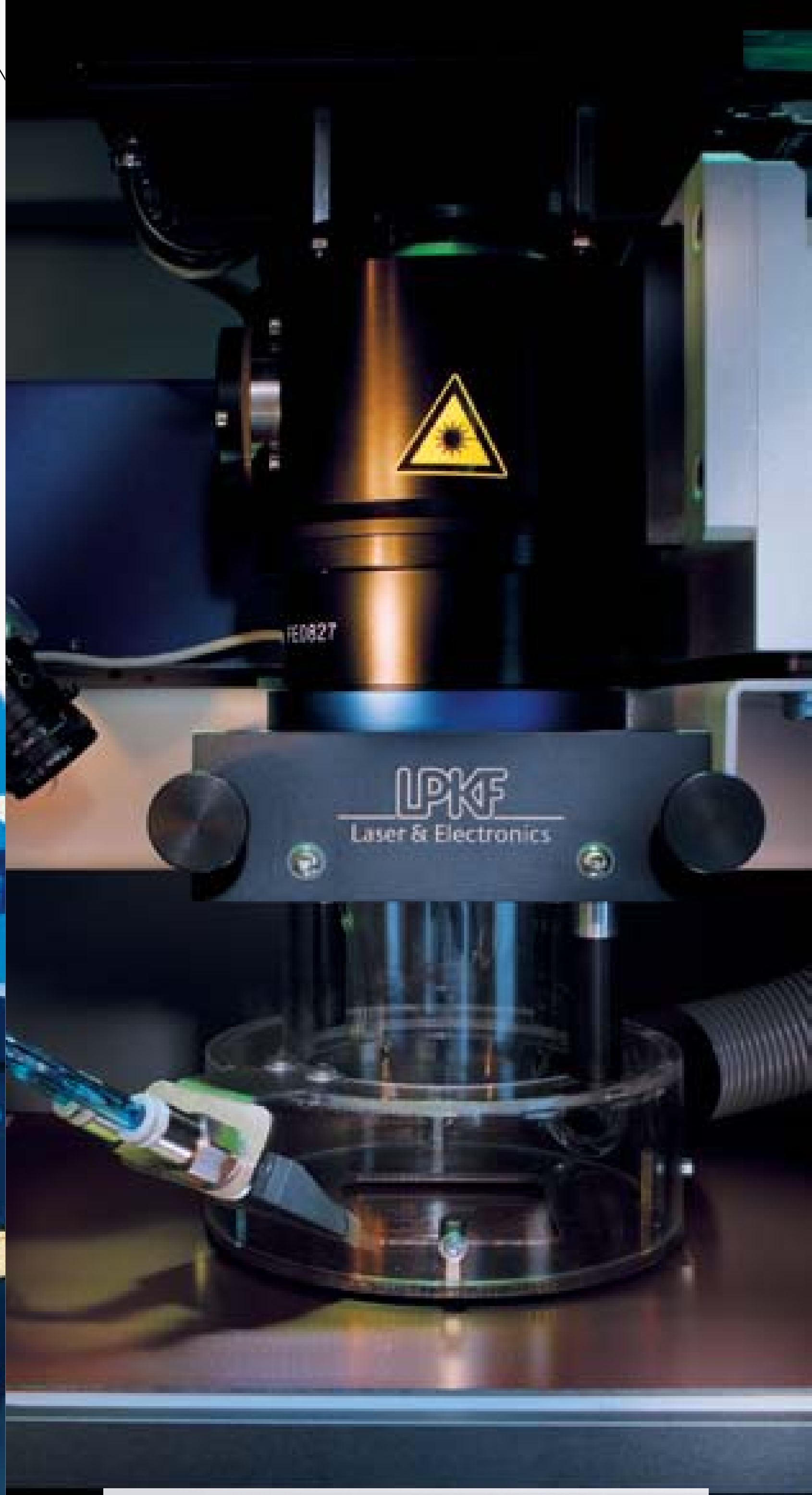
A driving force.

Miniaturization

SMALLER, LIGHTER, MORE MOBILE …

If electronic devices are getting smaller, then this is also true of their prototypes. Every cell phone on the market today was first designed in an R&D department and then tested as a prototype. Even as the prototype was being created, the bottom line was "make it smaller – lighter – more compact!" Miniaturization is pushing the use of high-precision tools to ever-greater heights and offers the perfect environment for laser technology – also for the development of electronic devices.

* *LPKF ProtoMat models work with mechanical mini-milling cutters with diminutive diameters of up to 0.20 mm. The focused laser beam of a ProtoLaser has a diameter of 0.02 mm or 20 micrometers.*



A driving force.

Miniaturization

LPKF | **Products**

COMPACT AND POWERFUL PROTOLASER U3

In the 2013 financial year, the LPKF ProtoLaser U3 was the most successful product in the Rapid Prototyping segment. It opens up new horizons for electronics developers. When deployed for in-house prototyping, the unit can process unusual materials, easily handle complex substrate structures, and is ideal for the rapid production of prototypes featuring multi-layer circuit boards.

LPKF | **Product groups**

FOR EXAMPLE: RAPID PROTOTYPING EQUIPMENT

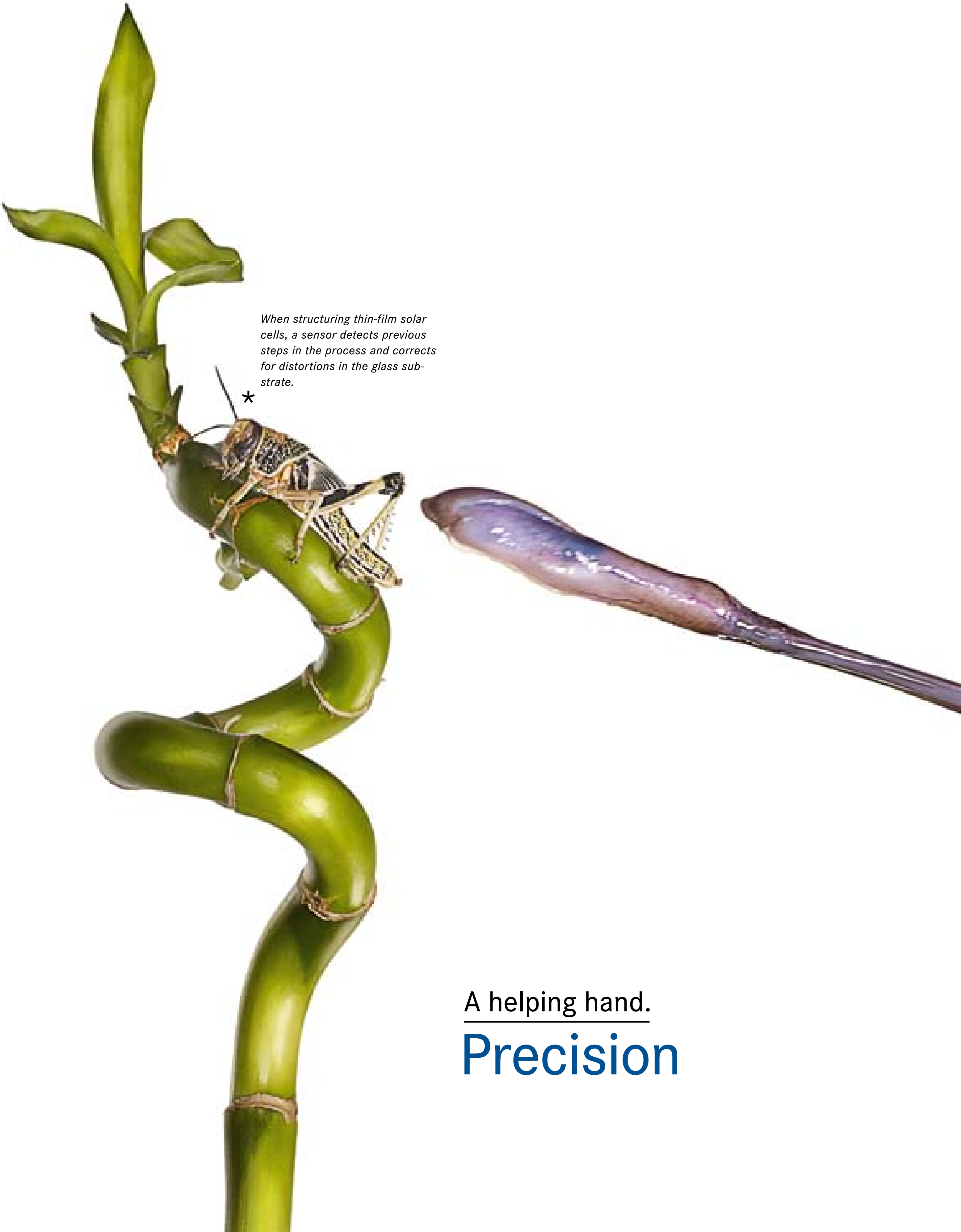
The Rapid Prototyping Equipment product group targets customers in industry's R&D departments, as well as universities and other research institutions. PCB prototypes that used to be chemically etched can now be manufactured and tested at short notice in the Company's own laboratory. Here, LPKF offers mechanical and laser-based systems, plus a complete set of equipment and procedures for downstream processing steps – right up to fully-functional circuit boards.

Although electronics manufacturing has a strong regional focus in Asia, the design and development of electronic devices takes place in advanced economies all over the world. The market consists of many independent customers – not just developers but also schools and universities, whose procurement decisions are especially budget-dependent.

Historically, the Rapid Prototyping product group has restricted itself to systems for PCB design and development. From late 2013, this LPKF segment has started to offer development systems for LDS Production Equipment and – most recently – Welding Equipment. This strategic expansion of the segment aims to make it simpler for customers to get started in laser production via their own R&D departments. These development systems are offered at considerably reduced prices compared to the much more powerful production systems.

LPKF ProtoMat models work with mechanical mini-milling cutters with diminutive diameters of up to 0.20 mm. The focused laser beam of a ProtoLaser has a diameter of 0.02 mm or 20 micrometers.

Compact – yet still versatile and powerful: the LPKF ProtoLaser U3 is the Swiss Army knife of the electronics lab.



When structuring thin-film solar cells, a sensor detects previous steps in the process and corrects for distortions in the glass substrate.

*

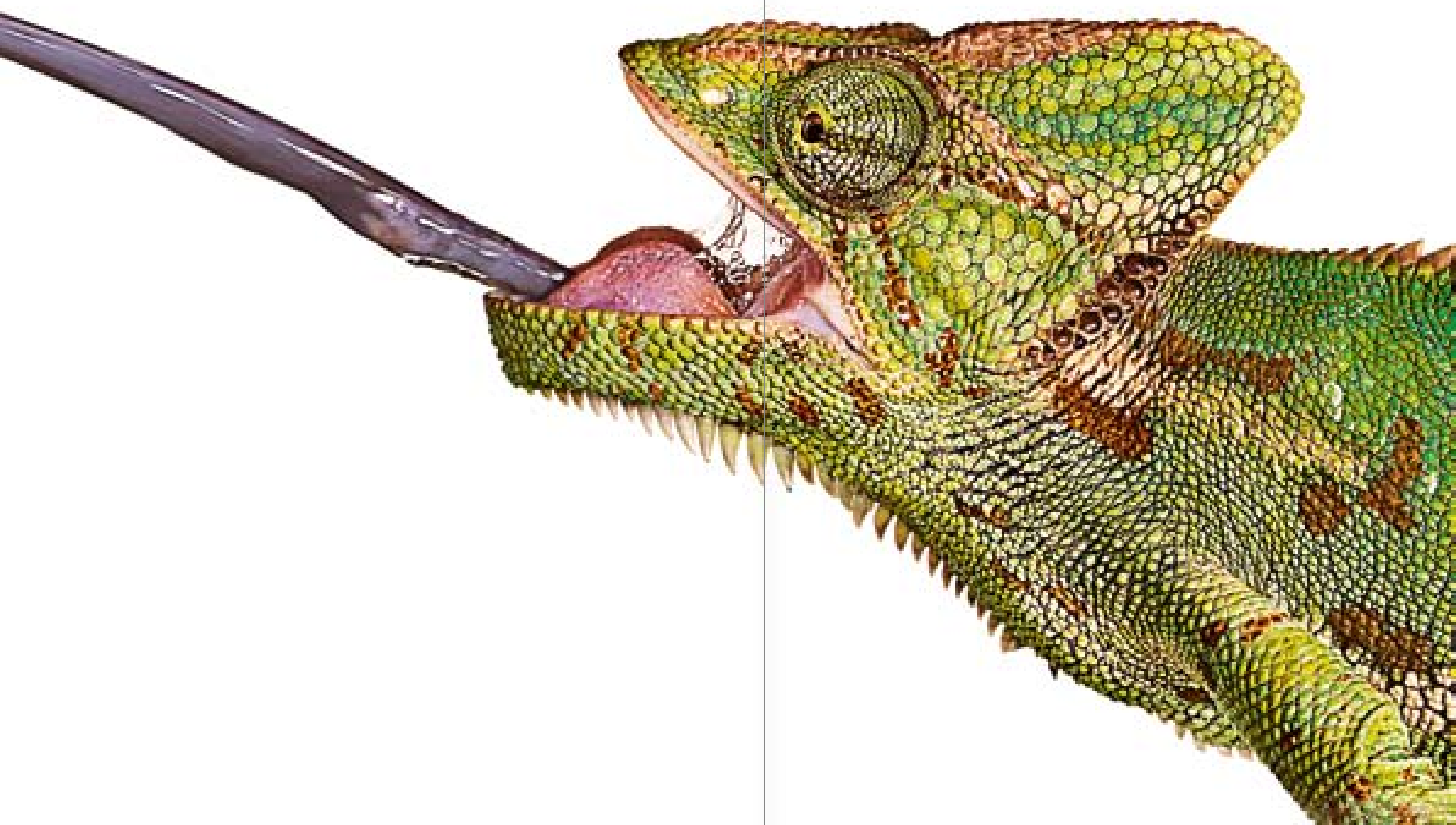
A helping hand.

Precision

SUCCESS?
PRECISELY …

The precision of a focused laser beam has yet to be equaled. For this reason, the laser continues to gain ground as a tool for micro material processing.

When structuring thin-film solar modules, the deployment of high-precision laser systems can greatly enhance the efficiency of a solar cell. In series production, however, the laser's precision can be fully brought to bear only if the laser source forms an integral part of an equally well-choreographed machine.



When structuring thin-film solar cells, a sensor detects previous steps in the process and corrects for distortions in the glass substrate.

LPKF | **Products**

MAXIMUM MODULE EFFICIENCY ALLEGRO SERIES

The Allegro laser systems are deployed in laser structuring (i. e. laser scribing) processes for thin-film solar modules. Depending on the thin-film technology used, the Allegro systems are equipped with the optimum laser beam source for the application. For laser scribing, the Allegro series unites maximum performance with cost-efficiency.

LPKF | **Product groups**

FOR EXAMPLE: SOLAR MODULE EQUIPMENT

The Solar Module Equipment product group is part of the Other Production Equipment segment and targets the manufacturers of thin-film solar cells.

As a result of the proven efficiency improvements to solar cells due to the use of LPKF technology, the product group also performed well during the crisis years of 2012 and 2013. With a new major order of over EUR 15 million in January 2014, the solar division has turned in an outstanding start to the current financial year.

One of the special technical capabilities of the LaserScriber is dynamic path tracking. During scribing, a sensor detects the position of a scribing track machined in a prior processing step and guides all of the laser beams in the processing head to run parallel to this track. Dynamic path tracking thus reduces the necessary clearance zone between the tracks and maximizes module efficiency.

Undulated substrates, produced by high-temperature coating processes, significantly impair the result of the scribing process, thus lessening the process stability, yield and module efficiency. The dynamic focus tracking system developed by LPKF keeps the laser beams in their focal plane during laser scribing, this ensuring the necessary degree of process stability.

*

Greater module performance with laser precision: the Allegro LaserScribers produce efficient thin-film solar modules.

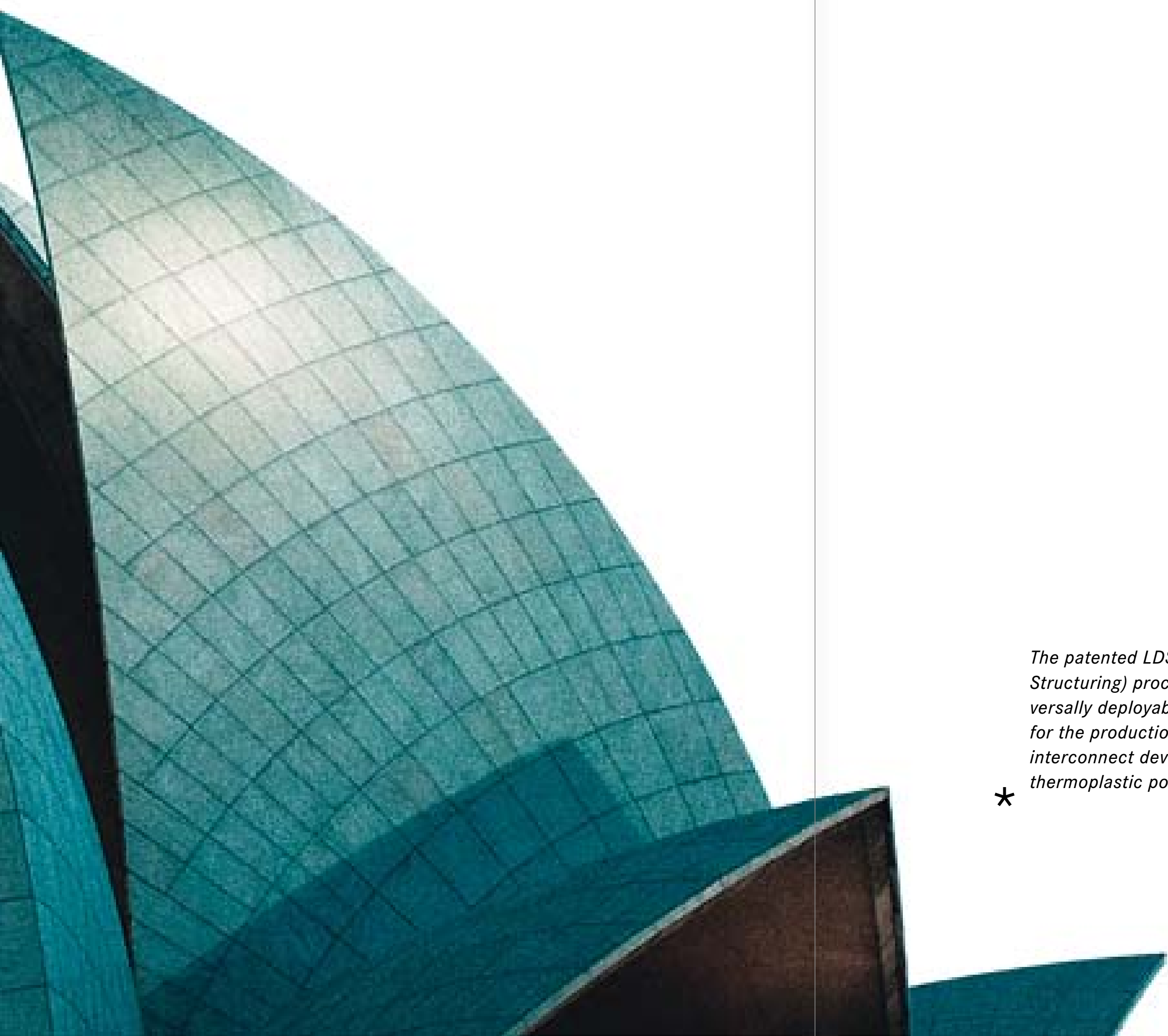
A flexible future.

Design freedom

FORM FOLLOWS FUNCTION …

Even today, many circuit boards are still rigid, rugged and rectangular. Yet if you want to embed circuitry into small, mobile devices such as smartphones, then you need to exploit the available space to the full.

This in turn requires the use of three-dimensional circuit carriers, which modify their form to precisely match spatial conditions. These modern circuit carriers are becoming more common and are opening up brand new horizons for product designers. LDS technology is playing a key role in these developments.



* *The patented LDS (Laser Direct Structuring) procedure is a universally deployable technology for the production of molded interconnect devices based on thermoplastic polymers.*

A flexible future.

Design freedor

LPKF | **Products**

PERFECT FOR LARGE-SCALE PARTS LPKF FUSION3D 1500

The LPKF Fusion3D 1500 was our top-selling LDS system in 2013. It translates our proven LDS smartphone antenna technology to larger components. With up to three laser sources and handling of two shuttles, it reduces non-productive time and ensures efficient component processing.

LPKF | **Product groups**

FOR EXAMPLE: LDS PRODUCTION EQUIPMENT

Revenue from LDS systems is reported in the Electronics Production Equipment segment. In the 2013 financial year, business in this product group – boosted in particular by major demand from South Korea – performed very strongly and was a potent driver for growth within the Group.

The laser direct structuring procedure enables complex circuit layouts to be created directly on three-dimensional plastic parts. No additional circuit board is required. Developers enjoy full 3D capabilities on free-form surfaces while also gaining considerable freedom to modify the circuit design. This flexibility has a major role to play, especially regarding the primary application for this technology – the antenna.

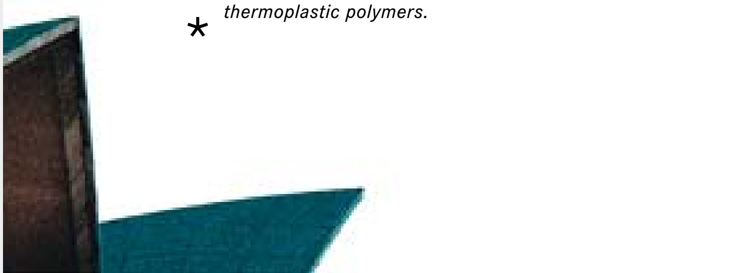
The antenna is a critical component that has the potential to be affected by the slightest change within the overall system. Antenna redesign work is therefore often required at short notice, even at a late stage in product development. Such fine-tuning is straightforward with LDS technology. To date, LDS has been used mainly in the manufacture of antennas for smartphones, laptops, and tablet PCs. Yet this is just the beginning: LED lighting, sensor packages and camera modules offer further potential.

*

With twin component shuttles and up to three laser heads, LDS production in the Fusion3D 1500 is a cost-effective process.

The patented LDS (Laser Direct Structuring) procedure is a universally deployable technology for the production of molded interconnect devices based on thermoplastic polymers.

*



A game-changer.

Substitution

NOT JUST SPLITTING HAIRS …

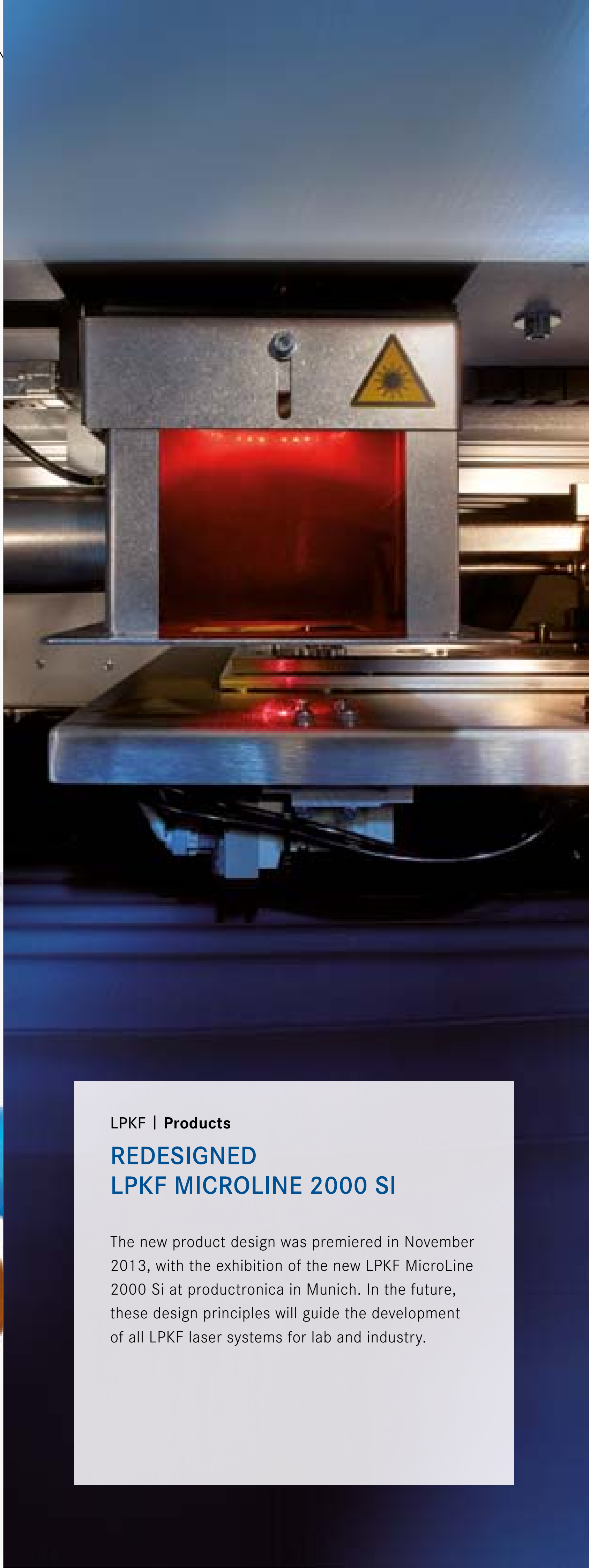
Perfection is the enemy of the good. Again and again, LPKF applies this maxim to successfully replace conventional production processes with laser technology. In most cases, the laser wins hands down on account of its superior precision – it could easily split a hair lengthways into neat, accurate strips. Yet precision alone is not enough to supplant a well-established mechanical machining process. High process speeds and exceptional reliability without mechanical deterioration are also required.

*

Circuit boards are machined precisely by the laser beam's focal diameter of just 20 micrometers (0,02 mm).

A game-changer.

Substitution



LPKF | **Products**

REDESIGNED LPKF MICROLINE 2000 SI

The new product design was premiered in November 2013, with the exhibition of the new LPKF MicroLine 2000 Si at productronica in Munich. In the future, these design principles will guide the development of all LPKF laser systems for lab and industry.

