

# ANNUAL REPORT 2006

# Lines of business

of LPKF Laser & Electronics AG

**Stencil technology**



**In-house PCB prototyping**



**PCB production technology**



**3D-MID**



**Laser Plastic-Welding**



**Inspection and special systems**



**Solar technology**



**Production services**



---

As the market and technology leader, LPKF produces laser systems for cutting stencils. These stencils are then used to print solder onto PCBs, circuits and silicon chips.

---

LPKF supplies the complete systems used in electronics laboratories to immediately produce and assemble PCBs of all kinds.

---

LPKF is a specialist in the production of flexible laser systems for cutting, drilling, depaneling and structuring PCBs and flexible circuit carriers.

---

LPKF builds specialised laser systems for the production of three dimensional circuit carriers (MIDs).

---

LPKF's Erlangen production site builds modular production plants for laser plastic-welding.

---

3D measuring systems for microelectronics are built in Suhl.

---

LPKF builds special laser systems for the structuring of thin-film solar cells.

---

LaserMicronics GmbH provides production services on LPKF systems for clients and prospective customers.

---

## Facts and figures

# The company at a glance

LPKF Laser & Electronics AG in Garbsen/Hannover develops and produces systems primarily used in the electronics industry, but also in plastic processing. LPKF is the market leader in laser systems for the production of solder stencils and for pro-environment solutions for the in-house production of prototype printed circuit boards.

LPKF is a medium-sized, publicly-quoted enterprise, with around 300 employees throughout the world, and an extensive global network of branches and representations.

| Key Group figures   |      |      |      |
|---|------|------|------|
|   | 2006 | 2005 | 2004 |
| Turnover (in million €)                                     | 39.8 | 34.9 | 25.2 |
| EBIT (in million €)   | 6.4  | 6.0  | 1.7  |
| Cash-flow (in million €)                                    | 6.3  | 5.3  | 2.9  |
| Investment in tangible and intangible assets (in million €) | 7.5  | 1.9  | 1.4  |
| Profit per share (in €), diluted                            | 0.37 | 0.28 | 0.08 |
| Turnover per region (in million €)                          |      |      |      |
| Domestic  | 7.5  | 6.5  | 5.1  |
| Rest of Europe  | 9.0  | 5.2  | 5.6  |
| North America   | 6.7  | 6.0  | 4.8  |
| Asia  | 15.6 | 16.7 | 8.8  |
| Others  | 1.0  | 0.5  | 0.9  |
| Turnover per product (in million €)                         |      |      |      |
| Laser   | 23.5 | 18.1 | 12.7 |
| Rapid PCB Prototyping                                       | 12.7 | 10.5 | 9.8  |
| Special systems   | 2.2  | 4.4  | 1.4  |
| Production services   | 1.2  | 1.4  | 1.0  |
| Others  | 0.2  | 0.5  | 0.3  |
| Employees   | 292  | 248  | 223  |

### Group structure per 31 December 2006

| LPKF Laser & Electronics AG, Garbsen<br>10,858,052 EUR       |      |   |      |
|--|------|---|------|
| LPKF Motion & Control GmbH<br>Suhl, Germany                  | 51%  | LPKF Laser & Electronics Inc.<br>Wilsonville, USA | 85%  |
| LPKF Laser & Elektronika d.o.o.<br>Naklo, Slovenia           | 75%  | LPKF Properties LLC<br>Wilsonville, USA           | 60%  |
| LaserMicronics GmbH<br>Garbsen, Germany                      | 100% | LPKF France S.A.R.L.<br>Lisses, France            | 94%  |
| LPKF Laser & Electronics (Asia) Ltd.<br>Hong Kong, China     | 100% | LPKF (Tianjin) Co. Ltd.<br>Tianjin, China         | 100% |
| LPKF Services Inc. (formerly A-Laser Inc.)<br>Beaverton, USA | 100% |   |      |

# Contents



2-4



24



26



27



28



22

## INTERVIEW

### Interview with Bernd Hackmann

The CEO comments on the present situation and the business outlook

2

### Interview with Bernd Lange

Board Member Bernd Lange on new developments and product strategy

4

## REPORT OF THE SUPERVISORY BOARD

Bernd Hildebrandt on the activities of the Supervisory Board

6

## INVESTOR RELATIONS

### LPKF shares in 2006

8

## LPKF GROUP MANAGEMENT REPORT

2006 was characterised by growth and investments for further growth

10

## MARKET ANALYSIS

### Global markets demand global technology leaders

by Hans J. Friedrichkeit

18

## PRODUCTION

### LPKF's role in the electronics industry

LPKF systems and their application

20

## TECHNOLOGY

### 3D-MID

LDS strides ahead

### Laser Plastic-Welding

Expansion in Erlangen

### PCB production systems

The cutting specialists

### Rapid PCB Prototyping

The complete solution

22

24

26

27

### StencilLasers

Productivity prevails

28

### Solar technology

Energy from sunlight

29

## GLOBAL

### Branches and representations

LPKF world-wide

30

## INVESTMENTS

### Expansion

Room for growth

32

## ANNIVERSARY

### LPKF's 30th anniversary

Creativity boosts progress

33

## GROUP ANNUAL FINANCIAL STATEMENTS

- Group statement of income

- Group consolidated statement of changes in shareholders' equity

- Group balance sheet

- Group cash flow statements

- Notes to the consolidated statements

35

## ANNUAL FINANCIAL STATEMENTS

of LPKF Laser & Electronics AG

63

## Special sections

Corporate Governance Declaration of compliance

34

Glossary of technical terms

67

Imprint

67



**Dipl.-Ing. Bernd Hackmann**  
**(48, Chairman of the Board of Managing Directors)**

Joined LPKF in 1983,  
Main responsibilities: development, service, sales, product management and production.  
Joined Board of Managing Directors in 1998.  
Chairman since May 2001.

**fitting from the overall positive mood in the market?**

Both. The crucial point is having the right products in the market at the right time. We have been successful in doing this. We also naturally benefit from the general positive mood within the electronics industry.

**Which regional markets were of particular importance for LPKF in 2006?**

This was the Asian market again with its exceedingly large dynamism. Interestingly though, business was also very good in the USA and Europe. The markets in the West have caught up in comparison with Asia. We were very successful in Central Europe with Laser Plastic-Welding systems, whilst StencilLasers made a contribution to the good performance in the USA. It is also worth noting that with 3D-MID in particular, we are now increasingly doing business with internationally active companies. It is therefore possible for orders to come from clients in the USA or Germany for systems which eventually become installed in Asia.

**How do you think the electronics industry, which is so important for LPKF, will develop in the next few years?**

I am confident that it will develop well. The trend for electronic devices is pointing towards enhanced levels of mobility. The growth rates for notebooks and mobile phones are very high. Another aspect is the unbroken trend for shorter and shorter product service lives. This aspect in particular has a direct impact on our Rapid PCB Prototyping segment. In the 3D-MID business, we benefit from the accelerating change in technical solutions and designs. We also see additional potential in areas such as the production of antennae using our LDS technology

Interview with Bernd Hackmann

# 3D-MID business the top priority

**LPKF's turnover target for 2006 was Euro 41 million. You only just missed this target. Are you still satisfied?**

Yes. We can boast a growth in turnover of 14 per cent in 2006, and were able to increase the net result by 31.5 per cent. I think this is a remarkable performance of which we can be satisfied. A significant aspect is that all of LPKF's segments contributed to this positive performance. The Rapid PCB Prototyping segment has grown

by around 20 per cent, StencilLasers have held their ground at a high level without contributing to the growth. UV lasers have enjoyed a decent rise in turnover. The 3D-MID and Laser Plastic-Welding segments were well ahead of target. However, we experienced a decline in turnover with our inspection systems.

**Is LPKF growing as a result of its own efforts or is the company bene-**

for mobile telephones, notebook data cards and navigation devices.

**You undertook a large number of construction measures in 2006. What was the plan?**

Growth in turnover eventually leads to a demand for more space and more staff. We therefore invested around € 2.4 million as planned in Garbsen in acquisition and conversion measures. We completed a new office building in Slovenia at the end of 2006 which can now house the parts of the company originally located at five different sites. Bringing them together like this will optimise and streamline the workflows. We are also expanding our infrastructure in the USA. A new branch office will soon be completed close to our current location in Oregon to meet the growing demands of the market.

**Last year you also invested money in a customer relations management program. Has the CRM software already proven its worth?**

It will. The software is installed and has been implemented, but will also require a certain amount of additional investment in 2007. The new software is primarily intended to improve distribution workflows as well as make our service activities more flexible.

**LPKF depends on fresh ideas – what proportion of investment will be spent on development in 2007?**

We will continue to invest in technical development. We forecast that the development cost to turnover ratio in 2007 will be up to 10 per cent.

**How have the new branches in Hong Kong and Suzhou developed?**

Very positively! Our Asian customers have been able to rely on two LPKF service staff in Hong Kong since 2006. This commitment is being honoured by our business partners. LPKF in Hong Kong also has sales staff available to support the local representative offices since mid 2006. Our Asian strategy has paid dividends especially in areas such as Rapid PCB Prototyping where LPKF enjoyed a significant boost in 2006. Suzhou supplies the Shanghai region with sales and service support – this is one of the most important markets for

us in Asia. Suzhou includes a demo-centre for our systems to enable interested parties to familiarise themselves with our products in their own backyards. In addition to our Tianjin branch covering the Beijing region, and the Shenzhen office covering the Canton region, Suzhou is an important pillar in our Chinese business.

**We will do everything necessary to make sure that the breakthrough into mass production succeeds.**



**Where do you see LPKF's growth opportunities lying in 2007?**

Basically wherever lasers can be used for the production of large batches, and where the growth in the number of produced parts has to be matched by the number of production machines. These are the conditions we find in the 3D-MID and Laser Plastic-Welding segments, as well as for systems for structuring thin-film solar cells. We will put everything into place to push these segments in 2007 and to ensure we make the breakthrough into mass production. There is an enormous potential for growth here if we succeed.

**Is the dollar exchange rate trend causing you sleepless nights?**

The state of the dollar is very important for us. It is not so much the currency risk here because we can hedge this

accordingly. But a continuously weak dollar will cause our prices to rise compared to the competition, and that is a tangible competitive disadvantage.

**Your business is international. Do you prepare your staff for their contacts with foreign business partners?**

Yes, this is an important aspect. We regularly arrange coaching to familiarise our staff with the local customs in places such as China and Korea. Asia is culturally at least as differentiated as Europe. There are huge differences in etiquette and business practises between China, Taiwan, Japan and Korea.

**One of your objectives in the past was to make the company less sensitive to the cyclicity of the electronics industry. Were you successful?**

The electronics market will continue to remain our most important market by far, but with laser plastic-welding we have succeeded in opening up new markets not linked to electronics. The main focus here are the automotive and the medical engineering sectors, but there are also other growth markets matching our competences which we are keeping a close eye on.

**What is your corporate strategy for 2007?**

Our aim is to strengthen the established product segments, in other words Rapid PCB Prototyping and StencilLasers. We also aim at good growth in the new segments. The focus of our efforts in 2007 will be the 3D-MID business which we see as the most significant engine for boosting turnover in the future. We will internationalise 3D-MID and make production services available in additional countries. On top of this, we will also concern ourselves intensively with the marketing of our plastic-welding products and services. With our entry into solar technology, we are stepping into a completely new and very dynamic market. We have already won the first orders for laser structuring systems for the production of solar cells. Our intention is to establish another pillar here for LPKF's business. ■



**Dipl.-Ing. Bernd Lange**  
(46, member of the Board of Managing Directors)

Joined LPKF in 2000 as sales engineer for laser systems. Responsible for strategic and operative marketing from 2003. Joined the Board of Managing Directors in November 2004 with responsibilities for technology, marketing and trade investments.

Interview with Bernd Lange

# The pioneering work is bearing fruit

**You launched a number of new products on the market in 2006. What were they exactly?**

2006 was particularly important for the StencilLasers. The new MultiCut was a big boost in this sector. It is targeted at the main market, and without exaggerating, we can say that the system was extremely well received.

**Why was MultiCut just what people were looking for?**

The customers want more productive systems with even lower maintenance effort. The MultiCut is a completely new development from a technical

point of view: new table, new laser, new controls. It is a revolutionary approach for StencilLasering.

**Were there other innovations from LPKF?**

At the end of 2006, we launched the MicroLine UV 3000. This system is also designed to achieve higher productivity, and was mainly developed for the prototype generation of flexible PCBs.

**Which approaches is LPKF taking with Rapid PCB Prototyping?**

We succeeded in the last two years in completely renewing the whole product

line. This starts with the ProtoMats. We also have new through-plating systems, and the multilayer press is just as new as the soldering oven. Additionally there is the chemical-free through-plating, as well as sets for solder-resist masks and assembly printing. LPKF boasts a completely renewed, well balanced and very rounded product range. Our solutions are not only applicable for standard rigid PCBs, but also for the whole spectrum of modern circuit carriers. All of the challenges designers now have to face, can be transformed into prototypes using LPKF equipment.



### **What part do lasers play in Rapid PCB Prototyping?**

We enjoyed our first sales successes with the ProtoLaser in 2006. We are also aware, however, that we still have to master some technical challenges. Another challenge is building a system at a more attractive price. Our aim is to produce more compact, laboratory-type devices which match the usual budgets of our Rapid Prototyping customers. If we succeed in achieving all of this, we open up a number of opportunities for real market expansion.

### **How do you see the development of the laser plastic-welding sector?**

Our Laser Plastic-Welding segment has developed extremely well. We were able to expand our position in the

specific applications. This gives rise to experience and practical know-how. This expertise is our most important asset, and luckily much more difficult to copy than a machine. Wherever possible we protect our technology and equipment with patents. Our approach to Asia remains unchanged: development and production remain in Germany and Slovenia.

### **The 3D-MID business considerably exceeded its targets. What makes you so optimistic for this technology?**

Let me give you just one example: the development of the antenna in each and every mobile phone is the bottleneck from a technical point of view. No matter how small the changes to

faced by those intending to launch new technologies. The pioneering work is now bearing fruit.

### **Has the implementation phase now been completed?**

Not yet. We have crucial work ahead of us in 2007 to finally establish our technology in the telecommunications and automotive sectors. This is the strategic objective in my opinion. 2007 is going to be very, very interesting for 3D-MID.

### **What is the situation with the inspection systems?**

The market for these special systems is very concentrated. We are therefore strongly dependent on the specific plans and successes of just a few cli-

## Replacing old techniques requires patience. That is the difficulty faced by those intending to launch new technologies.

market – no doubt attributable to the fact that LPKF has real in-depth understanding of the technical processes involved in plastic welding. We considerably expanded our office in Erlangen in 2006 by recruiting more staff and acquiring more space.

### **Was 2006 a breakthrough-year for plastic welding?**

As far as LPKF is concerned, I would say that the breakthrough came in 2005. This was the first time that the technology showed its profitability. 2006 built on this trend and we enjoyed an enormous growth in turnover. LPKF will make further targeted investments in this area in 2007. We will considerably raise our profile in the existing markets, open up new markets, and push ahead with the development of welding machines.

### **LPKF is well known as a technological leader and an ideas factory, and it is also very active in the Asian market. How do you protect yourself from product piracy?**

We formulate technical solutions for

this device, either technically or visually, they always have an impact on reception. The antenna therefore has to be continually and repeatedly modified. The work of the developers starts and finishes with the antenna. Naturally, manufacturers do all they can to minimise the effort and expense involved in these modifications. And this is precisely where our very flexible LDS method for the production of MIDs comes into the picture.

### **How long will it take before 3D-MID moves into mass production?**

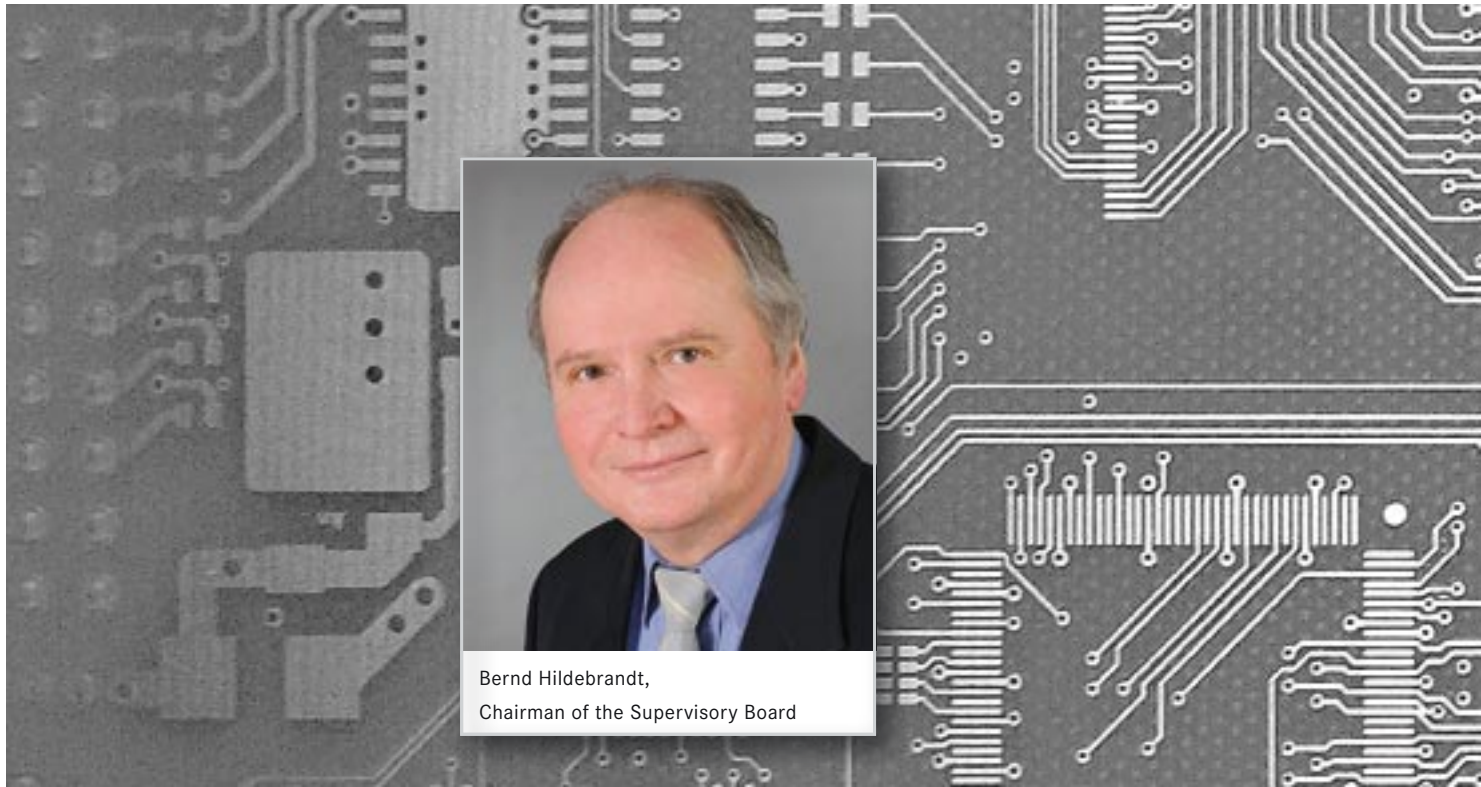
Leading companies have compared the various MID technologies, and the LPKF LDS method cuts a very good figure. We have also now gained practical experience from real batch production. The conclusion is simple: the LDS method functions and is faster and more flexible than other techniques. The time is now ripe for decisions to be made. Companies who bought systems from us a year ago for development, are now ordering systems for production. Replacing old techniques requires a lot of patience. That is the difficulty



ents. Our targets for 2006 proved to be very optimistic. The restricted planability and the difficult market environment are combined with the fulfilment of a large number of new technical demands. Our planning for this sector in 2007 is therefore more conservative.

### **What will LPKF's product range look like in future?**

We will rate each segment and each individual product even more strongly in future on its contribution to the company's performance and future prospects. This will have an impact on product development, and ultimately lead to more streamlining. At the same time, we will also critically analyse opportunities for entering new markets, and make the move in specific cases. This happened recently in the solar technology sector. We see very good opportunities here of profitably applying our competence in laser material machining. ■



Bernd Hildebrandt,  
Chairman of the Supervisory Board

# Report of the Supervisory Board

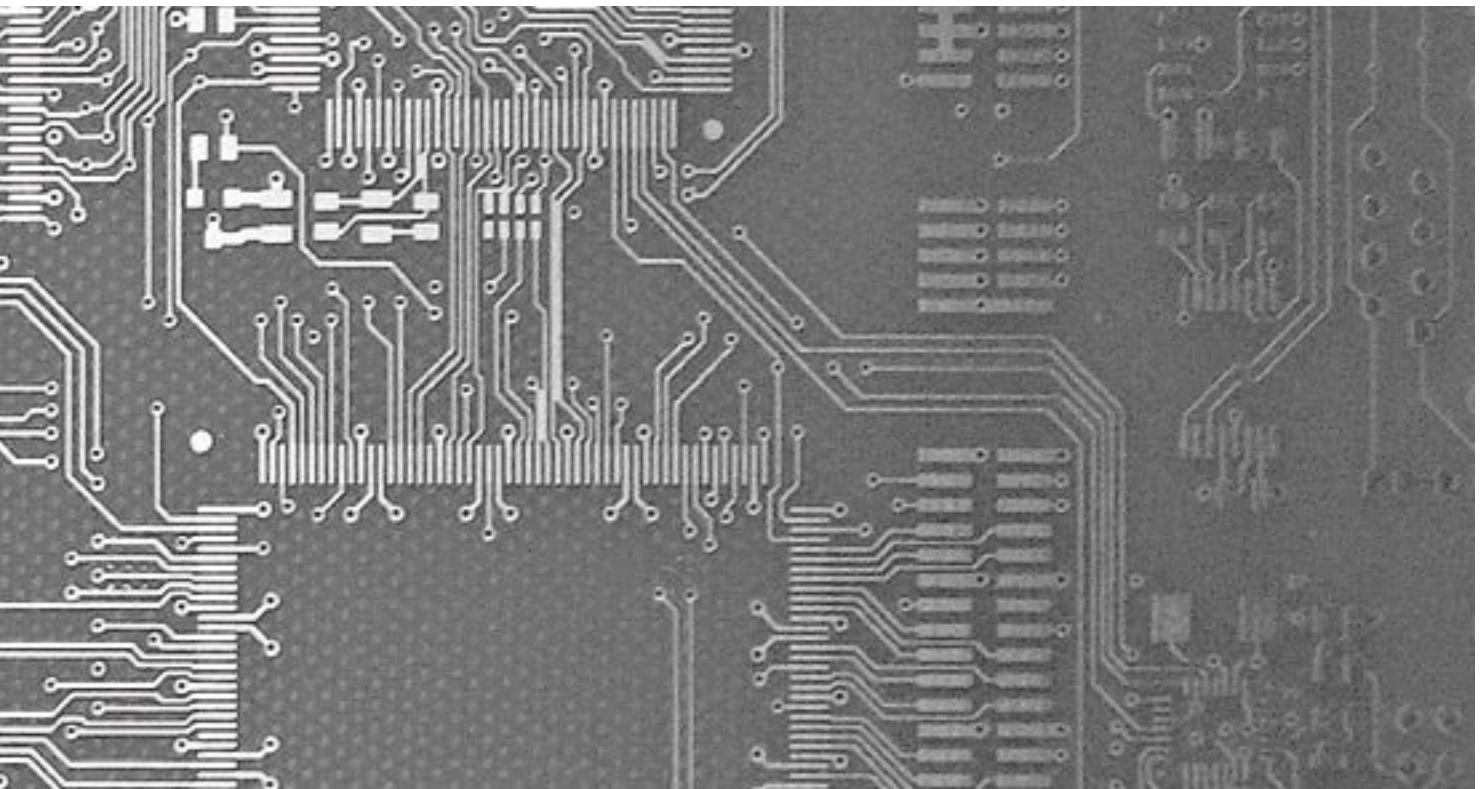
**Seven formal Supervisory Board meetings were held in the 2006 financial year. The Supervisory Board and the Board of Managing Directors also worked together closely to discuss matters of importance whenever they arose. One of the main topics here was the company's product strategy and the associated targets for the sales markets.**

A particularly satisfactory aspect was the approx. 20 per cent growth in the Rapid PCB Prototyping segment which was set up 30 years ago when the company was first founded.

