Annual Report 2008

Laser technology for tomorrow's world.

LPKF
Laser & Electronics

Short portrait

LPKF Laser & Electronics AG is a leading international company specializing in laser systems for micromaterial processing. LPKF laser systems are mainly used in the electronics, medical and automotive industries, as well as for the production of solar panels. The company was founded in 1976. Its head office is in Garbsen near Hannover, and it has subsidiaries and agencies around the world.

Key Group figures		2008	2007	2006	2005	2004
Turnover	**€ million**	**45.4**	**42.2**	**39.8**	**34.9**	**25.2**
Turnover per region						
Germany	€ million	17.8	10.5	7.5	6.5	5.1
Rest of Europe	€ million	8.0	8.1	9.0	5.2	5.6
North America	€ million	5.5	6.4	6.7	6.0	4.8
Asia	€ million	12.7	15.9	15.6	16.7	8.8
Others	€ million	1.4	1.3	1.0	0.5	0.9
Turnover per segment						
Lasers*	€ million	28.4	24.8	23.5	18.1	12.7
Rapid Prototyping	€ million	15.0	15.3	12.7	10.5	9.8
Special systems	€ million	0.1	0.1	2.2	4.4	1.4
Production services	€ million	1.6	1.8	1.2	1.4	1.0
Others	€ million	0.3	0.4	0.2	0.5	0.3
EBIT	**€ million**	**3.1**	**6.0**	**6.4**	**6.0**	**1.7**
EBIT margin	**%**	**6.8**	**14.2**	**16.0**	**17.1**	**7.0**
Net income after minority interest	**€ million**	**1.8**	**3.9**	**4.0**	**3.0**	**0.9**
Net margin before minority interest	**%**	**5.1**	**10.0**	**11.2**	**10.6**	**4.6**
ROCE (Return on Capital Employed)	**%**	**7.4**	**15.4**	**17.9**	**19.4**	**6.3**
Cash and cash equivalents	**€ million**	**6.0**	**3.0**	**5.2**	**8.6**	**7.1**
Capital ratio	**%**	**68.1**	**69.3**	**71.8**	**74.0**	**70.1**
Cash flow	**€ million**	**5.7**	**6.6**	**6.3**	**5.3**	**2.9**
Investments	**€ million**	**3.3**	**5.7**	**7.5**	**1.9**	**1.4**
Earnings per share, diluted	**€**	**0.17**	**0.36**	**0.37**	**0.28**	**0.08**
Orders in hand	**€ million**	**10.3**	**7.6**	**6.1**	**5.4**	**2.4****
Orders received	**€ million**	**48.1**	**43.2**	**38.4**	**30.2**	**20.9****
Employees		**374**	**339**	**292**	**248**	**223**

20%

... of the LPKF employees work in research and development. Curiosity is an important criterion when selecting staff, just as much as competence and commitment. LPKF not only develops laser systems, but also complete processes – in collaboration with its customers. Laser expertise, mechanical engineering know-how, control engineering competence and in-depth experience in micro-material processing are the platforms for LPKF's global success.

LPKF

- Healthy structures
- Stable basic business
- Large growth potential

68%

The high equity ratio of LPKF Laser & Electronics AG in 2008 of 68 % is a sign of the financial independence and stability of the company. LPKF has outstanding liquidity and a robust asset base.

This is the stable platform on which LPKF develops innovative products with the aim of delivering the greatest possible benefits for its customers. The business model rests on a unique combination of competencies in micromaterial processing – the technological basis for six segments.

LPKF systems are used in three promising markets: electronics, plastic processing and photovoltaics. The diversification of the product portfolio and the target markets reduces dependence on individual sector cycles.

At the same time, the company's innovation strength and the dynamism of the target markets open up opportunities for above average growth in turnover and earnings in the Plastic Welding, Solar and MID segments.

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Message from the Board of Managing Directors

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

Dear Shareholders,

Although 2008 was dominated by a historic financial and economic crisis, LPKF succeeded in boosting its turnover by 7.6% and again proved that the company can keep its business on track even during stormy times. In troubled economic periods in particular, we benefit from our company's broad business activities. Our involvement in three different markets makes us less dependent on the cyclicity of our main market, the electronics sector. We also boast a broad product portfolio which enables us to compensate for declines in turnover in some sectors by stronger growth in others.

Against the background of the global economic crisis, we can be relatively satisfied with the performance of the LPKF Group in 2008. Our forecasts only one year ago, however, looked completely different. All of the signs pointed to expansion, and our three growth segments – Plastic Welding, Solar and MID – in particular promised a strong boost in turnover. We therefore positioned the Group for above average growth in turnover, staffed up, and invested in marketing & sales.

Turnover in the MID and PCB Processing segments then surprisingly declined in the first half of the year. Business in China was also weaker than expected, and the unfavourable development in the Dollar exchange rate cost us orders. All of these factors led to a decline in profit at our headquarters in Garbsen. To improve the results, a range of measures was already implemented in the first half to cut costs. This was paralleled by a focused effort to improve the effectiveness of sales & marketing, and to strengthen R&D activities with the aim of renewing the range of products. Nevertheless, we had to correct our turnover and earnings targets for 2008 when we published our six-months figures.

In the second half of the year, the financial crisis unfolded into an economic crisis affecting markets around the world. At the same time, however, the LPKF Group's business in the third and fourth quarters improved significantly on the first half. Orders received in the MID segment in particular strengthened in the fourth quarter. The Solar and Plastic Welding segments were able to considerably boost their turnover for the whole of the 2008 financial year. Across the Group, turnover at € 45.4 million lay within our corrected range. And with an EBIT margin of 6.8 % we also achieved the forecast level in the upper single figure range.

Despite the robust development of the company relative to others, and the healthy fundamental parameters, our share price dropped steadily during the 2008 financial year, finally collapsing to its lowest point during the year at € 1.54 in August after publication of our turnover and earnings correction. By the end of the year, the share price had stabilised at € 2.00. As a Small Cap, LPKF was thus not able to escape the downward spiral in the international financial markets. The share price developed disappointingly.

To improve our performance sustainably, we will concentrate on the sales & marketing of our products with even greater focus in 2009, strengthened by the appointment of our new CEO, Dr. Ingo Bretthauer. New applications, target groups and sales & marketing channels for existing products across the whole LPKF Group are to be identified and pursued. A particular emphasis will be on the sales & marketing direction of the new MID, Solar and Plastic Welding segments.

In addition, another very high priority will be given to new and further development. The benchmarks for all product optimisation are real benefits which enable our clients to use technological leadership and cost savings to improve their competitive positions. Thanks to the innovative strength of our products, we not only see the current economic crisis as a challenge, but also as an opportunity. Experience has shown that many companies tend to be more willing to invest in new production measures when faced by the pressures brought about by an economic crisis.

We will also keep a critical eye in future on the broad spectrum of our segments and products.

It is currently exceedingly difficult to make reliable forecasts. This is mainly due to the crisis in the financial markets, whose duration and impact on the economy overall and investment behaviour is very difficult to assess. Estimates fall within a large range. We currently aim that business in 2009 will enable LPKF to generate turnover similar to the previous year's level. Profits could improve mainly through the absence of one-off costs. If the financial crisis in 2009 has a much stronger impact on the markets relevant to LPKF than currently expected, this could result in a decline in turnover of up to 25 %, and produce a generally balanced result.

If the macro-economic situation makes a sustained recovery in the second half of the year 2009, the Board of Managing Directors sees good opportunities for renewed growth in turnover and profits in 2010.

We would like to thank all of our staff for their commitment, and the responsible way they have carried out their work in the difficult conditions affecting the market during the reporting period. We thank the Supervisory Board, and of course you, our shareholders, for your loyalty to the Group.

Yours faithfully,

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

Report of the Supervisory Board

Bernd Hildebrandt Chairman of the Supervisory Board

Ladies and Gentlemen,

The 2008 financial year was dominated by some unforeseeable events, whose causes lay within and outside of the LPKF Group. The CEO Bernd Hackmann left the company for health reasons after being with us for 25 years. The Supervisory Board thanks Mr. Hackmann for his commitment to LPKF Laser & Electronics AG over all these years, and wishes him all the best in the future.

In late summer 2008 it became more and more apparent that the financial crisis was unfolding into a global economic crisis, and therefore had and still has a major influence on LPKF as an export-oriented company.

Supervising and advising the Board of Managing Directors in management matters

During the whole of the financial year, the Supervisory Board regularly and intensely supervised the Board of Managing Directors of LPKF Laser & Electronics AG, and ensured that it was informed comprehensively in writing and verbally on business developments and the status of the Group. The Board of Managing Directors informed the Supervisory Board about the risk situation and risk management, as well as the financial, investment, human resources and strategic planning. The Supervisory Board held 14 official meetings in 2008 (2007: 10). When necessary, the Supervisory Board also met without the Board of Managing Directors. In addition, there were also numerous talks and telephone conversations which were not documented. The Supervisory Board was therefore involved in all decisions of importance to the company.

Main focus of the meetings

The goal of finding a new highly qualified CEO as quickly as possible was given the highest priority to maintain the continuity of the company's management. With the appointment of Dr. Ingo Bretthauer on 1 February 2009, the Supervisory Board, in agreement with the active members of the Board of Managing Directors and the second management level, succeeded in rounding off the top management level of the company with an acknowledged sales & marketing specialist.

Talks were also held with the Board of Managing Directors concerning the potential risks for the company's export activities. The fourth quarter of 2008 highlighted that the LPKF Group is above averagely well equipped thanks to the innovative strength of its products. Despite the difficult economic situation, the fourth quarter was very sucessful. Against the background of the current economic climate it is difficult to forecast how things will develop in future – the consequences of the economic crisis in our main sales markets such as China, Japan and the USA, are unpredictable at the moment. Nevertheless, it is a notable fact that even during this troubled period, four prestigious cell phone manufacturers chose the innovative LPKF LDS method to manufacture their antennae.

The Supervisory Board dealt with the issue of Corporate Governance at two meetings covering aspects such as the Declaration of Compliance and an efficiency audit of the Supervisory Board activities. The Declaration of Compliance with the German Corporate Governance Code for the 2008 financial year was issued by the company on 10 November 2008 and made accessible to shareholders on the company website.

Risk management is a particularly important issue under the present circumstances. The Board of Managing Directors has at its disposal plans and catalogs of measures which anticipate a range of business development scenarios and set out the appropriate measures. Risks are identified and controlled using existing instruments such as the risk management manual and the reporting tools which are continually updated. The implementation of the risk management system is documented. As in previous years, the existing and potential risks in the 2008 financial year were reassessed, and the reporting system analysed to check its efficiency in dealing with any risks. A continuous exchange of information also takes place on this issue with the branch managers and subsidiaries. The DIN EN ISO 9001:2000 quality management system is another important component in the early identification of risks, and the properly regulated and efficient transaction of business processes.

Annual financial statements and Group audit

The Supervisory Board engaged PricewaterhouseCoopers AG to audit the 2008 annual financial statements and the Group financial statements in accordance with the resolution passed by the annual general meeting. Individual and Group financial statements were audited and given unconditional approval by the auditor. The auditor participated at the special Supervisory Board meetings arranged for the purpose on 23 February 2009 and 26 March 2009 where he reported on the audit of the annual financial statements.

The Supervisory Board's own examination of the annual financial statements and the management report produced no reservations. The Supervisory Board approved the auditor's findings and approved the annual financial statements. The annual financial statements are thus authorized. At the meeting on 26 March 2009, the Supervisory Board analysed and accepted the recommendation by the Board of Managing Directors to appropriate the net income.

Owing to the drop in profit and the great uncertainties concerning the further economical situation, the Board of Managing Directors and the Supervisory Board will propose a resolution at the annual general meeting on 4 June 2009 to renounce payment of a dividend and carry forward the entire net income for the 2008 financial year of LPKF Laser & Electronics AG of € 942,034.35.

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

The Supervisory Board thanks the Board of Managing Directors, the works council, and all employees for their successful cooperation in 2008. Thanks also go to the management and staff of all Group companies. We would also like to acknowledge our thanks to all of our partners, our representatives all over the world, as well as our suppliers, institutes and universities.

The existing product range with highly innovative production processes opens up excellent application opportunities for our clients, particularly in the current crisis. Our outlook for the future is therefore positive despite the undeniably difficult economic climate.

Garbsen, March 2009

Bernd Hildebrandt
Chairman of the Supervisory Board

Message from Bernd Hackmann

Bernd Hackmann Former CEO

Ladies and Gentlemen, Dear Shareholders,

This year, I not only look back on a particularly eventful and demanding financial year in 2008, but also on my 25 year association with LPKF Laser & Electronics AG. As already announced back in October 2008, I stepped down as CEO at the end of the year to focus on new activities. I will, however, be closely associated with LPKF as a shareholder, and will continue to follow the further development of the company with great interest.

My last year as CEO of LPKF Laser & Electronics AG was a difficult one. Whilst the situation at the end of 2007 was one where all signs pointed to further growth in the global economy, and internally we observed clear signals for a strong expansion in turnover, 2008 actually turned out completely different.

The slump in sales in our MID and Stencil segments in the first half of the financial year forced us to amend our forecast turnover for 2008. The financial crisis and continuing bad news from the financial markets punished our share price and depressed the overall mood. Nevertheless, LPKF ended the 2008 financial year with a growth in turnover of 8 % and never allowed itself to be discouraged by the general feeling of pessimism. As a technology company and a pioneer in new innovative production processes, we can also see the opportunities brought about by difficult times such as these.

In my many years of working for LPKF, I have noticed that customers are particularly open for production innovations during critical times. Research and development has therefore not stood still in 2008 – quite the reverse, R&D has gone ahead at full power on new and further developments so that LPKF can continue its business in the following years without having to fear the competition.

It is currently not possible to foresee the extent or end of the current economic crisis. LPKF is well aware of the hazards and risks that a global recession can bring, and is responding very prudently. However, the company still wants to and can grow further. Some of the markets in which LPKF is currently involved have enormous growth potential.

I am very confident that LPKF will be a source of good news in 2009, and wish my management board colleagues a successful and profitable future!

Garbsen, January 2009

Yours faithfully,

Bernd Hackmann

Corporate Governance Code

The Supervisory Board of LPKF Laser & Electronics AG passed the following Declaration of Compliance according to Section 161 German Stock Corporation Act at its meeting on 10 November 2008. The Declaration of Compliance is published in the internet at www.lpkf.com and thus made permanently accessible to all shareholders and potential investors.

Declaration of Compliance according to Section 161 German Stock Corporation Act

The Board of Managing Directors and the Supervisory Board of LPKF Laser & Electronics AG accept the recommendations of the government commission on the German Corporate Governance Code dated 6 June 2008, and declare that the recommendations of the code have been observed and will be observed in the future with the following exceptions:

1. The size of the Supervisory Board of LPKF Laser & Electronics AG sensibly reflects the size of the company and consists of three people: Mr Bernd Hildebrandt, Dr. Heino Büsching, and Prof. Dr. Erich Barke. This means that even without forming committees, LPKF Laser & Electronics AG can effectively, quickly and competently involve the members of the Supervisory Board in the company affairs, to guarantee intense supervision of the Board of Managing Directors based on a well informed understanding of the facts. For LPKF Laser & Electronics AG to form committees would also contravene best practice because the committees also need to consist of at least three members. For this reason, the recommendations of Article 5.2, Section 2 as well as Article 5.3.2 GCGC are not relevant to LPKF Laser & Electronics AG.

2. The quarterly and half year financial reports were published 50 days at the latest after the reporting period due to the extensive Group interdependencies. From 2009, LPKF will publish the reports within the 45 day deadline recommended by the Corporate Governance Code (Article 7.1.2 Section 4, Second Subsection GCGC).

3. The management contracts have three year terms and therefore no severance payment cap (Article 4.2.3 Paragraph 4 and 5 GCGC).

Comment:
Details on the share option programme and similar securities-oriented staff incentive packages operated by the company are discussed in the Notes and in the remuneration report (Article 7.1.3, GCGC).

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

Garbsen, March 2009
LPKF Laser & Electronics AG

Dr. Ingo Bretthauer
Chairman of the Board of Managing Directors

Bernd Hildebrandt
Chairman of the Supervisory Board

LPKF shares suffer in the financial crisis

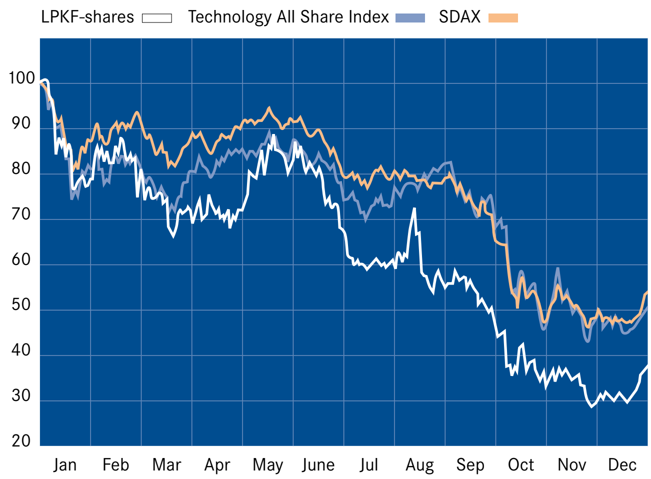
Share price development

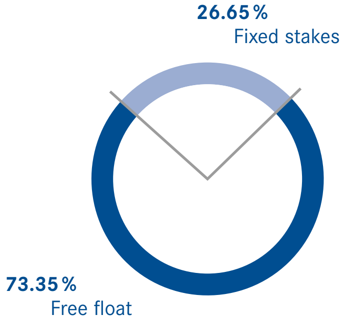
The stock markets in 2008 were strongly influenced by the worries of investors about a global recession, and the crisis affecting financial institutes. As already demonstrated in the second half of 2007, these uncertainties caused particularly strong slumps in the share prices of smaller companies. Whilst the DAX index, which is made up of the 30 largest German publicly quoted companies, dropped more than 40 per cent in 2008, the SDAX, which is made up of smaller companies, dropped by as much as 51 per cent over the year.

LPKF shares felt the full force of this trend. Up to the end of June, its share price virtually tracked the SDAX. Starting from a share price of € 5.30 at the beginning of 2008, LPKF shares considerably reduced the initial losses and reached a price of € 4.68 at the beginning of June. One of the reasons for the relatively good interim development in the share price was the announcement of large orders by the Solar segment at the end of the first quarter. Up to September, the share price fluctuated strongly in a corridor between € 3.00 and € 4.00.