LPKF | **Product groups**

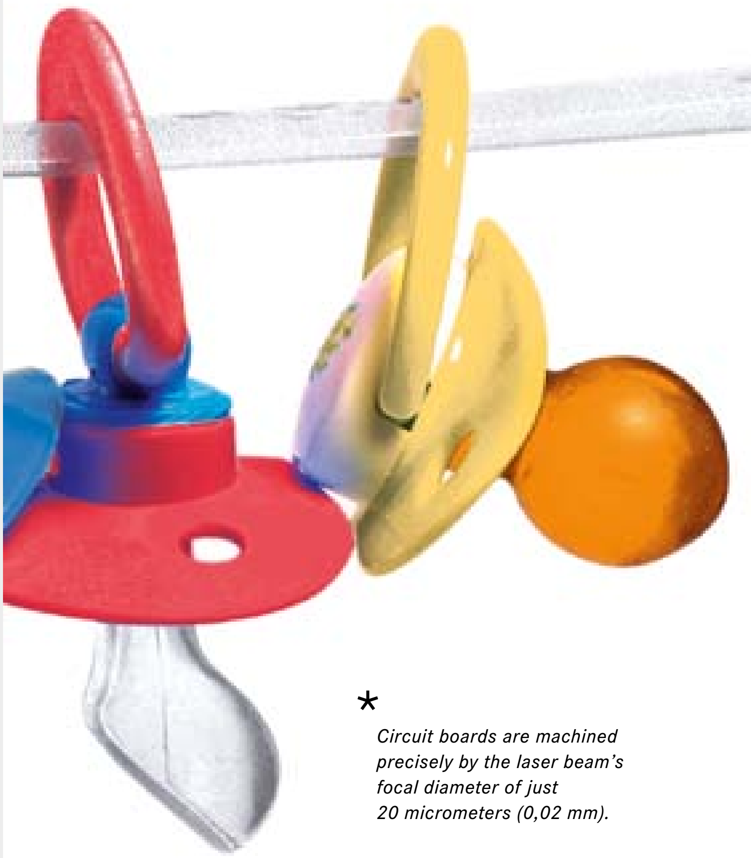
FOR EXAMPLE: PCB PRODUCTION EQUIPMENT

Business with circuit board machining systems is reported in the Electronics Production Equipment segment. The continuing miniaturization of cell phones, tablet PCs, etc. has important consequences for the innards of these devices. Circuit boards are becoming smaller, flimsier and more complex. When populating these boards with electronics, every millimeter of space becomes relevant.

The UV cutting systems can be used especially for separating circuit boards in arbitrary shapes from larger boards with great precision. Since the laser is a contactless process, the electronic parts are not damaged by the beam and can be positioned more closely to the machined edge. Customers can therefore use more of the circuit board and thus reduce scrap. The MicroLine systems are equipped with compact, energy-saving UV laser sources, designed and manufactured by the LPKF Group at its facilities in Slovenia. In late 2013, LPKF launched a new model on the market. The MicroLine 2000 Si is a compact system that can be fully integrated into the production line.

*

High-powered and well-designed: in spring 2014, the MicroLine 2000 Si won the iF product design award.



*

Circuit boards are machined precisely by the laser beam's focal diameter of just 20 micrometers (0,02 mm).

A cost cutter.

Cost-efficiency

* *LPKF's application experts and consultants help customers achieve their goal: efficiency in production.*

THE BOTTOM LINE IS THE BOTTOM LINE …

Despite the many obvious advantages of laser technology compared to conventional production techniques, economic factors always play a key role in the customer's final decision. Nor is the mere price of the machine important here.

The key factor is the performance it offers for that price. What effect does laser system deployment have on the cost per unit, on production speed and on the quality of the final product?

A cost cutter.

Cost-efficiency

LPKF | **Products**

NEW PROCESS LPKF PRECISIONWELD

The familiar LPKF ProtoLaser housing, but with all-new technology: With LPKF PrecisionWeld, the Welding Equipment product group not only offers an innovative laser system for use in the lab, but also a procedure for welding transparent joining partners. This results in new options for medical technology – such as in microfluidics, for example.

LPKF | **Product groups**

FOR EXAMPLE: WELDING EQUIPMENT

LPKF is one of the world's leading suppliers of laser welding systems for plastics. In 2013, the business segment more than doubled its production space by relocating from Erlangen to Fürth. Revenue is reported in the Other Production Equipment segment.

Laser plastic welding is a powerful example of how the application of economic feasibility analysis increasingly decides in favor of laser technology. In many applications, it is replacing conventional joining processes such as bonding or ultrasound welding. Stringent requirements for welding and process reliability create the most favorable conditions for laser technology. No other procedure is simultaneously so safe, hygienic and fast.

Automotive technology is a key field of application for laser plastic welding. Modern vehicles utilize a wide range of sensors to increase passenger comfort and safety. If sensitive electronic subassemblies are used in these sensors, then the laser's potential can be fully exploited: instead of screwing, bonding or casting sensor housings, the laser welds them seamlessly together – gently, safely and cost-effectively.

*

LPKF PrecisionWeld expands the range of applications to include precise clear-clear welding, such as is used in microfluidics.

The LPKF share

Very positive share price performance

129%
GAIN

The performance of LPKF's shares was outstanding in 2013. LPKF's share price rose 134 % from EUR 8.10 at the beginning of the year to EUR 18.92 on 27 December 2013, when it reached its high for the year. This equates to a market capitalization of EUR 421.34 million. On 31 December 2013, the share price was EUR 18.58 and thus some 129 % higher than the year's opening price.

On this date, the Company's market capitalization was EUR 413.77 million, allowing LPKF to secure a favorable spot in the TecDAX stock index. The Company took 17th place for revenue and was ranked 20th for market capitalization at the end of the year. Looking at the increase in share price over one year alone, LPKF was third among the TecDAX companies with a gain of 129 %.

STOCK MARKETS

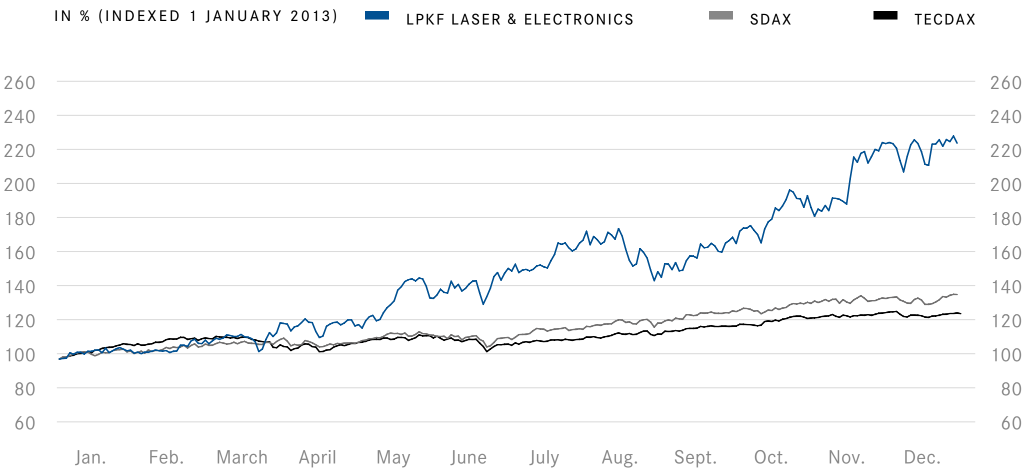
INDEXES UP WORLDWIDE

After an excellent year for the stock markets in 2012, when the Deutsche Aktienindex (DAX) rose nearly 30 %, analysts and economists had high expectations for 2013. Nonetheless, the positive performance up to year-end still came as a surprise to many. The DAX was up a solid 26 % in 2013, finishing trading for the year at 9,552 points on 31 December. German small and mid caps also exceeded all expectations. During the year, the MDAX rose by 39 % to 16,574 points, while the TecDAX climbed 41 % to 1,166.

Internationally, stock markets performed as well as those in Germany. The Euro Stoxx 50 finished the year at around 3,100 points, for an increase of 17 %. On Wall Street in New York, the Dow Jones Industrials jumped from record to record. Like the DAX, this index was up more than 25 % year-on-year. The NASDAQ technology index finished at 3,560 points – nearly 36 % higher than 12 months previously. The Tokyo stock market soared higher than it had in more than four decades by the end of the year: The Nikkei index rose to 16,291 points – its highest level since 1972. This represented a substantial gain of 57 %.

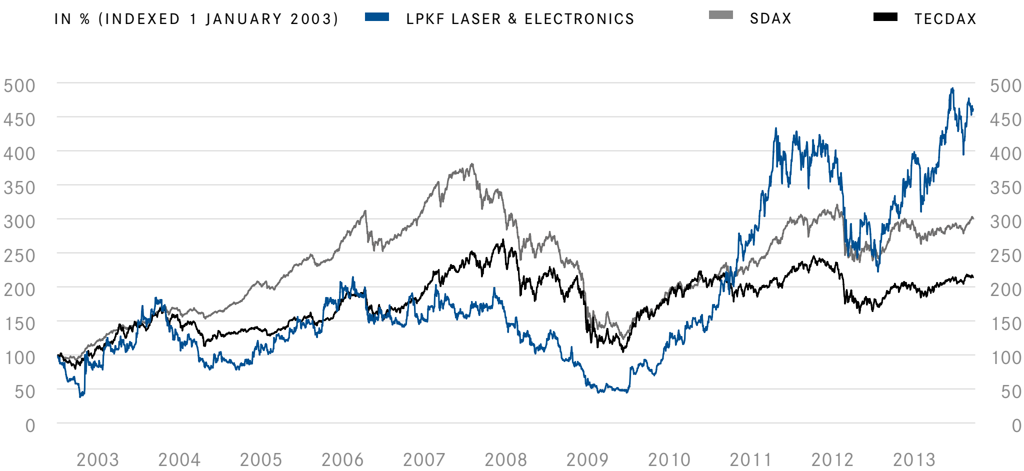
LPKF SHARE OUT-PERFORMS THE SDAX AND TECDAX

PERFORMANCE OF THE LPKF SHARE IN 2013



SOLID SHARE PRICE PERFORMANCE OVER TEN YEARS

PERFORMANCE OF THE LPKF SHARE IN 2003–2013



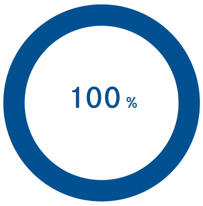
Stock prices were driven mainly by low central bank interest rates and in some cases very relaxed international monetary policy. In Germany, many companies impressed investors with excellent business performance and handsome dividends. Finally, the sovereign debt crisis in the euro zone eased in 2013, and this gave stock prices an additional boost. The DAX also benefited from the resurgence in the export markets so important to German companies, especially in North America.

STOCK MARKET OUTLOOK ON 2014

After a muted first half of 2014, most analysts project a further rise in stock prices from mid-year onward. Equities continue to be the investment of choice for investors seeking income from their investments after inflation. The majority of analysts agree that the DAX could break the 10,000-point barrier in 2014.

MARKET CAPITALIZATION AND SHAREHOLDER STRUCTURE

SHAREHOLDER STRUCTURE



FREE FLOAT

The subscribed capital of LPKF Laser & Electronics AG doubled to EUR 22,269,588.00 as the result of a capital increase from Company funds in May 2013. Likewise, the number of ordinary shares rose to 22,269,588 thanks to the issue of bonus shares. The ordinary shares are admitted to trading on the Prime Standard segment of the Frankfurt Stock Exchange's Regulated Market. According to Deutsche Börse AG's definition, all of LPKF's shares are held in free float. The positive stock price performance was also reflected in the Company's market capitalization. On 27 December 2013, the Company's market capitalization reached its high for the year at EUR 421.34 million. Our Company closed the year with a market capitalization of EUR 413.77 million as of 31 December 2013.

DIVIDEND POLICY AS PART OF CORPORATE STRATEGY

The sustained ability to pay a dividend is another key goal of the LPKF Group. 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 the financial position of LPKF AG or the Group at risk.

DIVIDEND PROPOSAL
EUR 0.25 PER SHARE

In view of the positive development of operations in 2013 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 5 June 2014 that a dividend of EUR 0.25 per share be paid. Based on the closing price for 2013, this would correspond to a dividend yield of 1.35 %.

Management additionally focuses on ensuring solid financing for the Company. This also includes ensuring an equity ratio of at least 40 % (currently: 56.6 %).

KEY FIGURES ON THE LPKF SHARE

	2013	2012	2011
Number of shares as of 31 December	22,269,588	11,134,794	11,100,940
High (XETRA)[1]	EUR 18.92	EUR 17.00	EUR 14.64
Low (XETRA) [1]	EUR 8.10	EUR 9.30	EUR 7.60
Closing price at year's end (XETRA)[1]	EUR 18.58	EUR 15.75	EUR 9.49
Market capitalization at year's end	EUR 413.8 million	EUR 175.4 million	EUR 104.2 million
Average daily trading volume (shares)	130,364	40,386	31,888
Earnings per share, diluted[2]	EUR 0.68	EUR 0.61	EUR 0.45
Dividend per share[3]	EUR 0.25	EUR 0.25	EUR 0.20

1 The previous year's figure were not adjusted to the new number of shares from the capital increase.
2 The previous year's figures were adjusted retrospectively due to the capital increase from Company funds.
3 2013: Proposal at Annual General Meeting; the previous year's figures were adjusted retrospectively due to the capital increase from Company funds.

DIALOGUE WITH SHAREHOLDERS, ANALYSTS, AND THE BUSINESS MEDIA

SIX ANALYSTS REGULARLY FOLLOW LPKF

In financial year 2013, we once again aimed to openly and continually communicate with all capital market participants. With the support of the Investor Relations department, our CEO, Dr. Ingo Bretthauer, and our CFO, Kai Bentz, spoke with institutional investors and analysts at a total of 20 road shows. The number of analysts who regularly analyze our shares increased from four to six in 2013.

We also held numerous meetings with private investors. We welcomed over 400 shareholders to our Annual General Meeting at the Hannover Congress Center on 23 May 2013 – all of whom were keen to acquire first-hand knowledge of our Company's economic situation. The lively interest shown by our private investors, some of whom have been with us for many years, is gratifying. We regularly host investing clubs to provide them with insight into our company.

We maintain contact with a number of journalists from financial and business publications. Numerous national media reported about LPKF's business performance in the 2013 financial year. For instance, in August Handelsblatt wrote about the "laser-driven rise" of our Company, and in the same month, LPKF was featured as the "Stock of the Day" on the Börse ARD portal. In September, Welt am Sonntag printed an extensive report on our LDS technology under the headline "It's a Megatrend." Frankfurter Allgemeine Zeitung devoted an article to LPKF in the Motor & Technology section in December.

IR CONTACT

WWW.LPKF.DE/INVESTOR-RELATIONS

The inclusion of the Company in the TecDAX index has awakened the interest of potential investors in LPKF. LPKF's website is an important platform for providing comprehensive and transparent information and is used intensively to communicate with shareholders and the capital market. Existing and potential investors can also contact us personally with their questions.

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 5131 7095-1382
investorrelations@lpkf.com

Corporate governance

Sustainable value creation and efficient collaboration

LPKF
FOLLOWS THE
GERMAN CORPORATE GOVERNANCE CODE

LPKF IS COMMITTED TO RESPONSIBLE AND GOOD 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 Article 289a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). This chapter also contains the statement on corporate governance pursuant to Section 289a HGB. For the remuneration report, please see page 56 of the combined management report.

Statement on corporate governance

1. PROCEDURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD WORK CLOSELY TOGETHER.

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 consists of four 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 CONSISTS OF THREE MEMBERS.

The Supervisory Board of LPKF AG 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. Effective at the end of the Annual General Meeting on 31 May 2012, the Chairman of the Supervisory Board resigned and a new member of the Supervisory Board was elected. 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.

According to Article 5.4.1 GCGC, the corporate governance report shall disclose the specific objectives of the Supervisory Board with regard to its composition in view of the Company's international activities, potential conflicts of interest, an age limit to be specified for Supervisory Board members, the independence of Supervisory Board members and diversity, the latter particularly in terms of an adequate proportion of women, and the status of implementation.

To this end, the Supervisory Board in its meeting on 13 November 2012 formulated the following objectives regarding its composition:

a) Addressing the international nature of the Company's activities

The international activities of LPKF Laser & Electronics AG have been reflected to date in the participation of shareholder representatives in the Supervisory Board and will continue to be addressed in the future in nominations of candidates by the Supervisory Board to the Annual General Meeting. In addition to the ability to speak and write English, the measure here is the professional experience acquired in other German and foreign companies with international operations, whether in management or supervisory bodies, and the understanding of global economic issues. The criterion of internationality does not stipulate that the Supervisory Board's composition include one or more Supervisory Board members holding foreign citizenship. Instead, German citizens can also contribute this desired experience.

b) Avoiding potential conflicts of interest

POTENTIAL CONFLICTS OF INTEREST SHOULD BE AVOIDED AS EARLY AS WHEN THE SUPERVISORY BOARD NOMINATES CANDIDATES TO THE ANNUAL GENERAL MEETING.

Potential conflicts of interest should be avoided as early as when the Supervisory Board nominates candidates to the Annual General Meeting. With the exception of the Supervisory Board's Deputy Chairman, who was Chairman of the Management Board of LPKF AG until December 2008, no former LPKF Management Board members sit on the Supervisory Board. In addition, when candidates are proposed to the Annual General Meeting, attention is paid to ensuring that the relevant candidate does not hold a management or advisory position or a position on the supervisory body of competitor companies, suppliers, creditors or clients in order to prevent conflicts of interest from the start. If conflicts of interest arise during a Supervisory Board member's term, the respective Supervisory Board member must disclose this to the Supervisory Board to the attention of the Chairman. In the event of material, not just temporary, conflicts of interest, the member must step down from his or her position.

c) Specifying an age limit

The age limit for members of the Supervisory Board was set at under 70 years at the time of election by resolution of the Supervisory Board on 22 January 2014.

d) Independence of Supervisory Board members

The Supervisory Board, currently with three members, must have at least two members who are independent within the meaning of the German Corporate Governance Code.

e) Diversity

The composition of the Supervisory Board of LPKF Laser & Electronics AG should reflect as broad as possible a spectrum of professional expertise and experience in various areas relevant to the Company. In filling future vacancies, the Supervisory Board will continue to also seek out suitable female candidates in view of the functional objectives of the Supervisory Board. Assuming equal qualifications, female candidates will be given preference. 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.

The status of implementation of the objectives regarding the composition of the Supervisory Board outlined in a) to e) above is as follows:

The objectives relating to a) "Addressing the international nature of the Company's activities," b) "Avoiding potential conflicts of interest," c) "Specifying an age limit," and d) "Independence of Supervisory Board members" have already been achieved. The Supervisory Board will take objective e) "Diversity (including an acceptable proportion of women on the Supervisory Board)" into account when nominating candidates to replace Supervisory Board members whose terms are ending and step up the search for suitable female candidates. The term of office of the Supervisory Board members is five years, and the current term ends with the Annual General Meeting in 2014.

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 2014 Declaration of Compliance on 21 March 2014 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 2014 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 15 June 2012, and declare that these recommendations have been observed since the last declaration was issued on 4 March 2013. LPKF has complied with the recommendations as amended on 13 May 2013 from 21 March 2014 and will continue to comply with them. The following exceptions apply:

In part, no multi-year assessment basis for variable remuneration of Management Board members (Article 4.2.3 (2) GCGC)

The Supervisory Board approved a new remuneration system for the Management Board on 24 June 2013. Up until the respective director's contracts were renegotiated, the Management Board received a profit-sharing bonus based on the Group EBIT with respect to a specific financial year. If a loss was reported in the following financial year, this loss would be subsequently taken into consideration under certain circumstances.

THE NEW SYSTEM COMPLIES FULLY WITH THE RECOMMENDATIONS OF THE CURRENT GERMAN CORPORATE GOVERNANCE CODE.

The new system complies fully with the recommendations of the current German Corporate Governance Code. It is applicable to three Management Board contracts as of 1 January 2014 and for all Management Board contracts as of 1 January 2015.

No severance pay cap agreed for Directors' contracts in case of premature termination of a Director's contract (Article 4.2.3 (4) and (5) GCGC).

Because they only run for three years, the Directors' contracts do not contain a cap on severance pay. If a Director's contract is terminated prematurely without cause, remuneration is limited to no more than the remaining contractual period. The Supervisory Board therefore considers it unnecessary to include in the Directors' contracts a cap on severance pay amounting to two years remuneration.

Formation of Supervisory Board committees (Article 5.3.1 and 5.3.2 GCGC)

Given that it has three members as required by German stock corporation law, the Supervisory Board of LPKF Laser & Electronics AG does not form any committees.

No multi-year assessment basis for variable remuneration of Supervisory Board members (Article 5.4.6 (2) GCGC)

A new Supervisory Board remuneration system, which also fully complies with the recommendations of the Corporate Governance Code, will be presented to the Annual General Meeting in 2014. Remuneration of Supervisory Board members currently comprises a fixed and a variable, performance-based component. The variable remuneration component for Supervisory Board members is based on the dividend paid for the respective financial year just ended and is in compliance with the legal provision stipulated in Section 113 (3) German Stock Corporation Act. Using the dividend as the basis for calculating variable remuneration ensures that the interests of both the Supervisory Board and the shareholders are aligned.

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 MANAGEMENT BOARD INFORMS THE SUPERVISORY BOARD ON A REGULAR BASIS OF EXISTING RISKS AND THEIR DEVELOPMENT.

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 Group management report and contains the report on the accounting-related internal control and risk management system pursuant to the German Commercial Code.

5. TRANSPARENCY

PRESS RELEASES, AND AD HOC ANNOUNCEMENTS WHERE STIPULATED, PROVIDE INFORMATION ON CURRENT EVENTS AND NEW DEVELOPMENTS.

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

THE CONSOLIDATED FINANCIAL STATEMENTS ARE PREPARED BY THE MANAGEMENT BOARD, AUDITED BY THE AUDITOR OF THE FINANCIAL STATEMENTS AND REVIEWED BY THE SUPERVISORY BOARD.

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 2013 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 2013 financial year.

8. COMPLIANCE – PRINCIPLES GOVERNING CORPORATE ACTIONS AND BUSINESS ACTIVITIES

Acting in compliance with the principles of corporate, environmental and social sustainability in accordance with applicable law is an indispensable element of LPKF's corporate culture. This includes trust, respect and integrity in interactions with other people, values expressed in exemplary behavior vis-à-vis employees, business partners, shareholders and the public. LPKF's understanding of compliance includes observing all laws, statutes and the Articles of Incorporation, complying with internal regulations, and honoring voluntary obligations.

LPKF AG considers it particularly important to build a compliance structure for the Group that makes compliance guidelines binding on all LPKF employees worldwide and is suitable for effectively preventing compliance violations for the benefit of the Group as a whole.

For this purpose, a Compliance Code that is applicable throughout the entire LPKF Group was adopted and published in early 2014. The goal of this code of conduct is to guarantee uniform ethical and legal standards throughout the entire Group.

Training on compliance was provided to the participants in a meeting of upper management (Levels 1 and 2) held on 24 May 2013. The particular focus of this training was raising awareness of export laws and ways to fight corruption.

After a compliance inventory was completed at the sites in Germany at the end of 2013, a Compliance Manual will be developed in 2014 which governs the areas of responsibility and authority, and workflows/processes of the compliance organization of LPKF Laser & Electronics AG and all of its subsidiaries (together the LPKF Group).

IN 2014 A COMPLIANCE MANUAL WILL BE DEVELOPED.

Additionally, a Compliance Committee and Compliance Office were set up for the purpose of regularly discussing compliance-relevant issues throughout the Group.

Risk management was further dovetailed with compliance management in that the Compliance Officer also assumed the function of Group Risk Manager.

Internal auditing, which is performed by an international audit firm functioning as a third-party service provider, plays a key role in the compliance organization. The relevant audits are also used to update the internal control system.

The circumstances that came to light in Slovenia at the end of 2012 and led to the dismissal of a managing director took up much of the Management Board's and Supervisory Board's time in 2013. Various court cases had been pending in Slovenia as a result of the managing director's dismissal. These legal proceedings related firstly to the managing director's employment contract and secondly to the position of the minority shareholders. After the interests held by the other shareholders were acquired, all cases were deemed resolved in late 2013. Notwithstanding the settlement of the conflict in the meanwhile, changes to the internal control system were investigated and implemented by the Management Board against the backdrop of these circumstances.

Dr. Ingo Bretthauer Bernd Lange Kai Bentz Dr.-Ing. Christian Bieniek

LPKF as an employer

The future is bright: working in the laser industry

752

EMPLOYEES WORLDWIDE IN THE LPKF GROUP

TEAM MEETING IN SLOVENIA

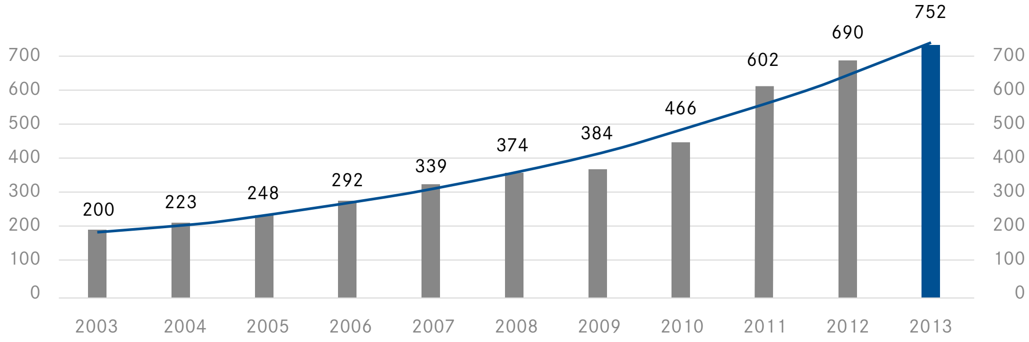
As in recent years, growth at LPKF continues unabated at all of our sites, both in Germany and around the world. As a result, we have been able to make targeted expansions to our teams, and our workforce has once again grown during 2013. With 690 members of staff employed at the end of 2012, the LPKF Group workforce had expanded to 752 by the end of 2013.

Due to our positive economic development, we continue to be an attractive employer on the labor market, and our pioneering laser technology has also managed to attract large numbers of highly-qualified technical and management personnel. As employee numbers rise throughout the Group, so too do the demands for competent personnel management. To ensure we meet these needs, our Human Resource Management team is now focusing on HR development in the Group. The aim is to implement a set of Group-wide HR standards. Other key areas of activity include talent management, remuneration, CPD, personnel management and HR planning.

A WORKPLACE WITH A FUTURE

We pioneered the use of lasers in micro material processing and are global leaders in several of our markets. Laser technology is also one of the world's most exciting industries, offering an attractive working environment with great potential for the future. After joining the TecDAX in 2012, we are now an established stock – as is further proven by our successes. And, apart from engaging in interesting work with a fascinating technology, there's more on offer for staff at LPKF.

NUMBER OF EMPLOYEES IN THE LPKF GROUP BETWEEN 2003 AND 2013



For capable, dedicated and high-achieving staff, we offer a wide range of career prospects and options for professional development. We foster especially committed and talented employees with targeted personal and professional development strategies, which are regularly discussed and agreed between staff and supervisors during regular performance reviews. Options may involve project work, taking internal or external CPD courses or even pursuing career-integrated study programs. In this way, all of our employees throughout the world get the chance to fully develop their potential at LPKF.

