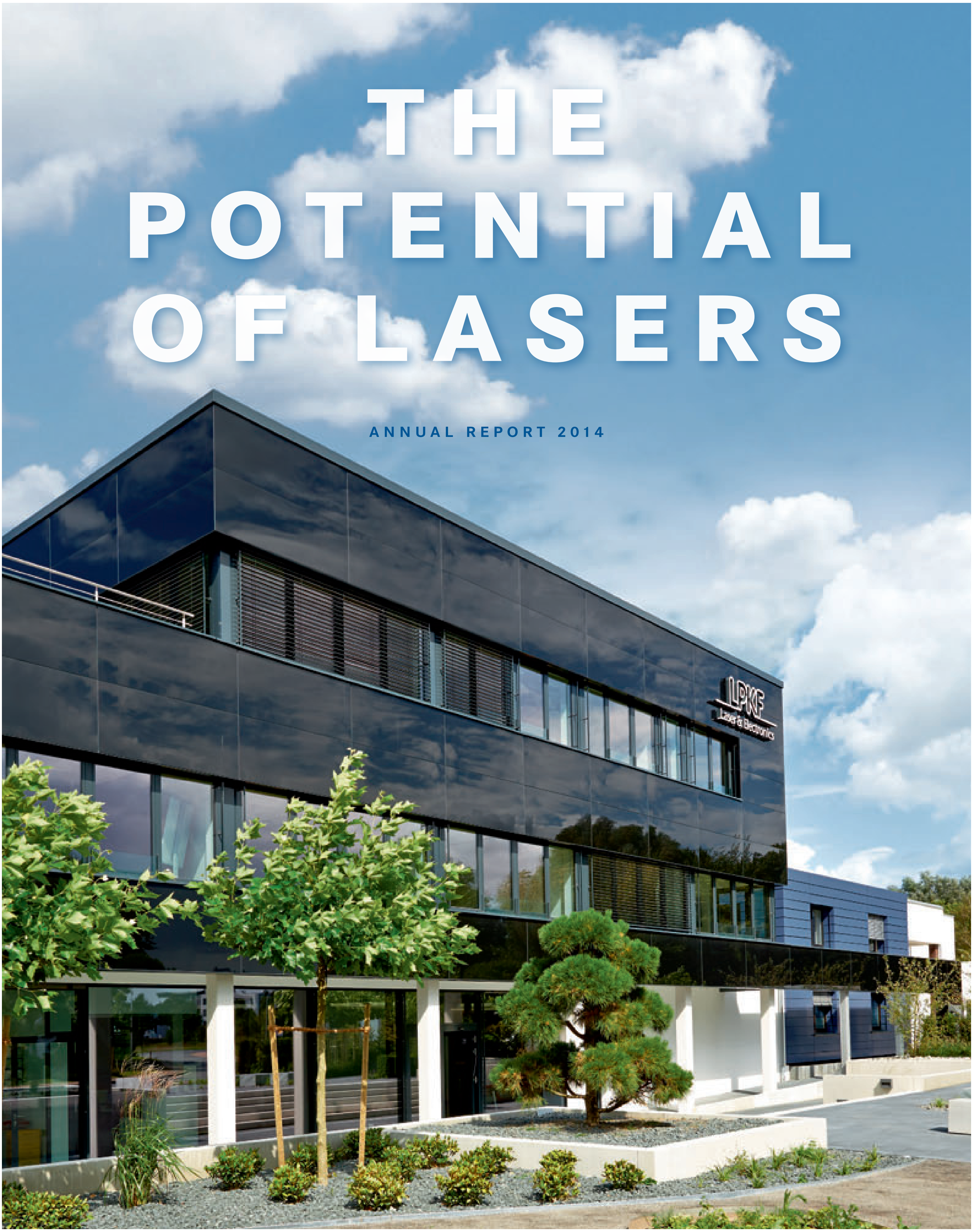
THE POTENTIAL OF LASERS

ANNUAL REPORT 2014



LPKF Laser & Electronics

LPKF LASER & ELECTRONICS AG AT A GLANCE

Consolidated revenue as of 31 December

		2014	2013	2012	2011	2010
Revenue	EUR million	119.7	129.7	115.1	91.1	81.2
Revenue by region						
Germany	EUR million	12.2	11.7	13.2	13.3	10.7
Other Europe	EUR million	14.9	17.7	14.5	10.3	10.3
North America	EUR million	25.6	21.3	22.2	22.0	13.5
Asia	EUR million	63.4	77.4	63.3	43.2	45.0
Other	EUR million	3.6	1.6	1.9	2.3	1.7
Revenue by segments [1]						
Electronics Development Equipment	EUR million	25.1	20.9	19.4	18.1	15.2
Electronics Production Equipment	EUR million	51.2	75.7	56.4	45.2	51.8
Other Production Equipment	EUR million	42.8	32.6	38.9	25.5	11.4
All other segments	EUR million	0.6	0.5	0.4	2.3	2.8

1 The figures prior to 2013 were adjusted.

Consolidated financial key figures as of 31 December

		2014	2013	2012	2011	2010
EBIT	EUR million	12.7	23.2	20.4	15.2	17.3
EBIT margin	%	10.6	17.9	17.7	16.7	21.3
Consolidated net profit after non-controlling interests	EUR million	8.5	15.1	13.5	9.9	12.1
Net margin before non-controlling interests	%	7.1	12.1	12.4	11.4	15.5
ROCE (Return on Capital Employed)	%	12.1	26.4	26.5	23.4	31.6
Cash and cash equivalents	EUR million	6.0	12.5	2.5	5.6	13.0
Equity ratio	%	53.5	56.5	58.0	55.6	70.3
Cash flow from operating activities	EUR million	1.8	34.2	17.1	3.3	13.5
Investments in property, plant and equipment and intangible assets	EUR million	15.0	21.3	12.8	14.9	8.1
Earnings per share, diluted [1]	EUR	0.38	0.68	0.61	0.45	0.55
Dividend per share [1,2]	EUR	0.12	0.25	0.25	0.20	0.20
Orders on hand	EUR million	17.7	17.7	34.3	25.2	12.5
Incoming orders	EUR million	119.7	113.1	124.1	104.0	78.9
Employees [3]	Number	795	752	690	602	466

1 The figures prior to 2013 were adjusted retroactively to account for the capital increase from Company funds.
2 2014: AGM proposal
3 excl. trainees and workers in minor employment

ENABLING MINIATURIZATION

LPKF Laser & Electronics AG is a highly specialized mechanical engineering company. It 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.

LPKF has pioneered the use of lasers in micro material processing. Since its formation 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 sensors 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.

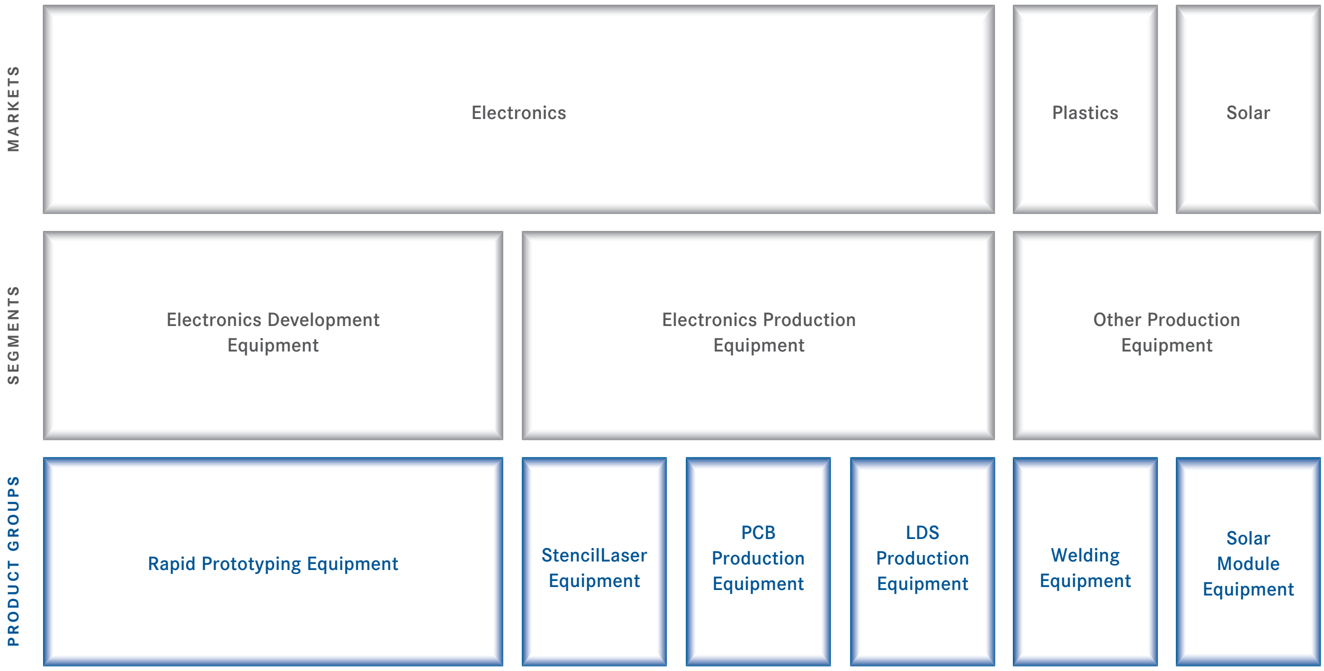
The Company owes its technical competitive edge to a unique combination of core competencies. These include expertise and experience in the fields of laser technology, materials engineering and precision drive systems, supplemented by in-house software development work. LPKF has used this know-how to 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 795 based at sites in Europe, Asia and the US. The export share was around 90 % in the 2014 financial year. Based on revenue of EUR 119.7 million and earnings before interest and taxes (EBIT) of EUR 12.7 million, LPKF achieved an EBIT margin of 10.6 %. The shares of LPKF Laser & Electronics AG are listed on the TecDAX index of Deutsche Börse.

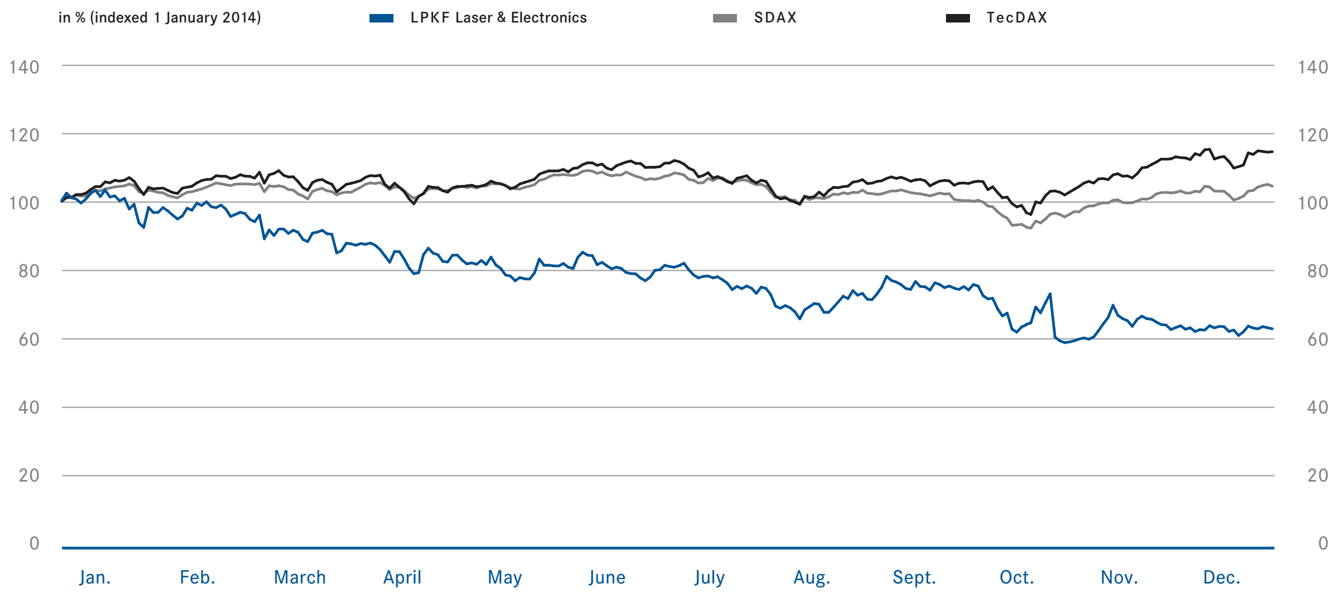
LPKF
Laser & Electronics

LPKF LASER & ELECTRONICS AG AT A GLANCE

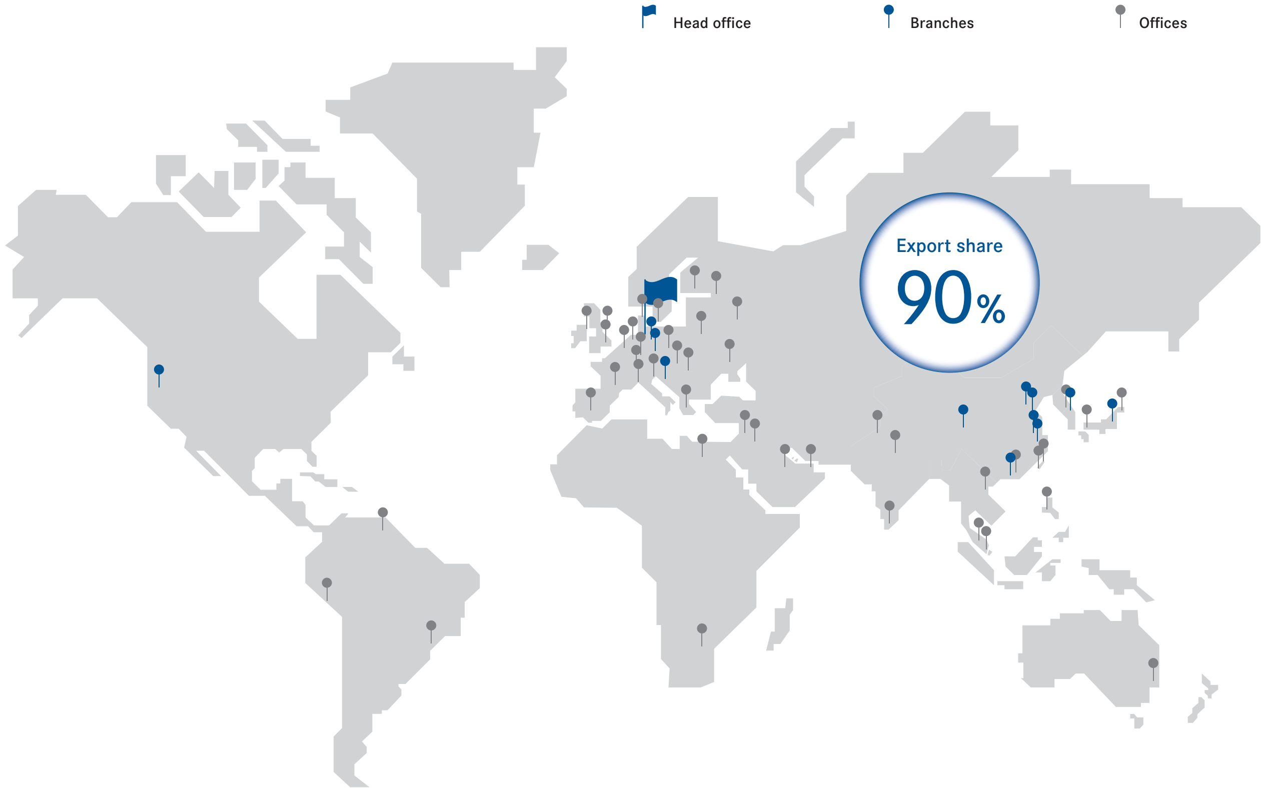
Markets, segments and product groups



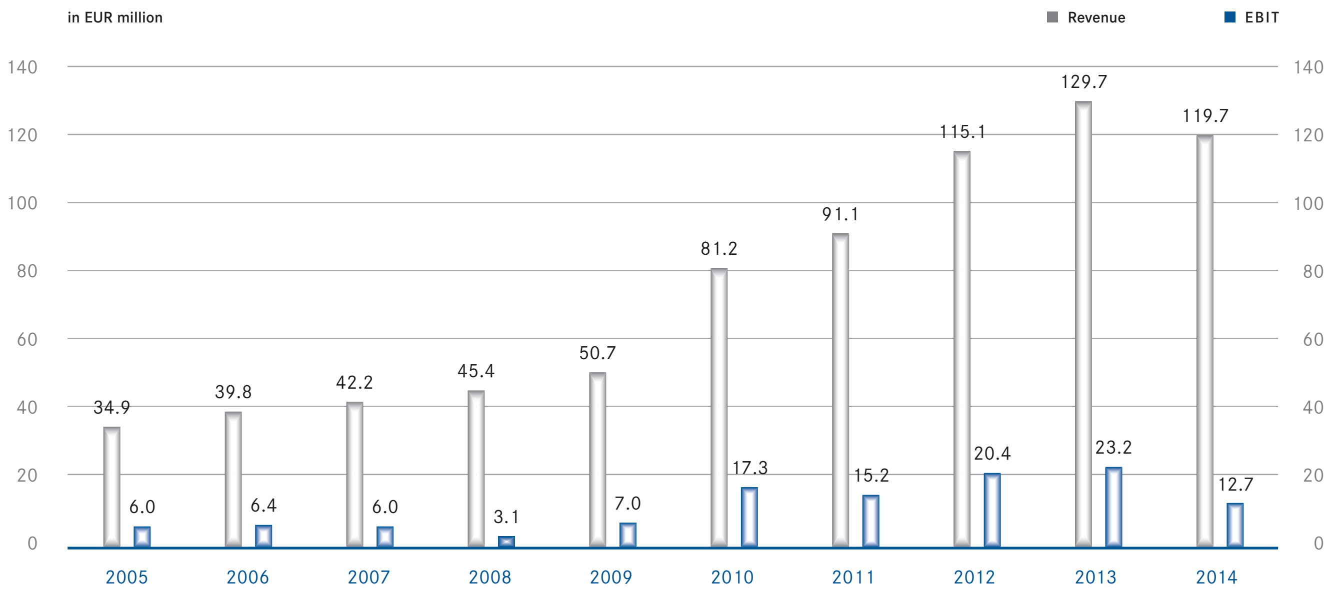
Performance of the LPKF share in 2014



LPKF sites worldwide



Revenue and EBIT



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TO OUR SHAREHOLDERS

COMBINED MANAGEMENT REPORT 2014

Laser potential

Laser technology has huge potential worldwide. As the miniaturization of electronic parts and components continues to increase, the versatile and efficient approach it offers for micro material processing guarantees laser technology an increasingly important role in the future. Read more about this on page 18 of this report.

Profitability

p. 26

Dynamic growth

p. 30

CONSOLIDATED AND ANNUAL FINANCIAL STATEMENTS

FURTHER INFORMATION

CHAIRMAN'S STATEMENT

DR. INGO BRETTHAUER
Chief Executive Officer

Dear Shareholders,

Despite facing a number of difficulties, we were able to at least reach the lower end of our most recent earnings guidance range thanks to a strong fourth quarter in 2014. Due to weaker revenue, our EBIT margin also declined, but at 10.6 % is still excellent compared with the rest of our industry. This marks the end of a challenging financial year that required our utmost effort from the first day to the last. We are not satisfied with the result we achieved, because we had set our sights higher.

After revenue growth amounting to 23 % per year on average (CAGR) between 2009 and 2013, last year brought a decline in revenue for the first time in eleven years. Of course, this is very disappointing, but despite this less than satisfactory year, our average revenue growth over the past five years has been 19 %, which is well over our target of 10 %. In my opinion, a double-digit EBIT margin in spite of a sharp drop in revenue is indication of a company healthy at its core that is resilient enough to bounce back from a setback.

A closer look at the overall picture in 2014 reveals a wide disparity in results in different areas. Two of our three segments grew significantly again in 2014. Only Electronics Production Equipment failed to meet targets in the year under review. However, since this is the largest of the three segments, this decrease could not be fully compensated for by the others.

The Other Production Equipment segment's revenue and earnings were up sharply by 31.3 % and 44.4 %, respectively. Here, the strong solar business more than offset the less dynamic results of the Welding Equipment product group.

In our oldest product group – Electronics Development Equipment – business performance was also excellent. With revenue growth of 20.3 %, we significantly exceeded our expectations, and the EBIT margin at 10.8 % also returned to a higher level. Expanding the product range to include new laser-based systems proved to be the correct strategic decision and is now producing initial positive results.

The drop in revenue in the Electronics Production Equipment segment is attributable to both the LDS Production Equipment and PCB Production Equipment product groups. In the LDS product group, the extremely strong growth of the past two years was driven primarily by enormous demand from Korea. In 2014, however, the business in Korea came to a near-standstill for reasons including the financial difficulties experienced by large-scale Korean end customers. This effect was reflected strongly in the revenue of our Korean subsidiary, which was the only subsidiary to fall far behind projections and diverge from the trend of previous years in 2014. However, the LDS business still makes up a significant share of our total revenue. We are making every effort to refine existing solutions with a view to unlocking new applications for them. In 2015, we will launch new technologies that will make it possible for our customers to produce much more delicate structures with the LDS technology, thereby making it more broadly applicable. At the same time, we are working intently on reducing the cost of the entire LDS process to make it even more cost effective for our customers. We see that the LDS technology is now being used in many different areas, allowing us to gradually reduce the unilateral dependence on the smartphone antenna business. In recent months, an increasing number of products with LDS components have been implemented in the new wearables market (in smartwatches and headsets, for instance). The number of applications in the LED market is increasing steadily, but a decisive breakthrough has not yet been achieved.

In the PCB Production Equipment product group, we were only able to land smaller-scale orders in 2014. No large orders were placed. This product group in particular is extremely project driven, and therefore its course is very difficult to predict. Initial negotiations are taking place this year concerning larger-scale projects, but after our experience in 2014, we are now tempering our expectations. Nonetheless, we see substantial potential in laser cutting and in the current financial year will introduce new products we think help this product group take off.

Due to our experience last year and the ongoing uncertainty in the electronics market, we believe that 2015 could be another challenging financial year. From 2016 onward, when systems featuring new technologies are available in series production, the picture will be much more positive.

Our past business performance has shown that we have always been able to conquer completely new markets with innovative technologies and be a successful leader in these markets. This is the strategy we will continue to pursue in the future and the reason our investments in developing new processes each year will continue to be considerable.

In addition to the new processes we have already introduced – laser plasma coating (LPC) and laser transfer printing (LTP) – we will launch a new laser process for ultra-fine glass drilling for the chip industry in 2015. Initial discussions with potential customers indicate that there is an enormous amount of interest in this process. We have applied for a patent for this through-glass-via (TGV) process, which enables users to produce highly integrated circuits more efficiently and cost effectively while also making them smaller. TGV offers us another opportunity to break into a new-to-us market and displace the production processes already established there.

The performance of our share in 2014 was very unsatisfactory. After trending strongly and steadily upward in recent years, it dropped sharply in 2014. Despite this setback, our share price has gained some 35 % per year on average over the last five years. We will not cease in our efforts to actively grow so that our share price can again reach new heights.

My particular thanks goes to our employees. In difficult times especially, we appreciate how important it is to have committed employees who can react flexibly to new situations. Our employees proved that this is possible in the past financial year and for that they have my heartfelt thanks.

Ladies and gentlemen, last year was truly a challenge for LPKF. For the first time during my tenure, we were forced to adjust our annual profit forecast downwards and report a revenue and profit downturn. Nonetheless, I see no reason for serious concern: our growth drivers in the markets are intact, our Company continues to be very profitable, and we develop highly attractive new technologies. There is no business in which the trajectory will always be upward. Setbacks are a part of life, even for successful companies. We have learned important lessons from a difficult financial year 2014 and refuse to be distracted from our growth targets.

Yours sincerely,

Dr. Ingo Bretthauer
Chief Executive Officer

THE MANAGEMENT BOARD

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.

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 (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.

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.

TEN QUESTIONS FOR THE MANAGEMENT BOARD

QUESTION 1

Dr. Bretthauer, you published a revenue and profit warning in 2014 and the share price has fallen by more than 40 % in the course of the year. How do you intend to regain shareholder confidence?

BRETTHAUER: On average, accurate forecasts for our business can be made for about three months ahead, since this roughly equates to the period from order intake to the delivery of the machinery. We present our investors with regular quantitative forecasts covering a period of up to three years, since we believe that the equity market has a right to be informed about the long-term strategic targets viewed as realistic by our management team. If one looks at the forecasts issued over the last few years, we have in fact always beaten the forecast figures, with one exception – namely 2014. Achieving 100 % accuracy is impossible, given our low visibility and strongly project-oriented business. Considered over a five-year period, we have satisfied all of our long-term strategic targets and I have no doubt that we will continue to do so in the future. I am myself an LPKF shareholder and I will continue to devote all of my energies towards increasing the value of our company.

QUESTION 2

Has business performance in the 2014 financial year affected corporate strategy? What have been the lessons learned?

BRETTHAUER: Nothing has changed in terms of our underlying corporate strategy. While we have certainly used the experience gained last year to make some minor adjustments, we have not altered our original course. We will continue to pursue the ongoing replacement of conventional production techniques with significantly more precise laser-driven methods. We still see such potential in this area that we continue to have every confidence in the future.

QUESTION 3

Mr. Bentz, working capital rose once again during 2014. What is your forecast here for 2015?

BENTZ: We are planning a reduction in this item for 2015. For solar business in particular, far less capital should then be tied up. We are also working on improving working capital throughout the company. At our plant in Slovenia, for example, we are currently installing the same ERP software that is used at our other manufacturing facilities. This is intended to bring improvements to the logistics chain while improving warehousing transparency.

QUESTION 4

Capital expenditure has been high at LPKF in recent years. What is your planned investment volume for the next few years?

BENTZ: True, LPFK's capital expenditure was very sizeable in 2013 and 2014. In plastic welding, LPKF made its largest infrastructure investment in the company's history. Over these two years, we have spent a total of EUR 11.6 million in the purchase and development of a new facility. In so doing, we have created an environment that will foster significant growth in this business in the next few years. But our Garbsen facility has also seen investments. And we're also working continuously on the development of new products. Spending in these areas has formed a major part of our growth strategy for some years now and will continue to be a focal point for the future. With construction work in the LPKF Group now largely complete, our capital expenditure in 2015 will be much lower than during the previous two years. Overall, I am planning to invest less than 10% of our revenue into fixed assets over the medium term.