The shares then collapsed when the turnover and profit forecasts were revised in September. The insolvency at the same time of the US investment bank Lehmann Brothers caused an additional drop in share prices around the world. At the latest from this time onwards, some investors questioned the overall stability of the global financial system. Investors predicted that smaller publicly quoted companies in particular could find it difficult to acquire the capital they needed – whether external capital or shareholders' equity – to finance their growth.

Share price development in 2008 (%)





Shareholders' structure as at 31.12.2008

Fresh worries about a deep recession in the global economy in 2009 added to the sense of gloom at the end of the year. LPKF as an investment goods producer is also placed by the financial market in the cyclic shares category.

Although LPKF is not directly affected by the financial crisis, and continues to have very good financial resources, the company had to live with another slump in its share price from September, taking it down to its lowest level for the year at € 1.54 in November. A recovery in the share price by the end of the year to € 2.00 failed to improve the overall situation significantly. All in all, LPKF shares closed the year down 62 %.

Despite the extremely difficult economic environment, the company reported a stable development in turnover and posted visible successes in the Solar and Plastic Welding growth segments. Considering the continuing healthy state of the company's fundamental parameters, LPKF shares still have an attractive evaluation. The development in the price of LPKF shares is therefore very disappointing in this context.

Transparent communication is important, particularly when conditions are difficult

Up-to-date, transparent communication with investors is particularly important when doubts are raised about the state of the overall economy. LPKF therefore again placed a high priority in 2008 on maintaining dialog with all players in the financial markets. This also includes the reliability of management forecasts. Because of the downturn in turnover in the MID and Stencil segments, the Board of Managing Directors revised its turnover forecast early on when it published its second quarter results. The new turnover target of € 43-45 million was ultimately achieved. The forecast EBIT margin in the upper single figure per cent range was also communicated early and achieved.

Kai Bentz Director/CFO

LPKF informs all interested parties early on with quarterly reports on its business performance, as well as releasing information on important changes to its business activities. Information relevant to the share price is also immediately published in the form of ad hoc announcements. The more intense press and public relations work has enabled LPKF to increasingly highlight the growth potential of LPKF AG. Direct, personal contact with investors is particularly important in the present situation. The main platform here is the annual general meeting, which was attended by 300 shareholders who used the opportunity to be informed directly by the Board of Managing Directors about the company's situation and prospects. Kai Bentz is the board member responsible for Investor Relations. He took part in one-on-one talks, road shows and investor conferences, to explain to institutional shareholders the strategy and potential of the company.

Internet chat with the Board of Managing Directors

Another form of direct communication with investors is the internet chat, a forum particularly attractive to private investors. Interested parties have an opportunity to direct their questions directly to the management on a regular basis following publication of the quarterly and annual reports.

Muted optimism

The outlook for the stock markets in 2009 is difficult to predict given the numerous gloomy forecasts and bad economic news. Experts are forecasting that there will be a turnaround and that this will first reveal itself in the financial markets. LPKF will therefore pursue its Investor Relations work as intensely as ever, and position itself in the financial markets.

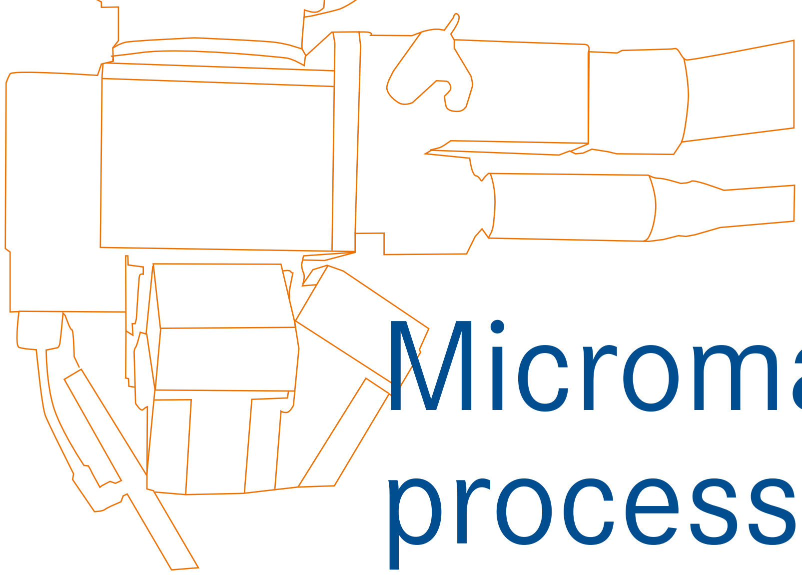
Key figures LPKF shares

International Securities Identification Number (ISIN)	DE 0006450000
Exchange abbreviation	LPK
Sector	Advanced Industrial Equipment
Market segment	Prime Standard
Indices	Technology All Share Prime All Share CDAX GEX NISAX 20
Designated Sponsor	DZ Bank NordLB
Stock markets	Xetra, Frankfurt, Stuttgart, Munich, Hannover, Berlin/Bremen, Duesseldorf, Hamburg
Investor Relations contact	Bettina Schäfer Tel: +49 (0)5131-7095 382 Fax: +49 (0)5131-7095 90 b.schaefer@lpkf.de

Stability through experience

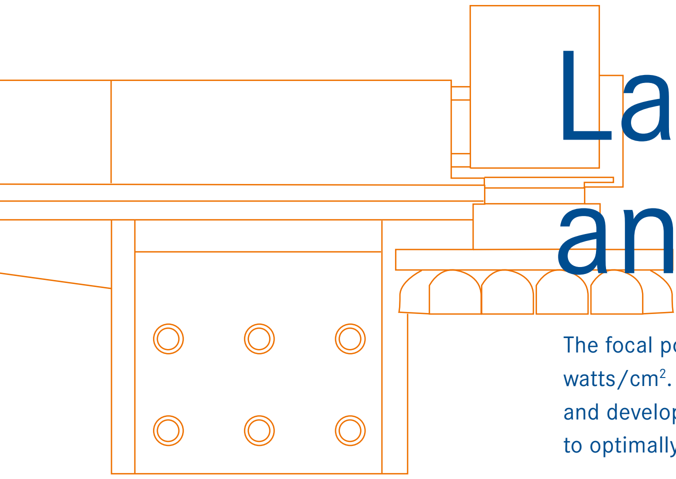
More than 30 years experience makes LPKF a productive and efficient partner. LPKF’s know-how and its clients’ ideas give rise to innovative and efficient machines and production processes – for many sectors.

Process engineer **Bernd Rösener** has significantly contributed to the development of the LPKF LDS method.



Micromaterial processing

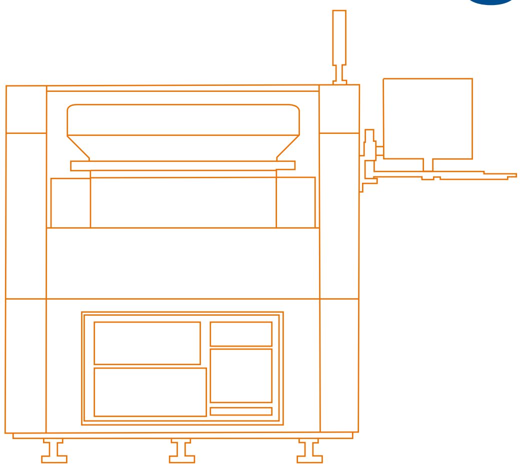
Laser micromaterial processing is based on the complex interaction between laser beams and materials. LPKF engineers develop installations for and together with clients to optimally realize the defined product specifications. The process expertise and know-how from numerous development projects flow into the design, control software, and ultimately into the whole processing procedure. Thanks to its in-depth experience with drive technology, laser sources and materials, LPKF finds the optimal solutions to achieve its clients' objectives.



Laser technology and optics

The focal point of a laser beam generates heat outputs of several gigawatts/cm^2. This energy makes lasers a highly attractive tool for production and development. LPKF manufactures its own laser sources and is able to optimally integrate beam paths and optical components.

Drive and control technology



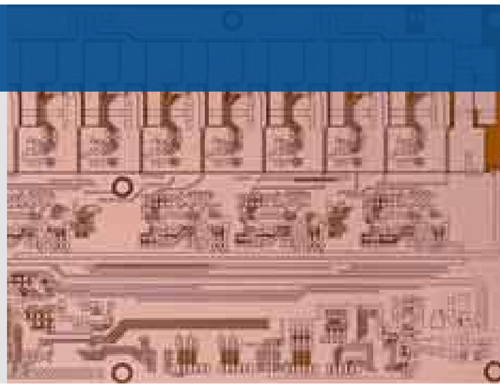
Short cycle times, micrometer-precise positioning: thanks to extremely dynamic and precise movements, this technology shortens the processing times during tool and work piece handling. Modern production processes demand minimal tolerances and high repetition accuracy. The control technology developed by LPKF is a vital component for the overall solution. Thanks to intelligent CAM data generation and processing, it ensures the perfect interaction of lasers, deflection systems and drives.

New developments and markets

LPKF is a technology group – and technological progress is the LPKF way. This means continuously striving to maintain leading positions on the basis of superior technical solutions. 2008 was a very innovative year. New laboratory-sized laser systems for prototyping and small batches, modular plastic welding lasers, and a completely new LPKF StencilLaser product line, form a superb springboard for future business success. LPKF focuses its sales and development activities on the electronics and polymer market, as well as photovoltaics.

LPKF ProtoLaser S

In 2008, the LPKF ProtoLaser S began its march into the laboratories and development departments of universities, research institutes and high-tech companies. It can structure prototype printed circuit boards in previously unattainable quality within only a few minutes.



Prototype PCB

LPKF LQ-Vario

The LQ-Vario is a new laser system developed for industrial plastic welding. It combines quality, simple operation and economic processing within a single flexible production system.

Microfluidic cartridge

LPKF Allegro

The LPKF Allegro thin film scribers ensure that solar panels work at optimal efficiency levels. They work extremely precisely, quickly and dynamically – and reduce the costs for pre-treating the glass base material. LPKF therefore makes an important contribution to the commercial use of thin film solar panels.

Thin film solar panels

The electronics and the polymer market are already key sectors. Photovoltaics and thin film technology in particular enjoy a continuous rise in demand. The importance of lasers as an industrial production tool is also on the rise. LPKF concentrates on these three important markets which benefit from mutually offset sector cycles.

Electronics

Laser technology is the ideal tool for the prudent economic implementation of inescapable trends towards shorter product cycles, increasing miniaturisation, and more diverse functions. Laser systems made by LPKF allow electronic producers to push their developments faster through the product pipeline for quicker time-to-production and market launch. LPKF has three segments involved in the electronics sector – for the benefit of electronic design engineers, the printed circuit board industry, and for subassembly and component production.

Plastics

With their broad spectrum of different properties, plastics are conquering more and more industrial fields. The compatibility of laser beams and polymers is highlighted by two areas of application: Plastic Welding and MID. LPKF has the technical expertise to produce electronic circuits on three-dimensional components. Laser Plastic Welding is an ideal way of producing precise, reliable and hygienic joins. It has established itself particularly successfully in the automotive and medical technology industries.

Photovoltaics

Solar power occupies a key position as a renewable energy source. The thin film solar technology backed up by LPKF expertise boasts a good energy and material balance during production, and produces good results, particularly under diffuse lighting conditions – an essential property for its use in countries within Europe. The forecast growth in thin film solar technology opens up new opportunities.

Electronics – bringing innovations alive

Fantasy knows no limits when it comes to all the things mobile telephones should be able to do! Electronic design engineers around the world try to satisfy as well as predict these desires. This means there is only one way to go: creative solutions.

1.24

… billion mobile phones ran off the production lines of the phone manufacturers in 2008. Each one is a technical masterpiece. Phoning, photography, organising – a lot of technology in a tiny space. LPKF enables even more efficient mobile telephones thanks to its patented LPKF LDS method. LPKF's customers use laser technology to make complicated antennae for radio frequencies, radio reception and BlueTooth connections on three-dimensional components known as molded interconnect devices (MIDs).

2009 will be a good year for innovative MID technology: In addition to big-name telephone producers, a major car and motorbike manufacturer also chose LPKF technology for the series production of three-dimensional circuits, because the technical and qualitative benefits of the method have a positive impact on commercial success.

Plastics – Laser Welding is the new standard

Plastics of various kinds are conquering an increasing range of applications. This goes hand-in-hand with processing methods best capable of handling the special properties of this modern material. Companies in the automotive and medical technology sectors have been won over by the advantages of laser welding: thanks to the economic benefits and flexibility, and the hygienic and reliable processing.

2 meter

... long welding seam on a disposable cartridge the size of a cigarette pack: microfluidics is one of the most innovative diagnostic tools in modern medicine. Only one drop of blood is required to immediately carry out a large number of analyses.

Doctors no longer need a sophisticated laboratory, just a small diagnostic device - and the laser-welded plastic cartridges. No other technology can satisfy the stringent criteria demanded by this type of application – such as process monitoring during production, clean-room compatibility, and particle-free processing: laser welding is the only choice. This opens up huge potential. LPKF’s response is the LQ-Vario laser plastic welding system specially designed for microfluidic applications.

Photovoltaics – Thin layers, big output

1.08x

Economical solar panels are characterised by low levels of material and energy input during manufacture, and high levels of efficiency when converting sunlight into electrical power. This is precisely what marks out thin film solar panels – they create the conditions for further expanding the pro-environment use of solar energy.

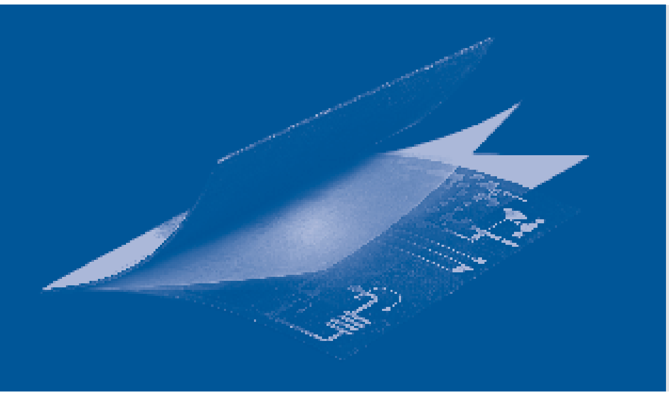
10^{18} kWh

… is the amount of energy from sunlight which hits the earth's surface every year – ten thousand times more than global primary energy consumption. An amazing potential: solar energy can be converted into electrical power by solar panels – and the demand is so high that there is now a shortage of highest grade polycrystalline silica in the quality required for conventional solar panels. By contrast, the active layers in thin film solar panels are only a few micrometer thick and require much less silica.

Thin film solar panels boast good efficiency levels even in diffuse sunlight. They are therefore excellent for large – also vertical – facade installations. As a supplier of particularly productive laser devices, LPKF plays a big role in assuring the quality and efficiency levels of thin film solar modules.

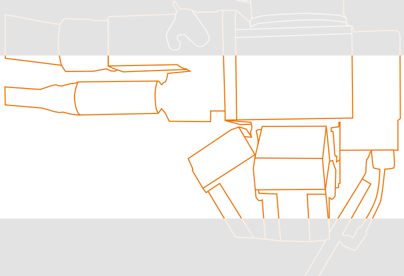
Business Segments at a Glance

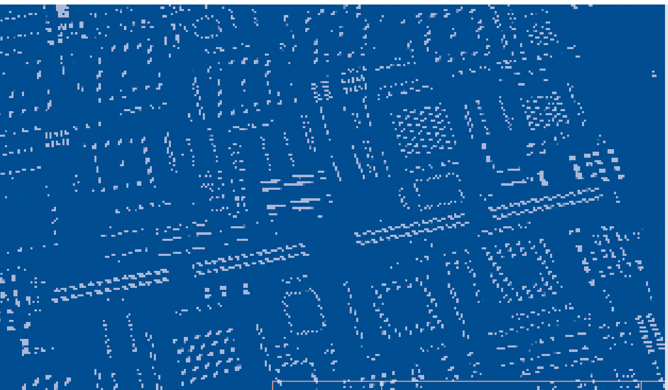
LPKF has an unmistakable profile. Its commercial success is based on technical excellence and competence in micromaterial processing and optics, as well as laser, drive and control technologies. This led to the creation of six segments. Every one of these divisions strives to attain and expand technological leadership in the global markets.



Rapid Prototyping

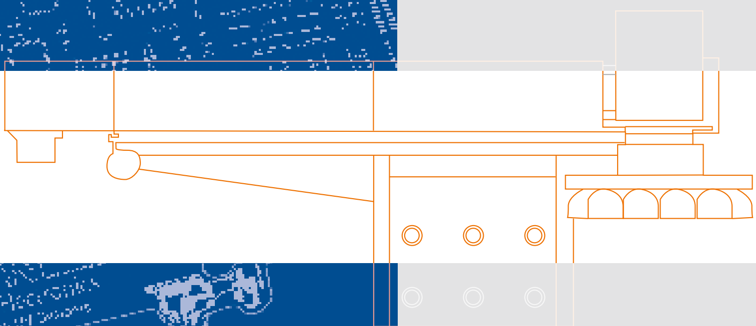
LPKF supplies everything needed by electronics laboratories for the in-house prototyping and assembly of PCBs of all kinds without the use of chemicals. This turns ideas quickly into prototypes or small batches without sending sensitive data out of the company. LPKF is the global market leader in circuit board plotters and complete solutions for in-house PCB prototyping.