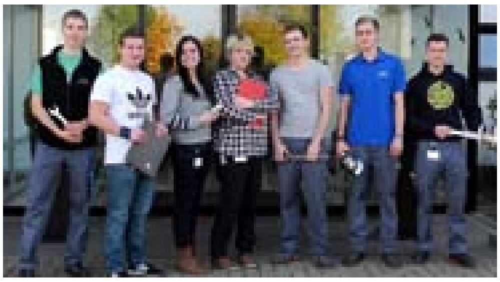
We also work with the Institute for Management Development (Institut für Managemententwicklung, IME) on a junior executive program that prepares hand-picked high potentials for new challenges in the future. LPKF will also be systematically expanding the scope of its HR development work over the next few years. This enables us to offer talented employees a fast track to management responsibilities, supporting their development of leadership skills at an early stage.

DIVERSITY AS STANDARD

Our employees are the focal point of our business: after all, the wealth of cultures, competencies and potential offered by our workforce is the origin of long-term global success at LPKF. With sites in Germany, Slovenia, China, Japan, South Korea and the USA, LPKF maintains a broad-based international presence. In most of our departments, our staff has constant contact with colleagues all over the world. This enables our employees to gain intercultural skills that are particularly helpful in our on-site work with overseas customers. The global LPKF team also has a healthy mix of age groups. The extensive experience of our long-serving staff members is complemented by our many new employees, who contribute fresh new ideas to the company. The good mix of younger and older employees shows that we offer attractive personal development prospects for staff at any stage in their careers and that generations work hand in hand at our company. As a result, we are well-prepared for demographic challenges.

(LEFT) NEW TRAINEES AT GARBSEN

(RIGHT) LPKF EMPLOYEES ON A CYCLING TOUR



Our employee turnover is consistently low, indicating a high level of staff job satisfaction. Despite strong growth in recent years, we believe it is important for staff to feel at home at LPKF. A wide range of leisure and sporting activities – from dragon boat racing to golf tournaments or motorcycle tours – help develop a community culture at LPKF and make integration more straightforward for new employees. And this also works even across regional and country borders – with company ski weekends, for example.

TALENT SCOUTING

A good company requires quality employees. The high standards we set for our Company in the technological and financial realms also apply to selecting our employees. Results from a number of separate employee surveys have shown that LPKF is highly rated as an employer. But for us, that's not nearly enough. In order to attract and retain highly-qualified employees, we work tirelessly on further improving our reputation as a quality employer among small- and medium-sized mechanical engineering firms.

Young professionals are a crucial investment for the future – which is why we train a constant stream of young people across a range of professions. These include mechatronic technicians, industrial business assistants and IT specialists, among others. Joining LPKF is not conditional on completing twelve or thirteen years of school education. We are much more interested in dedicated staff who are motivated by their work. And trainees also have every chance of being hired full-time after completing their apprenticeship. Despite all of the above, finding suitably-qualified personnel continues to be a challenge that we meet with a number of strategies. One of these was our decision to become the ninth member of the ZukunftInc. (www.zukunft-inc.de) initiative in October 2013. This initiative focuses on collaborative HR marketing in the Hannover region. And our work with job portals or joint exhibitions at trade shows doesn't just help young professionals to start a career with our company.

Our college sponsorship program also offers scholarships to college graduates with qualifications in both technical and commercial subjects. We also offer a wide range of options for graduates to complete internships at LPKF and thus gain professional experience of the industry. In a growing and learning organization, demands on employees also change continually. We want to address this issue with Group-wide staff development programs and thus ensure that all employees worldwide have the capabilities they require in the future for their jobs. Talent is being identified and promoted in a lasting way. This includes international employee exchanges within the Group, which we support and promote.

All executives at LPKF perform an important role model function. We will hold training sessions to familiarize them throughout the Group with our Group objectives and Group results as the primary goal, and also develop target agreements to this end.

(LEFT) LPKF FOSTERS SCHOLARSHIP STUDENTS

(RIGHT) DEMOLITION PARTY AT LPKF IN GARBSEN

Combined Management Report 2013

of the LPKF Group and LPKF AG

I. Fundamental information about the Group

1.1 GROUP STRUCTURE UND BUSINESS MODEL

The LPKF Group develops and produces material processing systems. The mechanical engineering company 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-materials processing. The LPKF Group has specialist know-how in the fields of laser technology, optics, precision drive systems, control technology and software as well as materials engineering. 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 conventional techniques. The Group generates 91 % of its revenue abroad. LPKF Laser & Electronics AG (LPKF AG) is listed in the TecDax segment of the German Stock Exchange. The Group had 752 employees worldwide on the reporting date.

THE GROUP GENERATES 91 % OF ITS REVENUE ABROAD.

1.1.1 Legal structure of the Group

The legal structure of the LPKF Group changed in the 2013 financial year.

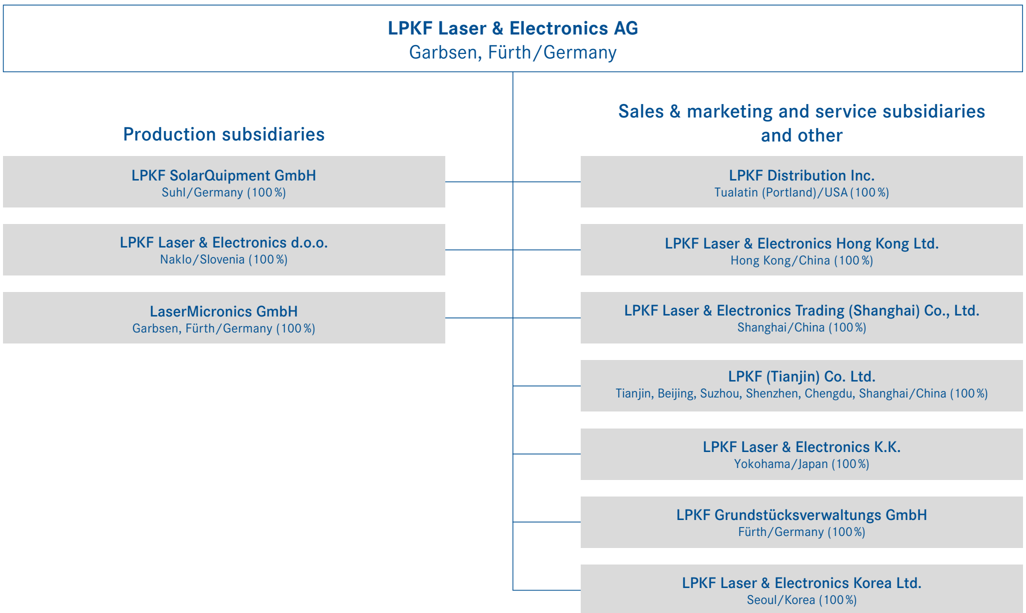
LPKF Grundstücksverwaltungs GmbH was established effective 10 May 2013 to acquire a property for the purpose of expanding the welding equipment business.

The remaining shares of LPKF Laser & Electronics d.o.o. held by minority shareholders were acquired effective 19 December 2013. As a result, all subsidiaries are now wholly owned by LPKF AG.

As of 31 December 2013, LPKF AG had ten subsidiaries, which together with the parent company form the basis of consolidation.

During the reporting year, a new subsidiary, LPKF Laser & Electronics Korea Ltd. was formed in Seoul, Korea.

GROUP STRUCTURE



1.1.2 Operating segments

Electronics Development Equipment

In the Electronics Development Equipment segment, LPKF supplies everything required by developers of electronic equipment to manufacture and assemble printed circuit board prototypes largely without the use of chemicals. Furthermore, new systems now also offer the opportunity to carry out development projects for LDS (laser direct structuring). 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 Production Equipment
The following product lines comprise the Electronics Production Equipment segment:

The LDS 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. (PCB: Printed Circuit Board)

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

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 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. Its customers are mainly solar cell manufacturers.

All other segments
The all other segments category mainly includes undistributed costs and income. In 2012, this category included revenue, EBIT, depreciation, amortization and impairment losses of the production services business. Since these production services primarily serve to support the segments' sales and distribution activities, they are allocated to the respective segments starting in 2013. The previous year's figures were adjusted accordingly.

1.1.3 Competitive position

IN THE SEGMENTS IN WHICH IT IS ACTIVE, THE GROUP EITHER IS ALREADY MARKET AND TECHNOLOGY LEADER OR IS STRIVING TO BECOME AT LEAST THE NUMBER TWO IN THE MARKET.

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

1.1.4 Sites

LPKF Laser & Electronics AG
Garbsen, Germany: Group headquarters, production, development, sales & marketing and services – In 2013, the site reaped the benefits of the excellent performance of the LDS Equipment product group (Electronics Production Equipment segment) and was able to significantly boost year-over-year revenue. Production and development facilities have been expanded further and office space modernized in the course of continued positive business performance. Furthermore, a new main building for administration and customer service staff is being constructed on an existing plot of land; plans are to move into the new building from summer 2014.

Fürth (formerly Erlangen), Germany: Production, development, sales & marketing and services – The laser systems business for plastic welding was moved from Erlangen to Fürth, and in 2013 again generated substantial revenue growth. Demand from the automotive, medical technology and consumer electronics industries was so great that putting new production capacity into operation was necessary. In the first six months, a property was acquired in Fürth for this purpose that offers sufficient space for further expanding the business. It was fully put into operation at the end of November, and the Erlangen site was shut down. The Welding Equipment product group is experiencing rising demand in the core markets of Asia and North America in particular.

Sites of subsidiaries

Tualatin near Portland, Oregon (USA): Sales and services – The North American market has developed very favorably for LPKF throughout the year. The strong sales revenue of the previous year was exceeded by a considerable amount and the profit has been increased as well. The sales revenue for electronic development systems has seen a slight increase and the acceptance of laser systems in this field continues to grow. Welding equipment has seen greatly increased demand throughout North America driven mostly by customers in the automotive and medical industry. US-based multinational corporations have continued to select LPKF laser systems for much of their mass production operations based in Asia and this trend has now expanded into laser plastic welding systems. LPKF has hired additional personnel at its North American headquarters to serve its customer base even more efficiently. In addition LPKF has started a local application center for LDS to support sales activities for the growing technology throughout the North American market.

WELDING EQUIPMENT HAS SEEN GREATLY INCREASED DEMAND THROUGHOUT NORTH AMERICA

Suhl, Germany: Development, sales & marketing, production and services – The Group's subsidiary LPKF SolarQuipment GmbH is 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. Due to extraordinary demand, the laser systems business for scribing thin film solar panels made a significant contribution to consolidated revenue and posted positive earnings in financial year 2013. 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. The bill and hold transactions under this general agreement were fulfilled and delivered according to schedule in 2012 and 2013. Fulfillment of the remaining orders from this general agreement is expected to be wrapped up in 2014. In January 2014, LPKF SolarQuipment GmbH received a new major order with a volume of EUR 15 million.

IN JANUARY 2014, LPKF SOLARQUIPMENT GMBH RECEIVED A NEW MAJOR ORDER WITH A VOLUME OF EUR 15 MILLION.

Naklo, Slovenia: Production, development, services and sales & marketing – 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 positive performance of previous years was again repeated in 2013.

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 the region. The Hong Kong office thus has become even more significant as the local service hub for the whole of Asia. This subsidiary again generated positive earnings in the 2013 financial year.

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. This subsidiary's earnings exceeded targets. It maintains offices in Tianjin, Beijing, Shenzhen, Suzhou, Chengdu and Shanghai.

Shanghai, China: Sales & marketing as well as services – This subsidiary, which was established in March 2012, aims to reinforce sales, marketing and services in Shanghai, which is becoming a regional center for electronics production.

Yokohama, Japan: Sales & marketing as well as services – 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. In 2013, the Japanese subsidiary sold additional laser direct structuring systems and was able to make inroads into the R&D departments of Japanese electronics manufacturers with new Electronics Development Equipment products. There were new projects in the Welding Equipment business as well, particularly in the automotive and medical markets. New hires were added to the sales team to strengthen connections with customers.

Seoul, Korea: Sales & marketing as well as services – Besides China and Taiwan, South Korea is one of the most important markets and features steadily growing demand for laser technology. In order to secure direct market access, LPKF established a subsidiary in Seoul during the reporting year. It will begin operating in April 2014. At that time, LPKF's own service and sales teams will serve customers in South Korea directly.

1.1.5 Production and procurement

Rapid Prototyping Equipment and other equipment, as well as some of the laser sources used within the Group, are supplied by LPKF Laser & Electronics d.o.o. in Slovenia.

Electronics Production Equipment is mainly manufactured in Garbsen.

The welding equipment is produced at LPKF AG's branch in Fürth, Germany (previously: in Erlangen). Solar module equipment is produced in Suhl.

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

1.1.6 Sales

Global sales & marketing, especially in important regions such as China, Japan and North America – and from April 2014 also in South Korea – are handled by LPKF subsidiaries. Overall, the Group is represented by subsidiaries or distributors in 76 countries. The Garbsen office is mainly responsible for managing the Company's sales & marketing activities as well as the distributors. Within the Other Production Equipment segment, the Fürth site is responsible for welding equipment while the subsidiary LPKF SolarQuipment GmbH in Suhl is responsible for solar module equipment.

OVERALL, THE GROUP IS REPRESENTED BY SUBSIDIARIES OR DISTRIBUTORS IN 76 COUNTRIES.

1.1.7 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 the capital represented at the adoption of the resolution. Article 25 (1) of the Company's Articles of Incorporation stipulates that in cases where the law requires that a resolution be passed by a majority of the share capital represented, a simple majority of the share capital represented is sufficient, unless the law mandates a larger majority.

The following persons were members of the Management Board of LPKF AG in financial year 2013:

- Dr. Ingo Bretthauer as chairman of the Management Board (CEO)
- Bernd Lange (CTO)
- Kai Bentz (CFO)
- Dr.-Ing. Christian Bieniek (COO)

In the 2013 financial year, the Supervisory Board consisted of the following members:

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

1.1.8 Legal 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.

1.2 STRATEGY

1.2.1 Strategic Framework

Vision

THIS TREND OF MINIATURIZATION NECESSITATES INNOVATIVE PROCESSING METHODS THAT ENABLE PRECISION TO A DEGREE NEVER BEFORE ACHIEVED.

Electronic components are increasingly becoming smaller, more complex and more precise. The complexity of components is increasing due to advances in miniaturization and the growing use of nanoscale materials. This trend of miniaturization necessitates innovative processing methods that enable precision to a degree never before achieved. Laser-based processes will contribute substantially to this development.

Mission

With its products, the LPKF Group want to help its customers manufacture more efficient and more effective end products. Developing and continually improving laser-based processes and products is intended to replace conventional processes and create new processing options.

Values

All activities of the LPKF Group are geared toward the success of its customers. All activities and decisions are aimed at improving the competitiveness of the Group's customer base through technical advancement and cost savings.

The profitability and overall value of LPKF is dependent on its ability to respond to new opportunities and challenges in the marketplace. By focusing on strong innovation resources and financial stability, the LPKF Group lays the foundations for sustained, long-term growth.

LPKF CONCENTRATES ITS EFFORTS ON PRODUCTS WITH THE POTENTIAL TO BECOME A NUMBER ONE OR TWO MARKET LEADER.

LPKF is a technology group. It shapes technological progress and gains leading market positions through the strength of its superior technical solutions. LPKF concentrates its efforts on products with the potential to become a number one or two market leader.

A sense of professional partnership characterizes the Group's relationships: with customers, suppliers, representatives as well as with companies and individual employees within the LPKF Group. As an internationally active group, LPKF strives for understanding and cooperation between various cultures and philosophies and always places the common interests of the Group above those of its individual subsidiaries.

The high quality of its products is the key to customer satisfaction. All employees shoulder responsibility for the quality of the work the LPKF Group do for its customers. LPKF promotes the professional qualifications of its employees to sustain the high quality of LPKF products.

With laser-based technology, LPKF helps to reduce the environmental impact generated by chemical waste. It is LPKF's policy to continue on the path of environmental awareness with its eco-friendly product design and sustainable business practices.

Success factors

LPKF specializes in innovative mechanical engineering solutions, primarily laser-based systems.

A KEY FACTOR OF SUCCESS IS THE FOCUS ON CORE COMPETENCIES AND THE INTERPLAY BETWEEN THEM.

The Group's success is based on its understanding of laser microprocessing of a wide variety of materials. A key factor of success is the LPKF's focus on core competencies and the interplay between them:

Core competencies

- Laser technology & optics
- Precision drive systems
- Control technology & software
- Materials engineering

Other success factors include close relationships with customers and a thorough understanding of the core markets of electronics, automotive, solar and, increasingly, medical technology.

1.2.2 Corporate Goals, Objectives and Action Areas

Corporate goals
The Group's fundamental, overarching corporate goal is to increase the value of the Company in the long term. The Group's technical edge must continually be sharpened to achieve this goal. Promoting and expanding LPKF's own research and development activities is therefore a top priority.

The sustained ability to pay dividends and ensuring solid financing with a high equity ratio also contribute to achieving the Group's overarching corporate goal.

LPKF AIMS FOR HEALTHY EXPANSION WITH AVERAGE ANNUAL REVENUE GROWTH OF AT LEAST 10 %.

The primary financial goal is profitable growth. LPKF aims for healthy expansion with average annual revenue growth of at least 10 %. The focus is on high long-term profitability with an average EBIT margin of no less than 15 %.

Strategic objectives
The Company's long-term activities for reaching the top-level corporate goals are mainly grouped into three strategic objectives:

- Increasing customer benefit
- Driving innovation
- Boosting internal efficiency

Strategic action areas
The interplay of corporate goals and strategic objectives results in the following 11 action areas:

Basically:
1. Group development
The Group's efforts are focused on the welfare of the Group as a whole. In order to ensure and advance the Group's welfare, LPKF implements overarching strategic corporate development initiatives to improve its organizational structure and promote internal and external growth.

Increasing customer benefit:
2. Optimizing the existing product portfolio
The product portfolio is continually being reworked and overhauled cyclically. In this context, LPKF aligns its efforts with changing customer needs and updates its products and processes to ensure it always offers its customers the best price-performance ratio.

3. Optimizing product design for manufacturing
Growth and increasing complexity place significant demands on product design. Using economies of scale and Group-wide best practices is intended to further increase profitability with the help of product design. This applies both to the hardware as well as the software components of LPKF's products.

4. Increasing and guaranteeing quality

QUALITY IS A CENTRAL VALUE OF LPKF PRODUCTS ALONG WITH COST-EFFICIENCY.

Quality is a central value of LPKF products along with cost-efficiency. Rapidly offering customers stable machines suitable for volume production in view of frequently short development cycles requires LPKF to continually improve its ability to find defects and learn from them.

Driving innovation:
5. Attaining technological leadership
In addition to its own R&D activities, the LPKF Group will develop new processes and products for tomorrow's markets in cooperation with universities and institutes as well as in joint projects with industry partners.

6. Expanding the business base
LPKF will expand its business base in the interest of minimizing its financial dependence on individual product lines and sectors and therefore reducing the risk and effects of economic volatility. This comprises both further penetration of established markets as well as the development of new sectors and areas of application by utilizing LPKF's core expertise.

7. Extending value creation to the entire process
For future products, the Group will try to extend its "product" beyond purely the machine to include and market the process and consumables as well.

Boosting internal efficiency:
8. Improving the basis for making decisions
At LPKF, decision-making is analytical and structured, and uses standardized ratios as much as possible.

9. Avoiding waste
Throughout the Group, LPKF will institute a culture of continual improvement and in accordance with lean principles avoid activities that do not create value.

10. Reinforcing cooperation across sites

WITHIN THE GROUP, LPKF WILL NETWORK ITS CAPACITY AND POTENTIAL AND THUS EXPLOIT THESE OPTIMALLY.

Within the Group, LPKF will network its capacity and potential and thus exploit these optimally. LPKF is focused on harmonizing processes and structures across the Group, thereby creating long-term added-value in all units of the Company.

11. Systematically developing staff
All material HR processes are refined further at Group level and standardized as much as is possible and logical. The goal is to attract and retain qualified employees and ensure systematic personnel development.

1.2.3 Corporate management

LPKF MANAGES ITS BUSINESS PERFORMANCE USING KEY PERFORMANCE INDICATORS (KPI) AND RATIOS AT VARIOUS REPORTING LEVELS.

LPKF manages its business performance using key performance indicators (KPI) and ratios at various reporting levels. The following section outlines the key figures LPKF uses.

At segment level, the financial indicators and ratios applied are revenue, earnings before interest and taxes (EBIT) and the EBIT margin. At Group level, LPKF also looks at net working capital and the net working capital ratio.

LPKF has developed targets for these financial indicators and ratios through strategic and operational planning processes, and these are reviewed annually. The applicable targets for the reporting period are listed along with the time series.

The corporate goal of profitable growth can be best judged by analyzing revenue in conjunction with EBIT. The EBIT margin is also given as a ratio and is calculated using the following formula: EBIT margin = EBIT / revenue x 100.

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 ratio is the ratio of net working capital to revenue. Generally, when business grows, net working capital also increases. The objective here is to reduce this ratio.

The following table presents the changes in the Group's key financial figures over the past five years:

	Target 2013	2013	2012	2011	2010	2009
Revenue EUR million	115 – 120	129.7 ✓	115.1	91.1	81.2	50.7
EBIT EUR million	17.3 – 19.2	23.2 ✓	20.4	15.2	17.3	7.0
EBIT margin %	15.0 – 16.0	17.9 ✓	17.7	16.7	21.3	13.7
Net working capital EUR million	income < revenue increase	37.3 ✓	44.6	39.7	27.0	20.4
Net working capital ratio %	<= previous year	28.7 ✓	38.8	43.6	33.3	40.2

Furthermore, the Management Board is in close consultation with the Supervisory Board regarding the definition of further key performance indicators.

Compared with the previous year, there were no material changes to the Group's internal management system.

Target/Actual comparison of planning and realization
In fall 2012, when it prepared the planning for 2013, the Management Board anticipated a temporary slowdown in revenue growth due to the foreseeable decline in revenue in the Solar Module Equipment business. The Management Board forecast revenue of between EUR 115 and 120 million, assuming stable performance of the global economy, which would lock in the high level attained with the prospect of a possible increase of around 4 % as against the previous year. The growth was expected in all segments except for the solar business, and the EBIT margin was anticipated to be between 15 % and 16 % for 2013.

ON THE WHOLE, REVENUE IN THE YEAR UNDER REVIEW AMOUNTED TO EUR 129.7 MILLION, FAR EXCEEDING EXPECTATIONS AND TOPPING THE PREVIOUS YEAR'S FIGURE BY 13 %.

On the whole, revenue in the year under review amounted to EUR 129.7 million, far exceeding expectations and topping the previous year's figure by 13 %. As expected, the solar business significantly underperformed the previous. As a result, the Other Production Equipment segment was unable to generate the same level of revenue as in the previous year. All other segments exceeded the prior-year revenue figures, however.

The Electronics Production Equipment Electronics Development Equipment segments even outperformed their own revenue targets. The material cost ratio was down on account of a larger proportion of LDS systems sold, which offset the rise in other operating expenses. This stabilized the EBIT margin at 17.9 % and allowed the Company to generate earnings before interest and taxes of EUR 23.2 million.

THE INCREASE IN REVENUE CUT THE NET WORKING CAPITAL RATIO APPRECIABLY TO 28.7 %.

Net working capital declined due to the significant reduction in receivables. The increase in revenue cut the net working capital ratio appreciably to 28.7 %, thus also achieving this target.

1.2.4 Strategic alignment of the segments

The Group is operating in three segments: The Company's growth areas are the Welding Equipment product group within the Other Production Equipment segment as well as the LDS Production Equipment and PCB Production Equipment product groups, which are reported under the Electronics Production Equipment segment. The Management Board believes that these segments are capable of generating above average growth in the years to come.

The StencilLaser Equipment product group is part of the Electronics Production Equipment segment. LPKF has operated in this arena for many years now and holds a high market share of around 70 %. Accordingly, the market growth that can be expected here is lower. LPKF's goal is to continue expanding its market leadership and to target new customer groups.

The Electronics Development Equipment segment is the LPKF Group's oldest segment. To date, it was limited to developing and manufacturing systems for the mechanical or laser-based production of printed circuit board prototypes. In November 2013, machines for the manufacture of LDS prototypes were added to the products this segment offers. The portfolio will soon also include laser welding systems for development purposes. These additions enable LPKF to provide suitable development equipment for nearly all production machines, a move expected to accelerate the deployment of LPKF technologies in additional areas of application.

The LDS business has become established as the Group's largest business segment. This technology is used in the manufacture of thin, unassembled and relatively large, 3D circuit substrates. This requirement profile is met perfectly by antennas. The LDS technology continues to have the potential to make the breakthrough into other applications (e. g. LEDs, sensor packages) and markets (e. g. automotive, medical technology and consumer electronics). LPKF continues to work on steadily improving the process and expanding the range of applications.

The increasing number of attacks on the patent, primarily from Asia, points to the attractiveness of the LDS technology, but also brings new challenges. In the future, LPKF will increasingly need to pursue the legal defense of its patents. In order to secure its competitive edge, LPKF is working in parallel on new solutions which are often also patentable.

Laser plastic welding has become established as a joining technology and gives rise to expectations of further growth over the Group's average. Stabilizing the margin in the double-digit percentage range will be the focus going forward. In strategic terms, LPKF is mainly working on three key objectives: internationalization, improving cost-efficiency and expanding activities outside the auto industry. After initial apparent successes, the Group intends to further exploit opportunities to lower costs, e. g. through modularization.

Despite the continuing crisis in the solar market, LPKF believes that the Solar Module Equipment product group holds new growth potential in the medium to long term. The opportunities in this field are evidenced by a large-scale contract worth EUR 15 million that LPKF landed in January 2014. In addition, LPKF is working intensively to develop new areas of application for this product group's core competencies, some of which are outside the solar market.

LPKF'S GROWTH STRATEGY INVOLVES THE SYSTEMATIC EXPANSION AND FURTHER INTERNATIONALIZATION OF ITS GROWTH SEGMENTS.

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

1.2.5 Group structure, equity investments and financing measures

LPKF'S STRONG EQUITY BASE PROVIDES FINANCIAL SECURITY AND STABILITY.

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, 100 % of LPKF's shares were held as free float in accordance with the definitions of Deutsche Börse AG.

Because of LPKF AG's good credit rating with its principal banks, the Company has access to extensive credit lines, which have not yet been utilized. The opportunities for obtaining equity have improved further with the lifting of the mood on financial markets.

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

1.3 RESEARCH AND DEVELOPMENT

1.3.1 Focus of R&D activities

ALMOST ALL DEVELOPMENT PROJECTS ARE ORIENTED ON MEETING MARKET NEEDS.