QUESTION 5

Mr. Lange, LPKF is seen as an innovative pioneer in the field of laser-based micro material processing. How will you maintain your status here? What will be the key areas for R&D work over the next few years?

LANGE: Laser-based micro material processing is a very diverse market. We are concentrating on new niche applications with appealing business prospects for which we can develop innovative and patentable solutions. One important factor that decides our success with a new technology is first achieving a detailed understanding of the specific technological requirements. Accordingly, we are systematically expanding our micro material processing know-how and exploring new technical options at an early stage. One increasingly important aspect is combining laser processes with the development of specialized materials and their supporting technologies. On the other hand, electronics is also demanding increasingly delicate structures. We need to meet this challenge as specialists in laser-based micro material processing.

QUESTION 6

What drives new technology development at LPKF? Where do ideas come from – and which projects are now ongoing?

LANGE: Our strategic orientation as a technology group is crystal-clear: micro material processing, preferably laser-driven. This is the framework we use to track trends in our target markets and technological development. 3D printing (in the most general sense of the term) clearly represents one such trend. We see potential for new laser-based methods here. We are also tracking developments in ultrashort pulse lasers. These lasers offer brand new options for the micromachining of glass, for example. While micromachining holes in thin glassware used to be impractical for economic reasons, a new procedure from LPKF has made this possible, opening up a new and interesting market for our company.

TEN QUESTIONS FOR THE MANAGEMENT BOARD

QUESTION 7

LPKF has lost the LDS patent in China. How do you intend to protect the company against Chinese competition? What has been learned from the patent dispute?

LANGE: Patent protection for the LDS method has been lost solely for China, i. e. for products that are made in China and remain within its borders. Since most producers there are also exporters, however, this limits the impact on our business. Also, are we not merely relying on the strength of our patents. The real business objective here is an end-to-end solution for the manufacture of molded interconnect devices. This is why we have continuously invested in improvements to the LDS method and can now offer the most powerful 3D laser scriber machines and the most economical metallization solution available. These are preferentially offered to our certified LDS manufacturers, who can be trusted to honor LPKF's patent rights. The patent dispute itself has shown us the steps needed to design effective and defensible patents. These form part of our current development work.

QUESTION 8

Dr. Bieniek, the LPKF Group has not met the ambitious goals for growth in 2014. What does this mean in terms of capacity and infrastructure?

BIENIEK: In recent years, our capacity expansion has tended to be driven primarily by the strong growth seen in our markets. While we will continue to pursue this strategy for growth in the medium term, we will be taking a cautious approach to short-term hiring and capital spending. For 2015, we will focus in particular on boosting efficiency in our core product development and manufacturing processes.

QUESTION 9

LPKF's solar business has performed superbly despite difficult market conditions. Is the crisis over? What are the next steps for LPKF here?

BIENIEK: Many situations are unfortunately – and wrongly – dubbed a "crisis." The massive correction we have seen in the solar segment has a number of very different causes. As a high-tech company, our best strategy in such difficult phases of the market is to treat them as a challenge to innovate. In recent years, we have used this tactic to great effect. Applications using our high-precision lasers have played their part in increasing the conversion efficiency of solar cells and thus their profitability. Thanks to our outstanding team and our power to innovate, I am convinced we can continue to enjoy success in the solar market, despite its challenges.

QUESTION 10

You have made a number of organizational changes since taking up your position in 2012. How satisfied are you with the results of these projects and what will be your focus in the present financial year?

BIENIEK: In recent years, we've seen a considerable increase in collaboration between our sites. Our staff is keen to share know-how and best practice. Products are being developed more quickly as multi-site projects. Fluctuations in capacity are now balanced out between sites as a matter of course. All of these admirable developments work to create a common, goal-oriented corporate culture. As a next step, to ensure that the individual units can focus more closely on their customers and target markets, we want to use shared service centers to boost the efficiency of our support functions.

REPORT OF THE SUPERVISORY BOARD

From left to right:

BERND HACKMANN
Deputy Chairman

DR. HEINO BÜSCHING
Chairman

PROF. DR.-ING. ERICH BARKE

Ladies and Gentlemen,

In the financial year 2014, LPKF Laser & Electronics AG was unable to continue to grow as it had in the recent past.

Consolidated revenue totaled EUR 119.7 million, coming in at the lower end of the adjusted guidance for the 2014 financial year. The EBIT margin of 10.6 % shows the effects of lower revenue, especially declines in the Electronics Production Equipment segment. In geographical terms, the main factor affecting this result was the decrease in order volume in Korea. On the flip side, our accomplishments should not be overlooked: the solar business is solid, rapid prototyping is experiencing robust growth, and – in regional terms – revenue in the United States was strong.

Monitoring and advising

In the 2014 financial year, the Supervisory Board closely monitored the 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 eleven 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.

At the start of each meeting, the Supervisory Board customarily meets without the Management Board. In other words, the initial agenda items are reserved for internal Supervisory Board discussions.

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 monitored the legality, propriety and fitness for purpose of the Management Board's actions.

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 the 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 (for more details see the section "Main focus of the discussions" below). The Supervisory Board was always involved at an early stage in all decisions of importance to the Group. The Management Board reported to the Supervisory Board at the level of the parent company in writing 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. These reports are prepared quarterly for the Group.

Main focus of the discussions

It goes without saying that one of the topics the Supervisory Board discusses is the financial situation of LPKF Laser & Electronics AG and the Group. The Group's start to the new year was very muted, making 2014 unusual in that respect. For this reason and particularly after the weak revenue/earnings achieved in the first half of 2014, deviations from the targets set had to be reviewed constantly. Early on, the Management Board and Supervisory Board agreed on measures to counter this situation. In particular, the Company held back on the number of new hires compared with the agreed plan.

Along with the Management Board, the Supervisory Board deliberated on issues concerning the future structure of the LPKF Laser & Electronics AG Group under corporate law. This topic was covered in several Supervisory Board meetings.

The Supervisory Board remuneration structure was changed. Based on its own market analysis, the Supervisory Board evaluated various remuneration models. On 5 June 2014, the Annual General Meeting approved the Supervisory Board's proposal for a new remuneration structure.

A significant and permanent part of Supervisory Board meetings every year is the Supervisory Board's strategy meeting. This meeting is held along with the Management Board, heads of divisions, and the head of Group strategy. In this two-day meeting, the Supervisory Board first deliberated on individual strategies for the segments. The presentations by the unit heads on these individual strategies culminated in a discussion of the overall strategy and ultimately produced a revised strategy paper, which the Supervisory Board and Management Board approved following the strategy meeting.

As in previous years, the trend toward an increase in legal disputes involving patents held by LPKF Laser & Electronics AG continued in the financial year 2014. The patent situation at LDS is therefore a regular agenda item. Unfortunately, the Supreme People's Court of China did not reopen proceedings in the defense of the LDS patent in China. In Germany, LPKF Laser & Electronics AG has filed suit against some market participants. The Management Board and Supervisory Board agree that the LDS patent and other patents acquired by LPKF Laser & Electronics AG must be defended. Funds are budgeted for this purpose.

Internal auditing issues are also a fixture in Supervisory Board meetings. Internal auditing at LPKF Laser & Electronics AG has been outsourced to an auditing firm hired for this purpose, which is reviewing all units of the Company according to a set schedule and action plan. During this agenda item, the Management Board reported on the internal audit findings. In each case, the Supervisory Board duly noted the report and approved the measures proposed for improving internal workflows.

Corporate governance and Declaration of Compliance

In 2014, 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 23 March 2015, 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 declaration is 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 nearly all 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 parent company's annual financial statements and of the consolidated financial statements

As resolved by the Company's Annual General Meeting, the Supervisory Board engaged Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft (PwC) to audit the 2014 annual and consolidated financial statements and defined the focal points of the audit. Both the annual 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 2 March 2015 and 23 March 2015 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 financial statements of the parent and the consolidated financial statements as well as 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 2 March 2015 and 23 March 2015, the Supervisory Board agreed with the result of the auditor's audit and approved the annual financial statements of the parent and the consolidated financial statements prepared by the Management Board. The annual financial statements of LPKF Laser & Electronics AG are thereby adopted.

Given the business performance in the reporting year and the moderate outlook for 2015, the Management Board and the Supervisory Board will propose to the Annual General Meeting on 28 May 2015 that it pay a dividend of EUR 0.12 per share and carry forward the remaining accumulated profits of EUR 11,521,876.48 to new account.

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 Laser & Electronics AG's Supervisory Board.

Staffing

The members of the Supervisory Board stood for election again and were reelected during the Annual General Meeting in 2014. We would like to thank our shareholders once again for their confidence in the Company. Following the Annual General Meeting, Mr. Bernd Hackmann was elected Deputy Chairman and the undersigned was elected Chairman of the Supervisory Board.

Thanks

The Supervisory Board would like to thank the Management Board, our division heads, the members of the executive management of the subsidiaries as well as all of the LPKF Group's employees worldwide for their valuable contributions and commitment to the Company in the financial year 2014.

Garbsen, Germany, March 2015

Dr. Heino Büsching
Chairman of the Supervisory Board

PRODUCT GROUP PROFILES

LPKF offers a broad portfolio of products for a 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.

ELECTRONICS PRODUCTION EQUIPMENT

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

StencilLaser Equipment

StencilLaser G6080

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 methods like extended stencils with a length of up to 1,600 millimeters offer customers new product options.

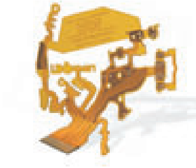
Printing template for innovative lighting equipment.

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

PCB Production Equipment

MicroLine 2120 Si

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



Flexible PCBs: precision on sensitive materials.

The high-precision laser process cuts close to the edge of sensitive circuit traces or components, cuts complex contures from flexible materials 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

Fusion3D 1200

Much of LPKF's success depends on LDS (Laser Direct Structuring) technology, in which a laser creates conductive paths in a 3D plastic substrate. Metallized circuit traces are then formed along these tracks. For customers, this saves space, weight and assembly effort.

The LDS case houses the sensors and electronics in this air pressure gauge.

In late 2014, LPKF announced a new, cost-effective laser system and launched an LDS powder coating for metallic bodies. This promises to drive new applications in LED lighting and the automotive sector.

At LPKF, expertise and experience make their mark in the fields of precision drive systems, laser technology, optics and materials engineering. An in-house software development unit works to create powerful, user-friendly interfaces between the production environment, laser systems and operators.

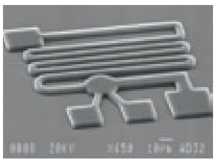
ELECTRONICS DEVELOPMENT EQUIPMENT

In-house prototyping solutions at LPKF smooth the path to market entry for customer projects, creating prototypes ready for mass production at short notice.

Rapid Prototyping

ProtoMat D104

LPKF leads the market in non-chemical processes for PCB prototype production. Instead of etching, boards are scribed by a mechanical or laser system. LPKF also offers prototyping systems and methods in the fields of laser plastic welding, resist micromachining and 3D LDS circuit boards.



The ProtoLaser LDI: one-step ultrafine scribing.

In-house prototyping enjoys a stable position in our portfolio, which it continues to expand with new methods and systems.

OTHER PRODUCTION EQUIPMENT

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 LaserScribers from the Solar Module Equipment segment boost the performance of thin-film solar cells.

Welding Equipment

PowerWeld 3000

In laser plastic welding, the laser beam penetrates the upper joining partner and is absorbed by the lower component to create a reliable and visually appealing weld seam. The systems and methods offered by LPKF are increasingly supplanting conventional joining techniques. A broad product portfolio offers laser systems suited to the automotive, electronics, medical and consumer markets.

Lab-on-a-chip with ultrafine channels.

Solar Module Equipment

Allegro

In the solar sector, success or failure is decided by the production costs of solar modules and their energy output under real-world conditions. LPKF is setting new standards with its “Allegro” LaserScribers: the combination of rapid processing and on-the-fly glass feeding minimizes unit costs.

High-precision module machining = more solar power.

The Allegro series incorporates high-precision processing with continuously enhanced technology as standard. The systems maximize the active module surface and thus the yield from a thin-film solar module.

“Our technical profile is crystal-clear.”

Dr. Boštjan Podobnik

Managing Director
LPKF Laser & Electronics d.o.o.


Fusion3D 1200
LPKF
Laser & Electronics
PERTISE

UNIQUE EXPERTISE

We possess a wealth of experience and expertise in the field of laser-based micro material processing. This encompasses not merely laser technology but also first-hand knowledge of precision engineering, electronics, drive systems and software. Only those with such a broad spectrum of specialized know-how can construct machines that transform the laser into a superior and effective tool for industry.

Smart outsourcing

TO ENSURE AN OPTIMIZED VALUE CHAIN during the manufacture of our products, we concentrate our production efforts on the areas where we are the industry-leading suppliers. Ideally, all mission-critical components are built in-house. We source all other components from external specialists or have them manufactured to our specifications. This keeps production within the LPKF Group comparatively lean and flexible.

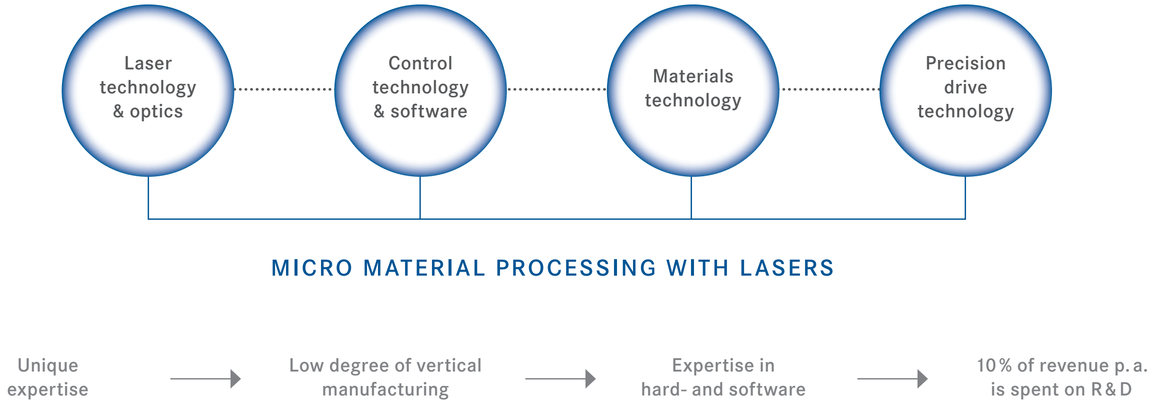
Final assembly of our laser systems at Garbsen

Precision engineering

EXTREME PRECISION IS THE KEY BENEFIT offered by a laser in comparison to other tools. Precision in micro material processing starts with the table systems that form the foundation on which the machines are built. The laser beam can work precisely at tolerances of thousandths of a millimeter only if it is part of an extremely stable and precise overall system. Our precisely engineered systems often take mere fractions of a second to bring component parts to the exact spot at which the laser beam is then deployed.

A demanding degree of precision also applies to system hardware.

Focus on core competencies

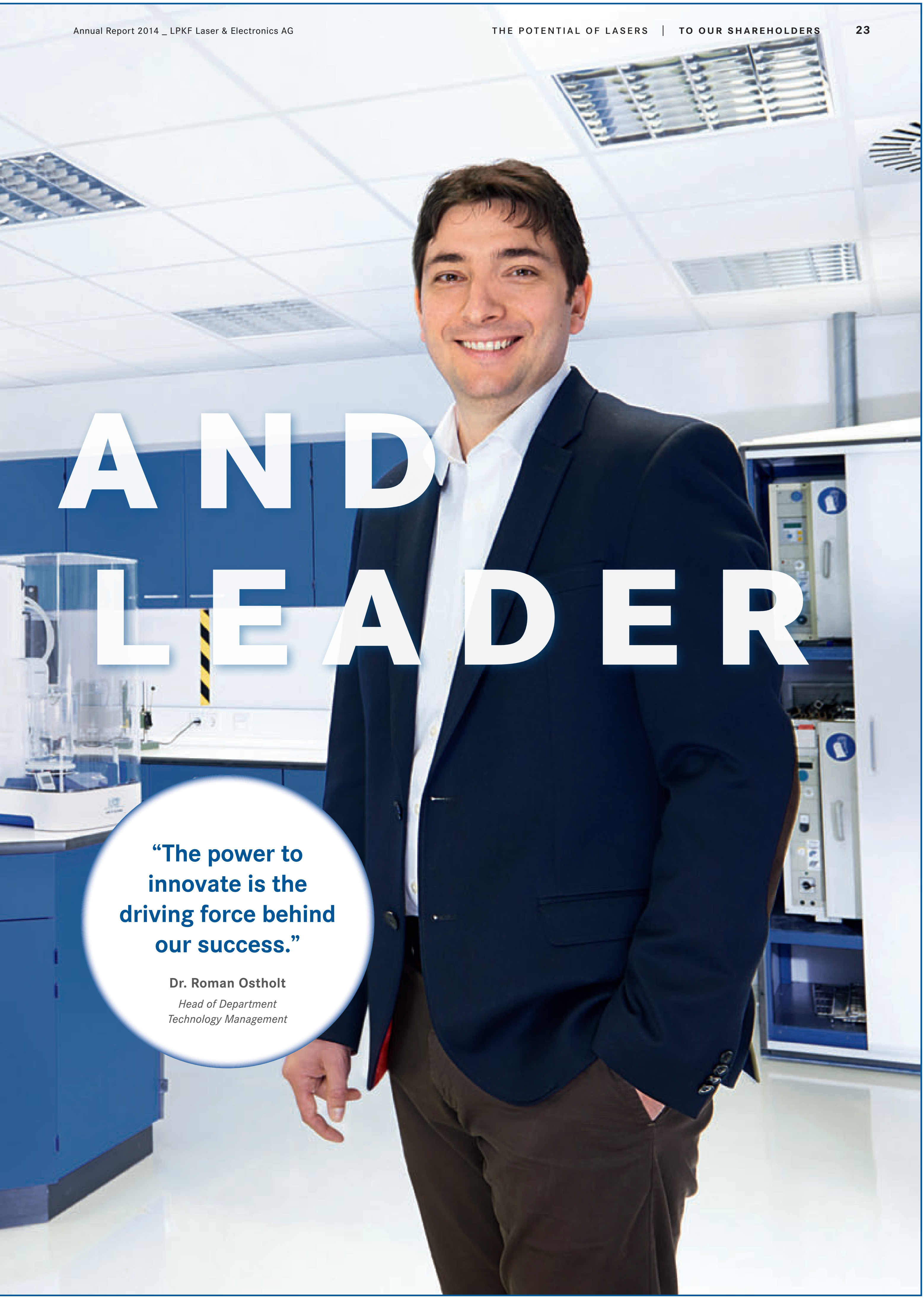


Efficiency through software

TOGETHER WITH DATA PROCESSING SYSTEMS, electronic control technology ensures that the laser beam is guided efficiently over the material. The significance of software in this area has grown steadily. The software optimizes the path that the laser beam is able to traverse on the material, for example, and thus has a truly decisive influence on the efficiency of our systems and the benefit for our customers.

Software development is a core expertise of LPKF.

PIONEER MARKET



AND LEADER

“The power to innovate is the driving force behind our success.”

Dr. Roman Ostholt

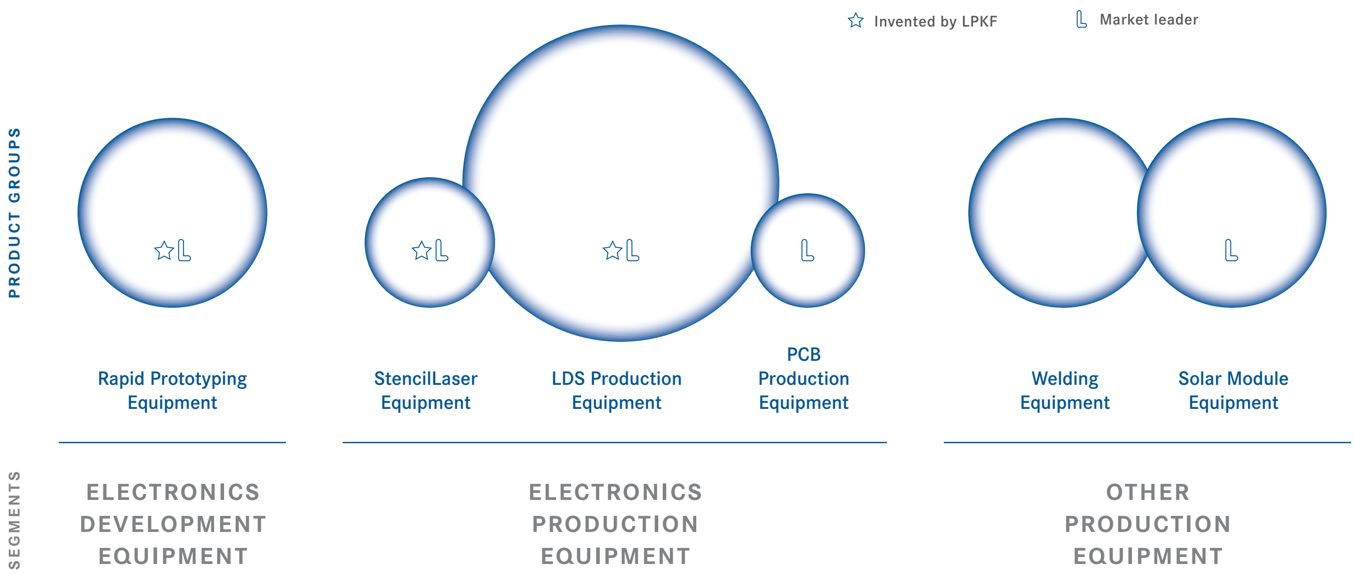
Head of Department Technology Management

PIONEER AND MARKET LEADER

To be truly innovative, you need creative employees with the courage and freedom to try out their ideas – even if these take them in an entirely new direction. Over the years, our growth has been driven by new technologies, which LPKF has developed and launched in the market. If we are capable of using our ideas to open up new markets, then we have every chance of assuming a leading position in these very markets. Today, LPKF is a global market leader or at least number two in all of its product segments. Our power to innovate will also play a decisive role in the years to come.

Pioneer in new markets

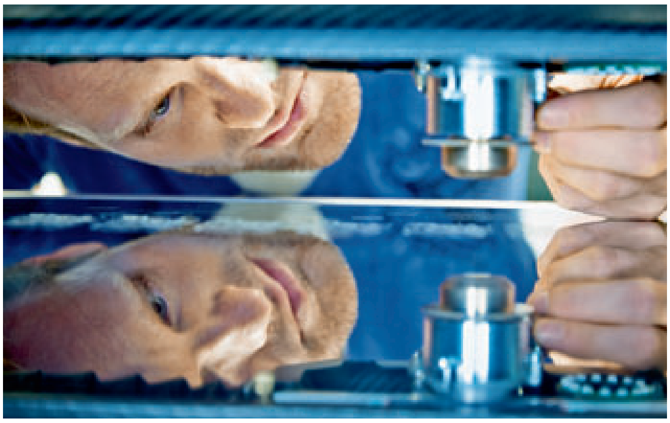
THE IDEA of moving away from chemical manufacturing methods for PCB prototypes towards quick and simple prototype fabrication at the engineer's own workplace with a ProtoMat or a ProtoLaser has created a new market of its own for the rapid prototyping of circuit boards. LPKF has achieved similar successes in the fields of SMT stencil production or LDS antennas.



Driving innovation

IN RECENT YEARS, LPKF has invested a lot of effort in supporting and expanding its in-house R&D.

Each year, **10 %** of revenue is invested in the Company's R&D activities and will be maintained at this level in the future. Only in this way can we prioritize innovation and give ourselves a technological head start. In the 2014 financial year, **many exciting new technologies** were developed that are intended to drive growth over the next few years.



Systematic improvement is the best defense against imitators.

Laser Plasma Coating (LPC)

LASER PLASMA COATING IS A COATING TECHNIQUE that uses a plasma beam to spray a powder onto a workpiece. This makes it possible to apply metallic **structures to a plastic substrate**, for example. LPC is thus a further supplement to the familiar LDS technique. Heavy-duty metal layers can be created very quickly with LPC. Production no longer requires metallization baths. Promising applications arise wherever higher current loads are required – such as in the fields of **LED lighting, electrical drive systems and vehicle electronics.**

The LPC method produces heavy-duty metal layers for higher current loads.

Digital printing of functional pastes (LTP)

LPKF'S OTHER PRODUCTION EQUIPMENT SEGMENT is developing a new digital printing process for functional pastes – such as silver or copper pastes. In addition to the obvious benefits of a digital printing system in terms of its flexibility, the Laser Transfer Printing (LTP) method also offers higher-resolution printing and can therefore reduce the consumption of pastes containing expensive metals. As one example, **LTP** can be used to digitally print defroster elements on car rear windows at a previously unattainable level of detail.

PROFITA

“LPKF has grown profitably for 38 years and greatly values a solid balance sheet structure.”

Anja Stein

Group Accounting Specialist

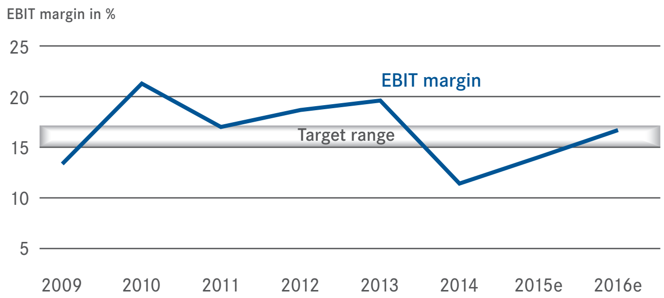

BILITY
Ebit margin target range
15% – 17%

PROFITABILITY

Our goal is not to generate quick sales, but to enhance the long-term value and profitability of the Company. This is why we concentrate on dynamic markets with above-average earning potential. LPKF has again set clear and ambitious goals for the future. The Company aims to increase revenue by an average of at least 10 % per year and thus put average EBIT margins between 15 % and 17 %.

Suitable EBIT margins

OVER THE PAST TEN YEARS, LPKF's profitability has been well over the industry average with the EBIT margin averaging 14.8 %. As an innovator and technological leader, LPKF is driven to invest considerable sums in developing new technologies. To do so requires large margins. On the other hand, LPKF must offer its laser systems for sale at prices that enable customers to manufacture their products efficiently and compete against alternative production methods.