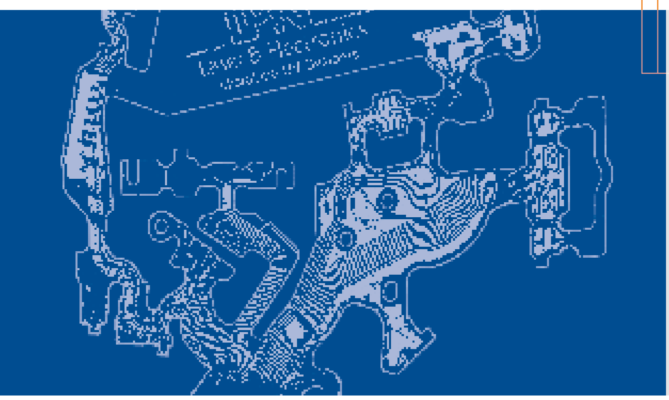




Stencil

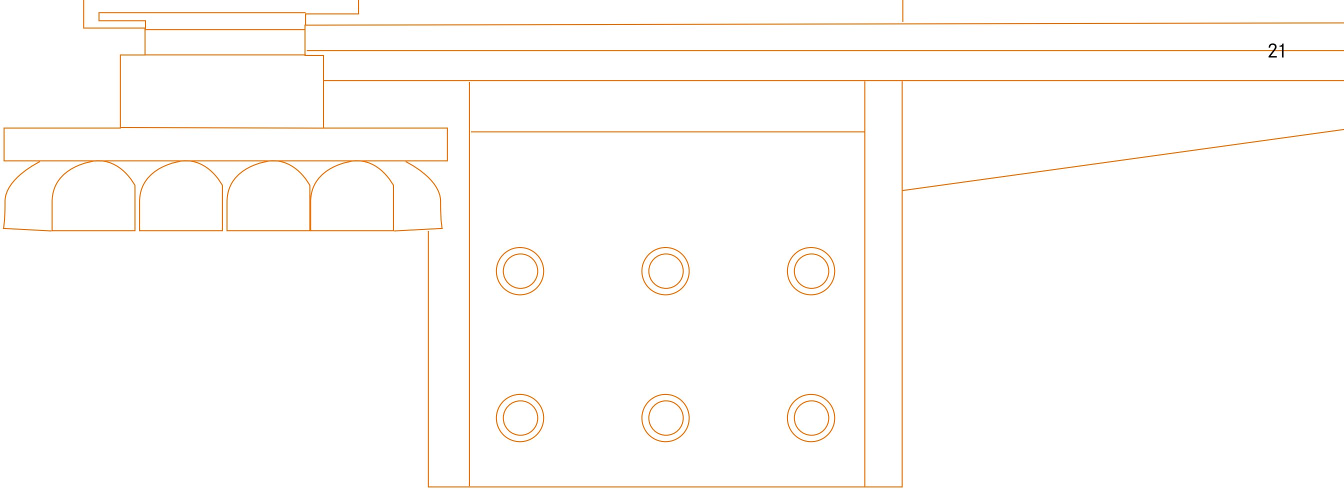
As the global market leader, LPKF produces highly dynamic laser systems for cutting the print stencils used to print solder paste onto printed circuit boards. Stencils are required to safely connect tiny SMD components or highly integrated components to PCBs.

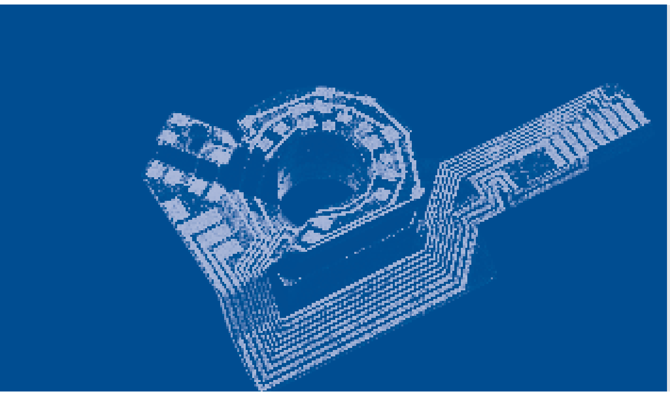




PCB processing

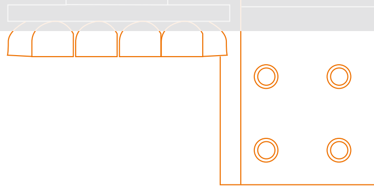
LPKF specializes in designing and building laser systems for cutting printed circuit boards and flexible circuit carriers. Laser cutting is so precise that it does not damage the surrounding areas and therefore also saves space. The non-touch method can depanel assembled as well as unassembled circuit boards.





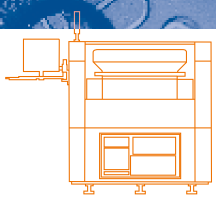
MID

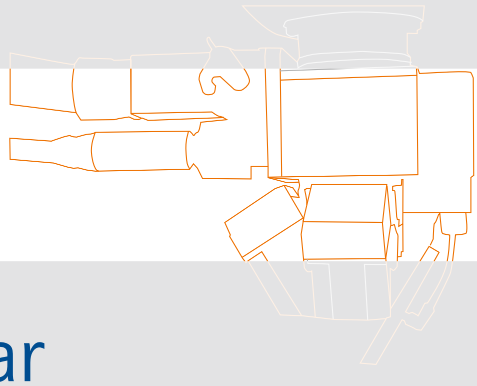
LPKF builds specialized laser systems for manufacturing molded interconnect devices (MIDs) using the patented LPKF LDS method. MIDs are three-dimensional circuit carriers which combine mechanical and electronic functions. They reduce the amount of space required for components and cut the number of processing steps needed during subsequent assembly.

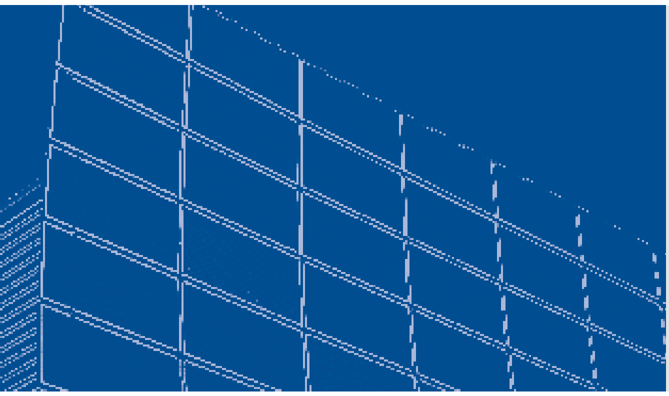


Plastic Welding

LPKF produces standardized and customized laser systems for Plastic Welding. This method is now a well established production technique in the automotive and medical technology industries because it is economical, reliable and hygienic.







Solar

LPKF develops and manufactures specialized laser systems for scribing thin film solar panels. These proven systems scribe high precision insulation channels on large module carriers – the integrated track control guarantees the high quality and outstanding efficiencies of the panels produced this way.

18 months

... of intense development work have paid off with higher performance at lower system costs. LPKF succeeded in this balancing act with the launch of its Gantry architecture – with a completely new StencilLaser family. StencilLasers cut the highly precise stencils used to print solder paste onto SMD components. The new StencilLaser G 6080 is the fastest and most productive system anywhere in the world – LPKF's new flagship as the world market leader in stencil lasers.

Contents
Group management report 2008

374 Export Ratio

Group management report 2008

The LPKF Group management report has been adapted to comply with the standard (DRS 15) recommended by the Accounting Standards Committee of Germany (DRSC). It therefore has a different structure to the management reports in previous years' annual reports. This restructuring simplifies a comparison of the LPKF Group management report with the management reports issued by other companies.

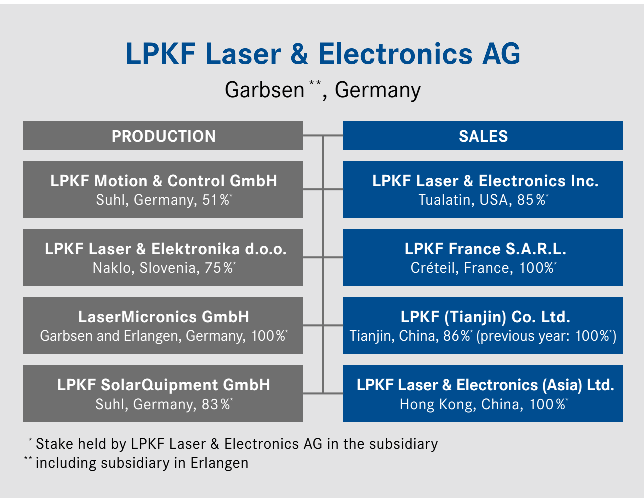
I Business conditions and overall business environment

1. Group structure and business activities

LPKF develops and produces systems for material processing. Because of its technical leadership in some areas of micromaterial processing with lasers, the company is one of the leading laser technology enterprises worldwide. The LPKF Group has special competence in micromaterial processing, laser technology, optics, drive technology and control technology. The laser systems built by LPKF are used in the electronics industry, for plastic processing, and in the manufacture of solar panels. 60,8 % of the company's turnover is export generated. LPKF Laser & Electronics AG is quoted in the Prime Standard index and employs 374 staff worldwide.

1.1. Legal Group structure

The legal structure of the LPKF Group remained largely unchanged in the 2008 financial year. LPKF Laser & Electronics AG currently has eight subsidiaries. Together with the parent company, they form the consolidated Group.



1.2. Segments

The LPKF Group currently has the following segments: Rapid Prototyping, Stencil, PCB Processing, MID, Plastic Welding and Solar. In addition to machines, the Group also supplies production services.

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

The following business areas are reported in the Laser segment.

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

LPKF's **PCB Processing** business serves the electronics market with specialized systems for PCB processing, and especially the cutting of printed circuit boards and flexible circuit carriers.

LPKF also delivers specialized laser installations and process expertise for the manufacture of molded interconnect devices: this is the **MID** business area.

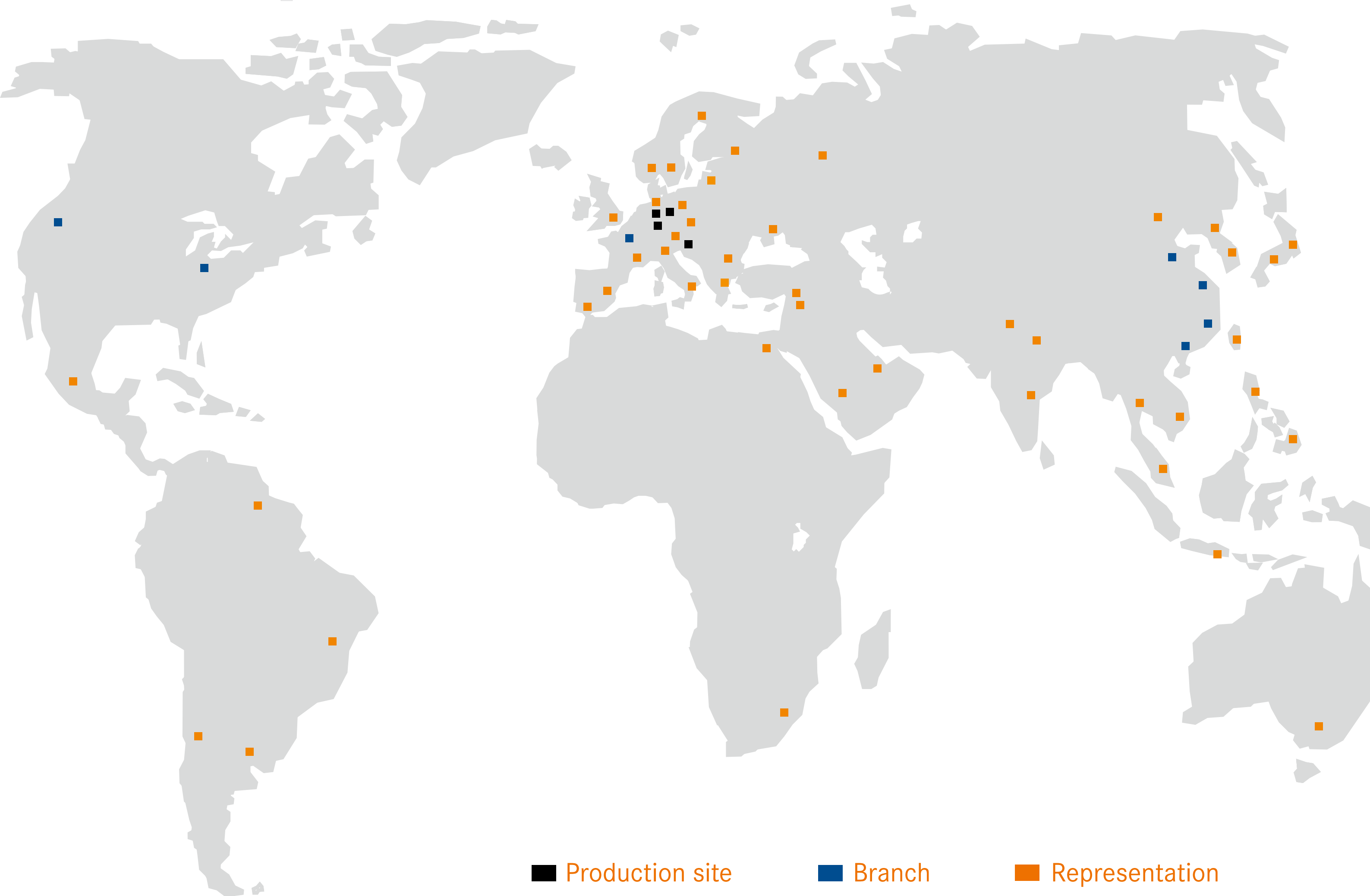
The **Plastic Welding** business is one in which LPKF develops and sells standardized and customized laser systems for joining polymer components.

Laser systems for structuring thin film solar panels are developed and manufactured by the **Solar** business area. LPKF Laser & Electronics AG is in charge of the laser technology development work, whilst other Group companies are responsible for developing drive systems, system production, product management and sales & marketing.

1.3. Competitive position

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

61 %
Employees worldwide



1.4. Locations

Garbsen, Germany: headquarters, production, development, sales & marketing and service – The turnover at this location is slightly below last year's level because turnover in the MID and PCB Processing segments was below target. Intense R&D work was carried out in 2008 to push new products through the development pipeline, which means that the starting position for the 2009 financial year is seen as positive, even in the face of the current economic environment. Garbsen is also the location of LaserMicronics GmbH, a company which supplies production services using LPKF systems.

Erlangen, Germany: production, development, sales & marketing and service – Business with laser plastic welding systems developed positively in 2008 and has grown strongly. LaserMicronics GmbH also provides plastic welding production services at its Erlangen location.

Tualatin, USA: Sales & marketing and service – In the first nine months of 2008 the North American market continued the growth trend – at least on a Dollar basis – established in the previous financial year. Development in the fourth quarter 2008, however, was very muted. LPKF Laser & Electronics Inc. was nevertheless able to end the 2008 financial year with a balanced result.

Suhl, Germany: Development, sales & marketing, production and service – Suhl is home to the subsidiaries LPKF Motion & Control GmbH and LPKF SolarQuipment GmbH. Business is currently mainly focused on solar, and involves other consolidated companies which are mainly involved in laser technology. The new segment is already profitable. The internal supplier function of this location within the Group is decreasing in importance.

5 subsidiaries

Naklo, Slovenia: Sales & marketing, production and service – After bringing together at this one site last year the business activities previously scattered at several locations, the Slovenian company is now primarily concentrating on the production of ProtoMats, as well as the development and production of laser sources for the LPKF Group. LPKF Laser & Elektronika d.o.o. generated a very good performance in 2008 thanks to the good development of the Rapid Prototyping business and the internal sales of laser sources across the Group.

Créteil, France: Sales & marketing – Turnover in this important European market more than doubled in 2008 thanks to good business in the Rapid Prototyping and Plastic Welding segments. However, it has still not been possible to generate a profit because sales & marketing expenditure rose significantly compared to the previous year. A balanced result is forecast for the ongoing financial year 2009. The increased sales efforts are expected to boost the business with systems for plastic welding.

Hong Kong, China: Service – This location was restructured in 2008. It involved concentrating the sales & marketing activities for MID and PCB Processing systems in Garbsen to satisfy the growing significance of key account business, as well as economic requirements for a healthy cost structure. The staff in Hong Kong therefore focus on service activities for the whole of Asia. After a weak performance in 2008 and finalisation of the restructuring process, a balanced result is forecast for 2009.

Tianjin, China: Sales & marketing, service – The LPKF subsidiary is active at five locations in the very important Chinese market. Successes in Rapid Prototyping and PCB Processing systems were unable to compensate for the poor development in StencilLasers. Nevertheless, LPKF (Tianjin) Co. Ltd. made a positive contribution to the Group result. A positive development is forecast for the ongoing 2009 financial year. As planned, the Chinese management acquired a total stake of 14.0 % in the company in the fourth quarter 2008.

1.5. Production and procurement

LPKF Motion & Control GmbH in Suhl/Germany assembles and supplies parts for table systems and machine controls. There is currently a shift in the company's main focus: solar scribers are being developed and produced in Suhl in close cooperation with the other consolidated companies involved. Circuit board plotters and other equipment, and some of the laser sources used, were supplied by LPKF Laser & Elektronika d.o.o. in Slovenia. Generally, the Group acquires no complete systems from third parties. In so far as system components are purchased from outside the Group, these are generally sourced by several suppliers. However, a large proportion of the purchased volume involved a relatively small number of suppliers which are important for LPKF's business. The production of laser plastic welding systems takes place in LPKF Laser & Electronics AG's branch in Erlangen/Germany. Other laser systems are produced mainly in Garbsen.

1.6. Sales & marketing

Global sales & marketing in the most important regions especially is handled by subsidiaries in China, North America, France and Slovenia. The Group is represented by subsidiaries or distributors in 79 countries. Garbsen is responsible for managing the sales & marketing activities and the distributors. This function is carried out by the units in Erlangen/Germany and in Suhl/Germany for the Group's Plastic Welding and Solar technology activities.

1.7. Management and control

Management and control organisation

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

LPKF is represented in 79 countries

in China

The Board of Managing Directors of LPKF Laser & Electronics AG was made up of the following members in the 2008 financial year:

- Bernd Hackmann, Chairman of the Board of Managing Directors (CEO) up to 31 December 2008
- Bernd Lange, Director (COO)
- Kai Bentz, Director (CFO)

Dr. Ingo Bretthauer was appointed as new Chairman of the Board of Managing Directors (CEO) on 1 February 2009.

The Supervisory Board was made up of the following members in the 2008 financial year:

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

Outline of the remuneration system

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

Part of the performance-related component is based on the consolidated EBIT in the 2008 financial year (previous year: EBT). No retrospective changes in the performance targets are permitted. In addition, share options were issued as salary components as part of the long-term motivation strategy defined in the 2001 Share Option Program.