A certain amount of stagnation has set in with the traditional StencilLasers, which is certainly also attributable to the growing international competition in this sector. Our plans for 2007 are to launch innovative new developments to put even more distance between us and the trade competition.

The Supervisory Board and the Board of Managing Directors both see the biggest growth potential in 3D-MID, Laser Plastic-Welding systems, and in the completely new segment for the laser structuring of thin-film solar cells. Each of these three segments is targeted at sales markets outside of our classic electronics field, and thus considerably reduce our sector dependency. Our aim here is to achieve market leadership through concentrated development activity and courageous investments, and to expand this position in the medium term.

Risk management was another aspect discussed between the Supervisory Board and the Board of Managing Di-



rectors. The instruments for the early identification of risks continue to be permanently optimised to avoid risks and reduce the probability of damages occurring. The re-auditing of the DIN EN ISO 9001:2000 quality management systems operated in Garbsen, Erlangen and Suhl was again successful. The auditor tested the process security and gave its seal of approval. The updated corporate governance code was implemented, and the declaration of compliance (according to Section 161 German Stock Corporation Act) was published in the internet. With the exceptions posted in the internet, LPKF Laser & Electronics AG has incorporated and complied with the corporate governance code.

The Supervisory Board engaged PricewaterhouseCoopers Aktiengesellschaft to audit the 2006 annual financial statements and Group financial statements in accordance with the resolution passed by the annual general meeting. Individual and Group financial statements, including the details pursuant to Section 289 Para. 4 HGB (takeover-relevant information) were audited and given unconditional approval by the auditor. The auditor participated at the special Supervisory Board meeting arranged for the purpose, reported on

its audit of the annual financial statements, and provided additional information.

The Supervisory Board reviewed the annual financial statements, the management report and the profit appropriation proposal, and approved the annual financial statements. They are now authorised.

The Board of Managing Directors and the Supervisory Board will propose a resolution at the annual general meeting on 24 May 2007 to appropriate part of the net income for the 2006 financial year of LPKF Laser & Electronics AG totaling € 1,619,513.70 to pay a dividend of 12 Cent per share. The total dividend payment for the share capital with dividend entitlements of € 10,858,052.00 will be € 1,302,966.24. The remaining net income of € 316,547.46 is to be carried forward.

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 Super-

visory Board which then approved the consolidated financial statements.

The Supervisory Board thanks the Board of Managing Directors for their commitment and the successful work they carried out in 2006. This thanks also goes to all of the employees, the management and staff of partner companies and the works council. The representative offices and other co-operating companies working on LPKF's behalf around the world also made a considerable contribution to the success of our business in 2006. This success was also underpinned by the loyalty of old and new customers, as well as the good co-operation with suppliers and research institutes, to whom we also extend our thanks.

With tried-and-tested products, numerous innovations, and a highly motivated workforce, everything is in place for further successful growth.

Garbsen, March 2007

On behalf of the Supervisory Board

Bernd Hildebrandt



LPKF shares in 2006

# Strong foundation for potential growth

## Share performance

The performance of LPKF shares was not very satisfactory given the positive environment for technology stocks on the stock markets in 2006. After reaching a high of € 7.34 in March 2006, the price dropped to € 4.84 in October. The decline was marked by small intermediate peaks. The share price rose again in November to € 6.53 before dropping again to € 5.00. The last quarter was marked by a slow climb leading to an end of year price of € 5.20 on 29 December 2006.

Following a climb in the share price of over 100% in 2005, the share price in 2006 was affected by consolidation. The financial markets had very high expectations because of the rapid growth in the previous year so that even the clear boost in turnover of 14% in 2006 was not enough to lift the share price to an appropriate level. The value of LPKF shares overall

dropped 14% during the 2006 financial year. In 2007 the share started with a rapid increase. After announcing LPKF's entry into the solar technology, the share climbed to € 6.95 and was at € 6.17 at copy date.

## Communication

Successful investment decisions can only be achieved on the basis of transparent and timely communication with all sections of the financial market. LPKF Laser & Electronics AG has an open information policy and makes its latest financial figures and the development of its business regularly available to all investors and interested parties. Information relevant to the share price is also immediately disclosed in ad-hoc announcements and on LPKF's website. The Group placed its shares in the Prime Standard of the German Stock Exchange to ensure that investors are guaranteed access to detailed and prompt information via the quar-

terly reports prepared in accordance with the International Financial Reporting Standards, and published in English and German.

As Chairman of the Board of Managing Directors, Bernd Hackmann was involved in a large number of private investor discussions, and attended numerous investor conferences and road shows to present LPKF Laser & Electronics AG's targets and strategies to a large number of institutional investors. In addition to the annual analysts conference, presentations were also made in other countries in Europe, the Equity Forum in Frankfurt am Main, and regional investor events.

## Investor relations in the internet

The internet chat with the company management, which is held regularly after publication of the quarterly and annual reports, and is especially

|  |   |
|--|---|
| <b>International Securities Identification Number (ISIN)</b> | DE 000 645 0000   |
| <b>Exchange abbreviation</b>                                 | LPK   |
| <b>Sector</b>  | Advanced Industrial Equipment   |
| <b>Market segment</b>  | Prime Standard  |
| <b>Indices</b>   | Technology All Share<br>Prime All Share<br>CDAX<br>GEX<br>NISAX 20                                  |
| <b>Designated sponsor</b>                                    | DZ-Bank<br>NordLB   |
| <b>Stock markets</b>   | Xetra, Frankfurt, Stuttgart, Munich,<br>Hannover, Berlin/Bremen, Duesseldorf,<br>Hamburg            |
| <b>Investor Relations contact</b>                            | Bettina Schäfer<br>Tel +49 (0) 51 31-70 95-3 82<br>Fax +49 (0) 51 31-70 95-90<br>b.schaefer@lpkf.de |

## Contact at LPKF

Bettina Schäfer,  
Investor Relations



## LPKF calendar

**28 March 2007**  
Publication of the annual report

**28 March 2007**  
Balance press conference

**29 March 2007**  
Analysts meeting

**16 May 2007**  
Publication of 3 months report

**24 May 2007**  
Annual general meeting

**15 August 2007**  
Publication of 6 months report

**22 November 2007**  
Publication of 9 months report

## Change in share price 2006

in%

— LPKF shares — Technology All Share Index



popular amongst private investors, will be continued in the ongoing financial year. Naturally, the LPKF website [www.lpkf.com](http://www.lpkf.com), and its investor relations section in particular, enables shareholders and interested parties to inform themselves quickly and comprehensively on all aspects of the company and LPKF shares.

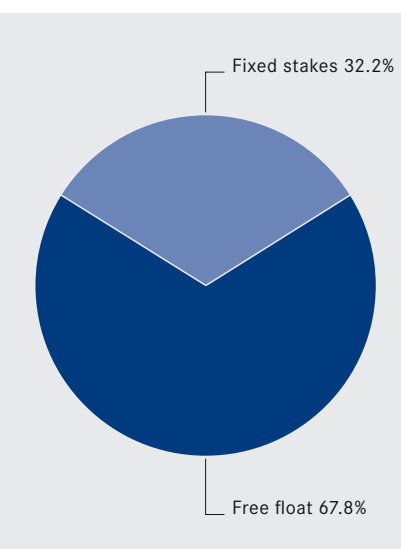
### Dividend

Our dividend policy aims to pay our shareholders an appropriate share of the consolidated profit generated in each financial year, making allowance for the company's financial requirements and Group investment planning. The Board of Managing Directors and the Supervisory Board will make a

proposal to this year's annual general meeting to pay a dividend of 12 Cents per share for the 2006 financial year. This corresponds to a 20% increase in the dividend year-on-year. The dividend yield is 2.3% with respect to the end of year share price on 29 December 2006.

### Shareholders' structure

The share capital at the end of the financial year was € 10,858,052.00, corresponding to 10,858,052 LPKF shares. 32.2% of these shares were held by former owners and founders of the company. 67.8% were in free float, including shares held by the Board of Managing Directors which account for less than 5% of the total share volume.



Shareholders' structure at LPKF Laser & Electronics AG defined by Deutsche Börse

# LPKF Group Management Report

for the 2006 financial year

## I Report on business developments

### 1. Development of the sector and the overall economy

The global economy grew strongly again in the 2006 financial year. The growth dynamism even exceeded that of 2005. The biggest upswing was in the Asian emerging economies. The USA stood out amongst the leading industrial countries for its robust growth. The economy in Europe is now also developing positively. Export-oriented mechanical engineering companies in Germany have profited in particular from this trend. The economic shape of the electronics and automotive industry, so important for LPKF, is better than it has been for a long time. The trend for shifting capacities from Europe and the USA to Asia is now no longer restricted to the production of standard and mass products, but also increasingly to sophisticated goods and development departments.

This development had a variable impact on LPKF. Rapid amortisation of investments were the main priority for cutting lasers for stencils and PCBs. LPKF clients enjoyed significant competitive advantages from new LPKF products boasting higher precision and even better machining of sophisticated applications.

Clients in the Rapid PCB Prototyping sector base their investment decisions on other criteria: budget-driven planning dominates and defines the investment cycles in the public sector, as well as amongst private institutions and companies. LPKF's new products in this segment won many new customers.

### 2. Turnover and sales development

In the 2006 financial year, the LPKF Group generated a turnover of € 39.8

million, corresponding to a growth of € 4.9 million or 14.1% year-on-year. The main engine behind this growth was again the Laser systems segment which boosted turnover by € 5.4 million or 29.9% to € 23.5 million. Within this segment, the biggest rises were posted by sales of 3D-MID systems and laser plastic-welding systems. This was followed by PCB machining systems. The turnover in the Stencil-Laser segment was at a similar level to last year. The greatest successes were achieved with new technologies or newly launched or further-developed products such as the MultiCut standard system in the StencilLaser product line which was supplied for the first time in the fourth quarter 2006. The turnover of the inspection systems produced by LPKF Motion & Control GmbH was below target. This was attributable to a narrow distribution channel and to solving ongoing technical problems. Business in the Rapid PCB Prototyping segment was satisfactory: a newly-developed standard system launched the previous year became the product with the strongest turnover in the 2006 financial year.

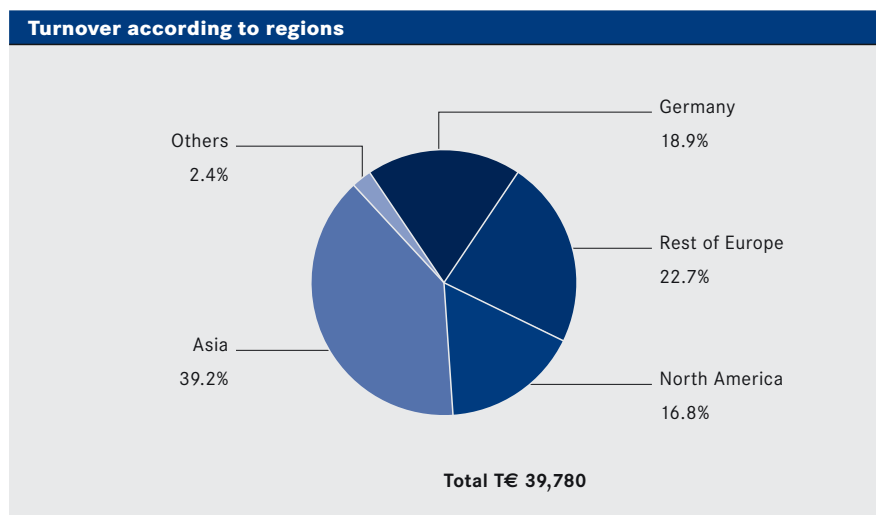
Growth in the 2006 financial year enjoyed a broad regional basis. Unlike

preceding periods when the growth in business was primarily concentrated on Asian clients, the business situation also improved in Europe and North America in 2006. Owing to the weak turnover with inspection systems, the overall share of Asia in turnover has decreased. The structure of the sales revenues continues to remain balanced both regionally as well as according to segments.

Orders received in the reporting period amount to € 38.4 million. This is only slightly below the previous year's level of € 39.2 million. Orders-in-hand of the group have receded from € 7.3 million at the end of 2005 to € 6.1 million at the end of 2006. Several important orders in the areas of solar technology and 3D-MID have been received shortly after balance sheet date.

### 3. Production and procurement

As in the past, LPKF Motion & Control GmbH in Suhl/Germany was the main supplier to the Group of table systems and machine controls for laser systems and Protomats. In addition, Group synergies were also harnessed: LPKF Motion & Control GmbH assisted the development department in Garbsen/Germany with Rapid PCB Prototyping



and the platforms and tables for laser systems. The subsidiary LPKF Laser & Elektronika d.o.o. Kranj/Slovenia supplied circuit board plotters and other equipment for Rapid PCB Prototyping, as well as in-house manufactured laser sources. The production of Rapid PCB Prototyping accessories was increasingly outsourced to system suppliers. In addition to Group companies, components and services were also supplied by a large number of subcontractors. However, most of the procurement involved a relatively small number of suppliers on which LPKF relies.

The capital bound up in inventories rose again year-on-year, particularly as a result of the increase in turnover volume, and in the light of planned turnover in the near future. The rise in inventories mainly affected the first few months of the year. The inventories include order-related articles as well as new products and components, where holding them in stock guarantees relatively short delivery times when clients finally make their investment decisions. LPKF considers the ability to supply the Rapid PCB Prototyping market "off the shelf" to be a strategic advantage. As always, the secret here is to find the optimum balance between inventory availability and tying-up of capital in stocks. LPKF benefits here from an electronic production planning and control system, and a rolling primary materials planning system. One of the priorities in the reporting period was optimising the production and materials management processes against the background of rising production volumes.

The renewed auditing of the DIN EN ISO 9001:2000 quality management system was passed successfully at the Garbsen, Erlangen and Suhl production sites in Germany. The certification company BVQI investigated the process reliability over a period of several days, and reported that the system was functioning properly.

#### 4. Investments

The total investments in tangible and intangible assets of T€ 7,532 was up T€ 5,616 year-on-year. The investment was focused on the expansion and conversion of the buildings in Garbsen to

increase the production and storage space. The long-planned merger of the various production, development and administration sites in Slovenia was also implemented. In the USA a vacant site has been purchased. Parts of the investment flowed into development equipment as well as demo-systems and prototypes. Additional investments were made in a computing system for customer relations management and service administration. Significant investments in the new segment solar technology as well as in new buildings in the USA are planned for the 2007 financial year, as well as completing the construction measures in Slovenia. Investments are also planned in the development of new machine software and expanding the production services sites for 3D-MID applications and Laser Plastic-Welding. The planned investment volume in 2007 will therefore rise further against this background compared to the 2006 financial year. Investments totalling T€ 2,616 which cannot be capitalised in the balance sheet were made in development activities during the 2006 financial year.

These investments are a key factor in the LPKF Group's growth strategy.

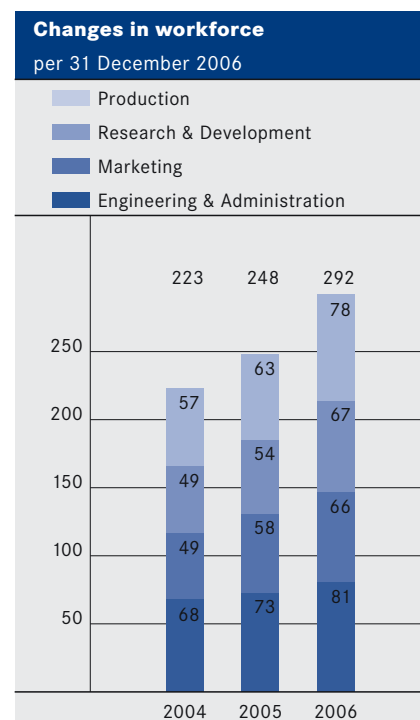
#### 5. Financing measures

The Group's financial position continues to be robust, with financial resources of € 5.2 million (previous year € 8.6 million). The inflow of funds from the operative business and from loans for construction measures was used by the Group to implement investment measures, and last but not least pay a dividend to the shareholders. The investments were largely funded from internal funds. As in previous years, the current account overdraft facilities were only used for brief periods for operative payment transactions.

As part of its risk management activities, the Group engaged in forward exchange deals for currency hedging purposes. Hedging was conducted for existing foreign currency trade accounts receivables, as well as firmly contracted transactions which cannot yet be capitalised in the balance sheet. The main goals of the hedging are to underpin the reliability of the esti-

mates and to avoid or reduce exchange rate losses. A total of four contracts with a face value of TUS\$ 1,220 and TJPY 45,260 were closed.

#### 6. Human resources



Increases in sales and the planned growth made the recruitment of a number of new staff necessary in the 2006 financial year. New employees were primarily hired in areas such as production, service and sales. New staff were also hired for some of the development activities and for administration. In general, LPKF's philosophy is to hire and bind employees to the company on a long-term basis. However, some new recruits were initially hired on short-term contracts to maintain the necessary flexibility in the company's human resource management, and to be able to adjust the associated costs to the developments in turnover with the shortest possible delay. Temporary staff were also taken on in some specific cases to quickly cover short-term needs. Hiring more staff for specific jobs in very dynamic areas of business is also planned in 2007 to underpin the further growth of the Group. Qualification measures continued to be carried out in all segments during 2006. The systematic further education and training of the staff will be continued in 2007 on the basis of seminars and training courses.

## 7. Takeover-relevant details

The appointment of ordinary and deputy members of the Board of Managing Directors, the closing of employment contracts, and cancellation of appointments is the responsibility of the Supervisory Board.

The share capital of the company totalling € 10,858,052.00 is divided up into 10,858,052 ordinary shares. The Board of Managing Directors is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 5,300,000.00 (authorised capital) by 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. The Board of Managing Directors is also authorised, with the approval of the Supervisory Board, to exclude the legal subscription rights of the shareholders with the aim of

- a) issuing up to 1,050,000 new shares at a price which is not significantly lower than the market price of the company shares at the time the Board of Managing Directors defines the issue price;
- b) issuing up to 5,300,000 new shares as part of a capital increase in return for contributions in kind with the aim of acquiring trade investments and/or companies and/or business units, by surrendering shares in the company;
- c) issuing up to 100,000 new staff shares.

There are no other disclosable matters pursuant to Section 289 Para. 4 HGB (German Commercial Code).

## 8. Report on affiliated companies

### LaserMicronics GmbH

This subsidiary provides production services on systems built by the LPKF Group. The intention here is to serve clients who have not yet acquired their own machinery but wish to benefit from LPKF expertise. Turnover developed ahead of target with a rise of 17.8%. In addition to its traditional range of

services, LaserMicronics GmbH will add laser plastic-welding services to its spectrum from 1 January 2007. The service centre in Garbsen will therefore be complemented with another service centre in Erlangen currently being built for this purpose.

### LPKF Services Inc.

#### (formerly A-Laser Inc.) in the USA

The main assets of this company were sold at the beginning of 2005. The company is to be liquidated after clearing the remaining liquid assets in 2006.

### LPKF Motion & Control GmbH

LPKF Motion & Control GmbH's business in the 2006 financial year declined because of the depressed external sales of inspection systems. After holding discussions with the most important end customer in this sector on compliance with technical specifications, and because of the cash flow problems of a reseller, a bad debt allowance of T€ 95 was posted in the accounts. Because payments were resumed at the end of 2006 and at the beginning of 2007, there is not currently considered to be any need to increase the bad debt allowances. The turnover of intra-Group deliveries developed satisfactorily. Further growth potential in 2007 is forecast from the anticipated development in the sales of the parent company, and a significant increase in external turnover. The company has joined LPKF Laser & Electronics AG in entering the solar technology market with the laser structuring of thin-film solar cells. The special expertise of LPKF Motion & Control GmbH in drive and control technology, and the many years of experience of LPKF Laser & Electronics AG in laser-based material machining, and large surface micro-machining, are ideal competences for the successful development of this strongly growing market.

### LPKF Laser & Elektronika d.o.o. in Slovenia

The turnover and profits of LPKF Laser & Elektronika d.o.o. continued to develop positively as in the preceding year. This is primarily attributable to a rise in external sales. There has hardly been any change in the turnover with the parent company.

When selecting the site for this operation in 1994, the company chose a location with a favourable tax status. The subsequent unilateral cancellation of this favourable tax status by the authorities led to the demand for tax and interest repayments of T€ 534 in 2000. Although the judgement now issued by the court means that there will be no reimbursement of the tax payment made in arrears, a favourable judgement was issued concerning the interest. T€ 199 was repaid. Additional legal proceedings are being pursued to secure payment of the associated compound interest.

The long-planned merger of the previous five units on one site in the vicinity of Kranj was finally implemented in the 2006 financial year. The associated investment will be concluded by the beginning of 2007.

### LPKF Laser Components GmbH

This company was founded in 1999 in co-operation with a partner in Russia to support the transfer of laser expertise. This purpose can now be achieved by simpler and cheaper means. The company was therefore merged with LaserMicronics GmbH.

### LPKF Laser & Electronics Inc. in the USA

LPKF Laser & Electronics Inc. is the Group's sales and service partner in the North American region. Turnover in the Rapid PCB Prototyping segment as well as in the Laser segment developed extremely well. The weakening of the US\$ has a negative effect from a Group point of view because of the unfavourable impact this has on turnover and profits calculated in Euros. The American subsidiary acquired a plot in the 2006 financial year. A new building is to be constructed here in 2007 to make adequate room available for offices, demo-systems, training and storage in order to accommodate the expanding business.

### LPKF Properties LLC in the USA

The business purpose of this company founded in 2000 is to provide LPKF Laser & Electronics Inc. with property. The company owns the company of-



fices currently used by LPKF Laser & Electronics Inc. When the new buildings being constructed in the USA have been completed, the previously used property will be sold and the company liquidated.

#### **LPKF France S.A.R.L.**

The commercial success of LPKF France S.A.R.L. again suffered during the reporting year from the weakness of the electronics market in France. The investment climate in the French electronics industry has remained very subdued for many years now. Against this background, the sale of several StencilLasers and the associated minor profit must be considered a success. The French automotive industry is an important market for the Laser Plastic-Welding segment and is to be targeted in the coming years. Long-term opportunities are also considered to be present in the French market for Rapid PCB Prototyping.

#### **LPKF (Tianjin) Co. Ltd. in China**

LPKF (Tianjin) Co. Ltd. is responsible for the distribution of LPKF products in China. It also undertakes maintenance and repair activities from its locations in Tianjin near Peking, Suzhou near Shanghai and Shenzhen in southeast China. The expansion and the associated investments in the Chinese locations underpin LPKF's access to its most important market.

#### **LPKF Laser & Electronics (Asia) Ltd. in Hong Kong**

This company was founded in 2005 and has employed five staff since the beginning of 2006. LPKF Laser & Electronics (Asia) Ltd. assists Asian distributors. The Hong Kong office is also responsible for dealing with customers in countries with no active LPKF representative. As a service centre, it is also responsible for servicing LPKF laser systems throughout Asia.

#### **PhotonicNet GmbH**

LPKF holds an 8.33% stake in PhotonicNet GmbH. The company is a public-private partnership involving numerous established companies and has the overall aim of accelerating the development of optical technologies in Germa-

ny, and to set up and expand an associated network. LPKF withdrew from the company at the end of 31 December 2006 because it has already developed its own wide-ranging contacts, and its presence at trade fairs and congresses already adequately underpins the company's in-depth communication with its business partners.

### **9. Research and development**

Development work was carried out across all segments in 2006 to update the product lines to the latest demands in our markets. Several new products were successfully pushed through the development pipeline and brought onto production.