Almost all development projects are oriented on meeting market needs. The focus of the LPKF Group's R&D activities in 2013 was on adding products on an as-needed basis. Also at the forefront of activities was the effort to modernize and update the Group's product portfolio. The goal of new developments in the Electronics Development Equipment segment was to offer customers new opportunities for prototyping molded interconnect devices. The activities to upgrade production systems were aimed at improving their price-performance ratio and further enhancing the software. There was also a focus on adding new functions and features and ensuring high availability under industrial operating conditions.

SOME DEVELOPMENT PROJECTS ARE CONDUCTED TOGETHER WITH UNIVERSITIES AND INDUSTRIAL PARTNERS.

In addition, a targeted effort has been made to extend the Group's core technologies. Some development projects are conducted together with universities and industrial partners.

1.3.2 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 13.5 million in research and development in 2013. This corresponds to 10.4 % of revenue.

In the reporting year, LPKF capitalized 25.1 % (previous year: 27.7 %) of development expenses as intangible assets. Amortization of capitalized development expenses in 2013 amounted to EUR 2.7 million (previous year: EUR 3.6 million).

1.3.3 R&D employees

The number of employees in the Group's R&D departments rose to 165 during the reporting period, up from 144 the previous year.

1.3.4 R&D results

In the year under review, performance-boosting software and hardware components were implemented or refined for LPKF's laser cutting and structuring systems. New automation solutions and the new uniform LPKF product design were implemented for the first time in the newly developed systems. Solutions for prototyping LDS components were updated and solutions for applying the LDS technology to LED lighting were found in order to launch new products and projects based on the LDS technology.

The product portfolio for PCB prototyping was expanded to include a new type of machine that supplements the capabilities of the existing systems with high-precision laser processing.

1.3.5 Multi-period overview of R&D

	2013	2012	2011	2010	2009
R&D expenses in EUR million	13.5	10.0	8.7	8.5	5.6
in % of revenue	10.4	8.7	9.6	10.4	11.0
R&D employees	165	144	114	96	82

II. Report on economic position

2.1 OVERVIEW OF THE COMPANY'S DEVELOPMENT

2.1.1 Macroeconomic environment

The global economy gained considerable momentum during 2013. In their report on the state of the global economy, World Bank economists reported that the gross domestic product had increased 2.4 % in 2013. Growth in the emerging and developing economies stabilized again at 4.8 % in the reporting year.

The economy in the euro zone broke out of recession in the course of 2013, although initially the economic recovery was still very tentative.

In the reporting year, the German economy grew by a moderate 0.4 % after 0.7 % in the previous year, according to the Federal Statistical Office. The driver of this development was private consumption (+ 0.9 %), whereas exports were down year-on-year (0.6 %, down from 3.2 % in 2012). The recession in the euro zone was one of the main factors here along with the downturn in exports to China.

2.1.2 Sector-specific environment

THE GERMAN ENGINEERING FEDERATION (VERBAND DEUTSCHER MASCHINEN- UND ANLAGENBAU, OR VDMA) SEES A POSITIVE TREND IN 2014.

The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, or VDMA) had mixed reviews for 2013, but sees a positive trend in 2014. For 2013, the VDMA anticipates production at EUR 195 billion to hover around the prior-year level in nominal terms. In real terms, this represents a decline in production by 1 %. The drop is mainly attributable to weak sales in the first half of the year. From January to August, production underperformed the prior-year level by 3 %, which the Federation attributes to the after-effects of the financial crisis, including muted international demand for capital goods. According to the VDMA, order books improved in the second six months, particularly because the economy firmed up in the United States and China, the two major export markets. The mood in Europe and the emerging economies also lifted at the end of 2013 and start of 2014.

The key industries for which the Group manufactures its products and whose economic environment influences the Group's business success are the automotive industry, the electronics industry (especially consumer electronics), the plastics processing industry and the solar energy sector.

According to the German Automotive Industry Association (Verband der Automobilindustrie – VDA), the international passenger car market performed well overall, growing 5 % in 2013. The greatest contributors to this trend were the two largest markets, the United States (+ 8 %) and China (+ 23 %). German manufacturers hold a market share of over 20 % in China and are well positioned to capitalize on the growth there accordingly, whereas sales in Western Europe were down nearly 2 % from the prior year, the VDA stated. In 2013, the first two quarters especially exerted downward pressure, but the second half of the year saw an upswing. Stabilization is on the horizon in Germany as well, the Association says. Here, incoming orders in the second half of the year grew 2 %, up considerably from the figure in the first half-year (– 4 %).

Prominent market research firm IHS estimates that new photovoltaic systems generating roughly 37 GW were built worldwide in 2013, some 15 % more than in the year before. The drivers here were China, the United States and Japan. The German Solar Industry Association (Bundesverband der Solarwirtschaft, or BSW) reports a sharp drop in installed photovoltaic capacity in Germany in 2013. At 3.3 GW, around 55 % less new photovoltaic capacity was installed in Germany in 2013 than in the previous year.

THE MARKET FOR SMARTPHONES HAS MORE THAN DOUBLED SINCE 2011 AS REPORTED BY IDC.

Smartphones were the most important product sold by the consumer electronics industry once again in 2013. Whereas sales of conventional PCs declined, the market for mobile devices topped the billion-mark for the first time, according to International Data Corporation (IDC), a US-based market research firm. Compared with 2012 when 725 million smartphones were sold, sales figures were more than 38 % higher in 2013. As stated by IDS, the mobile phone market as a whole (including smartphones) expanded 4.8 % in 2013 to more than 1.82 billion handsets sold worldwide. Smartphones held a 55.1 % share of this market, accounting for the majority of mobile device sales for the first time. The market for smartphones has more than doubled since 2011 as reported by IDC.

The German Plastics Processing Industry Association (Gesamtverband Kunststoffverarbeitende Industrie e.V., or GKV) projects overall solid performance for 2013. In the first half of the year, sales were up 0.5 %. The increase was primarily in sales abroad (+ 2 %), whereas domestic sales declined somewhat (– 0.4 %). The Association believes that this positive industry cycle will be reinforced further in 2014.

2.1.3 Effects on the LPKF Group

THE SOLID PERFORMANCE OF THE COMPANY'S TARGET SECTORS INFLUENCED LPKF'S BUSINESS POSITIVELY IN 2013.

The situation in the economy as a whole and most of the industries relevant to LPKF improved marginally in the 2013 financial year and again saw moderate growth. The solid performance of the Company's target sectors influenced LPKF's business positively in 2013. The Group benefited from trends such as mobile communication with smartphones, the struggle toward optimal efficiency in solar cells in view of growing competition and lightweight construction in the automotive industry. On the whole, LPKF's growth of 13 % in 2013 was markedly higher than that of the global economy and the relevant industries.

2.2 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 2013, the subscribed capital of LPKF AG amounted to EUR 22,269,588.00 following the issue of new shares pursuant to the resolution by the Annual General Meeting on 23 May 2013 from a capital increase of EUR 11,134,794.00 from Company funds in accordance with Sections 207 ff. of the German Stock Corporation Act. It had been EUR 11,134,794.00 the previous year. The share capital is divided into 22,269,588 ordinary shares (no-par shares). There are no preferred shares. 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.

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. Following the partial drawdown of EUR 75,604.00 in previous years by issuing new shares subject to the exclusion of shareholders' subscription right, the remaining authorization as of the reporting date was EUR 5,324,396.00.

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.

2.3 REMUNERATION 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-BASED COMPONENTS.

The overall remuneration comprises a fixed component and variable performance-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.

Furthermore, for the 2013 financial year the Chairman of the Management Board and the other members of the Management Board are also paid variable performance-based remuneration 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.

Remuneration of the Management Board in 2013

The current members of the Management Board were paid total remuneration of EUR 2,098 thousand (2012: EUR 1,653 thousand) for their activities in the 2013 financial year.

EUR thsd.		Dr. Ingo Bretthauer	Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek	Total
Fixed remuneration	2013	250	215	165	200	830
(Non-performance-based fixed salary)	2012	250	210	160	17	637
Benefits*	2013	32	23	18	16	89
	2012	32	22	17	1	72
One-year variable remuneration	2013	375	322	248	220	1,165
(Provision for performance-based	(Min.)	0	0	0	150	150
remuneration)	(Max.)	375	322	248	300	1,245
	2012	375	315	240	0	930
Performance-based remuneration	2013	0	0	0	0	0
(Supplementary payments/ reversals of provisions)	2012	0	0	0	0	0
Cost of benefits	2013	0	7	7	0	14
	2012	0	7	7	0	14
Total remuneration	2013	657	567	438	436	2,098
	2012	657	554	424	18	1,653

* 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.

New remuneration system for the Management Board from 2014

Since 1 January 2014, Management Board members Kai Bentz, Dr.-Ing. Christian Bieniek, and Bernd Lange have received variable remuneration components in accordance with the new remuneration system developed by the Supervisory Board, which is designed partly as a long-term incentive (LTI) and partly as a short-term incentive (STI). With effect from 1 January 2015, this remuneration system will also be agreed with the Chief Executive Officer.

The quality (LTI 1) and options (LTI 2) remuneration components are designed as a long-term incentive.

The EBIT (STI 1) and EBIT per employee (STI 2) remuneration components are designed as a short-term incentive. The LTI 1, STI 1, and STI 2 remuneration components are based on other targets, whose achievement is decisive for the amount of the remuneration component in question.

Each of the components of variable remuneration has a maximum amount (cap). The STI 1 remuneration component is only paid if Group EBIT amounts to at least EUR 9 million (floor).

For 2014, the table below shows the maximum and minimum values as well as the expected value of the variable remuneration components for the Management Board members already participating in the new remuneration system:

EUR thsd.		Bernd Lange	Kai Bentz	Dr.-Ing. Christian Bieniek
Fixed remuneration (Non-performance-based fixed salary)		250	200	205
STI 1 (EBIT)	Expected value	94	75	77
	Maximum	156	125	128
	Minimum	0	0	0
STI 2 (EBIT per employee)	Expected value	38	30	31
	Maximum	63	50	51
	Minimum	0	0	0
LTI 1 (quality)	Expected value	56	45	46
	Maximum	94	75	77
	Minimum	0	0	0
LTI 2 (options)	Amount to be granted	25	25	25
	Maximum	75	75	75
	Minimum	0	0	0
Total	Expected value	463	375	384
	Maximum	638	525	536
	Minimum	250	200	205

STI 1 and 2 are each calculated based on the corporate planning approved prior to the beginning of a given financial year, in which the targets for EBIT and EBIT per employee are set for three different future scenarios (normal, aggressive, and defensive). A target achieved in the 2014 financial year under the normal scenario constitutes a target achievement in accordance with the expected value shown in the table and, under the defensive scenario, a target achievement of 0 %. The maximum target achievement shown in the table is calculated when the planned aggressive scenario is exceeded by at least 20 %. The scenarios are based on ambitious targets, which means that the maximum can only be reached if the targets are significantly overachieved. There is linear interpolation between the individual values. If negative EBIT is reported for the following year, in certain circumstances the given loss may be taken into account retroactively.

SAFEGUARDING PRODUCT QUALITY AT THE HIGHEST LEVEL IS ONE OF THE STRATEGIC ACTION AREAS OF LPKF LASER & ELECTRONICS AG.

Safeguarding product quality at the highest level is one of the strategic action areas of LPKF Laser & Electronics AG. LTI 1 (quality), which will run for three years, is measured by the achievement of these quality specifications. The aim is to lower the error rate in the Group calculated in the 2013 financial year by 50 % within three years. If the error rate is not reduced, this constitutes a target achievement of 0 %. The target achievement is calculated by means of linear interpolation between the initial value and the minimum value of the error rate.

A long-term bonus plan was established as LTI 2 (options). Details are laid down in the plan's terms and conditions, which are part of the contractual arrangements with the Management Board members. Decisive factors for the amount of LTI 2 are the development of the EBIT margin of the LPKF Group and the share price performance. LTI 2 is therefore directly tied to the pursuit of the Group's objectives of profitable growth and a long-term increase in the enterprise value.

Fictitious shares, known as phantom stocks, will be granted to the regular Management Board members in a contractually stipulated amount of EUR 25 thousand. The number of phantom stocks granted to a single Management Board member will be calculated based on the set amount to be granted divided by the average closing price of the shares of LPKF Laser & Electronics AG over the last 30 trading days prior to 1 January of the year in which the shares are allotted. After the expiry of a four-year performance period, the beneficiaries will be entitled for the first time to a disbursement amount whose calculation will depend on the final number of phantom stocks. The final number of phantom stocks will be calculated by multiplying the preliminary number of phantom stocks by a performance factor that is contingent on the average EBIT margin of the LPKF Group during the relevant performance period. The amount to be paid out will in turn be calculated by multiplying the final number of phantom stocks by the average share price of LPKF Laser & Electronics AG on the last 30 trading days before the end of the relevant performance period. If the beneficiaries waive their right to a disbursement after the four-year performance period, they can obtain the amount to be paid out after a five- or six-year performance period. This is capped at three times the amount to be granted, the maximum shown in the table. One prerequisite for a disbursement under the long-term bonus plan is an own investment in the form of shares of LPKF Laser & Electronics AG, which must correspond to at least half of the amount to be granted.

At the end of a given financial year, the Company will make advance payments towards LTI 1 (quality) and LTI 2 (options) based, respectively, on the level of target achievement of the error rate and the amount paid out at the end of the financial year in accordance with the terms and conditions of the long-term bonus plan. If the advance payments exceed the entitlement to variable remuneration under LTI 1 and LTI 2, the Management Board members will be required to pay the excess.

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 449 thousand (previous year: EUR 438 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors.

A total of EUR 17 thousand (previous year: EUR 15 thousand) in pensions was paid to a former member of the Management Board in 2013.

Shareholdings of members of the Company's corporate bodies

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

	31 Dec. 2013	30 Sept. 2013	30 June 2013	31 March 2013*
Management Board				
Dr. Ingo Bretthauer	52,000	52,000	52,000	25,000
Bernd Lange	75,000	75,000	95,020	47,510
Kai Bentz	14,600	14,600	21,600	10,300
Dr.-Ing. Christian Bieniek	0	0	0	0
Supervisory Board				
Dr. Heino Büsching	10,000	10,000	10,000	5,000
Bernd Hackmann	125,600	125,600	125,600	62,800
Prof. Dr.-Ing. Erich Barke	2,000	2,000	2,000	1,000

* Figures before capital increase

Remuneration of the Supervisory Board

Each member of the Supervisory Board receives fixed basic remuneration for each full financial year of membership on the Supervisory Board that is specified by resolution of the Annual General Meeting and is payable after the end of the financial year. The Chairman of the Supervisory Board receives double and the Deputy Chairman receives one-and-a-half times the amount of the fixed basic remuneration. The fixed remuneration was set at EUR 40 thousand by resolution of the Annual General Meeting on 1 June 2011. 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 2013 financial year and in what amount. A dividend of EUR 0.50 per share was paid in 2013 for the 2012 financial year, resulting in variable remuneration of EUR 138 thousand for the Supervisory Board (previous year: EUR 108 thousand).

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

EUR thsd.		Bernd Hildebrandt (Chairman until 31 May 2012)	Dr. Heino Büsching (Chairman from 31 May 2012)	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2013	0	80	60	40	180
	2012	33	72	35	40	180
Variable remuneration	2013	19	46	27	46	138
	2012	36	36	0	36	108
Total remuneration	2013	19	126	87	86	318
	2012	69	108	35	76	288

Supervisory Board members

Dr. Heino Büsching (Chairman)	Lawyer/tax consultant at CMS Hasche Sigle, Hamburg, Germany
Bernd Hackmann (Deputy Chairman)	Chairman of the Supervisory Board of Viscom AG, Hannover, Germany Deputy Chairman on the Advisory Board of SLM Solutions GmbH, Lübeck, Germany
Prof. Dr.-Ing. Erich Barke	President of Gottfried Wilhelm Leibniz University Hannover, Germany Chairman of the Supervisory Board of TEWISS – Technik und Wissen GmbH, Garbsen, Germany Member of the Supervisory Board of the following companies: Esso Deutschland GmbH, Hamburg, Germany ExxonMobil Central Europe Holding GmbH, Hamburg, Germany hannoverimpuls GmbH, Hannover, Germany Metropolregion Hannover Braunschweig Göttingen Wolfsburg GmbH, Hannover, Germany Solvay GmbH, Hannover, Germany

2.4 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS OF THE GROUP

2.4.1 Results of operations

Development of revenue

THE LPKF GROUP GENERATED REVENUE OF EUR 129.7 MILLION IN THE 2013 FINANCIAL YEAR, UP FROM EUR 115.1 MILLION IN THE PREVIOUS YEAR.

The LPKF Group generated revenue of EUR 129.7 million in the 2013 financial year, up from EUR 115.1 million in the previous year. This improvement is mainly attributable to strong sales of LDS systems, which lifted revenue in the Electronics Production Equipment segment by 34 %. As the large order for solar scribers initially came to an end in the year under review, the Other Production Equipment segment was unable to match its prior-year revenue. However, the encouraging increase in revenue from welding equipment systems provided a comfortable cushion for the 16 % decline in the segment. In spite of muted development in the fourth quarter, the Electronics Development Equipment segment closed the financial year with revenue growth of 7 %.

Revenue by operating segment was as follows:

EUR million	2013	Previous year*
Electronics Production Equipment	75,7	56,4
Electronics Development Equipment	20,9	19,4
Other Production Equipment	32,6	38,9
All other segments	0,5	0,4
	129,7	**115,1**

* adjusted

The following table shows the revenue by region:

%	2013	Previous year
Asia	59.6	55,0
Germany	9.0	11,5
Europe excluding Germany	13.7	12,6
North America	16.4	19,3
Other	1.3	1,6
	100.0	**100,0**

THE SHARP INCREASE IN SALES OF LDS SYSTEMS WAS ACHIEVED PRIMARILY IN ASIA.

The sharp increase in sales of LDS systems was achieved primarily in Asia, which remains LPKF's most important market. Alongside China, the growth curve of the other Asian tigers also trended upwards, so that the establishment of a sales subsidiary in Korea is an important key to a region in which continued growth is anticipated in the coming years.

Since the focus of LPKF's application technology is on manufacturing and development-oriented companies in the electronics industry, the Group's domestic and European business in this field is losing momentum because these companies are increasingly relocating elsewhere. Even the slight improvement in the European market (excluding Germany) – as was the case for revenue in North America in the previous year – is mainly invoice-related; the systems themselves were installed in other markets.

Development of orders

At EUR 113.1 million, orders received during the reporting period were 9 % up on the previous year's level of EUR 124.1 million. Orders on hand receded from EUR 34.3 million at the end of 2012, which had still included call-offs from the major order for solar scribers as well as a large number of incoming orders for LDS systems in the last quarter, to EUR 17.7 million at the 2013 reporting date.

Development of main income statement items

Production costs for prototypes and application systems of EUR 0.3 million and capitalized development costs of EUR 3.4 million are shown in own work capitalized. Other operating income was up significantly (EUR + 1.4 million) on the previous year, primarily due to higher income from the reversal of provisions (EUR + 0.4 million), higher development grants received (EUR + 0.3 million), foreign currency translation differences (EUR + 0.3 million), and an insurance payout of EUR 0.2 million.

THE MATERIAL COST RATIO RELATIVE TO REVENUE AND CHANGES IN INVENTORIES WAS MARKEDLY DOWN.

At 26.7 %, the material cost ratio relative to revenue and changes in inventories was markedly down on the prior-year figure of 30.6 % in spite of the decline resulting from the impairment of inventories (EUR 1.7 million). A change in the product mix stemming from higher sales of LDS systems was the main contributor to this development.

The ratio of staff costs to total revenue is 31.2 %, compared to 30.5 % the previous year. This increase stemmed mainly from the rise in staff costs as a result of a larger workforce.

Due mainly to large investments, depreciation, amortization and impairment losses rose from EUR 7.2 million the previous year to EUR 7.8 million. Of this figure, EUR 0.2 million (previous year: EUR 0.4 million) was attributable to impairment losses on capitalized development costs.

Other operating costs grew by EUR 7.0 million to EUR 32.0 million. The growth in revenue led to higher license expenses (EUR + 1.1 million) and sales commission (EUR + 1.4 million). In addition, development expenses rose by EUR 2.5 million, part of which was capitalized once more. Lastly, the demolition of the old production building at the Garbsen site, on which the new headquarters are being built, led to expense of EUR 0.3 million. Warranty costs fell significantly by EUR 0.6 million.

The Group generated earnings before interest and taxes (EBIT) of EUR 23.2 million (previous year: EUR 20.4 million), corresponding to an EBIT margin of 17.9 % (previous year: 17.7 %).

ON THE BACK OF THE STRONG CASH POSITION OF THE LPKF GROUP AND THE LOW INTEREST RATE, THE FINANCIAL RESULT IMPROVED SLIGHTLY.

On the back of the strong cash position of the LPKF Group and the low interest rate, the financial result improved slightly to EUR – 0.7 million in the financial year.

The increase in tax expense is mainly attributable to higher earnings, with current taxes accounting for EUR 7.8 million. Deferred tax income of EUR 1.0 million was reported, principally from the reversal of tax liabilities resulting from the partial realization of profit using the POC method from previous years. The tax ratio is 30.1 % (previous year: 26.8 %). Until the acquisition date of the remaining non-controlling interests in LPKF d.o.o., non-controlling interests accounted for EUR 0.7 million of earnings (previous year: EUR 0.8 million). Consolidated net profit for the year after taxes and minority interests is EUR 15.1 million, compared to EUR 13.5 million the previous year.

Multi-period overview of results of operations

	2013	2012	2011	2010	2009
Revenue (EUR million)	129.7	115.1	91.1	81.2	50.7
EBIT (EUR million)	23.2	20.4	15.2	17.3	7.0
Material cost ratio (%)	26.7	30.6	28.8	28.1	30.0
Staff cost ratio (%)	31.2	30.5	32.3	28.9	35.4
Tax rate (%)	30.1	26.8	29.6	28.2	30.3
EBIT/employee (EUR thsd.)	32.0	31.2	27.5	39.6	18.7

Details regarding the operating segments can be found in the notes to the consolidated financial statements.

2.4.2 Financial position

Principles and goals of financial management

THE GROUP USES MAINLY ITS PROFITS AS SOURCES FOR ITS INTERNAL FINANCING.

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.

The Group plans to generate a clearly positive free cash flow in the 2014 financial year.

Statement of cash flows

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

EUR million	2013	2012
Cash flows from operating activities	34.2	17.1
Cash flows from investing activities	–21.3	–12.3
Cash flows from financing activities	–2.9	–7.7
Change in cash and cash equivalents due to changes in foreign exchange rates	0.0	–0.2
Change in cash and cash equivalents	10.0	–2.9
Cash and cash equivalents on 1 Jan.	2.5	5.6
Cash and cash equivalents on 31 Dec.	12.5	2.5
Composition of cash and cash equivalents:		
Cash-in-hand, bank balances	12.6	5.0
Overdrafts	–0.1	–2.5
Cash and cash equivalents on 31 Dec.	12.5	2.5

THE GROUP'S CASH AND CASH EQUIVALENTS INCREASED FROM EUR 2.5 MILLION TO EUR 12.5 MILLION.

The Group's cash and cash equivalents increased from EUR 2.5 million to EUR 12.5 million. The strong profit for the year coupled with the decrease in working capital led to a high inflow of cash from operating activities. In spite of the high cash outflows from investing activities, principally to purchase the property at the Fürth site, the Group generated a free cash flow of EUR 12.9 million.

In the financial year, cash flows from financing activities were dominated by borrowings to finance investments as well as by the purchase price paid for the non-controlling interests in LPKF d.o.o. On balance, cash outflows exceeded cash inflows by EUR 2.8 million.

Long-term financing is used for non-current assets subject to long-term fixed interest periods. The loans have interest rates of 1.45 % to 6.25 %. Large, unused credit lines that have not been tapped to date are still available.

The Company's financial position remains very robust.

Multi-period overview of financial position

EUR million	2013	2012	2011	2010	2009
Cash flows from operating activities	34.2	17.1	3.2	13.5	11.5
Net liabilities to banks	11.2	13.1	8.3	–10.5	–6.7

(–) credit balance (+) debit balance

2.4.3 Net assets

Analysis of net assets and capital structure

The Company's net assets and capital structure developed as follows year on year:

	31 Dec. 2013		31 Dec. 2012*	
	EUR million	%	EUR million	%
Non-current assets	53.2	47.0	39.6	39.1
Current assets	60.0	53.0	61.7	60.9
Assets	**113.2**	**100.0**	**101.3**	**100.0**
Equity	64.1	56.6	58.8	58.0
Non-current liabilities	20.1	17.8	10.8	10.7
Current liabilities	29.0	25.6	31.7	31.3
Equity and liabilities	**113.2**	**100.0**	**101.3**	**100.0**

* The previous year's figures were adjusted to reflect the amendment of IAS 19.

LPKF'S NET ASSETS REMAIN VERY ROBUST, AS INDICATED BY THE CONTINUED HIGH EQUITY RATIO OF 56.6 % AMONG OTHER THINGS.

LPKF's net assets remain very robust, as indicated by the continued high equity ratio of 56.6 % (previous year: 58.0 %) among other things. The increase in non-current assets during the reporting year stems particularly from investments at the Fürth and Garbsen sites.

In current assets, trade receivables were substantially reduced in favor of cash and cash equivalents, which were up EUR 7.5 million year-on-year at the reporting date.

127 % OF THE NON-CURRENT ASSETS ARE COVERED BY EQUITY.

127% of the non-current assets are covered by equity (previous year: 159 %).

A considerable drop in trade receivables and a slight decrease in inventories reduced working capital markedly. This development in connection with the increase in revenue lowered the net working capital ratio from 38.8 % in the preceding year to 28.7 % in the reporting period.

EQUITY INCREASED ON THE WHOLE, BOOSTED BY THE POSITIVE EARNINGS FROM THE CURRENT FINANCIAL YEAR.

Equity increased on the whole, boosted by the positive earnings from the current financial year. Under equity, the capital increase from own funds implemented at the parent company doubled subscribed capital. A portion of the capital reserves and the Company's retained earnings were used for this. Another allocation to retained earnings was made from net retained profits. Liabilities to banks increased by EUR 5.7 million, primarily due to the utilization of long-term borrowings. Current liabilities also include tax provisions that rose on account of higher earnings. Higher provisions for bonuses and a provision for anticipated losses in the amount of EUR 0.4 million for rental and restoration obligations at the discontinued Erlangen site pushed up other provisions. Other liabilities declined by EUR 0.6 million due primarily to lower advances received on account of orders.

With these exceptions, there has been no substantial change in the balance sheet structure.

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. ROCE is calculated in % as a ratio of EBIT 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.