Three former members of the Board of Managing Directors were awarded the following benefits:

- Pension
- Occupational disability allowance
- Widow's pension
- Compensations

The pension is paid upon stepping down from the company:

- generally upon reaching the age of 65 (age limit) or
- after receiving a pension from the German national pension scheme before reaching the age limit, whereby the number of years of service must comply with a minimum period.

This benefit comprises a monthly pension defined in the pension undertaking, which is reduced pro rata when leaving the company early. A support fund for two other active members of the Board of Managing Directors was set up, into which the company has to pay a fixed annual amount. No provisions for pensions are required in this case.

Remuneration of the Supervisory Board:
In 2008, as in the previous year, the members of the Supervisory Board received fixed remuneration and a variable remuneration depending on the dividend and according to the articles of association of LPKF Laser & Electronics AG.

1.8. Legal and economic influencing factors

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

2. Company management, goals and strategy

The highest priority of the LPKF Group is to boost the value of the company through profitable growth, financial solidity, and adequate returns on the employed capital.

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

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

Expenditure for R&D 12 % of turnover

Special Effects of

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

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

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

With a turnover of € 45.4 million in the 2008 financial year, the Group grew slower than forecast compared with the previous year. In the medium term, the LPKF Group can look back on unbroken profitable growth. The whole Group is oriented to generating a continuous improvement in its value in the future.

2.1. In-house management system

Management system figures

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

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

%	2008	2007	2006	2005	2004
EBIT-Margin	6.8	14.2	16.0	17.1	6.8

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

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

This ratio has developed as follows over the last five years:

%	2008	2007	2006	2005	2004
ROCE	7.4	15.4	17.9	19.4	6.3

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

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

Target-actual comparison of planning and realization

In November 2007, a turnover target for the Group of € 50.0 million was set for 2008, with a forecast EBIT margin of 13 – 16 % up to 2010. After a difficult first six months, and an increasingly problematic economic environment, this target for 2008 was reduced to an EBIT margin in the upper single figure percentage level, and a planned turnover of € 43.0–45.0 million in 2008. This plan was achieved by the end of the year with a turnover of € 45.4 million and an EBIT margin of 6.8 %. Special effects amounting to € 0.8 million burdened the EBIT. Further details on this topic can be found under section II 1.3.

The rate of return target in the form of the ROCE ratio has never been published before by the Group. A ROCE of 7.4 % was achieved in the reporting period. The aim is to improve this level in the years to come.

2.2. Strategy

Strategic orientation of the segments

LPKF is involved in six segments. The Group's growth segments include Plastic Welding, Solar and MID. The Board of Managing Directors considers that these segments are capable of generating above average growth in the years to come. The segments bundled within the basic business category are those in which LPKF has been active for many years and which are only thought to be capable of minor growth. These segments include Rapid Prototyping, Stencil and PCB Processing. LPKF's growth strategy

€ 0.8 million

involves the systematic expansion and further internationalisation of the growth segments. The basic business with its commercial position secures the basis for further development.

Strategic Group structure, equity stake
Regular examination is carried out to determine the need to change the Group structure in the light of changes in market conditions.

With a high equity ratio of 68.1 % compared to the rest of the sector, there is currently considered to be no need to raise this level further. In the current economic environment, the strong equity position reflects the financial security and stability of the company.

At the balance sheet date, 26.6 % of LPKF shares were classified as fixed stakes and 73.4 % as free float in accordance with the definitions issued by Deutsche Börse AG.

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

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

3. Research and Development

3.1. Focus of R&D work
All development projects are directly connected to market requirements. The Group does not conduct fundamental research. The R&D work carried out by the LPKF Group in 2008 largely focused on modernising and further developing the product portfolio. The priorities of this work were boosting customer benefits by raising throughput rates, adding new functions, and reducing the procurement and operating costs of these systems. Development projects are partly conducted together with universities and industrial partners.

3.2. R&D expenditure, R&D investment and R&D ratios
Continuous investment in near-to-market developments are of crucial importance to the technology-based LPKF Group. The LPKF Group spent € 5.4 million on R&D in 2008. This corresponds to 11.9 % of turnover.

3.3. R&D employees
The number of Group employees working in R&D totalled 83 on average, around the same level as the previous year.

3.4. R&D results
The StencilLaser product line was completely renewed within 18 months with the development of three new StencilLasers. In addition, new systems for PCB Processing, Solar, Rapid Prototyping and Plastic Welding were also developed in 2008.

3.5. Multi-period chart for R&D

	2008	2007	2006	2005	2004
R&D expenditure in € million	5.4	4.8	3.8	3.4	3.4
in % of turnover	11.9	11.4	9.6	9.7	13.5
Ø R&D employees	83	75	61	53	47

4. Overview of the general development in business

4.1. Macroeconomic framework
The 2008 financial year was significantly influenced by the crisis in the international financial markets and their consequences for the overall economy. Fears of a recession and increasing uncertainty amongst all of those involved in the markets dragged down share prices around the world and depressed enthusiasm for investment. According to the Ifo Institute in Germany, the global business climate in the fourth quarter 2008 crashed to its lowest level for more than 20 years. Global gross domestic

+36%

product grew by 3.3%, and was therefore slower than the previous year (+ 4.8%). In the United States in particular, there was a dramatic slump in business activity. Approximately 2.6 million Americans lost their jobs in 2008.

Economic growth in Germany cooled down significantly towards the end of the year, and experts classified the German economy as being in recession in the second half of 2008. The growth in exports in 2008 fell to 3.9%, compared to 7.5% the previous year. Private consumption stagnated.

Other European countries also felt the dramatic impact of the consequences of the financial crisis. Industrial production in the Euro Zone fell by 13%.

The gross domestic product in China grew by 9.9% year-on-year in the first nine months of 2008 according to the foreign office, and therefore growth fell below the 10% level for the first time in five years.

4.2. Sector-specific conditions

According to the Association of German Mechanical and Plant Engineering companies (VDMA) the German mechanical engineering sector experienced a decline in orders of 16% in October 2008 alone. With the exception of the photovoltaic market, which continues to enjoy a boom, all of the markets relevant for LPKF's business were affected by the global economic crisis.

Electronics manufacturers experienced a significant decline in their turnover in the third quarter 2008. The demand for electronic equipment dropped accordingly.

The polymer market suffered under the dramatic decline in turnover experienced by the automotive sector. Starting in the USA, the crisis amongst the carmakers spread to Europe and Japan. Research and development departments were largely unaffected by the cut backs.

The solar industry grew strongly in Germany in 2008. The manufacture of panels and thin film modules in particular grew very healthily. The demand for solar panels remained unaffected by the economic crisis in 2008. However, the smaller solar panel manufacturers in particular depend on external financing and were not able to fully realise their planned investment because of the banking crisis.

5. Information pursuant to Sections 289 Para. 4/315 Para. 4 German Commercial Code (HGB)

On 31 December 2008, the **share capital** of LPKF Laser & Electronics AG totalled € 10,858,052.00. This figure has not changed since the previous year. The share capital is divided up into 10,858,052 ordinary shares. There are no preference shares. One ordinary share guarantees a numerical share of € 1.00 of the share capital. The rights and obligations accruing to the ordinary shares comply with the relevant stipulations in the Stock Corporation Act.

In accordance with the resolution adopted at the annual general meeting on 17 May 2001, the share capital can be conditionally increased by up to € 600,000 by issuing up to 600,000 ordinary shares **(conditional capital 2001)**. The conditional capital increase serves to honour option rights whose issue was adopted by the annual general meeting on 17 May 2001. The conditional capital increase will only be implemented to the extent required to honour the rights of option holders who decide to exercise their option rights. The new shares issued when option rights are exercised are entitled to a share of the profits from the beginning of the financial year in which the option rights were exercised.

- In accordance with the resolution adopted by the annual general meeting on 1 June 2006, the Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the share capital by up to € 5,300,000.00 **(authorized capital 2006)** until 14 June 2010, by one or more issues of up to 5,300,000 new shares with a proportional share of the share capital (ordinary shares) of € 1.00, in return for cash or contributions in kind.

Orders received +12 %

Orders in hand

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

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

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

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

II Earnings, financial and asset situation

1. Earnings situation

1.1. Turnover development

The LPKF Group closed the 2008 financial year with a turnover of € 45.4 million compared to € 42.2 million the previous year. Growth was generated primarily by the Laser segment. This includes increases in turnover primarily in the growth segments Plastic Welding (Erlangen) and Solar (Suhl). On the other hand, there was a decline in turnover in PCB Processing systems, MID systems, and to a minor extent also in the StencilLaser segment (Garbsen and China).

The strong Euro compared to the American Dollar and the Japanese Yen had two negative effects on the turnover in these zones, particularly in the first half of 2008. Firstly, it led to delays in investment decisions, and secondly, it gave a price advantage to competitors outside the Euro Zone, and thus put pressure on prices. The PCB Processing and the Stencil segment were mainly affected by this. The currency situation improved considerably in the second half of 2008. In addition, a large number of new machine models were launched on the market over the course of the year. A rise in the number of orders received was posted for the MID business in the last months of the reporting period after clients had made decisions to increase the use of the LDS method in their antenna production lines. Alongside seasonal effects, these developments led to an upswing in business in the third and fourth quarters in 2008. The negative mood in the overall economy was palpable throughout all of 2008.

Sales revenues according to segment are divided up as follows:

€ million	2008	previous year
Laser systems	28.4	24.7
Rapid Prototyping	15.1	15.3
Special systems	0.1	0.1
Production services	1.6	1.8
Others	0.2	0.3
	45.4	**42.2**

The regional distribution in turnover is shown in the following diagram:

%	2008	previous year
Germany	39.2	25.0
Asia	28.0	37.7
Europe excluding Germany	17.5	19.1
North America	12.2	15.1
Others	3.1	3.1
	100.0	**100.0**

7 % EBIT margin

Equity Ratio

Because of the increasing importance of the business with solar scribers and systems for plastic welding, Germany is the most important market . Next comes Asia and within Asia China. The structure of the sales revenues continues to remain balanced both regionally as well as according to segments.

1.2. Development in orders

Orders received in the reporting period rose year-on-year by € 11.6 million to € 48.1 million (previous year: € 43.2 million). Orders in hand also rose 35.8 % from € 7.6 million at the end of 2007 to € 10.3 million at the 2008 reporting date. The positive development of orders received and orders in hand also includes areas with a long-term made-to-order production. Orders in hand are scheduled to be executed within the first half of 2009.

1.3. Development of main income statement items

The development in sales revenues is explained in Section II 1.1. The following one-time effects had a major impact on the income situation of the Group in the 2008 financial year:

€ million	Special effect in 2008
Devaluation of inventories (cost of materials)	0.6
Other unscheduled one-off costs (labor costs)	0.2
	0.8

These effects are explained in more detail in the following analysis of individual expenses.

The work capitalized entry includes the capitalized development costs totalling € 1.4 million (previous year: € 1.6 million) as well as the manufacturing costs for prototypes and application systems. Other operating income has dropped by € 0.4 million to € 1.3 million. In last year's statement this entry included the income from the sale of the real estate in the USA totalling € 0.4 million, plus € 0.4 million higher income from grants. On the other hand, there is around € 0.4 million higher income from exchange rate differences.

The material usage ratio concerning sales and changes in inventories has changed compared to the previous year, now standing at 32.4 % compared to 31.1 %. Note here that value adjustments on inventories have been included in the statement for the 2008 financial year primarily due to various changes in products and the launch of new products, as well as due to the current economic climate. The expenditures were mainly reported in the Laser segment. Excluding the one-time effect totalling € 0.6 million, gives an adjusted material usage ratio of 31.1 %.

The personnel costs to total ratio, as a ratio of personnel costs to sales revenues, has changed to 37.4 % (previous year: 36.6 %). The increase in personnel costs due to a rise in the workforce in the Plastic Welding segment, the Solar segment, and in China, as well as ongoing wage rises, is offset by a reduction in variable remuneration components. The one-off expenses of € 0.2 million relate to a compensation for a restraint on competition.

The other operating expenses item has risen by € 1.2 million to € 10.6 million, which is largely attributable to a € 0.5 million rise in sales & marketing expenses and additional travel costs of € 0.2 million. The expenses from exchange rate differences have also risen by € 0.2 million.

The Group generated an EBIT of € 3.1 million (previous year: € 6.0 million), corresponding to an EBIT margin of 6.8 % (14.2 %). Adjustments for one-time effects give an EBIT margin of 8.5 % in the 2008 financial year. The following EBIT was generated by the two main segments Laser systems and Rapid Prototyping:

€ million	EBIT 2008	EBIT 2007
Laser systems	2.2	4.3
Rapid Prototyping	1.6	2.2
Other segments and not distributed costs	-0.7	-0.5
	3.1	**6.0**

68%

The negative financial result has deteriorated by € 0.1 million to € 0.2 million. This change is attributable to the rise in liabilities due to banks and the associated higher interest expenditure. The tax ratio is 19.3% (previous year: 29.1%). The net decline in provisions for income taxes is primarily profit-related, € 0.8 million relate to ongoing taxes and € 0.4 million to deferred taxes. The Group net income after tax is € 2.3 million compared to € 4.2 million the previous year. € 1.8 million thereof relate to shareholders of the parent company (previous year: € 3.9 million).

1.4. Multi-period chart of the earnings situation

	2008	2007	2006	2005	2004
Sales revenues (€ million)	45.4	42.2	39.8	34.9	25.2
EBIT (€ million)	3.1	6.0	6.4	6.0	1.7
Material usage ratio (%)	32.4	31.1	31.2	30.5	32.1

Adjusted for special effects of € 0.6 million, the material usage ratio for 2008 is at 31.1%.

2. Financial situation

2.1. Principles and goals of financial management

The use of external sources of finance is implemented on the one hand by issuing shares, and on the other hand by short-term or long-term borrowing. With respect to internal financing, the Group primarily makes use of funds derived from its own profits, as well as retaining cash equivalents generated by depreciation and provisions. Derivative management within the LPKF Group is in the hands of the parent company LPKF Laser & Electronics AG. Derivatives are only used to hedge exchange rates and interest rates. The ongoing cash management is operated in a decentralized manner. If large amounts of financing are required, analysis is carried out to determine whether local financing or financing via LPKF Laser & Electronics AG is the better option.

2.2. Cash flow statement

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

€ million	2008	previous year
Cash flow from operating income	6.4	2.7
Cash flow from investing activities	-3.5	-4.2
Cash flow from financing activities	-0.1	-0.6
Currently related changes in cash and cash equivalents	0.2	0,0
Change in cash and cash equivalents	2.8	-2.1
Cash and cash equivalents on 01.01.	3.0	5.1
Cash and cash equivalents on 31.12.	6.0	3.0
Composition of cash and cash equivalents		
Cash balance, balances with banks	6.0	2.8
Securities	0.0	0.3
Bank overdrafts	0.0	-0.1
Cash and cash equivalents on 31.12.	6.0	3.0

The company's cash and cash equivalents have risen from € 3.0 million to € 6.6 million. € 3.5 million of the cash flow from operating income totalling € 6.4 million was used for investments. The balance of € 2.9 million exceeding investments, together with cash flow from financing activity totalling € 0.1 million, led to a rise in cash and cash equivalents of € 3.0 million. € 2.0 million of the rise in cash and cash equivalents is due to new bank loans as a cash reserve.

The company's financial situation can be considered robust.

Focus on Dr. Ingo Bretthauer

Long-term assets also have long-tem financing. Long-term fixed interest rates are arranged in principle. The loans have interest rates of 2.85 % to 5.85 %. The current low interest rates should have a positive effect on the interest payments when new interest rates are negotiated for the fixed interest rates that expire in 2009. The unused credit lines were enlarged in the reporting period.

2.3. Multi-period chart showing the financial situation

€ million	2008	2007	2006	2005	2004
Cash flow from operating income	6.4	2.7	3.8	3.5	3.2
Net debt due to banks	0.6	2.1	0.2	-3.4	-3.0

(-) credit balance
(+) debt

3. Asset situation

3.1. Asset and capital structure analysis

Compared to the previous year, the asset and capital structure have developed as follows:

	31.12.2008		31.12.2007	
	€ million	%	€ million	%
Long-term assets	19.1	36.9	18.7	38.2
Short-term assets	32.7	63.1	30.3	61.8
Assets	**51.8**	**100.0**	**49.0**	**100.0**
Shareholders' equity	35.3	68.1	34.0	69.3
Long-term debts	5.6	10.8	5.6	11.4
Short-term debts	10.9	21.1	9.4	19.3
Liabilities	**51.8**	**100.0**	**49.0**	**100.0**

The asset situation continues to be robust as revealed by e.g. the high equity ratio of 68.1 % (previous year: 69.4 %). There has been a rise in the capitalized development services of € 0.6 million with respect to the long-term assets. This is counteracted by a decrease of around € 0.4 million in the long-term trade accounts receivable, so that there is hardly any change year-on-year in the value of the long-term assets. The ratio between assets and shareholders's equity is 194.6 % (previous year: 198.1 %). The long term assets include securities with a value of € 0.2 million which have been granted as a guarantee to a bank.

Special devalutations of inventories of € 0.6 million have been made. Further details are given under section II 1.3.

After a considerable rise in inventories during the course of the year because of the launch of new products, they were reduced again in the second half of 2008. Without considering the devaluations, the capital tied up in inventories has therefore hardly changed overall compared to the previous year. The inventories were order-related articles on the one hand, as well as new products and components whose stocking guarantees relatively short delivery times. Trade accounts receiveable are reported under short-term assets and have risen by € 0.3 million. Bank balances have risen by € 3.2 million as a result of fixed term deposits and revenue from operational business, and liabilities due to banks have risen by € 1.7 million. The rise in liabilities due to banks was primarily due to the borrowing of money market loans of € 2.0 million as a liquidity reserve. With these exceptions, there has hardly been any change in the balance sheet structure.

3.2. Investments

€ 3.3 million was invested in intangible assets and tangible assets in the 2008 financial year. This means that € 2.3 million less was invested than in the previous year. The additions primarily involved capitalized development costs, prototypes, demonstration systems and costs for construction work in the USA and at Suhl which were finalized in 2008. € 2.3 million of the investments are reported in the Laser segement and € 1.0 million in the Rapid Prototyping segment. Planning for the 2009 financial year includes an investment focus on development areas and prototypes, as well as a further expansion of the Plastic Welding activities. Depending on the development in business, new CEO

marketing & sales

investments in 2009 have been budgeted with a similar level as in the reporting period. Together with the high levels of investments in the previous years, these planned investments are a major component of LPKF's growth strategy.