A complete range for the production of multilayer circuits was developed for the Rapid PCB Prototyping segment. The heart of this product line is a new MultiLayer press which enables a much broader spectrum of PCBs to be processed in much shorter time. The ProtoLaser for the chemical-free direct structuring of circuits was developed further to expand its areas of application. Through-plating systems also benefited from further developments.

R&D in the StencilLaser segment was focused on the primary SMT stencil market. The new MultiCut combines state-of-the-art laser technology with a ground-breaking drive platform to create a completely new StencilLaser which sets new benchmarks in productivity, operating costs and tooling. The system was successfully launched internationally in 2006.

The MicroLine UV 3000 is a new laser system developed for the PCB Cutting Systems segment which replaces the MicroLine 350D and boasts much higher productivity for cutting flexible PCBs.

R&D in the 3D-MID segment is focused on meeting the demands of the recently launched series production of MIDs using the LPKF LDS method. This concerned in particular adapting the engineering, as well as assisting key customers in successfully installing the whole LDS process chain.

Laser Plastic-Welding saw the development of a hybrid welding system which is ready-for-market. Other development activities concerned diagnostics and enhancing LPKF's own value-added portion in the laser welding equipment. R&D work of the subsidiary LPKF Motion & Control GmbH in 2006 focused on several new x-y drive systems.

### **10. Risk management system**

Risk management within the LPKF Group involves the formulation and implementation of measures that are able to identify existing risks and either diminish the amount of damage they might cause, restrict the chances of their occurring, avoid them completely or deliberately accept them if the risks are at a reasonable level.

The LPKF Group is exposed to numerous risks as it pursues its global business activities within the rapidly changing conditions affecting the electronics market. Risk management, and particularly the risk early warning system, has therefore always been a fundamental element in the planning and implementation of the business strategy. While this was vital in the recent past in the weak overall economic environment, it is also important today during a period of current and planned growth. Generally, although risks can be limited by suitable measures and can be rapidly and precisely identified by an early warning system, they can never be completely excluded and always need to be reassessed at the time the risk evaluation is carried out. LPKF therefore makes use of a number of highly developed management and control systems to measure, monitor, control and handle the risks which the company 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 decentralised management of each segment in each organisational unit in accordance with the Group structure.

A risk manager co-ordinates and authorises 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.

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 2006 financial year which reviewed the existing and potential risks, and checked the efficiency of reporting with respect to the management of risks. Another important element in the early warning system and the regulated transaction of business processes is the quality management system according to DIN EN ISO 9001:2000, whose efficiency is checked annually by a neutral organisation as part of the control audit. The corporate governance model implemented by the LPKF Group is also relevant in this context, in particular because a high degree of risk limitation is provided by the close co-operation between the Supervisory Board and the Board of Managing Directors. Good corporate governance has always been an integral part of LPKF's business philosophy and traditionally has a high priority within the company. LPKF therefore welcomes the related initiatives implemented in Germany and internationally.

In the following, the main opportunities and risks are described which could have a significant influence on LPKF's business, assets, financial and earnings positions. These are not the only opportunities and risks which LPKF faces. Opportunities and risks which the company is currently unaware of, or which are currently considered to be negligible, could also have a positive or negative impact on LPKF.

#### **Business opportunities**

LPKF's most important target market is the electronics industry, a strongly

growing sector. The trends that favour the use of LPKF products are the ever shortening product life cycles, frequent product redesign, and increasing miniaturisation. The clients in the automotive subcontracting sector also move in a very dynamic environment. This is where the LPKF Group's product developments really bite. The opportunities lie in the successful marketing of these new developments. If LPKF succeeds in replacing established technology with new LPKF methods, quantum jumps in growth in the relevant sector can be enjoyed. LPKF is the market and technology leader in its well established Rapid PCB Prototyping and StencilLaser sectors. The Group has a cutting edge over its competitors and plans to rigorously defend this lead now and in the future. With respect to PCB production systems and Laser Plastic-Welding, LPKF has established itself in markets, and considerably boosted awareness of its brand name. The 3D-MID and photovoltaic sectors also open up a broad range of opportunities. The Group has just begun to take the first steps in a very promising area of development.

#### **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 electronics industry is subject to cyclic economic fluctuations. Investment budget cuts were a major factor for many clients for a long period in the past. Of particular significance here is the shift of production sites overseas, as well as the complete closure of production sites. 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 this equipment appears assured by concrete orders from customers. Happily, this situation is now developing very positively thanks to LPKF's new product developments and the strong global economic upswing. The Laser segment is traditionally sub-

ject to stronger cyclic fluctuations than the primarily budget-driven Rapid PCB Prototyping segment. The Laser segment has therefore profited more in the 2006 financial year from the economic upswing. However, when considering investments, customers still usually react with a slight delay to any improvement in their order situation.

The LPKF Group is also repeatedly exposed to rapid and far-reaching changes resulting from the introduction of new technologies. LPKF has to continually protect its leading position especially in the StencilLaser sector from competitors attempting to penetrate LPKF's markets.

The systematic development of new technologies and business segments, e.g. 3D-MID and photovoltaics, is in principle associated with the risk that the planned business model fails to meet its targets because of unforeseen circumstances.

LPKF also supplies the automotive industry with production services. The risks here are associated with possible liability for recall campaigns arising from defects. However, the probabilities of damages arising in such a case are considered very small.

And last but not least, the global political situation is also associated with risks which could have a negative impact on the development of the LPKF Group's business. The EUR/US\$ exchange rate should also be mentioned in this context. A strong Euro has an impact on currencies oriented to the US dollar. This can have negative effects on sales in Asia, even if invoicing in these countries is carried out on a Euro basis. The main trade rivals mostly come from the "non-Euro area" and therefore have competitive advantages compared to LPKF when the Euro rises very strongly against these currencies. Moreover, a weaker dollar has a negative effect when converting US dollar-based turnover to Euros. Because most of the expenses arise in Euros, this can also put further pressure on margins. For these reasons, the weakening of the US\$ in recent months has had a negative effect on LPKF.

### **Dependence on suppliers**

The procurement of components and services from external suppliers is associated with basic risks involving long delivery times and changes in prices. LPKF does not directly depend on one or more suppliers. The number of suppliers for laser sources and a few special components, however, is relatively small. Price changes in particular can have a special influence on business activities. The current positive economic climate as well as the change in the price of energy and raw materials have caused some suppliers to raise their prices in some cases. There is at least a risk that this trend will continue and have a negative effect on material costs. During the reporting period, the delivery time of components and parts did not cause any shortages.

### **Dependence on customers**

The regional spread of 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 factor. In general, there is no dependence on individual major customers. However, in the case of inspection systems, LPKF does supply a small circle of customers in only one country. Endeavours will continue to expand the customer base and to launch the products in other Asian countries.

### **Exchange rate fluctuations**

The exchange rates between foreign currencies and the Euro sometimes undergo major fluctuations. For LPKF, the main fluctuation of any significance is that with respect to the US dollar. Fluctuations in exchange rates can have a positive as well as a negative effect on results. In the reporting period, the dollar weakened further against the Euro. Measures to counteract this trend are permanently reviewed and implemented to the degree possible. During the reporting period, four cash-flow hedges or currency option transactions with a face value totalling TUS\$ 1,220 and TJPY 45,260 were concluded to minimise the risk associated with exchange rate fluctuations. In addition, a currency option transaction from the previous year totalling TGBP 21 was settled. The positive effect on the results of these

currency hedging measures totalled T€ 28. Lost profits from these transactions amount to T€ 12. No other exchange rate hedging instruments were used.

### **Research and development**

LPKF's success significantly depends on the speed with which new products can be pushed through the development pipeline onto the market. Market acceptance, and the transition from the production of samples to series production are important milestones on the way to turning product ideas into profit generators for LPKF. 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 using LPKF technology, clients can also enjoy benefits from the technology itself and the associated market opportunities. In the markets, which in some cases can be extremely cyclic, this is precisely the aspect which is associated with additional risk when potential customers around the world implement investment stops and budget cuts, and when the willingness to invest in new technology diminishes, or companies stick to old processing technology for an unpredictable period of time. The Innovation Management department was expanded with the aim of reducing such risks.

Protecting cutting-edge technologies is carried out where feasible and is accompanied by patent applications.

In the case of all R&D projects which lead to series production, the time factor is a fundamental risk parameter – not only associated with risks involving the actual time in the future when the sampling or series production begins, but also the sale of the first products.

### **Patent risks**

The LPKF Group aims to achieve tech-

nological leadership in all product segments. It is therefore logical to protect this expertise internationally through protection rights and patents. Patents are an instrument of corporate policy. LPKF is already the owner of 21 patents in 96 countries, and is continually applying for new patents thanks to its intense research activities. LPKF Laser & Electronics AG considers the acquisition of patent rights to be the most effective means of protecting its R&D investments from depreciation. However, it is also possible that adequate patents and protection rights held by other institutions could have an impact on the Group's economic success.

### **Human resource risks**

The demand for highly qualified staff has risen considerably recently because of the upswing in the economy. Thanks to its close contacts with universities and the growing level of awareness the company enjoys in the laser sector, LPKF has no serious problems in recruiting adequately trained staff. In addition, the company also runs a staff participation scheme on the basis of stock options to honour the loyalty of staff to the company, and to enable key personnel to participate in the success of the company.

## II Outline of the remuneration system

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

The performance-based component was related in the 2006 financial year and the previous year to Group EBT and only comes into effect when a minimum net profit for the year of € 1.0 million has been generated. No retrospective changes in the performance targets are permitted. In addition, share options are assigned as salary components as part of a long-term motivation strategy as defined in the 2001 share option programme.

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

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

The pension is paid upon stepping down from the company

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

## III Business report

The very positive development in the LPKF Group's business which took off in 2005 has continued into the 2006 financial year. This was attributable to the launch of a whole series of new product developments in almost all product segments, as well as the good development of the electronics and automotive industry markets in general. The year was also marked by numerous investment projects implemented to underpin organic growth. Intense optimisation of the workflows and organisational structures within the Group was realised at the same time and adjusted to match the increased turnover volume.

### Analysis of the business performance

The Group's earnings situation again developed very satisfactorily in the 2006 financial year. The 14.1% rise in sales revenues to € 39.8 million (€ 34.9 million) boosted operational performance by € 5.7 million. The rise in prototype costs reported under development services on the assets side of the balance sheet, as well as the development costs of altogether € 0.7 million highlight the Group's innovative strength. Other operating income has reduced by € 0.7 million. The previous year, this figure included a one-off effect totalling € 0.3 million from the sale of the stencil service business in North America. The material deployment ratio has risen slightly from 30.5% to 31.2%. The personnel costs ratio, reflecting the ratio between personnel costs and sales revenues, continues to decline and now stands at 34.4% (previous year: 34.9%). The rise in personnel costs by T€ 1,514, or 12.5%, is mainly due to the rise in the workforce. The other operating expenses have risen by T€ 1,133 to T€ 8,473, largely attributable to an increase in distribution costs of T€ 499 including travel expenses. Overall EBIT is T€ 6,350 (previous year: T€ 5,980) with an EBIT ratio of 16.0% (17.1%). The rise in the financial performance by T€ 189 is attributable to an interest refund of T€ 199 from a tax court case. The taxation ratio is 32.2% (previous year: 38.6%). After deducting these charges and minority interests,

the Group performance was € 4.0 million compared to € 3.0 million the previous year.

The Group's cash and cash equivalents have declined from T€ 8,564 to T€ 5,156. This is mainly due to the strong investment activity which was largely financed from capital. The financial situation is rated as balanced.

The company's asset situation also continues to be extremely sound, as reflected e.g. by the high capital ratio of 71.8% relative to the rest of the sector (previous year: 74.0%). Share capital finances 320.4% of the fixed assets (previous year: 223.2%). The share capital to outside capital ratio is 254.1% (previous year: 284.9%). Provisions for long-running low-yielding claims have been made by discounting and setting up other provisions against specific debts.

## IV Outlook

Most forecasts for 2007 assume further growth in the global economy. However, some, including the Deutsche Industrie- und Handelskammertag (German Chambers of Industry and Commerce) predict less dynamic growth attributable to the weakening of the economy in the USA. This trend is, however, expected to have a smaller effect on the strong mechanical engineering and plant engineering growth markets than on e.g. the chemical and automotive industries focused on industrial countries. The LPKF Group expects to expand further against this background. The Board of Managing Directors has set itself a Group turnover target of € 45 million. Additional opportunities are promised by the strongly growing business with 3D-MID systems and photovoltaics in particular.

Innovations aimed at achieving the greatest possible economic benefits for the users, which can also meet current and future needs, and have a cutting edge on the competition, continue to build the solid platform for LPKF's growth strategy.

2007 will again see the launch of a whole series of new LPKF products. The profitable growth which was already achieved in 2006 is therefore set to continue in 2007. Priorities will be:

1. 3D-MID: Work will be concentrated here on setting up and expanding international sales and service structures, particularly in Asia. Production services are to be offered in other countries. This will require further investment.

2. Laser Plastic-Welding: Achieving additional growth here requires further internationalisation of the business with the setting up of sales and service capacities. Production service centres are also to be set up here in important regional markets.

3. Photovoltaics: The entry into the solar technology sector opens up a new and very dynamic market. The targeted growth in this sector must be achieved by expanding existing structures. Comprehensive investment in application systems and prototypes is necessary here as part of the development strategy.

The management, staff and partners will continue their total commitment around the world to continuing the company's current profitable growth.

## V Events after the balance sheet date

No events occurred after the balance sheet date requiring disclosure.

Garbsen, 21 March, 2007



Bernd Hackmann



Bernd Lange

# Global markets demand global technology leaders

By Hans J. Friedrichkeit, PCB-NETWORK, Basel

**I**f you want to be successful in the world of electronics, you have to keep pace with the global changes in markets and the shift in production clusters. It's either "go with the flow or die".

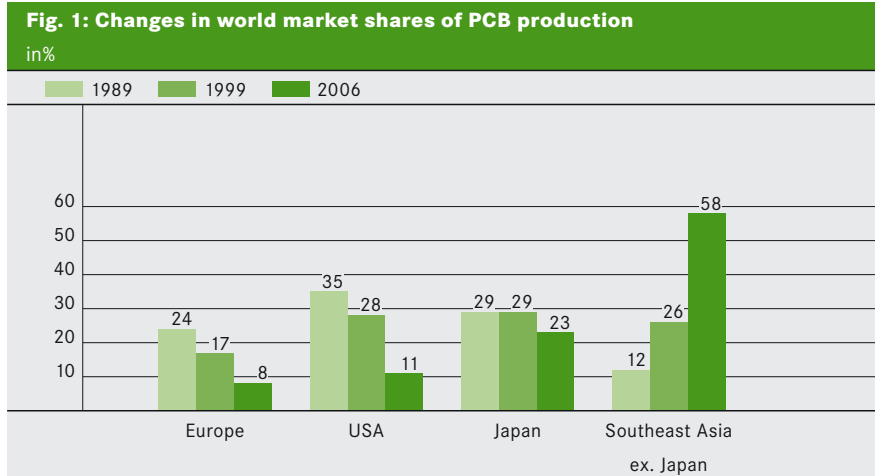
Printed circuit boards or PCBs are the basic component of electronic subassemblies. This one component mirrors the global changes affecting the whole of the electronics industry. There has been a huge shift in the location of electronics industry production sites in the last two decades (Fig. 1). Whereas Europe still produced around one quarter of the global demand for PCBs in 1990, this has now shrunk to around 8%. The USA experienced an even larger shift in production. The big winners are Southeast Asia and China.

### Japan's exceptional position

Japan is the big exception to this trend. Although it is a high wage country like Germany, the Japanese PCB and semiconductor industry has protected its output superbly by producing highly technically-sophisticated and innovative consumer goods. Examples include digital camcorders or mobile phones which were equipped with cameras already two to three years earlier than in Europe and are using a UMTS-like network.

Other products such as game consoles (e.g. play stations) have developed into image processing systems with extremely high technical standards. Japan's car producers are also amongst the world leaders.

The Japanese electronics industry has therefore innovatively taken control of the upper segments of the electronic consumer goods markets, and maintains and underpins its position by manufacturing the crucial components within its own borders. The production



of standard products with conventional technology has, however, been shifted to China.

### Technology leaders

Semiconductors are the main crucial component. Japan intends to increase its investments in semiconductor production equipment by 24% overall by 2009. Taiwan is also arming itself in this sector with a 36% boost in investment, followed by China with 33%, but without reaching Japan's absolute figures. Europe plays in a completely different league both in absolute terms and its growth of 11%.

If one goes into more technological detail by looking for instance at assembly and connection technology – including chip packaging as well as the connections from the chip to the PCB and the connections between the components themselves on the PCB – Japan is by

far the world market leader in the three most strongly growing technologies or components (Figs. 2 and 3).

This means that Japan also has a considerable global influence on further technical development. This is a major competitive advantage for European companies who supply Japanese technology leaders and therefore contribute to tomorrow's new product developments.

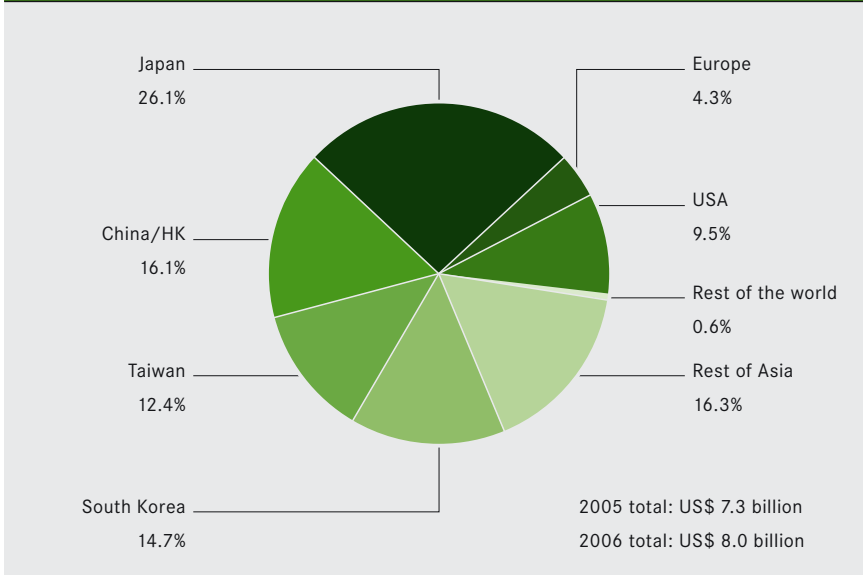
### Engine of growth

Although China is still described as an emerging country, its blistering economic growth pushed its GDP ahead of the UK in 2006, and it is set to displace Germany from position three in the GDP league by 2008. Most of the world's mobile phones, PCs, laptops, digital cameras, MP3 players and digital TVs are already being manufactured in China. This will be followed in the

| Component/Technology                                  | Global growth p.a. 2004-2009 |
|---|------------------------------|
| One-sided/two-sided PCBs                              | 1.5%                         |
| Multilayer PCBs                                       | 4%                           |
| Flexible PCBs   | 9%                           |
| Silicon Platforms/Interposers for flip-chips/CSP/μBGA | 12%                          |
| Microvia PCBs   | 13%                          |

**Fig. 3: Global production of flexible PCBs in 2005**

According to region



near future by cars and car electronics – the capacities are already partially in place (Fig. 4).

Companies who wish to participate in the mass production of electronic goods, have to go to China, and its Hong Kong “trading point” with direct access to the South Chinese electronics centres

### Europe’s opportunities

While consumer electronics are becoming concentrated in Asia, Europe’s strength lies in application-oriented innovative solutions. This field is led by mechanical engineering with industrial equipment and electro-medical appliances.

Global technology leaders must have local offices. These include production sites for simpler equipment and systems in the strongly growing Asian mega-markets. To ensure that “intellectual property” is protected, companies keep the production of software and complex subassemblies in Europe.

Another domain for Europe includes the integrated complex applications used in car production, e.g. electronic steering (steer-by-wire), interactive headlight systems, and car distance radar sensors. Many of these innovations, however, will initially be installed in premium range and upper midrange cars. Compact and medium range vehicles will increasingly be built in Eastern

Europe for cost reasons and to serve the local markets. Car production in Eastern Europe will increase by two million vehicles between 2005 – 2012, whilst Western Europe will only see an increase of 0.9 million vehicles.

There is only one response for global technology leaders: “We have to be, where our customers are!”, because innovation is not driven by technology but by applications. ■



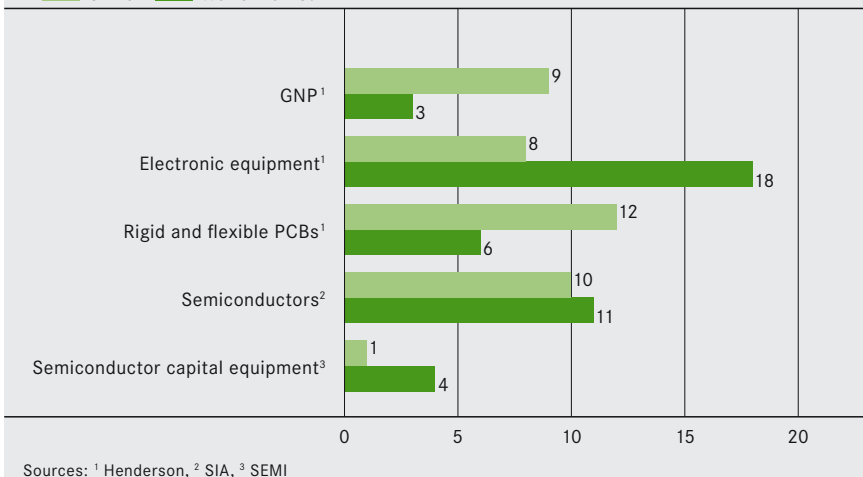
**Hans Joachim Friedrichkeit** works at PCB-NETWORK and covers corporate evaluation, strategy development and technology assessments. Friedrichkeit had 20 years of experience as a managing director in the European electronics and PCB industry up until 2002. He also had foreign assignments in the USA and Japan. He is the author of many publications and a sought-after speaker for international electronics industry events.

Friedrichkeit sits on electronics company committees and plays an active role in public institutions, including the Munich Trade Fair company where he acts as a consultant for the electronica fair. He is also co-founder of the PCB Industry Association (ZVEI-VDL).

**Fig. 4: Growth forecast for China and the world market 2006/2007**

in%

China World market



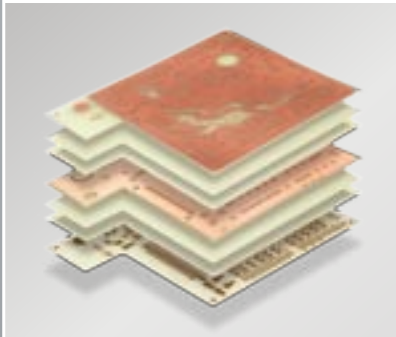
# LPKF in the electronics industry

The LPKF Group is involved in many product development processes within the electronics industry via its highly specialised systems and equipment. The following presentation gives examples of how LPKF products are used in the electronic equipment value chain.

## Development



Electronics designers use the LPKF ProtoMat S62 in their own laboratories ...

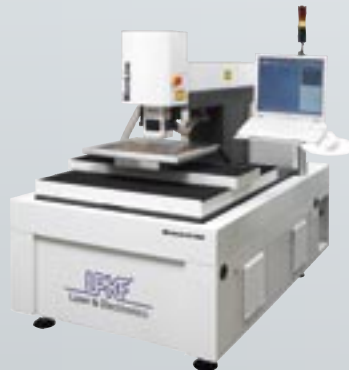


... to produce prototype PCBs ...

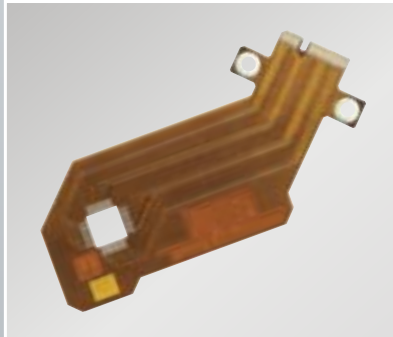


... for newly developed electronic sub-assemblies.