Multi-period overview of net assets

	2013	2012	2011	2010	2009
Fixed assets ratio (%)	44.5	36.5	35.8	30.8	32.1
Inventories ratio (%)	27.6	32.4	29.4	25.7	25.1
ROCE (%)*	26.4	26.5	23.4	31.6	15.7
Net working capital (EUR million)	37.3	44.6	39.7	27.0	20.4
Net working capital ratio (%)	28.7	38.8	43.6	33.3	40.2
Days sales outstanding (days)	53	57	63	52	75

* The previous year's figure was adjusted to reflect the amendment of IAS 19.

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

Capital expenditures

In the 2013 financial year, EUR 21.3 million was invested in intangible assets and property, plant and equipment, EUR 8.6 million more than in the previous year. The purchase of a property in Fürth, the largest single investment in the Company's history at EUR 9.0 million, was the main expense. The Company also moved into a new building at the Suhl site, however. In Garbsen, construction of a new administrative building began in the financial year and is progressing in line with planning. An amount of approximately EUR 4.0 million was capitalized for these two projects at the reporting date. Investments in Fürth, where an office extension is being added to the existing property, as well as the completion of the administrative building in Garbsen are planned for the remainder of 2014. On the whole, investments in 2014 are expected to be substantially lower than in the previous year. Together with investments from previous years, these measures make up a large share of LPKF's growth strategy.

ON THE WHOLE, INVESTMENTS IN 2014 ARE EXPECTED TO BE SUBSTANTIALLY LOWER THAN IN THE PREVIOUS YEAR.

Employees

LPKF's basic philosophy is to secure motivated employees and tie them 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 peaks in capacity. Having significantly expanded its workforce in 2013, the Company is planning further selective recruitment in 2014 depending on the business climate, primarily for the service departments and areas directly related to sales, as well as in development. The expansion of the global sites in particular will increase the headcount.

As part of human resources development, internal and external training courses and the necessary staff training measures were conducted in all areas so that staff are well equipped to cope with future challenges. Here, LPKF will pursue a systematic HR development policy in the coming years, mainly featuring specialized training seminars as well as training of the managers of today and tomorrow. In particular, LPKF trains mechatronic technicians and industrial business assistants in order to acquire properly qualified young staff. The Group employed 40 trainees at the reporting date (2012: 37); a moderate increase in the number of trainees is expected again for 2014.

THE GROUP EMPLOYED 40 TRAINEES AT THE REPORTING DATE.

2.4.4 Segment performance

The following table provides an overview of the operating segments' performance:

in EUR million		Electronics Production Equipment	Electronics Development Equipment	Other Production Equipment	Other	Total
External revenue	2013	75.7	20.9	32.6	0.5	129.7
	2012	56.4	19.4	38.9	0.4	115.1
Operating profit (EBIT)	2013	21.3	1.9	1.2	−1.2	23.2
	2012	12.9	3.2	5.2	−0.9	20.4
Assets	2013	36.6	14.8	28.9	32.8	113.1
	2012	34.5	14.2	27.6	25.0	101.3
Liabilities	2013	6.6	2.6	17.0	22.9	49.1
	2012	7.1	2.8	12.3	20.3	42.5
Capital expenditures	2013	4.5	2.0	12.3	3.0	21.8
	2012	4.6	3.7	2.1	2.4	12.8
Depreciation/ amortization/ impairment losses	2013	4.1	2.6	0.9	0.2	7.8
	2012	4.2	1.8	0.9	0.3	7.2

The production services, which previously were shown under the "Other" segment, have been allocated to the other operating segments. The previous year's figures were corrected accordingly.

2.5 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS OF LPKF AG

The following explanations aim to provide an overview of the economic development of LPKF AG (single entity). The annual financial statements of LPKF AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and published in the Federal Gazette (Bundesanzeiger).

The single entity is managed according to the same principles as the Group, on the basis of the IFRSs. On account of the single entity's large share of the value creation in the Group, LPKF therefore refers to the statements in the "Corporate management" section and in the report on expected developments, which can also be extrapolated for the parent company.

2.5.1 Results of operations

IN THE 2013 FINANCIAL YEAR, REVENUE OF LPKF AG INCREASED BY 25.3 % YEAR-ON-YEAR TO EUR 105.8 MILLION.

In the 2013 financial year, revenue of LPKF AG increased by 25.3 % year-on-year to EUR 105.8 million, principally due to substantially higher unit sales in the Electronics Production Equipmemt segment. The percentage of revenue generated internationally was 90.7 % (previous year: 85.5 %).

The change in the product mix trimmed the material cost ratio to 31.2 % (previous year: 36.1 %). In spite of this significant reduction in costs, cost increases prevented this from having a bearing on other operating expenses and depreciation, amortization and impairment losses, resulting in an EBIT margin of 12.3 % in 2013 (previous year: 13.0 %).

AS A PERCENTAGE OF SALES, STAFF COSTS WERE DOWN SLIGHTLY.

Due to new hires in the areas of development and administration in particular, total staff costs were up EUR 4.6 million. As a percentage of sales, staff costs were down slightly, however.

Depreciation, amortization and impairment losses were higher than in the previous year, mainly due to amortization of intangible assets, while other operating expenses rose on the back of higher distribution costs, expenses for development, and utilization of the services of affiliated companies.

Distributions by the subsidiaries LPKF Inc. and LPKF d.o.o. increased the financial result by EUR 1.6 million.

On balance, earnings before taxes increased by EUR 3.6 million. Net income for the 2013 financial year after deduction of taxes amounted to EUR 12.6 million (previous year: EUR 9.9 million).

Income statement of LPKF AG

EUR million	2013	2012
Revenue	105.7	84.4
Change in inventories	0.1	2.0
Other own work capitalized	0.1	0.3
Other operating income	3.0	2.7
Cost of materials	33.1	31.2
Staff costs	25.8	21.1
Depreciation/amortization/impairment losses on fixed assets	3.6	2.4
Other operating expenses	33.4	23.7
Financial result	**3.9**	**2.3**
Profit from ordinary operations	**16.9**	**13.3**
Income taxes	4.3	3.4
Net profit for the year	**12.6**	**9.9**
Retained earnings brought forward from the previous year	4.5	11.4
Net retained profits	**17.1**	**21.3**

2.5.2 Net assets and financial position

Total assets stood at EUR 87.0 million on 31 December 2013, up EUR 11.0 million on the prior-year reporting date. Investments in fixed assets (including intangible assets) amounted to EUR 5.9 million in 2013, down EUR 0.6 million year-on-year. Through the purchases of the remaining interests in LPKF d.o.o. and the capital paid in by the new sales company in Korea, financial assets were augmented by EUR 15.8 million, increasing non-current assets by 20.1 % year-on-year. In spite of the reduction of trade receivables, current assets rose by EUR 3.8 million to EUR 44.5 million on the strength of higher cash and cash equivalents.

WITH AN EQUITY RATIO IN EXCESS OF 60 %, LPKF AG IS SOLIDLY FINANCED FROM OWN FUNDS.

The increase in equity of EUR 7.1 million to EUR 52.8 million is primarily attributable to the net profit for the year. With an equity ratio in excess of 60 %, LPKF AG is solidly financed from own funds. Provisions increased by a total of EUR 4.2 million year-on-year on account of higher delivery and performance obligations at the reporting date as well as through allocations to the tax provisions and provisions for warranties.

In connection with the expansion of the Garbsen site, liabilities to banks rose by EUR 0.4 million, particularly due to long-term borrowings. In other liabilities, increases in the liabilities to affiliated companies were compensated by a decrease in advances received in particular. At EUR 23.6 million, total liabilities were flat on the previous year (EUR 23.7 million).

The Company's net assets and capital structure developed as follows year on year:

	31 Dec. 2013		31 Dec. 2012	
	EUR million	%	EUR million	%
Non-current assets	41.9	48.2	34.9	45.9
Current assets	45.1	51.8	41.1	54.1
Assets	**87.0**	**100.0**	**76.0**	**100.0**
Equity	52.8	60.7	45.7	60.1
Non-current assets	8.6	9.9	7.7	10.1
Current liabilities	25.6	29.4	22.6	29.8
Equity and liabilities	**87.0**	**100.0**	**76.0**	**100.0**

Management's assessment of LPKF AG's economic situation is just as positive as its assessment of the situation of the LPKF Group.

Capital expenditures

At EUR 1.8 million, capital expenditures were focused on the construction of the new administrative building at corporate headquarters, which has not yet been completed and is therefore reported under construction in progress.

Employees

LPKF AG HAD 416 EMPLOYEES AT THE REPORTING DATE.

LPKF AG had 416 employees at the reporting date, 54 more than in the previous year.

Dividend

The sustained ability to pay a dividend is key goal of the LPKF Group. 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. An exception may be made from this principle, especially the future is uncertain due to circumstances such as an economic downturn, or if paying a dividend would jeopardize the ability to finance investments or put the financial position of LPKF AG or the Group at risk.

THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD INTEND TO PROPOSE TO THE 2014 ANNUAL GENERAL MEETING A DIVIDEND OF EUR 0.25 PER SHARE BE PAID.

In view of the positive development of operations in 2013 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 5 June 2014 that a dividend of EUR 0.25 per share be paid (previous year, comparable: EUR 0.25).

2.5.3 Risk report

The business development of LPKF AG is essentially exposed to the same risks as that of the LPKF Group. These risks are explained in the risk report (section 5) of the combined management report.

2.6 EMPLOYEES

MOTIVATED, HIGHLY-QUALIFIED STAFF IS THE KEY TO SUCCESS FOR LPKF.

Motivated, highly-qualified staff that identifies with LPKF 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 achieving this goal. At 3.0 %, the sick leave percentage in the LPKF Group was below the average for the metal working and electronics industry (2012: 4.6 %). The employee turnover rate in the Group was 5.0 %.

As a result of demographic change, the share of older people in the population as a whole has been increasing compared with the share of younger people for decades now. Life expectancy, which has also been rising for decades, coupled with declining birth rates is largely responsible for these demographic changes. The result is that the average lifespan of both men and women growing steadily longer.

Demographic shifts also affect the labor market. The decline in births means that in the future fewer and fewer young workers will be available. The proportion of older people in the workforce will grow for this reason alone.

THE AVERAGE AGE OF OUR EMPLOYEES IS 36.5.

The average age of our employees – taking the Garbsen site as an example – is 36.5.

AVERAGE AGE OF THE WORKFORCE

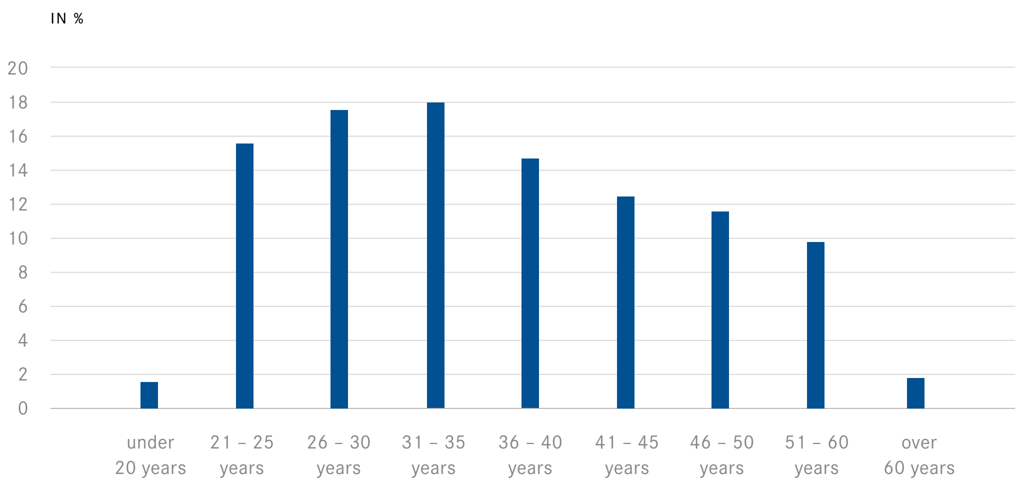


Fig. Age structure analysis in years, Garbsen site (excluding trainees)

An analysis of our employees' length of service based on the example of Garbsen, which is 5.9 years on average, indicates that LPKF has a healthy mix of experienced and newer employees.

ANALYSIS OF THE LENGTH OF SERVICE

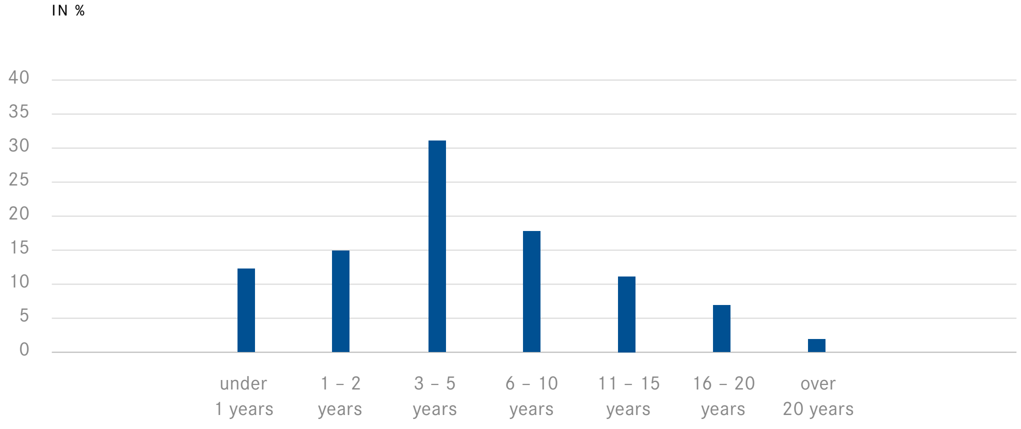


Fig. Distribution of length of service in years, Garbsen site (excluding trainees)

Based on the current age structure and a balanced mix of years of service, LPKF is positioned well to face the challenges posed by demographic trends.

For our customers, the LPKF brand stands for quality and reliability specifically as well as innovation and efficiency. For this reason, management monitors the cost of correcting defects in the field as an indicator of the quality of our products. These statistics are documented in a timely manner on site at the branches and for service employees across the globe and are analyzed centrally. Error trends can thus be identified early on and focused measures to stop them can be initiated quickly.

2.7 OVERALL APPRAISAL OF THE GROUP'S ECONOMIC SITUATION

THE COMPANY'S ECONOMIC SITUATION CAN BE CONSIDERED EXTREMELY ROBUST IN THE 2013 FINANCIAL YEAR YET AGAIN.

The Company's economic situation can be considered extremely robust in the 2013 financial year yet again. As far as revenue and earnings are concerned, 2013 was the best year in the Company's 37-year history. Building on that, LPKF will continue to post excellent earnings and achieve a high return on the capital employed.

III. Report on post-balance sheet date events

DISCLOSURES ON PARTICULARLY SIGNIFICANT EVENTS

There were no reportable events after the reporting date.

IV. Report on opportunities

4.1 OPPORTUNITY MANAGEMENT

OPPORTUNITY MANAGEMENT INVOLVES CLOSELY MONITORING NEW MARKETS AND APPLICATIONS.

As a technology company, LPKF does business in a dynamic market environment that always provides new opportunities. Systematically identifying and leveraging these opportunities is a major factor in the sustainable growth of the LPKF Group. Opportunity management involves closely monitoring new markets and applications, regularly evaluating market analyses, and reviewing the focus of the product portfolio.

In the R&D unit, innovation managers specialize in systematically seeking out new technologies. The responsibility for identifying opportunities in the product groups and markets lies with the product managers and international subsidiaries. The results of these efforts are regularly reported to the Company's management and to the central Group strategy department.

If it is likely that opportunities will materialize, they are included in the planning and outlook for the coming years. The opportunities listed below focus on future trends or events that could result in a positive deviation for LPKF from the outlook given in the report on expected developments.

4.2 OPPORTUNITIES

4.2.1 Further developing the existing product portfolio

LPKF ENSURES ITS CAPABILITY TO INNOVATE FOR THE FUTURE BY PROVIDING A SUITABLE ANNUAL R&D BUDGET OF APPROXIMATELY 10 % OF REVENUE.

LPKF updates the product portfolio on an ongoing basis, aligning this activity with signals from customers, technological progress outside the Company and changing markets. At the same time, it also pursues its own ideas and innovations. The Company thus aims to always be prepared to meet future customer needs while at the same time actively creating new market demand through its own innovative and efficient processes. LPKF ensures its capability to innovate for the future by closely networking its development departments with market research, sales and service, as well as providing a suitable annual R&D budget of approximately 10 % of revenue. The continual updating of the product portfolio can result in changes in the product mix, and these changes pose risks as well as providing opportunities.

4.2.2 New technology breakthroughs

THE CHANCES ARE EXCELLENT FOR FURTHER EXPANSION OF MARKET SHARE THANKS TO LPKF'S WIDE-RANGING TECHNOLOGICAL EXPERTISE.

LPKF is a market leader in all product groups worldwide. The chances are excellent for further expansion of market share thanks to LPKF's wide-ranging technological expertise, brand recognition and long-term relationships with customers. In addition to established markets, LPKF additionally concentrates on attractive new markets that promise good growth and income opportunities. Moreover, LPKF aims to open up new markets and further cement its presence in existing markets by developing new products. The purpose of systematic market and technology monitoring is to identify sustainable market opportunities at an early stage and fill these needs with the Company's own technological solutions. The development of such solutions is often not linear, but rather offers the chance to make a technological breakthrough that may be protectable as intellectual property.

4.2.3 Takeover of external companies with strategically relevant expertise

LPKF has a broad product portfolio and many ideas for further developing products and uncovering new market opportunities. This is why organic growth is at the forefront of LPKF's corporate strategy. Nonetheless, the Company also pursues opportunities for external growth that could come from taking over companies with strategically relevant expertise. In order to pursue the strategic option of inorganic growth, the appropriate structures for actively seeking and analyzing potential targets and for managing M&A projects will be created.

4.2.4 Orders as a result of supplanting conventional production methods

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 methods 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.

4.2.5 Independence of individual markets as a result of broad positioning

THE COMPANY'S ONGOING DEVELOPMENT ACTIVITY IS INTENDED TO MAINTAIN ITS EDGE OVER THE COMPETITION.

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 is intended to maintain its edge over the competition in key product markets.

4.2.6 Business organization

The consistent alignment of the corporate structure to the strategy has created one of the key conditions for exploiting opportunities for further growth. The Group's organization and internal processes are continually improved and positioned for profitable growth, e. g. by implementing the results of the ORG200 organizational project. Going forward, LPKF aims to profit further from the size of the Group and more effectively leverage economies of scale.

V. Risk report

5.1 DESCRIPTION OF THE INTERNAL CONTROL SYSTEM

5.1.1 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 AIM OF THE MEASURES 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, internal audits and Management Board meetings – and assessing the probability of damage occurring in these areas and the extent of potential damage.

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.

Since 2010, an international firm of public auditors has performed internal auditing tasks in the Group. In conjunction with the Management Board, a multi-year audit plan is developed, taking into account material risks in particular, and this is approved by the Supervisory Board. The results of the audits conducted are presented to the Supervisory Board. It is stipulated that the findings must worked through in a timely manner. Follow-up audits ensure that the agreed implementation of the findings is monitored regularly and documented. Implementation is the responsibility of the relevant Management Board member with purview over the respective area. The risk and opportunity management system is also an integral part of the ICS.

5.1.2 Risk management system

Risk management is pursued actively at LPKF like opportunity management, which is not integrated into the risk management system, but instead is handled separately. 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. Risk is defined as potential future trends or events that might result in a negative departure from forecasts or goals. Risk management serves to safeguard the foundation of business and expand competitiveness by providing a platform for suitably controlling specific 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. During the financial year, the risk management system was dovetailed further with compliance management through creation of a shared position.

RISK IS DEFINED AS POTENTIAL FUTURE TRENDS OR EVENTS THAT MIGHT RESULT IN A NEGATIVE DEPARTURE FROM GOALS.

An international firm of public auditors performs internal auditing tasks for the entire LPKF Group. These audits are based on a multi-year audit plan that reflects the risk situation of the Group documented by the risk management system and the risk assessment developed by the Management Board. In financial year 2013, audits were conducted at LPKF AG and one subsidiary. The unified ERP system for managing processes and workflows that was implemented at both sites of LPKF AG and its Suhl-based subsidiary was also installed in certain departments of the Company's Chinese subsidiary in the 2013 financial year. Subsequent implementation of this system at further Group companies is planned. This process serves to further optimize process structure and information flow 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.

RISK MANAGEMENT IS ALWAYS A FUNDAMENTAL ELEMENT IN THE PLANNING AND IMPLEMENTATION OF LPKF'S BUSINESS STRATEGY.

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. The second- and third-level management staff implement these control functions in each of the Group's organizational units and benefit here from theoretical technical knowledge, practical experience and excellent networking in the relevant topical areas. In this way, the responsible employees can use suitable and effective means to identify new risks quickly and directly where they arise and then report them to the risk manager. A central database is used for reporting. In addition to regular reporting on identified risks, ad hoc reports must be prepared as needed on all risks that occur unexpectedly. This involves the 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.

THE RISK EARLY WARNING SYSTEM IS REVIEWED ANNUALLY BY A PUBLIC AUDITOR.

In order to record and control risks, existing instruments in the context of the risk management process 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 2013 financial year. A database-supported reporting system has been installed at Group companies. 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.

5.1.3 Description of the main features of the internal control and risk management system relevant for the financial reporting process (Section 289 (5) German Commercial Code)

The internal control and risk management system relevant for the financial reporting process is designed to ensure proper financial reporting, which is defined as the compliance by the consolidated financial statements and combined management report with all applicable regulations.

The workflows in the Group are structured around processes and are set up identically for the most part thanks to the use of the same ERP system in key units of the Group. The Company plans to roll out the system to additional units in the Group.

Automatic process controls are integrated into this system and protected from unintentional changes with an IT-based authorization concept.

The dual-control principle is applicable throughout the LPKF Group. Through 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 – this approach limits the possibilities for engaging in fraudulent acts. This is a manual control that also underlies the process descriptions, signature regulations, guidelines and work instructions.

The specific functions of the internal control system are the risk management system, Group Accounting, Internal Auditing and the compliance manager, which at LPKF AG are based at the Group's headquarters.

Among other things, the risk management system continually monitors the risks of publishing erroneous figures in accounting and external reporting. More details on the risk management system are included in section 5.1.2.

The entries recorded at LPKF AG and the subsidiaries provide the data used to prepare the consolidated financial statements. LPKF guarantees the quality of this data by selecting suitable staff and regularly training employees, and enlisting the help of service providers, e. g. in measuring long-term liabilities and determining facts material to accounting by Group Accounting. Before being included in the consolidated financial statements, the data is subject to automatic and manual controls. The consolidated financial statements are prepared in a system separate from the ERP system to which only a limited group of authorized persons has access. It is managed solely at headquarters. In further developing the systems, the focus is on automating standard procedures to the greatest extent possible. In addition, 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 for the financial reporting process in which the Supervisory Board is also regularly involved.

THE POSITION OF COMPLIANCE MANAGER WAS CREATED TO ENSURE THAT ALL BUSINESS ACTIVITIES COMPLY WITH THE STATUTORY PROVISIONS AND THE VALUES OF LPKF.

The position of compliance manager was created to ensure that all business activities comply with the statutory provisions and the values of LPKF. The compliance manager is responsible for stipulating guidelines applicable throughout the Group and compliance with these guidelines.

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.

5.2 SPECIFIC RISKS

The risk management process currently involves dealing in detail with the specific risks listed in the table below which could have a significant impact on the LPKF Group's business, as well as its net assets, financial position and results of operations. The risks remain essentially unchanged compared to the previous year.

The following risk in particular are given high priority:

Specific risk	Qualitative probability of occurrence*	Possible financial effects**
Business risks (product liability)	Unlikely	Moderate
Dependence on suppliers	Unlikely	Moderate
Dependence on customers (order cancellations/defaults on payment)	Unlikely	Moderate
Technological developments	Unlikely	Material
Patent risks	Possible	Material
Personnel risks	Unlikely	Moderate

* Unlikely = Probability of occurrence up to 40% – Possible = Probability of occurrence higher than 40%
** Moderate = Damage amount up to EUR 3 million – **Material = Damage amount higher than EUR 3 million up to EUR 10 million

Other risks which are currently unknown, or which are currently (still) considered negligible, could also have a positive or negative impact on LPKF.

Disclosures on all individual risks:

5.2.1 Business risks

I. Cause

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.

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 2013, the solar energy market was in crisis the third year in a row. Nevertheless, earnings were positive in this area of business. The further development of the business with solar scribers is also contingent on the continuation of and further amendments to the German Renewable Energy Sources

Act (Erneuerbare-Energien-Gesetz) which governs the feed-in fees, e. g. for solar electricity, as well as from the regulations and development of similar laws in other countries. Economic fluctuations have a strong impact on the investment in production equipment. Especially in markets outside Asia, customers' willingness to take the risk of expanding capacities or introducing 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 usually more exposed to cyclic fluctuations than the more budget-driven Electronics Development Equipment segment.

ESPECIALLY IN MARKETS OUTSIDE ASIA, CUSTOMERS' WILLINGNESS TO TAKE RISKS IS LIMITED.

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 or alternative techniques.

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. Ensuring the high level of quality required by customers places great demands on development and production processes. Especially systems, components and technologies that have been newly developed from scratch entail a risk of high quality costs.

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.

II. Measures

Expanding quality management is a focus of the Group's strategy, and measures to this end were implemented in the 2013 financial year. What is more, innovation and product management were reinforced further and the Group-wide development process improved. On the whole, around 10 % of consolidated revenue will be invested in development to secure the Company's technological edge in the future.

ON THE WHOLE, AROUND 10 % OF CONSOLIDATED REVENUE WILL BE INVESTED IN DEVELOPMENT TO SECURE THE COMPANY'S TECHNOLOGICAL EDGE IN THE FUTURE.

The Company seeks to cover these through insurance policies if there are existent risks from product liability.

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. This risk is further mitigated by taking out insurance.

Exchange rate risks are addressed with foreign currency hedges to provide a stable basis for costing.

III. Effects on economic position

Thanks to measures in place and planned, the likelihood of occurrence can be described as unlikely and any financial effects as moderate.

5.2.2 Dependence on suppliers

I. Cause

The procurement of components and services from external suppliers is associated with basic risks involving deliverability, the ability to deliver on time, stability of prices and quality.

II. Measures

This is why LPKF pays particular attention to selecting and developing reliable suppliers. Suppliers are regularly subject to systematic evaluations, and, if necessary, steps to improve the supply chain are defined.

As a rule, dependence on individual suppliers outside the Group is to be avoided.
However, the choice of possible suppliers for a few special components is currently limited. Special attention is devoted to managing these sources. Furthermore, the market is continually analyzed for alternative sources.

III. Effects on economic position

Depending on the component, late deliveries, components with quality problems, unexpected fluctuations in price, or even the sudden halting of deliveries can result in temporary bottlenecks in the delivery of systems, and therefore to greater or lesser losses of revenue and earnings.