3.3. Human resources

The Group's basic philosophy is to hire and bind employees to the company on a long-term basis. However, to maintain the necessary degree of flexibility on the human resources side, new recruits were hired on short-term contracts to begin with. Temporary staff were also again taken on to quickly cover short-term needs. Only a few new appointments are planned in 2009 in the rapidly growing segments, and will depend on business activity.

The level of sick leave is low compared with other industries. LPKF's HR development strategy involves the further education and training of staff in all segments on the basis of internal and external seminars, as well as other measures to raise the standard of staff qualifications. These efforts were strengthened in the reporting period. As part of its proactive moves to acquire properly qualified new staff, LPKF is particularly involved in training mechatronic technicians and industrial business assistants. The Group employed 23 trainees on the reporting date.

3.4. Multi-period chart showing the asset situation

	2008	2007	2006	2005	2004
Equipment intensity (%)	34.6	35.0	32.2	23.1	26.7
Inventory intensity (%)	29.1	31.9	33.0	33.8	30.3
Working capital (€ million)	22.5	22.4	19.5	17.1	12.7
Debtor terms (days)	81	76	64	57	69

Inventories and short term trade accounts receivable minus short term trade accounts payable and prepayments received are combined in the working capital business ratio. The debtor terms are based on the average inventory of receivables between balance sheet days.

4. General statement on the economic situation of the Group

The economic situation of the Group is rated as robust. This forms the basis for increased endeavors to improve the earnings situation and boost the return on the employed capital. In addition, the working capital in the inventories in particular is to be reduced to generate more liquidity. Minimum inventories are supposed to guarantee short delivery times.

III Report on important events after the reporting date

Information on particularly important events

After Bernd Hackmann stepped down at the end of 2008, Bernd Lange took over the reins as acting CEO. The LPKF Laser & Electronics AG Supervisory Board reached a decision on 12 January 2009 to appoint Dr. Ingo Bretthauer as the new CEO of LPKF Laser & Electronics AG starting from 1 February 2009.

No other disclosable events took place after the reporting date.

IV Risk report

1. Risk and opportunity management system

Essentially, the risk and opportunity management within the Group is pursued separately. A range of different reporting instrument is being employed. Risk management at LPKF involves the formulation and implementation of measures that are able to identify existing risks, insure against them, and either diminish the amount of damage they cause, restrict the chances of their occurring, avoid them completely or deliberately accept them if the risks are at a reasonable level. Opportunity management is structured to allow the most comprehensive possible identification and evaluation of business and development opportunities, and to enable the company to strengthen its competitive position.

The LPKF Group is exposed to numerous risks as it pursues its global business activities within the rapidly changing conditions affecting its target markets. Risk management, and particularly the risk early warning system, has therefore always been a fundamental element in the planning and implementation of LPKF's business strategy. Generally, although risks can be limited by

US-Dollar, Renminbi

suitable measures and can be rapidly and precisely identified by an early warning system, they can never be completely excluded and always need to be reassessed at the time the risk evaluation is carried out. LPKF therefore makes use of a number of highly developed management and control systems to measure, monitor, control and handle the risks the Group is exposed to. A particularly important aspect here is the Group-wide strategic corporate planning and the associated reporting. The Board of Managing Directors of LPKF Laser & Electronics AG is responsible for risk policy and the internal control and risk management system. These functions are implemented by the decentralized management of each segment in each organisational unit in accordance with the Group structure. A risk manager coordinates and authorizes the various measures implemented to control the risk. This procedure has proven itself time and again in the past. The risk management system is assessed at various times including annually by the auditor, and where necessary also by other external auditors.

As part of the risk identification and control procedure, existing instruments such as the risk management manual and the reporting tools are continuously updated, whilst the daily implementation of the risk management system is documented. Risk management discussions of all types are always recorded in minutes. As in previous years, a risk inventory was also conducted in the 2008 financial year. This reviewed the existing and potential risks, and checked the efficiency of reporting with respect to the management of risks. Another important element in the risk early warning system and the regulated transaction of business processes is the quality management system according to DIN EN ISO 9001:2000. An additional instrument for risk limitation and eradication is the implementation of the recommendations of the German Corporate Governance Code, which plays an important part in the cooperation between the Supervisory Board and the Board of Managing Directors. The related initiatives implemented in Germany and internationally are therefore welcomed.

The recording and communication of opportunities is a key component of the exchange of ideas and experience between the Group companies active in the market and the development and sales departments as well as the management of LPKF Laser & Electronics AG. This includes management accounting and strategy discussions with the main players within the Group and the most important distribution partners. Meetings involve the elaboration of targeted measures to exploit strategic growth potential, the evaluation of their opportunity versus risk ratios, and ranking in the priority hierarchy by the LPKF Laser & Electronics AG Board of Managing Directors. Priorities are placed on the development of competitive products and processes, new areas of application for LPKF's core competencies, and price policies reflecting the state of the market. As an innovative company, LPKF sees numerous opportunities for growth based on the company's own strengths. However, the possibility of acquisitions is not excluded, should there be any favourable opportunity.

The following describes the main opportunities and risks which could have a significant influence on LPKF's business, assets, financial and earnings positions. Other opportunities and risks which are currently unknown, or which are currently considered to be negligible, could also have a positive or negative impact on the LPKF Group.

2. Specific risks

2.1. Business risks

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

LPKF holds 28 patents

and Yen affect the result

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

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

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

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

2.2. Dependency on suppliers

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

2.3. Dependency on clients

The regional spread of the sales markets is balanced. This has been demonstrated over many years by the distribution of turnover according to regions so that there are no special risks associated with this parameter. In the business with solar scribers, a significant percentage of turnover involves just one group of companies. With this exception, there is no dependence on individual major customers.

2.4. Exchange rate fluctuations

The exchange rates between foreign currencies and the Euro sometimes undergo major fluctuations. For LPKF, the main fluctuations of any significance are those with respect to the US Dollar, the Chinese Renminbi, and the Japanese Yen. Fluctuations in exchange rates can have a positive as well as a negative effect on results. In the reporting period, the Dollar continued initially to weaken strongly against the Euro, but then recovered significantly, particularly in the fourth quarter of 2008. Measures to counteract fluctuations are permanently reviewed and implemented to the degree possible. LPKF closes hedging transactions to protect itself against exchange rate risks involving business transactions invoiced in foreign currencies. This part of the risk management is handled by the parent company in Garbsen/Germany, if necessary also on behalf of subsidiaries and branch offices. In accordance with the risk management strategy, most of the cash flow is used either for the procurement of materials in the Dollar zones, or is hedged by taking out foreign exchange contracts or the acquisition of put options. In the second half of 2008, the Euro declined in value significantly compared with the Dollar and the Yen. On balance, this led to a loss in profits of € 0.1 million with respect to an unhedged situation.

Miniaturization supports use of

2.5. Employment of financial instruments

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

2.6. Development

LPKF's success significantly depends on the speed with which new products can be pushed through the development pipeline onto the market. The competitive situation and the very rapid changes in technology are associated with risks. Permanent follow-up is carried out by the Supervisory Board and the Board of Managing Directors to keep these risks to a minimum. This follow-up is an integral part of the risk management system which aims to control the value of new developments and integrate them within the product strategies. In addition to achieving cost benefits by investing in LPKF technology, LPKF clients can also enjoy competitive benefits and harness the associated market opportunities. In the markets, which in some cases can be extremely cyclic, there is an additional risk when the capacity and willingness to invest in new technology diminishes in response to the state of the economy, or companies stick to old processing technology for an unpredictable period of time. Protecting LPKF technologies is accompanied by patent applications.

2.7. Patent risks

LPKF owns 28 patents, and most of them have international validity. The company continually applies for new patents thanks to its intense research activities. LPKF Laser & Electronics AG considers the acquisition of patent rights to be a means of protecting its R&D investments from depreciation by copyists. In the MID segment in particular, commercial success also depends on the patent situation. In the laser plastic welding sector, one can still observe intense skirmishes between competitors for patents and licences, which can also have an impact on LPKF's business. It is also possible that existing and new protection rights held by third parties could have an impact on LPKF's commercial situation.

2.8. Human resource risks

The demand for highly qualified technical staff is still high despite the difficult economic climate. Thanks to its contacts with universities and the growing level of awareness the company enjoys in the laser sector, LPKF has so far not had any serious problems in recruiting adequately trained staff. There is, however, a risk associated with the loss of key staff as a result of head hunting. As in previous years, the company currently enjoys a low level of fluctuation and sick leave compared to industry as a whole.

2.9. Finance risks

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

3. Business opportunities

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

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

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

LPKF's strategy to build on its core competencies and enter different markets has a stabilising effect in the current economic environment. The various markets served by LPKF have offset sector cycles. The many new products and processes developed in 2008 maintain the company's cutting edge over the competition in its main product markets. This establishes a good basis for business in the ongoing 2009 financial year.

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

The overall risk situation arising from the various separate risks has deteriorated compared to last year because of the global economic situation.

An evaluation of the overall risk situation of the LPKF Group concluded that despite the significant deterioration in the global economic environment in the 2008 financial year, there are no risks which jeopardize the continuation of specific subsidiaries or the Group as a whole.

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

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

V Outlook report

Overall statement on the predicted development of the Group

The phase in which the global economy expanded strongly came to an end in 2008. The global recession which started last year intensified with the worsening of the crisis in the financial markets in autumn 2008. The downward trend has since strengthened in industrial countries, and led to a reduction in growth in emerging economies. The International Monetary Fund (IMF) for instance considers the world to be in a deep recession. The global economy overall will probably hardly grow at all in 2009. The industrial countries are said to experience the first decline in economical performance since World War II. Slight growth is forecast to begin again in 2010. The automotive and printed circuit board industries are suffering particularly during the crisis. The strong growth of the solar panel manufacturers in 2008 will probably weaken temporarily in 2009. Small companies especially might find it hard to gain the finance they require to build new solar factories. On the other hand, many companies have strengthened their development activities to enable them to push new products onto the market. The economic environment, and the situation in LPKF's target markets, are therefore tied to a number of risks, but also opportunities in the 2009 financial year.

LPKF used the 2008 financial year to develop a large number of new products – more than in any other year. The focus of this work was boosting client benefits. These systems enable LPKF customers to produce goods more cheaply, in addition to a number of other advantages.

LPKF targets customers in a range of different markets. Thanks to LPKF's broad business model, it is less sensitive to fluctuations in demand in the current economic environment than comparable mechanical engineering companies. An encouraging sign is that in the fourth quarter of 2008 in particular, LPKF was able to generate good sales and a satisfactory level of orders received – unlike many other companies in the sector.

With an equity ratio of 68.1 % and low net bank debt of € 0.6 million, the Group boasts robust finances. The significant unused credit lines which are additionally in place allows the liquidity situation to be described as adequate, even if business proves weaker than planned. There are currently no concrete plans for any major projects needing financing.

On this basis, the Board of Managing Directors considers the Group to be well placed for success, even under the current circumstances. Internationalization and the expansion of the Plastic Welding and Solar segments will continue in 2009. These segments have the potential to expand further despite the current weak economic background. The MID business developed positively at the end of 2008 and should grow further in 2009. The marketing of the new products in the other segments can also boost turnover. Overall, 2009 will be a challenging year for LPKF.

In addition to measures to strengthen earnings potential, work continues as ever on assessing and adjusting the cost items when necessary. Measures implemented back in 2008 will develop their full impact in 2009. Moreover, efforts will be implemented to reduce working capital, particularly on the inventories side, to increase the yield of the employed capital and to reduce the amount of tied-up capital. The investment in 2009 will be at a similar level to the 2008 financial year, particularly in expanding and developing the growth segments. The actual level of investments will depend on the development of business across the Group.

It is currently exceedingly difficult to make reliable forecasts. This is mainly due to the crisis in the financial markets, because its duration and impact on the economy overall and investment behaviour is very difficult to assess. Estimates fall within a large range. The management currently aims to achieve a turnover in 2009 similar to the previous year's level. The share in turnover of the growth segments is expected to rise further. Profits could improve mainly through the absence of one-off costs and as a consequence of cost savings. If the financial crisis in 2009 has a much stronger impact on the markets relevant to LPKF than currently expected, a negative scenario with a decline in turnover of up to 25 % in the segments and a generally balanced result has to be taken into account. If the macro-economic situation makes a sustained recovery, the Board of Managing Directors sees good opportunities for renewed growth in turnover and profits in 2010.

VI Balance sheet oath pursuant to Section 315 Para. 1 Clause 6 German Commercial Code

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

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

Group Annual Financial Statements

Group annual financial statements for the 2008 financial year compliant with International Financial Reporting Standards (IFRS)

Consolidated balance sheet at 31.12.2008

Assets

T€	Notes	2008	2007
NON-CURRENT ASSETS			
Intangible assets	10		
Software		606	471
Goodwill		74	74
Development costs		3,393	2,826
Rights to use		0	69
		4,073	**3,440**
Tangible assets	10		
Land and building		10,866	9,113
Technical equipment and machinery		1,451	1,565
Other equipment, factory and office equipment		1,145	1,244
Construction in process		220	1,753
		13,682	**13,675**
Financial assets	10		
Other loans		0	17
Securities of the fixed assets		147	0
		147	**17**
Assets subject to disposal restrictions	14	**214**	**0**
Accounts receivable and other assets			
Trade accounts receivable	12	35	463
Tax refund claims	13	329	354
Other assets	13	114	224
		478	**1,041**
Deferred taxes	16	**498**	**531**
		19,092	**18,704**
CURRENT ASSETS			
Inventories	11		
(System) components		7,474	7,484
Work-in-process		1,565	1,642
Finished goods and merchandise		5,859	6,388
Prepayments		137	103
		15,035	**15,617**
Accounts receivable and other assets			
Trade accounts receivable	12	10,129	9,784
Tax refund claims	13	946	615
Other assets	13	544	1,146
		11,619	**11,545**
Securities	14	**0**	**284**
Cash on hand, bank balances	15	**6,005**	**2,824**
		32,659	**30,270**
		51,751	**48,974**

Liabilities and shareholders' equity

T€	Notes	2008	2007
SHAREHOLDERS' EQUITY			
Share capital	17	10,858	10,858
Additional paid-in capital		3,953	3,953
Other earnings reserves		7,000	7,000
Market value of hedging transactions		0	0
Market value of securities		-42	-7
Reserves for share-based payments		394	274
Net income for the year		11,107	10,599
Foreign currency translation adjustments		- 1,344	- 1,289
Minority interest	18	3,322	2,552
		35,248	**33,940**
NON-CURRENT LIABILITIES			
Provisions for pensions	19	358	335
Convertible bond	22	0	106
Medium and long-term liabilities due to banks	21	3,549	3,558
Deferred grants	3	341	373
Other medium and long-term liabilities		145	163
Deferred taxes	16	1,170	1,234
		5,563	**5,769**
CURRENT LIABILITIES			
Tax provisions	20	186	1,027
Other provisions	20	1,267	1,782
Short-term liabilities due to banks	21	3,093	1,347
Trade accounts payable	21	1,640	2,101
Other liabilities	21	4,754	3,008
		10,940	**9,265**
		51,751	**48,974**

Consolidated statement of income from 01.01.2008 to 31.12.2008

T€	Notes	2008	2007
Sales	1	45,406	42,208
Changes in inventories of finished goods and work-in-process		-483	-65
Other work capitalized	2	1,653	2,331
Other operating income	3	1,291	1,729
		47,867	**46,203**
Cost of materials	4	14,553	13,116
Personnel expenses	5	16,985	15,469
Depreciation and amortisation	6	2,596	2,213
Other operating expenses	7	10,629	9,398
		3,104	**6,007**
Financial income	8	141	149
Financial expenditure	8	372	228
Results from ordinary activities		**2,873**	**5,928**
Income tax	9	555	1,725
Net income		**2,318**	**4,203**
Net income thereof			
Shareholders of parent company		1,811	3,868
Minority interests		507	335
		2,318	**4,203**
Earnings per share – basic (in €)	24	0.17	0.36
Earnings per share – diluted (in €)	24	0.17	0.36

Consolidated cash flow statement from 01.01.2008 to 31.12.2008

T€	Notes	2008	2007
OPERATING ACTIVITIES			
Net income for the year		2,318	4,203
Income tax	9	555	1,725
Interest charges	8	372	228
Interest income	8	- 141	- 149
Depreciation and amortisation of fixed assets	10	2,596	2,213
Profit/loss from sale of assets		251	-383
Including reclassification into current assets		- 143	153
Other non-payment income/expenses		750	119
Changes in inventories, accounts receivable and other assets		136	-4,621
Changes in provisions and accrued liabilities		-3,388	155
Changes in liabilities and deferred income		1,493	1,156
Payments from interest		141	153
Paid income tax		1,500	-2,253
Net cash flow from operating income		**6,440**	**2,699**
INVESTING ACTIVITIES			
Fixed assets investments intangible assets	10	- 1,644	-2,013
Fixed assets investments tangible assets	10	- 1,702	-3,512
Fixed assets investments financial assets		- 178	- 17
Payments from sale of financial assets		11	0
Receipts on sale of equipment		2	1,350
Cash flow from investing activities		**-3,511**	**-4,192**
FINANCING ACTIVITIES			
Dividends paid		- 1,303	- 1,303
Dividends paid to minority shareholders		- 113	-270
Interest paid	8	-372	-228
Repayments convertible bond	22	- 106	-8
Change in long-term bank loans		3,155	1,870
Repayments long-term bank loans		- 1,360	-667
Cash flow from financing activities		**-99**	**-606**
CHANGES IN CASH AND CASH EQUIVALENTS			
Changes in cash and cash equivalents due to exchange rates		125	-23
Changes in cash and cash equivalents		2,830	-2,099
Cash and cash equivalents per 1.1.		3,034	5,156
Cash and cash equivalents per 31.12.		**5,989**	**3,034**
COMPOSITION CASH AND CASH EQUIVALENTS			
Cash	15	6,005	2,824
Securities	14	0	284
Bank overdraft	21	- 16	-74
Cash and cash equivalents per 31.12.	23	**5,989**	**3,034**

Consolidated statement of the changes in shareholders' equity

Consolidated statement of the changes in shareholders' equity for the financial year ended 31 December 2008
(in a comparison with the previous year)

T€	Share capital	Additional paid-in-capital	Other earnings reserves	Market value of hedging transactions
Per 1.1.2008	10,858	3,953	7,000	0
Reductions from measurement of cash flow hedge	0	0	0	0
Additions from market valuation of securities	0	0	0	0
Allocation to reserves	0	0	0	0
Dividend payment to shareholders	0	0	0	0
Net result	0	0	0	0
Expenditure for granted option rights	0	0	0	0
Settlement of difference from acquisition of minority shares	0	0	0	0
Foreign currency translation adjustments	0	0	0	0
Per 31.12.2008	**10,858**	**3,953**	**7,000**	**0**

T€	Share capital	Additional paid-in-capital	Other earnings reserves	Market value of hedging transactions
Per 1.1.2007	10,858	3,953	6,000	14
Reductions from measurement of cash flow hedge	0	0	0	- 14
Additions from market valuation of securities	0	0	0	0
Allocation to reserves	0	0	1,000	0
Dividend payment to shareholders	0	0	0	0
Net result	0	0	0	0
Expenditure for granted option rights	0	0	0	0
Settlement of difference from acquisition of minority shares	0	0	0	0
Foreign currency translation adjustments	0	0	0	0
Per 31.12.2007	**10,858**	**3,953**	**7,000**	**0**

	Market value of securities	Reserves for share-based payments	Net income for the year	Foreign currency translation adjustments	Minority interest	Total
	-7	274	10,599	- 1,289	2,552	33,940
	0	0	0	0	0	0
	-35	0	0	0	0	-35
	0	0	0	0	0	0
	0	0	- 1,303	0	-229	- 1,532
	0	0	1,811	0	508	2,319
	0	120	0	0	0	120
	0	0	0	0	141	141
	0	0	0	-55	350	295
	-42	**394**	**11,107**	**- 1,344**	**3,322**	**35,248**

	Market value of securities	Reserves for share-based payments	Net income for the year	Foreign currency translation adjustments	Minority interest	Total
	0	161	9,034	-864	2,559	31,715
	0	0	0	0	0	- 14
	-7	0	0	0	0	-7
	0	0	- 1,000	0	0	0
	0	0	- 1,303	0	-265	- 1,568
	0	0	3,868	0	335	4,203
	0	113	0	0	0	113
	0	0	0	0	0	0
	0	0	0	-425	-77	-502
	-7	**274**	**10,599**	**- 1,289**	**2,552**	**33,940**

Notes to the 2008 consolidated statements

A. Basic information

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

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

Osteriede 7
30827 Garbsen
Germany.