## PCB machining



Electronics subcontractors use the LPKF MicroLine UV 3000 to cut ...



... complex, flexible PCBs ...

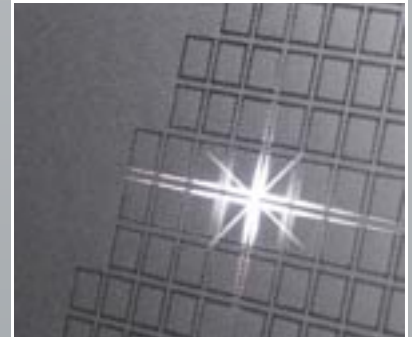


... for a range of electronic devices.

## PCB assembly



The LPKF MultiCut is used for the production of ...



... SMT print stencils which in turn are used to precisely locate solder bumps on PCBs.



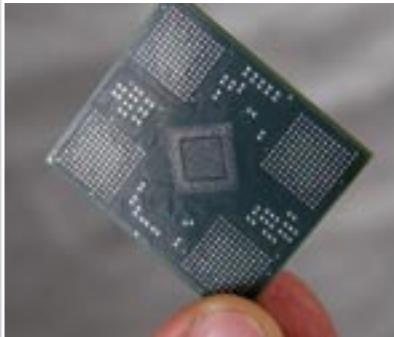
The assembled PCB is installed in electronic devices.



## Bump inspection



LPKF inspection systems test the ...



... solder bumps on a chip circuit board. The chip is then ...



... installed in e.g. notebooks.

## 3D-MID



The LPKF MicroLine 3D inscribes circuit structures on ...



... three-dimensional PCBs, e.g. antennae, ...



... used in mobile phones.

## Plastic-welding



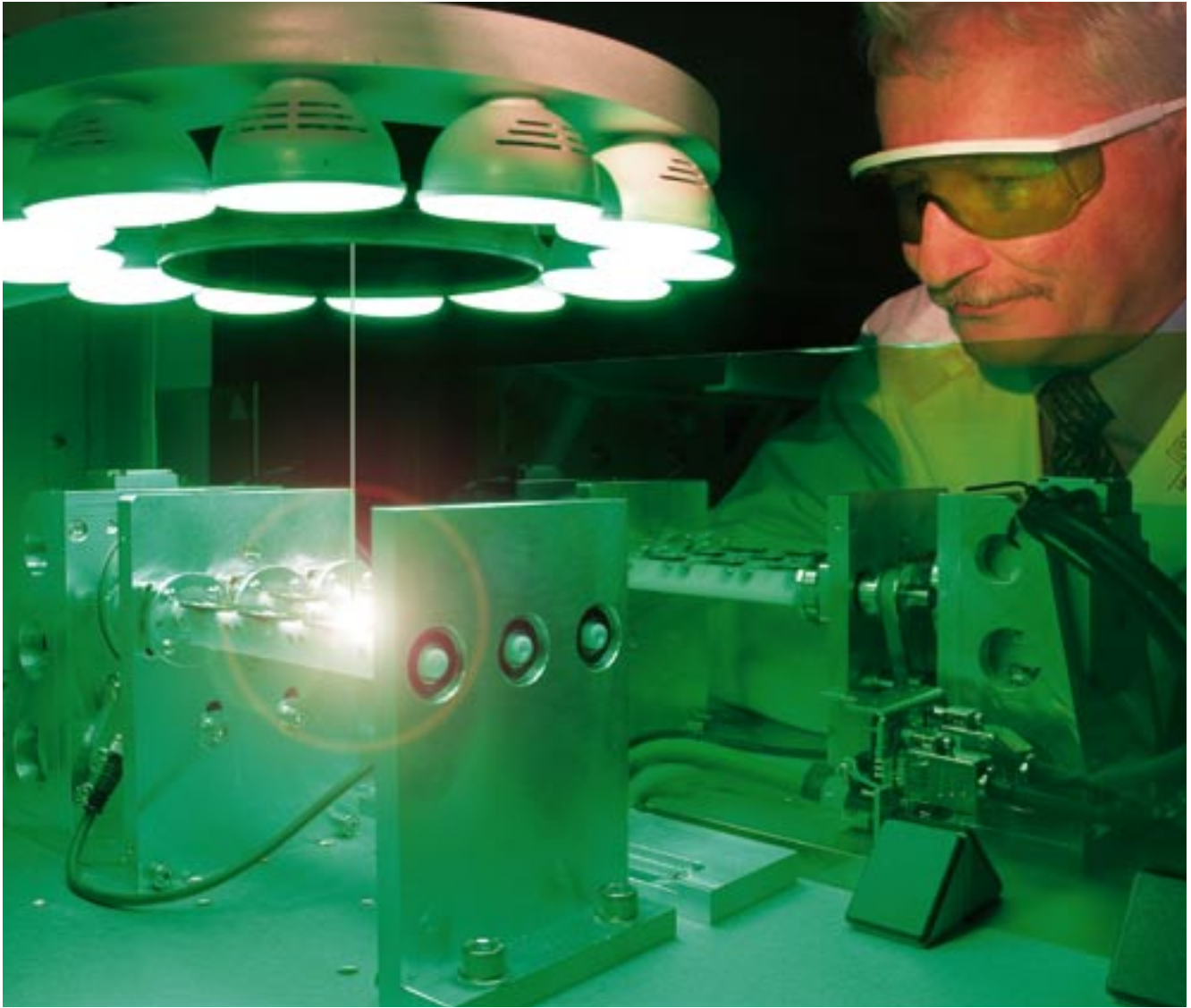
The LQ Power uses a laser beam to weld ...



... plastic parts with gas-tight seams, ...



... used e.g. to protect electronic car components.



3D-MID

# LDS strides ahead

**T**hree-dimensional circuit carriers “3D-MIDs” are becoming more important. The LDS method developed by LPKF could be the future for the production of these 3D PCBs. The patented method confirmed its potential in 2006.

The market is enormous and the growth rates are stupendous: in 2006 alone around one billion mobile phones were sold around the world, and the number is rising by up to 15% a year. And there is no sign of any weakening in this trend. Every new generation of mobile phone boasts a larger number of functions with no change in its compact external dimensions. And although product cycles are becoming shorter, manufacturers still face growing pressure to innovate. The increase

in the number of models and the lower production volumes per model mean that the starting costs for component production are becoming an increasingly important factor. "This is the big opportunity for our flexible LDS method because these costs don't even exist in our technique", says Nils Heininger, Manager PCB/MID division at LPKF.

### The best solution

The LDS method is currently primarily used by the telecommunications industry. It is not unusual for modern mobile phones to have six, seven or even eight antennae squeezed into the housing. And the trend is towards increasingly complex antennae structures printed on plastic carriers. Most mobile phones now not only receive on three or four frequency bands, but are also equipped for applications with shorter ranges such as Blue Tooth or W-LAN. And then there are additional functions such as radio or TV reception.

"There will be a dramatic increase in the number of complex antennae which have to mould themselves to the space available within the telephone housing. Conventional methods such as press-bending technology are either no longer capable of producing these new complex antennae or can only do so at great expense", says Nils Heininger. The best alternative is the LDS method – a technology which meets all the require-

ments for the modern and economic mass production of 3D-MIDs, says Heininger. "It has a crucial advantage: LDS is completely flexible", explains the engineer, "and not only that, we have again considerably improved the productivity of our systems".

### Millions of LDS antennae

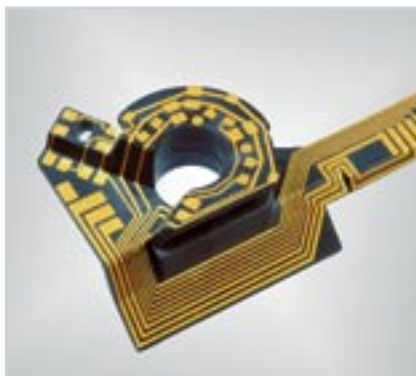
Millions of LDS antennae have been produced for a Korean telecommunications market leader since 2006. A number of systems are in operation in



Mobile telephone with 3D-MID antenna



LDS-mobile phone antenna



LDS-MID for electric motor

### Contact at LPKF

Nils Heininger,  
Manager PCB/MID  
division

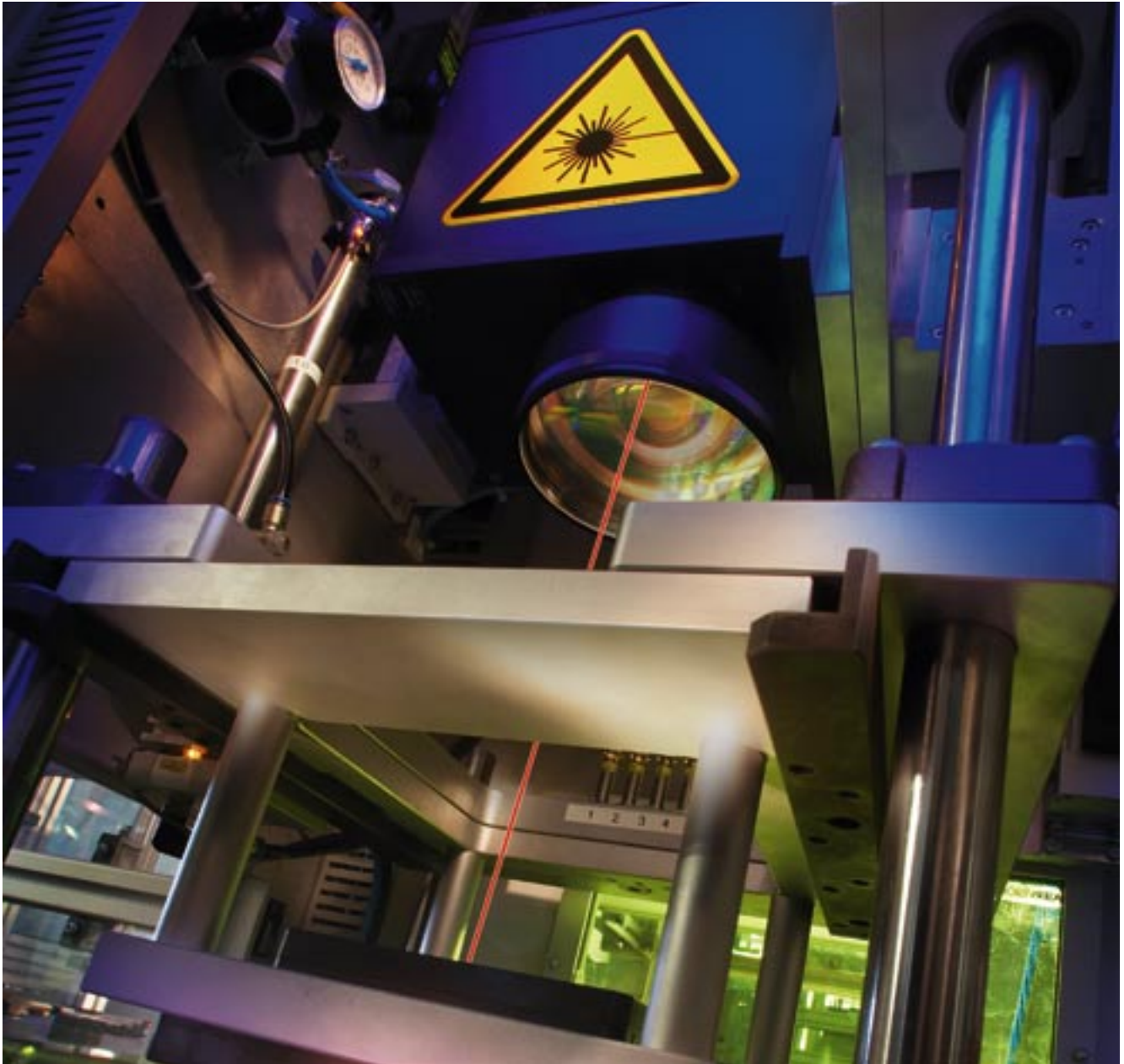


China and the USA, and Heininger is confident that important decisions for further investments will be made in the ongoing financial year in both of these countries.

### A crucial year

LPKF insiders are now talking about the imminent "jump into the designers' toolbox". In this case, the LDS method would already be an integral part of the planning for new models in the development laboratories of leading mobile phone manufacturers – with an associated impact on the whole subcontracting industry.

2007 could also be the crucial year for the LDS method in the automotive sector. According to Nils Heininger, several of LPKF's key clients in this sector are working to launch new products this year. For instance, one automotive subcontractor which already has an LPKF system, is in the pre-batch production phase with a highly-integrated MID subassembly. The outlook for regular, lucrative orders is quite promising. The potential with other customers working in micro-packaging is also just as positive. "2006 was the year when we finally proved that users can work profitably with the LDS method. The 3D-MID division boasted a jump in turnover from € 0.8 million to € 2.2 million. The market for this method will again expand considerably from 2007 onwards", emphasises Heininger. ■



Laser Plastic-Welding

# Expansion in Erlangen

**2**006 was a very successful year for the Laser Plastic-Welding division. Turnover rose 120%, and there was a considerable increase in profitability. Laser Plastic-Welding exceeded its targets in 2006 and demonstrated its potential. The young team in Erlangen will concentrate increasingly on international markets in 2007. The chances of success are very high.

LPKF employees working in Erlangen can look back on an unusually busy year. This kind of challenge was a very positive experience for all of the staff according to Frank Brunnecker, the divisional manager. Working hard

and successfully also welded the team together and created a team spirit which motivates everyone. And their hard work has borne fruit. The staff in Erlangen had already matched the previous year's turnover figures after only

six months, and by the end of the year, turnover had grown to € 3.8 million. Profits also almost doubled.

The Laser Plastic-Welding division is particularly keen to use the impetus

from last year to do more on the distribution side. The top item on the agenda is internationalising the company's business. Activities in Europe and the USA are to be expanded with the support of the existing LPKF distribution network, and then extended to Asia, particularly Korea, Japan and China. It is hoped that these activities will already have an impact on turnover in the first half of 2007. The global sales activities will be accompanied by an expansion of the service network. "We can service the LQ-Power systems – our turnkey welding solution – within 24 hours anywhere in the world", explains Frank Brunnecker.

There is a pleasingly large demand for special application training courses – which LPKF runs for its clients together with the Bavarian Laser Centre – that can be seen as an indicator of the growing acceptance of this technology.

### The method is gaining ground

2006 was the year which revealed the large potential of the laser plastic-welding technology. The innovative joining method has a promising future. Developers are beginning to design special subassemblies for laser plastic-welding, and material suppliers are increasingly accommodating the method. The continuous demand for higher quality seals and cleanliness during production make laser plastic-

welding interesting for a large number of applications in the automotive industry. The productivity of the systems built by LPKF has also increased. "The machines have longer service lives, are more compact, and boast many technical improvements – and the procurement costs have also become more attractive," says Frank Brunnecker describing the benefits of his systems.

The automotive subcontracting industry continues to be the main market for this division, accounting for around 80% of turnover. These companies which are mainly located in south Ger-

**We are continuously surprised by the versatility of this technology.**



Boot of a drive shaft



Automatic laser system for plastic-welding

### Contact at LPKF

Holger Aldebert  
Sales Manager  
Laser Plastic-Welding



many, are increasingly adopting laser plastic-welding as an alternative to conventional joining methods such as gluing, pouring, or other welding techniques. Promising areas of application in medical technology and packaging production also opened up in 2006. "We are continuously surprised ourselves by the versatility of this technology", reports Holger Aldebert, Sales Manager in Erlangen.

Several hybrid welding machines were sold to automotive subcontractors in Japan and Korea in 2006. The experts in Erlangen consider the prospects for lucrative follow-up business to be very good. The evaluation process is moving ahead swiftly, and inquiries have been received for additional production machines, says Frank Brunnecker. If the evaluations are positive as expected, the sales specialist Holger Aldebert forecasts a very busy time ahead for the team in Erlangen.

The hybrid welding system patented by LPKF combines laser light with infrared radiation generated by halogen lamps in a technique for welding plastic. The dual radiation strategy is particularly good for welding large three-dimensional components.

### Everything in place for further growth

The division in Erlangen is already well equipped to tackle the challenges of the future: "We have space for growth", says Frank Brunnecker, additional production space has been reserved in the area. And the company has geared up its human resources and its structure for continuous growth. Brunnecker's target for this division is a "significant rise in turnover". "This is our top priority for 2007!" ■



Japan: Technology leader

## PCB production systems

# The cutting specialists

**T**here has been a strong rise in the technical specifications for circuit carriers in recent years. It is only possible to bundle the rising number of functions in a smaller amount of space by continuously reducing the width of structures and making extremely precise cuts. The ideal instrument for producing the required results is the laser.

The systems of the LPKF MicroLine series are among the world's most productive machines for PCB laser cutting. The specified precision of the contours required for cutting applications can only be achieved with lasers. A regular topic during sales discussions is "non tool production". Clients are looking for toolless systems for PCB machining enabling them to react quickly to changing product specifications without having to make additional investments. Saving the expense for producing tools results in a much more economic production method. With its new MicroLine UV 3000 series, LPKF fulfils the demand for highly productive cutting systems for flex circuits.

The global shift in the production of mass produced electronic goods to Asia, and in particular to China, continues apace. European and North American producers concentrate on the development of new products and services with highly specialised technologies. A large majority of LPKF clients now produce in China. LPKF pro-

actively responded to this situation and strengthened its presence in China by opening a new office in Hong Kong. The Hong Kong office gives sales direct access to the rapidly changing demands of the Asian market. Sales staff meeting clients and local representatives have their ears to the ground and quickly find out what is moving the market in the region.

The extremely demanding Japanese market occupies a special role in Asia. European companies only rarely suc-



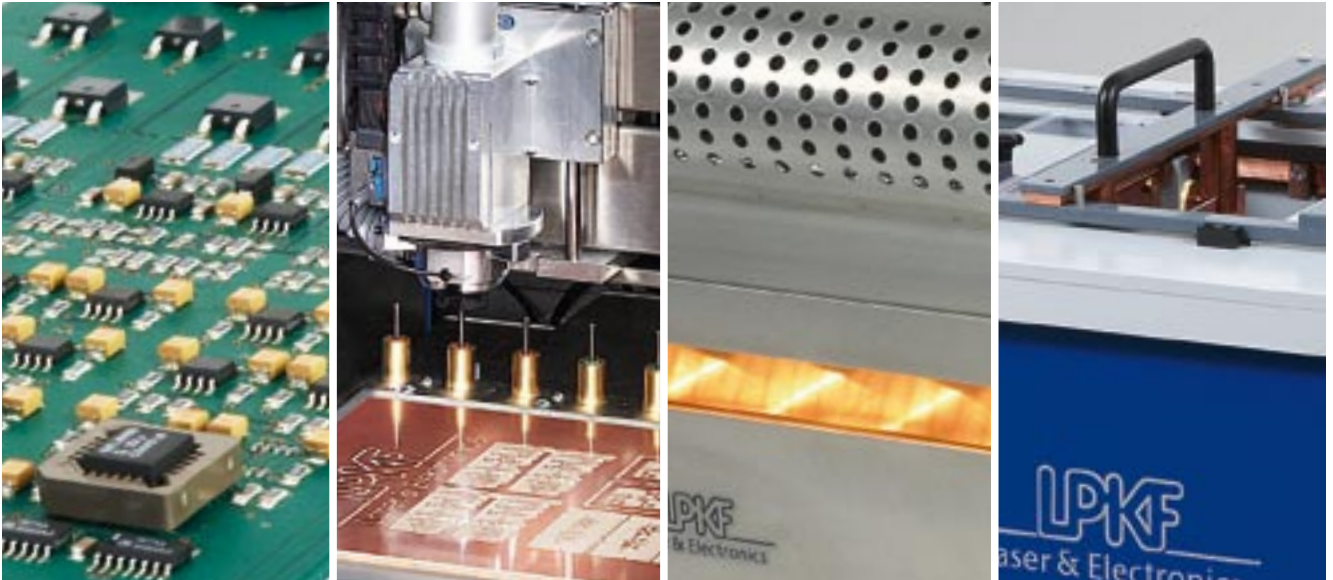
MicroLine UV 3000



Harald Knechtel, Sales Director  
LPKF Laser & Electronics (Asia) Ltd.

ceed in penetrating the market and displacing local competitors. LPKF got its foot in the door of the Japanese market for the first time in 2006 by supplying laser cutting equipment to a leading manufacturer of flexible PCBs. LPKF has thus again highlighted its leading position as a specialist for laser cutting technology.

The work of the PCB Production Systems division in 2007 includes consolidating its existing market share and analysing other Asian markets with significant PCB production sectors. After boosting its turnover considerably in 2006, the division is now looking to continue this positive trend in 2007. ■



## Rapid PCB Prototyping

# The complete solution

**P**CB prototyping has been the forte of LPKF Laser & Electronics AG for three decades. LPKF is the only company around the world delivering complete solutions for all types of PCB prototyping. And it succeeded in extending its technical leadership even further in 2006.

Electronic devices are becoming more and more compact, and therefore need to accommodate circuits in increasingly small spaces. Multilayer PCBs are where the future lies. In 2006, LPKF began to provide electronic designers with a unique means of producing complete multilayer prototypes within only one day in their own laboratories. It is now possible to produce prototypes within only a few hours which previously required a large amount of time and material input. The crucial step to perfect in-house production of multilayers – completely independent of external service providers – was the launch of the LPKF MultiPress S in autumn 2006. This hydraulic press together with an LPKF circuit board plotter from the ProtoMat series, and the chemical-free through-plating system LPKF ProConduct, forms a complete prototyping product line.

Sebastian Gerberding, from the Rapid PCB Prototyping sales team, refers to this advancement as a “major step forward”, which LPKF achieved last year. “The business with multilayers is very

important today and is certain to increase in significance even further in future. A crucial factor for the expansion of our position in this dynamic segment in future is the fact that we deliver a highly co-ordinated and attractively priced system.” Another benefit valued by customers is the option of carrying out chemical-free PCB prototyping, says Gerberding. “No chemicals, no problems with disposal. This saves time and money – major factors in prototyping.”

LPKF Laser & Electronics AG also highlighted its forward-looking thinking with the ProtoFlow hot-air oven designed for the lead-free soldering of SMDs onto circuit boards. The RoHS EC directive which came into force in 2006 governs the use of specific materials in electronic and electric devices, for instance it forbids the use of lead-based solder on PCBs. LPKF’s ProtoFlow fully complies with the RoHS stipulations.

As in the past, LPKF still enjoys world market leadership in Rapid PCB Prototyping with a market share of around 70%. Turnover in 2006 was spread



Sebastian Gerberding  
Rapid PCB Prototyping Sales

evenly across Asia, North America and Europe, and the segment enjoyed considerable year-on-year growth in turnover. The main turnover generator is the ProtoMat® S circuit board plotter whose sales developed very positively. The system features much shorter processing times and simpler handling.

Sebastian Gerberding considers the segment to be in good shape for the future. “In-house prototyping overall will gain further in importance. Companies who want to implement ideas quickly and have full and secure control over their expertise at all times, basically have no alternative to in-house prototyping, and thus purchasing our products. In my opinion, the MultiPress S and the ProtoMats will further expand their market position.” ■



Martin Kundrus, Product Manager StencilLasers

StencilLasers

# Productivity prevails

**L**PKF enjoys a world market share of over 80 per cent for systems for the production of solder stencils. The company sets the standards in stencil technology, but there is increasing competition. LPKF faces the challenge with confidence.

Most manufacturers of SMT print stencils are facing a serious problem. On the one hand, there is an increasing demand for more precision of the stencils. Smaller subassemblies and more tightly packed assemblies mean that there is a continuous increase in the density of openings in the stencils. On the other hand, the profit per stencil is also shrinking continuously. The market is therefore looking for more productive systems which are still affordable by the mostly medium-sized stencil manufacturers.