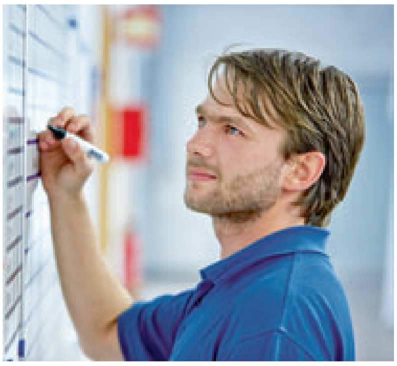
Foundation of solid financing

AT AN EQUITY RATIO OF 53.5 %, LPKF's financial position is solid, giving the Company a good foundation for acting quickly and flexibly. Healthy cash flows are also important for profitability and therefore the Company's ability to issue dividends. LPKF intends to distribute a significant portion of its earnings per share to shareholders in the long term (see p. 36).

The new headquarters building was finished in Garbsen in 2014.

2014 was a challenge

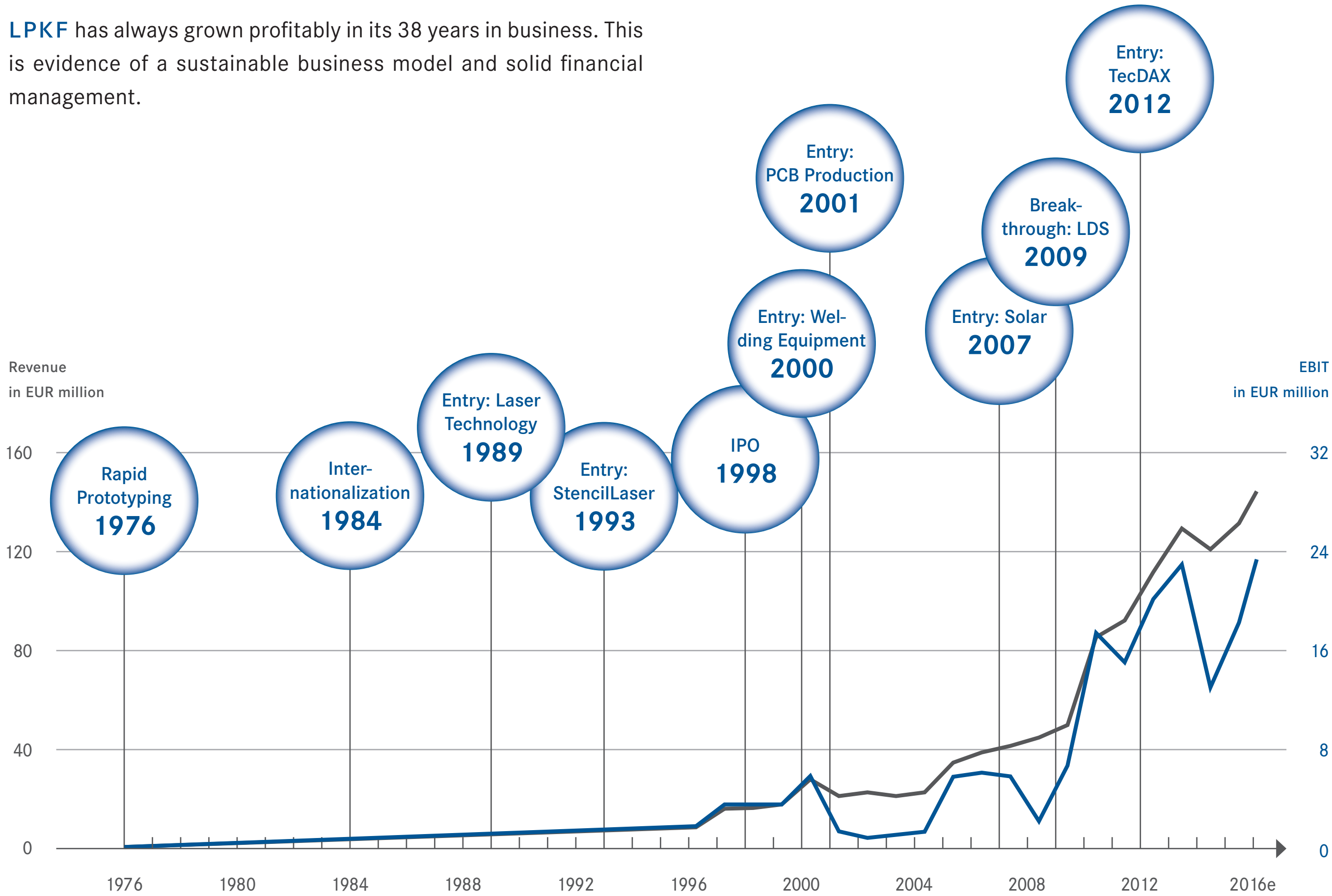
WITH A DECLINE IN REVENUE and an EBIT margin of 10.6 %, the financial year 2014 did not meet expectations. After the strong growth of previous years, this is a result that neither management, nor the employees and shareholders of LPKF find satisfactory. In view of economic uncertainty and LPKF's cyclical markets, planning must take into account some years with weaker business performance. As long as the long-term growth trend remains intact, the Company is on the right path.



LPKF aims to return to growth in 2015.

Profitable growth since 1976

LPKF has always grown profitably in its 38 years in business. This is evidence of a sustainable business model and solid financial management.




DYNAMI
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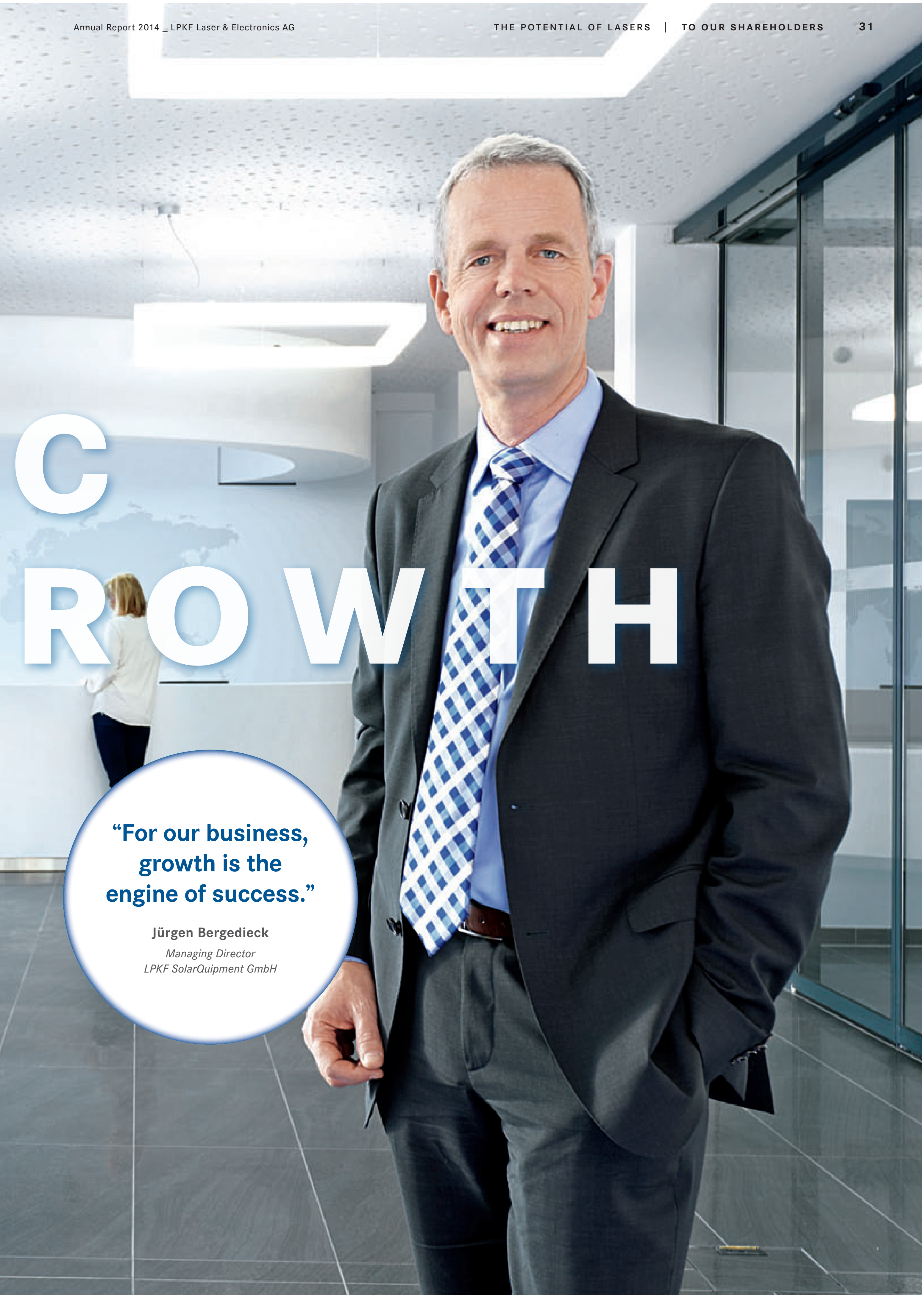
LPKF



"For our business, growth is the engine of success."

Jürgen Bergedieck

Managing Director
LPKF SolarQuipment GmbH

DYNAMIC GROWTH

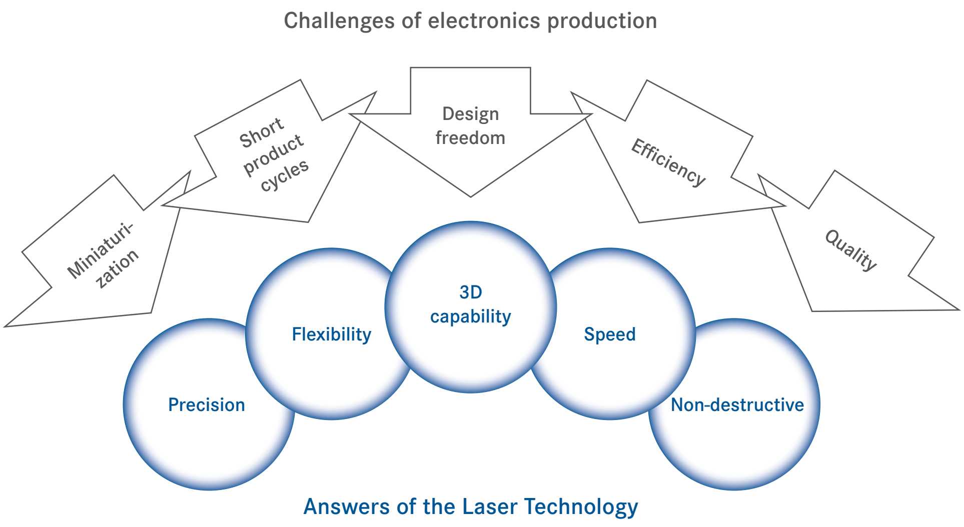
As a laser specialist, we have made it our specialty to firmly establish the laser as a high-precision tool in micro material processing – also aided by the trends towards miniaturization and increasingly efficient methods of production. We see great potential for growth here, driven on the one hand by the displacement of conventional tools and by the dynamic growth in our markets on the other. Despite difficult market conditions, our business with scriber systems for solar cells grew by no less than 96.9 % in 2014.

Enabling miniaturization

SMALLER, LIGHTER, MORE COMPACT – that's the mantra repeated again and again by manufacturers of electronic parts. And it's also a godsend for the laser as a tool, since the laser's precision simply cannot be matched by conventional equipment.

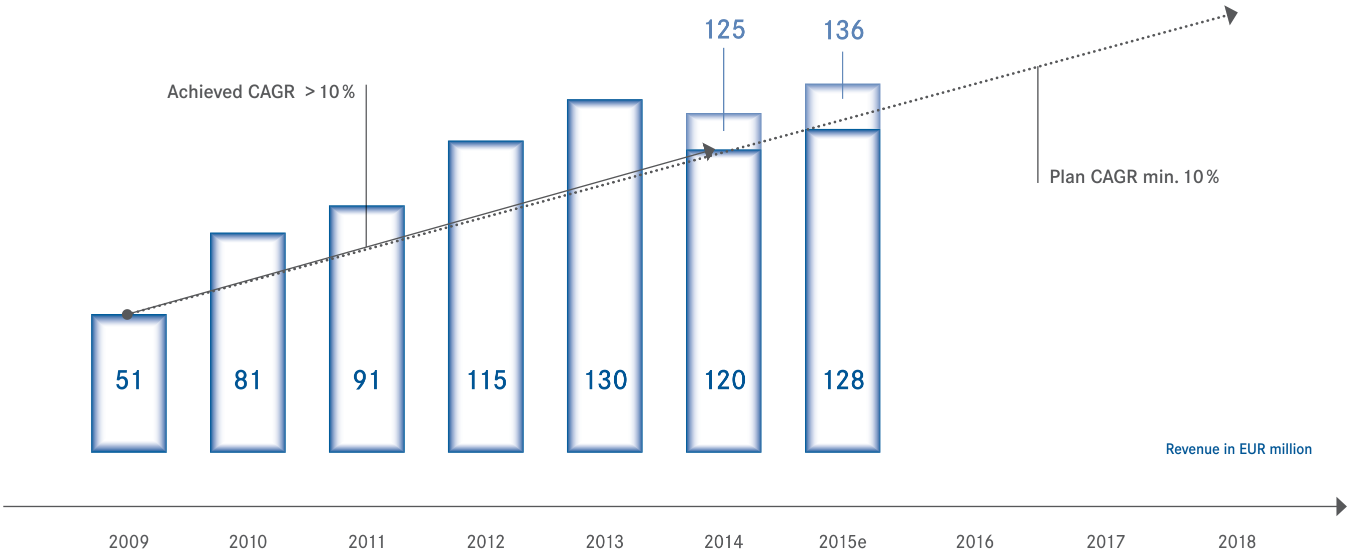
As **production cycles** for cell phones and other consumer products grow shorter, this demands greater flexibility in their production. But the laser also takes this in its stride: it can adjust to almost any new layout. Since the laser is a contactless tool, it conserves materials and parts, thus enhancing production process quality.

MARKET TRENDS AND LASER TECHNOLOGY

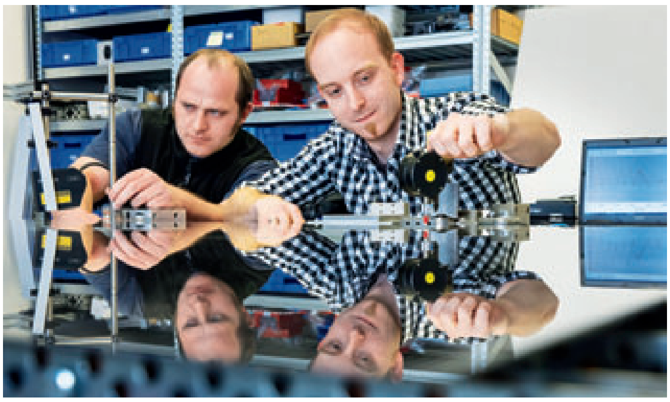


Dynamic growth potential

DYNAMIC MARKETS, such as the automotive industry or the solar industry, for example, often behave in a cyclical fashion. This offers both opportunities and risks for LPKF. To minimize risks, it is important for us to have a presence in a number of market segments that are not related to each other. Using this strategy, we can largely compensate for slower periods in individual product segments.



Ever-present efficiency



EVEN IN THE RAPIDLY-SHRINKING SOLAR MARKET, LPKF has nonetheless enjoyed highly successful growth over the last four years. There is a very simple explanation for this: thin-film solar cells are made more efficient by using laser technology from LPKF. This ensures that expenditure on LPKF's solar scribers is recouped very quickly. As a result, purchasing our systems makes sense despite (or even due to) a difficult economic climate.

High-precision laser systems for scribing solar cells are manufactured at our Suhl site.

The LPKF share

SHARP PRICE DROP IN THE 2014 FINANCIAL YEAR

The performance of LPKF's shares was disappointing in 2014. LPKF's share price slid from EUR 18.74 at the beginning of the year to EUR 10.83 at the end of the year. The high for the year of EUR 20.80 was reached on 15 January, while our share's lowest price, EUR 9.86, was recorded on 27 October. Just a few days prior to that, we had to adjust our annual profit forecast downwards for the first time in six years and prepare investors for lower revenue and earnings in 2014.

Our share price failed to continue to rise sharply as in the previous year. It fell 41.7 % and underperformed the TecDAX, which gained 17.5 %. Our market capitalization fell from EUR 458.31 million on 3 January to EUR 241.18 million on 30 December. This put our Company in the 28th place of TecDAX ranking.

For investors who had recently invested in LPKF, the direction of our share price in 2014 was anything but satisfactory. However, viewed over a longer period, LPKF's share price grew by an average of 35 % per year over the past five years.

Our trading volume increased in 2014.

Despite last financial year's unsatisfactory share price performance, there is market demand for our shares. Our trading volume increased again in 2014, with an average of 159,169 shares trading hands on XETRA each day. This turnover put us in 16th place on the TecDAX list.

STOCK MARKETS

After two successful years, business experts and analysts had high hopes for the stock markets again in 2014. The Deutsche Aktienindex (DAX) had gained 26 % in 2013 and closed out the year at 9,552 points. Small and mid caps also performed well, although somewhat less robustly.

The DAX saw a 2.7 % gain.

In 2014, however, the German stock market did not perform as dynamically as anticipated. The DAX index of leading German stocks reached an all-time high of 10,093 points during this period, but only gained 2.7 % for the year as a whole. The MDAX and SDAX small- and mid-cap segments only grew 2.2 % and 5.9 %, respectively. In the meanwhile, the performance of the TecDAX was a surprise: thanks to the strength of various stocks, the technology index closed out the year up 17.5 %.

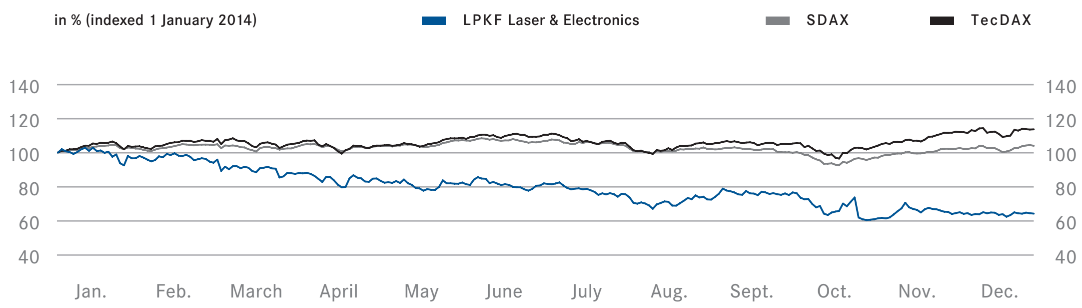
Major international stock exchanges also finished the year with gains. The EuroStoxx 50, which features the most important blue chip stocks in the euro zone, improved 0.6 %. This topped the performance of US and Japanese indexes. The Dow Jones cleared the 18,000-hurdle for the first time in its history, gaining 8.5 %, while the Nasdaq was up 14.8 % and the Nikkei 8.1 %.

US economic data was unexpectedly positive.

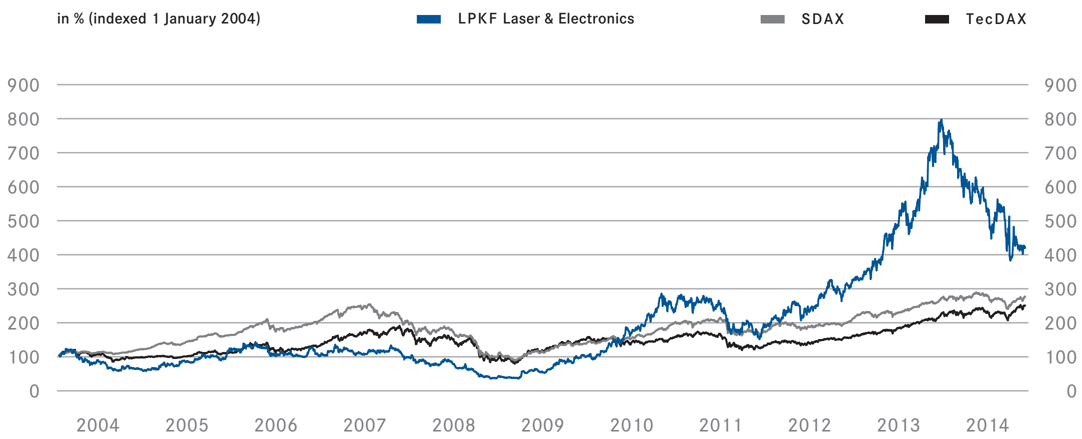
Stock prices were again driven by low central bank interest rates and in some cases very relaxed international monetary policy. In the United States, some economic data and leading indicators were unexpectedly positive. The US gross domestic product grew faster from July to September than it had in the past eleven years.

In Germany, economic growth slowed, and only a few companies had very good news to report. However, a flood of inexpensive money benefitted the markets, which pushed performance up further.

PERFORMANCE OF THE LPKF SHARE IN 2014



PERFORMANCE OF THE LPKF SHARE IN 2004–2014



STOCK MARKET OUTLOOK ON 2015

The weak euro is expected to boost exports.

The majority of analysts are positive about the current year. They point to export-heavy German companies and the upturn in economic growth expected worldwide. In addition, the weak euro is set to put German suppliers in a more favorable position than their international competitors.

MARKET CAPITALIZATION AND SHAREHOLDER STRUCTURE

Shareholder structure: 100 % free float

The subscribed capital of LPKF Laser & Electronics AG amounted to EUR 22,269,588.00. The corresponding number of 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 unsatisfactory stock price performance was also reflected in our market capitalization. LPKF closed the year with a market value of EUR 241.18 million as of 30 December 2014.

DIVIDEND POLICY AS PART OF CORPORATE STRATEGY

We want to increase our enterprise value and our attractiveness to investors in the long term. After successful financial years, our shareholders should also participate directly in the positive performance through dividend payments. Our dividend policy is characterized by continuity and reliability. We plan 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, for instance 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.

Both the Management Board and the Supervisory Board propose to pay a dividend of EUR 0.12.

In view of the weak development of operations in the financial year 2014, the Management Board and the Supervisory Board intend to propose to the Annual General Meeting on 28 May 2015 that a dividend of EUR 0.12 per share be paid. Based on the closing price for 2014, this would correspond to a dividend yield of 1.11 %.

Management additionally focuses on ensuring solid financing for the Company. This includes ensuring an equity ratio of at least 40 % (currently: 53.5 %).

KEY FIGURES ON THE LPKF SHARE

	2014	2013	2012
Number of shares as of 31 December	22,269,588	22,269,588	11,134,794
High (XETRA)[1]	EUR 20.80	EUR 18.92	EUR 17.00
Low (XETRA)[1]	EUR 9.90	EUR 8.10	EUR 9.30
Closing price at year's end (XETRA)[1]	EUR 10.83	EUR 18.58	EUR 15.75
Market capitalization at year's end	EUR 241.2 million	EUR 413.8 million	EUR 175.4 million
Average daily trading volume (shares)	159,169	130,364	40,386
Earnings per share, diluted[2]	EUR 0.38	EUR 0.68	EUR 0.61
Dividend per share[2,3]	EUR 0.12	EUR 0.25	EUR 0.25

1 The previous year's figures 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 2014: Proposal at Annual General Meeting

DIALOGUE WITH SHAREHOLDERS, ANALYSTS, AND THE BUSINESS MEDIA

In the 2014 financial year, we communicated openly and continuously with many capital market participants. CEO Dr. Ingo Bretthauer and CFO Kai Bentz spoke with institutional investors and analysts at 24 road shows. Currently, eight banks regularly analyze our shares.

More than 400 shareholders attended the 2014 Annual General Meeting.

We also held numerous meetings with small shareholders. Their keen interest has regularly led to a high level of participation at our Annual General Meetings. We welcomed over 400 shareholders to our most recent Annual General Meeting in Hannover on 5 June 2014 – all of whom were keen to acquire knowledge of our Company's economic situation. The strong dedication shown by our private investors, some of whom have been with us for many years, is very gratifying. We regularly host investing clubs to provide them with insight into our company.

We also maintain contact with a number of journalists from financial and business publications. Many regional and national media reported about developments at our Company and the performance of our shares. The Management Board regularly gave interviews, for instance to the Frankfurter Allgemeine Zeitung, Börsenzeitung, and Euro am Sonntag, and it met with editors at WirtschaftsWoche and Handelsblatt.

Our inclusion in the TecDAX makes our shares very attractive to potential shareholders. LPKF's website is an important platform for providing comprehensive and transparent information. Existing and potential investors can also contact us personally with their questions.

IR CONTACT

The LPKF IR team from left to right: Ulrike Thoms-von Meding, Bettina Schäfer and Katja Fischer

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

www.lpkf.de/ investor-relations

LPKF Laser & Electronics AG
Bettina Schäfer
Investor Relations Manager
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investorrelations@lpkf.com

Corporate governance report

SUSTAINABLE VALUE CREATION AND EFFICIENT COLLABORATION

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 64 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 together closely and in an atmosphere of trust.

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 Management Board with regard to its management of the Company.

The Supervisory Board advises and monitors the 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. At the most recent Supervisory Board election during the Annual General Meeting on 5 June 2014, the Supervisory Board members were elected individually as recommended by the German Corporate Governance Code. All election proposals concerning potential Supervisory Board members shall consider the expertise, abilities and professional experience that are required for carrying out the respective tasks as well as issues of diversity.

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.

The Supervisory Board has defined goals regarding its composition.

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. 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.

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 2019.

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 2015 Declaration of Compliance on 23 March 2015 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 2015 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 declare that since the last time the declaration was modified during the year on 5 June 2014 the recommendations of the Government Commission on the German Corporate Governance Code (GCGC) as amended on 13 May 2013 and as amended on 24 June 2014, have been observed. LPKF will continue to comply with these recommendations. The following exceptions apply:

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.

3. SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of LPKF AG exercise their co-determination and control rights at the Annual General Meeting, which takes place at least once per year. 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 has the right to participate in the Annual General Meeting.

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

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

4. RISK MANAGEMENT

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

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 and annual financial statements were audited by PwC.