These consolidated financial statements were authorized for publication by the Board of Managing Directors on 16 March 2009.

B. Basis of preparation of the consolidated financial statements

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

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

The following supplements to the issued standards, or revised and/or new issued standards adopted prior to the balance sheet reporting date were applied in the 2008 financial year:

Standards/Interpretation		Mandatory use	Acceptance by EU Commission*	Effects
IAS 39/ IFRS 7	Reclassification of financial assets	1.7.2008 (retroactively)	15.10.2008	None
IAS 39/ IFRS 7	Reclassification of financial assets – coming into force and transition regulations	1.7.2008	No	None
IFRIC 11	IFRS 2 – Transactions in own shares and shares of group companies	1.1.2008	1.6.2007	None

*per 31.12.2008

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

The following supplements to the issued standards, or revised and/or new issued standards adopted prior to the balance sheet reporting date were not applied in the 2008 financial year:

Standards/Interpretation		Mandatory use	Adoption by EU Commission*	Effects
IAS 1	Presenting the annual financial statements	1.1.2009	17.12.2008	Subject to management examination
IAS 23	Borrowing costs	1.1.2009	10.12.2008	Subject to management examination
IAS 27	Group and separate annual financial statements pursuant to IFRS	1.7.2009	No	Dependent on nature and scope of future transactions, which are currently unforeseeable
IAS 32	Financial instruments: Presentation (callable financial instruments and obligations arising from liquidation)	1.1.2009	21.1.2009	None
IAS 39	Financial instruments: Recognition and measurement (permitted ordinary transactions involving hedging relationships)	1.7.2009	No	None
IFRS 1 IAS 27	Procurement costs of shares in subsidiaries, jointly managed companies, or associated companies	1.1.2009	23.1.2009	None
IFRS 1	Restructuring of the standards	1.7.2009	No	None
IFRS 2	Share-based payment (Conditions for exercising and annulment)	1.1.2009	16.12.2008	None
IFRS 3	Business combinations	1.7.2009	No	Dependent on nature and scope of future transactions, which are currently unforeseeable
IFRS 8	Operative segments	1.1.2009	Yes	Subject to management examination
Various	Annual Improvements Project 2008 – Improving IFRS	1.1./1.7.2009	23.1.2009	Subject to management examination
IFRIC 12	Service concessions	1.1.2010	No	None
IFRIC 13	Customer loyalty programs	1.7.2008	16.12.2008	None
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements	1.1.2009	16.12.2008	None
IFRIC 15	Agreements for the construction of real estate	1.1.2009	No	None
IFRIC 16	Hedges in a net investment in a foreign operation	1.10.2008	No	None
IFRIC 17	Distributions of non-cash assets to owners	1.7.2009	No	None
IFRIC 18	Transfers of assets from customers	1.7.2009	No	None

*per 31.12.2008

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

Consolidated Group

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

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

In December 2008, 14 % of the shares in LPKF (Tianjin) Co. Ltd. were sold to long-service members of the management of this company for T€ 70. From the point of view of consolidation, the main assets and debts were not transferred.

The landed property held by LPKF Properties LLC in the USA was sold in the 2007 financial year. The company was subsequently wound up. To strengthen the Group's activities in the USA, a new larger building was constructed on land acquired by LPKF Distribution Inc., and commissioned at the beginning of 2008.

C. Consolidation principles

The consolidated financial statements are based on the financial statements prepared according to standard accounting and measurement rules per 31 December 2008 of those companies included in the consolidated financial statements.

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

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

Inter-Group transactions, balances and unrealized profits and losses from transactions between Group companies are eliminated. However, if unrealized profits and losses exist from transactions between Group companies, this is taken as an indicator of the need to implement an impairment test for the transferred asset.

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

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

D. Foreign currency translation

The translation of the foreign companies' financial statements is effected according to the functional currency method. All foreign companies are considered as independent sub-units according to IAS 21. In effecting this translation into Euro, the assets and debts were translated at an average exchange rate at the balance sheet date. Expenses and income were translated at the average annual rate. The conversion differences are shown under shareholders' equity as foreign currency translation adjustments without any effect on net income.
The consolidated figures were calculated on the basis of the exchange rates detailed in the following table.

In € (1 € = x currency)	Reporting date rate		Average rate	
	31.12.2008	31.12.2007	2008	2007
US-Dollar	1.3917 US$	1.4721 US$	1.4706 US$	1.3706 US$
Chinese Renminbi Yuan	9.49560 CNY	10.75240 CNY	10.22471 CNY	10.41859 CNY
Hong Kong-Dollar	10.7858 HKD	11.4800 HKD	11.45268 HKD	10.69282 HKD

E. Critical estimates and assumptions in accounting and measurement

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

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

(a) Estimated impairment of goodwill

The Group carries out analysis annually, as well as in the light of specific circumstances, in compliance with the accounting and measurement methods described in Note 10.1 to determine whether there is any impairment of goodwill. The attainable amount of cash generating units (CGUs) was determined on the basis of a calculation of the utility value. These calculations have to be based on assumptions made by the management on 31 December 2008.

(b) Income tax

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

Deferred tax assets are stated if it is considered probable for future tax benefits to be realized. The realizability is assessed on the basis of the available planning, the forecast business development, and the taxable temporary differences. The actual taxable earnings situation in future periods, and therefore the actual ability to utilize the tax benefits, may diverge from the estimate at the time deferred taxes are capitalized.

(c) Fair value of derivative and other financial instruments

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

F. Segment reporting

Annual financial statement data must be segmented according to divisions and regions in compliance with IAS 14 (Reporting Financial Information by Segment). The segmentation is based on the internal reporting. The aim of segment reporting is to make the profitability and potential of each of the Groups' activities more transparent.

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

- Rapid PCB Prototyping involves the further development, production and marketing of circuit board plotters for the world market.
- Laser Systems includes all systems such as StencilLasers, PCB production systems, laser plastic welding systems and systems for scribing thin-film solar panels.
- The Production Services division includes the activities carried out by LaserMicronics GmbH and the services provided by the Laser Plastic Welding division.
- The business with 3D inspection systems and some other inspection systems is reported in the Special Systems segment.

The Others segment involves all of the minor activities not assignable to the other segments.

Individual expenditure and earnings items as well as assets and debts which cannot be allocated to any particular business segment are reported in the „Not distributed“ column. There are no internal sales between the segments. The existing goodwill (T€ 74) is reported in the “Laser Systems” segment.

The segment data was determined as follows:

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

T€		Laser Systems	Rapid Prototyping	Other Systems	Production Services	Others	Not distributed	Total
External sales	2008	28,405	15,050	145	1,561	245	0	45,406
	2007	24,766	15,294	52	1,771	325	0	42,208
Operating income (EBIT)	2008	2,179	1,526	74	155	68	-898	3,104
	2007	4,261	2,208	-77	268	1	-654	6,007
Assets	2008	29,107	16,924	17	921	429	4,353	51,751
	2007	28,027	15,822	48	875	594	3,608	48,974
Debts	2008	5,198	2,783	3	252	60	8,207	16,503
	2007	5,214	3,145	0	328	198	6,149	15,034
Investments	2008	2,400	1,025	1	77	19	2	3,524
	2007	3,356	1,910	11	266	88	69	5,700
Depreciation	2008	1,501	947	26	94	17	42	2,627
	2007	1,329	694	2	104	22	62	2,213
Non-cash expenses	2008	832	296	0	10	0	386	1,524
	2007	1,528	587	7	125	46	1,101	3,394

Geographic segments:
The secondary reporting format reflects the four main geographic regions in which the Group is active.

T€		Germany	Rest of Europe	North America	Asia	Others	Total
External sales	2008	17,789	7,957	5,562	12,687	1,411	45,406
	2007	10,537	8,056	6,367	15,892	1,356	42,208
Assets	2008	38,348	6,473	4,521	2,409	0	51,751
	2007	36,391	6,272	4,197	2,114	0	48,974
Investments	2008	2,661	231	346	286	0	3,524
	2007	3,774	579	989	358	0	5,700

G. Consolidated statement of income

1. Sales

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

The sales revenues of T€ 45,406 include order revenues of T€ 1,104 (previous year: T€ 1,197) pursuant to IAS 11, determined using the POC method. The projects will be completed within the next 12 months.

2. Own work capitalized

The own work capitalized reported in the financial statements totals T€ 1,653. This comprises technical equipment and machinery used by Group companies for production, prototype development projects activated during 2008, and machinery produced in-house to be used throughout their lifetimes for Group production operations. Research costs are immediately reported as expenditure when they arise. Costs which arise as part of development projects (involving the design and test operation of new or improved products) are capitalized as intangible assets if it is considered likely that the project will be commercially successful and technically implementable, and the costs can be reliably determined. Other development costs which do not satisfy these criteria are reported as expenditure when they arise. Development costs previously reported as expenditure are not capitalized as assets in the subsequent reporting periods. Development costs reported on the assets side of the balance sheet are reported as intangible assets which are linearly written off for a maximum period of five years over their useful lives from the time they become available for use. Development costs are subject to an annual impairment test in compliance with IAS 36.

3. Other operating income

T€	2008	2007
Grants for research and development	353	785
Gains from sale of plant and machinery	6	384
Exchange gains	578	129
Gains from reversal of value adjustments	48	71
Reversal of deferred item for grants	24	21
Others	282	339
	1,291	**1,729**

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

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

4. Cost of materials

T€	2008	2007
Cost of (system) components and purchased merchandise	14,207	12,592
Cost of purchased services	346	524
	14,553	**13,116**

5. Personnel expenses and employees

T€	2008	2007
Wages and salaries		
Salary expenditure	14,211	12,934
Share-based remuneration recorded as a charge to the income statement	120	113
Other	279	238
	14,610	**13,285**
Social security costs and pension costs		
Employer's contribution to social security	2,104	1,944
Pension costs	150	141
Workman's compensation board	121	99
	2,375	**2,184**
	16,985	**15,469**

The social security costs and pension costs item includes contributions of T€ 891 (previous year: T€ 801) to the National Pension Scheme. There are no ongoing pension payments (see also Note 19).

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

	2008	2007
Production	79	63
Distribution	72	68
Research and Development	83	75
Service	46	32
Administration	88	81
	368	**319**

In addition, there were also 10 part-time employees and 23 trainees per 31.12.2008.

6. Depreciation and amortization

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

7. Other operating expenses

T€	2008	2007
Advertising and distribution expenditure	2,117	2,006
Entertainment expenses, travel	1,419	1,192
Sales commissions	833	546
Rent, incidental costs, leasing, real estate and building costs	747	717
Repairs/Maintenance/Operating materials	728	654
Trade fair costs	532	412
Exchange losses	485	260
of which changes in the fair value of derivative financial transactions	71	0
Consumables Research and Development	383	380
Voluntary social expenses/training	359	402
Telephone, postage, facsimile	333	310
Investor Relations	328	248
Insurance, contributions, levies	325	316
Services	323	362
Legal and consultancy costs	289	297
Vehicle costs	260	206
Bank charges	186	147
Allocation to bad debts	173	167
Financial statements, publicity and auditing costs	164	151
Supervisory Board expenses	161	171
Office materials, books, software	125	81
Others	359	373
	10,629	**9,398**

The total expenses for Research and Development in 2008 were T€ 5,406 made up of the cost of materials and other costs totaling T€ 1,039 plus additional costs including personnel costs and depreciation totaling T€ 4,367.

The leasing agreements entered into by the Company and reported here are classified as operating leases. The leasing payments are reported in the statement of income linearly over the term.

Significant agreements reported under leasing mainly include leasing agreements for vehicles. Note 28 “Other financial commitments” still includes separate details on the reported leasing agreements.

8. Financial results

T€	2008	2007
Financial income		
Other interest and similar income	141	149
Finance expenditure		
Interest and similar expenses	-368	-222
Interest on convertible bond		
Payment to subscribers	-4	-6
	-372	-228
	-231	**-79**

The other interest income arose from call money and time deposits (LaR) totaling T€ 15. The other interest expenses concerned T€ 331 in connection with a long-term loan, and taking out short-term money market loans (FLAC).

9. Income taxes

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

T€	2008	2007
Corporate tax and solidarity surcharge	393	1,011
Trade tax	219	391
Deferred taxes	-57	323
	555	**1,725**

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

Reconciliation between anticipated and effected tax expenditure

T€	2008	2007
Consolidated net income before income taxes	2,873	5,928
Anticipated tax expense 30 % (previous year 38 %)	862	2,253
Effect of capitalized latent taxes not included in the balance sheet	101	182
Effect of divergent tax rates	-88	-317
Other tax payments unrelated to the reporting period	-202	-326
Tax-free earnings	-59	0
Trade tax addition/reduction	-3	0
Other permanent differences	0	43
Tax effects of non-deductable operating expenses	41	77
Capitalized tax imputation credit purs. § 37 KStG	0	-7
Adjusting deferred taxes because of changes in tax rates	0	-107
Other variances	-97	-73
Effective tax expense 19.3 % (previous year 29.1 %)	**555**	**1,725**

The Group tax rate for the 2008 financial year and subsequent years is estimated to be 30 % (previous year: 30 %).

H. Consolidated balance sheet:

Assets

10. Fixed assets

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

Fixed assets 2008	PROCUREMENT / MANUFACTURING COSTS					
T€	Per 01.01.2008	Currency differences	Additions	Reposting	Disposals	Per 31.12.2008
INTANGIBLE ASSETS						
Software	1,373	0	329	219	300	1,621
Goodwill	74	0	0	0	0	74
Development costs	6,831	-8	1,314	730	0	8,867
Right to use	943	10	1	-949	3	2
	9,221	**2**	**1,644**	**0**	**303**	**10,564**
TANGIBLE ASSETS						
Land and buildings	11,614	93	39	2,087	2	13,831
Technical equipment and machinery	4,744	76	754	0	1,498	4,076
Other equipment, factory and office equipment	4,837	26	356	0	791	4,428
Prepayments and constructions in process	1,753	1	553	-2,087	0	220
	22,948	**196**	**1,702**	**0**	**2,291**	**22,555**
FINANCIAL ASSETS						
Others loans	17	1	0	0	18	0
Securities of assets	0	0	178	0	0	178
	17	**1**	**178**	**0**	**18**	**178**
	32,186	**199**	**3,524**	**0**	**2,612**	**33,297**

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

Fixed assets 2007	PROCUREMENT / MANUFACTURING COSTS					
T€	Per 01.01.2007	Currency differences	Additions	Reposting	Disposals	Per 31.12.2007
INTANGIBLE ASSETS						
Software	1,140	0	260	0	27	1,373
Goodwill	74	0	0	0	0	74
Development costs	5,151	0	1,680	0	0	6,831
Right to use	870	0	73	0	0	943
	7,235	**0**	**2,013**	**0**	**27**	**9,221**
TANGIBLE ASSETS						
Land and buildings	9,483	-56	388	1,929	130	11,614
Technical equipment and machinery	4,637	-37	936	0	792	4,744
Other equipment, factory and office equipment	4,460	-21	599	0	201	4,837
Prepayments and constructions in process	2,003	-68	1,747	-1,929	0	1,753
	20,583	**-182**	**3,670**	**0**	**1,123**	**22,948**
FINANCIAL ASSETS						
Others loans	0	0	17	0	0	17
	0	**0**	**17**	**0**	**0**	**17**
	27,818	**-182**	**5,700**	**0**	**1,150**	**32,186**

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

	AMORTIZATION					NET CARRYING AMOUNT	
	Per 01.01.2008	Currency differences	Additions	Reposting	Disposals	Per 31.12.2008	Per 31.12.2008	Previous year
	902	0	263	150	300	1,015	606	471
	0	0	0	0	0	0	74	74
	4,005	0	739	730	0	5,474	3,393	2,826
	874	11	0	-880	3	2	0	69
	5,781	**11**	**1,002**	**0**	**303**	**6,491**	**4,073**	**3,440**
	2,501	2	462	0	0	2,965	10,866	9,113
	3,179	30	661	0	1,245	2,625	1,451	1,565
	3,593	13	471	0	794	3,283	1,145	1,244
	0	0	0	0	0	0	220	1,753
	9,273	**45**	**1,594**	**0**	**2,039**	**8,873**	**13,682**	**13,675**
	0	0	0	0	0	0	0	17
	0	0	31	0	0	31	147	0
	0	**0**	**31**	**0**	**0**	**31**	**147**	**17**
	15,054	**56**	**2,627**	**0**	**2,342**	**15,395**	**17,902**	**17,132**

	AMORTIZATION					NET CARRYING AMOUNT	
	Per 01.01.2007	Currency differences	Additions	Reposting	Disposals	Per 31.12.2007	Per 31.12.2007	Previous year
	752	0	177	0	27	902	471	388
	0	0	0	0	0	0	74	74
	3,627	-1	379	0	0	4,005	2,826	1,524
	864	0	10	0	0	874	69	6
	5,243	**-1**	**566**	**0**	**27**	**5,781**	**3,440**	**1,992**
	2,144	-2	400	0	41	2,501	9,113	7,339
	3,000	-18	668	0	471	3,179	1,565	1,637
	3,221	-10	579	0	197	3,593	1,244	1,239
	0	0	0	0	0	0	1,753	2,003
	8,365	**-30**	**1,647**	**0**	**709**	**9,273**	**13,675**	**12,218**
	0	0	0	0	0	0	17	0
	0	**0**	**0**	**0**	**0**	**0**	**17**	**0**
	13,608	**-31**	**2,213**	**0**	**736**	**15,054**	**17,132**	**14,210**

10.1 Intangible assets

The goodwill arising from company acquisitions (capitalized differences arising from capital consolidation) were reduced by scheduled straight-line amortization over the useful life in each case up to 31 December 2004. No more scheduled amortization takes place starting from the 2005 financial year because an unlimited lifetime is assumed. In accordance with IFRS 3 regulations, the acquisition costs for goodwill were reduced from 1 January 2005 by the accumulated amortization. There were no impairments to value in 2008.