In the lower price segment in particular, there has been an increase in new competitors in the recent past. They usually offer simple machines with low cutting outputs, but are still putting pressure

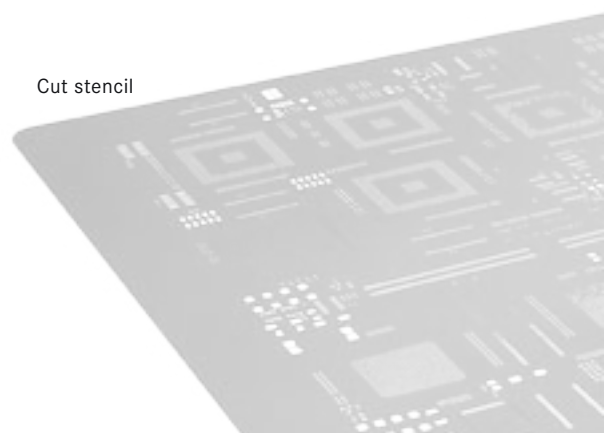
on prices. "LPKF deliberately targeted this competition", says Martin Kundrus, Product Manager StencilLasers. In mid 2006, LPKF presented its new MultiCut to trade visitors at the "SMT" micro-electronics trade fair in Nuremberg. The easy-to-operate StencilLaser is a high performance standard system. "This is precisely what the manufacturers had been looking for", says Kundrus.

The laser system boasts high operating speeds and low operating costs. It is able to considerably increase the production volume of operations, and help clients achieve faster return on investment. The use of maintenance-free laser sources with long service lives considerably reduces running costs.

The energy consumption is also up to 85% lower than of previous systems.

The MultiCut is a key product for LPKF in this highly competitive market. This model has helped LPKF to consolidate and expand its leading global position in stencil production machines. More than 20 systems had already been sold by the end of 2006. Together with the MicroCut high-end system and the MultiCut, LPKF covers the whole spectrum of stencil manufacturing for SMT and packaging applications. ■

Cut stencil







Solar technology

# Energy from sunlight

**T**he global energy supply problems have worsened noticeably in recent years. Governments are therefore under growing pressure to analyse and intelligently support the options opened up by alternative energy sources.

The act passed in Germany giving priority to renewable energy sources was adopted to push the expansion of energy supply infrastructure harnessing renewable energy sources. One of the stipulations is that the energy is generated without releasing any greenhouse gases. The law which came into force on 1 April 2000 was mainly aimed at climate protection.

The impact of this act can be felt in many sectors today. Within the last six years, Germany has become the global frontrunner in the use of alternative power generation equipment. In addition to wind power, a major role is played here by photovoltaics, which converts sunlight into electricity. There has therefore been a huge increase in the demand for solar cells.

Solar cells largely come in two different types: crystalline silicon cells and thin-film cells. Approx. 90% of today's solar cells are produced from silicon wafers. The current commodity shortages affecting the cells and the associated price rises have given an impetus

to thin-film technology. The potential for solar technology based on thin-film cells is very large. This technology benefits from low resource consumption, a power output unaffected by rising temperatures, and shorter energy pay-back times because the production process is less energy intensive. There are also options available to further reduce the production costs of thin-film solar cells.

Thin-film solar cells are produced in modules with large surface areas similar to flat screens. They are produced by coating a substrate, such as a sheet of glass or a film, with layers of conducting and semiconducting materials only a few micrometres thick. After each coating step, the new layer is divided up into strips to enable serial connection of the finished module.

The laser is the most precise tool available for structuring thin-film solar cells. Laser sources with different wavelengths are used to selectively ablate the coatings without damaging the immediately underlying layer. The effi-

ciency of the solar cells depends on the precision of the laser structuring.

LPKF boasts competencies in laser technology, laser machining and drive technology, as well as many years of experience in the production of laser systems for large area micromachining. LPKF is now using this in-depth experience to build machines for the laser structuring of solar cells. LPKF has already won its first orders for thin-film structuring machines. Delivery of the systems is scheduled for mid 2007.

Thin-film solar cells currently account for approx. 6% of the photovoltaic market. Experts forecast a rise to approx. 20% by 2010. An important aspect for LPKF is that the number of structuring machines will increase proportional to the number of solar cells produced. The company therefore considers this to be a good opportunity of using its core competencies in a new and very dynamic market, to generate profitable growth. ■

Branches and representations

# LPKF world-wide

**A**s a growing and globally-active company, LPKF has an extensive network of branches and representations throughout the world. With three production sites in Europe, branches in the USA, China and Hong Kong, as well as over 40 representations around the world, the company is well positioned to optimally serve all of the relevant markets.

■ **LPKF Laser & Electronics AG**

LPKF AG's headquarters in Garbsen develops and produces electronics industry systems. The branch in Erlangen specialises in building equipment for laser plastic-welding.

■ **LPKF Motion & Control GmbH**

LPKF Motion & Control GmbH in Suhl specialises in drive technology and 3D-production systems for the microelectronics sector. The table systems and controls from Suhl are used in almost all LPKF machines.

■ **LPKF Laser & Elektronika d.o.o.**

This company in Slovenia specialises in the development and production of Rapid PCB Prototyping systems and laser sources. The LPKF subsidiary supplies the parent company as well as generating external sales.

■ **LaserMicronics GmbH**

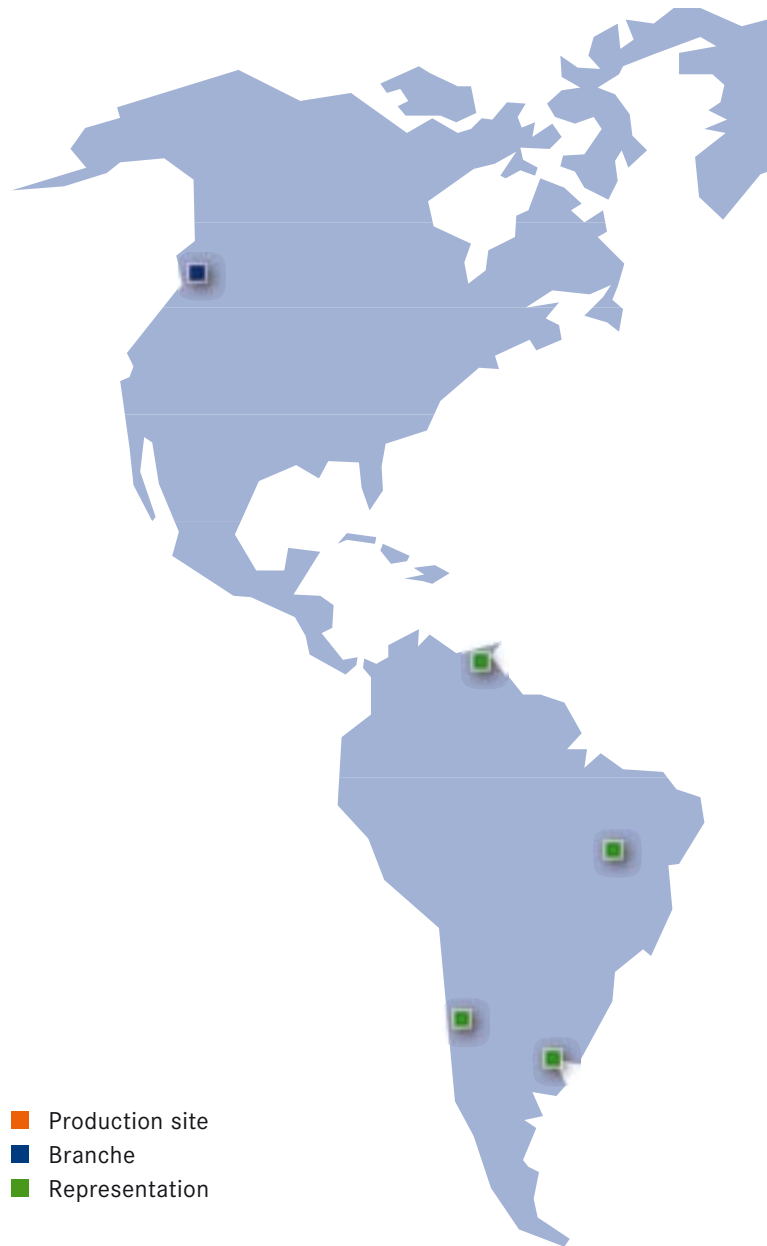
LaserMicronics GmbH in Garbsen and Erlangen provides production services using laser micromachining methods. Its services include 3D-MID structuring using the LPKF LDS method, laser plastic-welding, and the cutting and micro-drilling of PCB materials.

■ **LPKF Laser & Electronics Inc.**

LPKF Laser & Electronics Inc. in Wilsonville, Oregon, is a sales and service company responsible for marketing LPKF systems in North America. This market is particularly important for Rapid PCB Prototyping and StencilLasers. There is also considerable potential for 3D-MID and laser plastic-welding.

■ **LPKF Laser & Electronics (Asia) Ltd.**

This subsidiary of LPKF AG established in Hong Kong in 2005 is the hub for all LPKF activities in Asia. Five members of staff support the Asian sales partners and LPKF Tianjin in sales, marketing and service.



- Production site
- Branche
- Representation

■ **LPKF (Tianjin) Co. Ltd.**

LPKF (Tianjin) Co. Ltd. has offices in Tianjin, Shenzhen and Suzhou. It is responsible for the sales of LPKF products, as well as service activities in China.

■ **LPKF France S.A.R.L.**

This LPKF subsidiary near Paris is the sales and service company for France.



### **Representatives meeting**

LPKF organises a representatives meeting at one of the LPKF sites every two years to get across up-to-date information on the latest developments, and to facilitate the intense exchange of ideas and experience between all of the sales partners. This also gives the company important feedback on the international market. Each of the representatives takes back home numerous ideas and concepts for the benefit of their local markets.

Representatives meeting at LPKF in Garbsen, September 2005





LaserMicronics GmbH in its new rooms



Martina Drewek, Manager Sales Assistance

## Expansion

# Room for growth

**2006** also was a year of investments for LPKF Laser & Electronics AG. The planned growth of the company requires a solid platform to ensure that expansion can continue in future. Investments were therefore made in development and human resources, as well as in technical infrastructure and property.

The Slovenian subsidiary LPKF Laser & Elektronika d.o.o. moved into new offices in Naklo near Kranj on 22 January 2007. This enabled the planned merger of the five smaller locations run by LPKF in Slovenia. The whole team is now together in one new office and factory complex. This is where the subsidiary will continue to concentrate on building products for Rapid PCB Prototyping and a range of laser sources. Bringing the different operations together on one site considerably improves the working conditions and makes it possible to organise much more efficient workflows.

LPKF's second infrastructure project in the 2006 financial year was the acqui-

sition of buildings and property next to the company headquarters in Garbsen. The space for production, storage and administration was also expanded and modernised. This has benefited the services subsidiary LaserMicronics GmbH which now has its own dedicated rooms. "We are particularly lucky in being able to expand in the immediate vicinity", says Chairman Bernd Hackmann. "We seized this opportunity and created room for extra growth." Fixed asset investments totalling € 3.2 million were made at the Garbsen location in 2006.

LPKF's customer management is being organised since the end of 2006 by a new customer relationship manage-

ment software (CRM). This new distribution software has the aim of storing customer data in a cross-company database, to make it available to all sales and service staff. "We can then react faster to the urgent needs of our customers", says Martina Drewek, Manager Sales Assistance, describing the advantages of the new system. All the relevant data is integrated, and the status of all orders can be called up at any time. This is an important and essential step given the increasing internationalisation of the company's business. More investment will be required for the CRM system in 2007.

LPKF's expansion has also led to focused recruitment. In 2003, the Group employed around 200 staff, at the end of 2006 the workforce had grown to almost 300. Recruitment was mainly concentrated on sales and production, and there was a moderate increase in staff in administration with the aim of ensuring smooth order transaction. According to Bernd Hackmann, 2006 saw "an appropriate response to the dynamic growth in the previous years and necessary measures to ensure that growth continues." ■



The new office and production complex for LPKF Laser & Elektronika d.o.o. in Naklo, Slovenia.

LPKF's 30th anniversary

# Creativity boosts progress

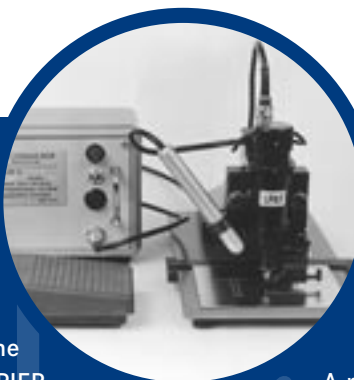
LPKF has developed in 30 years from an ideas factory to a globally-active publicly-quoted company with a current workforce of around 300. In many sectors LPKF has evolved into one of the first addresses for the electronics industry. Its commitment to innovation, and its pioneering spirit, continue unabated and ensure that LPKF will continue to be a leading light and use creativity to boost progress.



1988: LPKF employees assembling circuit board plotters

|      |   |
|------|---|
| 1976 | Foundation of LPKF and launch of the first prototyping systems                |
| 1980 | Branch in the USA   |
| 1989 | Entry into laser technology and laser material processing                     |
| 1991 | Foundation of LPKF Motion & Control GmbH                                      |
| 1993 | First StencilLaser, foundation of LPKF Laser & Elektronika d.o.o. in Slovenia |
| 1996 | First development projects for the laser structuring of MIDs                  |
| 1998 | Conversion to stock corporation and IPO                                       |
| 2000 | Branch in China, entry into laser plastic-welding                             |
| 2001 | First laser systems for PCB production  |
| 2006 | LDS method used for the mass production of 3D-MIDs                            |

We are naturally often asked what the letters LPKF in our company name stand for. The answer is easy, they stand for the German words LEITER-PLATTEN-KOPIER-FRÄSER or circuit board plotter. Circuit board plotters were the original business idea with which the LPKF founders started up 30 years ago in a backyard in



Hannover. And the systems still do the same job today: they transfer the layout of a PCB and rout a prototype PCB. A revolutionary idea at the time, Rapid PCB Prototyping today is a widespread technology used throughout the world, and lies at the heart of one of our most important lines of business.



# Corporate Governance Code

Declaration of compliance according to  
Section 161 German Stock Corporation Act

**The Supervisory Board of LPKF Laser & Electronics AG passed the following declaration of compliance in accordance with Section 161 German Stock Corporation Act at its meeting on 20 November 2006. The declaration of compliance is published in the internet at [www.lpkf.com](http://www.lpkf.com) and thus made permanently accessible to all shareholders and potential investors.**

The Board of Managing Directors and the Supervisory Board of LPKF Laser & Electronics AG acknowledge and accept the recommendations of the Government Commission on the German Corporate Governance Code (GCGC) dated 12 June 2006, and declare that these recommendations have been observed and also will be observed in the future with the following exceptions:

The Supervisory Board currently 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, and 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. With this justification, the recommendations of Article 5.2., Section 2 as well as Article 5.3.2. GCGC are not applicable to LPKF Laser & Electronics AG.

The quarterly reports are published 60 days after the reporting period at the latest due to the extensive Group interdependence. This period is subject to an annual review with the aim of shortening it if possible (Article 7.1.2., Section 2, second subsection GCGC).

## Comment

Specific details on the share option scheme and similar securities-oriented staff motivation systems operated by the company are discussed in the notes and in the remuneration report (Article 7.1.3. GCGC).

Garbsen, March 2007  
LPKF Laser & Electronics AG

Bernd Hackmann  
Chairman of the Board of  
Managing Directors

Bernd Hildebrandt  
Chairman of the Supervisory Board



# Group annual financial statements

Group annual financial statements for the 2006 financial year based on the International Financial Reporting Standards (IFRS)

|  |    |   |    |
|--|----|---|----|
| <b>Statement of income</b> .....                                       | 36 | 11. Inventories .....   | 51 |
| <b>Consolidated statement of changes in shareholders' equity</b> ..... | 37 | 12. Trade accounts receivable .....   | 51 |
| <b>Balance sheet</b>   |    | 13. Income tax refunds .....  | 51 |
| Assets .....   | 38 | 14. Other assets .....  | 51 |
| Liabilities and shareholders' equity .....                             | 39 | 15. Cash and cash equivalents .....   | 51 |
| <b>Cash flow statement</b> .....                                       | 40 | 16. Deferred tax .....  | 52 |
| <b>Notes to the 2006 consolidated statements</b>                       |    | 17. Long-term assets held for sale .....  | 52 |
| Basic information .....  | 41 | <b>Liabilities and shareholders' equity</b>   |    |
| Basis of preparations of the consolidated financial statements .....   | 41 | 18. Share capital .....   | 53 |
| Consolidated group .....   | 42 | 19. Minority interest .....   | 55 |
| Consolidation principles .....   | 43 | 20. Provisions for pensions .....   | 55 |
| Foreign currency translation .....                                     | 43 | 21. Tax provisions and other provisions .....                                       | 56 |
| Critical estimates and assumptions in accounting and measurement ..... | 43 | 22. Liabilities .....   | 56 |
| Segment reporting .....  | 44 | 23. Convertible bond .....  | 57 |
| <b>Consolidated statement of income</b>                                |    | <b>Other information</b>  |    |
| 1. Sales .....   | 45 | 24. Cash flow statement .....   | 57 |
| 2. Own work capitalised .....  | 45 | 25. Earnings per share .....  | 57 |
| 3. Other operating income .....  | 45 | 26. Dividend per share .....  | 57 |
| 4. Cost of materials .....   | 45 | 27. Related parties transactions .....  | 58 |
| 5. Personnel expenses and employees .....                              | 46 | 28. German Corporate Governance Code .....  | 58 |
| 6. Depreciation and amortisation .....                                 | 46 | 29. Other disclosures .....   | 58 |
| 7. Other operating expenses .....                                      | 46 | 30. Others .....  | 60 |
| 8. Financial results .....   | 46 | 31. Details on disclosed shareholdings in the company ..                            | 61 |
| 9. Income tax .....  | 47 | 32. Fees for auditing the annual financial statements reported as expenditure ..... | 61 |
| <b>Consolidated balance sheet</b>                                      |    | 33. Events after balance sheet date .....   | 61 |
| <b>Assets</b>  |    | <b>Auditor's Report</b> .....   | 62 |
| 10. Fixed assets .....   | 48 | <b>Annual financial statement of LPKF Laser &amp; Electronics AG</b>                |    |
|  |    | <b>Statement of income</b> .....  | 63 |
|  |    | <b>Balance sheet</b>  |    |
|  |    | Assets .....  | 64 |
|  |    | Liabilities and shareholders' equity .....  | 65 |

| <b>Statement of income</b>                                   |              |               |               |
|--|--------------|---------------|---------------|
| <b>in T€</b>   | <b>Notes</b> | <b>2006</b>   | <b>2005</b>   |
| Sales  | 1            | 39,780        | 34,871        |
| Changes in inventories of finished goods and work-in-process |              | 826           | 779           |
| Other work capitalised                                       | 2            | 1,239         | 543           |
| Other operating income                                       | 3            | 959           | 1,669         |
|  |              | <b>42,804</b> | <b>37,862</b> |
| Cost of materials  | 4            | 12,675        | 10,878        |
| Personnel expenses   | 5            | 13,671        | 12,157        |
| Depreciation and amortisation                                | 6            | 1,635         | 1,507         |
| Other operating expenses                                     | 7            | 8,473         | 7,340         |
|  |              | <b>6,350</b>  | <b>5,980</b>  |
| Financial income   | 8            | 389           | 203           |
| Financial expenditure  | 8            | 175           | 178           |
| Results from ordinary activities                             |              | <b>6,564</b>  | <b>6,005</b>  |
| Income tax   | 9            | 2,111         | 2,317         |
| Net income   |              | <b>4,453</b>  | <b>3,688</b>  |
| Net income thereof   |              |               |               |
| – Shareholders of parent company                             |              | 3,973         | 3,021         |
| – Minority interests   |              | 480           | 667           |
|  |              | <b>4,453</b>  | <b>3,688</b>  |
| Earnings per share (in €)                                    | 25           | 0.37          | 0.28          |
| Earnings per share – diluted (in €)                          | 25           | 0.37          | 0.28          |



## Consolidated statement of the changes in shareholders' equity

Consolidated statement of the changes in shareholders' equity for the financial year ended 31 December 2006 (previous year in brackets) in T€

|   | Share capital | Additional paid-in-capital | Other earnings reserves | Market value of hedging transactions | Market value of securities | Reserves for share-based payments | Net income for the year | Foreign currency translation adjustments | Minority interest | Total    |
|---|---------------|----------------------------|-------------------------|--------------------------------------|----------------------------|-----------------------------------|-------------------------|--|-------------------|----------|
| As at 1.1.2006 before setting-off own stock and market value of securities    | 10,838        | 3,901                      | 4,700                   | -3                                   | -29                        | 93                                | 7,445                   | -564                                     | 2,173             | 28,554   |
| As at 1.1.2005 before setting-off own stock and market value of securities    | (10,648)      | (3,769)                    | (4,000)                 | (-1)                                 | (-)                        | (42)                              | (5,519)                 | (-961)                                   | (1,908)           | (24,924) |
| Setting-off own stock   | -             | -                          | -                       | -                                    | -                          | -                                 | -                       | -  | -                 | -        |
|   | (-50)         | (-98)                      | (-)                     | (-)                                  | (-)                        | (-)                               | (-)                     | (-)                                      | (-)               | (-148)   |
| Additions for market valuation of securities                                  | -             | -                          | -                       | -                                    | -                          | -                                 | -                       | -  | -                 | -        |
|   | (-)           | (-)                        | (-)                     | (-)                                  | (-29)                      | (-)                               | (29)                    | (-)                                      | (-)               | (-)      |
| As at 1.1.2006 after setting-off own stock and market valuation of securities | 10,838        | 3,901                      | 4,700                   | -3                                   | -29                        | 93                                | 7,445                   | -564                                     | 2,173             | 28,554   |
|   | (10,598)      | (3,671)                    | (4,000)                 | (-1)                                 | (-29)                      | (42)                              | (5,548)                 | (-961)                                   | (1,908)           | (24,776) |
| Costs of capital increase   | -             | -                          | -                       | -                                    | -                          | -                                 | -                       | -  | -                 | -        |
|   | (-)           | (-18)                      | (-)                     | (-)                                  | (-)                        | (-)                               | (-)                     | (-)                                      | (-)               | (-18)    |
| Proceeds from capital increase  | 20            | 52                         | -                       | -                                    | -                          | -                                 | -                       | -  | -                 | 72       |
|   | (190)         | (30)                       | (-)                     | (-)                                  | (-)                        | (-)                               | (-)                     | (-)                                      | (-)               | (220)    |
| Buying back own stock   | -             | -                          | -                       | -                                    | -                          | -                                 | -                       | -  | -                 | -        |
|   | (-)           | (-)                        | (-)                     | (-)                                  | (-)                        | (-)                               | (-)                     | (-)                                      | (-)               | (-)      |
| Issue of own stock  | -             | -                          | -                       | -                                    | -                          | -                                 | -                       | -  | -                 | -        |
|   | (50)          | (98)                       | (-)                     | (-)                                  | (-)                        | (-)                               | (-)                     | (-)                                      | (-)               | (148)    |
| Additions from measurement of cash flow hedge                                 | -             | -                          | -                       | 14                                   | -                          | -                                 | -                       | -  | -                 | 14       |
|   | (-)           | (-)                        | (-)                     | (-3)                                 | (-)                        | (-)                               | (-)                     | (-)                                      | (-)               | (-3)     |
| Reductions from measurement of cash flow hedge                                | -             | -                          | -                       | 3                                    | -                          | -                                 | -                       | -  | -                 | 3        |
|   | (-)           | (-)                        | (-)                     | (1)                                  | (-)                        | (-)                               | (-)                     | (-)                                      | (-)               | (1)      |
| Additions from market valuation of securities                                 | -             | -                          | -                       | -                                    | 29                         | -                                 | -                       | -  | -                 | 29       |
|   | (-)           | (-)                        | (-)                     | (-)                                  | (-)                        | (-)                               | (-)                     | (-)                                      | (-)               | (-)      |
| Allocation to reserves  | -             | -                          | 1,300                   | -                                    | -                          | -                                 | -1,300                  | -  | -                 | -        |
|   | (-)           | (-)                        | (1,000)                 | (-)                                  | (-)                        | (-)                               | (-1,000)                | (-)                                      | (-)               | (-)      |
| Transfer from earnings reserves   | -             | -                          | -                       | -                                    | -                          | -                                 | -                       | -  | -                 | -        |
|   | (-)           | (-)                        | (-300)                  | (-)                                  | (-)                        | (-)                               | (300)                   | (-)                                      | (-)               | (-)      |
| Dividend payment to shareholders  | -             | -                          | -                       | -                                    | -                          | -                                 | -1,084                  | -  | -40               | -1,124   |
|   | (-)           | (-)                        | (-)                     | (-)                                  | (-)                        | (-)                               | (-424)                  | (-)                                      | (-98)             | (-522)   |
| Net result  | -             | -                          | -                       | -                                    | -                          | -                                 | 3,973                   | -  | 480               | 4,453    |
|   | (-)           | (-)                        | (-)                     | (-)                                  | (-)                        | (-)                               | (3,021)                 | (-)                                      | (667)             | (3,688)  |
| Expenditure for granted option rights   | -             | -                          | -                       | -                                    | -                          | 68                                | -                       | -  | -                 | 68       |
|   | (-)           | (-)                        | (-)                     | (-)                                  | (-)                        | (51)                              | (-)                     | (-)                                      | (-)               | (51)     |
| Settlement of difference from acquisition of minority shares                  | -             | -                          | -                       | -                                    | -                          | -                                 | -                       | -  | -                 | -        |
|   | (-)           | (120)                      | (-)                     | (-)                                  | (-)                        | (-)                               | (-)                     | (-)                                      | (-515)            | (-395)   |
| Foreign currency translation adjustments                                      | -             | -                          | -                       | -                                    | -                          | -                                 | -                       | -300                                     | -54               | -354     |
|   | (-)           | (-)                        | (-)                     | (-)                                  | (-)                        | (-)                               | (-)                     | (397)                                    | (211)             | (608)    |
| as at 31.12.2006  | 10,858        | 3,953                      | 6,000                   | 14                                   | -                          | 161                               | 9,034                   | -864                                     | 2,559             | 31,715   |
| as at 31.12.2005  | (10,838)      | (3,901)                    | (4,700)                 | (-3)                                 | (-29)                      | (93)                              | (7,445)                 | (-564)                                   | (2,173)           | (28,554) |