5.2.3 Dependence on customers

I. Cause

THE DISTRIBUTION OF REVENUE BY REGION SHOWS A CLEAR SHIFT TO ASIA, CHINA IN PARTICULAR.

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. In the Solar Module Equipment product group, larger-scale projects are often completed with a few customers. If the Company were to fail to land individual projects, this could significantly affect the financial success of this business segment. However, the LPKF Group is not materially dependent on particular customers above and beyond this. Due to the ongoing difficult business situation in the solar industry, there is an increased risk of order cancellations and defaults in the Solar Module Equipment product group.

II. Measures

LPKF broadened its customer base in the Electronics Production Equipment segment, and made a breakthrough in the manufacture of larger components, such as antennas for laptops and tablets. In the solar business, the agreed payment terms and other conditions provide a modicum of protection against cancellations and payment defaults.

III. Effects on economic position

This risk is considered minimal as of the balance sheet date due to the low number of orders on hand and the receivables attributable to the solar business.

Nonetheless, if the solar market continues to be weak as the result of the loss of a major customer or the failure to obtain other major orders, this could have a negative impact on the Group's revenue and earnings if, for example, capacities cannot be wound down fast enough or used by other divisions. The likelihood of occurrence of this risk has declined thanks to the large order received after the balance sheet date.

5.2.4 Technological developments

I. Cause

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 cross-segment risks. LPKF's success significantly depends on the speed and quality with which new products can be developed to market readiness. In terms of LDS, there is a risk that additional applications apart from antennas cannot be developed as planned. However, there is also a chance that the result will be better than planned. 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.

II. Measures

Permanent follow-up by the Supervisory Board and the Management Board is an integral part of the risk management system to review the sustainable value of new developments and integrate these findings into the product strategy. This follow-up involves the division heads, innovation management and the head of Group strategy. The development of high-quality products in a structured, expeditious flow of development projects is supported by a structured idea generation and development process. In addition to frequently achieving cost benefits by investing in LPKF's technology, LPKF's customers can also enjoy competitive benefits and harness the associated market opportunities. In this way, it has been possible to repeatedly replace established technologies with laser-based processes. LPKF's technologies are also protected by patents. LPKF is working closely with customers to develop additional applications for the LDS technology.

III. Effects on economic position

In 2013, LPKF once again generated the majority of its revenue with fresh products. The planning for the coming years assumes that this success can be continued. At this time, the investment environment and financial situation of many customers is generally rather favorable. On the whole, this segment is critically important for the LPKF Group.

5.2.5 Patent risks

I. Cause

THE LPKF GROUP OWNS 43 PATENT FAMILIES, AND MOST OF THEM ARE INTERNATIONAL.

The LPKF Group owns 43 patent families, 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 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.

II. Measures

In general, these risks are addressed with comprehensive innovation and product management and close cooperation with international patent attorneys. LPKF is also in close contact with customers and other sources of information and, in this way, tries to identify and counter risks in this area at an early stage. Along with the growing success of the LDS technology, the number of attacks on the patent that secures LPKF sole rights to the LDS technology has increased. In China, LPKF is currently unable to defend the patent despite all efforts. The aim here is to bring the case back before the highest Chinese court for a re-hearing. After this temporary loss of the patent in China, LPKF is now increasingly taking action against companies outside the Chinese market who use the LDS process in violation of the patent. Out-of-court settlements have already been reached with two of these patent infringers. Currently, LPKF is also taking action against a mobile phone manufacturer who is putting electronic components on the market that likewise infringe the LDS patent in LPKF's view. By intensively pursuing R&D activities, LPKF strives to gain a technological edge over its competitors and possible patent infringers. If successful, this is an effective additional measure of protection against copying and the theft of intellectual property.

ALONG WITH THE GROWING SUCCESS OF THE LDS TECHNOLOGY, THE NUMBER OF ATTACKS ON THE PATENT THAT SECURES LPKF SOLE RIGHTS TO THE LDS TECHNOLOGY HAS INCREASED.

III. Effects on economic position

Due to the great significance of patents for the LPKF Group, the possible consequences in this area can be described as material overall. The loss of LDS patent protection in China does not affect the continued existence of the patents in other significant markets. For this reason, it is not legally possible to export LDS components manufactured in China, or equipment that contains these parts, to other markets outside of China. Moreover, LPKF has achieved a unique technological position in this field. At this time, no material adverse effect is identifiable as yet for LPKF from the loss of patent protection in China.

5.2.6 Personnel risks

I. Cause

Demand for qualified technical personnel in both mechanical engineering and manufacturing is very high at present 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 cross-segment risk associated with the loss of key employees with important know-how as a result of head hunting.

II. Measures

An attractive working environment and development opportunities within the LPKF Group are offered to retain employees in the Company. Particular value is placed on pay that reflects performance and a good working atmosphere. High-potential employees are given the opportunity to grow by attending an executive development program. Stepping up systematic staff development activities is a key goal for 2014. Members of the Management Board also maintain contact and exchange information with high performers at all sites on an ongoing basis.

STEPPING UP SYSTEMATIC STAFF DEVELOPMENT ACTIVITIES IS A KEY GOAL FOR 2014.

III. Effects on economic position

As in previous years, the Company currently enjoys a low level of employee turnover and sick leave compared to industry as a whole. The Group's performance is not hindered by possible delays in hiring. The effects can therefore currently be described as moderate.

5.2.7 Financial risks

I. Cause

LPKF AG ENJOYS A GOOD CREDIT RATING THANKS TO THE ROBUST STRUCTURE OF ITS STATEMENT OF FINANCIAL POSITION AND ITS PROFITABILITY.

LPKF AG enjoys a good credit rating thanks to the robust structure of its statement of financial position and its profitability. Considerable potential exists for financing due to the extensive unused credit lines and the Company's liquid assets. A further tightening of credit, e. g. indirectly if customers of LPKF were to encounter financing difficulties, could have a negative effect on order intake and thus the LPKF Group's future development. This risk affects all segments.

II. Measures

By following a policy of openness and transparency in communicating with our financing partners, LPKF provides an always up-to-date picture of the Company's financial situation, thus simplifying financing decisions. The Company uses suitable information sources in an effort to assess financial risks at the level of customers, the relevant markets and economic conditions and, if necessary, to hedge these with credit default insurance.

III. Effects on economic position

Currently there are no indications that the Group's performance could be adversely affected by financial risks. The current economic environment is viewed as fairly positive. Furthermore, LPKF assumes that such risks, if they arise, will not materialize cumulatively. In view of this assumption, the effects can be classified as moderate.

5.2.8 Exchange rate fluctuations

I. Cause

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 and the Chinese renminbi. This risk also includes obligations from hedging relationships entered into that arise from delays in the under-lying transaction (e. g. late receipt of USD already sold). In this case, subsequent hedging might only be able to be continued at a less favorable rate. This risk affects all segments. As a rule, LPKF invoices in euros. Only for transactions with American customers is billing usually in USD. In these cases, exchange rate volatility can have an indirect effect on LPKF's competitiveness because most of its competitors are not from the euro zone.

II. Measures

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 in foreign currencies.

III. Effects on economic position

Fluctuations in exchange rates can have a moderately positive or negative effect on earnings. Counter measures are permanently reviewed and implemented to the degree possible.

5.2.9 IT risks

I. Cause

In terms of its information and the IT systems used to process it, the Group is potentially exposed to the risk of industrial espionage or disruptions by internal or external perpetrators, just as other innovative companies.

II. Measures

Extensive technical and organizational security systems are implemented to keep these cross-segment risks at an acceptable level. IT security measures are evaluated on an ongoing basis by way of audits by external consultants and internal auditing. In this context, LPKF adheres to national and international standards. The results are structured for management and serve as a planning and decision-making tool for further risk management.

III. Effects on economic position

The performance of all security measures is sometimes costly, but results in LPKF being able to classify the likelihood of occurrence of a risk and possible loss as moderate.

5.3 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 decreased somewhat compared to the previous year. Many analysts expect the global economy to recover slightly in 2014. LPKF is faced with increasing attacks on its LDS patent, especially from China. For the rest, LPKF's overall risk exposure from specific risks has not changed much compared to the previous year thanks to the positive development of its business.

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.

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 results of operations, financial position and net assets of the LPKF Group in the future. There is, however, a continued possibility that the effects of a flare-up 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 revealed that the existing Groupwide risk early warning system is fit for purpose, meets the requirements of the German Stock Corporation Act and is suitable for detecting developments that jeopardize the Company's continued existence as a going concern at an early stage.

VI. Report on expected developments

6.1 OVERALL APPRAISAL OF THE GROUP'S PROBABLE PERFORMANCE

6.1.1 Economic environment

In its growth forecast for 2014, the International Monetary Fund (IMF) put global economic growth at 3.7 %, rising to 3.9 % in 2015. According to the IMF, the growth is being driven by a recovery in the industrialized countries, particularly the USA, which expanded 2.8 %. In 2015, 3.0 % growth is forecast there. The group of emerging and developing economies is expected to pick up the pace to 5.1 % in 2014 – led by China with growth of 7.5 % in 2014 and 7.3 % in 2015. The forecast states that the economy in the euro zone will also overcome its downward trajectory to expand by 1 % and then 1.4 % in the following year. IMF economists believe that Germany's gross domestic product will rise 1.6 %, followed by 1.4 % in 2015.

THE VDMA EXPECTS PRODUCTION TO GROW 3 % IN REAL TERMS IN 2014.

LPKF AG's outlook is materially linked to developments in its target industries. The German Engineering Federation (Verband Deutscher Maschinen- und Anlagenbau, or VDMA) expects production to grow 3 % in real terms in 2014. All industrial sectors will see a positive real change in 2014, but capital expenditures for equipment and machinery are anticipated to increase by 7 %. The Federation believes that the classic industrialized countries will play the key role in growth in 2014, especially the established markets in Europe, whose leading indicators give rise to optimism. According to the VDMA, the developing and emerging economies will only make a limited contribution to growth in 2014 due to structural problems, despite comparatively high GDP growth rates.

The German Automotive Industry Association (Verband der Automobilindustrie – VDA) projects growth of 3 % to 74.7 million vehicles for the global passenger car market in 2014. German manufacturers alone would account for 14.7 million of these passenger cars. The increase will be driven mainly by non-European markets. With the exception of Japan, positive performance is anticipated for all relevant target markets, indicates the Association. There is an expectation that China will grow 7 %, thus enabling the country to exceed the 17 million-vehicle mark. For the United States, growth of 3 % to 15.9 million passenger vehicles is projected. For the first time in four years, Western Europe is also set to see a modest increase.

The outlook for the coming year for the international solar sector is assessed by industry experts at the US-based research firm IHS to again be somewhat more optimistic. They forecast a double-digit rate of increase in new photovoltaic system installations. The installed capacity is thus expected to be 40 to 45 GW after 37 GW in 2013.

In the consumer electronics industry, the US industry association Consumer Electronics Association (CEA) believes that revenue will be up in 2014. Smartphones and tablet PCs remain the most important products sold. Robust growth is predicted for new technologies such as 3D printers, smart watches, and Ultra HD televisions in 2014, but these products still only hold a small market share overall.

In the plastics processing industry, the German Plastics Processing Industry Association (Gesamtverband Kunststoffverarbeitende Industrie e.V., or GKV) anticipates a positive trend in 2014. A slight decline in prices for standard plastics is favorable for profits, according to the Association, while uncertainty surrounding energy costs could have a dampening effect.

6.1.2 Group performance

Forecasts by economic research institutes have improved not only for the global economy, but also in particular for LPKF's target sales markets. The risks of a negative impact on business by economic weakness in end markets are reduced accordingly. The beginning of the current financial year was rather muted for LPKF.

NEW PRODUCTS WILL HELP EXPAND THE AREAS OF APPLICATION FOR LDS.

In 2014, LPKF will make technologies already introduced, such as the LDS process and laser depanelling, even more attractive and make a significant contribution to improving the efficiency of thin-film solar panels. New products will help expand the areas of application for LDS and the prototyping of MIDs. In addition, current development results will lead to completely new applications for laser technology, which in turn will further broaden the foundation for business in future years.

6.1.3 Significant indicators

THE EBIT MARGIN SHOULD BE BETWEEN 15 % AND 17 % IN 2014.

Revenue and EBIT: Revenue in financial year 2013 reached EUR 129.7 million and, with growth of 12.7 %, exceeded the prior-year figure. Operating income (EBIT) even rose 14.1 %, while the EBIT margin was 17.9 % – again a figure well above average for the industry. On the whole, the Management Board expects the LPKF Group to generate revenue of EUR 132 to EUR 140 million for 2014 assuming stable performance by the global economy. The EBIT margin should be between 15 % and 17 % in 2014. This results in planning for EBIT between EUR 19 million and EUR 24 million.

The net working capital ratio is expected to fall below 35 %, which corresponds to net working capital of less than EUR 50 million for the forecast period. This would represent a moderate year-on-year increase.

Given a stable economic environment in both 2015 and 2016, the Management Board expects revenue to grow by an average of approximately 10 % per year and the EBIT margin to come in between 15 % and 17 %.

VII. Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group 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, 21 March 2014

Dr. Ingo Bretthauer   Bernd Lange   Kai Bentz   Dr.-Ing. Christian Bieniek

Consolidated financial statements 2013

LPKF Laser & Electronics AG

Consolidated financial statements for the 2013 financial year in accordance with the International Financial Reporting Standards (IFRS)

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Consolidated statement of financial position as of 31 December 2013

Assets

EUR thsd.	Note	31 Dec. 2013	31 Dec. 2012*
Non-current assets			
Intangible assets	10		
Software		3,084	4,563
Goodwill		74	74
Development costs		4,435	3,792
		7,593	**8,429**
Property, plant and equipment	10		
Land, similar rights and buildings		32,428	20,243
Plant and machinery		3,138	3,104
Other equipment, operating and office equipment		4,822	3,888
Advances paid and construction in progress		2,379	1,429
		42,767	**28,664**
Financial assets	10		
Other borrowings		0	6
		0	**6**
Restricted securities	14	269	271
Receivables and other assets			
Trade receivables	12	95	25
Income tax receivables	13	134	226
Other assets	13	162	48
		391	**299**
Deferred taxes	16	2,148	1,930
		53,168	**39,599**
Current assets			
Inventories	11		
(System) parts		17,527	20,124
Work in progress		3,604	3,889
Finished products and goods		9,881	8,549
Advances paid		196	318
		31,208	**32,880**
Receivables and other assets			
Trade payables	12	12,884	21,134
Income tax receivables	13	937	769
Other assets	13	2,425	1,964
		16,246	**23,867**
Cash and cash equivalents	15	12,569	5,022
		60,023	**61,769**
		113,191	**101,368**

* The previous year's figures were adjusted to reflect the amendment of IAS 19.

Consolidated statement of financial position as of 31 December 2013

Equity and liabilities

EUR thsd.	Note	31 Dec. 2013	31 Dec. 2012*
Equity			
Subscribed capital	17	22,270	11,135
Capital reserves		1,489	5,599
Other retained earnings		11,115	6,823
Reserve for cash flow hedges		–55	–123
Revaluation surplus		4	5
Share-based payment reserve		490	490
Currency translation reserve		–826	–556
Net retained profits		29,579	33,423
Non-controlling interests	18	0	2,036
		64,066	**58,832**
Non-current liabilities			
Provisions for pensions and similar obligations	19	176	0
Other provisions	20	40	0
Non-current liabilities to banks	21	17,882	8,346
Deferred income from grants	3	716	363
Other non-current liabilities	21	0	36
Deferred taxes	16	1,342	2,051
		20,156	**10,796**
Current liabilities			
Tax provisions	20	2,809	412
Other provisions	20	5,934	5,097
Current liabilities to banks	21	5,934	9,753
Trade payables	21	4,357	5,906
Other liabilities	21	9,935	10,572
		28,969	**31,740**
		113,191	**101,368**

* The previous year's figures were adjusted to reflect the amendment of IAS 19.

Consolidated income statement

from 1 January to 31 December 2013

EUR thsd.	Note	2013	2012
Revenue	1	129,663	115,082
Changes in inventories of finished goods and work in progress		1,170	2,854
Other own work capitalized	2	3,707	3,282
Other operating income	3	3,941	2,471
		138,481	**123,689**
Cost of materials	4	34,932	36,051
Staff costs	5	40,504	35,140
Depreciation and amortization and impairment losses	6	7,768	7,178
Other operating expenses	7	32,036	24,957
Operating profit		**23,241**	**20,363**
Finance income	8	29	56
Finance costs	8	735	845
Earnings before tax		**22,535**	**19,574**
Income taxes	9	6,786	5,247
Consolidated net profit		**15,749**	**14,327**
Of which attributable to			
Owners of the parent		15,069	13,519
Non-controlling interests		680	808
		15,749	**14,327**
Earnings per share (basic)	23	€0.68	€0.61
Earnings per share (diluted)	23	€0.68	€0.61

Consolidated statement of comprehensive income

from 1 January to 31 December 2013

EUR thsd.	Note	2013	2012*
Consolidated net profit		**15,749**	**14,327**
Revaluations (mainly actuarial gains and losses)		77	– 115
Deferred taxes		–25	35
Sum total of changes which will not be reclassified to the income statement in the future		**52**	**– 80**
Gains and losses on remeasuring available-for-sale financial assets		–2	30
Fair value changes from cash flow hedges		97	9
Currency translation		–270	–210
Deferred taxes		–28	– 12
Sum total of changes which will be reclassified to the income statement in the future if certain conditions are met		**–203**	**–183**
Other comprehensive income after taxes		**–151**	**–263**
Total comprehensive income		**15,598**	**14,064**
Of which attributable to			
Owners of the parent		14,918	13,256
Non-controlling interests	18	680	808

* The previous year's figures were adjusted to reflect the amendment of IAS 19.

Consolidated statement of cash flows

from 1 January to 31 December 2013

EUR thsd.	Note	2013	2012
Operating activities			
Consolidated net profit		15,749	14,327
Income taxes		6,786	5,247
Interest expense		735	845
Interest income		–29	–56
Depreciation/amortization/impairment losses		7,768	7,178
Gains/losses from the disposal of non-current assets including reclassification to current assets		58	–176
Changes in inventories, receivables and other assets		7,279	–9,004
Changes in provisions		1,864	1,831
Changes in liabilities and other equity and liabilities		–2,111	3,149
Other non-cash expenses and income		1,259	–173
Interest received		15	56
Income taxes paid		–5,200	–6,097
Cash flows from operating activities		**34,173**	**17,127**
Investing activities			
Investments in intangible assets		–3,731	–5,734
Investments in property, plant and equipment		–17,615	–7,073
Proceeds from disposal of financial assets		6	19
Proceeds from disposal of non-current assets		89	508
Cash flows from investing activities		**–21,251**	**–12,280**
Financing activities			
Dividend payment		–5,567	–4,440
Dividend payment to non-controlling interests		0	–750
Interest paid		–673	–654
Cash payments for the acquisition of non-controlling interests		–4,797	–3,533
Proceeds from issue of capital		0	47
Proceeds from borrowings		16,034	10,800
Cash repayments of borrowings		–7,842	–9,157
Cash flows from financing activities		**–2,845**	**–7,687**
Change in cash and cash equivalents			
Change in cash and cash equivalents due to changes in foreign exchange rates		–52	–251
Change in cash and cash equivalents		10,077	–2,840
Cash and cash equivalents on 1 Jan.		**2,495**	**5,586**
Cash and cash equivalents on 31 Dec.		**12,520**	**2,495**
Composition of cash and cash equivalents			
Cash and cash equivalents		12,569	5,022
Overdrafts		–49	–2,527
Cash and cash equivalents on 31 Dec.	22	**12,520**	**2,495**

Consolidated statement of changes in equity

as of 31 December 2013

EUR thsd.	Subscribed capital	Capital reserve	Other retained earnings	Cash flow hedge reserve
Balance as of 01 Jan. 2013	11,135	5,599	6,823	–123
Consolidated total comprehensive income				
Consolidated net profit	0	0	0	0
Change from measurement of cash flow hedge	0	0	0	97
Change from market valuation of securities	0	0	0	0
Revaluations (mainly actuarial gains and losses)	0	0	77	0
Deferred taxes on changes recognized directly in equity	0	0	–1	–29
Currency translation differences	0	0	0	0
Consolidated total comprehensive income	**0**	**0**	**76**	**68**
Transactions with owners				
Capital increase from Company funds	11,135	–4,110	–7,025	0
Appropriation to retained earnings	0	0	11,241	0
Adjustment for difference from the purchase of non-controlling interests	0	0	0	0
Distributions to owners	0	0	0	0
Balance as of 31 Dec. 2013	**22,270**	**1,489**	**11,115**	**–55**

EUR thsd.	Subscribed capital	Capital reserve	Other retained earnings	Cash flow hedge reserve
Balance before adjustment on 01 Jan. 2012	11,101	5,338	7,000	–129
Accounting adjustment due to IAS 19 revised after deferred taxes	0	0	–97	0
Balance after adjustment on 01 Jan. 2012*	11,101	5,338	6,903	–129
Consolidated total comprehensive income				
Consolidated net profit	0	0	0	0
Change from measurement of cash flow hedge	0	0	0	9
Change from market valuation of securities	0	0	0	0
Revaluations (mainly actuarial gains and losses)	0	0	–115	0
Deferred taxes on changes recognized directly in equity	0	0	35	–3
Currency translation differences	0	0	0	0
Consolidated total comprehensive income	**0**	**0**	**–80**	**6**
Transactions with owners				
Proceeds from capital increases	34	261	0	0
Distributions to owners	0	0	0	0
Balance as of 31 Dec. 2012	**11,135**	**5,599**	**6,823**	**–123**

* The figures were adjusted to reflect the amendment of IAS 19.

Revaluation reserve	Share-based payment reserve	Currency translation reserve	Net retained profits	Equity before non-controlling interests	Non-controlling interests	Total
5	490	–556	33,423	56,796	2,036	58,832
0	0	0	15,069	15,069	680	15,749
0	0	0	0	97	0	97
–2	0	0	0	–2	0	–2
0	0	0	0	77	0	77
1	0	0	–24	–53	0	–53
0	0	–270	0	–270	0	–270
–1	**0**	**–270**	**15,045**	**14,918**	**680**	**15,598**
0	0	0	0	0	0	0
0	0	0	–11,241	0	0	0
0	0	0	–2,081	–2,081	–2,716	–4,797
0	0	0	–5,567	–5,567	0	–5,567
4	**490**	**–826**	**29,579**	**64,066**	**0**	**64,066**

Revaluation reserve	Share-based payment reserve	Currency translation reserve	Net retained profits	Equity before non-controlling interests	Non-controlling interests	Total
–16	490	–346	24,345	47,783	1,978	49,761
0	0	0	0	–97	0	–97
–16	490	–346	24,345	47,686	1,978	49,664
0	0	0	13,519	13,519	808	14,327
0	0	0	0	9	0	9
30	0	0	0	30	0	30
0	0	0	0	–115	0	–115
–9	0	0	0	23	0	23
0	0	–210	0	–210	0	–210
21	**0**	**–210**	**13,519**	**13,256**	**808**	**14,064**
0	0	0	0	295	0	295
0	0	0	–4,441	–4,441	–750	–5,191
5	**490**	**–556**	**33,423**	**56,796**	**2,036**	**58,832**

Consolidated notes 2013
LPKF Laser & Electronics AG

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

These consolidated financial statements were approved for publication by the Management Board on 21 March 2014.

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 were 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 2013 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 Jan. 2013	11 Dec. 2012	None
IFRS 1	Amendment – First-time Adoption of IFRSs: Government Loans	01 Jan. 2013	04 March 2013	None
IFRS 7	Amendment – Disclosures on Offsetting a Financial Asset and a Financial Liability	01 Jan. 2013	13 Dec. 2012	No material effects
IFRS 13	Fair Value Measurement	01 Jan. 2013	11 Dec. 2012	No material effects
IFRS 10, IFRS 11, IFRS 12	Change of transitional provisions	01 Jan. 2014	04 April 2013	None
Various	Annual improvement project 2009 – 2011	01 Jan. 2013	27 March 2013	No material effects
IAS 1	Amendment – Presentation of Components of Other Comprehensive Income	01 Jul.2012	05 June 2012	Effects are described in the notes below
IAS 12	Amendment – Deferred Taxes: Recovery of Underlying Assets	01 Jan. 2012	11 Dec. 2012	None
IAS 19	Employee Benefits (revised 2011)	01 Jan. 2013	05 June 2012	Effects are described in the notes below
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01 Jan. 2013	11 Dec. 2012	None

1 On 31 Dec. 2013

In June 2011, amendments to **IAS 1** “Presentation of Financial Statements” relating to the presentation of other comprehensive income were published. The key amendment comprises grouping items of other comprehensive income according to whether or not they can be reclassified to profit or loss in the future (known as “recycling”). The basic option for presenting items of other comprehensive income before or after tax remains in force. However, the taxes associated with items presented before tax must be recognized separately for both groups of items.

The final version of the amendments to **IAS 19** “Employee Benefits” was also issued in June 2011. The amendments to this standard eliminated the existing option for recognizing actuarial gains and losses. Since the corridor method applied by LPKF AG to date is no longer permitted, so-called revaluations (mainly actuarial gains and losses) will be recognized immediately directly in equity. The amounts in equity will remain there and will not be reclassified to profit or loss in subsequent periods either. As a result, the income statement will remain permanently free of the effects of revaluations for pension provisions. Another change comprises calculating the income from plan assets using the same interest rate that is used for discounting plan liabilities. Past service cost is also recognized in full in profit or loss in the period in which the associated plan amendments occurred. Moreover, additional reporting requirements arise from the amended standard.

LPKF applies the amendments to IAS 19 retrospectively. The affected prior-year figures in the statement of financial position and the statement of comprehensive income were adjusted due to the accounting change. The effects are described in detail in section E. “Critical accounting and measurement estimates and assumptions”, specifically in item (f) Accounting changes.

These changes do not result in additional restatements of the Company’s current or past net assets, financial position and results of operations.

Initial application of these pronouncements did not have any material effects on the Group’s net assets, financial position and results of operations.