On every balance sheet date, the carrying amount of the goodwill is compared with the achievable price. Amortization is carried out if the carrying amount exceeds the obtainable amount. For the purposes of testing the soundness of an investment, the goodwill is assigned to a cash generating unit. In this case, it is assigned to the Laser Systems segment based on a detail planning period of 3 years and an appropriate capitalization interest rate.

Software

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

Capitalized development services

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

T€	2008	2007
Laser Systems	2,641	2,101
Rapid Prototyping	752	725
	3,393	**2,826**

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

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

	Years
Software	3
Development services	5
Rights of use	5

10.2 Tangible assets

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

The production costs cover the cost of direct materials and material overheads and the manufacturing costs and manufacturing overheads. Outside capital costs are not capitalized.

The following useful lives are assumed:

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

Bank loans totaling T€ 3,185 (previous year: T€ 3,827) are secured by land and buildings.

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

Assets held in the form of finance leasing arrangements are depreciated over their forecast useful lives in the same way as analogous assets, or over the shorter contractual period.

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

T€		Face value	Interest portion	Cash value
Leasing rates reported in the ongoing financial year:	2008	5	–	–
	2007	6	–	–
Up to 1 year	2008	0	0	0
	2007	5	0	5

There are no terms exceeding 1 year.

10.3 Financial assets

The reported securities are shares in an investment fund. They are classified as “available for sale”. The measurement is based on the purchasing costs, an impairment test is carried out.

11. Inventories

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

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

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

Value adjustments of T€ 1,237 (previous year: T€ 900) were applied to the lower net sales values of the stock. T€ 693 were accounted for affecting net income in the 2008 financial year.

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

T€	2008	2007
Laser Systems	9,706	9,792
Rapid Prototyping	5,063	5,606
Special Systems	9	9
Production Services	185	84
Others	72	126
	15,035	**15,617**

12. Trade accounts receivable

T€	2008	2007
Nominal amount of accounts receivable	10,571	10,632
Provision for doubtful accounts including exchange losses	-407	-385
Accounts receivable after value adjustments, discounting and exchange losses	**10,164**	**10,247**

The measurement of the trade accounts receivable is based for the first time on the fair value and thus on the continued procurement costs by applying the effective interest rate method and discounting impairments. The impairment of a trade account receivable is reported when there is objective evidence that the receivables due cannot be fully satisfied. The size of the impairment is measured by the estimated future cash flow from this receivable discounted by the effective interest rate. The impairment affecting net income is reported under other operating expenses.

The trade accounts receivable include T€ 183 derived from POC receivables. The total amount of payments included is T€ 921, and has been deducted from the receivables corresponding to the progress of the project.

The residual carrying amount of the receivables totals T€ 35 (previous year: T€ 463) and concerns receivables with a remaining term of more than one year.

Risk of default per 31 December 2008

			Non-impaired but overdue since					
Trade accounts receivable and extended loans in T€	Carrying amount per 31.12.2008 or 2007	Thereof non-impaired and not overdue	Less than 30 days	Between 30 – 60 days	Between 60 – 90 days	Between 90 – 360 days	over 360 days
2008	10,164	7,316	688	199	106	233	2
2007	10,264	7,445	1,081	841	255	149	174

VALUE ADJUSTMENTS on trade accounts receivable and extended loans in T€	2008	2007
Per 1.1.	319	292
+ additions	108	72
- reversals (value adjustments not needed)	20	33
- availment (value adjustments needed)	55	12
Per 31.12.	352	319

13. Other assets and income tax refunds

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

T€	2008	2007
Input tax refunds	260	674
Income tax refunds	1,015	969
Reinsurance	114	224
Deferred insurance premiums	302	361
Outstanding investment grants	0	6
Others	242	105
	1,933	2,339

Other assets and income tax refunds totaling T€ 443 (previous year: T€ 578) have remaining terms of more than one year.

Corporation tax and trade tax refund claims are reported under income tax refunds. Long-term corporation tax refund claims total T€ 329 (previous year: T€ 354).

14. Securities / Assets subject to disposal restrictions

Reported here are shares in funds held for a short term the previous year. They are categorized under “available for sale”, changes in their current market value are reported under shareholders’ equity. Securities totaling T€ 214 have been pledged in the reporting period to a bank as a security, and are thus reported as assets subject to disposal restrictions.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand of T€ 6 (previous year: T€ 19) as well as cash in other banking accounts of T€ 5,999 (previous year: T€ 2,805).

16. Deferred tax asset

Reporting based on the liability method encapsulates all of the temporary differences between the tax values and the carrying amounts of the assets and debts of deferred taxes. The income taxes are calculated in line with the valid laws and regulations.

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

Deferred tax assets

T€	2008	2007
Tax loss carry forwards	0	142
Trade accounts receivable	34	0
Reserves	43	0
Inter-company profit elimination and other deductible temporary differences	501	389
Others	31	0
Total	**609**	**531**

Deferred tax liabilities

T€	2008	2007
Capitalized services	1,018	1,234
Tangible assets	38	0
Trade accounts receivable	177	0
Others	48	0
Total	**1,281**	**1,234**

Within the next 12 months, T€ 498 of deferred tax assets and T€ 136 of deferred tax liabilities will be realized.

The figure for not yet utilized tax losses involving subsidiaries for which no deferred tax asset was stated in the balance sheet is T€ 933 (previous year: T€ 772).

Liabilities

17. Share capital

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

The conditional capital according to Article 4 Section 7 of the Memorandum and Articles of Association was adapted in accordance with Section 218 AktG to enable the share capital to be contingently raised by up to € 352,105.00. The conditional capital increase shall only be realized in proportion to the extent to which the holders of convertible bonds, issued by the Company on the basis of the resolution passed by the annual general meeting on 13 October 1998, exercise their conversion rights to convert the bonds into new shares. The new shares participate in the profits from the beginning of the financial year in which the option to utilize the conversion rights was exercised. The € 1 nominal value bonds entitle their owners to exercise a conversion right to acquire 1 new share in LPKF Laser & Electronics AG with an arithmetical share of the share capital of LPKF Laser & Electronics AG of € 1. The conversion price for the acquisition of such a share will be calculated on the basis of a formula reflecting a comparison of the increase in value of LPKF's shares compared to the German share index (DAX). When exercising the conversion right to acquire a share, a cash payment must be made corresponding to the amount the conversion price exceeds the proportional nominal amount of the bond being converted.

The term of the convertible bond is 5 years (maturity date 29 December 2003) with an annual interest rate of 5%. In accordance with the resolution passed by the Annual General Meeting on 13 June 2002, the Board of Managing Directors was empowered to extend the term of the convertible bond to 10 years maximum from the time of issue of the bond. In addition, the exercise period was extended from two to four weeks and the number of exercise periods increased to four. This means that the rights in each period can be exercised the day after the quarterly reports are published. The first conversion took place after the Annual General Meeting on 17 May 2001. This created 137,770 new shares. Conversion in the 2002 financial year created 10,125 new shares. No conversions have taken place since this date. The bond was paid back in full at the end of 2008.

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

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

The legal subscription rights of the shareholders are excluded.

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

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

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

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

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

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

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

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

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

- excluding or guaranteeing the transferability and/or tradability of the option rights;

- the details of the procedure involved in the program as well as the terms of distribution and exercising, and in addition, the making available of the shares offered under conversion options in agreement with the listing requirements;

- the regulations concerning the treatment of option rights in special cases (e.g. the death or parental leave of an option holder);

- to determine reasons for termination in the interests of the Company as well as regulating the terms of termination in detail, and in particular, to determine them more precisely when the employment relationship terminates for reasons for which an option holder is responsible;

- any revisions to the program required to safeguard the economic basis of the Stock Option Program 2001 in the light of changes in the law.

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

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

Tranche	Exercise price/€	Number of options
2003	2.92	76,706
2004	4.10	73,700
2005	4.21	87,220
2006	5.35	116,200
2007	5.71	136,900

No options were issued in the 2008 financial year.

The development in the options portfolio in the 2008 financial year is as follows:

	Average exercise price per option/€	Number of options
Per 1 January 2008	4.26	363,348
Granted	–	0
Forfeited	4.78	9,050
Expired	2.92	27,158
Exercised	–	0
Per 31 December 2008	**4.37**	**327,140**
(of which exercisable		0)

The variation range of the exercise prices of the options remaining on the balance sheet date lies between € 4.10 and € 5.71.

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

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

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

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

	2nd tranche 2004	3rd tranche 2005	4th tranche 2006	5th tranche 2007
Volatility in %	50.08	48.80	44.90	41.10
Risk-free interest rate in %	3.41	2.36	3.59	4.31
Dividends in %	0.98	2.38	3.18	2.85

The options for the first tranche have expired.

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

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

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

18. Minority interests

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

T€	2008	2007
Per 1 January	2,552	2,559
Additions (+) / disposals (-)	770	-7
Per 31 December	**3,322**	**2,552**

The changes result from the share in the Group’s year end results accruing to outside shareholders, from currency translation, and payments with respect to minority interests.

19. Provisions for pensions

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

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

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

T€	2008	2007	2006	2005	2004
Cash value of the non-externally financed obligations	349	345	396	388	294
Unreported time-adjusted losses	9	- 10	- 87	- 104	- 28
Net debt reported in the balance sheet	**358**	**335**	**309**	**284**	**266**

The following amounts were reported in the statement of income:

T€	2008	2007	2006	2005	2004
Ongoing office hours expenditure	4	5	5	3	14
Amortised actuarial losses	0	3	4	0	1
Interest expenditure from obligations	19	18	16	15	17
Total expenses reported in the statement of income	**23**	**26**	**25**	**18**	**32**

Forecast expenses in the following year:

T€	2009
Ongoing office hours expenditure	4
Interest expenditure from obligations	20
Total expenses reported in the statement of income	**24**

The ongoing office hours expenditure and the actuarial profit/losses are reported in “Personnel expenses”. The interest expenditure on the obligations is reported in “Financial results”.

The net debt reported in the balance sheet has changed as follows:

T€	2008	2007
Provisions for pensions per 1.1.	335	309
Net expenditure reported in the statement of income	23	26
Net debt reported in the balance sheet per 31.12.	**358**	**335**

The provisions for pensions were calculated using the following assumptions:

%	2008	2007
Discounting rate per 31.12.	5.75	5.50
Future increase in remunerations	0.00	0.00
Future increase in pensions	1.75	1.75
Fluctuation rate	0.00	0.00

20. Tax provisions and other provisions

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

T€	2008	2007
Corporation tax and solidarity surcharge	101	607
Trade tax	85	420
	186	**1,027**

Provisions schedule

Provisions T€	Per 01.01.2008	Utilisation	Releases	Addition	Per 31.12.2008
Provisions for pensions	335	0	0	23	358
Accrued taxes	1,027	970	57	186	186
Bonuses	1,177	1,177	0	423	423
Guarantees and warranties	545	545	0	554	554
Others	60	45	15	290	290
Total	**3,144**	**2,737**	**72**	**1,476**	**1,811**

With the exception of the provisions for pensions, all of the provisions referred to are due within one financial year.

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

21. Liabilities

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

The fair value of the external capital component of a convertible bond is determined by reference to a non-convertible bond and applying the market interest rate. This amount is recognized as a liability stated at amortization costs until conversion takes place or repayment is due. The remainder of the earnings corresponds to the value of the conversion right. This is reported in shareholders' equity net after deduction of income tax effects.

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

		Liabilities with a remaining term of				
Type of liability T€	**Total amount**	**Up to 1 year**	**1 to 5 years**	**More than 5 years**	**Secured amount**	**Type of security**
Convertible bond	0 (106)	0 (106)	– (–)	– (–)	– (–)	– (–)
Liabilities due to banks	6,642 (4,905)	3,093 (1,347)	2,062 (1,815)	1,487 (1,743)	3,185 (3,827)	*,** (*, **)
Trade accounts payable	1,640 (2,101)	1,640 (2,098)	– (3)	– (–)	– (–)	– (–)
Other liabilities	4,899 (3,171)	4,754 (3,171)	72 (–)	73 (–)	– (–)	– (**)
	13,181 (10,283)	**9,487 (6,722)**	**2,134 (1,818)**	**1,560 (1,743)**	**3,185 (3,827)**	

* Land charge, assignment of claims
** Security assignments

The amount due to banks includes fixed interest loans totaling T€ 6,626 (previous year: T€ 4,831) which are subject to interest rates of 2.85 % p.a. to 5.85 % p.a. as in the previous year.

Running no.	Amount of loan paid out in T€	Interest rate p. a. in %	Term
1.	658	3.75	09/99 – 09/09
2.	1,150	5.85	09/99 – 09/09
3.	1,585	5.41	01/00 – 09/09
4.	960	2.85	02/06 – 03/16
5.	1,200	4.40	09/06 – 06/16
6.	390	3.15	11/07 – 03/14
7.	330	5.76	11/07 – 06/11
8.	150	5.50	11/07 – 06/17
9.	655	4.35	12/07 – 12/17

The fair value of the fixed interest loan is T€ 6,392. The loans are specified for the financing of new construction measures, property acquisition, investment in expansion measures, and development projects.

A long-term loan taken out in the previous year and reported under other liabilities totaled T€ 233 to finance construction measures in the USA was extended by a minority shareholder in the US distribution subsidiary. The US-Dollar loan has a term until September 2017 and an interest rate of 6.0 % p.a.

The other liabilities carry no interest.

22. Convertible bond

Convertible bonds are combined finance instruments consisting of an equity component and a debt component. On the issue date, the fair value of the debt component is estimated from the determining interest rate for an analogous non-convertible bond. The convertible bond was paid back in full in the reporting period.

I. Other information

23. Cash flow statement

The payment of a dividend to minority interests totaling T€ 113 concerns the profits for the ongoing year, the difference of T€ 115 is a non-cash item and reported under other liabilities.

24. Profit per share

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

Dilution of the earnings per share applies when the average number of shares in circulation is increased by including the issue of potential shares in connection with the LPKF Laser & Electronics AG convertible bond issue and the options issued as part of the share option scheme. Convertible bonds and options always dilute the earnings.

	2008	2007
Number of shares undiluted	10,858,052	10,858,052
Effect of the issue of potential shares from convertible bond and option scheme	0	0
Number of shares diluted	10,858,052	10,858,052
Net income of the shareholders of the parent company (in T€)	1,811	3,868
Adjusted net result (in T€)	1,811	3,868
Net income per share, basic (in €)	0.17	0.36
Net income per share, diluted (in €)	0.17	0.36

25. Dividend per share

The Board of Managing Directors and the Supervisory Board will propose to the annual general meeting on 4 June 2009 that no dividend be paid to shareholders from the net income of LPKF Laser & Electronics AG for the 2008 financial year, and that the amount of € 941,034.35 be carried forward in full.

26. Related parties transactions

Zeltra Naklo d.o.o., Slovenia

A shareholder of the subsidiary LPKF Laser & Elektronika d.o.o. holds 100 % of the shares in Zeltra Naklo d.o.o.. Materials and equipment, merchandise and services totaling T€ 4 were purchased or paid as interest from this related party in 2008.

PMV d.o.o., Slovenia

50 % of the shares in PMV d.o.o. are held by a shareholder of the subsidiary LPKF Laser & Elektronika d.o.o., and 50 % by other related parties. In 2008, business relations with this company covered development and production services and rentals and/or license agreements totaling T€ 623. In addition, Group companies carried out orders totaling T€ 135 for PMV d.o.o..

Parties related to board members and other closely associated natural persons

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

On the balance sheet date, LPKF Laser & Electronics AG had liabilities due to members of the Supervisory Board totaling T€ 161.

With the exception of the aforementioned, there are no other significant claims or liabilities against the LPKF Group companies with respect to paid remunerations or benefits granted to related parties.

27. Corporate Governance Code

The declaration of conformity from the Supervisory Board and the Board of Managing Directors laid down by Section 161 AktG covering the implementation of the recommendations set out by the German Corporate Governance Code government commission, and the disclosure of any non-compliance with the recommendations, was permanently made accessible to the shareholders by posting on the Company's website.

28. Other disclosures

Other financial commitments

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

The existing car leasing contracts are classified as operating leasing arrangements. The basis for the payable leasing rates are leasing contracts with Volkswagen Leasing GmbH calculated on the basis of the term and the kilometres driven by each car.

There are no other provisions or agreements with respect to the extension of terms or favourable purchasing options.