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 2014 Annual General Meeting. The audit reports were signed by German public auditors Helmuth Schäfer (since the 2009 annual financial statements) and Prof. Dr. Mathias Schellhorn (since the 2013 annual financial statements). 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 2014 financial year.

8. COMPLIANCE – PRINCIPLES GOVERNING CORPORATE ACTIONS AND BUSINESS ACTIVITIES

LPKF employees worldwide are bound by the compliance guidelines.

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.

A training plan for employees was developed in connection with the Group-wide compliance code to familiarize employees with the goal of this code of conduct and to guarantee uniform ethical and legal standards throughout the entire Group. Specific measures and rules are also part of the training.

A Compliance Manual for the entire Group was adopted.

Together with an auditing firm, a compliance risk assessment was conducted which analyzed and assessed the Group's risk areas and discussed key strategic aspects of compliance management. A Compliance Manual was adopted 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) as well as descriptions of the roles of all technical officers.

The Compliance Office holds regular meetings to discuss current topics, some times in the presence of the technical officers.

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.

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

LPKF as an employer

JOBS AT THE CUTTING EDGE – WORKING IN THE LASER INDUSTRY

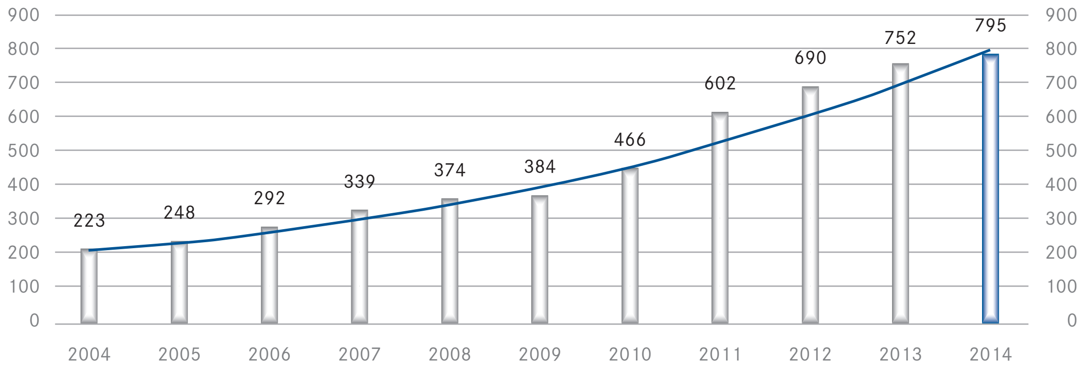
The laser industry is a magnet for many engineers and technical specialists.

The trend of previous years continues: following targeted expansions to our teams, our total workforce rose from 752 employees in 2013 to 795 in 2014. This ensures we are well-positioned for our long-term growth trajectory. As before, the pioneering power of laser technology is our major selling point, offering plenty of future potential while raising our profile with specialists and executives alike.

As employee numbers rise throughout the Group, so too do the demands placed on human resources management. Accordingly, we have made targeted improvements to our HR development work and implemented a range of programs for both training and CPD.

NUMBER OF EMPLOYEES IN THE LPKF GROUP BETWEEN 2004 AND 2014

Our staffing levels have risen continuously over the last ten years.



EMPLOYEES CAN DEVELOP TO THEIR FULL POTENTIAL

Continuing professional development is a key aspect of HR development in general. We have codified our CPD work in the form of a recently published Training Catalog. The Catalog provides details of standard training courses that employees can attend as required. These may include foreign language courses or training in compliance, for example. Other training courses are aimed at (prospective) management staff and are designed to offer them support for their leadership roles. This was also a priority for training in 2014.

LPKF employees in Japan attend an English language class.

For capable, dedicated and high-achieving staff, we offer a wide range of career prospects and options for professional development. In addition to our standard training programs, we offer especially dedicated and talented staff additional professional development options, which are discussed in regular appraisal meetings held between the employee and their supervisor. Goals agreed here may include project work, a personal training plan or career-integrated courses of study. In this way, all of our employees get the chance to fully develop their potential at LPKF.

The wealth of cultures, competencies and potential offered by our workforce is the origin of long-term global success at LPKF.

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. Our company has premises in six countries worldwide. This gives us a broad international base and a workforce operating from sites all over the world. Since members of staff often work with colleagues from different regions, they get the chance to experience life in other countries and gain intercultural skills. This often proves useful when liaising with foreign clients. The considerable breadth of LPKF's cultural base is matched by the diversity of our age structure: the sound experience contributed by our longtime employees is enhanced by the bold ideas of our junior high-flyers. This results in a healthy mix of younger and more senior employees, also showing that we offer attractive options for career development and are well prepared to meet the challenges of demographic change.

THE PROFESSIONAL MANAGEMENT OF SUCCESS

Employees need professional leadership. Accordingly, the constant development of leadership skills is a key requirement for our managers – and for LPKF's success. To give our management staff a frame of reference for their actions while supporting them in performing their duties, a number of management principles have been developed at LPKF and set down in ten principles. These points cover topics such as the professional handling of conflicts or staff motivation. Management training courses help to ensure compliance with the principles, with trainees learning how to find lasting solutions to various conflicts, for example.

Career starters and high potentials are given the very best preparation for later management duties. Our specially-designed junior management track trains selected members of staff to handle the challenges of the future. This enables us to offer talented employees a fast track to management responsibilities, supporting their development of leadership skills at an early stage.

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 and compensation models to this end.

LPKF staff from Suhl during the Thuringian Forest Corporate Challenge

A different way to meet the team – Fürth trainees on a group excursion.

ALWAYS ON THE LOOKOUT

For more information and details of our current vacancies, please visit: www.lpkf.com/lpkf-group/jobs-careers/

A successful company needs quality employees. We too have to face the challenge of finding suitably-qualified personnel, and we do so by employing a number of strategies. The high standards we set for our Company in the technological and financial realms also apply to selecting our employees. LPKF is a highly attractive employer – which is reflected in our applicant numbers. But for us, that's not nearly enough. In order to attract and retain good 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 – we train a constant stream of young people across a range of professions, including mechatronics, industrial management and applied IT systems. We are particularly interested in the level of commitment and motivation shown by our trainees. And trainees also have every chance of being hired full-time after completing their apprenticeship.

Our scholarship program helps college graduates with qualifications in both technical and commercial subjects complete their academic training. We also offer a wide range of internships designed to help young people gain some initial work experience.

THE FEEL-GOOD FACTOR COMPANY

We want our employees to feel well-cared for at LPKF. We therefore supplement our options for personal development by emphasizing a strong sense of community – even over regional boundaries. This is constantly renewed by our regular group activities – a motorcycle tour in Slovenia, a skiing event attended by colleagues from all over the world or a Christmas party to which all our German sites were invited. Time and again, there are chances to get to know one another and share experiences across national borders. For over ten years, LPKF has also had its very own dragon boat crew, whose enthusiasm and team spirit has brought it success in competitive racing. Activities such as these help develop a healthy corporate culture and make integration easier for new employees.

A strong team: The LPKF Laser Dragons.

The annual bike tour gives staff a chance to get to know their colleagues – including those from other sites and countries.

Employee health is another area to which we devote our attention at LPKF. We use various programs here to promote well-being, motivation and general health and fitness. In 2014, several events were held where management staff were able to attend speaking engagements and workshops. The primary focus here was stress prevention and a healthy lifestyle. Such events are supplemented by a range of medical check-ups that are offered free to each and every member of staff.

Sustainability report

A KEY PILLAR OF OUR CORPORATE STRATEGY

At LPKF Laser & Electronics AG, sustainability is more than just a buzzword. We take our duty of corporate responsibility seriously and supplement our commercial analysis of business by considering its environmental, ethical and social impact. In our 2014+ Strategy Paper, increasing the long-term value of our company has top priority as our overarching corporate goal. All other goals are subordinate to this goal – and thus to our focus on long-term planning. This is how LPKF lays the groundwork for sustainability as part of its corporate strategy.

LASER TECHNOLOGY – EFFICIENT AND RESOURCE-FRIENDLY

LPKF makes an active contribution to reducing the volume of scrap and waste.

As a technology leader and pioneering innovator, our work naturally prioritizes product development. Our laser-driven technology is displacing chemical processes in many industries and making an active contribution to reducing the volume of scrap and waste at our customers. One such area is PCB prototyping, which LPKF systems can now handle as a zero-chemical process. The copper swarf produced is removed with air extraction systems that incorporate filters to avoid polluting the environment.

In another process, PCB depaneling, LPKF technology is reducing the mechanical loads to which work parts are subjected. This substantially reduces the volume of scrap – especially for soft or flexible materials.

Our patented LDS (Laser Direct Structuring) method creates circuit traces on pre-existing plastic component parts. This makes additional interconnect parts unnecessary and means the components produced are 100 % recyclable.

Laser plastic welding is another technology that is enabling cost-effective, resource-friendly production. This is made possible by a process that avoids the use of adhesives or other additives, merely requiring a set of simple workpiece clamps.

LPKF is also active in the solar technology sector. Use of our laser scribers has made it possible to significantly increase the conversion efficiency of thin-film solar modules. At our Garbsen site, we constructed a parking garage for our employees back in 2012 whose exterior facade integrates a photovoltaic system using thin-film solar modules.

Laser technology generally involves lower tool costs and more energy-efficient operations. It enables flexible, resource-friendly production processes and the economical manufacturing of electronic components.

OCCUPATIONAL SAFETY AND QUALITY ASSURANCE IN THE SPOTLIGHT

Social engagement and worker safety are priority topics at LPKF.

Sustainability in product development is not the only major topic at LPKF: social engagement and worker safety are priority topics as well. In 2014, LPKF AG gained certification in the internationally recognized OHSAS 18001 standard for the management of occupational health and safety. Our priority is to ensure the health and safety of our employees as they carry out their work. Our social and occupational safety policies focus squarely on keeping our employees safe and sound at work, coupled with preventive healthcare. For these reasons, LPKF uses a program of preventive measures – including medical check-ups, flu injections, protective clothing and OHS training – to ensure that employees have access to all of the resources they need to stay accident-free and healthy.

The fact that we were recertified to ISO 9001 in 2014 also substantiates the importance assigned to in-house quality management at LPKF and confirms our implementation of a continuous improvement process within the company. This gives our business operations a strong foundation while creating an environment that fosters job security.

But we do not neglect our social responsibilities as a company, either: LPKF engages strongly with the community by means of charitable donations, scholarship programs and a wide range of leisure activities and employee events. We also take an active interest in our employees' social welfare. Examples include family days out, a broad program of sports activities – such as ski trips, dragon boat races or running events – and celebrating staff service anniversaries.

NURTURING OUR WORKFORCE: FROM STAFF TO MANAGEMENT

Even the best employees can only work successfully if they are shown professional leadership.

Staff training and continuing professional development also form part of our policy of sustainability. As a major innovator, LPKF devotes particular attention to the targeted development of its employees and management staff. Even the best employees can only work successfully if they are shown professional leadership. Accordingly, we have developed an executive code of conduct at LPKF that is designed to help our management staff steer a steady course. Apart from management per se, the code covers policies for information and communication, coping with conflict, motivation, responsibility and leading by example.

While LPKF has a relatively young workforce – the average age is just 36.8 – we are nonetheless proud to have offered many of our employees continuous job security for several decades or more. Our employee turnover is consistently low compared to the industry average. And we can also offer the vast majority of our trainees a permanent position at the end of their training period. Our overall goal is to employ our well-qualified staff and technicians at our company for as long as possible.

Teamwork is used to solve challenging tasks.

In-house classes for professional development.

LPKF Group and LPKF AG

COMBINED MANAGEMENT REPORT 2014

I. Fundamental information about the Group

1.1 GROUP STRUCTURE AND BUSINESS MODEL

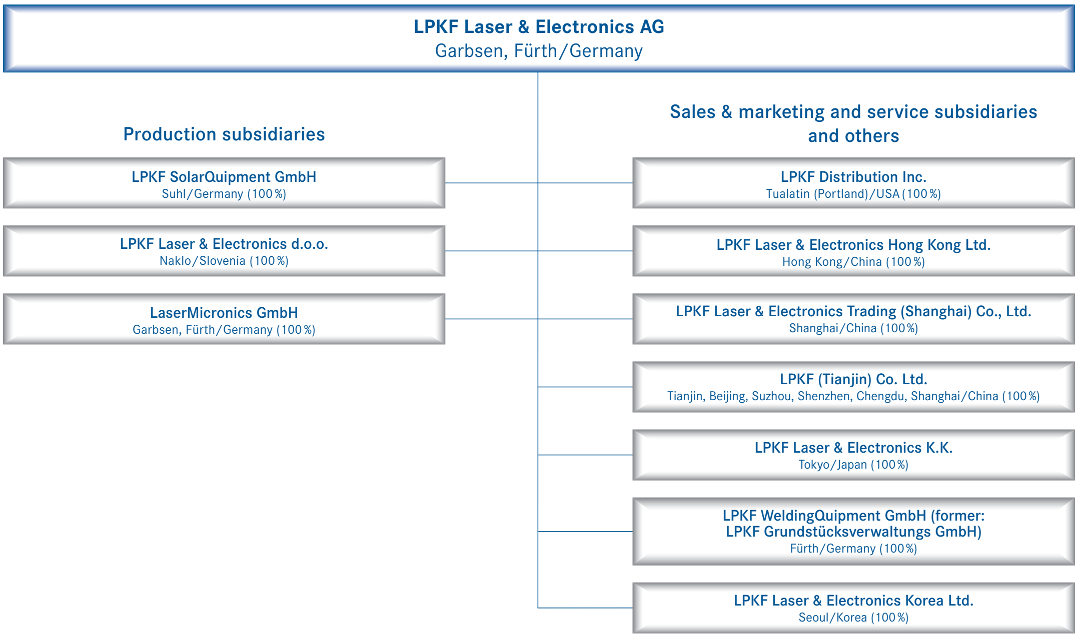
The Group generates 90 % of its revenue abroad.

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 90 % of its revenue abroad. LPKF Laser & Electronics AG (LPKF AG) is listed in the TecDax segment of the German Stock Exchange. The Group had 795 employees worldwide on the reporting date.

1.1.1 Legal structure of the Group

The legal structure of the LPKF Group did not change in the 2014 financial year. As of 31 December 2014, LPKF AG had ten subsidiaries, which together with the parent company continue to form the basis of consolidation.

GROUP STRUCTURE



1.1.2 Operating segments

Electronics Development Equipment

Rapid prototyping addresses electronics developers.

In the **Electronics Development Equipment** segment, LPKF supplies almost 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) applications, among others. 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.

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, medical technology and in the production of consumer electronics. 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.

1.1.3 Competitive position
In the segments in which it is active, the Group either is already market and technology leader or number two in the market. As a rule, LPKF strives to become at least the number two in new markets.

1.1.4 Sites
LPKF Laser & Electronics AG
Garbsen, Germany: Group headquarters, production, development, sales & marketing and services – The focus of activity in Garbsen is in the Electronics Production Equipment segment. In the financial year just ended, the site noticed a considerable weakening in the LDS Equipment and PCB Production Equipment product groups.

The relocation to the new property in Fürth was completed in 2014.

Fürth, Germany: Production, development, sales & marketing and services – The main focus of activity in Fürth is on the Welding Equipment product group, which is part of the Other Production Equipment segment. The business with laser systems for plastic welding in 2014 fell short of expectations with revenue below the previous year's level. The relocation to the new property in Fürth, which was completed in 2014, had a greater negative impact on ongoing operations than planned. A new executive management was appointed in the financial year just ended. Measures to improve earnings were implemented. Demand from the automotive, medical technology, engineering and consumer markets remains strong.

Sites of subsidiaries

Tualatin near Portland, Oregon (USA): Sales & marketing as well as services – The North American market developed very favorably for LPKF in the reporting year. The strong revenue of the previous year was exceeded by a considerable amount. Welding equipment again has seen increased demand throughout North America. 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.

The solar business saw surprisingly strong growth in 2014.

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. The laser systems business for scribing thin film solar panels generated surprisingly strong revenue growth and clearly positive earnings in the 2014 financial year, bucking the general market trend. In January 2014, Solar-Quipment GmbH won a major order with a total volume of about EUR 15 million regarding the delivery of laser systems for manufacturing solar cells. Additional smaller orders followed over the course of the year.

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. Overall, business performance at the Naklo site was worse than planned due to unexpectedly weak revenue in the PCB Production Equipment product group. Free capacities were utilized to support the Solar Module Equipment product group in Suhl.

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 continues to be a significant local service hub for the whole of Asia. This subsidiary again generated clearly positive earnings in the 2014 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. The company with offices in Tianjin, Beijing, Shenzhen, Suzhou, Chengdu and Shanghai recorded positive earnings clearly above plan.

Shanghai, China: Sales & marketing as well as services – This subsidiary supports sales, marketing and services in Shanghai, which has evolved into a regional center for electronics production.

The Japanese market possesses great significance for LPKF.

Tokyo, 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 position. In 2014, the Japanese subsidiary was able to further expand its sales and marketing activities.

Seoul, Korea: Sales & marketing as well as services – Besides China and Taiwan, South Korea is one of the most important markets with steadily growing demand for laser technology in recent years. In order to secure direct market access, LPKF established a subsidiary in Seoul in 2013, which began operating in April 2014. Due to the abrupt slump in the LDS business with customers from South Korea, the financial year 2014 was very disappointing. For 2015 and the following years, LPKF expects the business trend to improve in South Korea.

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. Solar Module Equipment is produced in Suhl.

LPKF generally acquires no 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 & marketing

Overall, the Group is represented by subsidiaries or distributors in 73 countries.

Global sales & marketing, especially in important regions such as China, Japan and North America are handled by LPKF subsidiaries. Overall, the Group is represented by subsidiaries or distributors in 73 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.

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 share 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 the financial year 2014:

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

In the 2014 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

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 wants to help its customers improve the efficiency of their development and production activities. 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.

Strengthening LPKF in the long term is in the interest of all customers, business partners, employees and shareholders. Management therefore emphasizes enhancing the Group's innovation resources and profitability.

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 market leader or at least number two in the market.

A sense of professional partnership characterizes relationships with customers, suppliers and representatives as well as the working relationships among employees within the LPKF Group. As an internationally active group, LPKF strives for understanding 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.

LPKF features eco-friendly product design and sustainable business practices.

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.

Health and well-being are the foundation for success. LPKF pays special attention to occupational safety and promoting the health of its employees.

As a technology leader, LPKF always strives to optimize its products and the processes necessary for their development. It goes without saying that this requires a corporate culture that is open and encourages learning and constructive criticism.

LPKF's responsibility extends to its customers, employees, business partners, shareholders and the public. Being a good corporate citizen includes requiring LPKF employees to obey applicable laws at all times and everywhere, respect ethical principles and pursue sustainability. The LPKF Compliance Code supports the Company's employees in this endeavor.

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

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

Core competencies
- Laser technology and optics
- Precision drive systems
- Control technology and 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.

The primary financial goal is profitable growth.

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 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 structure
Growth and the increasing complexity of products as well as cooperation across the Group place high demands on the product structure. Using economies of scale and Group-wide best practices is intended to further increase profitability. 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 avoid defects, detect them, rectify them and learn from them.

Driving innovation:
5. Attaining technological leadership
The Company's aim is to strengthen innovation management to systematically manage and coordinate the collective use of its resources. 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 to which the Company can transfer existing processes and products, e. g. through cross-selling activities within the Group.

7. Extending value creation to development and manufacturing processes
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 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 and establishing lean techniques
To avoid activities that do not create value, LPKF institutes a culture of continual improvement in accordance with lean principles throughout the Group.

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. Systematic personnel development
Personnel development is essential for the Company's success in the long term. Continued systematization of key HR processes is a priority within the LPKF Group.

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.

Another KPI added in the financial year is the error rate, which is calculated as the ratio of error costs to revenue. The aim is to lower the error rate in the Group calculated in the 2013 financial year by 50 % within three years. The error rate calculated in the 2013 financial year is indexed at 100 for this purpose. This figure improved to 71 in the 2014 financial year. Apart from this, there were no material changes to the Group's internal management system.

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

	Target 2014	2014	2013	2012	2011	2010
Revenue (EUR million)	132 – 140	119.7	129.7	115.1	91.1	81.2
EBIT (EUR million)	19 – 24	12.7	23.2	20.4	15.2	17.3
EBIT margin %	15.0 – 17.0	10.6	17.9	17.7	16.7	21.3
Net working capital EUR million	< 50	50.1	37.3	44.6	39.7	27.0
Net working capital ratio %	< 35	41.9	28.7	38.8	43.6	33.3

Target/actual comparison of planning and realization

At the time of planning for 2014 – in the fall of 2013 – the forecasts for the global economy and in particular for the sales markets relevant for LPKF were positive. The Management Board therefore initially expected further growth for the Group in the financial year 2014 despite a lackluster start in the new financial year. Growth was to be supported in particular by new areas of application for technologies previously introduced and also by new developments. Following very strong business in Korea in 2013, continued strong demand was expected from Korea. The Management Board forecast revenue of between EUR 132 and 140 million assuming stable performance of the global economy, which corresponded to a slight increase of around 2 % as against the previous year. The growth was expected in all segments, and the EBIT margin was anticipated to be between 15 % and 17 % for 2014.

At EUR 120 million, the overall revenue for 2014 was clearly below expectations.

At EUR 120 million, the overall revenue for the year just ended was clearly below expectations and remained 8 % below the previous year's level. Especially the Electronics Production Equipment segment was unable to sustain the growth of prior years and remained clearly below the forecast. The weak Korea business in particular and lower than expected sales of PCB Production Equipment are to be emphasized here. In contrast, the other segments recorded double digit growth rates but were unable to completely compensate the sharp decline in revenue of the largest segment in the LPKF Group.

At 31 %, the material cost ratio clearly exceeded the budgets due to the product mix. The cost of sales may have decreased, but higher personnel costs and steady depreciation and amortization charges had a negative impact on earnings.

As a result, the EBIT margin fell to 11 % and earnings before interest and taxes amounted to EUR 13 million.

Net working capital increased considerably, primarily due to higher revenue in the fourth quarter and the resulting higher level of receivables on the reporting date. The net working capital ratio rose considerably to 42 % in conjunction with the declining revenue. Therefore, the goal of a ratio < 35 % was not achieved.

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 area for many years now and holds a high market share of around 70 % in what is a mature market. 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. At first, it was limited to developing and manufacturing systems for the mechanical or laser-based production of printed circuit board prototypes. The portfolio also includes laser welding systems for development purposes and machinery for the manufacture of LDS prototypes. These additions enable LPKF to provide suitable development equipment for nearly all production machines. Additional laser-based systems for developers are to follow. This should accelerate the proliferation of LPKF technologies in additional areas of application. Despite a large market share of approximately 80 %, the Management Board sees further solid growth rates averaging 10 % in this segment as a result of new products and applications.

LPKF continues to work on steadily improving the LDS process.

The LDS business is the LPKF Group' 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. In the legal dispute concerning the LDS patent in China, the Supreme People's Court of China rejected the LPKF Group's petition to resume the patent proceedings. Thus, the LDS patent remains invalid in China, though outside of China it continues to be valid in all important markets. In Germany, LPKF gained a preliminary victory in the legal dispute with Motorola Germany and Motorola Mobility USA concerning the infringement of the patent. Motorola appealed the regional court's decision. A nullity action filed by

Motorola against the German patent has been brought before the Federal Patent Court in Munich on which a decision is still pending. For more details regarding the patent situation, see section V. Risk report 5.2.5.

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. One focus area in the further development of this business is in improving profitability with the goal of a double digit EBIT margin. In strategic terms, LPKF is mainly working on three key objectives: internationalization, improving cost-efficiency and expanding activities outside the automobile industry. After initial successes, the Group intends to further exploit opportunities to lower costs, e. g. through modularization.

The situation in the solar market has improved, but it still cannot be described as stable.

The situation in the solar market has improved, but it still cannot be described as stable. LPKF realized significant revenue growth in the financial year just ended in the Solar Module Equipment product group, clearly exceeding the expectations. The customer base was also expanded. However, the prospects for the coming years remain uncertain. Business performance depends heavily on individual projects. LPKF sees good opportunities for further growth in the medium to long term. 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. Details regarding the new technologies can also be found in section 1.3.

In addition to the systematic expansion of existing business segments, the LPKF growth strategy also involves the creation of new segments based on the Company's core expertise.

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 various credit lines, which have not yet been utilized. The opportunities for raising equity are also considered positive.

The Management Board believes that the Company 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

R&D activities in 2014 focused on the systematic expansion of the LPKF Group's product portfolio, which is geared toward new as well as existing markets. For this purpose, the development of technologies as the basis for innovation and further growth was structurally expanded. The cooperation with external technology providers was considerably intensified with a series of bilateral contracts.

The collaboration with universities and external partners was expanded in connection with government subsidized joint projects.

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.

Continuous investment in near-to-market developments are of crucial importance to a technology-oriented Group such as LPKF. Development expenses in 2014 amounted to EUR 11.1 million. This item benefitted from the EUR 1.1 million increase in capitalized development costs. Expenses calculated this way correspond to 9.3% of revenue. One area of focus in the financial year 2014 was on capital investments in technological equipment and measurement technology.

LPKF capitalized EUR 4.5 million (previous year: EUR 3.4 million) in development expenses as intangible assets in the reporting year. Amortization of capitalized development expenses in 2014 amounted to EUR 2.3 million (previous year: EUR 2.7 million).

1.3.3 R&D employees

The number of employees in the Group's R&D departments rose to 171 during the reporting period, up from 165 the previous year.

1.3.4 R&D results

In the area of laser cutting and structuring systems, the range of LDS machines and laser cutting equipment was supplemented with new products in the year just ended. The functional range of LDS technologies was expanded through the market launch of an LDS-capable powder coating on metallic and/or electrically conductive material.

In the area of rapid prototyping, a new product family was introduced with the ProtoLaser LDI. The system offers the first-ever low cost prototyping of structures in the single-digit micrometer range that are used, for example, for the production of microfluidics.

The technology of laser scribers for thin film solar panels was further developed in connection with a major order.

The technology of laser scribers for thin film solar panels was further developed in connection with a major order.

In 2014, LPKF became involved in the development of laser transfer printing and laser plasma coating technologies. Both technologies round off the portfolio with additive production techniques. In addition, a new technology for the laser-based production of holes in very thin glass substrates was developed for the semiconductor market.