| <b>Assets</b>                                 |       |               |               |
|---|-------|---------------|---------------|
| in T€   | Notes | 31.12.2006    | 31.12.2005    |
| <b>Non-current assets</b>                     |       |               |               |
| <b>Intangible assets</b>                      | 10    |               |               |
| Software                                      |       | 388           | 168           |
| Goodwill                                      |       | 74            | 74            |
| Development costs                             |       | 1,524         | 582           |
| Rights to use                                 |       | 6             | 11            |
|   |       | <b>1,992</b>  | <b>835</b>    |
| <b>Tangible assets</b>                        | 10    |               |               |
| Land and buildings                            |       | 7,339         | 5,289         |
| Technical equipment and machinery             |       | 1,637         | 1,462         |
| Other equipment, factory and office equipment |       | 1,239         | 1,070         |
| Prepayments and construction in process       |       | 2,003         | 253           |
|   |       | <b>12,218</b> | <b>8,074</b>  |
| <b>Financial assets</b>                       | 10    |               |               |
| Other loans                                   |       | 0             | 3             |
|   |       | <b>0</b>      | <b>3</b>      |
| <b>Accounts receivable and other assets</b>   |       |               |               |
| Trade accounts receivable                     | 12    | 268           | 153           |
| Tax refund claims                             | 13    | 395           | 0             |
| Other assets                                  | 14    | 226           | 204           |
|   |       | <b>889</b>    | <b>357</b>    |
| <b>Deferred taxes</b>                         | 16    | <b>497</b>    | <b>426</b>    |
|   |       | <b>15,596</b> | <b>9,695</b>  |
| <b>Current assets</b>                         |       |               |               |
| <b>Inventories</b>                            | 11    |               |               |
| (System) components                           |       | 6,491         | 6,002         |
| Work-in-process                               |       | 2,601         | 2,679         |
| Finished goods and merchandise                |       | 5,320         | 4,171         |
| Prepayments                                   |       | 173           | 158           |
|   |       | <b>14,585</b> | <b>13,010</b> |
| <b>Accounts receivable and other assets</b>   |       |               |               |
| Trade accounts receivable                     | 12    | 7,392         | 6,313         |
| Tax refund claims                             | 13    | 216           | 198           |
| Other assets                                  | 14    | 734           | 738           |
|   |       | <b>8,342</b>  | <b>7,249</b>  |
| <b>Securities</b>                             |       | <b>1,826</b>  | <b>3,049</b>  |
| <b>Cash on hand, bank balances</b>            | 15    | <b>3,330</b>  | <b>5,572</b>  |
| <b>Non-current assets held for sale</b>       | 17    | <b>519</b>    | <b>2</b>      |
|   |       | <b>28,602</b> | <b>28,882</b> |
|   |       | <b>44,198</b> | <b>38,577</b> |

| <b>Liabilities and shareholders' equity</b>   |       |               |               |
|---|-------|---------------|---------------|
| in T€   | Notes | 31.12.2006    | 31.12.2005    |
| <b>Shareholders' equity</b>                   |       |               |               |
| Share capital                                 | 18    | 10,858        | 10,838        |
| Additional paid-in capital                    |       | 3,953         | 3,901         |
| Other earnings reserves                       |       | 6,000         | 4,700         |
| Market value of hedging transactions          |       | 14            | -3            |
| Market value of securities                    |       | 0             | -29           |
| Reserves for share-based payments             |       | 161           | 93            |
| Net income for the year                       |       | 9,034         | 7,445         |
| Foreign currency translation adjustments      |       | -864          | -564          |
| Minority interest                             | 19    | 2,559         | 2,173         |
|   |       | <b>31,715</b> | <b>28,554</b> |
| <b>Non-current liabilities</b>                |       |               |               |
| Provisions for pensions                       | 20    | 309           | 284           |
| Convertible bond                              | 23    | 113           | 113           |
| Medium and long-term liabilities due to banks | 22    | 2,929         | 1,736         |
| Deferred grants                               | 3     | 305           | 316           |
| Deferred taxes                                | 16    | 873           | 549           |
|   |       | <b>4,529</b>  | <b>2,998</b>  |
| <b>Current liabilities</b>                    |       |               |               |
| Tax provisions                                | 21    | 1,270         | 964           |
| Other provisions                              | 21    | 1,937         | 1,756         |
| Short-term liabilities due to banks           | 22    | 625           | 404           |
| Trade accounts payable                        | 22    | 2,034         | 1,683         |
| Other liabilities                             | 22    | 2,088         | 2,218         |
|   |       | <b>7,954</b>  | <b>7,025</b>  |
|   |       | <b>44,198</b> | <b>38,577</b> |

| <b>Cash flow statement</b>                                   |       |               |               |
|--|-------|---------------|---------------|
| in T€  | Notes | 2006          | 2005          |
| <b>Operating activities</b>                                  |       |               |               |
| Net income for the year                                      |       | 4,453         | 3,688         |
| Income tax   |       | 2,111         | 2,317         |
| Interest charges   |       | 175           | 178           |
| Interest income  |       | -389          | -203          |
| Depreciation and amortisation of fixed assets                |       | 1,635         | 1,507         |
| Profit/loss from sale of assets                              |       |               |               |
| including reclassification into current assets               |       | 15            | -401          |
| Cashless currency differences in fixed assets                |       | 44            | -189          |
| Other non-payment income/expenses                            |       | 176           | -80           |
| Changes in inventories, accounts receivable and other assets |       | -3,855        | -4,435        |
| Changes in provisions and accrued liabilities                |       | 826           | 700           |
| Changes in liabilities and deferred income                   |       | 180           | 1,443         |
| Payments from interest                                       |       | 393           | 203           |
| Paid income tax  |       | -1,954        | -1,120        |
| <b>Net cash flow from operating income</b>                   | 24    | <b>3,810</b>  | <b>3,608</b>  |
| <b>Investing activities</b>                                  |       |               |               |
| Fixed asset investments intangible assets                    |       | -1,403        | -413          |
| Fixed asset investments tangible assets                      |       | -6,029        | -1,451        |
| Purchase of minority interests                               |       | 0             | -162          |
| Receipts on sale of equipment                                |       | 32            | 748           |
| <b>Cash flow from investing activities</b>                   |       | <b>-7,400</b> | <b>-1,278</b> |
| <b>Financing activities</b>                                  |       |               |               |
| Dividends paid   |       | -1,084        | -424          |
| Dividends paid to minority shareholders                      |       | -40           | -98           |
| Interest paid  |       | -175          | -178          |
| Deposits from shareholders                                   |       | 72            | 45            |
| Payments to acquire own shares                               |       | 0             | 0             |
| Cost of equity procurement                                   |       | 0             | 18            |
| Repayments convertible bond                                  |       | 0             | 0             |
| Change in long-term bank loans                               |       | 1,860         | 0             |
| Repayments long-term bank loans                              |       | -390          | -385          |
| <b>Cash flow from financing activities</b>                   |       | <b>243</b>    | <b>-1,022</b> |
| <b>Changes in cash and cash equivalents</b>                  |       |               |               |
| Changes in cash and cash equivalents due to exchange rates   |       | -61           | 131           |
| Changes in cash and cash equivalents                         |       | -3,347        | 1,308         |
| Cash and cash equivalents as at 1.1.                         |       | 8,564         | 7,125         |
| <b>Cash and cash equivalents as at 31.12.</b>                |       | <b>5,156</b>  | <b>8,564</b>  |
| <b>Composition cash and cash equivalents</b>                 |       |               |               |
| Cash   |       | 3,330         | 5,572         |
| Securities   |       | 1,826         | 3,049         |
| Bank overdraft   |       | 0             | -57           |
| <b>Cash and cash equivalents</b>                             |       | <b>5,156</b>  | <b>8,564</b>  |

# Notes to the 2006 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 authorised for publication by the Board of Managing Directors on 22 March 2007.

## 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 recognised in the income state-

ment of the fair value of financial assets and financial liabilities including derivative financial instruments.

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 large scope for assessment or greater complexity, or segments where assumptions and estimates play a vital role in drawing up the consolidated financial statements.

The impact of the new or modified standards in the consolidated financial statements are described in the following:

| New or modified standards |   |                        |                                  |        |
|---------------------------|---|------------------------|----------------------------------|--------|
| Standards                 | Interpretation  | Application obligation | Acceptance by the EU Commission* | Impact |
| IFRS 6                    | Exploration for and evaluation of mineral resources   | 1.1.2006               | No                               | None   |
| IAS 21                    | The effects of changes in foreign exchange rates – net investment in a foreign operation                | 1.1.2006               | No                               | None   |
| IFRS 4                    | Insurance contracts – finance guarantees  | 1.1.2006               | No                               | None   |
| IAS 39                    | Financial instruments: recognition and measurement: cash flow hedge accounting and fair value options   | 1.1.2006               | Yes                              | Yes    |
| IFRIC 4                   | Determining whether an arrangement contains a lease   | 1.1.2006               | No                               | None   |
| IFRIC 5                   | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds    | 1.1.2006               | No                               | None   |
| IFRIC 6                   | Liabilities arising from participating in a specific market – waste electrical and electronic equipment | 1.12.2005              | No                               | None   |

\* as at 31. Dezember 2006

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 2006 financial year:

| Revised and/or new issued standards, not applied in the 2006 financial year |  |                        |                                  |                      |
|---|--|------------------------|----------------------------------|----------------------|
| Standard  | Interpretation   | Application obligation | Acceptance by the EU Commission* | Impact               |
| IFRS 7  | Financial instruments: disclosures   | 1.1.2007               | Yes                              | Details in the notes |
| IFRS 8  | Operating segments   | 1.1.2009               | No                               | Segment report       |
| IAS 1   | Presentation of financial statements – details on capital  | 1.1.2007               | Yes                              | Details in the notes |
| IFRIC 7   | Applying the restatement approach under IAS 29<br>Financial reporting in hyperinflationary economies | 1.3.2006               | Yes                              | None                 |
| IFRIC 8   | Scope of IFRS 2  | 1.5.2006               | Yes                              | None                 |
| IFRIC 9   | Reassessment of embedded derivatives   | 1.6.2006               | Yes                              | None significant     |
| IFRIC 10  | Interim financial reporting and impairment   | 1.11.2006              | No                               | Not foreseeable      |
| IFRIC 11  | IFRS 2 Group and treasury share transactions   | 1.3.2007               | No                               | Not foreseeable      |
| IFRIC 12  | Service concession arrangements  | 1.1.2008               | No                               | None                 |

\* as at 31 Dezember 2006

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:

| Consolidated group                          |                 |          |                      |
|---|-----------------|----------|----------------------|
| Name  | Domicile        | Holding% | Acquisition/Founding |
| <b>Full consolidation</b>                   |                 |          |                      |
| LaserMicronics GmbH                         | Garbsen/Germany | 100.0    | 1989                 |
| LPKF Laser & Elektronika d.o.o.             | Naklo/Slovenia  | 75.0     | 1995                 |
| LPKF Laser & Electronics Inc.               | Wilsonville/USA | 85.0     | 1994/1999/2005       |
| LPKF Services Inc. (formerly: A-Laser Inc.) | Beaverton/USA   | 100.0    | 1995/1999            |
| LPKF Motion & Control GmbH                  | Suhl/Germany    | 50.9     | 1991/1999            |
| LPKF Properties LLC                         | Wilsonville/USA | 60.0     | 1999                 |
| LPKF France S.A.R.L.                        | Lisses/France   | 94.0     | 1999                 |
| LPKF (Tianjin) Co. Ltd.                     | Tianjin/China   | 100.0    | 2000                 |
| LPKF Laser & Electronics (ASIA) Ltd.        | Hongkong/China  | 100.0    | 2005                 |

LPKF Laser Components GmbH was merged with LaserMicronics GmbH in Q3 2006.

An 8.33% minority shareholding in PhotonicNet GmbH in Hannover, acquired in 2000, has not been consolidated. The business relationship was terminated by LPKF Laser & Electronics AG at the end of 31 December 2006. The shares are therefore reported under "Long-term assets scheduled for sale". The payment was received at the beginning of 2007.

The built-up property held by LPKF Properties LLC in the USA is to be sold in the 2007 financial year, it is therefore reported in the balance sheet heading "Long-term assets scheduled for sale". The company is scheduled to be wound up. To strengthen the Group's activities in the USA, a new larger

building is to be built on land acquired by LPKF Laser & Electronics Inc. in the reporting period.

Long-term assets (or groups of assets) are classified as held for sale and valued at the lower value of the book value or the fair value less sales costs if their book value can be largely realised by sale, instead of continued operative use.

## C. Consolidation principles

The consolidated financial statements are based on the financial statements prepared according to standard accounting and measurement rules as at 31 December 2006 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.

Cross-Group transactions, balances and unrealised profits and losses from transactions between Group companies are eliminated. However, if unrealised 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 are 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 differ-

ences 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:

| Foreign currency translation |                     |          |              |          |
|------------------------------|---------------------|----------|--------------|----------|
| in €                         | Reporting date rate |          | Average rate |          |
| (1 € = x currency)           | 31.12.06            | 31.12.05 | 2006         | 2005     |
| Slovenian Tolar              | 239.6400            | 239.5000 | 239.5964     | 239.5704 |
| US-Dollar                    | 1.3170              | 1.1797   | 1.2557       | 1.2448   |
| Chinese Renminbi             |                     |          |              |          |
| Yuan                         | 10.27930            | 9.52040  | 10.00899     | 10.20325 |
| Hongkong Dollar              | 10.2409             | 9.14740  | 9.75491      | 9.68248  |

## 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 book values 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 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 (CTUs) 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 2006.

#### (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 actual and the deferred taxes in the period in which the taxation is finally determined.

#### (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

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 the Stencil-Laser, PCB production systems, laser plastic-welding and other new laser technologies.
- 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 is reported in the Special Systems segment together with some other inspection systems.

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

| Product segments  |      |               |                       |                 |                     |        |                 |        |
|-------------------|------|---------------|-----------------------|-----------------|---------------------|--------|-----------------|--------|
| in T€             |      | Laser Systems | Rapid PCB Prototyping | Special Systems | Production Services | Others | Not distributed | Total  |
| External sales    | 2006 | 23,505        | 12,618                | 2,246           | 1,158               | 253    | 0               | 39,780 |
|                   | 2005 | 18,101        | 10,449                | 4,441           | 1,422               | 458    | 0               | 34,871 |
| Operating income  | 2006 | 5,303         | 1,752                 | 246             | 152                 | 31     | -1,134          | 6,350  |
|                   | 2005 | 4,473         | 1,142                 | 746             | 319                 | 186    | -886            | 5,980  |
| Assets*           | 2006 | 22,235        | 14,642                | 1,543           | 434                 | 234    | 5,110           | 44,198 |
|                   | 2005 | 17,247        | 10,781                | 2,222           | 1,053               | 91     | 7,183           | 38,577 |
| Liabilities       | 2006 | 3,738         | 2,631                 | 678             | 126                 | 25     | 5,285           | 12,483 |
|                   | 2005 | 2,505         | 1,814                 | 1,033           | 38                  | 11     | 4,622           | 10,023 |
| Investments       | 2006 | 3,588         | 3,594                 | 46              | 22                  | 61     | 221             | 7,532  |
|                   | 2005 | 955           | 639                   | 118             | 132                 | 7      | 65              | 1,916  |
| Depreciation      | 2006 | 933           | 554                   | 66              | 32                  | 11     | 39              | 1,635  |
|                   | 2005 | 822           | 424                   | 98              | 116                 | 8      | 39              | 1,507  |
| Non-cash expenses | 2006 | 525           | 739                   | 22              | 69                  | 7      | 1,563           | 2,925  |
|                   | 2005 | 619           | 643                   | 12              | 34                  | 4      | 1,526           | 2,838  |

\* The segment assets in 2006 include T€ 519 “assets scheduled for sale”



## Geographical segments

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

| Geographical segments |      | in T€   |                |               |        |        | Total  |
|-----------------------|------|---------|----------------|---------------|--------|--------|--------|
|                       |      | Germany | Rest of Europe | North America | Asia   | Others |        |
| External sales        | 2006 | 7,525   | 9,049          | 6,668         | 15,569 | 969    | 39,780 |
|                       | 2005 | 6,520   | 5,195          | 6,009         | 16,657 | 490    | 34,871 |
| Assets*               | 2006 | 32,345  | 6,389          | 4,358         | 1,106  | 0      | 44,198 |
|                       | 2005 | 29,564  | 4,641          | 3,873         | 499    | 0      | 38,577 |
| Investments           | 2006 | 4,502   | 2,101          | 593           | 336    | 0      | 7,532  |
|                       | 2005 | 1,481   | 295            | 58            | 82     | 0      | 1,916  |

\* The segment assets in 2006 include "assets scheduled for sale" in North America T€ 517, and Germany T€ 2.

## G. Consolidated statement of income

### 1. Sales

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

The continuing trend from the previous year towards more batch production meant that no pro rata profits were realised in the 2006 financial year pursuant to IAS 11.

### 2. Own work capitalised

The own work capitalised reported in the financial statements totals T€ 1,239. This comprises technical equipment and machinery used by Group companies for production, prototype development projects activated during 2006, 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 capitalised 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 capitalised 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

The „Grants for research and development“ 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 capitalised development costs and other assets. The same accounting procedure applies to a grant for building costs in Suhl totalling T€ 413.

| Other operating income                   |            |              |
|--|------------|--------------|
| in T€                                    | 2006       | 2005         |
| Grants for research and development      | 563        | 660          |
| Exchange gains                           | 37         | 229          |
| Gains from reversal of provisions        | 26         | 68           |
| Gains from reversal of value adjustments | 22         | 40           |
| Reversal of deferred item for grants     | 22         | 23           |
| Gains from sale of plant and machinery   | 9          | 375          |
| Others                                   | 280        | 274          |
|  | <b>959</b> | <b>1,669</b> |

### 4. Cost of materials

| Cost of materials                                     |               |               |
|---|---------------|---------------|
| in T€   | 2006          | 2005          |
| Cost of (system) components and purchased merchandise | 12,121        | 10,471        |
| Cost of purchased services                            | 554           | 407           |
|   | <b>12,675</b> | <b>10,878</b> |

## 5. Personnel expenses and employees

| Personnel expenses and employees                                      |               |               |
|---|---------------|---------------|
| in T€   | 2006          | 2005          |
| <b>Wages and salaries</b>   |               |               |
| Wages and salaries  | 11,475        | 10,149        |
| Share-based remuneration recorded as a charge to the income statement | 68            | 51            |
| Other   | 180           | 246           |
|   | <b>11,723</b> | <b>10,446</b> |
| <b>Social security costs and pension costs</b>                        |               |               |
| Employer's contribution to social security                            | 1,704         | 1,492         |
| Pension costs   | 163           | 143           |
| Workman's compensation board  | 81            | 76            |
|   | <b>1,948</b>  | <b>1,711</b>  |
|   | <b>13,671</b> | <b>12,157</b> |

The Social security costs and pension costs item includes contributions of T€ 674 to the National Pension Scheme. There are no ongoing pension payments (see also Note 20).

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

| Number of employees      |            |            |
|--------------------------|------------|------------|
|                          | 2006       | 2005       |
| Administration           | 78         | 70         |
| Production               | 73         | 61         |
| Sales                    | 64         | 57         |
| Research and Development | 60         | 53         |
|                          | <b>275</b> | <b>241</b> |

In addition, there were also 6 part-time employees and 18 trainees as at 31 December 2006.

## 6. Depreciation and amortisation

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

## 7. Other operating expenses

The reporting on the subsidiaries discusses in detail the Advertising and distribution expenditure as well as Entertainment and travel expenses. The previous year's figures have been adjusted to reflect reclassification of T€ 124 into Entertainment and travel expenses.

The total expenses for Research and Development in 2006 were T€ 3,810 made up of the cost of materials and other costs totalling T€ 838 plus additional costs including personnel costs and depreciation totalling T€ 2,972.