The following standards that were amended, revised or issued prior to the reporting date were not applied in the 2013 financial year:

Standard / interpretation		Mandatory application	Adopted by the EU commission[1]	Effects
IFRS 10	Consolidated Financial Statements	01 Jan. 2014	11 Dec. 2012	Currently no effects; depending on future transactions
IFRS 11	Joint Arrangements	01 Jan. 2014	11 Dec. 2012	Currently no effects; depending on future transactions
IFRS 12	Disclosures of Interests in Other Entities	01 Jan. 2014	11 Dec. 2012	Disclosures in the Notes
IFRS 10, IFRS 12, IFRS 27	Amendment – Exception to Consolidation for Investment Entities	01 Jan. 2014	20 Nov. 2013	None
IAS 27	Separate Financial Statements (revised 2011)	01 Jan. 2014	11 Dec. 2012	None
IAS 28	Investments in Associates and Joint Ventures (revised 2011)	01 Jan. 2014	11 Dec. 2012	Currently no effects; depending on future transactions
IAS 32	Amendment – Disclosures on Offsetting a Financial Asset and a Financial Liability	01 Jan. 2014	13 Dec. 2012	Currently no effects; depending on future transactions
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	01 Jan. 2014	20 Dec. 2013	None
IAS 39	Amendment – Novation of Derivatives and Continuation of Hedge Accounting	01 Jan. 2014	20 Dec. 2013	None
IFRIC 21	Levies	01 Jan. 2014	12 Sept. 2013	None

1 On 31 Dec. 2013

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)	1,188.2	48.6
LPKF SolarQuipment GmbH	Suhl/Germany	100.0 (100.0)	5,236.6	2,403.2
LPKF Grundstücksverwaltungs GmbH	Fürth/Germany	100.0 (–)	27.4	2.4
LPKF Laser & Electronics d.o.o.	Naklo/Slovenia	100.0 (75.0)	8,438.2	2,721.9
LPKF Distribution Inc.	Tualatin (Portland)/USA	100.0 (100.0)	3,385.4	1,092.6
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0 (100.0)	7,845.3	2,484.6
LPKF Laser & Electronics Trading (Shanghai) Co. Ltd.	Shanghai/China	100.0 (100.0)	46.2	–1.6
LPKF Laser & Electronics (Hong Kong) Ltd.	Hong Kong/China	100.0 (100.0)	1,125.8	601.4
LPKF Laser & Electronics K. K.	Yokohama/Japan	100.0 (100.0)	–743.7	–398.8
LPKF Laser & Electronics Korea Ltd.	Seoul/Korea	100.0 (–)	100.0	0.0

The equity and earnings figures for the financial year just ended concern the financial statements as of 31 December 2013 and represent the balances pursuant to the local financial statements prior to reconciliation for purposes of groupwide recognition and measurement.

The legal structure of the LPKF Group changed in the 2013 financial year. LPKF Grundstücksverwaltungs GmbH was established effective 10 May 2013 to acquire a property for the purpose of expanding the welding equipment business. In December 2013, the remaining shares of LPKF Laser & Electronics d.o.o. held by minority shareholders were acquired.As a result, all subsidiaries are now wholly owned by LPKF AG.

As of 31 December 2013, LPKF AG had ten subsidiaries, which together with the parent company form the basis of consolidation. During the financial year, a new subsidiary, LPKF Laser & Electronics Korea Ltd. was formed in Seoul, Korea.

C. Consolidation principles

The consolidated financial statements are based on the financial statements as of 31 December 2013 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 to ensure uniform accounting.

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 and equity is translated at the historical exchange rate. 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 exchange rates of the material currencies that were applied in the preparation of these consolidated financial statements are listed below:

	Closing rate		Average exchange rate	
EUR 1 = currency x	**31 Dec. 2013**	**31 Dec. 2012**	**2013**	**2012**
US dollar	USD 1.3791	USD 1.3194	USD 1.3282	USD 1.2856
Chinese renminbi yuan	CNY 8.3491	CNY 8.2207	CNY 8.1655	CNY 8.1094
Hong Kong dollar	HKD 10.6933	HKD 10.226	HKD 10.3018	HKD 9.9726
Japanese yen	JPY 144.72	JPY 113.61	JPY 129.66	JPY 102.62

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.

The Group makes assessments and assumptions that concern the future. Estimates based on these assessments and assumptions often do not 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 2013.

(B) Intangible assets and property, plant and equipment

Material assumptions and estimates refer to determining the useful lives and the recoverable residual values of intangible assets and items of property, plant and equipment. More details regarding useful lives and residual values 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 obligation from defined-benefit pension commitments and termination benefits paid to employees as well as the obligation from a long-term bonus program launched in 2012. The amount of the pension provisions is essentially dependent on the life expectancies on which it is 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. Key parameters in the calculation of provisions for anniversary payments and termination benefits are employee turnover and the salary growth factor. Detailed information is provided in note 19 describing pension provisions. An option pricing model is used to calculate the value of the obligation arising from the long-term bonus program settled in cash due to the influence exerted by LPKF’s share price. Another material factor is the performance of the EBIT margin, which is derived from the Group’s planning. Detailed information is provided in note 20 describing other 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.

(F) Accounting changes

As a result of the amendments to IAS 19 Employee Benefits, revaluations (mainly actuarial gains and losses) are to be recognized immediately directly in equity. LPKF applies the amendments to IAS 19 retrospectively. The affected prior-year figures in the statement of financial position and the statement of comprehensive income were adjusted due to the accounting change. The first comparative period reflecting the change is not presented for reasons of insignificance, as is the comparison with the previously applicable IAS 19.

The following table shows the material effects resulting from the amendments to IAS 19:

Consolidated statement of financial position EUR thsd.	31 Dec. 2012 Before adjustment	Adjustment	31 Dec. 2012 After adjustment	01 Jan. 2012 Before adjustment	Adjustment	01 Jan. 2012 After adjustment
Total assets	**101,545**	**–177**	**101,368**	**89,561**	**–97**	**89,464**
Of which other assets	301	–253	48	193	–138	55
Of which deferred taxes	1,854	76	1,930	1,631	41	1,672
Total equity and liabilities	**101,545**	**–177**	**101,368**	**89,561**	**–97**	**89,464**
Of which equity	59,009	–177	58,832	49,761	–97	49,664

Consolidated statement of comprehensive income EUR thsd.	2012 Before adjustment	Adjustment	2012 After adjustment
Recognition of revaluations (mainly actuarial gains and losses)	**0**	**–80**	**–80**
Revaluations	0	–115	–115
Deferred taxes	0	15	35

No other 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 contain some expense and income items as well as assets and liabilities which cannot be assigned to any of the other operating segments. In 2012, this category included revenue, EBIT, depreciation, amortization and impairment losses of the production services business. Since these production services primarily serve to support the segments' sales and distribution activities, they are allocated to the respective segments starting in 2013. The previous year's figures were corrected accordingly.

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	2013	75,736	20,849	32,633	445	129,663
	2012	56,405	19,447	38,895	335	115,082
Operating profit (EBIT)	2013	21,312	1,905	1,231	–1,207	23,241
	2012	12,866	3,221	5,193	–917	20,363
Assets	2013	36,533	14,846	28,980	32,832	113,191
	2012	34,506	14,236	27,671	24,955	101,368
Liabilities	2013	6,565	2,564	17,014	22,982	49,125
	2012	7,138	2,806	12,294	20,298	42,536
Capital expenditures	2013	4,461	1,993	12,318	3,025	21,797
	2012	4,642	3,697	2,088	2,379	12,806
Depreciation/ amortization/ impairment losses	2013	4,142	2,609	892	125	7,768
	2012	4,175	1,837	926	240	7,178
Other non-cash expenses	2013	2,405	650	506	74	3,635
	2012	1,126	347	315	37	1,825

GEOGRAPHICAL SEGMENTS

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

EUR thsd.		Germany	Other Europe	North America	Asia	Other	Total
External revenue	2013	11,688	17,725	21,313	77,336	1,601	129,663
	2012	13,188	14,509	22,234	63,240	1,911	115,082
Assets	2013	88,287	7,375	9,448	8,081	0	113,191
	2012	80,885	9,791	4,934	5,935	0	101,368
Capital expenditures	2013	21,192	307	127	171	0	21,797
	2012	10,310	1,383	224	889	0	12,806

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 129,663 thousand includes contract revenue of EUR 11,116 thousand (previous year: EUR 20,206 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.

In addition to the sale of goods, there are no other significant categories of revenue in accordance with IAS 18.35.

2. OTHER OWN WORK CAPITALIZED

Own work capitalized by the Group concerned non-current assets amounted to EUR 3,707 thousand (previous year: EUR 3,282 thousand). This comprises own work for plant and machinery used by Group companies for production as well as prototype development projects capitalized during 2013 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 expensed on an accrual basis. 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.	2013	2012
Research and development grants	774	499
Income from measurement of liabilities, non-controlling interests	678	738
Income from the reversal of provisions	584	204
Income from currency translation differences	538	250
Income from insurance payments	215	4
Income from the reversal of write-downs	95	22
Reversal of deferred item income from grants	56	30
Income from the disposal of non-current assets	12	8
Other	989	716
	3,941	**2,471**

The fair value measurement of the liabilities for remaining portions of the purchase price for LPKF Motion & Control GmbH, which has been merged into LPKF SolarQuipment GmbH in the meantime, gave rise to income EUR 678 thousand.

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 from previous years, and grants and investment subsidies for the new office building, also in Suhl, in the amount of EUR 409 thousand. Both are reversed on an accrual basis through the item deferred income from grants.

4. COST OF MATERIALS

EUR thsd.	2013	2012
Cost of (system) parts and purchased goods	34,588	35,521
Cost of purchased services	344	530
	34,932	**36,051**

5. STAFF COSTS AND EMPLOYEES

EUR thsd.	2013	2012
Wages and salaries		
Expenses for wages	33,822	29,415
Other	829	650
	34,651	**30,065**
Social security costs and pension costs		
Employer's contribution to social security	5,446	4,700
Pension costs	211	201
Employer's liability insurance association	196	174
	5,853	**5,075**
	40,504	**35,140**

The item, social security costs and pension costs, includes contributions of EUR 2,110 thousand (previous year: EUR 1,714 thousand) to Germany's statutory pension scheme. There were ongoing pension payments of EUR 17 thousand (previous year: EUR 15 thousand) arising from pension obligations in financial year 2013 (also see note 19).

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

	2013	2012
Production	187	183
Sales & marketing	132	112
Research and development	156	129
Services	102	96
Administration	148	133
	725	**653**

In addition, there were 19 part-time employees and 40 trainees as of 31 December 2013.

6. DEPRECIATION AND AMORTIZATION AND IMPAIRMENT LOSSES

Depreciation, amortization and impairment losses on non-current assets are shown in the statement of changes in non-current assets (note 10). An impairment loss of EUR 193 thousand was recognized on capitalized development costs was recognized in the reporting year (previous year: EUR 350 thousand).

7. OTHER OPERATING EXPENSES

EUR thsd.	2013	2012
Advertising and sales expenses	5,819	4,810
Travel, meals/entertainment	3,206	2,983
Consumables, Development	3,185	722
Sales commissions	3,058	1,618
Rent, ancillary rental costs, leases, land and building costs	2,094	1,857
Legal and consulting costs	2,022	1,770
Third-party work	1,883	1,670
Repairs, maintenance, operating materials	1,420	1,475
Voluntary benefits, training and further education	1,017	875
Exchange rate losses	974	676
Trade fair costs	822	800
Insurance, contributions, duties	758	653
Vehicle costs	741	670
Addition to warranty provision	737	1,300
Telephone, postage, telefax	671	608
Investor relations	420	277
Supervisory Board remuneration incl. reimbursement of expenses	332	296
Bank charges	308	230
Financial statements preparation, publication, auditing costs	296	246
Office supplies, books, software	195	189
Addition to allowance on receivables and bad debts	161	117
Other	1,917	1,115
	32,036	**24,957**

In contrast to the previous year, the other operating expenses contain expenses of EUR 871 thousand in connection with expansion of the Company's sites in the financial year.

In 2013, total research and development costs were EUR 13,468 thousand (previous year: EUR 9,963 thousand). Besides EUR 4,331 thousand for materials and other costs (previous year: EUR 2,046 thousand), they also contain EUR 9,137 thousand (previous year: EUR 7,917 thousand) in additional costs for staff as well as depreciation, amortization and impairment losses, among other things.

8. FINANCIAL RESULT

EUR thsd.	2013	2012
Finance income		
Other interest and similar income	29	56
Finance costs		
Interest and similar expenses	–735	–845
	–706	**–789**

The other interest income arose from overnight and time deposits totaling EUR 15 thousand (previous year: EUR 13 thousand). At EUR 632 thousand (previous year: EUR 637 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, which has been merged into LPKF SolarQuipment GmbH in the meantime, gave rise to interest expense of EUR 61 thousand (previous year: EUR 191 thousand).

Borrowing costs that are directly attributable to the acquisition or production of an asset are 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.	2013	2012
Corporate income tax and solidarity surcharge	5,284	3,709
Trade tax	2,540	1,716
	7,824	**5,425**
Of which related to prior period	352	54
Deferred taxes	–1,038	–178
	6,786	**5,247**

The German entities of the LPKF Group are subject to trade tax of 14.0 % or 15.4 %, depending on the applicable trade tax assessment rate. As in the previous year, a corporate income tax rate of 15.0 % plus a solidarity surcharge of 5.5 % on corporate income tax applies. Foreign income taxes are calculated on the basis of the laws and regulations applicable in the individual countries. The income tax rates applicable to the foreign entities vary between 16.5 % and 39.9 %.

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.	2013	2012
Consolidated net profit before income taxes	22,535	19,574
Anticipated tax expense 30.0 % (previous year: 30.0 %)	6,761	5,872
Effect of different tax rates	–593	–551
Effect of unrecognized deferred tax assets	0	–99
Tax-free income	–5	–5
Trade tax additions and deductions	54	39
Tax effect of non-deductible operating expenses	188	168
Effects from differences without accounting for deferred taxes	–185	–164
Prior-period tax effects	527	54
Other differences	39	–67
Effective tax expense 31.1 % (previous year: 26.8 %)	**6,786**	**5,247**

The effects from differences (excluding deferred taxes) arise from the fair value recognition of liabilities for remaining portions of the purchase price of LPKF Motion & Control GmbH, which has been merged into LPKF SolarQuipment GmbH in the meantime. The Group tax rate for the 2013 financial year and subsequent years is deemed to be 30 % (previous year: 30 %).

H. Consolidated statement of financial position

ASSETS

10. NON-CURRENT ASSETS

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

	Cost					
EUR thsd.	Balance on 01 Jan. 2013	Currency differences	Addition	Reclassi-fication	Disposal	Balance on 31 Dec. 2013
Intangible assets						
Software	8,193	0	355	0	0	8,548
Goodwill	74	0	0	0	0	74
Development costs	16,990	0	3,376	0	13	20,353
	25,257	**0**	**3,731**	**0**	**13**	**28,975**
Property, plant, and equipment						
Land, similar rights and buildings	25,605	-79	12,482	999	828	38,179
Plant and machinery*	7,359	-30	1,220	48	133	8,464
Other equipment, operating and office equipment	9,351	-23	2,224	0	297	11,255
Advances paid and construction in progress	1,429	-7	2,140	-1,047	51	2,464
	43,744	**-139**	**18,066**	**0**	**1,309**	**60,362**
Financial assets						
Other borrowings	6	0	0	0	6	0
	6	**0**	**0**	**0**	**6**	**0**
	69,007	**-139**	**21,797**	**0**	**1,328**	**89,337**

* Adjustment in the amount of EUR 525 thousand with an effect on the disposal columns without effect on earnings.

Depreciation, amortization and impairment losses						Resid. carrying amount	
Balance on 01 Jan. 2013	Currency differences	Addition	Reclassi-fication	Disposal	Balance on 31 Dec. 2013	Balance on 31 Dec. 2013	Previous year
3,630	0	1,834	0	0	5,464	3,084	4,563
0	0	0	0	0	0	74	74
13,198	0	2,733	0	13	15,918	4,435	3,792
16,828	**0**	**4,567**	**0**	**13**	**21,382**	**7,593**	**8,429**
5,362	–8	981	0	584	5,751	32,428	20,243
4,255	–15	976	0	–110	5,326	3,138	3,104
5,463	–16	1,159	0	173	6,433	4,822	3,888
0	0	85	0	0	85	2,379	1,429
15,080	**–39**	**3,201**	**0**	**647**	**17,595**	**42,767**	**28,664**
0	0	0	0	0	0	0	6
0	**0**	**0**	**0**	**0**	**0**	**0**	**6**
31,908	**–39**	**7,768**	**0**	**660**	**38,977**	**50,360**	**37,099**

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

	Cost					
EUR thsd.	**Balance on 01 Jan. 2012**	**Currency differences**	**Addition**	**Reclassification**	**Disposal**	**Balance on 31 Dec. 2012**
Intangible assets						
Software	5,235	0	2,979	0	21	8,193
Goodwill	74	0	0	0	0	74
Development costs	14,694	0	2,755	0	459	16,990
Rights of use	2	0	0	0	2	0
Advances paid	0	0	0	0	0	0
	20,005	**0**	**5,734**	**0**	**482**	**25,257**
Property, plant, and equipment						
Land, similar rights and buildings	23,330	–34	2,294	15	0	25,605
Plant and machinery	6,649	–14	1,370	104	750	7,359
Other equipment, operating and office equipment	7,368	–14	1,986	21	10	9,351
Advances paid and construction in progress	152	–5	1,422	–140	0	1,429
	37,499	**–67**	**7,072**	**0**	**760**	**43,744**
Financial assets						
Other borrowings	25	0	0	0	19	6
	25	**0**	**0**	**0**	**19**	**6**
	57,529	**–67**	**12,806**	**0**	**1,261**	**69,007**

10.1 Intangible assets

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

Goodwill
As a rule, the goodwill arising from business combinations (capitalized differences arising from acquisition accounting) is assumed to have an unlimited useful life. 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 five years and an appropriate rate of return on capitalization are applied. Based on this, there was no impairment loss on goodwill in 2013, just as in the previous year.

Depreciation, amortization and impairment losses						Resid. carrying amount	
Balance on 01 Jan. 2012	Currency differences	Addition	Reclassification	Disposal	Balance on 31 Dec. 2012	Balance on 31 Dec. 2012	Previous year
2,705	0	926	0	1	3,630	4,563	2,530
0	0	0	0	0	0	74	74
10,063	0	3,595	0	460	13,198	3,792	4,631
2	0	0	0	2	0	0	0
0	0	0	0	0	0	0	0
12,770	**0**	**4,521**	**0**	**463**	**16,828**	**8,429**	**7,235**
4,586	−2	778	0	0	5,362	20,243	18,744
3,588	−9	891	0	215	4,255	3,104	3,061
4,493	−6	988	0	12	5,463	3,888	2,875
0	0	0	0	0	0	1,429	152
12,667	**−17**	**2,657**	**0**	**227**	**15,080**	**28,664**	**24,832**
0	0	0	0	0	0	6	25
0	**0**	**0**	**0**	**0**	**0**	**6**	**25**
25,437	**−17**	**7,178**	**0**	**690**	**31,908**	**37,099**	**32,092**

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.	2013	2012
Electronics Production Equipment	2,106	1,867
Electronics Development Equipment	2,208	1,925
Other Production Equipment	121	0
	4,435	**3,792**

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. In addition to amortization, impairment losses of EUR 193 thousand were recognized due to model changes in 2013 (previous year: EUR 350 thousand).

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

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	33 or 25
External facilities	10
Plant and machinery	3 – 10
Other equipment, operating and office equipment	3 – 10

Bank loans totaling EUR 18,513 thousand (previous year: EUR 6,268 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 concerned other loans in the previous year. They were classified under loans and receivables and were 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 weighted average cost formula. Inventories were written down below cost to their net realizable value and scrapped by EUR 1,750 thousand (previous year: EUR 41 thousand).

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

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

EUR thsd.	2013	2012
Electronics Production Equipment	16,517	15,635
Electronics Development Equipment	6,990	7,004
Other Production Equipment	7,514	10,019
Other	187	222
	31,208	**32,880**

12. TRADE RECEIVABLES

EUR thsd.	2013	2012
Nominal amount of receivables	13,297	21,458
Specific valuation allowances incl. currency losses	–318	–299
Receivables after valuation allowances, discounts and currency losses	**12,979**	**21,159**

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.

As of 31 December 2013, the trade receivables do not contain receivables from contract production based on the percentage-of-completion (PoC) method. The previous year's figure is shown in the table below.

EUR thsd.	2013	2012
Production costs incl. result of construction contracts	0	20,206
Progress billings	0	–12,519
Advances received	0	–2,867
Receivables from construction contracts	**0**	**4,820**

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 2012, 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 95 thousand (previous year: EUR 25 thousand) and concerns receivables with remaining maturities of more than one year.

Counterparty credit risk as of 31 December 2013

Trade receivables and receivables from borrowings and other assets EUR thsd.	Carrying amount as of 31 Dec.	Of which not impaired and not past due	Not impaired but past du since: less than 30 days	between 30 and 60 days	between 60 and 90 days	between 90 and 360 days	more than 360 days
2013	**14,845**	8,831	1,734	970	1,182	1,925	89
2012	**22,831**	16,900	3,389	675	773	906	49

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.	2013	2012
Balance on 1 Jan.	**299**	**297**
+ Additions	71	77
– Reversals (allowances not required)	12	14
– Uses (allowances required)	39	61
+/– Currency differences (foreign currency receivables)	–1	0
Balance on 31 Dec.	**318**	**299**

There were no proceeds from derecognized receivables in the 2013 financial year (previous year: EUR 0 thousand).

13. OTHER ASSETS AND INCOME TAX RECEIVABLES

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

EUR thsd.	2013	2012
Input tax receivables	1,093	1,184
Income tax receivables	1,071	995
Prepaid expenses	721	599
Other	773	482
Total	**3,658**	**3,260**

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 134 thousand (previous year: EUR 226 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 12,564 thousand (previous year: EUR 5,017 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.	2013	2012*
Tax loss carryforwards	303	189
Intangible assets	197	223
Trade receivables	0	43
Provisions	316	209
Other liabilities	24	53
Elimination of intercompany profits and other deductible temporary differences	1,434	1,173
Other	10	185
Netting of deferred tax assets and liabilities	–136	– 145
Total	**2,148**	**1,930**

* The previous year's figures were adjusted to reflect the amendment of IAS 19.

Deferred tax liabilities

EUR thsd.	2013	2012
Capitalized development costs	1,330	1,136
Property, plant and equipment	81	93
Trade receivables	55	918
Other	12	49
Netting of deferred tax assets and liabilities	–136	– 145
Total	**1,342**	**2,051**

Within the next twelve months, EUR 1,536 thousand in deferred tax assets and EUR 43 thousand in deferred tax liabilities will be realized.

Deferred tax assets in the amount of EUR 303 thousand (previous year: EUR 189 thousand) were recognized for losses posted by the Japanese subsidiary amounting to EUR 778 thousand although the company has a history of losses, and no corresponding deferred tax liabilities exist. At this company, income planning is therefore positive.

No deferred tax liabilities were recognized on EUR 724 thousand in temporary differences related to investments in subsidiaries and branches.

EQUITY AND LIABILITIES

17. SUBSCRIBED CAPITAL

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. Following the partial drawdown of EUR 75,604.00 in previous years by issuing new shares subject to the exclusion of shareholders' subscription right based on the resolution of the Management Board with the approval of the Supervisory Board, the remaining authorization as of the reporting date was EUR 5,324,396.00.

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 Annual General Meeting resolved on 23 May 2013 to increase the Company's share capital of EUR 11,134,794.00, which is divided into 11,134,794 no-par bearer shares, by EUR 11,134,794.00 to EUR 22,269,588.00 by way of a capital increase from Company funds in accordance with Sections 207 et seq. German Stock Corporation Act. The capital increase was implemented by converting into share capital the "other retained earnings" in the amount of EUR 7,023,972.61 shown under retained earnings in the Company's statement of financial position as of 31 December 2012 and a portion of EUR 4,110,821.39 of the capital reserves shown in the Company's statement of financial position.

The Company's share capital amounts to EUR 22,269,588.00. It is fully paid-in and denominated in 22,269,588 no-par bearer shares with an interest in capital of EUR 1.00 per share.

The capital reserves comprise only a capital reserve pursuant to Section 272 (2) no. 1 German Commercial Code.

The revaluation surplus for the financing instruments is EUR 4 thousand (previous year: EUR 5 thousand); it changed due to the slightly negative development of securities' fair value.

The recognition of hedges resulted in cash flow hedge provisions of EUR –55 thousand (previous year: EUR –123 thousand).

18. NON-CONTROLLING INTERESTS

Non-controlling interests in subsidiaries have changed as follows:

EUR thsd.	2013	2012
Balance on 1 Jan.	2,036	1,978
Additions	680	808
Disposals	–2,716	–750
Balance on 31 Dec.	**0**	**2,036**

The changes in the current year result from the acquisition of the non-controlling interests in LPKF Laser & Electronics d.o.o.

19. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The following obligations are recognized for this item in the consolidated financial statements:

a) Retirement benefits
b) Anniversary payments and benefits similar to pensions

a) Retirement benefits
Germany has a statutory defined-contribution national pension scheme for employees that pays pensions contingent on income and contributions made. Except for the payment of its contributions to the statutory pension insurance entity, the Company has no other benefit obligations. 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 retirement benefits have been stipulated. The plan is financed through payments to a fund and to insurance companies. The promised benefits comprise payments for retirement pensions, disability pensions and widow's and orphan's pensions. Once the age threshold has been attained by reaching the end of the 65th year of life, or if eligibility to receive a disability pension is established prior to reaching the end of the 65th year of life, a commitment is made to pay the beneficiary a monthly pension payment for life. The widow's pension paid to a surviving wife amounts to 60 % or 70 % of the relevant retirement pension entitlement. The weighted average term of the defined benefit plans is 17.5 years.

There is longevity and interest rate risk with regard to the pension provision. Reinsurance policies were obtained for hedging purposes and pledged to the beneficiaries. The fair value amounts are reported in the offsetting and reconciliation of the excess of plan assets over post-employment benefit liability.

The carrying amount in the statement of financial position of the net liabilities (assets) for defined benefit plans in accordance with IAS 19 as amended in 2011 corresponds to the present value of the defined benefit obligation (DBO) on the balance sheet date less the fair value of the plan assets. 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. The resulting revaluations (mainly actuarial gains and losses) in connection with the remeasurement of net liabilities (assets) are recognized directly in other comprehensive income (OCI) due to the amendment of IAS 19 rev. 2011. IAS 19 as revised in 2011 was applied retroactively to 1 January 2012.

The initial application of IAS 19 rev. 2011 led to a reduction in other retained earnings in equity in the amount of EUR 138 thousand before deferred taxes. The first comparative period reflecting the change was not presented for reasons of insignificance.