The following multi-period overview of R&D shows the development of key figures:

	2014	2013	2012	2011	2010
R&D expenses in EUR million*	11.1	13.5	10.0	8.7	8.5
in % of revenue	9.3	10.4	8.7	9.6	10.4
R&D employees	171	165	144	114	96

* This figure shows the effect of R&D expenses on consolidated net profit.

II. Report on economic position

2.1 OVERVIEW OF THE COMPANY'S DEVELOPMENT

2.1.1 General economic environment

In the opinion of the World Bank, the global economy has not yet fully recovered from the consequences of the financial crisis. In their report on the state of the global economy, World Bank economists reported that the gross domestic product had increased by 2.6 % in 2014. The corresponding growth of developing countries amounted to 4.4 %.

In particular the euro zone noticed the risks of the slow global recovery; consequently, only faltering progress – as also in Japan – was made there.

The German economy held its ground in a difficult global economic environment in 2014 and benefited in particular from strong domestic demand. According to the Federal Statistical Office of Germany, gross domestic product grew by 1.6 %. Thus, growth even exceeded the average of the past ten years.

2.1.2 Sector-specific environment

For 2014, the VDMA expects total output to increase moderately by 1 %.

According to the German Engineering Federation (VDMA), 2014 was a comparatively good year for the machinery-producing industry, even if not all expectations held at the start of the year were ultimately fulfilled. For 2014, the VDMA expects a new record amount of EUR 199 billion for total output and consequently a moderate increase of 1 %. Revenue in the machinery-producing industry amounted to an anticipated EUR 212 billion in 2014 and therefore also reached a new record level. The moderate growth can be attributed to the weaker demand in the emerging markets and some neighboring EU countries. For example, as a result of the Ukraine conflict, deliveries to the Ukraine fell dramatically by one-third and to Russia by 16 %. Both the sanctions from the West as well as the sharp depreciation of the ruble and the lower price of oil have contributed significantly to this trend. Exports to the rest of Europe decreased by 11 %. Whereas deliveries to Latin America declined considerably (– 11 %), exports to China once again picked up (+ 2 %). The number of people employed also reached a new record level of just over one million individuals in October 2014. The key industries for which LPKF AG 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 estimates by the German Automotive Industry Association (VDA), the international automobile market grew by around 4 % to 75.9 million units sold in 2014. The engines of growth were once again the two largest markets of China (+ 15 %) and the U.S.A. (+ 4 %) with an impressive forecasted sales volume of 18.7 million and 16.1 million new automobiles respectively. For the first time after declining for four years in a row, the automotive industry also experienced a positive impetus from the Western European automobile market, which exceeded the 12 million level in 2014 and is expected to have grown at a rate of just under 5 %. Regions in which the sales volume of automobiles declined in 2014 included, among others, India (– 2 %), Turkey (– 19 %), and Russia (– 9 %). According to an estimate by VDA, around three million automobiles were newly registered in Germany in 2014, which is around 3 % more than in the previous year.

The reputable market research institute IHS estimates that photovoltaic systems with a capacity of around 45.4 GW were built worldwide in 2014, which is 1.5 GW less than previously expected, but nevertheless around 20% more than in the previous year. The drivers were China, the USA, and Japan, whereby China continued to dominate the global market with a share of 8.5 GW. The United Kingdom recorded the highest growth rates and consequently became the fourth largest photovoltaic market worldwide. The German Solar Industry Association (Bundesverband der Solarwirtschaft, or BSW) reports an increase in installed photovoltaic capacity in Germany in 2014. At 3.5 GW, around 12.9% more new photovoltaic capacity was installed in Germany in 2014 than in the previous year.

Smartphones were once again the most important sales product for the consumer electronics industry in 2014. Whereas sales of conventional PCs declined, the market for mobile devices continued to increase according to International Data Corporation (IDC), a US-based market research firm. An anticipated 1.3 billion smartphones were sold in 2014 and consequently around 26% more than in the previous year. According to BITKOM, the market for cell phones (including smartphones) in Germany grew by 3.7% in 2014 to more than 36 million devices sold; around 82% of the cell phones sold were smartphones, whose share has risen sharply since 2009 (17%). In the first three quarters of 2014, around 27% more smartphones were sold worldwide than in the first three quarters of the previous year.

According to information provided by the Federal Statistical Office of Germany, the plastics processing industry's revenue grew by 2.6% in 2014. The increase was primarily in sales abroad (+3.5%), whereas domestic sales rose only marginally (+2.1%).

2.1.3 Effects on the LPKF Group

The situation in the economy as a whole and some industries that are relevant for LPKF proved to be uncertain in 2014.

The situation in the economy as a whole and some industries that are relevant for LPKF proved to be uncertain in 2014. LPKF noticed this clearly in the financial year just ended. Many customers were apprehensive and postponed investment decisions or reduced volumes. Apprehension in the electronics market proved to be especially strong. Regionally, Korea in particular was affected. However, the Management Board is basing its planning on the assumption that the Group's significant growth drivers remain intact.

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 2014, the share capital of LPKF AG was EUR 22,269,588.00. 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 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.

With the resolution adopted by the Annual General Meeting on 5 June 2014, the Management Board is authorized to increase the share capital once or repeatedly until 4 June 2019 with the approval of the Supervisory Board by up to a total of EUR 11,134,794.00 by issuing up to 11,134,794 new no-par value bearer shares in return for contributions in cash or in kind (authorized capital). Please refer to the notes to the consolidated financial statements regarding the details of this resolution.

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.

2.3 REMUNERATION REPORT

Remuneration of the Management Board

Basic features of the remuneration system

The system of Management Board remuneration is set up to provide an incentive for successful and sustainable corporate management.

The system of Management Board remuneration at LPKF Laser & Electronics AG is set up to provide an incentive for successful and sustainable corporate management.

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. When determining the appropriate amount of remuneration for the members of the Management Board, the Supervisory Board focuses on the Company's size and activities, its economic and financial position as well as on the responsibilities and performance of the respective Management Board member, the success and future prospects of the Company, and the customary level the remuneration under consideration of the level of executive remuneration at peer companies and the remuneration structure in place in other parts of the Company. The relationship between the remuneration of the Management Board and that of senior management and the workforce overall is taken into account also in terms of its development over time, whereby the Supervisory Board determines how senior managers and the workforce are to be defined for the purposes of the comparison. 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 remuneration system was approved by the Annual General Meeting on 5 June 2014 with a majority of 92.53 %.

The overall remuneration of the members of the Management Board comprises a non-performance-based fixed component and variable performance-based components.

Non-performance-based components
The non-performance-based fixed remuneration comprises both the base salary, which is paid in equal monthly installments, and incidental benefits. The incidental 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.

Performance-based components
For the 2014 financial year, the Chief Executive Officer, Dr. Ingo Bretthauer, is paid variable performance-based remuneration that gives him 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. With effect from 1 January 2015, the details of the performance-based remuneration component described below have also been agreed with the Chief Executive Officer.

Since 1 January 2014, Management Board members Kai Bentz, Dr. Christian Bieniek, and Bernd Lange have received variable remuneration components in accordance with the new remuneration system developed by the Supervisory Board and approved by the Annual General Meeting on 5 June 2014. This system comprises both long-term incentives (LTI) and short-term incentives (STI).

The remuneration components Quality (LTI 1) and Options (LTI 2) are designed as long-term incentives while EBIT (STI 1) and EBIT per employee (STI 2) are designed as short-term incentives. 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.

Short Term Incentives (STI)
STI 1 and STI 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 target value shown in the benefits table and, under the defensive scenario, a target achievement of 0 % (minimum). 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 AG.

Long Term Incentives (LTI)

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. Target achievement is calculated based on three-year averages. 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.

In detail, LTI 2 is designed as follows: Fictitious shares, known as phantom stocks, will be granted to the Management Board members Kai Bentz, Dr. Christian Bieniek and Bernd Lange 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 determined by 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. This is capped at three times the amount to be granted, the maximum shown in the benefits table. 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. 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.

For the variable multi-year remuneration components LTI 1 (Quality), the Company will make advance payments at the end of a given financial year based on the level of target achievement of the error rate at the end of the financial year. If the advance payments shown under allocations exceed the entitlement to variable remuneration under LTI 1, the Management Board members will be required to pay the excess. No advance payments are made under LTI 2 (Options).

Cap

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

Value of the benefits in the reporting period

The benefits for the 2014 reporting period are presented in the table below, supplemented by the minimum and maximum amounts that can be reached. In contrast to consideration of the amount paid out, the target value that would apply if the planned normal scenario is accomplished is stated for the one-year variable remuneration. In addition, the multi-year variable remuneration granted in the reporting period is broken down according to various plans and the length of the respective periods is indicated. The target value of a moderately probable scenario is stated for LTI 1 and the fair value at the grant date is stated for LTI 2. This was determined with the help of an option price model based on Black/Scholes.

Benefits granted (PLAN)	Dr. Ingo Bretthauer Chief Executive Officer (CEO)				Bernd Lange Chief Technology Officer (CTO)				Kai Bentz Chief Financial Officer (CFO)				Dr.-Ing. Christian Bieniek Chief Operating Officer (COO)				Total
EUR thsd.	**2013**	**2014**	**(Min)**	**(Max)**	**2013**	**2014**	**(Min)**	**(Max)**	**2013**	**2014**	**(Min)**	**(Max)**	**2013**	**2014**	**(Min)**	**(Max)**	**2014**
Fixed remuneration*	250	250	250	250	215	243	243	243	165	193	193	193	200	205	205	205	891
Incidental benefits	32	32	32	32	23	22	22	22	18	16	16	16	16	18	18	18	88
Total	**282**	**282**	**282**	**282**	**238**	**265**	**265**	**265**	**183**	**209**	**209**	**209**	**216**	**223**	**223**	**223**	**979**
One-year variable remuneration																	
Bonus	375	375	0	375	322	n/a	n/a	n/a	248	n/a	n/a	n/a	220	n/a	n/a	n/a	375
STI 1 (EBIT)	n/a	n/a	n/a	n/a	n/a	94	0	156	n/a	75	0	125	n/a	77	0	128	246
STI 2 (EBIT per employee)	n/a	n/a	n/a	n/a	n/a	38	0	63	n/a	30	0	50	n/a	31	0	51	99
Multi-year variable remuneration																	
LTI 1 Quality (3 years)	n/a	n/a	n/a	n/a	n/a	56	0	94	n/a	45	0	75	n/a	46	0	77	147
LTI 2 Options (4 years)	n/a	n/a	n/a	n/a	n/a	30	0	75	n/a	30	0	75	n/a	30	0	75	90
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**375**	**375**	**0**	**375**	**322**	**218**	**0**	**388**	**248**	**180**	**0**	**325**	**220**	**184**	**0**	**331**	**957**
Cost of benefits*	0	0	0	0	7	7	7	7	7	7	7	7	0	0	0	0	14
Total	**657**	**657**	**282**	**657**	**567**	**490**	**272**	**660**	**438**	**396**	**216**	**541**	**436**	**407**	**223**	**554**	**1,950**

* According to the contracts, the benefit costs are part of fixed remuneration.

Allocations for the reporting period

In compliance with the recommendations of the German Corporate Governance Code (GCGC), the fixed remuneration and incidental (fringe) benefits as well as the one-year variable remuneration components are stated as allocations for financial year 2014 in the table below. Allocations from multi-year variable remuneration components arise only from advance payments for LTI 1 (Quality) that are measured based on the degree to which the targeted error rate is achieved at the end of the financial year. There were no other allocations from multi-year variable remuneration components, since none of the plan terms ended in the reporting period and the members of the Management Board have opted to forgo the advance payment of LTI 2 (Options) in 2014. Following the recommendations of the GCGC, the benefit costs correspond to the committed contributions to old-age pensions, although they do not represent an allocation in the narrow sense.

The current members of the Management Board received a total remuneration of EUR 1,565 thousand (2013: EUR 2,098 thousand) for their activities in the 2014 financial year, EUR 979 thousand of which can be attributed to fixed remuneration components, including incidental benefits, that were fully paid out in the 2014 reporting period.

A total of EUR 572 thousand can be attributed to variable remuneration components. The one-year variable remuneration components agreed for financial year 2014 as well as the advance payments for multi-year variable remuneration components are not due until after the consolidated financial statements are adopted by the Supervisory Board and will be paid in March 2015.

Allocations (ACTUAL)	Dr. Ingo Bretthauer Chief Executive Officer (CEO)		Bernd Lange Chief Technology Officer (CTO)		Kai Bentz Chief Financial Officer (CFO)		Dr.-Ing. Christian Bieniek Chief Operating Officer (COO)		Total
EUR thsd.	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2014**
Fixed remuneration	250	250	215	243	165	193	200	205	891
Incidental benefits	32	32	23	22	18	16	16	18	88
Total	**282**	**282**	**238**	**265**	**183**	**209**	**216**	**223**	**979**
One-year variable remuneration									
Bonus	375	326	322	n/a	248	n/a	220	n/a	326
STI 1 (EBIT)	n/a	n/a	n/a	0	n/a	0	n/a	0	0
STI 2 (EBIT per employee)	n/a	n/a	n/a	0	n/a	0	n/a	0	0
Multi-year variable remuneration									
LTI 1 Quality (3 years)	n/a	n/a	n/a	94	n/a	75	n/a	77	246
LTI 2 Options (4 years)	n/a	n/a	n/a	0	n/a	0	n/a	0	0
Other	0	0	0	0	0	0	0	0	0
Total	**375**	**326**	**322**	**94**	**248**	**75**	**220**	**77**	**572**
Cost of benefits	0	0	7	7	7	7	0	0	14
Total remuneration acc. to GCGC (allocation)	**657**	**608**	**567**	**366**	**438**	**291**	**436**	**300**	**1,565**
Share-based remuneration acc. to GCC/GAS 17 (for LTI 2 Options)	0	0	0	30	0	30	0	30	90
Total remuneration acc. to GCC/GAS 17 (allocation)	**657**	**608**	**567**	**396**	**438**	**321**	**436**	**330**	**1,655**

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 defined-benefit commitments to the current members of its Management Board. Contracts regarding a company pension were closed with the members of the Management Board, Kai Bentz and Bernd Lange. These are defined-contribution commitments. 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 474 thousand (previous year: EUR 449 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 17 thousand) in pensions was paid to a former member of the Management Board in 2014.

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. 2014	30 Sep. 2014	30 June 2014	31 March 2014
Management Board				
Dr. Ingo Bretthauer	56,000	56,000	56,000	52,000
Bernd Lange	75,000	75,000	75,000	75,000
Kai Bentz	15,200	15,200	15,200	14,600
Dr.-Ing. Christian Bieniek	0	0	0	0
Supervisory Board				
Dr. Heino Büsching	10,000	10,000	10,000	10,000
Bernd Hackmann	125,600	125,600	125,600	125,600
Prof. Dr.-Ing. Erich Barke	2,000	2,000	2,000	2,000

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.

In addition, for every full financial year, each member of the Supervisory Board receives performance-based remuneration equal to EUR 1,000.00 for every EUR 0.01 by which the average of the (basic) earnings per share (EPS) for the financial year for which the remuneration is granted and the two preceding financial years exceeds a minimum amount of EUR 0.25, whereby the minimum amount increases annually by 10% p. a. for the first time on the financial year beginning on 1 January 2015. Since financial year 2013, the determination of earnings per share has been based on the (basic) earnings per share (EPS) calculated in accordance with International Financial Reporting Standards and reported in the adopted consolidated financial statements. This variable remuneration is limited to the amount of the basic remuneration.

According to the consolidated financial statements certified on 23 March 2015 by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, the (basic) consolidated earnings per share amount to EUR 0.38 per share. This results in the variable remuneration payable as shown in the following table: A dividend of EUR 0.25 per share was paid in 2014 for the 2013 financial year based on the regulation above, resulting in variable remuneration of EUR 63 thousand for the Supervisory Board.

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

EUR thsd.		Dr. Heino Büsching (Chairman)	Bernd Hackmann	Prof. Dr.-Ing. Erich Barke	Total
Fixed remuneration	2014	80	60	40	180
	2013	80	60	40	180
Variable remuneration	2014	31	31	31	93
	2013	21	21	21	63
Total remuneration	2014	111	91	71	273
	2013	101	81	61	243

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 Member of the Supervisory Board of SLM Solutions Group AG, Lübeck, Germany previously: 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 (until December 2014) Chairman of the Supervisory Board of TEWISS – Technik und Wissen GmbH, Garbsen, Germany (until December 2014) 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 (until December 2014) 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

At EUR 119.7 million, the LPKF Group's revenue in the financial year 2014 was 8 % lower than in the previous year in which a record level of EUR 129.7 million was recorded. Here in particular the business with LDS systems in the Electronics Production Equipment segment was unable to sustain the previous years' successes and remained 32 % below the previous year's level. The Other Production Equipment segment closed the financial year stronger than expected: As a result of a major order for solar scribers, revenue increased by 31 % year-on-year. The Electronics Development Equipment segment also increased its revenue by 20 % year-on-year. Laser systems for the development of circuit board designs were increasingly the focus of demand in this segment.

Revenue by operating segment was as follows:

EUR million	2014	2013
Electronics Production Equipment	51.2	75.7
Electronics Development Equipment	25.1	20.9
Other Production Equipment	42.8	32.6
All other segments	0.6	0.5
	119.7	129.7

The following table shows the revenue by region:

%	2014	2013
Asia	53.0	59.6
Germany	10.2	9.0
Europe excluding Germany	12.5	13.7
North America	21.3	16.4
Other	3.0	1.3
	100.0	**100.0**

China continues to represent LPKF's most important market.

China continues to represent LPKF's most important market. However, the US market also gained in strength in the financial year just ended. The revenue for Korea, where LPKF established its own sales subsidiary in 2014, remained considerably below expectations due to the weakness of the Korean smartphone manufacturers. The Group was also unable to reach its revenue target in Japan. However, both markets retain their strategic significance for the Group.

The European market suffered under the general economic weakness. The German market, in which revenue increased slightly, represents an exception here.

Development of orders

At EUR 119.7 million, incoming orders during the reporting period were up 6 % over the previous year's level of EUR 113.1 million. At EUR 17.7 million, the orders on hand at the end of the year was exactly the same as in the previous year.

Development of main income statement items

Manufacturing costs for prototypes and application systems in the amount of EUR 0.8 million as well as capitalized development costs comprising roughly equal amounts of software and machine development in the total amount of EUR 4.5 million are reported under own work capitalized. Other operating income increased slightly year-on-year (EUR +0.2 million), which can be attributed in particular to gains on exchange. The utilization of provisions for warranties in the amount of EUR 1.2 million is also shown in this item.

The material cost ratio with respect to revenue and changes in inventory increased to 31.4 % in particular as a result of the decrease in sales of LDS systems after 26.7 % in the previous year. Only minor write-downs of inventories were necessary in the financial year (EUR 0.3 million after EUR 1.7 million in the previous year).

The staff cost ratio increased in the year just ended.

The staff cost ratio to revenue increased from 31.2 % in the previous year to 36.3 % in the year just ended in particular due to the decrease in revenue as well as the increase in the size of the workforce.

At EUR 7.9 million, depreciation charges and impairment losses remained at the previous year's level, because the construction work begun in prior years was completed in the financial year just ended and there were no other major projects. Within depreciation, amortization and impairment losses, impairment losses on capitalized development costs amounted to EUR 0.3 million (previous year: EUR 0.2 million).

Other operating expenses decreased by EUR 3.3 million to EUR 28.7 million. The lower revenue led to lower licensing costs (EUR –1.9 million) and sales commissions (EUR –1.9 million). In addition, expenses for purchased development services were down EUR 0.9 million. In contrast, line items such as travel and entertainment expenses (EUR 0.7 million) and third-party work (EUR 0.9 million) increased.

The Group generated EBIT of EUR 12.7 million (previous year: EUR 23.2 million) in particular as a result of the decrease in revenue. The EBIT margin fell to 10.6 % after a margin of 17.9 % was recorded in the previous year.

The decrease in the financial result was only minor, despite the increased raising of short-term funds due to the lower interest rate level. R&D expenses in the reporting period amounted to EUR – 0.8 million (previous year: EUR – 0.7 million).

The tax ratio is 28.6 % (previous year: 30.1 %).

The decrease in tax expense stems mainly from earnings; current taxes account for EUR 3.1 million and deferred taxes for EUR 0.3 million. The tax ratio is 28.6 % (previous year: 30.1 %). Consolidated net profit for the year after taxes is EUR 8.5 million, compared to EUR 15.1 million the previous year.

Multi-period overview of results of operations

	2014	2013	2012	2011	2010
Revenue (EUR million)	119.7	129.7	115.1	91.1	81.2
EBIT (EUR million)	12.7	23.2	20.4	15.2	17.3
Material cost ratio (%)	31.4	26.7	30.6	28.8	28.1
Staff cost ratio (%)	36.3	31.2	30.5	32.3	28.9
Tax rate (%)	28.6	30.1	26.8	29.6	28.2
EBIT/employee (EUR thsd.)	16.1	32.0	31.2	27.5	39.6

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

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.

The German companies optimized their liquidity peaks by way of cash pooling.

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. The German companies optimized their liquidity peaks by way of cash pooling, which is to be expanded to the European sites in the first quarter of 2015. All other companies carry out their ongoing cash management locally. 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 2015 financial year.

Statement of cash flows

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

EUR million	2014	2013
Cash flows from operating activities	1.8	34.2
Cash flows from investing activities	–14.7	–21.3
Cash flows from financing activities	6.1	–2.9
Change in cash and cash equivalents due to changes in foreign exchange rates	0.3	0.0
Change in cash and cash equivalents	–6.8	10.0
Cash and cash equivalents on 1 Jan.	12.5	2.5
Cash and cash equivalents on 31 Dec.	6.0	12.5
Composition of cash and cash equivalents:		
Cash-in-hand, bank balances	6.0	12.6
Overdrafts	0.0	–0.1
Cash and cash equivalents on 31 Dec.	6.0	12.5

The Group's cash and cash equivalents decreased from EUR 12.5 million to EUR 6.0 million. The lower net profit for the period coupled with an increase in working capital led to considerably lower cash inflows from operating activities. This was lower than the cash outflows for investing activities and consequently a negative free cash flow of EUR –12.9 million was generated.

Within the cash flow from financing activities, in particular the raising of short-term funds for operational financing was important in the financial year, whereby the Group used funds with maturities of up to two months with interest rates of around 1.0 %. In total, the cash inflows exceeded the outflows by EUR 6.1 million.

Long-term financing is used for non-current assets.

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	2014	2013	2012	2011	2010
Cash flows from operating activities	1.8	34.2	17.1	3.2	13.5
Net liabilities to banks	30.2	11.2	13.1	8.3	–10.5

(–) Balance (+) Debt

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. 2014		31 Dec. 2013	
	EUR million	%	EUR million	%
Non-current assets	60.3	47.0	53.2	47.0
Current assets	67.9	53.0	60.0	53.0
Assets	**128.2**	**100.0**	**113.2**	**100.0**
Equity	68.6	53.5	64.1	56.6
Non-current liabilities	19.2	15.0	20.1	17.8
Current liabilities	40.4	31.5	29.0	25.6
Equity and liabilities	**128.2**	**100.0**	**113.2**	**100.0**

LPKF's net assets remain very robust.

LPKF's net assets remain very robust, as indicated, among other things, by the high equity ratio of 53.5% (previous year: 56.6%). The increase in non-current assets during the reporting year stems particularly from investments at the Fürth and Garbsen sites.

The strong business in the fourth quarter led to high levels of trade receivables under current assets. Inventories of finished goods were also higher at the reporting date than in the previous year. With respect to current assets, the Company expects a considerable decrease as of the beginning of the year. As of 31 December 2014, cash and cash equivalents were EUR 6.5 million lower than the high level reported in the previous year.

119% of the non-current assets are covered by equity (previous year: 127%).

Working capital increased to EUR 50.1 million as of the reporting date. The reason was primarily the higher trade receivables as well as slightly higher inventory levels at the reporting date. As a result of the year-on-year decrease in revenue, net working capital as a percentage of total assets increased from 28.7% in the previous year to 41.9% in the reporting period. The targets for this management parameter were therefore not met.

Equity increased as a result of the net profit for the financial year. Liabilities to banks increased by EUR 12.4 million, primarily due to the utilization of short-term borrowings. Under current liabilities, provisions for taxes decreased as a result of the lower net profit for the period. Lower bonus obligations in particular provided for a decrease in other provisions. Deferred tax liabilities increased by EUR 0.7 million compared to the previous year due to the capitalization of development costs.

With these exceptions, there has been no substantial change in the structure of the statement of financial position.

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

	2014	2013	2012	2011	2010
Fixed assets ratio (%)	44.9	44.5	36.5	35.8	30.8
Inventories ratio (%)	25.1	27.6	32.4	29.4	25.7
ROCE (%)	12.1	26.4	26.5	23.4	31.6
Net working capital (EUR million)	50.1	37.3	44.6	39.7	27.0
Net working capital ratio (%)	41.9	28.7	38.8	43.6	33.3
Days sales outstanding (days)	54	53	57	63	52

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

Capital expenditures

In the 2014 financial year, EUR 15.0 million was invested in intangible assets and property, plant and equipment and thus EUR 6.8 million less than in the previous year. These capital expenditures included the construction of a building and its furnishing at the Garbsen site as well as the planned further expansion of the property in Fürth, where a building with offices and presentation facilities will be put into operation in 2015. As a result of these extensive capital expenditures in prior years that will be completed in 2015, the Group sees itself well-prepared for further growth. The expansion in Fürth will be finished in 2015. Afterwards, capital expenditures should decrease overall.

As a result of extensive capital expenditures in prior years, the Group sees itself well-prepared for further growth.

Employees

LPKF's basic philosophy is to secure motivated and well-trained employees and tie them to the Company on a long-term basis. After an expansion of personnel capacities in 2014, first and foremost staff replacements and, in principle, no new hires are planned for 2015, depending on the business situation. 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 prepared 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 43 trainees at the reporting date (2013: 40); the number of trainees is expected to remain stable for the next years.

In principle, no new hires are planned for 2015.