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 29 "Other financial commitments" still includes separate details on the reported leasing agreements.

| Other operating expenses  |              |              |
|---|--------------|--------------|
| in T€   | 2006         | 2005         |
| Advertising and distribution expenditure                        | 1,416        | 1,164        |
| Entertainment and travel expenses                               | 1,169        | 1,040        |
| Rent, incidental costs, leasing, real estate and building costs | 655          | 449          |
| Repairs, Maintenance, Operating materials                       | 484          | 418          |
| Legal and consultancy costs                                     | 464          | 583          |
| Trade fair costs  | 464          | 346          |
| Sales commissions   | 440          | 440          |
| Services  | 347          | 196          |
| Consumables Development   | 282          | 294          |
| Exchange losses   | 275          | 116          |
| Postage, telephone, facsimile                                   | 258          | 285          |
| Voluntary social expenses, training                             | 253          | 191          |
| Insurance, contributions, levies                                | 232          | 262          |
| Allocation to bad debts   | 230          | 79           |
| Investor Relations  | 221          | 245          |
| Supervisory board expenses                                      | 161          | 142          |
| Vehicle costs   | 153          | 141          |
| Financial statements, publicity and auditing costs              | 143          | 155          |
| Charge for warranties   | 127          | 241          |
| Bank charges  | 110          | 96           |
| Office materials, books, software                               | 82           | 64           |
| Others  | 507          | 393          |
|   | <b>8,473</b> | <b>7,340</b> |

## 8. Financial results

| Financial results                 |             |             |
|-----------------------------------|-------------|-------------|
| in T€                             | 2006        | 2005        |
| <b>Financial income</b>           |             |             |
| Other interest and similar income | 389         | 203         |
| <b>Finance expenditure</b>        |             |             |
| Interest and similar expenses     | -169        | -172        |
| Interest on convertible bond      |             |             |
| Changes in present value          | 0           | 0           |
| Payment to subscribers            | -6          | -6          |
|                                   | <b>-175</b> | <b>-178</b> |
|                                   | <b>214</b>  | <b>25</b>   |

## 9. Income tax

Effectuated 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.

| <b>Income tax</b>                      |              |              |
|--|--------------|--------------|
| in T€                                  | 2006         | 2005         |
| Corporate tax and solidarity surcharge | 945          | 1,014        |
| Trade tax                              | 858          | 526          |
| Deferred taxes                         | 308          | 777          |
|  | <b>2,111</b> | <b>2,317</b> |

In the balance sheet, tax claims of T€ 19 were formed for the tax losses of subsidiaries unused so far. The amount of so far unused tax losses from subsidiaries for which no deferred tax claim was calculated is T€ 457, cf. Note 16. 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.

| <b>Reconciliation between anticipated and effectuated tax expenditure</b>  |              |              |
|--|--------------|--------------|
| in T€  | 2006         | 2005         |
| Consolidated net income before income taxes  | 6,564        | 6,005        |
| Anticipated tax expense 38%<br>(previous year 38%)   | 2,494        | 2,282        |
| Non-activated deferred taxes in a loss situation   | 160          | 7            |
| Tax rate variances amongst subsidiaries  | -154         | -180         |
| Other tax payments unrelated to the reporting period   | 5            | 0            |
| No allowance made for deferred taxes on reported exchange rate differences with a neutral effect on results              | 24           | 27           |
| No allowance made for deferred taxes on goodwill amortisation  | 0            | 0            |
| No allowance made for deferred taxes on share-based remuneration transactions credited to the appropriate income account | 26           | 19           |
| Liquidation of deferred tax assets   | 0            | 85           |
| Tax effects of non-deductable operating expenses   | 1            | 50           |
| Capitalised tax imputation credit purs.<br>§ 37 KStG   | -395         | 0            |
| Other variances  | -50          | 27           |
| Effective tax expense 32.2%<br>(previous year 38.6%)   | <b>2,111</b> | <b>2,317</b> |

## H. Consolidated balance sheet: Assets

### 10. Fixed assets

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

| Consolidated fixed assets schedule            |                                 |                         |              |                       |            |                   |
|---|---------------------------------|-------------------------|--------------|-----------------------|------------|-------------------|
| in T€   | Procurement/manufacturing costs |                         |              |                       |            | As at<br>31.12.06 |
|   | As at<br>01.01.06               | Currency<br>differences | Additions    | Reclassi-<br>fication | Disposals  |                   |
| <b>Intangible assets</b>                      |                                 |                         |              |                       |            |                   |
| Software                                      | 807                             | 0                       | 333          | 0                     | 0          | 1,140             |
| Goodwill                                      | 74                              | 0                       | 0            | 0                     | 0          | 74                |
| Development costs                             | 4,087                           | 0                       | 1,064        | 0                     | 0          | 5,151             |
| Rights to use                                 | 864                             | 0                       | 6            | 0                     | 0          | 870               |
|   | <b>5,832</b>                    | <b>0</b>                | <b>1,403</b> | <b>0</b>              | <b>0</b>   | <b>7,235</b>      |
| <b>Tangible assets</b>                        |                                 |                         |              |                       |            |                   |
| Land and buildings                            | 7,190                           | -110                    | 3,010        | 0                     | 607        | 9,483             |
| Technical equipment and machinery             | 4,029                           | -32                     | 457          | 254                   | 71         | 4,637             |
| Other equipment, factory and office equipment | 4,071                           | 41                      | 658          | -2                    | 308        | 4,460             |
| Prepayments and constructions in process      | 253                             | -2                      | 2,004        | -252                  | 0          | 2,003             |
|   | <b>15,543</b>                   | <b>-103</b>             | <b>6,129</b> | <b>0</b>              | <b>986</b> | <b>20,583</b>     |
| <b>Financial assets</b>                       |                                 |                         |              |                       |            |                   |
| Other loans                                   | 3                               | 0                       | 0            | 0                     | 3          | 0                 |
|   | <b>3</b>                        | <b>0</b>                | <b>0</b>     | <b>0</b>              | <b>3</b>   | <b>0</b>          |
|   | <b>21,378</b>                   | <b>-103</b>             | <b>7,532</b> | <b>0</b>              | <b>989</b> | <b>27,818</b>     |

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

| Consolidated fixed assets schedule            |                                 |                         |              |                       |              |                   |
|---|---------------------------------|-------------------------|--------------|-----------------------|--------------|-------------------|
| in T€   | Procurement/manufacturing costs |                         |              |                       |              | As at<br>31.12.05 |
|   | As at<br>01.01.05               | Currency<br>differences | Additions    | Reclassi-<br>fication | Disposals    |                   |
| <b>Intangible assets</b>                      |                                 |                         |              |                       |              |                   |
| Software                                      | 722                             | 0                       | 112          | 2                     | 29           | 807               |
| Goodwill                                      | 74                              | 0                       | 0            | 0                     | 0            | 74                |
| Development costs                             | 3,795                           | 0                       | 292          | 0                     | 0            | 4,087             |
| Rights to use                                 | 859                             | 1                       | 4            | 0                     | 0            | 864               |
|   | <b>5,450</b>                    | <b>1</b>                | <b>408</b>   | <b>2</b>              | <b>29</b>    | <b>5,832</b>      |
| <b>Tangible assets</b>                        |                                 |                         |              |                       |              |                   |
| Land and buildings                            | 6,879                           | 113                     | 206          | -2                    | 6            | 7,190             |
| Technical equipment and machinery             | 4,698                           | 193                     | 501          | -34                   | 1,329        | 4,029             |
| Other equipment, factory and office equipment | 3,720                           | 28                      | 651          | 34                    | 362          | 4,071             |
| Prepayments and constructions in process      | 103                             | 0                       | 150          | 0                     | 0            | 253               |
|   | <b>15,400</b>                   | <b>334</b>              | <b>1,508</b> | <b>-2</b>             | <b>1,697</b> | <b>15,543</b>     |
| <b>Financial assets</b>                       |                                 |                         |              |                       |              |                   |
| Trade investments                             | 2                               | 0                       | 0            | 0                     | 2            | 0                 |
| Other loans                                   | 5                               | 0                       | 0            | 0                     | 2            | 3                 |
|   | <b>7</b>                        | <b>0</b>                | <b>0</b>     | <b>0</b>              | <b>4</b>     | <b>3</b>          |
|   | <b>20,857</b>                   | <b>335</b>              | <b>1,916</b> | <b>0</b>              | <b>1,730</b> | <b>21,378</b>     |

In accordance with the regulations under IFRS 3, the acquisition costs of the goodwill were reduced from 1 January 2006 by the cumulative amortisation.

| Accumulated depreciation |                         |              |                       |            |                   | Net book value    |                  |  |
|--------------------------|-------------------------|--------------|-----------------------|------------|-------------------|-------------------|------------------|--|
| As at<br>01.01.06        | Currency<br>differences | Additions    | Reclassi-<br>fication | Disposals  | As at<br>31.12.06 | As at<br>31.12.06 | Previous<br>year |  |
| 639                      | 0                       | 113          | 0                     | 0          | 752               | 388               | 168              |  |
| 0                        | 0                       | 0            | 0                     | 0          | 0                 | 74                | 74               |  |
| 3,505                    | 0                       | 122          | 0                     | 0          | 3,627             | 1,524             | 582              |  |
| 853                      | 1                       | 10           | 0                     | 0          | 864               | 6                 | 11               |  |
| <b>4,997</b>             | <b>1</b>                | <b>245</b>   | <b>0</b>              | <b>0</b>   | <b>5,243</b>      | <b>1,992</b>      | <b>835</b>       |  |
| 1,901                    | -14                     | 349          | 0                     | 92         | 2,144             | 7,339             | 5,289            |  |
| 2,567                    | -34                     | 533          | -11                   | 55         | 3,000             | 1,637             | 1,462            |  |
| 3,001                    | -10                     | 508          | 11                    | 289        | 3,221             | 1,239             | 1,070            |  |
| 0                        | 0                       | 0            | 0                     | 0          | 0                 | 2,003             | 253              |  |
| <b>7,469</b>             | <b>-58</b>              | <b>1,390</b> | <b>0</b>              | <b>436</b> | <b>8,365</b>      | <b>12,218</b>     | <b>8,074</b>     |  |
| 0                        | 0                       | 0            | 0                     | 0          | 0                 | 0                 | 3                |  |
| <b>0</b>                 | <b>0</b>                | <b>0</b>     | <b>0</b>              | <b>0</b>   | <b>0</b>          | <b>0</b>          | <b>3</b>         |  |
| <b>12,466</b>            | <b>-57</b>              | <b>1,635</b> | <b>0</b>              | <b>436</b> | <b>13,608</b>     | <b>14,210</b>     | <b>8,912</b>     |  |

| Accumulated depreciation |                         |              |                       |              |                   | Net book value    |                  |  |
|--------------------------|-------------------------|--------------|-----------------------|--------------|-------------------|-------------------|------------------|--|
| As at<br>01.01.05        | Currency<br>differences | Additions    | Reclassi-<br>fication | Disposals    | As at<br>31.12.05 | As at<br>31.12.05 | Previous<br>year |  |
| 594                      | 0                       | 74           | 0                     | 29           | 639               | 168               | 128              |  |
| 0                        | 0                       | 0            | 0                     | 0            | 0                 | 74                | 74               |  |
| 3,186                    | 0                       | 319          | 0                     | 0            | 3,505             | 582               | 609              |  |
| 841                      | 0                       | 12           | 0                     | 0            | 853               | 11                | 18               |  |
| <b>4,621</b>             | <b>0</b>                | <b>405</b>   | <b>0</b>              | <b>29</b>    | <b>4,997</b>      | <b>835</b>        | <b>829</b>       |  |
| 1,641                    | 15                      | 247          | 0                     | 2            | 1,901             | 5,289             | 5,238            |  |
| 2,912                    | 113                     | 501          | -18                   | 941          | 2,567             | 1,462             | 1,786            |  |
| 2,964                    | 16                      | 354          | 18                    | 351          | 3,001             | 1,070             | 756              |  |
| 0                        | 0                       | 0            | 0                     | 0            | 0                 | 253               | 103              |  |
| <b>7,517</b>             | <b>144</b>              | <b>1,102</b> | <b>0</b>              | <b>1,294</b> | <b>7,469</b>      | <b>8,074</b>      | <b>7,883</b>     |  |
| 0                        | 0                       | 0            | 0                     | 0            | 0                 | 0                 | 2                |  |
| 0                        | 0                       | 0            | 0                     | 0            | 0                 | 3                 | 5                |  |
| <b>0</b>                 | <b>0</b>                | <b>0</b>     | <b>0</b>              | <b>0</b>     | <b>0</b>          | <b>3</b>          | <b>7</b>         |  |
| <b>12,138</b>            | <b>144</b>              | <b>1,507</b> | <b>0</b>              | <b>1,323</b> | <b>12,466</b>     | <b>8,912</b>      | <b>8,719</b>     |  |

## 10.1 Intangible assets

### Goodwill

The goodwill arising from company acquisitions (capitalised differences arising from capital consolidation) were reduced by scheduled straight-line amortisation over the useful life in each case up to 31 December 2004. No more scheduled amortisation takes place starting from the 2005 financial year because an unlimited lifetime is assumed. During the 2005 financial year, the remaining 25.0% stake in LPKF Laser & Electronics Inc. still held by a minority shareholder was acquired. The purchasing price was 50,000 own shares and 175,000 new shares created as part of a capital increase through non-cash contributions. This transaction was based on a share price of € 4.05 at the time of the acquisition on 17 May 2005. The difference in amount of T€ 121 arising from the purchase of the minority shareholding was offset directly with the Group equity.

On every balance sheet date, an assessment is made to determine whether there is justification for an impairment. If affirmative, the book value of the goodwill is compared with the achievable price. Depreciation is carried out if the book value exceeds the obtainable amount. For the purposes of testing the soundness of an investment, the goodwill is assigned to a cash generation unit. In this case, it is assigned to the Laser Systems segment based on a detail planning period of three years and an appropriate capitalisation interest rate.

### Software

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

### Development services

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

| Development costs shared by segments |              |            |
|--------------------------------------|--------------|------------|
| in T€                                | 2006         | 2005       |
| Laser Systems                        | 868          | 180        |
| Rapid PCB Prototyping                | 656          | 402        |
|                                      | <b>1,524</b> | <b>582</b> |

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

| Assumed useful lives |       |
|----------------------|-------|
|                      | Years |
| Software             | 3     |
| Development costs    | 5     |
| Rights of use        | 5     |

The rights of use are valued on the basis of the cost of acquisition and amortised linearly. The residual book values and the useful lives of the intangible assets are reviewed at least at the end of each financial year.

## 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 book value 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 book value. 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 capitalised.

The following useful lives are assumed:

| Assumed useful lives                |       |
|-------------------------------------|-------|
|                                     | Years |
| Buildings                           | 25    |
| Outside facilities                  | 10    |
| Technical equipment and machinery   | 3-10  |
| Other equipment, factory and office | 3-10  |

Bank loans totalling T€ 3,420 (previous year: T€ 1,815) 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 as part of finance leasing arrangements are reported as Group assets at the lower fair value compared to the cash value of the leasing rates at the time of acquisition. The associated liabilities with respect to the lessor are reported in the balance sheet as finance leasing obligations. The financial result of the difference between the total leasing obligations and the fair value is distributed over the term of the leasing arrangement in the statement of income to ensure that there is a constant interest rate for the remaining balance for the periods involved.

There is another finance leasing arrangement which on the balance sheet date is reported with a net book of T€ 5 (acquisition costs T€ 25, cumulative depreciation T€ 20), and on the liabilities-side with a value of T€ 10.

Another finance leasing arrangement ended in 2006 by making use of a purchase option. The equipment is now fully depreciated.

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:

| Leasing rates                                      |            |                  |            |
|--|------------|------------------|------------|
| in T€  | Face value | Interest portion | Cash value |
| Leasing rates, reported in the 2006 financial year | 64         | -                | -          |
| Up to 1 year                                       | 11         | 1                | 10         |
| Longer than 1 year, and up to 5 years              | -          | -                | -          |

## 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 capitalised. 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€ 613 were applied to the lower net sales values of the stock. The book value of the inventories reported at fair value less costs to sell is T€ 1,117. The inventories in each segment are as follows in a comparison with the previous year:

| Inventories           |               |               |
|-----------------------|---------------|---------------|
| in T€                 | 2006          | 2005          |
| Laser Systems         | 9,242         | 8,399         |
| Rapid PCB Prototyping | 4,862         | 4,163         |
| Special Systems       | 395           | 406           |
| Production Services   | 20            | 18            |
| Others                | 66            | 24            |
|                       | <b>14,585</b> | <b>13,010</b> |

## 12. Trade accounts receivable

| Trade accounts receivable  |              |              |
|--|--------------|--------------|
| in T€  | 2006         | 2005         |
| Nominal amount of accounts receivable  | 8,006        | 6,628        |
| Provision for doubtful accounts including exchange losses                    | -292         | -119         |
| Lump-sum provisions including discounting                                    | -54          | -43          |
| Accounts receivable after value adjustments, discounting and exchange losses | <b>7,660</b> | <b>6,466</b> |

The measurement of the trade accounts receivables is based for the first time they are recorded 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 is credited to the appropriate income account.

The residual book value of the receivables totals T€ 268 (previous year: T€ 153) and concerns receivables with a remaining term of more than one year.

## 13. Income tax refunds

Refund claims for corporation tax and trade tax are reported here.

Tax refund claims amounting to T€ 395 (previous year T€ 0) have a residual term of one year.

## 14. Other assets

The Other assets are reported at their purchasing costs or their nominal values.

| Other assets                  |            |            |
|-------------------------------|------------|------------|
| in T€                         | 2006       | 2005       |
| VAT refunds                   | 483        | 320        |
| Reinsurance                   | 226        | 204        |
| Deferred insurance premiums   | 212        | 135        |
| Outstanding investment grants | 0          | 129        |
| Others                        | 39         | 154        |
|                               | <b>960</b> | <b>942</b> |

Other assets totalling T€ 226 (previous year: T€ 204) have a remaining term of more than one year.

## 15. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand of T€ 8 (previous year: T€ 8) as well as cash in other banking accounts of T€ 3,322 (previous year: T€ 5,564).

## 16. Deferred tax

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

The capitalised deferred tax asset encompasses deferred taxes primarily on the basis of tax loss carry forwards, inter-company profits and the addition of a special entry for grants. Deferred taxes were measured on the basis of the expected tax rates valid for the periods in which an asset is realised or a debt is discharged. The deferred tax liabilities were solely set up with respect to capitalised development costs. The development of the deferred taxes is as follows:

| Deferred tax assets   |            |            |
|---|------------|------------|
| in T€   | 2006       | 2005       |
| Tax loss carry forwards   | 19         | 19         |
| Inter-company profit elimination and other deductible temporary differences | 478        | 407        |
|   | <b>497</b> | <b>426</b> |

| Deferred tax liabilities   |            |            |
|--|------------|------------|
| in T€  | 2006       | 2005       |
| Capitalised development costs and other deductible temporary differences | 873        | 549        |
|  | <b>873</b> | <b>549</b> |

## 17. Long-term assets held for sale

Assets and debts held for sale must be discussed separately. The valuation of the assets reflects the lower value of the book value and the fair value; the debts are reported at the face value or the repayment amount.

The assets held for sale include the land and buildings belonging to LPKF Properties LLC scheduled for sale in 2007, as well as the share in PhotonicNet GmbH sold with effect from 31 December 2006. The balance sheet reclassifications undertaken pursuant to IFRS 5 exclusively involve assets.



## Consolidated balance sheet: Liabilities and shareholders' equity

### 18. Share capital

In accordance with the resolution passed by the Annual General Meeting on 15 June 2000, the following changes were implemented: the share capital and other DM amounts in the Memorandum and Articles of Association were converted to Euros; there was a capital increase from corporate funds under Section 207 AktG (German Stock Corporation Act) and Section 4 EGAktG (EU Stock Corporation Act); a reclassification of the share capital; and adaptation and revision of the contingent capital and the associated changes to the Memorandum and Articles of Association.

The authorisation of the Board of Managing Directors in accordance with Article 4 Para. 6 of the Memorandum and Articles of Association to increase the share capital of the Company (authorised capital) with the approval of the Supervisory Board in the period up to 14 June 2005 expired. Instead, the Board of Managing Directors was authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 5,300,000.00 (authorised 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 realised 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 utilise the conversion rights was exercised. The € 1.00 nominal value bonds entitle their owners to exercise a conversion right to acquire one new share in LPKF Laser & Electronics AG with an arithmetical share of the share capital of LPKF Laser & Electronics AG of € 1.00. 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 five 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 ten 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 Board of Managing Directors was authorised 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 Programme 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 Programme 2001 is five years. The option rights issued can be exercised within this time period. By exercising the option rights, shares at a ratio 1:1 can be acquired by paying the exercise price. Purchase takes place subject to the individual conditions formulated by the company Board of Managing Directors in agreement with the Supervisory Board and subject to all revisions arising from capital measures or a conversion of the Company.

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

The new shares which are acquired by exercising the option rights are entitled to a share of the profits for the financial year in which the option rights were exercised. The shares required to fulfil the exercised option rights will be made available by a contingent capital increase. The share capital of the Company currently will be contingently increased by up to € 600,000.00 by the issue of up to 600,000 shares. The contingent capital increase will only be implemented for the purpose of the Stock Option Programme 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 authorised to determine the remaining details of the formulation of the Stock Option Programme 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 programme 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 programme required to safeguard the economic basis of the Stock Option Programme 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, authorised the 2002 option conditions dated 13 June 2002.

The following options were granted as part of the option programme:

| Tranche<br>in € | Exercise price | Number of options |
|-----------------|----------------|-------------------|
| 2002            | 6.84           | 75,014            |
| 2003            | 2.92           | 76,706            |
| 2004            | 4.10           | 73,700            |
| 2005            | 4.21           | 87,220            |
| 2006            | 5.35           | 116,200           |

The development in the options portfolio in the 2006 financial year is as follows:

| Option conditions<br>in € | Average exercise price per option | Number of options |
|---------------------------|-----------------------------------|-------------------|
| As at 1 January 2006      | 4.67                              | 231,274           |
| Granted                   | 5.35                              | 100,750           |
| Forfeited                 | 4.39                              | 4,600             |
| Exercised                 | 3.65                              | 19,705            |
| As at 31 December 2006    | <b>4.21</b>                       | <b>307,719</b>    |
| (of which exercisable     | -                                 | 0)                |

During the 2006 financial year, 19,705 options were exercised at a weighted average share price of € 4.59. The premium of T€ 52 paid for the options exercised in the 2006 financial year was reported under capital reserve.

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:

| Assumptions<br>in%      | 2nd Tranche<br>2003 | 3rd Tranche<br>2004 | 4th Tranche<br>2005 | 5th Tranche<br>2006 |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| Volatility              | 72.59               | 50.08               | 48.80               | 44.90               |
| Risk-free interest rate | 2.75                | 3.41                | 2.36                | 3.59                |
| Dividends               | 1.07                | 0.98                | 2.38                | 3.18                |

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.

In accordance with Article 58, Para. 2, second sentence AktG the partial amount of € 1,300,000.00 of the annual net profit of LPKF Laser & Electronics AG (€ 2,919,513.70) has been transferred to other retained earnings by 31 December 2006.

## 19. Minority interest

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

| Minority interest   |              |              |
|---------------------|--------------|--------------|
| in T€               | 2006         | 2005         |
| As at 1 January     | 2,173        | 1,908        |
| Additions/disposals | 386          | 265          |
| As at 31 December   | <b>2,559</b> | <b>2,173</b> |

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 interest.

## 20. 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 calculation is based on an expert measurement by an independent financial mathematician.

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

| Reported amounts in the balance sheet                 |            |            |
|---|------------|------------|
| in T€   | 2006       | 2005       |
| Cash value of the non-externally financed obligations | 396        | 388        |
| Unreported time-adjusted losses                       | -87        | -104       |
| Net debt reported in the balance sheet                | <b>309</b> | <b>284</b> |

The following amounts were reported in the statement of income:

| Reported amounts in the statement of income        |           |           |
|--|-----------|-----------|
| in T€  | 2006      | 2005      |
| Ongoing office hours expenditure                   | 5         | 3         |
| Amortised actuarial losses                         | 4         | 0         |
| Interest expenditure from obligations              | 16        | 15        |
| Total expenses reported in the statement of income | <b>25</b> | <b>18</b> |

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:

| Changes of net debt reported                        |            |            |
|---|------------|------------|
| in T€   | 2006       | 2005       |
| Provisions for pensions as at 1.1.                  | 284        | 266        |
| Net expenditure reported in the statement of income | 25         | 18         |
| Pensions paid out of company assets                 | 0          | 0          |
| Others  | 0          | 0          |
| Net debt reported in the balance sheet as at 31.12. | <b>309</b> | <b>284</b> |

The provisions for pensions were calculated using the following assumptions:

| Calculating assumptions          |      |      |
|----------------------------------|------|------|
| in%                              | 2006 | 2005 |
| Discounting rate as at 31.12.    | 4.50 | 4.25 |
| Future increase in remunerations | 0.00 | 0.00 |
| Future increase in pensions      | 1.75 | 1.50 |
| Fluctuation rate                 | 0.00 | 0.00 |

## 21. 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 fulfilment 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.

| Tax provisions                                |              |            |
|---|--------------|------------|
| in T€   | 2006         | 2005       |
| Corporation tax and solidarity surcharge      | 779          | 606        |
| Trade tax                                     | 484          | 286        |
| Other taxes on the basis of external auditing | 7            | 72         |
|   | <b>1,270</b> | <b>964</b> |

| Provisions schedule       |                |              |           |              |                |
|---------------------------|----------------|--------------|-----------|--------------|----------------|
| in T€                     | As at 01.01.06 | Utilisation  | Releases  | Additions    | As at 31.12.06 |
| Provisions for pensions   | 284            | 0            | 0         | 25           | 309            |
| Accrued taxes             | 964            | 537          | 14        | 857          | 1,270          |
| Bonuses                   | 1,253          | 1,253        | 0         | 1,374        | 1,374          |
| Guarantees and warranties | 423            | 416          | 3         | 543          | 547            |
| Others                    | 80             | 55           | 9         | 0            | 16             |
| Total                     | <b>3,004</b>   | <b>2,261</b> | <b>26</b> | <b>2,799</b> | <b>3,516</b>   |

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.