Total future rent leasing payments classified according to terms are:

T€	2008	2007
Leasing rates contained in the results for the year	73	74
Up to 1 year	60	42
Longer than 1 year and up to 5 years	68	24

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

T€	2008	2007
Up to 1 year	308	287
Longer than 1 year and up to 5 years	763	664

Sureties with respect to third parties in the form of sureties for payments totaling T€ 3,302 were present on the balance sheet date.

There are no other significant financial obligations.

Financial Instruments IAS 39

1. Original financial instruments

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

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

There are no financial instruments belonging to the categories “Financial assets or financial liabilities valued at the assignable fair value” and “Financial instruments held until reaching maturity”. With respect to the „Loans and claims” these are primarily loans and trade accounts payables, other assets, liquid assets, payables associated with the convertible bond, liabilities due to banks, and other liabilities. The initial measurement was based on the assignable fair value plus transaction costs. In subsequent measurements, the amortization costs are based on the effective interest method. Changes in assignable fair value are credited to the appropriate income account. The “Financial assets available for sale” include liquid assets and the securities reported under current assets. The securities concern shares in a bond fund. The initial measurement was based on the assignable fair value plus transaction costs. The subsequent measurements are based on the assignable fair value. The changes in value are also reported in shareholders’ equity with a neutral effect on net profit until the asset has been withdrawn. Losses are only reported with an effect on net profit if there are signs of a permanent reduction in value.

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

2. Derivative financial instruments

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

During the course of the year, eight futures contracts (fair value hedges) were entered into to hedge existing receivables totaling TUS$ 2,682, as well a futures contract to hedge existing receivables totaling JPY 25 million. One of these transactions with a total volume of TUS$ 250 was still open on the balance sheet date. This transaction which still had one month to run on the balance sheet date was measured with a positive fair value of T€ 4. Two futures contracts involving TUS$ 191 entered into in the 2007 financial year were squared in 2008 with an outcome of T€ 10. In addition, two currency option transactions (fair value hedge) were entered into to secure dollar receivables totaling TUS$ 816. Exercising the option produced a loss of T€ 4. To secure an inter-Group long term US$ loan, a currency swap (fair value hedge) was entered into for TUS$ 876. This hedge transaction runs to 30 September 2017. On 31 December 2008, the transaction had a negative fair value of T€ 71.

The derivative financial instruments were measured on the balance sheet date based on their fair value. An underlying transaction secured by a currency swap was measured based on the contractually binding translation rates defined at the settlement date. Any positive fair values for these instruments on the balance sheet date are reported under other assets, if not, they are reported under other liabilities. Their fair values were reported to the Company by the banks issuing the hedges. Changes in fair value are reported in the books with an effect on net income, insofar as reportable transactions have already taken place. With respect to an unhedged situation, there has been a net loss of profit of € 0.1 million. No other derivative or hedging transactions were in place on 31 December 2008.

3. Details pursuant to IFRS 7

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

T€	Category in accordance with IAS 39*	Carrying amount 31.12.2008	Amounts recognized in balance sheet according to IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in pofit or loss
Assets						
Cash and cash equivalents	LaR	6,005	6,005			
Trade receivables	LaR	10,164	10,164			
Other receivables	LaR	658	658			
Other non-derivative financial assets						
Held-to-Maturity Investments	HtM					
Available-for-Sale financial assets	AfS	361	401		-40	
Financial Assets Held for Trading	FAHfT					
Derivative financial assets						
Derivatives	FAHfT	4				4
Liabilities						
Trade payables	FLAC	1,640	1,640			
Bonds	FLAC	0	0			
Liabilities to banks	FLAC	6,642	6,642			
Other interest-bearing liabilities	FLAC	234	234			
of which derivative financial instruments	FLHfT	71				71
Other non-interest-bearing liabilities	FLAC	4,514	4,514			

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

The carrying amounts closely match the fair value, so no special reporting of fair value has taken place.

Breakdown of maturity per 31 December 2008

Trade accounts receivable in T€	Carrying amount per 31.12.2008 (2007)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2008	1,640	1,639	0	1	0
2007	2,101	2,093	6	2	0

Financial obligations from interest and amortization of loans in T€	Carrying amount per 31.12.2008 (2007)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
of which principal repaid					
2008	6,642	2,789	308	2,117	1,428
2007	4,905	564	782	1,815	1,743

Other interest-bearing liabilities in T€	Carrying amount per 31.12.2008 (2007)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2008	234	234	0	0	0
2007	238	238	0	0	0

			Amounts recognized in balance sheet according to IAS 39				
Fair value 31.12.2008	Category in accordance with IAS 39	Carrying amount 31.12.2007	Amortized cost	cost	Fair value recognized in equity	Fair value recognized in pofit or loss	Fair value 31.12.2007
6,005	LaR	2,824	2,824				2,824
10,164	LaR	10,247	10,247				10,247
658	LaR	1,357	1,357				1,357
	HtM						
361	AfS	284	291		-7		284
	FAHfT						
4	n.a.	13	5			8	13
1,640	FLAC	2,101	2,101				2,101
0	FLAC	106	106				106
6,642	FLAC	4,905	4,905				4,905
234	FLAC	238	238				238
71	n.a.	3				3	3
4,514	FLAC	2,930	2,930				2,930

Other non-interest bearing liabilities in T€	Carrying amount per 31.12.2008 (2007)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2008	4,514	4,514	0	0	0
2007	2,930	2,930	0	0	0

Derivative financial instruments in T€	Carrying amount per 31.12.2008 (2007)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
2008	71	0	0	0	71
2007	3	0	0	0	3

Financial obligations from finance lease in T€	Carrying amount per 31.12.2008 (2007)	Up to 6 months	6 months - 1 year	Between 1 year and 5 years	Over 5 years
of which principal repaid					
2008	0	0	0	0	0
2007	0	0	0	0	0

4. Hedging policy and risk management

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

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

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

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

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

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

As far as possible, the Group buys in US-Dollar, and thus puts into effect the "natural hedge" philosophy. In net terms, this does however give rise to US$ inflows. This is hedged by way of forward exchange deals or currency options, to cover contracted foreign currency inflows for up to 6 months. The exchange rate hedges cannot completely compensate for the negative effects on the Group's competitive position arising from a continuously strong Euro compared to the US-Dollar. The means of compensation is continuous further development of the products, also with the aim of lowering the production costs.

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

The currency sensitivity analysis is based on the following assumptions:

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

In the fair value hedges used to hedge currency risks, the exchange-rate related changes in the value of the underlying or hedging transactions in the same period are almost completely balanced out in the income statement. This means that these financial instruments as well are not associated with exchange rate risks with respect to their impact on performance or shareholders' equity.

Interest or currency swaps are always linked to the original underlying transactions, so that these instruments as well give rise to no currency effects.

Accordingly, the remaining effect of cash flow hedge transactions to hedge against exchange-rate related payment fluctuations pursuant to IAS 39 is on the related reserves in Group shareholders' equity and on the fair value of these hedging transactions. No cash flow hedges existed on the balance sheet date.

The analysis pursuant to IFRS 7 only shows the effects of exchange rate changes on financial instruments held by the Group on the balance sheet date, but does not show the effect on the Group's competitive situation.

If the Euro had risen (declined) in value by 10 % compared to the US-Dollar by 31 December 2008, the other operating expenses (other operating income) would have been T€ 21 higher, and the allocations to the adjustment item for currency differences would have been T€ 44 higher (lower).

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

Liquidity risk

Minimizing the liquidity risk is achieved through continuous liquidity planning. In addition to existing liquid assets, credit lines are also available from various banks. Long-term bank credits are mainly used to finance the buildings in Suhl and Garbsen, Germany.

Change in interest risks

The net result and the cash flow from ongoing business activities are largely independent of changes in the market interest level. The credits taken out for construction finance are of a long-term nature and have fixed interest rates.

Credit risks

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

The maximum default risk is reflected on the one hand by the carrying amounts of the assets reported in the balance sheets (including derivative financial instruments with positive fair values). Long-term trade accounts receivable including the associated short-term portions, are wholly secured by credit default insurance excluding the portion of loss borne by the insured. In addition, the trade accounts receivable are also secured by an amount totaling T€ 1,109 by payment commitments issued by banks (letters of credit). The creditworthiness risk is therefore borne by the issuer of the security. In addition, trade accounts receivable for specific Asian countries totaling T€ 343 are covered by a credit default insurance.

Capital management details

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

29. Details pursuant to Section 315a German Commercial Code

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

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

Dipl.-Ing. Bernd Hackmann (Chairman) to 31.12.2008

Dr. Ingo Bretthauer (Chairman) since 1.2.2009

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

Dipl.-Oec. Kai Bentz

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

The total remuneration of the Board of Managing Directors in 2008 was T€ 757 (previous year: T€ 1,193).

This included a fixed remuneration component totaling T€ 547 (previous year: T€ 355).

The fixed remunerations were as follows:

T€	2008	2007
Bernd Hackmann	196	166
Bernd Lange	204	154
Kai Bentz	147	35

The performance-based component in the 2008 financial year was based on the EBIT (previous year: EBT) of the Group. Unlike the previous year, the performance-based salary component was no longer tied to achieving a minimum performance target.

Because of the earnings situation in the previous financial year, variable remuneration was granted totaling T€ 881 (previous year: T€ 973), and paid out in the 2008 financial year to Bernd Hackmann and Bernd Lange who each received T€ 427, and to Kai Bentz who received T€ 27.

The performance-based component for 2008 will not be paid until the 2009 financial year. Reserves were set aside for this purpose for Bernd Hackmann totaling T€ 76 (previous year: T€ 406), and for Bernd Lange totaling T€ 76 (previous year: T€ 406), and Kai Bentz totaling T€ 58 (previous year: T€ 26).

The presiding Chairman of the Board of Managing Directors up to 31.12.2008, and two retired members of the Board of Managing Directors were awarded the following benefits:

1. Pension
2. Occupational disability allowance
3. Widows pension
4. Redundancy payments

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

The provisions for pensions for former members of the Board of Managing Directors total T€ 284 (previous year: T€ 196), plus redundancy payments and remuneration for a ban on competition totaling T€ 155 (previous year: T€ 0).

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

No share options were assigned to the members of the Board of Managing Directors in the 2008 financial year as salary components with a long-term incentive value as part of the 2001 Share Option Program. The following table shows the number of options held by each member of the Board of Managing Directors:

Board of Managing Directors	31.03.08	30.06.08	30.09.08	31.12.08
Bernd Hackmann	47,100	47,100	45,500	45,500
Bernd Lange	36,648	36,648	36,500	36,500
Kai Bentz	9,825	9,825	9,700	9,700

On 31 December 2008, the fair value of the options granted to Bernd Hackmann was T€ 0 (previous year: T€ 20), for Bernd Lange T€ 0 (previous year: T€ 7) and for Kai Bentz T€ 0 (previous year: T€ 2).

No new shares were acquired by the Board of Managing Directors in the 2008 financial year by exercising options.

As at 31 December 2008, the members of the Board of Managing Directors held 245,535 shares (previous year: 230,535 shares), broken down amongst the Board members as follows:

Shares held by Board members

Board of Managing Directors	31.03.08	30.06.08	30.09.08	31.12.08
Bernd Hackmann	222,800	222,800	222,800	222,800
Bernd Lange	7,010	10,010	17,010	21,010
Kai Bentz	725	725	725	1,725
Supervisory Board				
Bernd Hildebrandt	871,746	871,746	871,746	871,746
Prof. Dr. Erich Barke	1,000	1,000	1,000	1,000

The members of the Supervisory Board are:

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

Dr. Heino Büsching
Lawyer/Accountant at CMS Hasche Sigle, Hamburg (Deputy Chairman)

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

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

T€	2008	2007
Bernd Hildebrandt	70	70
Dr. Heino Büsching	40	40
Prof. Dr. Erich Barke	25	25

A variable remuneration element for the 2007 financial year was paid in 2008 dependent on the paid dividend and totaled T€ 24 (previous year: T€ 24). The members of the Supervisory Board were therefore granted the following:

T€	2008	2007
Bernd Hildebrandt	8	8
Dr. Heino Büsching	8	8
Prof. Dr. Erich Barke	8	4
Klaus Sülter	0	4

30. Details on disclosed shareholdings in the Company

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

Bernd Hildebrandt, domiciled in Wunstorf, Germany with a current shareholding of 8.03 %;
Klaus Barke, domiciled in Großburgwedel, Germany with a current shareholding of 9.02 %.

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

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

T€	2008	2007
Annual financial statement auditing	70	64
Accounting services	12	24
Other services	5	5
Total	**87**	**93**

32. Events after the balance sheet date

After Bernd Hackmann stepped down at the end of 2008, Bernd Lange temporarily took over his duties in January 2009. The Supervisory Board of LPKF Laser & Electronics AG reached a decision on 12 January 2009 to appoint Dr. Ingo Bretthauer from 1 February 2009 as the new Chairman of the Board of Managing Directors of LPKF Laser & Electronics AG.

No other disclosable events took place after the balance sheet date.

Garbsen, 16 March 2009

LPKF Laser & Electronics AG
Board of Managing Directors

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

Auditor's Report

We have audited the consolidated financial statements prepared by the LPKF Laser & Electronics AG, Garbsen, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a Paragraph 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Hannover, 23 March 2009

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Günter Benz	**ppa. Nicole Hauptmann**
German Public Auditor	German Public Auditor

Statement of Income from 01.01.2008 to 31.12.2008

T€	2008	2007
Sales	34,502	34,683
Changes in inventories of finished goods and work-in-process	-83	-147
Other work capitalized	347	527
Other operating income	1,055	956
	35,821	**36,019**
Cost of materials:		
Cost of raw materials and supplies	14,668	14,759
Personnel expenses:		
Wages and salaries	8,676	8,553
Social security and pension costs: thereof pension costs: T€ 76 (previous year: T€ 66)	1,451	1,363
Depreciation and amortization	1,140	1,251
Other operating expenses	9,333	7,621
	35,268	**33,547**
Income from subsidiaries	483	513
Earnings from loans shown as financial assets thereof from affiliated companies: T€ 0 (previous year: T€ 5)	0	5
Other interest and similar income thereof from affiliated companies: T€ 87 (previous year: T€ 31)	179	111
Depreciation of financial assets	31	0
Other interest and similar expenses thereof from affiliated companies: T€ 0 (previous year: T€ 0)	246	117
Profit from affiliated operations	**938**	**2,984**
Income tax	244	688
Other tax	-44	107
Net income	**738**	**2,189**
Retained earnings brought forward from the previous year	203	317
Allocation to other earnings reserves	0	1,000
Net income for the year	**941**	**1,506**

Balance sheet at 31.12.2008

Assets

T€	31.12.2008	31.12.2007
FIXED ASSETS		
Intangible assets		
Software	450	385
Rights to use	33	34
	483	**419**
Tangible assets		
Land and building	4,865	5,120
Technical equipment and machinery	741	1,016
Other equipment, factory and office equipment	766	937
Construction in process	220	114
	6,592	**7,187**
Financial assets		
Shares in affiliated companies	1,696	1,477
Loans to affiliated companies	669	703
Securities of the fixed assets	147	0
	2,512	**2,180**
	9,587	**9,786**
CURRENT ASSETS		
Inventories material		
Raw materials and supplies	6,769	6,923
Work-in-process	211	152
Finished goods and merchandise	3,626	4,047
Prepayments	114	230
	10,720	**11,352**
Accounts receivable and other assets		
Trade accounts receivable	6,394	7,322
Accounts due from affiliated companies	2,369	1,777
Other assets of which with a residual maturity of more than one year T€ 443 (previous year: T€ 579)	1,018	1,244
	9,781	**10,343**
	20,501	**21,695**
Cash on hand, bank balances and checks	2,735	1,111
	23,236	**22,806**
DEFERRED CHARGES AND PREPAID EXPENSES	**185**	**176**
including disagio: T€ 28 (previous year: T€ 32)		
	33,008	**32,768**

Liabilities and shareholders' equity

T€	31.12.2008	31.12.2007
SHAREHOLDERS' EQUITY		
Share capital conditional capital: T€ 600 (previous year: T€ 917)	10,858	10,858
Capital reserve	4,650	4,650
Earnings reserves		
Other earnings reserves	7,000	7,000
	7,000	**7,000**
Net income for the year thereof retained earnings T€ 203 (previous year: T€ 317)	**941**	**1,506**
	23,449	**24,014**
DEFERRED GRANT	**40**	**58**
PROVISIONS		
Provisions for pensions	284	272
Tax provisions	0	796
Other provisions	2,589	2,567
	2,873	**3,635**
LIABILITIES		
Bonds of which convertible: T€ 0 (previous year: T€ 106)	0	106
Liabilities due to banks	4,687	2,572
Prepayments received	520	756
Trade accounts payable	649	664
Accounts due to affiliated companies	240	525
Other liabilities thereof taxes: € 237 (previous year: € 136) thereof social costs: € 28 (previous year: € 19)	524	399
	6,620	**5,022**
DEFERRED INCOME	**26**	**39**
	33,008	**32,768**

Glossary

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

Circuit board plotter
Machine for the mechanical structuring of printed circuit boards during Rapid Prototyping.

Gantry
Innovative machine architecture which enables the highly dynamic control of laser head tracking.

LPKF LDS-method
(LDS: laser direct structuring) A laser-based manufacturing process for three-dimensional circuit carriers (Molded Interconnect Devices, MIDs - see below) made of plastics, which also handle mechanical functions.

MID
Molded Interconnect Device: injection molded circuit carrier made of plastics which bears a circuit structure and therefore also functions as an electrical component.

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

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

StencilLaser
Laser system for cutting fine, highly precise openings in a stainless steel stencil. Stencils are used for the precision printing of solder paste onto printed circuit boards – a prerequisite for the modern closely packed PCBs using surface mounting technology (SMT).

UV-Laser
Laser source with wavelengths in the ultraviolet range.

LPKF Calendar

27 March 2009	Publication of the 2008 annual report
27 March 2009	Balance sheet press conference
30 March 2009	Analysts meeting
15 May 2009	Publication of the Q1 report
4 June 2009	Annual general meeting
14 August 2009	Publication of the Q2 report
10 November 2009	Publication of the Q3 report

Contact

LPKF Laser & Electronics AG
Osteriede 7
D-30827 Garbsen

Phone +49 (0) 51 31-70 95-0
Fax +49 (0) 51 31-70 95-90

investorrelations@lpkf.de
www.lpkf.com

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