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	2014	51.2	25.1	42.8	0.6	119.7
	2013	75.7	20.9	32.6	0.5	129.7
Operating result (EBIT)	2014	9.4	2.7	1.8	–1.2	12.7
	2013	21.3	1.9	1.2	–1.2	23.2
Assets	2014	40.8	19.9	34.6	32.9	128.2
	2013	36.6	14.8	28.9	32.8	113.1
Liabilities	2014	4.9	3.5	18.5	32.8	59.7
	2013	6.6	2.6	17.0	22.9	49.1
Capital expenditures	2014	6.1	1.7	4.6	2.6	15.0
	2013	4.5	2.0	12.3	3.0	21.8
Depreciation, amortization and impairment losses	2014	4.1	2.5	1.1	0.2	7.9
	2013	4.1	2.6	0.9	0.2	7.8

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

LPKF AG's revenue amounted to EUR 86.7 million in the financial year.

LPKF AG's revenue amounted to EUR 86.7 million in the financial year and thus remained 18.0 % below the previous year's level. This can be mainly attributed to weaker development in the Electronics Production Equipment segment. The percentage of revenue generated internationally was 92.7 % (previous year: 90.7 %).

Other operating income increased by EUR 1.1 million in particular as a result of the utilization of warranty provisions.

Both high-margin systems produced at the Garbsen site as well as purchased systems were impacted by the decrease in sales; consequently, the material cost ratio rose slightly to 31.8 % (previous year: 31.2 %).

As a result of new hires in particular in the areas of development and administration as well as salary increases, staff costs increased by a total of EUR 1.3 million, or 5.2 %. Clearly decreasing variable remuneration payments based on earnings had a positive impact on costs. The cost increase in conjunction with the decrease in revenue led to a sharp rise in staff cost ratio to 31.2 % (previous year: 24.4 %).

Depreciation and amortization increased by EUR 0.3 million and the depreciation and amortization rate rose to 4.5 % as a result of the capital expenditures at both of LPKF AG's sites. With respect to other operating expenses, sales-related expenses decreased, but increases in expenses for repairs, rent, lease payments, and outside services moderated this effect.

Thus, the decrease in revenue had an overall negative impact on the EBIT margin, which slipped to 4.3 % in the financial year after 12.3 % in the previous year.

In the financial year, LPKF Inc. distributed EUR 0.6 million in dividends, which is reported in the financial result. Income from equity investments in the previous year included distributions of LPKF Distribution Inc. in the amount of EUR 1,229 thousand and LPKF d.o.o. in the amount of EUR 3,100 thousand.

Earnings before taxes were EUR 13.1 million lower than in the previous year, while the net profit for the financial year 2014, net of tax, amounted to EUR 2.7 million (previous year: EUR 12.6 million).

Income statement of LPKF AG

EUR million	2014	2013
Revenue	86.7	105.7
Change in inventories	– 0.2	0.1
Other own work capitalized	0.1	0.1
Other operating income	4.1	3.0
Cost of materials	27.5	33.1
Staff costs	27.1	25.8
Depreciation/amortization/impairment losses on fixed assets	3.9	3.6
Other operating expenses	28.4	33.4
Financial result	**0.0**	**3.9**
Profit from ordinary operations	**3.8**	**16.9**
Income taxes	1.1	4.3
Net profit for the year	**2.7**	**12.6**
Retained earnings brought forward from the previous year	11.5	4.5
Net retained profits	**14.2**	**17.1**

Regarding the performance indicators, the expectation is that LPKF AG will essentially develop in line with Group's forecast described in section 6.1.3.

2.5.2 Net assets and financial position

Non-current assets exceeded the previous year's level by 6.0 %.

Total assets stood at EUR 94.2 million on 31 December 2014, up EUR 7.2 million on the prior-year reporting date. Capital expenditure for fixed assets (including intangible assets) amounted to EUR 6.6 million in 2014, up EUR 0.7 million year-on-year. This can be mainly attributed to the completion of construction work on a new building in Garbsen as well as its furnishing and on capital expenditures at the Fürth site. Non-current assets therefore exceeded the previous year's level by 6.0 %.

As a result of very strong revenue in the month of December, trade receivables as well as receivables from associates increased sharply. Current assets grew as a result, despite the decrease of EUR 4.7 million in cash and cash equivalents, to EUR 49.2 million.

With an equity ratio in excess of 50 %, LPKF AG is solidly financed from own funds.

Taking into account the dividend payment in 2014, the decrease in equity of EUR 2.9 million to EUR 49.9 million is primarily attributable to the lower net profit for the year. With an equity ratio in excess of 50 %, LPKF AG is solidly financed from own funds. Provisions decreased by a total of EUR 4.5 million compared to the previous year as a result of the utilization of provisions for warranties and taxes.

Liabilities to banks at the reporting date included in particular short-term loans that serve to finance current assets. Amounts due within one year total EUR 18.7 million compared to EUR 4.6 million in the previous year. Miscellaneous liabilities include in particular liabilities to associates resulting from trade payables. At EUR 38.2 million, total liabilities exceeded the previous year's level (EUR 23.6 million) by EUR 14.6 million.

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

	31 Dec. 2014		31 Dec. 2013	
	EUR million	%	EUR million	%
Non-current assets	44.3	47.0	41.9	48.2
Current assets	49.9	53.0	45.1	51.8
Assets	**94.2**	**100.0**	**87.0**	**100.0**
Equity	49.9	52.9	52.8	60.7
Non-current liabilities	5.9	6.3	8.6	9.9
Current liabilities	38.4	40.8	25.6	29.4
Equity and liabilities	**94.2**	**100.0**	**87.0**	**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 4.2 million, capital expenditures were focused on the construction of a new building at the Company's headquarters, which was inaugurated in the financial year. Further capital expenditures concerned technical equipment for process developments, measurement technology and furnishing the buildings.

Employees

LPKF AG had 455 employees at the reporting date.

LPKF AG had 455 employees at the reporting date, 27 more than in the previous year.

Dividend

The sustained ability to pay a dividend is key goal of the LPKF Group. In general, the Company proposes 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. LPKF may deviate from this aim, especially if 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.

In view of the development in 2014 and the prospects for the new financial year, the Management Board and the Supervisory Board intend to propose to the Annual General Meeting on 28 May 2015 that a dividend of EUR 0.12 per share be paid (previous year: 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 that identifies with LPKF is the key to success – especially for a growing technology company like LPKF. Low levels of sick leave and employee turnover are important indicators of LPKF's success in achieving this goal. At 3.2 %, the sick leave percentage in the LPKF Group was below the average for the metal working and electronics industry (2013: 4.6 %). The employee turnover rate in the Group was 7.1 %.

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 is 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. Then there is also the shift in the retirement age.

The average age of the workforce was 38.8 years.

The average age of the workforce was 38.8 for the LPKF Group in Germany (previous year: 36.5 at the Garbsen site). According to information provided by the VDMA, the average age of all employees in the German engineering industry rose slowly but steadily and was 42.6 in 2014.

AVERAGE AGE OF THE WORKFORCE

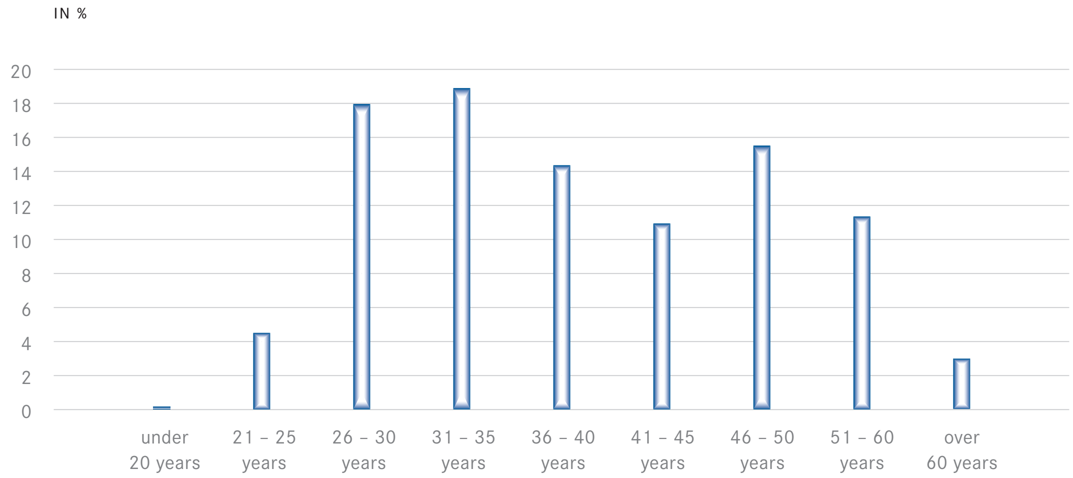


Fig. Age structure analysis in years, LPKF in Germany (excluding trainees)

An analysis of the length of service of LPKF Group employees at the German sites shows that with an average of 5.5 years (previous year: 5.9 at the Garbsen site) LPKF as a relatively young enterprise can point to a healthy mix of experienced and new employees. The average length of service of employees in the German engineering industry according to the VDMA decreased slightly from 13.9 to 13.5 years in 2014.

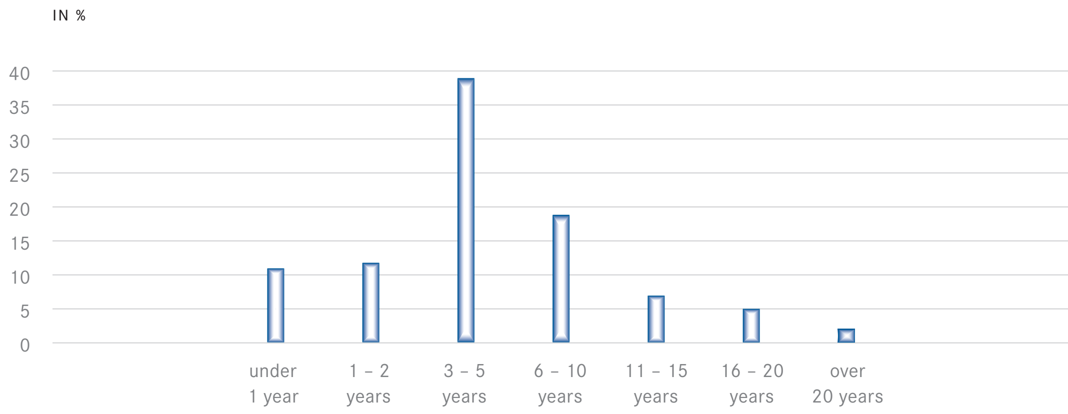


Fig. Distribution of length of service in years, LPKF in Germany (excluding trainees)

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.

The high number of approximately 2,500 applications for vacant positions alone in Germany in 2014 proves that LPKF is perceived as an attractive company on the labor market.

2.7 OVERALL APPRAISAL OF THE GROUP'S ECONOMIC SITUATION

Beginning with 2016, the Management Board intends to return to a growth trajectory with an average of 10 % p. a.

The Company's economic situation can be considered robust in the 2014 financial year yet again. With respect to revenue and earnings, 2014 was weaker than the previous year. The EBIT margin of 11 %, which was high compared to the industry as a whole, is a sign of the Company's strength even in times of declining revenue. The management expects moderate growth for the "transitional year" 2015, but it assumes that the goals set for 2015 are ambitious. Beginning with 2016, the Management Board intends to return to a growth trajectory with an average of 10 % p. a., thereby achieving excellent earnings and a high rate of return on capital employed.

III. Report on post-balance sheet date events

DISCLOSURES ON PARTICULARLY SIGNIFICANT EVENTS

On 14 January 2015, there was a fire in the development department at the Garbsen site (for more details see section 5.2.10).

In March 2015, LPKF SolarQuipment GmbH took over all of the assets from a company operating in the laser transfer printing (LTP) business.

There were no other reportable events after the reporting date.

IV. Report on opportunities

4.1 OPPORTUNITY MANAGEMENT

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.

Innovation managers specialize in systematically seeking out new technologies.

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 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

LPKF is one of the market leaders 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 also pursues opportunities for external growth.

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 acquiring patents or 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

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. 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 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 dual control principle was implemented in all significant areas.

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

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 be worked through in a timely manner. Follow-up audits ensure that the agreed implementation of the findings is regularly monitored 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 serves to safeguard the foundation of business.

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 2014 financial year, the risk management system was dovetailed further with compliance management through creation of a shared position.

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 the financial year 2014, audits were conducted at LPKF AG and one subsidiary. After the unified ERP system for managing processes and workflows has been implemented at the German sites of LPKF AG and in certain departments of its Chinese subsidiary, the system is currently being rolled out at the Slovenian subsidiary. 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.

Suitable measures can limit but never completely exclude risks.

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. Aspects of risk and opportunity management are also a fixture on the agenda of the weekly meetings of the full 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. Starting in 2014, internal auditing reviews the risk management system as part of a multi-year auditing plan.

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 2014 financial year.
A database-supported reporting system has been installed at Group companies. The quality management system pursuant to DIN EN ISO 9001:2008 and the occupational safety management system pursuant to OHSAS 18001 are also important elements 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 to 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.

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 compliance manager is responsible for stipulating and complying with guidelines applicable throughout the Group.

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. Some of the risks changed compared to the previous year.

The following risks in particular are given high priority:

Specific risk	Qualitative probability of occurrence*	Possible financial effects**
Dependence on suppliers	Unlikely	Moderate
Dependence on customers	Unlikely	Moderate
Technological developments	Possible	Material
Patent risks	Possible	Material
Personnel risks	Unlikely	Moderate
General business 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 General business risks

I. Cause

LPKF is operating in an ever faster changing environment.

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.

Whereas the automotive industry continued to grow in 2014, some uncertainty was noticeable in the electronics industry. For example, a partial loss of market share on the part of major vendors in favor of emerging Chinese competitors was observed in the cell phone market. The solar market grew slightly for the first time in a few years, which however has not yet led to significant capital investments in solar installations. Nevertheless, earnings were positive in this area of business as well. Among others, the further development of the business with solar scribers is also contingent on the continuation of and further amendments to legal regulations that govern the feed-in fees, e. g. for solar electricity.

Economic fluctuations have a strong impact on the investment in production equipment. Especially in markets outside Asia, customers' willingness to expand capacities or introduce new technologies is therefore limited. New investments are often only made when future utilization of such equipment appears assured by concrete orders from customers. The Electronics Production Equipment and the Other Production Equipment segments are usually more exposed to cyclic fluctuations than the more budget-driven Electronics Development Equipment segment. There is a risk in the Electronics Production segment that market share could shift in countries such as China in which there is no patent protection. This affects in particular the patents for the LDS method and the above-average growth rates of smartphones in emerging markets compared to stagnating sales figures in Western industrial countries. The majority of LDS systems continue to be used in the production of antennas. Growth is expected from new applications in this business. There is the risk that not enough additional applications with large unit volumes will be developed and that as a result the business does not perform as well as planned.

General business risks include the increasing share of the project business in the overall operations.

The Group's general business risks also include the increasing share of the project business in the overall operations. Order volumes of several million euros are being negotiated more frequently than in the past in connection with projects. This places special demands on the Group's flexibility to be able to also deal with greater fluctuations in sales volumes. The ability to plan the Company's business performance can also be impacted as a result. In particular the Other Production Equipment and Electronics Production Equipment segments are affected by this.

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. For more explanations see section 5.2.4.

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.

Product liability risks arise in particular in the Electronics Production Equipment and Other Production Equipment segments. Furthermore, the risk that recall costs may be incurred is to be pointed out. This risk arises in particular in the business with production services.

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

In part, these industry cycles are staggered timewise in different markets such that LPKF's broad market positioning helps to balance matters somewhat. This positioning in the market is part of the business model and is to be retained in the future. In order to expand LPKF's leading role in the various businesses, it is important to have a robust innovation and product management system with state-of-the-art technology and to be in close contact with customers in close proximity to the market. Overall, around 10 % of revenue should also be invested in the new and further development of products in the future.

In order to be able to compensate for fluctuations in the utilization of capacities, LPKF is focusing on flexible structures, for example in production, and increasingly also on the collaboration of LPKF's production sites. In addition, peak workload levels are covered by way of external production service providers and recourse to temporary workers. In the case of lower workload levels, the depth of production can be increased.

In the LDS business, LPKF is working intensively to further develop the process.

In the LDS business, LPKF is working intensively to further develop the process with a view to customer requests. For instance, further developments will be offered in 2015 that enable greater precision, lower production costs for the LDS components and easy retooling of machines. These steps should help to develop additional applications for the LDS method.

Expanding quality management is a focus of the Group's strategy, and measures to this end were implemented in the 2014 financial year.

If there are existent risks from product liability, the Company seeks to cover these through insurance policies.

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.

III. Effects on economic position

Thanks to measures in place and planned, the probabilities of occurrence can be assessed 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

LPKF pays particular attention to selecting and developing reliable suppliers.

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. 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. For some time now, a major customer has dominated significant parts of this business. In the PCB Production Equipment product group, there is also a certain dependency on decisions made on the part of a few major customers for laser-based technologies who then provide their suppliers with corresponding instructions. These instructions can have an impact on LPKF's business with these suppliers.

If the Company were to fail to land individual major projects, this could significantly affect the financial success of this business segment. 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. There is currently no indication of this.

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

As a result of higher revenue in the solar business specifically at the end of 2014, there are significant receivables from one customer. This customer's previous payment practices have been good, and all payments have also been received on time in the new year. Nonetheless, if the solar market continues to be weak or the Company fails 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 current planning is based on the assumption that business will be weaker in 2015 after a strong year in 2014. Based on the current project situation, revenue is expected to increase again starting in 2016. However, due to the dependency on customers and projects in the solar business, the utilization of capacities, revenue and earnings are likely to continue fluctuating in the solar business.

Based on the current project situation, revenue is expected to increase again starting in 2016.

5.2.4 Technological developments

I. Cause

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. The increased appearance of competing techniques can lead to declining revenue and income, in particular if these techniques should prove to be technologically and/or economically advantageous. For example, expensive metal cases are used for design reasons in some high-end smartphones that can also function as antennas. However, LDS antennas are also frequently still used in these devices, albeit in smaller volumes. There is a risk that competing techniques become more widespread and LPKF own technology cannot be improved quickly enough.

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. The Company is working intensively in particular on the technical and economic improvement of the LDS method as well as to develop further applications for the LDS technology. Specifically, developments with the goal of reducing costs for the entire LDS process, in particular in the area of metallization are worth mentioning. There are also new components for the production of high-precision LDS components and for the profitable production of larger parts, for which purpose LPKF is cooperating closely with customers.

LPKF's technologies are also protected by patents.

III. Effects on economic position

In 2014, 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. On the whole, this segment is critically important for the LPKF Group. Due to increasing competition and the rapidly changing technological requirements, the probability of risks occurring in this area is to be described as possible and any financial effects due to the economic importance are to be described as significant.

5.2.5 Patent risks

I. Cause

The LPKF Group owns 52 patent families, and most of them are international.

The LPKF Group owns 52 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 again learned of several patent infringements in this area during the reporting period and is reviewing legal action in connection with them. 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. In reaction to an infringement action, an action for declaration of nullity against the validity of the LDS patent is insofar pending before the German Federal Patents Court. LPKF is confident in the favorable outcome of the proceedings. However, there is a risk that the patent will be declared null and void also in Germany. Under certain circumstances, this could have a widespread impact in all countries in which the patent is valid.

II. Measures

In general, these risks are addressed with comprehensive innovation and product management and close cooperation with internationally active 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 was unable to defend the patent despite all efforts. Unfortunately, attempts to reopen the proceedings before the highest Chinese court were unsuccessful. After the 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. LPKF is currently taking action against a mobile phone manufacturer who is putting electronic components on the market that infringe the LDS patent in LPKF's view. In a decision handed down by the court of first instance, the manufacturer was already successfully prohibited from selling devices in Germany that infringe on the patent.

However, the decision is not yet final. Another action against another cell phone manufacturer is currently being reviewed. Furthermore, 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. A certification program is currently being developed as a unique selling point for the LDS method that should permanently highlight its quality and advantages over plagiarized methods.

III. Effects on economic position

The loss of LDS patent protection in China does not affect the continued existence of the patents in other markets.

Due to the great significance of patents for the LPKF Group, the possible consequences in this area can be described as material overall. However, 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 still 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. For instance, LPKF received a major order from a Chinese customer in February 2015 that had already been expected in 2014.

5.2.6 Personnel risks

I. Cause

Demand for qualified technical personnel in both mechanical engineering and manufacturing remains high 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 attracting adequately trained staff. In 2014, 2,500 applications were received by the German sites alone. There is, however, a cross-segment risk associated with the loss of key employees with important know-how as a result of head hunting.

II. Measures

The expansion of systematic personnel development represents a major goal also in 2015.

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. Extensive need-based advanced training measures are offered to employees in order to facilitate their further development and keep their knowledge up-to-date. The expansion of systematic personnel development represents a major goal also in 2015. In addition, LPKF will focus on personnel marketing in order to be perceived on the labor market as the “top employer among medium-sized enterprises in the mechanical engineering industry”. Members of the Management Board also maintain contact and exchange information with high performers at all sites on an ongoing basis.

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 currently 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. Considerable potential exists for financing due to the 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.

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 underlying 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 and material costs at LPKF are incurred in euros.

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. The current exchange rate trend of the euro against the US dollar and important Asian currencies is considered to be positive for competitiveness and the business in general.

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

IT security measures are evaluated on an ongoing basis by way of audits.

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 many 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.

5.2.10 Fire at the Garbsen site

I. Cause

On 14 January 2015, there was a fire in the development department at the Garbsen site. A number of offices and laboratories as well as a multitude of machines and test set-ups were caught in the fire and in some cases destroyed. Accordingly, there is the risk that important development projects will be completed later than originally planned. In addition, there is the risk that the insurance company will refuse to cover the losses entirely or in part.

II. Measures

An intensive exchange is being carried out at this time with the affected insurance company and the experts it has engaged. It is important on the one hand that the losses be kept to a minimum and financial losses are documented as fully as possible. In order to minimize delays in the development projects, the infrastructure of other LPKF sites or other companies and/or university facilities are being used in some cases.

III. Effects on economic position

LPKF assumes that the property damage as well as the production losses are basically insured. Therefore, financial disadvantages from the delayed completion of development projects should be covered, to the extent that they are verifiable. So far there has been no indication that the insurer will refuse to cover the losses. The weighted probability of the residual risk is therefore judged to be 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 risen compared to the previous year. This can also be attributed to the crisis in Ukraine and economic situation of Greece and a few other European countries. Many analysts assume that the global economy will once again grow slightly for 2015, however, with a series of uncertainties. LPKF considers itself to be exposed to an increasing number of attacks on its LDS patents, by now also outside of China. Furthermore, the technological and business risks in the LDS segment have increased. 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.

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 profit or loss, cash flows and financial position 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. In addition, the Internal Auditing department reviewed the Group's risk management system in the reporting period. Suggestions for improvements were solicited, but there were no major complaints.

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 2015, the International Monetary Fund (IMF) put global economic growth at 3.5 %, the expected increase for 2016 is then 3.7 %. Global growth will receive a boost from the low price of oil; however, there will also be negative impacts such as weak investment in many industrial economies and emerging markets as well as stagnation and low inflation in Japan and the euro zone. For the US economy, the IMF forecasts an increase of 3.6 % for 2015 and an increase of 3.3 % for 2016. In China, the slowdown of the economy will continue at 6.8 % in 2015. For the euro zone, the IMF expects an increase of 1.2 % in gross domestic product for 2015 and of 1.4 % for 2016. For Germany, the IMF economists expect an increase of 1.3 % in 2015, followed by 1.5 % in 2016.

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 2 % in real terms in 2015. Total output is expected to reach the level of EUR 200 billion for the first time. For 2015, the VDMA sees the key to growth in the progressing consolidation measures in Europe and in particular in the continuing process of reindustrialization in the USA. At the same time, the momentarily low commodity prices are supporting the global economy and are promoting growth in the engineering industry. The lower exchange rate of the euro is also helping the exporting industry. The VDMA sees risks in the unresolved Ukraine conflict, the slowing reform efforts in France and Italy as well as economic policy in Germany.

For the global automobile market, the German Automotive Industry Association (VDA) projects an increase of 2 % to 76.4 million vehicles in 2015. Whereas the German market is expected to grow by 1 % (just over three million registrations), the increase will be carried primarily by the non-European markets. There is an expectation that China will grow 6 %, thus enabling the country to exceed the 19 million-vehicle mark. For the United States, growth of 2 % to 16.4 million light vehicles is projected. In Western Europe, there appears to be somewhat less momentum than in the previous year with a growth rate of 2 %.

The outlook for the coming year for the international solar sector is assessed optimisticly by industry experts at the US-based research firm IHS. They forecast a double-digit rate of increase (+ 25 %) in photovoltaic demand. The installed capacity is thus expected to be 53 to 57 GW. China, Japan and the USA remain the most important markets.

Sales of tablets, laptops, and desktop computers will decrease worldwide in 2015 according to the International Data Corporation (IDC). Whereas sales of tablets are expected to grow by 5.2 % to 248 million units, sales of desktop computers will decrease by 4.5 % and of laptops by 2.4 %. Revenue from smartphones is expected to further increase in 2015 (+ 3.2 %) and reach around USD 181.1 billion (Credit Suisse, Gartner).

According to a survey by the consulting firm AMAC GmbH, the plastics processing industry is looking confidently to the future. The industry is benefiting from the recovery of the global economy and the low price of oil. According to surveys of experts, the challenges facing the plastics processing industry in the coming year include the lack of specialists, the cost of energy, digitalization and 3D printing.

6.1.2 Group performance

The forecasts of economic institutes are varied and include both opportunities as well as risks for the LPKF Group's business performance.

The forecasts of economic institutes for the following years are varied and include both opportunities as well as risks for the LPKF Group's business performance. As an exporter, LPKF benefits from the weak euro; in contrast, the Ukraine crisis does not play a significant role for the Company.

LPKF expects rising revenue in a stable economic environment for the Rapid Prototyping, Welding Equipment and PCB Production Equipment product groups in 2015. For the solar business, 2015 will be a transitional year with less revenue – after the robust revenue reported in 2014. Stronger growth momentum is once again expected for 2016 and 2017 based on the current project situation.

The LDS business should also further expand. However, growth can no longer come primarily from the market for cellular radio antennas. The potential for further growth lies in the LDS antennas for other electronic devices such as wearables as well as in the LED lighting segment. LPKF will not only technologically improve the method, but also further reduce the costs of the entire process.

Starting in 2016, LPKF expects growth momentum from three new technologies that will be introduced to the markets in 2015.