## 22. Liabilities

Finance debts are reported at initial recognition as the fair value less transaction costs. In subsequent periods, they are reported at amortisation 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 recognised as a liability stated at amortisation 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 shareholder's equity net after deduction of income tax effects.

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

| Liabilities schedule     | in T€ | with a remaining term of |                |                |                   | Secured amount | Type of security |
|--------------------------|-------|--------------------------|----------------|----------------|-------------------|----------------|------------------|
|                          |       | Total amount             | up to 1 year   | 1 to 5 years   | more than 5 years |                |                  |
| Convertible bond         |       | 113                      | 113            | -              | -                 | -              | -                |
|                          |       | (113)                    | (113)          | (-)            | (-)               | (-)            | (-)              |
| Liabilities due to banks |       | 3,554                    | 625            | 1,480          | 1,449             | 3,420          | *, **            |
|                          |       | (2,140)                  | (404)          | (1,056)        | (680)             | (1,815)        | (*, **)          |
| Trade accounts payable   |       | 2,034                    | 2,034          | -              | -                 | -              | -                |
|                          |       | (1,683)                  | (1,683)        | (-)            | (-)               | (-)            | (-)              |
| Other liabilities        |       | 2,088                    | 2,088          | -              | -                 | -              | -                |
|                          |       | (2,218)                  | (2,218)        | (-)            | (-)               | (37)           | (**)             |
|                          |       | <b>7,789</b>             | <b>4,860</b>   | <b>1,480</b>   | <b>1,449</b>      | <b>3,420</b>   |                  |
|                          |       | <b>(6,154)</b>           | <b>(4,418)</b> | <b>(1,056)</b> | <b>(680)</b>      | <b>(1,852)</b> |                  |

\*Land charge, assignment of claims \*\*Security assignments

The amount due to banks includes fixed interest loans totalling T€ 3,554 (previous year: T€ 2,084) which are subject to interest rates of 2.85% p.a. to 5.85% p.a.

| Conditions of loan  |                    |             |
|---------------------|--------------------|-------------|
| in T€               |                    |             |
| Amount of loan paid | Interest rate p.a. | Term        |
| 658                 | 3.75%              | 09/99–09/09 |
| 1,150               | 5.85%              | 09/99–09/09 |
| 1,585               | 5.41%              | 01/00–09/09 |
| 672                 | 5.50%              | 01/03–12/07 |
| 960                 | 2.85%              | 02/06–03/16 |
| 900                 | 4.40%              | 09/06–07/16 |

The fair value of the fixed interest loan is T€ 3,590. With the exception of the loan taken out in the 2003 financial year, the loans are specified for the financing of new construction measures and property acquisition.

The other liabilities include an unsecured short-term loan granted by an affiliated company totalling the equivalent of T€ 37 which was completely amortised in the reporting period.

The other liabilities carry no interest.

### 23. 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 book value of the convertible bond per 31 December 2006 corresponds to the fair value.

## Other information

### 24. Cash flow statement

The short-term financial assets refers exclusively to the shares in a money market or bond fund or bonds reported in the balance sheet under Securities. The amounts reported in the balance sheet under Liabilities due to banks includes T€ 0 (previous year: T€ 57) current account liabilities as well as loan liabilities totalling T€ 3,554 (previous year: T€ 2,083).

### 25. Earnings per share

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

Dilution of the earnings per share applies when the average number of shares in circulation is increased by including the issue of potential shares in connection with the 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.

| Earnings per share  | 2006       | 2005       |
|---|------------|------------|
| Number of shares undiluted  | 10,846,439 | 10,735,487 |
| Effect of the issue of potential shares from convertible bond and option scheme | 0          | 149,894    |
| Number of shares diluted  | 10,846,439 | 10,885,381 |
| Net result (in T€)  | 3,973      | 3,021      |
| Adjusted net result (in T€)   | 3,973      | 3,021      |
| Earnings per share, basic (in €)  | 0.37       | 0.28       |
| Earnings per share, diluted (in €)  | 0.37       | 0.28       |

### 26. Dividend per share

The Supervisory Board and the Board of Managing Directors will propose at the Annual General Meeting on 24 May 2007 to pay from the net income of LPKF Laser & Electronics AG for the 2006 financial year of € 1,619,513.70, a dividend of € 0.12 per share (this represents a total dividend pay out of € 1,302,966.24 based on the share capital with dividend entitlement of € 10,858,052) and to carry forward the remaining amount of € 316,547.46.

## 27. 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 totalling T€ 8 were purchased or paid as interest from this related party in 2006. A short-term loan reported the previous year was terminated in the reporting period.

### 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 2006, business relations with this company covered development and production services and rentals and/or licence agreements totalling T€ 655. In addition, Group companies carried out orders totalling T€ 71 for PMV d.o.o.

### Parties related to Board members and other closely associated natural persons

The Managing Director of LPKF Properties LLC granted the Company a loan totalling T€ 80.

In addition, secretarial services totalling T€ 18 were provided by an employee of a company in which the Managing Director of LPKF France S.A.R.L. has a share.

On the balance sheet date, LPKF AG had liabilities due to members of the Supervisory Board totalling T€ 157.

In addition, one close relative of a former manager in the parent company was employed as salaried member of staff.

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.

## 28. German 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.

## 29. 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 S.A.R.L., and at the Erlangen office, as well as car leasing contracts involving LPKF Motion & Control GmbH 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:

|   |       |
|---|-------|
| – Leasing rates contained in the results for the year | T€ 72 |
| – up to 1 year  | T€ 65 |
| – longer than 1 year and up to 5 years                | T€ 28 |

See Note 10 for the finance leasing commitments.

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

|  |        |
|--|--------|
| – up to 1 year                         | T€ 140 |
| – longer than 1 year and up to 5 years | T€ 308 |

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
- Issued 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 „Issued loans and credits" 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 amortisation 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 a money market fund, shares in a bond fund, and bonds. 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 shareholder’s 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 opening account values are amended accordingly.

The participation in PhotonicNet GmbH should also be mentioned in this context and should also be considered as a “Financial asset available for sale”. This is a strategic holding acquired with the aim of establishing a platform in the optical segment (lasers) for the exchange of expertise. This company does not have the intention of maximising profits. Because no active market exists for these shares and the fair value cannot be reliably determined at acceptable costs, they are reported at the level of their acquisition costs.

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

## 2. Derivative financial instruments

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

The anticipated foreign currency payments are hedged up to 50% maximum for a period of up to six months. During the course of the year, one currency hedging contract in the form of a cash flow hedge with a nominal volume of TJPY 45,260 was entered into to hedge against the currency risks associated with planned sales and the procurement of materials. A fair value hedge totalling TUS\$ 500 was also taken out to hedge an existing foreign currency receivable. These transactions remained unsettled at the balance sheet date. Said transactions which still had 5 and 2 months to run respectively on the balance sheet date were reported at a positive fair value of T€ 14 and negative fair value of T€ 1 respectively. In addition, to hedge against an existing dollar trade receivable totalling TUS\$ 836, three currency option transactions (fair-value hedges) were taken out. A cash flow hedge transaction totalling TGBP 21 which matured in the 2005 financial year to hedge planned material procurement was squared in 2006 with T€ 0. The options which expired on the balance sheet date were measured pro rata at their fair value. 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. The positive effects on earnings of these rate hedging transactions totalled T€ 28. The loss of prospective profits from these transactions totalled T€ 12. No other derivative or hedging transactions were in place on 31 December 2006.

## 3. Hedging policy and risk management

Around 81% of the Group turnover was generated with cus-

tomers outside of Germany. Because of its activities, the company is exposed to various risks. In general, the Group risk management system is designed to cover uncertainties from future developments in the financial markets, and has the aim of minimising negative effects on the financial strength of the Group. 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 through compliance with the authorised business principles, and is coordinated by the Group Risk Manager.

The main risks for the LPKF Group in connection with financial instruments are explained in the following:

### Liquidity risk

Minimising 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.

### Currency translation risk

Because of its international business activities, the LPKF Group is subject to currency risks, especially with respect to the US Dollar. Hedging transactions are concluded during the year to hedge against currency risks.

### 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.

### 30. Others

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)
- Dipl.-Ing. Bernd Lange

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 was T€ 1,292 (previous year: T€ 1,203).

This involved a fixed remuneration component of T€ 318 (T€ 312).

The fixed remunerations were as follows:

|                |                               |
|----------------|-------------------------------|
| Bernd Hackmann | T€ 166 (previous year T€ 162) |
| Bernd Lange    | T€ 152 (previous year T€ 150) |

The performance-based component was related in the 2006 financial year to the Group EBT and only comes into effect when a minimum net profit for the year of € 1.0 million has been generated. No subsequent changes to the performance targets are permitted.

The performance-based component for 2006 will not be paid until the 2007 financial year. Reserves were set aside for this purpose for Bernd Hackmann totalling T€ 487 (T€ 430), and for Bernd Lange totalling T€ 487 (T€ 430).

The reserves for pensions reported in the balance sheet exclusively refer to active and former members of the Board of Managing Directors. T€ 4 was added to the pension reserves for Bernd Hackmann.

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

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

The pension is paid upon stepping down from the company

- generally upon reaching the age of 65 (age limit)
- or after receiving a pension from the German national pension scheme upon reaching the age limit, 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 benevolent fund for another active member 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.

In addition, 14,000 (previous year: 10,000) options were assigned to Bernd Hackmann and 14,000 (previous year: 7,000) options to Bernd Lange during the 2006 financial year at an exercise price of € 5.35 (previous year: € 4.21). The intrinsic value as at 31 December 2006 of these for Bernd Hackmann totalled T€ 0 (previous year: T€ 18), and for Bernd Lange totalled T€ 0 (previous year: T€ 13).

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

| Number of options held by each member of the Board of Managing Directors |          |          |          |          |
|--|----------|----------|----------|----------|
|  | 31.03.06 | 30.06.06 | 30.09.06 | 31.12.06 |
| Bernd Hackmann   | 31,600   | 31,600   | 38,000   | 38,000   |
| Bernd Lange  | 8,156    | 8,156    | 21,726   | 21,726   |

The intrinsic value as at 31 December 2006 of the total number of options still held is T€ 20 (previous year: T€ 51) for Bernd Hackmann, and T€ 7 (previous year: T€ 14) for Bernd Lange.

In the 2006 financial year, Bernd Hackmann acquired 7,600 new shares (previous year: 3,200) by exercising options at an average share price of € 5.08 per share. In the 2006 financial year, Bernd Lange acquired 430 new shares (previous year: 0) by exercising options at an average share price of € 5.01 per share.

As at 31 December 2006, the members of the Board of Managing Directors held 217,310 (previous year: 193,700) shares, broken down amongst the Board Members as follows:

| Number of shares held by Board Members |            |            |            |            |
|--|------------|------------|------------|------------|
|  | 31.03.06   | 30.06.06   | 30.09.06   | 31.12.06   |
| <b>Board of Managing Directors</b>     |            |            |            |            |
| Bernd Hackmann                         | 193,200    | 195,200    | 202,800    | 212,800    |
| Bernd Lange                            | 500        | 4,080      | 4,510      | 4,510      |
| <b>Supervisory Board</b>               |            |            |            |            |
| Bernd Hildebrandt                      | 871,746    | 881,746    | 881,746    | 871,746    |
| Klaus Sülter                           | 26,043     | No details | No details | No details |
| Prof. Erich Barke                      | No details | 1,000      | 1,000      | 1,000      |



The members of the Supervisory Board are:

- **Bernd Hildebrandt (Chairman)**
  - Businessman
  - Supervisory Board Chairman of LPKF Laser & Elektronika d.o.o., Naklo/Slovenia
- **Klaus Sülter (Deputy Chairman, to 16 June 2006)**
  - Businessman
  - Power of attorney for Cura Consult GmbH
  - Supervisory Board member of LPKF Laser & Elektronika d.o.o., Naklo/Slovenia
- **Dr. Heino Büsching (Deputy Chairman)**
  - Lawyer/Accountant
- **Prof. Dr. Erich Barke (since 17 June 2006)**
  - Supervisory Board Chairman of the Innovationsgesellschaft Universität Hannover mbH and the Produktionstechnisches Zentrum GmbH
  - Supervisory Board member of the following companies:
    - Esso Deutschland GmbH
    - ExxonMobil Central Europe Holding GmbH
    - Technologie-Centrum Hannover GmbH

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

|                       |       |
|-----------------------|-------|
| Bernd Hildebrandt     | T€ 70 |
| Klaus Sülter          | T€ 18 |
| Dr. Heino Büsching    | T€ 33 |
| Prof. Dr. Erich Barke | T€ 14 |

A variable remuneration element for the 2005 financial year was paid in 2006 dependent on the paid dividend and totalled T€ 18 (previous year: T€ 0), Each member of the Supervisory Board was therefore granted T€ 6.

### 31. Details on disclosed shareholdings in the Company

Mrs. Sabine Gilbert, domiciled in Hannover, has informed us that as the majority partner in Cura Consult GmbH her share

of the voting rights in our Company exceeded the 5% threshold on 16 March 2006. In detail, the size of the voting rights totals 5.11%. Pursuant to Section 22 Para. 1 Sentence 1 No. 1 German Securities Trading Act, Mrs. Gilbert owns 5.11%.

Cura Consult GmbH, Hannover, has informed us that the voting share in our Company exceeded the 5% threshold on 16 March 2006. In detail, the size of the voting rights totals 5.11%.

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

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

### 32. 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:

| Fees for auditing the annual financial statements reported as expenditure |            |
|---|------------|
| in T€   |            |
| Annual financial statement auditing                                       | 72         |
| Accounting services   | 29         |
| Other services  | 5          |
| Total   | <u>106</u> |

### 33. Events after the balance sheet date

No disclosable events took place after the balance sheet date.

Garbsen, 21 March 2007  
LPKF Laser & Electronics AG

  
Sgn. Bernd Hackmann

  
Sgn. Bernd Lange

## 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, cash flow statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a paragraph 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 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 environ-

ment 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 the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a paragraph 1 HGB and full IFRS 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, 21 March 2007  
PricewaterhouseCoopers AG  
Wirtschaftsprüfungsgesellschaft

G. Benz  
Certified public accountant

O. Goldmann  
Certified public accountant

# Annual financial statement of LPKF Laser & Electronics AG

| <b>Statement of income</b>  |               |               |
|---|---------------|---------------|
| in T€   | 2006          | 2005          |
| Sales   | 33,650        | 27,890        |
| Changes in inventories of finished goods and work-in-process          | 169           | 863           |
| Other work capitalised  | 146           | 150           |
| Other operating income  | 495           | 664           |
|   | <b>34,460</b> | <b>29,567</b> |
| Cost of materials   |               |               |
| Cost of raw materials and supplies                                    | 13,766        | 11,985        |
| Personnel expenses  |               |               |
| Wages and salaries  | 7,746         | 6,884         |
| Social security and pension costs                                     | 1,230         | 1,035         |
| thereof pension costs: T€ 66 (previous year: T€ 60)                   |               |               |
| Depreciation and amortisation costs                                   | 1,091         | 789           |
| Other operating expenses  | 6,746         | 7,839         |
|   | <b>30,579</b> | <b>28,532</b> |
| Income from profit and loss transfer agreements and trade investments | 226           | 1,165         |
| Municipal trade tax participation paid on to a subsidiary             | 39            | 45            |
| Other interest and similar income                                     | 141           | 120           |
| thereof from affiliated companies: T€ 19 (previous year: T€ 17)       |               |               |
| Depreciation of financial assets                                      | 32            | 858           |
| Other interest and similar expenses                                   |               |               |
| thereof from affiliated companies: T€ 1 (previous year: T€ 1)         | 129           | 120           |
| <b>Profit from ordinary operations</b>                                | <b>4,126</b>  | <b>1,387</b>  |
| Income tax  | 1,204         | 626           |
| Other taxes   | 20            | -18           |
| <b>Net income</b>   | <b>2,902</b>  | <b>779</b>    |
| Retained earnings brought forward from the previous year              | 18            | 1,023         |
| Transfers from reserves for own shares                                | 0             | 145           |
| Allocation to earnings reserves                                       | 1,300         | 1,145         |
| Transfer from other earnings reserves                                 | 0             | 300           |
| <b>Net income for the year</b>  | <b>1,620</b>  | <b>1,102</b>  |

| <b>Assets</b>  |               |               |
|--|---------------|---------------|
| in T€  | 31.12.2006    | 31.12.2005    |
| <b>Fixed assets</b>  |               |               |
| <b>Intangible assets</b>   |               |               |
| Software   | 308           | 108           |
| Rights to use  | 19            | 0             |
|  | <b>327</b>    | <b>108</b>    |
| <b>Tangible assets</b>   |               |               |
| Land and buildings   | 5,353         | 3,211         |
| Technical equipment and machinery  | 1,072         | 738           |
| Other equipment, factory and office equipment  | 950           | 812           |
| Construction in process  | 45            | 253           |
|  | <b>7,420</b>  | <b>5,014</b>  |
| <b>Financial assets</b>  |               |               |
| Shares in affiliated companies   | 1,405         | 1,459         |
| Loans to affiliated companies  | 166           | 320           |
| Trade investments  | 3             | 2             |
|  | <b>1,574</b>  | <b>1,781</b>  |
|  | <b>9,321</b>  | <b>6,903</b>  |
| <b>Current assets</b>  |               |               |
| <b>Inventories</b>   |               |               |
| Raw materials and supplies   | 6,766         | 6,156         |
| Finished goods and merchandise   | 3,894         | 3,757         |
| Prepayments  | 293           | 316           |
|  | <b>10,953</b> | <b>10,229</b> |
| <b>Accounts receivables and other assets</b>   |               |               |
| Trade accounts receivable  | 5,252         | 3,197         |
| Accounts due from affiliated companies   | 2,124         | 1,834         |
| Other assets   | 969           | 543           |
| of which with a residual maturity of more than one year T€ 226 (previous year: T€ 204) |               |               |
|  | <b>8,345</b>  | <b>5,574</b>  |
| <b>Securities</b>  |               |               |
| Other securities   | 1,100         | 2,344         |
|  | <b>1,100</b>  | <b>2,344</b>  |
| <b>Cash on hand, bank balances and cheques</b>   | 1,573         | 3,294         |
|  | <b>21,972</b> | <b>21,441</b> |
| <b>Deferred charges and prepaid expenses</b>   | 151           | 51            |
| including disagio: T€ 36 (previous year: T€ 0)   |               |               |
|  | <b>31,443</b> | <b>28,395</b> |

| <b>Liabilities and shareholders' equity</b>          |               |               |
|--|---------------|---------------|
| in T€  | 31.12.2006    | 31.12.2005    |
| <b>Shareholders' equity</b>                          |               |               |
| Share capital  | 10,858        | 10,838        |
| conditional capital: T€ 917 (previous year: T€ 937)  |               |               |
| Capital reserve                                      | 4,650         | 4,598         |
| Earnings reserves                                    |               |               |
| Other earnings reserves                              | 6,000         | 4,700         |
|  | <b>6,000</b>  | <b>4,700</b>  |
| Net income for the year                              | 1,620         | 1,102         |
| Retained earnings: T€ 18 (previous year: T€ 323)     |               |               |
|  | <b>23,128</b> | <b>21,238</b> |
| <b>Deferred grants</b>                               | 75            | 64            |
| <b>Provisions</b>                                    |               |               |
| Provisions for pensions                              | 256           | 241           |
| Tax provisions                                       | 664           | 136           |
| Other provisions                                     | 2,563         | 2,187         |
|  | <b>3,483</b>  | <b>2,564</b>  |
| <b>Liabilities</b>                                   |               |               |
| Bonds  | 113           | 113           |
| of which convertible: T€ 113 (previous year: T€ 113) |               |               |
| Liabilities due to banks                             | 2,315         | 1,717         |
| Prepayments received                                 | 435           | 489           |
| Trade accounts payable                               | 903           | 614           |
| Accounts due to affiliated companies                 | 555           | 1,055         |
| Other liabilities                                    | 431           | 504           |
| including taxes: T€ 112 (previous year: T€ 103)      |               |               |
| including social costs: T€ 7 (previous year: T€ 159) |               |               |
|  | <b>4,752</b>  | <b>4,492</b>  |
| <b>Deferred income</b>                               | 5             | 37            |
|  | <b>31,443</b> | <b>28,395</b> |



# Glossary of technical terms

## **3D-MID**

Three-dimensional injection-moulded circuit carrier with an applied circuit structure (MID: Moulded Interconnect Device).

## **Circuit board plotter**

Machine for the mechanical structuring of PCBs during Rapid PCB Prototyping.

## **LDS method**

(LDS: Laser Direct Structuring) A special laser-based MID production method. The surface of a plastic treated with a special active substance is activated by laser structuring to expose metal atoms. These act as the nuclei for subsequent metallisation to build up the circuit structure.

## **Microvia**

Connection between different electrical layers of a multilayer.

## **Multilayer**

A multilayer is a PCB consisting of several layers.

## **Solder printing**

Structured printing of solder paste in the form of bumps (small blobs) on a PCB, a package or a wafer.

## **Packaging**

Packaging is the name for the process in which electronic components and semiconductor circuits are encapsulated in a housing to protect them from mechanical and chemical damage.

## **PCB (Printed Circuit Board)**

A PCB is an electronic circuit in which certain components and the connections between them are formed by etching a metallic coating or by electrodeposition on one or both sides of a thin insulating board.

## **ProtoMat®**

see Circuit board plotter

## **Rapid PCB Prototyping**

Method for the production of PCB prototypes by in-house laboratories.

## **SMD (Surface Mounted Device)**

An SMD in the electronics industry is a device mounted on the surface and directly soldered to the PCB.

## **SMT**

Surface Mounted Technology includes solder printing and the mounting of SMDs on the PCB.

## **Stencil**

A thin stainless steel sheet in which fine highly precise openings are cut with the help of a laser (Stencillaser). Used for solder printing.

## **Stencillaser**

Laser system for cutting fine highly precise openings in a stencil for laser printing (stencil).

## **Wafer**

A wafer is a very thin disk of semiconducting material on which electronic components, particularly integrated circuits, micromechanical components or photoelectric layers, are produced using various techniques.

## **Imprint**

### **Publisher**

LPKF Laser & Electronics AG  
Osteriede 7  
D-30827 Garbsen  
Germany

Phone +49 (0) 5131-70 95-0  
Fax +49 (0) 5131-70 95-90

info@lpkf.de  
www.lpkf.com

### **Concept, design and layout**

AD HOME  
Leinstraße 33  
D-30159 Hannover  
Germany

Phone +49 (0) 511-6 00 95-740  
Fax +49 (0) 511-6 00 95-207

info@ad-home.net  
www.ad-home.net

### **Number of copies**

1,500 German  
2,000 English

LPKF Laser & Electronics AG  
Osteriede 7  
D-30827 Garbsen  
Germany

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

[info@lpkf.de](mailto:info@lpkf.de)  
[www.lpkf.com](http://www.lpkf.com)