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

EUR thsd.	2013	2012
Present value of the defined benefit obligation at beginning of period	**632**	**502**
Current service cost	0	5
Interest expense	17	23
Benefit payments	–17	–15
Actuarial gains (–) and losses (+)	–54	117
Present value of the defined benefit obligation at end of period	**578**	**632**
Plan assets		
Reinsurance coverage	–228	–208
Securities	–509	–471
Surplus shown in the statement of financial position	**–159**	**–47**

Development of net liabilities/assets:

EUR thsd.	2013
Net assets at beginning of period	–47
Total amount in the income statement	–1
Total of the revaluations recognized in OCI	–89
Benefit payments	–6
Employer contributions	–16
Net assets at end of period	**–159**

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.	2013	2012
At beginning of period	679	557
Interest income from plan assets	18	27
Expected return on plan assets without interest income	35	–6
Payments from plan assets	–11	0
Funded by the employer	16	101
At end of period	**737**	**679**

The plan assets are made up as follows:

	2013		2012	
EUR thsd.	Absolute	Percentage	Absolute	Percentage
Equity securities	0	0 %	0	0 %
Debt securities	509	69 %	471	69 %
Other	228	31 %	208	31 %
	737	**100 %**	**679**	**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.	2013	2012
Current service cost	0	–5
Interest income from plan assets	18	27
Interest expense related to the liability	–17	–23
Total effect on earnings in the income statement	**1**	**–1**

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

%	2013	2012
Discount rate as of 31 December	3.25	2.75
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	3.25	2.75
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 and pension payments payable in the financial year ending 31 December 2014 are estimated to total EUR 33 thousand.

The undiscounted pension payments based on the average life expectancy of 17.5 years result in the following maturity analysis:

31 Dec. 2013 EUR thsd.	Up to 1 year	More than 1 year Up to 5 years	More than 5 years	Total
Retirement benefits	17	68	503	588

Regarding possible changes in the significant actuarial assumptions made, the following sensitivities were determined:

Basic values	
Discount rate	3.25 %
Pension trend	1.75 %
DBO	EUR 577,875

Sensitivities	Revalued DBO	Change in percent of the DBO
Discount rate plus 0.5 %	EUR 533,354	–7.70 %
Discount rate minus 0.5 %	EUR 628,010	8.68 %
Pension trend plus 0.25 %	EUR 594,793	2.93 %
Pension trend rate minus 0.25 %	EUR 561,652	–2.81 %

b) Anniversary payments and benefits similar to pensions

One Group company is obligated to pay its employees a benefit equal to three months of an employee’s salary based on the most recently paid salary when employment is terminated due to the employee reaching the maximum age threshold. In addition, the company is required to pay a benefit calculated based on the attainment of a certain number of years of service with the company. The company, which is included in the consolidated financial statements, meets these obligations itself as soon as they come due. These obligations are measured annually by an independent actuary. No plan assets are maintained for this purpose. The amount of the obligation is therefore reported in the statement of financial position under provisions for pensions.

Payments totaling EUR 38 thousand are expected in the following five years.

The amounts recognized in the statement of financial position are comprised as follows:

EUR thsd.	2013
Present value of the defined benefit obligation at beginning of period	**147**
Current service cost	9
Interest expense	7
Benefit payments	–4
Actuarial gains (–) and losses (+)	17
Present value of the defined benefit obligation at end of period	**176**

The following amounts were recognized in the income statement:

EUR thsd.	2013
Current service cost	9
Interest expense related to the liability	7
Total amount in the income statement	**16**

Regarding possible changes in the significant actuarial assumptions made, the following sensitivities were determined:

Basic values	
Discount rate	4.10 %
DBO	EUR 175,909

Sensitivities	Revalued DBO	Change in percent of the DBO
Discount rate 3.6 %	EUR 188,876	7.37 %
Discount rate 4.6 %	EUR 164,169	–6.67 %

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.	2013	2012
Corporate income tax and solidarity surcharge	1,508	273
Trade tax	1,301	139
	2,809	**412**

STATEMENT OF CHANGES IN PROVISIONS

EUR thsd.	Balance 01 Jan. 2013	Use	Reversals	Addition	Balance 31 Dec. 2013
Tax provisions	412	292	0	2,689	2,809
Bonus	1,753	1,735	18	2,264	2,264
Warranty and guarantee	2,814	1,695	249	2,299	3,169
Other	530	213	317	717	717
Total	**5,509**	**3,935**	**584**	**7,969**	**8,959**

The provisions for guarantees and warranties cover potential statutory or financial obligations under guarantee and goodwill cases. Other provisions include provisions for invoices outstanding, sales commission and share-based compensation plans settled in cash in accordance with IFRS 2. All provisions stated are due within one financial year except the provision for share-based compensation plans.

In 2012, a long-term incentive program (LTI) was launched in which a selected group of LPKF Group executives can participate. The beneficiaries are entitled to a long-term bonus, which is paid to the beneficiaries depending on the long-term bonus allotment granted to each individual, the average EBIT margin of the LPKF Group during a four-, five- or six-year performance period and the performance of LPKF's share price. The program does not stipulate settlement by granting of equity instruments. The first prerequisite for payment of the bonus is an investment in LPKF shares to be made and held throughout the entire duration of the long-term bonus plan. The beneficiaries must also have an unterminated employment contract as of 20 July of the year in which the payment is made.

At plan inception, a preliminary number of phantom stocks corresponding to the allotment value is specified, which represents the starting point for calculating the bonus payment. At the end of the performance period, the final number of phantom stocks is determined. The performance period amounts to at least four years, but can be extended to five, or no more than six, years upon request by an individual beneficiary. The final number of phantom stocks is determined based on an in-house measure of the Company's success, the EBIT margin. If the target is exceeded or the actual figure falls short of the target, the preliminary number of phantom stocks at the time of the allotment is increased or decreased accordingly. The payment amount is determined by measuring the value of the phantom stocks using the average XETRA closing quote for LPKF shares on the 30 trading days prior to 21 July after the end of the four-, five- or six-year performance period. The amount of the payment is limited to no more than 300 % of the individual allotment value.

Reporting of share-based compensation transactions settled in cash is governed by IFRS 2 "Share-based Payment." The expense expected to arise from the long-term bonus program is estimated at fair value at each reporting date using a Monte Carlo simulation. The expected total expense from the program is distributed pro rata temporis across the time period up to the first possible exercise date. On this basis, the amount of the provision in the Group for financial year 2013 is EUR 40 thousand (previous year: EUR 3 thousand). The expense for the reporting period amounts to EUR 37 thousand (previous year: EUR 3 thousand).

The following parameters were used in the option price model (modified Black Scholes (Merton) model) for determining the fair value as of 31 December 2013:

	Tranche 1, 2012	**Tranche 2, 2013**
Expected volatility	34 %	34 %
Risk-free interest rate	0.31 % p.a.	0.54 % p.a.
Expected remaining maturity	2 years and 7 months	3 years and 7 months
Price of the LPKF share on 30 December 2013	EUR 18.58	EUR 18.58
Initial price of the LPKF share*	EUR 6.06	EUR 12.10

* The initial price of the first tranche of LPKF shares at the allotment date in 2012 was EUR 12.12. The initial price has been included in the valuation taking into account the effect from the capital increase from Company funds.

In financial year 2013, no phantom stocks were exercised, expired or were forfeited. The number of phantom stocks at the respective allotment date is 5,576 for the 1st tranche and 4,227 for the second tranche.

Recognition of the expected volatility is based on the historical volatility of the previous two years. The resulting volatility is rounded to full percentage points.

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	Collaterized amounts	Type of collateral
Liabilities to banks	2013	23,816	5,934	10,309	7,573	18,513	*,**
	2012	18,099	9,753	6,758	1,588	6,268	*,**
Trade payables	2013	4,357	4,357	0	0	0	–
	2012	5,906	5,906	0	0	0	–
Other liabilities	2013	9,935	9,935	0	0	0	–
	2012	10,608	10,572	36	0	0	–
	2013	**38,108**	**20,226**	**10,309**	**7,573**	**18,513**	
	2012	**34,613**	**26,231**	**6,794**	**1,588**	**6,268**	

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

The loans are earmarked for financing new construction, purchases of real property, investments to expand capacities and development projects.

The conditions for fulfilling Debtor's Warrant 2 agreed as part of the acquisition of the non-controlling interests in LPKF Motion & Control GmbH, which has since been merged into LPKF SolarQuipment GmbH, were not met as of 31 December 2013. The remaining other liability of EUR 678 thousand was therefore derecognized through profit or loss in 2013.

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. In accordance with IAS 33, the calculation of both basic and diluted earnings per share was adjusted retrospectively for all periods shown as a result of the capital increase from Company funds in 2013.

In the previous year, earnings per share are diluted because potential shares related to the options issued by LPKF Laser & Electronics AG as part of the Stock Option Program 2001 (which has expired in the meantime) were added to the average number of shares outstanding. Options are always dilutive. There was a dilutive effect as of the previous year's reporting date because the base price of the options outstanding exceeded the average price of LPKF's share price in 2012. There were no facts in 2013 which resulted in dilution.

	2013	2012*
Number of shares, undiluted	22,269,588	22,250,562
Number of shares, diluted	22,269,588	22,267,046
Consolidated profit/loss (in EUR thousand)	15,069	13,519
Adjusted consolidated profit/loss (in EUR thousand)	15,069	13,519
Basic earnings per share (in EUR)	0.68	0.61
Diluted earnings per share (in EUR)	0.68	0.61

* Previous year's number of shares adjusted due to capital increase. Previous year's dilutive effect not visible due to mathematical rounding.

24. DIVIDEND PER SHARE

The Management Board and the Supervisory Board will propose to the Annual General Meeting on 5 June 2014 that it resolve a dividend payment of EUR 0.25 per no-par share (previous year: EUR 0.25 based on the new number of shares after the capital increase per share) from the net retained profits of LPKF Laser & Electronics AG in the amount of EUR 17,088,065.25 for the 2013 financial year (previous year: EUR 21,276,488.27) – for a total dividend payment to the shareholders of EUR 5,567,397.00 (previous year: EUR 5,567,397.00) – and to carry the balance in the amount of EUR 11,520,668.25 (previous year: EUR 4,509,091.27) forward to new account.

25. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On 19 December 2013, the Group acquired the remaining 25 % of the shares of LPKF Laser & Electronics d.o.o. The Group therefore now holds 100 % of the equity of this company. At the time of acquisition, the carrying amount of the non-controlling interest in the company amounted to EUR 2,716 thousand, which the Group derecognized. The equity attributable to the equity holders of the parent was reduced by EUR 2,081 thousand.

26. TRANSACTIONS WITH RELATED PARTIES

After one managing director of the subsidiary LPKF Laser & Electronics d.o.o. left office, there are no reportable business relationships with parties related to the LPKF Group.

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 214 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 30 and 31 provide details on the corporate bodies of LPKF AG.

27. 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 non-compliance with the recommendations, were made available to the shareholders on the Company's website (http://www.lpkf.de/investor-relations/corporate-governance/entsprechenserklaerung.htm).

28. OTHER DISCLOSURES

Other financial liabilities
Mid- and 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 at LPKF SolarQuipment GmbH for a production hall. 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.	2013	2012
Lease payments included in the net profit/loss for the period	435	397
Up to 1 year	397	350
More than 1 year and up to 5 years	334	306

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

EUR thsd.	2013	2012
Up to 1 year	324	576
More than 1 year and up to 5 years	292	595

There are no other significant financial obligations.

Financial instruments

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 primary 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.

Impairment is assumed if payment is substantially delayed or insolvency proceedings have been opened.

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 hedged item 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 a hedged item 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-month 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 hedged item 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 97 thousand (previous year: EUR 9 thousand) directly in equity and EUR 0 thousand (previous year: EUR 0 thousand) in profit or loss. The fair value of the interest rate swaps as of the reporting date is EUR – 79 thousand (previous year: EUR – 176 thousand). No ineffective portions of the hedge had to be recognized in the reporting year.

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 assets contain USD put options and foreign exchange futures with a fair value of EUR 106 thousand.

There were no other derivative or hedging transactions as of 31 December 2013.

3. Disclosures pursuant to IFRS 7

Carrying amounts, reporting amounts and fair values by measurement category

EUR thsd.	Measurement category pursuant to IAS 39	Carrying amount 31 Dec. 2013	IAS 39 carrying amount: Amortized cost	IAS 39 carrying amount: Fair value recognized in equity	IAS 39 carrying amount: Fair value through profit or loss	Fair value 31 Dec. 2013
Assets						
Other borrowings	LaR	0	0			0
Cash and cash equivalents	LaR	12,569	12,569			12,569
Trade receivables	LaR	12,979	12,979			12,979
Other assets	LaR	649	649			649
Restricted securities and available-for-sale financial instruments	AfS	269		269		269
Derivative financial assets						
Derivatives	FAHfT	106			106	106
Equity and liabilities						
Trade payables	FLAC	4,357	4,357			4,357
Liabilities to banks	FLAC	23,816	23,816			21,961
Other interest-bearing liabilities	FLAC	0	0			0
Other interest-free liabilities	FLAC	3,786	3,786			3,786
Derivative financial liabilities						
Derivatives	FLHfT	0			0	0
Of which accumulated by IAS 39 measurement category						
Loans and receivables	(LaR)	26,197	26,197			26,197
Available-for-sale financial assets	(AfS)	269		269		269
Assets held for trading	(FAHfT)	106			106	106
Financial liabilities measured at amortized cost	(FLAC)	31,959	31,959			30,104
Liabilities held for trading	(FLHfT)	0			0	0

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

Measurement category pursuant to IAS 39	Carrying amount 31 Dec. 2012	IAS 39 carrying amount: Amortized cost	IAS 39 carrying amount: Fair value recognized in equity	IAS 39 carrying amount: Fair value through profit or loss	Fair value 31 Dec. 2012
LaR	6	6			6
LaR	5,022	5,022			5,022
LaR	21,159	21,159			21,159
LaR	479	479			479
AfS	271		271		271
FAHfT	43			43	43
FLAC	5,906	5,906			5,906
FLAC	18,099	18,099			16,073
FLAC	714	714			714
FLAC	4,437	4,437			4,437
FLHfT	57			57	57
(LaR)	26,666	26,666			26,666
(AfS)	271		271		271
(FAHfT)	43			43	43
(FLAC)	29,156	29,156			27,130
(FLHfT)	57			57	57

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. The AfS securities in the amount of EUR 269 thousand 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 assets held for trading in the amount of EUR 106 thousand (previous year: EUR 43 thousand) and as financial liabilities held for trading in the amount of EUR 0 thousand (previous year: EUR 57 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. The measurement takes current ECB reference prices and forward premiums or discounts into account based on a discounted cash flow method.

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

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

EUR thsd.		2013	2012
Loans and receivables	(LaR)	–447	–379
Available-for-sale financial assets	(AfS)	6	7
Assets and liabilities held for trading	(FAHfT) + (FLHfT)	–60	–29
Financial liabilities measured at amortized cost	(FLAC)	735	845
Total		**234**	**444**

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.

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 687 thousand.

There are no significant counterparty credit risks by customer group or geographical region. Loans and receivables are securitized 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

Trade payables EUR thsd.	Carrying amount as of 31 Dec.	Up to 6 months	6 months up to 1 year	Between 1 year and 5 years	More than 5 years
2013	4,357	4,357	0	0	0
2012	5,906	5,906	0	0	0

Financial obligations and loans EUR thsd.	Carrying amount as of 31 Dec.	Up to 6 months	6 months up to 1 year	Between 1 year and 5 years	More than 5 years
2013	23,816	1,989	3,945	10,309	7,573
2012	18,099	2,929	6,824	6,758	1,588

Other interest-bearing liabilities EUR thsd.	Carrying amount as of 31 Dec.	Up to 6 months	6 months up to 1 year	Between 1 year and 5 years	More than 5 years
2013	0	0	0	0	0
2012	714	21	693	0	0

Other interest-free liabilities EUR thsd.	Carrying amount as of 31 Dec.	Up to 6 months	6 months up to 1 year	Between 1 year and 5 years	More than 5 years
2013	3,786	3,786	0	0	0
2012	4,437	4,437	0	0	0

Derivative financial instruments EUR thsd.	Carrying amount as of 31 Dec.	Up to 6 months	6 months up to 1 year	Between 1 year and 5 years	More than 5 years
2013	106	106	0	0	0
2012	14	14	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.

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 and other foreign currencies 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 12 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.

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 243 thousand. A 10 % decline in the euro would have raised earnings before income taxes by EUR 410 thousand.

Foreign currency risks from financing activities primarily arise from a loan in a foreign currency that the parent company made to its Japanese subsidiary for financing purposes. The expected loan payments in JPY are not hedged against currency risks. If the euro had risen by 10 % against the yen, earnings before income taxes would have increased by EUR 8 thousand. A 10 % decline in the euro would have reduced earnings before income taxes by EUR 6 thousand.

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 22 thousand while a decrease in interest rates by 25 basis points yields a loss of EUR 15 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 28 thousand. Conversely, a parallel shift by –1.0 % would have lowered equity by EUR 29 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 27 thousand; if the value of the securities were to fall by 10 %, equity would be reduced by EUR 27 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 Garbsen, Suhl, Fürth 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. Counterparty credit 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 securitized by EUR 938 thousand in payment commitments from banks (letters of credit). This leaves solely the credit risk of the chattel mortgagor. In addition, EUR 4,439 thousand in trade receivables is hedged through credit default insurance. The deductible for customers insured under a credit limit is 10 %; for customers insured under a discretionary limit, it is 20 %.

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 64,066 thousand and borrowings of EUR 49,125 thousand.

29. DISCLOSURES PURSUANT TO SECTION 315A GERMAN COMMERCIAL CODE

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.

30. 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 & Electronics d.o.o., Naklo, Slovenia (until 13 June 2013)
Dipl.-Ing. Bernd Lange (CTO)	Member of the Supervisory Board of LPKF Laser & Electronics d.o.o., Naklo, Slovenia (until 19 December 2013)
Dipl.-Oec. Kai Bentz (CFO)	Chairman of the Supervisory Board of LPKF Laser & Electronics d.o.o., Naklo, Slovenia (from 13 June 2013 to 19 December 2013)
Dr.-Ing. Christian Bieniek (COO)	Member of the Supervisory Board of LPKF Laser & Electronics d.o.o., Naklo, Slovenia (from 13 June 2013 to 19 December 2013)

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.

The current members of the Management Board were paid regular total remuneration of EUR 2,084 thousand (previous year: EUR 1,639 thousand) for their activities in the 2013 financial year. Of this amount, EUR 830 thousand (previous year: EUR 637 thousand) was fixed remuneration, EUR 89 thousand (previous year: EUR 72 thousand) were benefits and EUR 1,165 thousand (previous year: EUR 930 thousand) was variable remuneration or recognized as a provision. The remuneration of the Management Board's active members solely concerns short-term benefits as defined in IAS 24.17 (a).

As in the previous year, no expenses relating to share-based payments as defined in IAS 24.17 (e) were recognized for members of the Management Board in the financial year just ended.

Commitments to members of the Management Board upon termination
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. Contributions of EUR 14 thousand (previous year: EUR 14 thousand) were paid in the financial year In connection with post-employment benefits as defined in IAS 24.17 (b). No provisions for pensions are required in this case.

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 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 449 thousand (previous year: EUR 438 thousand) in pension commitments (pension plan, disability pension and widow's pension) toward former members of the Management Board and their survivors. A total of EUR 17 thousand (previous year: EUR 15 thousand) in pensions was paid to a former member of the Management Board in 2013.

31. DISCLOSURES ON SUPERVISORY BOARD REMUNERATION

Dr. Heino Büsching (Chairman)	Lawyer/tax consultant at CMS Hasche Sigle, Hamburg, Germany
Bernd Hackmann (Deputy Chairman)	Chairman of the Supervisory Board of Viscom AG, Hannover, Germany Deputy Chairman on the Advisory Board of SLM Solutions GmbH, Lübeck, Germany
Prof. Dr.-Ing. Erich Barke	President of Gottfried Wilhelm Leibniz University Hannover, Germany Chairman of the Supervisory Board of TEWISS – Technik und Wissen GmbH, Garbsen, Germany Member of the Supervisory Board of the following companies: Esso Deutschland GmbH, Hamburg, Germany ExxonMobil Central Europe Holding GmbH, Hamburg, Germany hannoverimpuls GmbH, Hannover, Germany Metropolregion Hannover Braunschweig Göttingen Wolfsburg GmbH, Hannover, Germany Solvay GmbH, Hannover, Germany

Each member of the Supervisory Board receives fixed basic remuneration for each full financial year of membership on the Supervisory Board that is specified by resolution of the Annual General Meeting and is payable after the end of the financial year. The Chairman of the Supervisory Board receives double and the Deputy Chairman receives one-and-a-half times the amount of the fixed basic remuneration. By resolution of the 2011 Annual General Meeting, the fixed basic remuneration of each member of the Supervisory Board was set at EUR 40 thousand effective 1 January 2011.

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 2013 financial year and in what amount. A dividend of EUR 0.50 per share was paid in 2013 for the 2012 financial year, resulting in variable remuneration of EUR 138 thousand for the Supervisory Board (previous year: EUR 108 thousand).

The remuneration of the Supervisory Board's active members solely concerns short-term benefits as defined in IAS 24.17 (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.

32. DISCLOSURE OF REPORTED SHAREHOLDINGS IN THE COMPANY

The following persons have notified us that their shareholdings exceeded the 3 % threshold in 2013:

Wasatch International Growth Fund, Salt Lake City, USA, on 23 July 2013 with an interest of 3.11 % that is fully attributable to it.

Deutsche Asset & Wealth Management Investment GmbH, Frankfurt (formerly DWS Investment GmbH, Frankfurt), fell below the threshold of 5 % of the voting rights of the Company on 13 December 2013 and currently holds an interest fully attributable to it amounting to 4.70 %.

All other notifications of voting rights in accordance with the German Securities Trading Act concerned cases in which the interest in the voting shares had fallen below the 3 % threshold. They can be inspected at www.lpkf.com/investor-relations/share/notification-of-voting-rights.htm

33. 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:

EUR thsd.	2013	2012
Audits of financial statements	102	108
Tax consultancy services	43	9
Other services	29	10
Total	**174**	**127**

34. EVENTS AFTER THE REPORTING PERIOD

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

Garbsen, Germany, 21 March 2014

LPKF Laser & Electronics Aktiengesellschaft

The Management Board

Dr. Ingo Bretthauer Bernd Lange Kai Bentz Dr.-Ing. Christian Bieniek

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, which has been combined with the Company's management report, prepared by LPKF Laser & Electronics Aktiengesellschaft, Garbsen, Germany, for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the combined 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 combined 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 combined 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 combined 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 combined 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 combined 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, 21 March 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Helmuth Schäfer	Prof. Dr. Mathias Schellhorn
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

Income statement

Single-entity financial statements of LPKF Laser & Electronics AG from 1 January 2013 to 31 December 2013

EUR thsd.	2013	2012
Revenue	105,764	84,392
Changes in inventories of finished goods and work in progress	76	2,034
Other own work capitalized	59	292
Other operating income	3,017	2,671
	108,916	**89,389**
Cost of materials		
Cost of raw materials, consumables and supplies, and of purchased merchandise	33,124	31,204
Staff costs		
Wages and salaries	22,122	18,107
Social security costs and pension costs (of which for pensions: EUR 120 thousand; previous year: EUR 80 thousand)	3,638	3,002
Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	3,630	2,366
Other operating expenses	33,412	23,702
	95,926	**78,381**
Income from equity investments	4,329	2,665
Other interest and similar income (of which from affiliated companies: EUR 88 thousand; previous year: EUR 218 thousand)	104	236
Interest and similar expenses (of which to affiliated companies: EUR 56 thousand; Previous year: EUR 20 thousand)	559	599
Profit from ordinary operations	**16,864**	**13,310**
Taxes on income	4,201	3,264
Other taxes	43	123
Net profit for the year	**12,620**	**9,923**
Retained earnings brought forward from the previous year	4,509	11,354
Appropriation to retained earnings (statutory reserve)	41	0
Net retained profits	**17,088**	**21,277**

Balance sheet as of 31 December 2013

Single-entity financial statements of LPKF Laser & Electronics AG

Assets

EUR thsd.	31 Dec. 2013	31 Dec. 2012
Fixed assets		
Intangible assets		
Software	2,903	4,386
Rights of use	45	49
	2,948	**4,435**
Tangible fixed assets		
Land, similar rights and buildings	15,623	14,597
Plant and machinery	1,539	1,350
Other equipment, operating and office equipment	3,497	2,855
Advances paid and construction in progress	2,243	337
	22,902	**19,139**
Long-term financial assets		
Shares in affiliated companies	15,804	10,843
Loans to affiliated companies	0	240
Other loans	0	6
	15,804	**11,089**
	41,654	**34,663**
Current assets		
Inventories		
Raw materials, consumables and supplies	13,353	12,747
Work in progress	2,515	2,978
Finished goods and merchandise	4,976	4,564
Prepayments	89	43
	20,933	**20,332**
Receivables and other assets		
Trade receivables (of which due within more than one year: EUR 95 thousand; previous year: EUR 25 thousand)	8,102	11,612
Receivables from affiliated companies	6,526	6,336
Other assets (of which due within more than one year: EUR 185 thousand; previous year: EUR 226 thousand)	1,786	1,329
	16,414	**19,277**
	37,347	**39,609**
Cash-in-hand, bank balances and checks	7,163	1,103
	44,510	**40,712**
Deferred income (of which discounts: EUR 8 thousand; previous year: EUR 12 thousand)	**392**	**314**
Deferred taxes	**178**	**93**
Excess of plan assets over pension liability	**288**	**240**
	87,022	**76,022**

Balance sheet as of 31 December 2013

Single-entity financial statements of LPKF Laser & Electronics AG

Equity and liabilities

EUR thsd.	31 Dec. 2013	31 Dec. 2012
Equity		
Subscribed capital	22,270	11,135
Capital reserves	2,186	6,297
Revenue reserves		
Statutory reserve	41	0
Other revenue reserves	11,200	7,023
	11,241	**7,023**
Net retained profits	17,088	21,277
	52,785	**45,732**
Provisions		
Provisions for pensions	0	0
Tax provisions	1,550	0
Other provisions	9,078	6,456
	10,628	**6,456**
Liabilities		
Liabilities to banks (of which due: within one year: EUR 4,558 thousand (previous year: EUR 5,030 thousand) 1 to 5 years: EUR 5,731 thousand (previous year: EUR 6,109 thousand) more than 5 years: EUR 2,863 thousand (previous year: EUR 1,600 thousand))	13,152	12,739
Payments received on account of orders	1,296	2,779
Trade payables	2,797	3,876
Liabilities to affiliated companies	4,973	3,129
Other liabilities (of which from taxes: EUR 325 thousand; previous year: EUR 299 thousand) (of which from social security: EUR 28 thousand; Previous year: EUR 65 thousand)	1,346	1,192
	23,564	**23,715**
Deferred income	**5**	**92**
Deferred taxes	**40**	**27**
	87,022	**76,022**

Glossary of technical terms

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 PROTOTYPING
A method for the manufacture of near-production quality prototypes 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

24 March 2014	Publication of the 2013 annual report
24 March 2014	Financials press conference
25 March 2014	Analyst conference
13 May 2014	Publication of the three-month report
5 June 2014	Annual General Meeting
13 August 2014	Publication of the six-month report
12 November 2014	Publication of the nine-month report

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