6.1.3 Significant indicators

Revenue and EBIT: Revenue in the financial year 2014 reached EUR 119.7 million and thus came in 8 % below the high prior-year figure. At 10.6 %, the EBIT margin was also down compared to the previous year (17.9 %) but remained high for the mechanical engineering industry. The operating income (EBIT) fell 45 % to EUR 12.7 million.

On the whole, the Management Board expects the LPKF Group to generate revenue of EUR 128 to EUR 136 million for 2015 assuming stable performance by the global economy. The EBIT margin should be between 12 % and 15 % in 2015. This results in planning for EBIT between EUR 15 million and EUR 20 million. Due to the current situation with orders and projects, this is considered an ambitious plan.

The net working capital ratio is expected to fall below 35 %, which corresponds to net working capital of less than EUR 45 million for the forecast period. This would represent a moderate year-on-year decrease. Regarding the error rate, LPKF expects the error rate to improve slightly.

Given a stable economic environment from 2016, the Management Board expects revenue to grow again 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, 23 March 2015

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

LPKF Laser & Electronics AG

CONSOLIDATED FINANCIAL STATEMENTS 2014

Consolidated financial statements for the 2014 financial year in accordance with the International Financial Reporting Standards (IFRSs)

Consolidated statement of financial position as of 31 December 2014

Assets

EUR thsd.	Note	31 Dec. 2014	31 Dec. 2013
Non-current assets			
Intangible assets	10		
Software		1,830	3,084
Goodwill		74	74
Development costs		6,643	4,435
		8,547	**7,593**
Property, plant and equipment	10		
Land, similar rights and buildings		37,026	32,428
Plant and machinery		3,841	3,138
Other equipment, operating and office equipment		6,168	4,822
Advances paid and construction in progress		1,945	2,379
		48,980	**42,767**
Restricted securities	14	0	269
Receivables and other assets			
Trade receivables	12	68	95
Income tax receivables	13	91	134
Other assets	13	74	162
		233	**391**
Deferred taxes	16	2,565	2,148
		60,325	**53,168**
Current assets			
Inventories	11		
(System) parts		16,987	17,527
Work in progress		3,791	3,604
Finished products and goods		11,102	9,881
Advances paid		359	196
		32,239	**31,208**
Receivables and other assets			
Trade receivables	12	25,659	12,884
Income tax receivables	13	2,082	937
Other assets	13	1,896	2,425
		29,637	**16,246**
Cash and cash equivalents	15	6,021	12,569
		67,897	**60,023**
		128,222	**113,191**

Consolidated statement of financial position as of 31 December 2014

Equity and liabilities

EUR thsd.	Note	31 Dec. 2014	31 Dec. 2013
Equity			
Subscribed capital	17	22,270	22,270
Capital reserves		1,489	1,489
Other retained earnings		10,945	11,115
Reserve for cash flow hedges		– 17	– 55
Revaluation surplus		0	4
Share-based payment reserve		490	490
Currency translation		858	– 826
Net retained profits		32,527	29,579
		68,562	**64,066**
Non-current liabilities			
Provisions for pensions and similar obligations	19	276	176
Other provisions	20	83	40
Non-current liabilities to banks	21	16,099	17,882
Deferred income from grants	3	787	716
Deferred taxes	16	2,020	1,342
		19,265	**20,156**
Current liabilities			
Tax provisions	20	657	2,809
Other provisions	20	4,488	5,934
Current liabilities to banks	21	20,126	5,934
Trade payables	21	4,829	4,357
Other liabilities	21	10,295	9,935
		40,395	**28,969**
		128,222	**113,191**

Consolidated income statement

from 1 January to 31 December 2014

EUR thsd.	Note	2014	2013
Revenue	1	119,749	129,663
Changes in inventories of finished goods and work in progress		1,444	1,170
Other own work capitalized	2	5,338	3,707
Other operating income	3	4,139	3,941
		130,670	**138,481**
Cost of materials	4	38,037	34,932
Staff costs	5	43,412	40,504
Depreciation and amortization and impairment losses	6	7,896	7,768
Other operating expenses	7	28,652	32,036
Operating result		**12,673**	**23,241**
Finance income	8	19	29
Finance costs	8	769	735
Earnings before tax		**11,923**	**22,535**
Income taxes	9	3,407	6,786
Consolidated net profit		**8,516**	**15,749**
Of which attributable to			
Owners of the parent		8,516	15,069
Non-controlling interests		0	680
		8,516	**15,749**
Earnings per share (basic)	23	EUR 0.38	EUR 0.68
Earnings per share (diluted)	23	EUR 0.38	EUR 0.68

Consolidated statement of comprehensive income

from 1 January to 31 December 2014

EUR thsd.	Note	2014	2013
Consolidated net profit		**8,516**	**15,749**
Revaluations (mainly actuarial gains and losses)		– 231	77
Deferred taxes		61	– 25
Sum total of changes which will not be reclassified to the income statement in the future		**–170**	**52**
Gains and losses on the market valuation of available-for-sale financial assets		0	– 2
Gains and losses on the market valuation of available-for-sale financial assets that were reclassified to the income statement		– 5	0
Fair value changes from cash flow hedges		54	97
Currency translation		1,684	– 270
Deferred taxes		– 15	– 28
Sum total of changes which will be reclassified to the income statement in the future if certain conditions are met		**1,718**	**– 203**
Other comprehensive income after taxes		**1,548**	**– 151**
Total comprehensive income		**10,064**	**15,598**
Of which attributable to			
Owners of the parent		10,064	14,918
Non-controlling interests	18	0	680

Consolidated statement of cash flows

from 1 January to 31 December 2014

EUR thsd.	Note	2014	2013
Operating activities			
Consolidated net profit		8,516	15,749
Income taxes		3,407	6,786
Interest expense		769	735
Interest income		–19	–29
Depreciation/amortization/impairment losses		7,896	7,768
Gains/losses from the disposal of non-current assets including reclassification to current assets		172	58
Changes in inventories, receivables and other assets		–15,138	7,279
Changes in provisions		–1,218	1,864
Changes in liabilities and other equity and liabilities		3,129	–2,111
Other non-cash expenses and income		–97	1,259
Interest received		12	15
Income taxes paid		–5,644	–5,200
Cash flows from operating activities		**1,785**	**34,173**
Investing activities			
Investments in intangible assets		–5,172	–3,731
Investments in property, plant and equipment		–9,819	–17,615
Proceeds from disposal of financial instruments		269	6
Proceeds from disposal of non-current assets		64	89
Cash flows from investing activities		**–14,658**	**–21,251**
Cash flows from financing activities			
Dividend payment		–5,567	–5,567
Interest paid		–769	–673
Cash payments for the acquisition of non-controlling interests		0	–4,797
Proceeds from borrowings		18,400	16,034
Cash repayments of borrowings		–5,979	–7,842
Cash flows from financing activities		**6,085**	**–2,845**
Change in cash and cash equivalents			
Change in cash and cash equivalents due to changes in foreign exchange rates		250	–52
Change in cash and cash equivalents		–6,788	10,077
Cash and cash equivalents on 1 Jan.		**12,520**	**2,495**
Cash and cash equivalents on 31 Dec.		**5,982**	**12,520**
Composition of cash and cash equivalents			
Cash and cash equivalents		6,021	12,569
Overdrafts		–39	–49
Cash and cash equivalents on 31 Dec.	22	**5,982**	**12,520**

Consolidated statement of changes in equity

as of 31 December 2014

EUR thsd.	Subscribed capital	Capital reserve	Other retained earnings	Cash flow hedge reserve
Balance as of 1 Jan. 2014	22,270	1,489	11,115	– 55
Consolidated total comprehensive income				
Consolidated net profit	0	0	0	0
Change from measurement of cash flow hedge	0	0	0	54
Change from market valuation of securities	0	0	0	0
Revaluations (mainly actuarial gains and losses) actuarial gains and losses	0	0	– 231	0
Deferred taxes on changes recognized directly in equity	0	0	61	– 16
Currency translation differences	0	0	0	0
Consolidated total comprehensive income	**0**	**0**	**–170**	**38**
Transactions with owners				
Capital increase from Company funds	0	0	0	0
Appropriation to retained earnings	0	0	0	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. 2014	**22,270**	**1,489**	**10,945**	**–17**

EUR thsd.	Subscribed capital	Capital reserve	Other retained earnings	Cash flow hedge reserve
Balance as of 1 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) 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**

Revaluation reserve	Share-based payment reserve	Currency translation reserve	Net retained profits	Equity before non-controlling interest	Non-controlling interests	Total
4	490	– 826	29,579	64,066	0	64,066
0	0	0	8,516	8,516	0	8,516
– 5	0	0	0	54	0	54
0	0	0	0	– 5	0	– 5
0	0	0	0	– 231	0	– 231
1	0	0	0	46	0	46
0	0	1,684	0	1,684	0	1,684
– 4	**0**	**1,684**	**8,516**	**10,064**	**0**	**10,064**
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	–5,567	–5,567	0	–5,567
0	**490**	**858**	**32,528**	**68,563**	**0**	**68,563**

Revaluation reserve	Share-based payment reserve	Currency translation reserve	Net retained profits	Equity before non-controlling interest	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**

LPKF Laser & Electronics AG

CONSOLIDATED NOTES 2014

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 23 March 2015.

B. Basis of preparation

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 market valuation 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 2014 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, IAS 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	Amendment – Recoverable Amount Disclosures for Non-Financial Assets	01 Jan. 2014	19 Dec. 2013	None
IAS 39	Amendment – Novation of Derivatives and Continuation of Hedge Accounting	01 Jan. 2013	19 Dec. 2013	None
IFRIC 21	Levies	01 July 2014	13 Jun. 2014	None

1 Balance as of 31 December 2014

The provisions of the newly published standards IFRS 10, 11, and 12 as well as the changes in IAS 28 have been in force since 1 January 2014. IFRS 10 defines the concept of the control of a subsidiary by the parent company. Accordingly, the three criteria of power over the investee, variable returns, and the possibility of influencing the amount of the variable returns must be cumulatively met. The first-time application of IFRS 10 did not lead to a change in the basis of consolidation in the LPKF Group's consolidated financial statements compared to the previous accounting treatment. IFRS 11 defines and governs the treatment of joint arrangements in the consolidated financial statements, whereby joint ventures are to be differentiated from joint operations. The former are recognized using equity method accounting, whereas in the latter case the investor's share of assets and liabilities as well as income and expenses are directly attributable to the investor. IFRS 11 replaces IAS 31, which permitted an option between proportionate consolidation and equity method accounting for joint ventures. The first-time application of IFRS 11 did not have an impact on the LPKF Group's consolidated financial statements compared to the previous accounting treatment.

Initial application of these pronouncements and amendments did not have any material effects on the current or previous presentation of 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 2014 financial year:

Standard/interpretation		Mandatory application	Adopted by the EU commission[1]
IFRS 1, IFRS 3, IFRS 13, IAS 40	Annual Improvements Cycle 2011 – 2013	01 Jan. 2015	18 Dec. 2014
IAS 19	Amendments to IAS 19 – Employee Contributions	01 Feb. 2015	17 Dec. 2014
	Annual Improvements Cycle 2010 – 2012	01 Feb. 2015	17 Dec. 2014

1 Balance as of 31 December 2014

The effects that the standards and interpretations mentioned have on the LPKF Group are currently being reviewed. Early application is not planned.

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)	1,499.3	311.1
LPKF SolarQuipment GmbH	Suhl/Germany	100.0 (100.0)	7,194.9	1,958.4
LPKF WeldingQuipment (former: LPKF Grundstücksverwaltungs GmbH)	Fürth/Germany	100.0 (100.0)	– 14.3	– 41.6
LPKF Laser & Electronics d.o.o.	Naklo/Slovenia	100.0 (100.0)	9,262.0	901.0
LPKF Distribution Inc.	Tualatin (Portland)/USA	100.0 (100.0)	3,812.9	543.9
LPKF (Tianjin) Co. Ltd.	Tianjin/China	100.0 (100.0)	11,077.2	2,385.2
LPKF Laser & Electronics Trading (Shanghai) Co. Ltd.	Shanghai/China	100.0 (100.0)	42.9	– 8.2
LPKF Laser & Electronics (Hong Kong) Ltd.	Hong Kong/China	100.0 (100.0)	1,562.7	284.3
LPKF Laser & Electronics K. K.	Tokyo/Japan	100.0 (100.0)	– 1,255.2	– 514.2
LPKF Laser & Electronics Korea Ltd.	Seoul/Korea	100.0 (100.0)	– 270.9	– 378.8

The equity and earnings figures for the financial year just ended concern the financial statements as of 31 December 2014 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 did not change in the 2014 financial year.

In March 2015, assets were taken over from a company operating in the laser transfer printing (LTP) business. This transaction is to be classified as a business combination pursuant to IFRS 3. The purchase price was EUR 1.5 million. In this context, intangible assets (especially patents, know-how) and tangible assets were acquired. There was not enough time to determine the fair value of the assets. The same applies to the other disclosures required under IFRS 3. The carrying amount of the acquired assets was EUR 0.4 million. This results in a preliminary difference of EUR 1.1 million.

As of 31 December 2014, LPKF AG had ten subsidiaries, which together with the parent company form the basis of consolidation.

C. Consolidation principles

The consolidated financial statements are based on the financial statements as of 31 December 2014 of the companies included in the consolidated financial statements, which were prepared in accordance with uniform accounting policies.

Subsidiaries include all entities that are controlled by the Group (more precisely: LPKF AG). LPKF AG controls an investee when it has power over the investee, risk exposure or rights to variable returns arise from its investment in the investee and LPKF AG has the ability to use its power over the investee such that this affects the amount of the investee's variable returns. Consolidation of an investee begins on the day on which LPKF AG gains control over the entity. It ends when LPKF AG loses control over the investee.

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 acquisition date.

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

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

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

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

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

D. Currency translation

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

If the annual financial statements of a subsidiary are prepared in a functional currency other than the euro, the assets and liabilities are translated into euros at an average exchange rate at the reporting date 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. 2014	31 Dec. 2013	2014	2013
US dollar	USD 1.2141	USD 1.3791	USD1.3094	USD 1.3282
Chinese renminbi yuan	CNY 7.5358	CNY 8.3491	CNY 8.0893	CNY 8.1655
Hong Kong dollar	HKD 9.417	HKD 10.6933	HKD 10.3052	HKD 10.3018
Japanese yen	JPY 145.23	JPY 144.72	JPY 140.38	JPY 129.66
South Korean won	KRW 1,324.80		KRW 1,399.03	

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 2014.

(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 for the first time 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 best 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 five-year planning, 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

No accounting changes were made in these financial statements.

F. Segment reporting

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

Primary segment reporting is based on the following segments:

- Electronics Development Equipment involves the enhancement, production and marketing of circuit board plotters and ProtoLasers 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.

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	2014	51,260	25,087	42,837	565	119,749
	2013	75,736	20,849	32,633	445	129,663
Operating profit (EBIT)	2014	9,360	2,716	1,777	–1,180	12,673
	2013	21,312	1,905	1,231	–1,207	23,241
Assets	2014	40,754	19,947	34,589	32,932	128,222
	2013	36,533	14,846	28,980	32,832	113,191
Liabilities	2014	4,946	3,456	18,454	32,804	59,660
	2013	6,565	2,564	17,014	22,982	49,125
Capital expenditures	2014	6,076	1,735	4,561	2,619	14,991
	2013	4,461	1,993	12,318	3,025	21,797
Depreciation/amortization/impairment losses	2014	4,073	2,515	1,066	242	7,896
	2013	4,142	2,609	892	125	7,768
Other non-cash expenses	2014	557	255	555	219	1,586
	2013	2,405	650	506	74	3,635

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	2014	12,201	14,928	25,611	63,449	3,560	119,749
	2013	11,688	17,725	21,313	77,336	1,601	129,663
Assets	2014	97,660	8,019	11,161	11,382	0	128,222
	2013	88,287	7,375	9,448	8,081	0	113,191
Capital expenditures	2014	14,445	318	16	212	0	14,991
	2013	21,192	307	127	171	0	21,797

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 119,749 thousand includes contract revenue of EUR 3,883 thousand (previous year: EUR 11,116 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 5,338 thousand (previous year: EUR 3,707 thousand). This comprises own work for plant and machinery used by Group companies for production as well as prototype development projects capitalized during 2014 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 three years – from the time they become usable.

3. OTHER OPERATING INCOME

EUR thsd.	2014	2013
Income from currency translation differences	1,040	538
Research and development grants	435	774
Income from insurance payments	154	215
Income from the reversal of provisions	136	584
Income from the reversal of write-downs	79	95
Reversal of deferred item income from grants	56	56
Income from the disposal of non-current assets	41	12
Income from measurement of liabilities, non-controlling interests	0	678
Miscellaneous	2,198	989
	4,139	**3,941**

The miscellaneous other operating income in 2014 includes EUR 1.2 million from the use of warranty provisions.

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 530 thousand. Both are reversed on an accrual basis through the item deferred income from grants.

4. COST OF MATERIALS

EUR thsd.	2014	2013
Cost of (system) parts and purchased goods	37,582	34,588
Cost of purchased services	455	344
	38,037	**34,932**

5. STAFF COSTS AND EMPLOYEES

EUR thsd.	2014	2013
Wages and salaries		
Expenses for wages	36,276	33,822
Other	855	829
	37,131	**34,651**
Social security costs and pension costs		
Employer's contribution to social security	5,879	5,446
Pension costs	175	211
Employer's liability insurance association	227	196
	6,281	**5,853**
	43,412	**40,504**

The item, social security costs and pension costs, includes contributions of EUR 2,348 thousand (previous year: EUR 2,110 thousand) to Germany's statutory pension scheme. There were ongoing pension payments of EUR 17 thousand (previous year: EUR 17 thousand) arising from pension obligations in financial year 2014 (also see note 19).

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

	2014	2013
Production	191	186
Sales	141	132
Development	170	156
Services	114	102
Administration	169	149
	784	**725**

In addition, there were 18 workers in minor employment and 43 trainees as of 31 December 2014.

6. DEPRECIATION, 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 304 thousand was recognized on capitalized development costs in the reporting year (previous year: EUR 193 thousand).

7. OTHER OPERATING EXPENSES

EUR thsd.	2014	2013
Travel, meals/entertainment	3,933	3,206
Advertising and sales expenses	3,643	5,819
Third-party work	2,754	1,883
Consumables, development and purchased development services	2,300	3,185
Rent, ancillary rental costs, leases, land and building costs	2,211	2,094
Repairs, maintenance, operating materials	1,856	1,420
Legal and consulting costs	1,797	2,022
Sales commissions	1,161	3,058
Voluntary benefits, training and further education	1,103	1,017
Exchange rate losses	918	974
Trade fair costs	917	822
Vehicle costs	823	741
Expenses for warranties	800	737
Insurance, contributions, duties	775	758
Telephone, postage, telefax	732	671
Investor relations	452	420
Addition to allowance on receivables and bad debts	356	161
Bank charges	275	308
Supervisory Board remuneration incl. reimbursement of expenses	244	332
Office supplies, books, software	255	195
Financial statements preparation, publication, auditing costs	240	296
Miscellaneous	1,107	1,917
	28,652	**32,036**

In the previous year, the miscellaneous other operating expenses contained expenses of EUR 871 thousand in connection with expansion of the Company's sites.

In 2014, total research and development costs or the effect on profit or loss were EUR 11,093 thousand (previous year: EUR 13,468 thousand). Besides EUR 3,766 thousand for materials and other costs (previous year: EUR 4,331 thousand), they also contain EUR 7,327 thousand (previous year: EUR 9,137 thousand) in additional costs for staff as well as depreciation, amortization and impairment losses, among other things.

8. FINANCIAL RESULT

EUR thsd.	2014	2013
Finance income		
Other interest and similar income	19	29
Finance costs		
Interest and similar expenses	– 769	– 735
	– 750	**– 706**

The other interest income arose from overnight and time deposits totaling EUR 5 thousand (previous year: EUR 15 thousand). At EUR 745 thousand (previous year: EUR 632 thousand), the other interest expense was incurred in connection with long-term loans as well as short-term money market loans.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying 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.	2014	2013
Corporate income tax and solidarity surcharge	2,143	5,284
Trade tax	965	2,540
	3,108	**7,824**
Of which related to prior period	– 43	352
Deferred taxes	299	– 1,038
	3,407	**6,786**

The German entities of the LPKF Group are subject to trade tax of 14.4 % 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 40.0 %.

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.	2014	2013
Consolidated net profit before income taxes	11,923	22,535
Anticipated tax expense 30.0 % (previous year: 30.0 %)	3,577	6,761
Effect of different tax rates	–176	–593
Effects on legal tax rate changes	23	0
Tax-free income	–189	–5
Trade tax additions and deductions	39	54
Tax effect of non-deductible operating expenses	141	188
Effects from differences without accounting for deferred taxes	0	–185
Prior-period tax effects	–43	527
Other differences	35	39
Effective tax expense 28.6 % (previous year: 30.1 %)	**3,407**	**6,786**

The effects from differences (excluding deferred taxes) in the previous year arose 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 2014 financial year and subsequent years is deemed to be 30 % (previous year: 30 %).

H. Consolidated statement of financial position

ASSETS

10. FIXED ASSETS

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

Fixed assets 2014	Cost					
EUR thsd.	Balance on 01 Jan. 2014	Currency differences	Addition	Reclassi-fication	Disposal	Balance on 31 Dec. 2014
Intangible assets						
Software	8,548	1	624	0	216	8,957
Goodwill	74	0	0	0	0	74
Development costs	20,353	0	4,548	0	0	24,901
	28,975	**1**	**5,172**	**0**	**216**	**33,932**
Property, plant, and equipment						
Land, similar rights and buildings	38,179	269	1,258	4,315	0	44,021
Plant and machinery	8,464	117	1,821	28	796	9,634
Other equipment, operating and office equipment	11,255	132	2,792	7	856	13,330
Advances paid and construction in progress	2,464	0	3,948	– 4,350	117	1,945
	60,362	**518**	**9,819**	**0**	**1,769**	**68,930**
	89,337	**519**	**14,991**	**0**	**1,985**	**102,862**

	Depreciation, amortization and impairment losses						Resid. carrying amounts	
	Balance on 01 Jan. 2014	Currency differences	Addition	Reclassi-fication	Disposal	Balance on 31 Dec. 2014	Balance on 31 Dec. 2014	Previous year
	5,464	1	1,810	0	148	7,127	1,830	3,084
	0	0	0	0	0	0	74	74
	15,918	0	2,340	0	0	18,258	6,643	4,435
	21,382	**1**	**4,150**	**0**	**148**	**25,385**	**8,547**	**7,593**
	5,751	29	1,215	0	0	6,995	37,026	32,428
	5,326	94	1,097	0	724	5,793	3,841	3,138
	6,433	86	1,434	0	791	7,162	6,168	4,822
	85	0	0	0	85	0	1,945	2,379
	17,595	**209**	**3,746**	**0**	**1,600**	**19,950**	**48,980**	**42,767**
	38,977	**210**	**7,896**	**0**	**1,748**	**45,335**	**57,527**	**50,360**

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

Fixed assets 2013	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.

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 2014, just as in the previous year.

	Depreciation, amortization and impairment losses						Resid. carrying amounts	
	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**

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.	2014	2013
Electronics Production Equipment	4,135	2,106
Electronics Development Equipment	2,024	2,208
Other Production Equipment	484	121
	6,643	**4,435**

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 304 thousand were recognized due to model changes in 2014 (previous year: EUR 193 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

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 18,490 thousand (previous year: EUR 18,513 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.

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 239 thousand (previous year: EUR 1,750 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.	2014	2013
Electronics Production Equipment	15,592	16,517
Electronics Development Equipment	9,314	6,990
Other Production Equipment	7,122	7,514
Other	211	187
	32,239	**31,208**

12. TRADE RECEIVABLES

EUR thsd.	2014	2013
Nominal amount of receivables	26,263	13,297
Specific valuation allowances incl. currency losses	– 536	– 318
Receivables after valuation allowances, discounts and currency losses	**25,727**	**12,979**

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

The receivables from contract production calculated using the percentage-of-completion (PoC) method as of 31 December 2014 are listed in the table below. No such receivables were included in trade receivables in the previous year.

EUR thsd.	2014	2013
Production costs incl. result of construction contracts	578	0
Progress billings	0	0
Advances received	0	0
Receivables from construction contracts	**578**	**0**

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 2014, 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 69 thousand (previous year: EUR 95 thousand) and concerns receivables with remaining maturities of more than one year.

The following table describes the counterparty credit risk from trade receivables and receivables from borrowings and other assets as of 31 December 2014:

Trade receivables and receivables from borrowings and other assets in EUR thsd.	Carrying amount as of 31 Dec.	Of which not impaired and not past due	Not impaired but past due since: less than 30 days	between 30–60 days	between 60–90 days	between 90–360 days	more than 360 days
2014	**27,052**	21,631	2,476	797	393	908	116
2013	**14,845**	8,831	1,734	970	1,182	1,925	89

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.	2014	2013
Balance on 1 Jan.	**318**	**299**
+ Additions	295	71
– Reversals (allowances not required)	78	12
– Uses (allowances required)	0	39
+/– Currency differences (foreign currency receivables)	1	–1
Balance on 31 Dec.	**536**	**318**

There were proceeds of EUR 34 thousand from derecognized receivables in the 2014 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.	2014	2013
Input tax receivables	686	1,093
Income tax receivables	2,173	1,071
Prepaid expenses	645	721
Miscellaneous	639	773
Total	**4,143**	**3,658**

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 91 thousand (previous year: EUR 134 thousand).

14. RESTRICTED SECURITIES

The fund shares were sold in the 2014 financial year. They were previously 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 6,016 thousand (previous year: EUR 12,564 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.	2014	2013
Tax loss carryforwards	568	303
Intangible assets	172	197
Provisions	322	316
Other liabilities	7	24
Elimination of intercompany profits and other deductible temporary differences	1,730	1,434
Other	1	10
Netting of deferred tax assets and liabilities	– 235	– 136
Total	**2,565**	**2,148**

Deferred tax liabilities

EUR thsd.	2014	2013
Capitalized development costs	1,993	1,330
Property, plant and equipment	68	81
Trade receivables	194	55
Other	0	12
Netting of deferred tax assets and liabilities	– 235	– 136
Total	**2,020**	**1,342**

Within the next twelve months, EUR 1,885 thousand in deferred tax assets and EUR 194 thousand in deferred tax liabilities will be realized.

Deferred tax assets amounting to EUR 465 thousand were recognized for an entity with a loss history based on current planning because restructuring measures have been implemented successfully and business has already been expanded successfully to other LPKF product groups following the expansion of this entity's sales operations.

No deferred tax liabilities were recognized on EUR 986 thousand in temporary differences related to investments in subsidiaries and branches.

EQUITY AND LIABILITIES

17. SUBSCRIBED CAPITAL

Share capital
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.

There is no ban on dividend distributions with respect to net retained profits, since sufficient revenue reserves are available.

Authorized 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 no-par bearer shares, once or repeatedly, with a proportionate interest of EUR 1.00 in the share capital in return for contributions in cash or in kind. The Management Board utilized part of this authorization and issued a total of 75,604 new no-par shares from the authorized capital with a proportionate interest in the share capital of EUR 75,604.00 in financial years 2011 and 2012. This resolution was rescinded by the resolution adopted on 5 June 2014 regarding the creation of new authorized capital.

With the resolution adopted by the Annual General Meeting on 5 June 2014, the Management Board is authorized to increase the share capital once or repeatedly until 4 June 2019 with the approval of the Supervisory Board by up to a total of EUR 11,134,794.00 by issuing up to 11,134,794 new no-par value bearer shares in return for contributions in cash or in kind (authorized capital). Shareholders shall generally be granted a subscription right in that connection. However, the Management Board is authorized with the approval of the Supervisory Board to disapply the pre-emptive rights of shareholders

- to exclude fractional amounts from shareholders' pre-emptive rights;
- if the new shares are issued in return for cash contributions and the issue price of the new shares is not significantly lower than the stock exchange price of the shares currently listed when the issue price is finally determined. The number of shares issued while thus disapplying shareholders' pre-emptive rights may not exceed a total of 10 % of the share capital, neither at the time when this authorization takes effect nor when it is exercised. Other shares that are issued or were sold during the period in which this authorization is in effect while disapplying shareholders' pre-emptive rights in direct or corresponding application of section 186(3) sentence 4 of the Stock Corporation Act (Aktiengesetz, AktG) are to be counted toward this upper limit of 10 % of the share capital. Shares that are issued to service option rights and/or conversion rights or conversion obligations from convertible bonds or bonds with warrants or profit participation rights are also to be counted toward this limit if such debt securities or profit participation rights are issued during the period in which this authorization is in effect while disapplying shareholders' pre-emptive rights in corresponding application of section 186(3) sentence 4 AktG;
- if the capital increase is carried out in return for contributions in kind for the purpose of acquiring entities, business divisions, equity investments, other assets related to an intended acquisition or in connection with mergers or for the purpose of acquiring industrial property rights, including copyrights and know-how or rights to use such rights;
- if it is necessary to grant subscription rights for new shares to the bearers or creditors of bonds with warrants and convertible bonds or profit participation rights with option rights or conversion rights and/or conversion obligations that were or will be issued by the Company or companies in which the Company holds a direct or indirect majority interest in the volume to which they would be entitled after exercising the option rights or conversion rights or after conversion obligations are fulfilled;
- if the new shares are issued to individuals who are in an employment relationship with the Company or its affiliated companies. The number of shares issued while disapplying shareholders' pre-emptive rights may not exceed a proportionate interest in the share capital in the total amount of EUR 200,000.00.

In any case, the authorization to disapply shareholders' preemptive rights is limited insofar as after exercising the authorization the sum of shares issued while disapplying shareholders' pre-emptive rights in exchange for contributions in cash or in kind under this authorized capital may not exceed a total of 10 % of the share capital, neither at the time that this authorization takes effect nor when it is exercised. The following count toward the aforementioned 10 % limit:

- treasury shares that are sold during the period in which this authorization is in effect while disapplying shareholders' pre-emptive rights, as well as
- new shares that are to be issued on the basis of convertible bonds or bonds with warrants or profit participation rights issued during the period in which this authorization is in effect while disapplying shareholders' pre-emptive rights.

The Management Board is authorized with the approval of the Supervisory Board to determine the contents of the share rights, the further details of the capital increase, and the terms and conditions under which the shares are issued, in particular the issue price.

The Supervisory Board is authorized to revise the Articles of Association accordingly after utilization of the authorized capital or the expiration of the period for utilizing the authorized capital.

The authorization to increase the share capital was not exercised before the reporting date.

Treasury shares
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 sale of securities led to a recycling of the changes in value of these securities previously reported in the revaluation surplus, which was released to income. The revaluation surplus amounted to EUR 4 thousand in the previous year.

The recognition of hedges resulted in cash flow hedge provisions of EUR – 17 thousand (previous year: EUR – 55 thousand).

18. NON-CONTROLLING INTERESTS

Non-controlling interests in subsidiaries have changed as follows:

EUR thsd.	2014	2013
Balance on 1 Jan.	0	2,036
Additions	0	680
Disposals	0	– 2,716
Balance on 31 Dec.	**0**	**0**

The changes in the previous year resulted from the acquisition of the non-controlling interests in LPKF Laser & Electronics d.o.o. in 2013.

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

EUR thsd.	2014	2013
Present value of the defined benefit obligation at beginning of period	**578**	**632**
Current service cost	0	0
Interest expense	19	17
Pension payments	– 17	– 17
Actuarial gains (–) and losses (+)	129	– 54
Present value of the defined benefit obligation at end of period	**709**	**578**
Plan assets		
Reinsurance coverage	– 247	– 228
Securities	– 476	– 509
Surplus shown in the statement of financial position	**– 14**	**– 159**

Development of net liabilities/assets:

EUR thsd.	2014
Net assets at beginning of period	159
Total amount in the income statement	5
Total of the revaluations recognized in OCI	– 166
Benefit payments	0
Employer contributions	16
Net assets at end of period	**14**

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

EUR thsd.	2014	2013
At beginning of period	737	679
Interest income from plan assets	24	18
Expected return on plan assets without interest income	– 37	35
Payments from plan assets	– 17	– 11
Funded by the employer	16	16
At end of period	**723**	**737**

The plan assets are made up as follows:

	2014		2013	
EUR thsd.	Absolute	Percentage	Absolute	Percentage
Equity securities	0	0 %	0	0 %
Debt securities	476	66 %	509	69 %
Other	247	34 %	228	31 %
	723	**100 %**	**737**	**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.	2014	2013
Current service cost	0	0
Interest income from plan assets	24	18
Interest expense related to the liability	–19	–17
Total effect on earnings in the income statement	**5**	**1**

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

%	2014	2013
Discount rate as of 31 December	2.00	3.25
Future salary increases	0.00	0.00
Future pension increases	1.75	1.75
Expected return on plan assets	2.00	3.25
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 2015 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. 2014 in EUR thsd.	up to 1 year	up to 5 years	more than 5 years	Total
Retirement benefits	17	68	486	571

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

Basic values	
Discount rate	2.00 %
Pension trend	1.75 %
DBO	EUR 708,626

Sensitivities	Revalued DBO	Change in percent of the DBO
Discount rate plus 0.5 %	EUR 650,517	– 8.20 %
Discount rate minus 0.5 %	EUR 774,396	9.28 %
Pension trend plus 0.25 %	EUR 730,873	3.14 %
Pension trend minus 0.25 %	EUR 687,333	– 3.00 %

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 50 thousand are expected in the following five years.

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

EUR thsd.	2014	2013
Present value of the defined benefit obligation at beginning of period	**176**	**147**
Current service cost	13	9
Interest expense	7	7
Benefit payments	– 1	– 4
Actuarial gains (–) and losses (+)	81	17
Present value of the defined benefit obligation at end of period	**276**	**176**

The following amounts were recognized in the income statement:

EUR thsd.	2014	2013
Current service cost	13	9
Interest expense related to the liability	7	7
Total amount in the income statement	**20**	**16**

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

Basic values	
Discount rate	1.90 %
DBO	EUR 275,990

Sensitivities	Revalued DBO	Change in percent of the DBO
Discount rate minus 0.5 %	EUR 299,818	8.63 %
Discount rate plus 0.5 %	EUR 254,673	– 7.72 %
Salary trend minus 0.5 %	EUR 258,099	– 6.48 %
Salary trend plus 0.5 %	EUR 296,968	7.60 %

20. TAX PROVISIONS AND OTHER PROVISIONS

Provisions are recognized for legal or constructive 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.	2014	2013
Corporate income tax and solidarity surcharge	430	1,508
Trade tax	277	1,301
	657	**2,809**

Statement of changes in provisions

EUR thsd.	Balance on 1 Jan. 2014	Use	Reversal	Addition	Balance on 31 Dec. 2014
Tax provisions*	2,809	2,674	0	522	657
Bonus	2,264	2,242	22	1,716	1,716
Warranty and guarantee	3,169	2,312	102	1,635	2,390
Other	717	705	12	741	741
Total	**8,959**	**7,933**	**136**	**4,614**	**5,504**

* Tax provisions in the amount of EUR 627 thousand were reclassified to current liabilities in 2014. In the statement of changes in provisions, this amount is included in the "Use" column.

The provisions for guarantees and warranties cover potential statutory or financial obligations under guarantee and goodwill cases. Other provisions mainly include provisions for legal disputes, 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 virtual shares 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 2014 is EUR 83 thousand (previous year: EUR 40 thousand). The expense for the reporting period amounts to EUR 43 thousand (previous year: EUR 37 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 2014:

	Tranche 1 2012	Tranche 2 2013	Tranche 3 2014
Expected volatility	29 %	29 %	29 %
Risk-free interest rate	0.00 % p. a.	0.00 % p. a.	0.00 % p. a.
Expected remaining maturity	1 year and 7 months	2 years and 7 months	3 years and 7 months
Price of the LPKF share on 29 December 2014	EUR 10.90	EUR 10.90	EUR 10.90
Initial price of the LPKF share*	EUR 6.06	EUR 12.10	EUR 15.02
Number of phantom stocks at the allotment date	5,576	4,227	5,400

* 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 implemented at that time.

Separate plan terms were introduced for the members of the Management Board in 2014. The main difference is the programs’ terms, which begin on 1 January of each year for the members of the Management Board instead of on 21 July. The following parameters were used in the option price model (modified Black Scholes (Merton) model) for determining the fair value for the Management Board program as of 31 December 2014:

	Tranche 1 2014
Expected volatility	29 %
Risk-free interest rate	0.00 % p. a.
Expected remaining maturity	3 years
Price of the LPKF share on 29 December 2014	EUR 10.90
Initial price of the LPKF share	EUR 18,25
Number of phantom stocks at the allotment date	4,110

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	2014	36,225	20,126	9,334	6,765	18,490	*,**
	2013	23,816	5,934	10,309	7,573	18,513	*,**
Trade payables	2014	4,829	4,829	0	0	0	–
	2013	4,357	4,357	0	0	0	–
Other liabilities	2014	10,295	10,295	0	0	0	–
	2013	9,935	9,935	0	0	0	–
	2014	**51,349**	**35,250**	**9,334**	**6,765**	**18,490**	
	2013	**38,108**	**20,226**	**10,309**	**7,573**	**18,513**	

* 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.

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. There are currently no transactions triggering dilution.

	2014	2013
Number of shares. undiluted	22,269,588	22,269,588
Number of shares, diluted	22,269,588	22,269,588
Consolidated profit/loss (in EUR thousand)	8,516	15,069
Adjusted consolidated profit/loss (in EUR thousand)	8,516	15,069
Basic earnings per share (in EUR)	0.38	0.68
Diluted earnings per share (in EUR)	0.38	0.68

24. DIVIDEND PER SHARE

The Management Board and the Supervisory Board will propose to the Annual General Meeting on 28 May 2015 that it resolve a dividend payment of EUR 0.12 per no-par share (previous year: EUR 0.25) from the net retained profits of LPKF Laser & Electronics AG in the amount of EUR 14,194,227.04 for the 2014 financial year (previous year: EUR 17,088,065.25) – for a total dividend payment to the shareholders of EUR 2,672,350.56 (previous year: EUR 5,567,397.00) – and to carry the balance in the amount of EUR 11,521,876.48 (previous year: EUR 11,520,668.25) forward to new account.

25. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

As a result of the acquisition of the remaining equity interest in LPKF Laser & Electronics d.o.o. in the previous year, there are currently no non-controlling interests and therefore no transactions with non-controlling interests within the LPKF Group.

26. TRANSACTIONS WITH RELATED PARTIES

There are no reportable business relationships with parties related to the LPKF Group.

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

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., LPKF Laser & Electronics Korea Ltd. 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.	2014	2013
Lease payments included in the net profit/loss for the period	620	435
up to 1 year	468	397
more than 1 year and up to 5 years	340	334

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

EUR thsd.	2014	2013
up to 1 year	332	324
more than 1 year and up to 5 years	122	292

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 included the securities sold in 2014. 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 54 thousand (previous year: EUR 97 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 – 24 thousand (previous year: EUR – 79 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 existing 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 took current ECB reference prices and forward premiums or discounts into account. If the fair value is positive, these instruments are recognized in current assets, otherwise under current liabilities. The current liabilities contain three swaps and a forward transaction in USD with a fair value of EUR 128 thousand.

3. Disclosures pursuant to IFRS 7

Carrying amounts, reporting amounts and fair values by measurement category

			IAS 39 carrying amount			
EUR thsd.	Measurement category pursuant to IAS 39	Carrying amount 31 Dec. 2014	Amortized cost	Fair value recognized in equity	Fair value through profit or loss	Fair value 31 Dec. 2014
Assets						
Cash and cash equivalents	LaR	6,021	6,021			6,021
Trade receivables	LaR	25,727	25,727			25,727
Other assets	LaR	620	620			620
Restricted securities and available-for-sale financial instruments	AfS	0		0		0
Derivative financial assets						
Derivatives	FAHfT	0			0	0
Equity and liabilities						
Trade payables	FLAC	4,829	4,829			4,829
Liabilities to banks	FLAC	36,225	36,225			35,537
Other interest-bearing liabilities	FLAC	0	0			0
Other interest-free liabilities	FLAC	2,807	2,807			2,807
Derivative financial liabilities						
Derivatives	FLHfT	128			128	128
Of which accumulated by IAS 39 measurement category						
Loans and receivables	(LaR)	32,368	32,368			32,368
Available-for-sale financial assets	(AfS)	0		0		0
Assets held for trading	(FAHfT)	0			0	0
Financial liabilities measured at amortized cost	(FLAC)	43,861	43,861			43,173
Liabilities held for trading	(FLHfT)	128			128	128

LaR Loans and Receivables
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. 2013	IAS 39 carrying amount: Amortized cost	Fair value recognized in equity	Fair value through profit or loss	Fair value 31 Dec. 2013
LaR	12,569	12,569			12,569
LaR	12,979	12,979			12,979
LaR	649	649			649
AfS	269		269		269
FAHfT	106			106	106
FLAC	4,357	4,357			4,357
FLAC	23,816	23,816			21,961
FLAC	0	0			0
FLAC	3,786	3,786			3,786
FLHfT	0			0	0
(LaR)	26,197	26,197			26,197
(AfS)	269		269		269
(FAHfT)	106			106	106
(FLAC)	31,959	31,959			30,104
(FLHfT)	0			0	0

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 sold in 2014 (previous year: EUR 269 thousand) were listed and 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 0 thousand (previous year: EUR 106 thousand) and as financial liabilities held for trading in the amount of EUR 128 thousand (previous year: EUR 0 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.		2014	2013
Loans and receivables	(LaR)	– 90	– 447
Available-for-sale financial assets	(AfS)	4	6
Assets and liabilities held for trading	(FAHfT) + (FLHfT)	– 83	– 60
Financial liabilities measured at amortized cost	(FLAC)	769	735
Total		**600**	**234**

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 their 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 745 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 in EUR thsd.	Carrying amount as of 31 Dec.	up to 6 months	6 months to 1 year	between 1 year and 5 years	more than 5 years
2014	4,829	4,829	0	0	0
2013	4,357	4,357	0	0	0

Financial obligations and loans in EUR thsd.	Carrying amount as of 31 Dec.	up to 6 months	6 months to 1 year	between 1 year and 5 years	more than 5 years
2014	36,225	18,220	1,906	9,334	6,765
2013	23,816	1,989	3,945	10,309	7,573

Other interest-free liabilities in EUR thsd.	Carrying aamount as of 31 Dec.	up to 6 months	6 months to 1 year	between 1 year and 5 years	more than 5 years
2014	2,807	2,807	0	0	0
2013	3,786	3,786	0	0	0

Derivative financial instruments in EUR thsd.	Carrying amount as of 31 Dec.	up to 6 months	6 months to 1 year	between 1 year and 5 years	more than 5 years
2014	128	128	0	0	0
2013	106	106	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 85 thousand. A 10 % decline in the euro would have raised earnings before income taxes by EUR 69 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 23 thousand while a decrease in interest rates by 25 basis points yields a loss of EUR 5 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 6 thousand. Conversely, a parallel shift by –1.0 % would have lowered equity by EUR 6 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
LPKF is not exposed to other price risks.

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. Default risks are accounted for by appropriate allowances.

The maximum default risk is reflected in the carrying amounts of the assets reported in the statement of financial position (including derivative financial instruments with positive fair values). Trade receivables are also securitized by EUR 2,670 thousand in payment commitments from banks (letters of credit). This leaves solely the credit risk of the chattel mortgagor. In addition, EUR 6,967 thousand in trade receivables is hedged through credit default insurance. The deductible for customers insured under a credit limit is 14 %; for customers insured under a discretionary limit, it is 84 %.

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 68,562 thousand and borrowings of EUR 59,660 thousand.

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

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

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)	Sales, Marketing, Services, Strategy, Investor Relations, Legal Affairs
Dipl.-Ing. Bernd Lange (CTO)	Research, Development, Patents
Dipl.-Oec. Kai Bentz (CFO)	Finance, Controlling, Risk Management, Human Resources, Organization/IT
Dr.-Ing. Christian Bieniek (COO)	Production, Purchasing, Logistics, Quality Management, Administration

The remuneration of the Management Board is performance-based and consists of a fixed component and variable performance-based components. A portion of the variable remuneration consists of long-term incentives (LTI). 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. 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 total remuneration of EUR 1,565 thousand (previous year: EUR 2,084 thousand) for their activities in the 2014 financial year. Of this amount, EUR 891 thousand (previous year: EUR 830 thousand) was fixed remuneration, EUR 88 thousand (previous year: EUR 89 thousand) were benefits and EUR 572 thousand (previous year: EUR 1,165 thousand) was variable remuneration or recognized as a provision. The remuneration of the Management Board's active members represents short-term benefits as defined in IAS 24.17 (a). The contributions of EUR 14 thousand (previous year: EUR 14 thousand) are post-employment benefits as defined in IAS 24.17 (b).

Expenses of EUR 13 thousand (previous year: EUR 0 thousand) relating to the setting-up of provisions for share-based payments as defined in IAS 24.17 (e) were recognized for members of the Management Board in the financial year just ended. The fair value at the allotment date was EUR 90 thousand.

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 474 thousand (previous year: EUR 449 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 17 thousand) in pensions was paid to a former member of the Management Board in 2014.

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 Member of the Supervisory Board of SLM Solutions Group AG, Lübeck, Germany previously: 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 (until 31 December 2014) Chairman of the Supervisory Board of TEWISS – Technik und Wissen GmbH, Garbsen, Germany (until 31 December 2014) 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 (until December 2014) 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.

In addition, for every full financial year, each member of the Supervisory Board receives performance-based remuneration equal to EUR 1,000.00 for every EUR 0.01 by which the average of the (basic) earnings per share (EPS) for the financial year for which the remuneration is granted and the two preceding financial years exceeds a minimum amount of EUR 0.25, whereby the minimum amount increases annually by 10 % p. a. for the first time on the financial year beginning on 1 January 2015. Since financial year 2013, the (basic) earnings per share (EPS) calculated in accordance with International Financial Reporting Standards and reported in the adopted consolidated financial statements has applied for the determination of earnings per share. This variable remuneration is limited to the amount of the basic remuneration.

According to the consolidated financial statements certified on 23 March 2015 by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hannover, the (basic) consolidated earnings per share amount to EUR 0.38 per share. This results in variable remuneration of EUR 93 thousand for the 2014 financial year. A dividend of EUR 0.25 per share was paid in 2014 for the 2013 financial year based on the regulation above, resulting in variable remuneration of EUR 63 thousand for the Supervisory Board.

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 parties have notified us that their shareholdings exceeded the 3 % threshold in 2014:

Allianz Global Investors Europe GmbH, Frankfurt/Main, Germany, on 1 July 2014 with an interest of 3.32 % that is fully attributable to it.

Henderson Group Plc, London, UK, on 22 July 2014 with an interest of 3.02 % that is fully attributable to it.

Henderson Global Investors (Holdings) Plc, London, UK, on 22 July 2014 with an interest of 3.02 % that is fully attributable to it.

Henderson Global Investors Limited, London, UK, on 22 July 2014 with an interest of 3.02 % that is fully attributable to it.

Lazard Frères Gestions S.A.S., Paris, France, on 24 October 2014 with an interest of 3.24 %. Of this, a 3.09 % interest is fully attributable to Sicav Objectif Small Caps Euro, Paris, France.

Rock Point Advisors, LLC, Burlington, Vermont, USA, on 1 December 2014 with an interest of 3.04 % that is fully attributable to it.

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.	2014	2013
Audits of financial statements	104	102
Tax consultancy services	0	43
Other services	0	29
Total	**104**	**174**

34. EVENTS AFTER THE REPORTING PERIOD

On 14 January 2015, there was a fire in the development department at the Garbsen site. More details are described in section 5.2.10 of the combined management report of the LPKF Group and LPKF AG for 2014.

Garbsen, Germany, 23 March 2015

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 2014. 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, 23 March 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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Income statement

Single-entity financial statements of LPKF Laser & Electronics AG from 1 January 2014 to 31 December 2014

EUR thsd.	2014	2013
Revenue	86,711	105,764
Changes in inventories of finished goods and work in progress	–228	76
Other own work capitalized	62	59
Other operating income	4,138	3,017
	90,683	**108,916**
Cost of materials		
Cost of raw materials, consumables and supplies, and of purchased merchandise	27,527	33,124
Staff costs		
Wages and salaries	23,147	22,122
Social security costs and pension costs of which for pensions: EUR 138 thousand; previous year: EUR 120 thousand)	3,941	3,638
Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	3,914	3,630
Other operating expenses	28,396	33,412
	86,925	**95,926**
Income from equity investments	560	4,329
Other interest and similar income (of which from affiliated companies: EUR 48 thousand; previous year: EUR 88 thousand)	57	104
Interest and similar expenses (of which to affiliated companies: EUR 34 thousand; previous year: EUR 56 thousand)	570	559
Profit from ordinary operations	**3,805**	**16,864**
Taxes on income	1,088	4,201
Other taxes	44	43
Net profit for the year	**2,673**	**12,620**
Retained earnings brought forward from the previous year	11,521	4,509
Appropriation to retained earnings (statutory reserve)	0	41
Net retained profits	**14,194**	**17,088**

Balance sheet as of 31 December 2014

Single-entity financial statements of LPKF Laser & Electronics AG

Assets

EUR thsd.	31 Dec. 2014	31 Dec. 2013
Fixed assets		
Intangible assets		
Software	1,681	2,903
Rights of use	41	45
	1,722	**2,948**
Tangible fixed assets		
Land, similar rights and buildings	19,632	15,623
Plant and machinery	1,973	1,539
Other equipment, operating and office equipment	4,603	3,497
Advances paid and construction in progress	431	2,243
	26,639	**22,902**
Long-term financial assets		
Shares in affiliated companies	15,804	15,804
	15,804	**15,804**
	44,165	**41,654**
Current assets		
Inventories		
Raw materials, consumables and supplies	12,913	13,353
Work in progress	1,955	2,515
Finished goods and merchandise	5,271	4,976
Prepayments	269	89
	20,408	**20,933**
Receivables and other assets		
Trade receivables (of which due within more than one year: EUR 69 thousand; previous year: EUR 95 thousand)	9,356	8,102
Receivables from affiliated companies	16,178	6,526
Other assets (of which due within more than one year: EUR 91 thousand; previous year: EUR 185 thousand)	2,086	1,786
	27,620	**16,414**
	48,028	**37,347**
Cash-in-hand, bank balances and checks	1,222	7,163
	49,250	**44,510**
Prepaid expenses (of which discounts: EUR 4 thousand; previous year: EUR 8 thousand)	**442**	**392**
Deferred taxes	**122**	**178**
Excess of plan assets over pension liability	**250**	**288**
	94,229	**87,022**

Balance sheet as of 31 December 2014

Single-entity financial statements of LPKF Laser & Electronics AG

Equity and liabilities

EUR thsd.	31 Dec. 2014	31 Dec. 2013
Equity		
Subscribed capital	22,270	22,270
Capital reserves	2,186	2,186
Revenue reserves		
Statutory reserve	41	41
Other revenue reserves	11,200	11,200
	11,241	**11,241**
Net retained profits	14,194	17,088
	49,891	**52,785**
Provisions		
Provisions for pensions	0	0
Tax provisions	0	1,550
Other provisions	6,094	9,078
	6,094	**10,628**
Liabilities		
Liabilities to banks (of which due: within one year: EUR 18,683 thousand (previous year: EUR 4,558 thousand) 1 to 5 years: EUR 3,923 thousand (previous year: EUR 5,731 thousand) more than 5 years: EUR 2,002 thousand (previous year: EUR 2,863 thousand))	24,608	13,152
Payments received on account of orders	669	1,296
Trade payables	2,743	2,797
Liabilities to affiliated companies	8,228	4,973
Other liabilities (of which from taxes: EUR 962 thousand; previous year: EUR 324 thousand) (of which from social security: EUR 24 thousand; previous year: EUR 28 thousand)	1,955	1,346
	38,203	**23,564**
Deferred income	**0**	**5**
Deferred taxes	**41**	**40**
	94,229	**87,022**

Glossary of technical terms

CAGR
Compound Annual Growth Rate

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
Printed circuit board

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 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 2015	Publication of the 2014 annual report
24 March 2015	Financials press conference
25 March 2015	Analyst conference
13 May 2015	Publication of the three-month report
28 May 2015	Annual General Meeting
12 August 2015	Publication of the six-month report
11 November 2015	Publication of the nine-month report

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